

Annual Audit Letter

Rushmoor Borough Council

Audit 2009/10

The Audit Commission is an independent watchdog, driving economy, efficiency and effectiveness in local public services to deliver better outcomes for everyone.

Our work across local government, health, housing, community safety and fire and rescue services means that we have a unique perspective. We promote value for money for taxpayers, auditing the £200 billion spent by 11,000 local public bodies.

As a force for improvement, we work in partnership to assess local public services and make practical recommendations for promoting a better quality of life for local people.

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Key messages

This report summarises my findings from the 2009/10 audit. My audit comprises two parts:

- **the audit of your financial statements (page 4); and**
- **my assessment of your arrangements to achieve value for money in your use of resources (pages 5 and 6).**

I also comment on some of the future challenges that you face (pages 7 and 8).

Audit opinion and financial statements

1 I issued my audit report on the 28 September 2010. This included an unqualified opinion on your financial statements for the year ending 31 March 2010. Your arrangements to produce financial statements continue to be strong and I expressed my congratulations to the Council's Licensing and General Purposes Committee on the quality of your accounts.

Value for money

2 You have faced a challenging year, with increasing financial pressures and a need to seek savings through changes to services. Value for money has improved in several areas including procurement, benefits processing and local tax collection. Some significant savings have been achieved through service transformation projects and incorporated into revised budgets. Close budget monitoring has exercised restraint on spending and has secured additional savings.

3 I issued an unqualified value for money conclusion stating that you have made proper arrangements to secure economy, efficiency, and effectiveness in your use of resources for the year ending 31 March 2010.

Current and future challenges

4 The economic downturn is having a significant impact on public finances and the bodies that manage them. It is affecting the ability of public bodies to fund service delivery and capital programmes, and some sources of income are reducing.

5 The scale of government cuts in financial support means future financial pressures are substantial and will be particularly challenging. The Council will have some difficult decisions to take in setting its 2011/12 budget.

6 It is important that the Council is making best use of its available resources. This will need a robust and structured approach to planning in order to deliver significant cost savings while minimising the impact on essential local services.

Financial statements and annual governance statement

The Council's financial statements and annual governance statement are an important means by which the Council accounts for its stewardship of public funds.

I gave an unqualified opinion on the Council's 2009/10 financial statements on 28 September 2010, within the statutory target date.

Overall conclusion from the audit

7 I did not identify any misstatements in your accounts this year. The only significant change to your accounts was to reflect the Government's announcement changing indicators used in calculating pension liabilities. This did not affect the financial position and officers adjusted your statements appropriately.

8 I issued an unqualified audit opinion on 28 September 2010.

Significant weaknesses in internal control

9 I did not identify any significant weaknesses in internal control from my testing of your key financial systems.

Adoption of International Financial Reporting Standards

10 From 2010/11, local government bodies have to prepare their financial statements to meet International Financial Reporting Standards (IFRS). This will change how you account for, and present, some of the figures in your accounts.

11 I assessed your progress towards meeting these requirements twice during my audit. In October 2009. Although you were making progress, some areas were delayed and more involvement of the Audit Committee was needed.

12 In July this year I updated my assessment and concluded that you are now on track. This is welcome but continued monitoring and support is needed to ensure this is maintained in light of the other pressures facing the Council.

Value for money

I considered whether the Council is managing and using its money, time and people to deliver value for money.

I assessed your performance against the criteria specified by the Audit Commission and have reported the outcome as the value for money (VFM) conclusion. I gave an unqualified conclusion on 28 September 2010.

2009/10 use of resources assessments

13 At the end of May 2010, the Commission wrote to all chief executives to inform them that, following the government's announcement, work on CAA would stop with immediate effect. The Commission would no longer issue scores for its use of resources assessments.

14 However, I am still required by the Code of Audit Practice to issue a value for money conclusion. I have therefore used the results the work completed on the use of resources assessment up to the end of May, to inform my 2009/10 conclusion.

VFM conclusion

15 I issued an unqualified conclusion stating the Council had proper arrangements in place to achieve value for money in its use of resources. My conclusion for each criterion is set out in Appendix 2.

16 The Council has a vision of practical and cost-effective ways to deliver good outcomes, especially by using joint working and partnership arrangements. Value for money has improved in several areas including better procurement (£100,000), benefits processing (£50,000) and local tax collection (£20,000). Some significant savings have been achieved through service transformation projects and incorporated into revised budgets approved in February 2010. In addition further savings across portfolios have been achieved through regular staff monitoring exercises, including vacancy freezes, close budget monitoring and a restraint on spending.

17 In view of the current economic climate, I was pleased to find that you have reviewed your medium term financial plans and modelled these over 4 years. I pick up the impact of the public financial sector outlook in the 'future challenges section' of this letter.

18 Over the shorter term, while you have already achieved significant savings, delivery of your current in year savings target will be difficult. You have identified and are responding to changes in savings plans within your rolling medium term financial strategy. Board reports must be used to maintain the necessary focus and pressure on the Service Transformation Programme (STP) to ensure that future savings are practical and deliverable.

19 You have a strong commitment to reduce your use of energy and have been taking action on Climate Change since 2006. Investments in your building stock have improved their energy efficiency. Despite this, more is needed. A clear strategic approach to achieve your environmental aims is necessary as are targets and monitoring arrangements for environmental indicators. Overall, you still need to understand more about the cumulative impact of your actions on natural resources.

