

# Annual Audit Letter

Hampshire County Council and Hampshire Pension Fund

Audit 2010/11



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# Key messages

**This report summarises the findings from my 2010/11 audit. My audit comprises two elements:**

- **the audit of your financial statements; and**
- **my assessment of your arrangements to achieve value for money in your use of resources.**

Parts of the audit	Our findings
Unqualified audit opinion	✓
Proper arrangements to secure value for money	✓

## **Audit opinion and financial statements**

I issued an unqualified audit opinion on your financial statements. Your accounts met the requirements of International Financial Reporting Standards and supporting working papers were well prepared.

## **Value for money**

I issued an unqualified audit conclusion on your arrangements to secure economy, efficiency and effectiveness in the use of resources.

My work in support of this conclusion found that as a Council, you:

- prepared your accounts on time and complied with the accounting code of practice for Local Government;
- delivered your 2010/11 budget;
- approved a balanced 2011/12 budget and responded promptly to the government's spending review;
- set a challenging target to deliver savings in costs over two years that will meet the funding cuts that have been announced for the four year period to 31 March 2015;
- started on the implementation of a significant transformation programme to more effectively deliver key priorities and services within a tighter financial envelope; and
- established levels of reserves that, subject to the strategy outlined in the medium term financial plan, provide a stable financial position.

# Current and future challenges

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The focus of the Coalition Government in implementing its deficit reduction plans and its October 2010 Comprehensive Spending Review provides significant challenges for local authorities and other public sector bodies. These challenges are set within a context of:

- downgrades to the international and national economic outlook and reductions to the forecasts for national growth;
- increases in the level of unemployment;
- inflation in excess of the Bank of England target level; and
- interest rates forecast to remain at record low levels in 2012.

During periods of such economic uncertainty the demands on public services, particularly for vulnerable people, can increase providing additional challenges to local authorities. Locally in Hampshire, the demand on council services is also increasing due to demographic and population changes. Within this environment the Council anticipated the scale of reductions needed and took early action to deliver the service changes and savings required of its 'Cost Reduction, Efficiency and Transformation Programme'. The Council is working to deliver a challenging target of savings in costs over two years that will meet the funding cuts required for the four year period to 31 March 2015. The two year savings target to 31 March 2013 amounts to £100 million. To date the Council is reporting that Portfolio savings of £43 million for 2011/12 have been secured and that it is on track to deliver forecast savings of £52 million by 31 March 2012, as part of a package of measures to bridge the £55 million funding gap.

At 31 March 2011 the level of useable reserves totalled £235 million. These levels of reserves provide, with the strategy outlined in the medium term financial plan, a stable financial position for the Council. The Council has a track record of reviewing its medium term financial plan to ensure underlying assumptions reflect the economic environment. It will be important to keep the plan under review given uncertainties in the overall economy.

The redesign of service delivery under the transformation programme will see a reduction in the number of staff employed by the Council and in particular in the number of senior managers. In delivering complex and challenging services it will be important for the Council to ensure robust risk management systems and performance management are in place so any risks associated with reductions in capacity are identified and mitigated at an early stage.

The main challenges for the Council over the next 12 months include:

- delivering the level of planned savings; and
- maintaining the level and standard of services with reduced workforce capacity.

My work for the 2011/12 VFM conclusion will take account of how the Council is responding to these challenges.

# Financial statements and annual governance statement

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

## **Overall conclusion from the audit**

I issued an audit report including an unqualified opinion on the Council's financial statements. Your financial statements for 2010/11 had to comply with IFRS for the first time. This put extra pressure on your staff. Despite this extra work your financial statements and working papers were produced in line with agreed timetables. Overall the Council presented accounts that met IFRS requirements. Working papers were once again produced to a good standard to support the entries and disclosures in the accounts.

I reported to the Audit Committee the errors identified during my audit that were, in my opinion, both important and relevant to their oversight of the financial reporting process. The Council corrected all of the errors identified. None affected the Council's bottom line (general fund reserves or net assets) or the pension fund account or pension fund net assets.

## **Annual governance statement**

I only have a duty to report those issues I identified during the course of my audit that are relevant to the preparation of your financial statements. As part of my audit I do not express an opinion on the overall effectiveness of your internal controls.

I reviewed your Annual Governance Statement and confirmed it complied with CIPFA guidance and the content was consistent with my knowledge of the Council. My audit did not identify any significant weaknesses in the internal control arrangements for Hampshire County Council or Hampshire Pension Fund that should have been reflected in your Annual Governance Statement.

# Value for money

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**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 two criteria specified by the Audit Commission and have reported the outcome as the value for money (VFM) conclusion.**

My overall conclusion is that the Council has proper arrangements to secure, economy, efficiency and effectiveness in its use of resources.

To form my view on the Council's arrangements, I planned a programme of VFM audit work based on my risk assessment. This included:

- capturing what I knew already from last year's work;
- reviewing the Council's position in the Audit Commission's VFM profiles;
- considering the work of external inspection agencies;
- my continuing reviews of minutes and attendance of the audit committee;
- discussions with officers; and
- considering risks that are common to some or all local authorities, including:
  - the government's spending review; and
  - preserving essential services and effectiveness with reduced funding.

I set out below my conclusions on each specified criterion.

