

**ANNUAL AUDIT LETTER 2000/2001**

**1. INTRODUCTION**

Each year the Council receives an Audit Letter that summarises the work undertaken by the District Auditor for the preceding year. Attached is the Annual Audit Letter for 2000/2001. The purpose of the letter is to summarise for Members the important matters that have arisen from the audit. In addition separate detailed reports are provided by the Auditors in respect of the individual audits that have been undertaken.

**2. PRESENTATION**

The District Auditor will be giving a brief presentation of the salient points of the review at the Cabinet meeting and Members will therefore have an opportunity to challenge him on particular matters of interest.

**3. 2000/2001 AUDIT LETTER**

# The actual letter is attached for information and I am sure that Members will agree that the presentation is user friendly and concise. It is not intended to give any commentary on the letter itself as this is to be taken direct from the report which is self-explanatory. Overall the picture is one of satisfaction from the Auditors with some areas that will need further development in the near future, but recognition that the Council is aware of these and is taking action to address them.

**4. CRIME AND DISORDER IMPLICATIONS**

There are no crime and disorder implications arising directly from this report.

**5. ENVIRONMENTAL IMPLICATIONS**

There are no environmental implications arising directly from this report.

**6. RECOMMENDATION**

It is recommended that the Annual Audit Letter for 2000/2001 be noted.

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**Background Papers:**

Published document

**Annual Audit Letter**  
**New Forest District**  
**Council**

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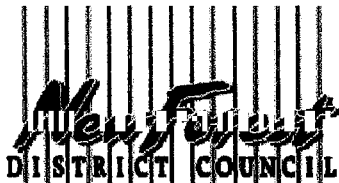
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**DISTRICT AUDIT**



<b>Reference:</b>	TWNE003AAL01W – Draft 1
<b>Author:</b>	Tracey Weaver
<b>Date:</b>	October 2001

**The purpose of this Letter**

This Annual Audit Letter summarises for Members the more important matters arising from our audit for 2000/01 and comments on other current issues. We have produced separate reports during the year on completion of specific aspects of our work which have been discussed in detail with officers. The reports are listed at the end of this Letter for Members' information.

The Audit Commission has circulated to all audited bodies a statement which summarises the key responsibilities of auditors. Our audit has been conducted in accordance with the principles set out in that statement. What we say about the results of our audit should be viewed in the context of that more formal background.

**Audit objectives**

The Code of Audit Practice requires us to design a programme of work to address the significant financial and operational risks that the Council faces and that impact on our responsibilities. Our work focuses on whether you have adequate arrangements for the following:

**Accounts**

- we are required to give an opinion as to whether your accounts present fairly the Council's financial position.

**Financial aspects of corporate governance**

- ensuring the legality of financial transactions
- ensuring your financial standing is soundly based
- satisfying yourselves that your systems of internal financial control are adequate and effective
- ensuring proper standards of financial conduct, and to prevent and detect fraud and corruption.

**Performance management**

- securing economy, efficiency and effectiveness from the use of your resources
- Best Value Performance Plans
- producing performance information.

This programme of work is summarised in Exhibit 1.

**EXHIBIT 1**

**The three main elements of audit objectives**



Our audit has addressed the requirements of the Code of Audit Practice and we have worked with the Council to maximise the benefits of the integrated audit approach. We have reviewed your arrangements for dealing with risks and we have undertaken more detailed work in selected areas of higher audit risk. We have also liaised with the Best Value Inspectors to minimise duplication across our roles and responsibilities.

**Background to the audit**

This has been another demanding year, with the Council responding to a number of central government initiatives as well preparing for local issues such as National Park status and the Dibden Bay public enquiry. The Council has made progress on a number of key issues, including:

- the introduction of a new constitution and political structures, which consists of an Executive and 6 review panels

- revising the Best Value review methodology and starting year two reviews, which are due to finish in March, in line with the timetable
- responding to new legislation, including the Human Rights Act and the Data Protection Act
- responding to the Electronic Government initiative and submitting an implementation statement to the DTLR.

In addition the Council's Tourism and Recreation Centres underwent Best Value Inspections and were considered to be good services that were likely to improve.

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## KEY MESSAGES

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### Performance management

We concluded in our Best Value report in June that the Council's performance management system covers all areas, but further guidance was required for Members on their role in the process and for officers in the consistent application of 4Cs to service planning. The Council has started to address the issues raised, for example by producing revised guidance on the application of the 4Cs. The extent and frequency of Member involvement in the performance management process is currently under review. This issue needs to be progressed to ensure consistent Member involvement.