The approach to local value for money work from 2010/11

20 Given the scale of pressures facing public bodies in the current economic climate, the Audit Commission has been reviewing its work programme for 2010/11 onwards. This review has included discussions with key stakeholders of possible choices for a new approach to local value for money (VFM) audit work. The Commission aims to introduce a new, more targeted and better value approach to our local VFM audit work.

21 I will base my work on a reduced number of reporting criteria, specified by the Commission, concentrating on how the Council:

- secures financial resilience; and
- sets priorities for resources within tighter budgets.

22 I will decide a local programme of VFM audit work based on my audit risk assessment to cover these criteria and my statutory responsibilities. I will no longer provide an annual scored judgement based on my local VFM audit work. Instead I will report the results of all my local VFM audit work and the key messages for the Council in my annual report to those charged with governance and in my annual audit letter.

Current and future challenges

The economic downturn

23 The economic downturn is having a significant impact on public finances and the bodies that manage them. It is affecting the ability of public bodies to fund service delivery and capital programmes and some sources of income are reducing. The reductions in future financial support for local authorities will increase these pressures. The Council will have difficult decisions to take in setting its 2011/12 budget.

24 The Cabinet have received regular briefings from the Director of Resources on the impact of the recession and the spending reviews.

25 Due to changes in the economic climate a full review of the Medium Term Financial Strategy (MTFS) was completed in January 2010. Since then the potential scale of cutbacks has increased and the government has announced cuts to previously awarded grants as part of the measures to tackle the UK shortfall. Much of this had been expected already and removed from your income budget but the impact on 2010/11 is expected to total over £200,000.

26 Interest receipts, which have been a significant source of the Council's income, have been affected, resulting in a fall in your resources of around £350,000 per year.

27 Because of the above, you are currently forecasting your general fund will be below the approved range of £1.5 to £2.0 million. This forecast assumes that all budget savings can be achieved and currently this is unclear. Members and officers will need to focus on this issue during the rest of the year.

28 Despite this, I am satisfied the Council is taking the necessary steps to meet challenges to its financial stability over the coming years and to ensure it can continue to deliver key services for its community. As part of this, the Council should address the key issues I have brought to your attention here.

Icelandic banks

29 You had £2 million invested in the Icelandic banking sector at the time of its default. You have taken a prudent approach to impairing this investment using the assumption that Local Authority deposits will not rank as priority claims. This prudent approach has been built into your financial strategy mitigating the risk of additional financial pressure.

Joint venture

30 You have entered into a major regeneration project for Aldershot. This is a leisure led, mixed-use development through a joint venture approach with the private sector. You will need to monitor the impact of the developing economic climate on this project and your financial strategy. As part of the project you agreed to dispose of a piece of land in Aldershot with an existing use balance sheet valuation of £1.3 million to the joint venture company in which you hold a 50 per cent interest. This arrangement will also require the production of group accounts in 2010/11.

Closing remarks

31 I have discussed and agreed this letter with the Chief Executive and the Director of Resources on 2 November 2010. I will present it to the Cabinet on 30 November 2010 and will provide copies to all Council members.

32 I included detailed findings, conclusions and recommendations for the areas covered by my audit in the reports I issued to the Council during the year.

Report	Date issued
Audit Fee Plan	April 2009
Opinion audit plan	February 2010
Annual Governance Report	September 2010

33 The Council has taken a positive and helpful approach to our audit. I wish to thank Members, management and staff for their support and cooperation during the audit.

Mark Catlow
Appointed Auditor
November 2010

Appendix 1 Audit fees

	Actual	Planned	Variance
Financial statements and annual governance statement	£54,400	£54,400	£0
Value for money	£47,100	£47,100	£0
Total audit fees	£101,500	£101,500	£0
Whole of Government Accounts	£ 3,000	£ 3,000	£0
Total	£104,500	£104,500	£0

Appendix 2 VFM conclusion

Criteria	Proper arrangements?
Managing finances	
Planning for financial health	Yes
Understanding costs and achieving efficiencies	Yes
Financial reporting	Yes
Governing the business	
Commissioning and procurement	Yes
Use of information	Yes
Good governance	Yes
Risk management and internal control	Yes
Managing resources	
Natural resources	Yes
Strategic asset management	N/App 2009/10
Workforce	Yes

Appendix 3 Glossary

Annual governance statement

Governance is about how local government bodies ensure that they are doing the right things, in the right way, for the right people, in a timely, inclusive, open, honest and accountable manner.

It comprises the systems and processes, cultures and values, by which local government bodies are directed and controlled and through which they account to, engage with and where appropriate, lead their communities.

The annual governance statement is a public report by the Council on the extent to which it complies with its own local governance code. This includes how it has checked the effectiveness of its governance arrangements in the year, and on any planned changes in the coming period.

Audit opinion

On completion of the audit of the accounts, auditors must give their opinion on the financial statements, including:

- whether they give a true and fair view of the financial position of the audited body and its spending and income for the year in question;
- whether they have been prepared properly, following the relevant accounting rules; and
- for local probation boards and trusts, on the regularity of their spending and income.

Financial statements

The annual accounts and accompanying notes.

Unqualified

The auditor does not have any reservations.

Value for money conclusion

The auditor's conclusion on whether the audited body has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of money, people and time.

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