

ANNUAL AUDIT LETTER 2001/2002

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 2001/2002. 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. 2001/2002 AUDIT LETTER

The actual letter is attached for information. 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 2001/2002 be noted.

For further information:

Chris Malyon
Director of Resources
023 80285701
e-mail: chris.Malyon@nfdc.gov.uk

Background Papers:

Published document

Annual Audit Letter
**New Forest District
Council**

INSIDE THIS LETTER

PAGE 2

- Key messages

PAGE 3

- Introduction

PAGES 4-7

- Overview of the audit
- Performance management

PAGE 7

- Accounts

PAGES 7-9

- Financial aspects of corporate governance

PAGE 9

- Status of Annual Audit Letters to the Council
- Closing remarks

PAGE 10

- Reports issued during the audit
- Other external reviews

PAGES 11-12

- Best Value statutory report



DISTRICT AUDIT

Reference:	TPNE003AAL02W – Draft 2
Authors:	Martin Robinson; Tracey Purvis
Date:	November 2002

KEY MESSAGES

The past year has been another particularly challenging one for many district councils, including New Forest. This reflects the continuing need to respond to national initiatives alongside local priorities and pressures, such as:

- Dibden Bay public enquiry
- developing the Local Strategic Partnership.
- progressing the e-government agenda
- continued development of the performance management framework

The Council has, despite these pressures, continued to deliver quality services in a number of areas. Our audit has identified a number of areas where action is recommended to ensure that performance can be sustained and further developed in the medium-term.

The following key messages are highlighted for Members. We acknowledge that the Council is already taking action to address many of the issues arising from the audit.

Performance management

The Council has started to address a number of the issues raised as part of last year's Best Value audit, although because of the current stage of development of the new performance management system, a number remain incomplete. Although the new performance management framework will have not been through a full cycle until April 2004, actions are being taken to ensure that the majority of the components are in place by 2003.

Best Value

The Council's 2002 Best Value Performance Plan (BVPP) complied in all significant respects with statutory requirements and we have issued an unqualified opinion. The plan was also both an attractive and informative document.

Housing repairs

As a result of our ongoing risk assessment and concerns expressed by officers, a review of the Housing Responsive Repairs service was undertaken. This identified that the service has remained isolated from the ongoing service improvement that has occurred elsewhere in the Council. This has resulted in a section that is

overly reliant on manual, paper based systems. Attention now needs to be given to modernising processes.

Financial standing

The Council continues to maintain a sound financial position, with both good budgetary control and a good year end debtors position. Reserves have increased significantly year-on-year due in large part to the commutation adjustment.

Financial aspects of corporate governance

Implementation of the new main accounting system progressed largely as planned, but has caused some problems with the timeliness of control procedures which officers are seeking to address.

Areas that the Council needs to continue to focus on in the coming year, particularly with the implementation of Corporate Performance Assessment (CPA), are to:

- adopt a risk management strategy and develop the culture of risk assessment and monitoring
- continue development of procurement arrangements.

Accounts

An unqualified opinion [is expected to be] issued in December 2002.

INTRODUCTION

The purpose of this Letter

This Annual Audit Letter summarises for Members the more important matters arising from our audit for 2001/02 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

Audit work is based on the significant financial and operational risks that the Council faces and is structured around three main elements:

Performance

- Securing economy, efficiency and effectiveness in the use of your resources.
- BVPP.
- Producing performance information.

Financial aspects of corporate governance

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

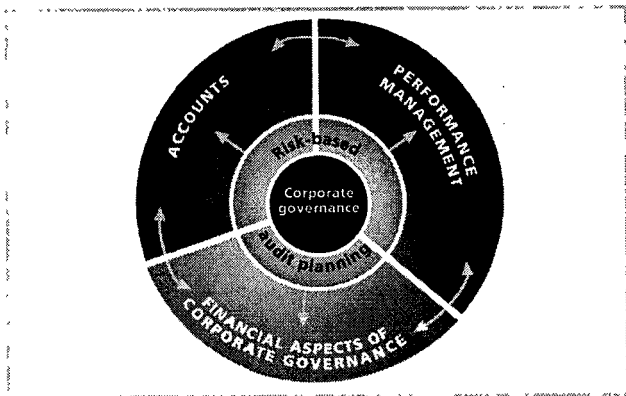
Accounts

- We have to give an opinion as to whether your accounts present fairly the Council's financial position.