### Best Value

Our audit identified that there could be greater consistency in the application of the review methodology and that action plans could be strengthened. The Council has begun to address these recommendations by issuing revised guidance and procedures. Furthermore the Council's Best Value review programme has been rationalised with the number of reviews halved from 90 to 45. The Council should now give further consideration to refocusing this programme, giving greater emphasis to grouping together individual reviews to establish a more thematic approach.

### New political arrangements

The Council has made significant progress developing its new political structures and there are examples of good practice within individual review panels. The Council now needs to build on existing good practice by:

- defining the role of panels
- establishing a mechanism for co-ordinating work
- establishing a more strategic and pro-active approach to developing work programmes.

### Financial standing

Whilst the Council's current financial position is sound, the medium-term financial strategy shows significant budget savings are required over the next few years. In addition, the majority of useable capital reserves will have been utilised by 2002/03. The Council therefore needs to make an early start to underpin its medium-term financial strategy with specific action plans to ensure annual budgets remain balanced whilst retaining sufficient balances to meet unplanned events.

## Accounts

*We expect to give an unqualified audit opinion on your accounts in November 2001.*

Members approved the Council's financial statements on 24 September. Some issues have arisen during the course of the audit that we are addressing with officers, however there are no issues for Members to consider.

## Financial aspects of corporate governance

### Legality of financial transactions

*We are satisfied with the Council's arrangements for ensuring the legality of transactions with financial consequences.*

We reviewed the Council's overall arrangements and there are no issues to report to Members. Members of the public have not raised any issues during the audit.

### Financial standing

*The Council's financial position is sound but it is anticipated that this will come under increasing pressure in the medium-term.*

The Council's current financial position is sound, with expenditure this year broadly in line with budget, adequate reserves and provisions and stabilised arrears. However, the Council's forecasts for Revenue and Capital expenditure indicate that this position will come under increasing pressure over the medium-term. The most recent forecasts show that over the next few years, budget savings of approximately £400,000 are required per annum to maintain current service levels and stay within acceptable Council tax levels. In addition to this, the Council's capital expenditure programme will result in the balance on the useable reserves (this excludes the £6.3m of Developers

Contributions on which there are restrictive covenants) reducing from £4.5m at the end of 2001 to less than £0.4m by the end of 2002/03. This also has consequent revenue implications ie reduced interest. The Council therefore needs to make an early start to underpin its medium-term financial strategy with specific action plans to ensure annual budgets remain balanced whilst retaining sufficient balances to meet unplanned events. This review will need to be informed by the work that is being undertaken on the Commutation Adjustment, which may result in some reserves moving from unuseable to useable.

### Recommendation

R1 Develop action plans to ensure annual budgets remain balanced and sufficient reserves are retained to meet unplanned events.

### Systems of internal financial control

*We are satisfied with the Council's system of internal financial control.*

We rely as far as possible on Internal Audit and we are satisfied with the quality and coverage of their work.

We are satisfied that the Council's main financial systems are adequately controlled. The Council implemented a new main accounting system in 2001 and we will review the operation of this in the coming audit year.

### Fraud and corruption

*Arrangements for preventing and detecting fraud and corruption are satisfactory.*

We have reviewed your arrangements for preventing and detecting fraud and corruption and there are no issues to report to Members.

## Performance management

### Use of resources

*The Council has in place a performance management framework that covers all major service areas. There are some areas that need strengthening and the Council is addressing these.*

### Best Value

*The Council's 2001/02 Best Value Performance Plan complied in all significant respects with statutory requirements. We made a number of formal recommendations to which the Council has responded and has actions in progress to address these.*

The Best Value Performance Plan met statutory requirements in all significant respects and we issued an unqualified opinion on 21 June 2001.

Council Members and officers have shown significant commitment to Best Value, which has been demonstrated through the results of our audit and the Best Value inspections of Tourism and Recreation Centres. The inspectors reported that the services inspected were good and likely to improve.

Officers have started to respond to our statutory recommendations, including revised Best Practice guidance, which contains information on:

- applying the 4Cs to ongoing planning
- ensuring consistency in the application of the review methodology
- ensuring elements of reviews are not deferred to action plans.

The Council has started to address the issues of the role of CMT and Members in the performance management cycle. We will continue to work with officers in this area, as this is a key element of your performance management framework.

The majority of Best Value reviews are planned to be completed in line with the March 2001 deadline.

The Council needs to consider its approach to the review programme. The number of reviews has already been halved to approximately 45 over

the five-year period. The Council needs to consider greater use of thematic reviews, as these are the areas where there is the potential for greatest service improvement and impact on service users.