## **Financial resilience**

The Council has sound arrangements for financial governance. The leadership team provide effective challenge on finances particularly as part of the transformation programme. There is sound understanding by the Cabinet of the current financial position and potential future implications on service delivery for the Council.

The Council has a track record of strong financial management to maintain financial control. Financial monitoring and forecasting at the Council is fit-for-purpose ensuring a clear link between the budget, in-year forecasts and the actual year-end position. The Council has a good recent record of operating within its budget with no significant overspends and has successfully delivered significant savings in recent years.

In response to the challenges outlined in the government's comprehensive spending review the Council reviewed and updated the medium term financial plan. The Council is currently implementing a transformation programme to more effectively deliver key priorities and services within a tighter financial envelope. In addition to achieving savings on costs the Council understands its sources of income and the risks arising from these, and has reviewed its approach to fees and charges.

The total level of useable reserves at the 31 March 2011 amounted to £235 million - an in year increase of £32 million. This level of reserves, with the strategy outlined in the medium term financial plan, provide a stable financial position for the Council.

## Securing economy efficiency and effectiveness

The Council effectively prioritises resources and has sound arrangements for improving efficiency and productivity. The Council anticipated the scale of changes needed and took early action to review service delivery in advance of the Coalition Government's June 2010 Emergency Budget and October 2010 Comprehensive Spending Review. The Council has in place strong leadership to deliver the scale of spending reductions required of its 'Cost Reduction, Efficiency and Transformation Programme' and has taken early action to do so.

The Council is reviewing its strategic priorities and service delivery and is taking a strategic approach to looking at the services it provides. In doing so it is looking at service delivery models for all its service areas with a focus on achieving savings whilst keeping cuts to frontline services to a minimum. The Council has a willingness to challenge the existing approach to managing services; historically it has a good record of identifying and challenging areas of high spending, and taking effective action to deliver cost reductions.

In comparison with other county councils in England the Council provides services at a lower cost. The average net spend per head of population was £1,156 in 2009/10 compared to a national average of £1,400. Education is a priority service for the Council and the educational achievement of young people in Hampshire is above the national average. The 2009/10 achievement of children at key stage 2 was 76 per cent, above the 74 per cent national average, and 59 per cent of young people achieved five or more GCSE's (A\* to C grade) compared to a national average of 56.9 per cent. Another key service for the Council is the provision of adult social care and supporting people to live independent lives at home. In 2009/10 the gross spend per head on adult social care was £342 compared to a national average of £396. Yet, the Council was able to support more people to live independently through social services (4,148 per 100,000) than the national average of 3,363.

The Council has been assessed by OfSTED and CQC as providing good services in priority areas. In December 2010 the annual assessment of children's services by OfSTED rated the Council as performing excellently in the provision of children's services. In November 2010 the Council was assessed by CQC as performing well in how it promotes adult social care outcomes for the people of Hampshire.

# Closing remarks

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I have discussed and agreed this letter with the Chief Executive and the County Treasurer. I will present this letter at the Audit Committee on 8 December 2011 and will provide copies to all Council members.

Further detailed findings, conclusions and recommendations in the areas covered by our audit are included in the reports issued to the Council during the year.

Report	Date issued
2010/11 Hampshire County Council Audit Fee Letter	March 2010
2010/11 Hampshire Pension Fund Audit Fee Letter	March 2010
2010/11 Hampshire County Council Opinion plan	March 2011
2010/11 Hampshire Pension Fund Opinion plan	March 2011
2010/11 Hampshire County Council and Hampshire Pension Fund Annual Governance Report	September 2011
2010/11 Accounts Opinion	September 2011
2010/11 Value For Money Conclusion	September 2011

The Council has taken a positive and constructive approach to our audit. I wish to thank the Council staff for their support and co-operation during the audit.

K. L. Handy  
District Auditor

November 2011

# Appendix 1 - Fees

## Audit fees 2010/11

	Actual	Proposed	Variance
	£	£	£
Hampshire County Council audit fee	287,700	287,700	0
Hampshire Pension Fund audit fee	46,500	46,500	0
Non-audit work	0	0	0
<b>Total</b>	<b>334,200</b>	<b>334,200</b>	<b>0</b>

The pension fund audit fee was fixed at the Audit Commission scale fee. The Council's audit fee was set at £ £63,903 below the Audit Commission scale fee to recognise the good performance of the Council in the past. The Audit Commission also made refunds of local authority audit fees to subsidise the 'one-off' element of the cost of transition to IFRS and to reflect the new reduced arrangements for local value for money audit work. These refunds are not reflected in the Hampshire County Council fee quoted above but amount to £37,896.

# Appendix 2 - Glossary

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## **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, including how it has monitored 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 financial statements, I must give my 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; and
- whether they have been prepared properly, following the relevant accounting rules.

## **Opinion**

If I agree that the financial statements give a true and fair view, I issue an unqualified opinion. I issue a qualified opinion if:

- I find the statements do not give a true and fair view; or
- I cannot confirm that the statements give a true and fair view.

## **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 resources based on criteria specified by the Audit Commission.

If I find that the audited body had adequate arrangements, I issue an unqualified conclusion. If I find that it did not, I issue a qualified conclusion.

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