#### Recommendation

R2 Members should further rationalise the Best Value review programme, to establish a more thematic focus.

### New political arrangements

*The Council has made much progress in introducing the new structures and there are already examples of successful practice within the Review Panels. It now needs to build on this progress to make the work of the Panels more focused and challenging.*

The Council responded to the democratic renewal agenda in advance of the Local Government Act 2000, introducing a new political structure with a Council 'Executive'. A new constitution is in place along with scrutiny and standards committees.

We have undertaken a review of the Council's scrutiny arrangements. The aim of this review was to contribute to the Council's own work on the new democratic structures by helping to identify:

- actual and potential barriers to effective working
- actions and solutions to address barriers, based on emerging good practice.

We also aimed to raise awareness amongst Members, of the key issues and provide them with a framework within which to discuss these in relation to the experience at New Forest. To date we have attended several Review Panels, talked to Member and officers, and provided feedback through a Members' seminar held as part of the Council's review.

The Council has made much progress in introducing the new structures and there are already examples of successful practice within the Review Panels. It now needs to build on this progress to make the work of the Panels more focused and challenging. The key issues for the Council to address include:

- defining more clearly the role of Review Panels including the balance of policy development with scrutinising, responding to the results of internal and external review and the mode of operation for the work
- establishing a mechanism for co-ordinating the work of the Review Panels to ensure that cross-sectoral issues are addressed coherently and to reduce duplication
- establishing a more strategic and pro-active approach to developing work programmes which reflects corporate and service priorities and targets as set out in the Council's key planning documents.

#### Recommendation

R3 The Council needs to apply those practices, which are considered successful to all panels, this should include:

- defining the role of review panels
- establishing a mechanism for co-ordinating the work of review panels
- establishing a more pro-active and strategic approach to work programmes.

#### Information security management

*The Council has a number of good policies and practices in place and is compliant with best practice in eight of the ten areas reviewed.*

A review was undertaken of the security arrangements for the Council's information management systems. The Council has a number of good policies and practices in security management in place. In particular, there is an approved ICT Security Policy, an ICT Security Officer and a recognition of the need to consider and take action on security requirements for new systems.

Controls were compared with identified good practice and the Council was found to be compliant in eight of the ten areas. In the remaining two areas of Assets and Business Continuity, the Council is close to compliance.

The immediate needs are to complete work on inventories to include details of all information

systems, including ICT hardware and software and undertake appropriate testing and re-assessment of procedures relating to Business Continuity Plans.

#### Recommendation

R4 The issues raised as part of the information security management review should be addressed.

#### Data Protection

*The Council has made progress in implementing the requirements of the Data Protection Act, but has some way to go to reach full compliance.*

The 1998 Data Protection Act comes into force on 24 October 2001, and we have undertaken a review of the Council's preparations to comply with it.

We concluded that whilst the Council has made good progress it is behind the target identified in conjunction with the Information Commissioner, although slightly ahead of most other local authorities. It is essential that the areas still requiring action are progressed as a matter of priority.

#### Community Safety

We undertook a follow up review of the Community Safety audit, as part of our Hampshire wide work. This showed that Burglary and vehicle crime have fallen over the last twelve months although violent crime has increased. Good progress has also been made with the preparations for the next statutory strategy in 2002, and with specific initiatives on domestic violence and anti social behaviour.

Further improvement could be made through:

- Tackling violent crime in its various forms
- Monitoring outcomes-crime, disorder and risk statistics, more systematically both at partnership and member levels
- Ensuring the delivery arrangements for the next strategy make full use of published evidence on 'what works' in crime reduction.

### **Performance information**

*The arrangements for recording and producing performance information are satisfactory.*

In our Best Value report we recommended that a corporate quality assurance process should be implemented to ensure that sufficient evidence is available. Our recent audit of Audit Commission Performance indicators showed that this process has started and is planned to be fully operational in time for next year's Best Value audit.

### **Future audit work**

We are currently considering the significant operational and financial risks that face the Council that will need to be addressed in next year's audit.

We will discuss our risk assessment with your officers before producing an audit plan.

### **Closing remarks**

A summary of the issues raised in this Letter was presented to Cabinet on the 7 November 2001. Finally, I would like to take this opportunity to express my appreciation for the assistance received from officers during the course of our work. Our aim is to provide a high standard of audit service which makes a practical and positive contribution to the work of the Council. We recognise the value of your co-operation and support.

Neil Childs  
District Auditor  
October 2001



**Reports issued**

- Best Value Audit Report
- Corporate Governance, Core Process and Internal Audit Review