The Code of Audit Practice is summarised below.

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.

OVERVIEW OF THE AUDIT

The outcomes of our work are reported below, within the three Code areas defined above of

- performance management
- financial aspects of corporate governance
- accounts.

Performance management

Best Value and the performance management framework

The Council has started to address a number of the issues raised as part of last year's Best Value audit, although because of the current stage of development of the new performance management system, a number remain incomplete. Although the new performance management framework will have not been through a full cycle until April 2004, actions are being taken to ensure that the majority of the components are in place by 2003.

This year as part of our work in this area we:

- reviewed progress on implementing previous recommendations
- reviewed your current arrangements for managing performance
- assessed whether your arrangements are likely to lead to success in improving performance.

Best Value

The Council has made progress in a number of areas over the past year including:

- development of the Best Value Guide
- introduction of the Best Value Board to improve consistency in Best Value Reviews (BVRs)
- provision of stronger member support for and engagement with Best Value.

The Council has implemented, at least in part, most of the recommendations from the 2000/01 Best Value Audit, although a number are not as yet complete. This is largely as a consequence of the fundamental review of the performance management system, discussed below.

The BVR Programme has been further streamlined and a new programme of cross-cutting themed reviews is being developed through the Local Strategic Partnership, linked in to the draft Community Strategy. The BVR guide now includes guidance on:

- Members' role in reviews and in the scrutiny of Improvement Plans
- linking consultation outcomes to Improvement Plans
- the role of newly established Best Value Boards in providing increased corporate support to the review process and oversight of Improvement Plans.

The impact on the review process of the revised guidance and processes was not assessed as part of this review. It is therefore recommended that an evaluation of the results of reviews is undertaken to ensure that the intended outcomes are being achieved.

BVPP and BVPIs

The Council's 2002 BVPP complied in all significant respects with statutory requirements and we (have issued) an unqualified opinion. The plan was also both an attractive and informative document. There are sound arrangements for the production and publication of accurate and reliable performance information.

The BVPP is compliant in all significant respects with legislation and we (have issued) an unqualified opinion. Appendix 1 shows our opinion on your BVPP.

The Council continues to develop its BVPP year-on-year; this year's document was both attractive and informative and should prove to be a useful document for internal and external audiences alike.

Performance information in the BVPP is well supported and evidenced, and the Council has good arrangements in place to ensure the production and publication of the required performance information.

There were a few omissions and inaccuracies within the performance information and these have been raised with officers.

Performance management framework

Guidance on the new performance management system has been produced in draft format, which when fully implemented will result in:

- a corporate approach to service planning
- closer linking of resource allocation to service planning
- strengthening of Corporate Management Teams (CMTs) role in performance management and
- incorporation of consultation into annual service plans.

The development and implementation of a comprehensive performance management framework was one of the key recommendations arising from last years work. The new performance management framework will have not been through a full cycle until April 2004, however actions are being taken to ensure that the majority of the components are in place by 2003. Consideration should be given as to when the outstanding issues in the 2000/01 Action Plan will be addressed.

Appendix 1 includes our Audit Opinion on your Best Value Performance Plan and the processes underpinning this. There are no statutory recommendations to bring to your attention this year, our non-statutory recommendations are outlined in a separate action plan and this (has been) discussed with officers.

Improving services

An analysis of performance against Best Value Performance Indicators (BVPIs) over the last year shows improvements in some indicators and a deterioration in others. The BVR programme is one way in which the Council can tackle address weaker areas of performance.

The Council has introduced some changes in order to strengthen the BVR process, through the changes to the guidance as outlined above. Recent guidance on target setting, developing local Performance Indicators (PIs) and improvement plans will also assist service improvement and monitoring. The Council is aware of other areas where development is required, including:

- raising the impact of post-BVR improvement plans
- reporting improvement plan progress to senior officers and Members
- effective monitoring of improvement plans, including at Member level.

In order to ensure continuous performance improvement across the range of services, guidance is needed, not just for those services undergoing a BVR, but also for 'routine' service planning. This will only be fully achievable when the new performance management system is in place.

Risk management

In order to strengthen the Council's approach to Risk Management, consideration should be given to developing arrangements in a few key areas including production of a risk management strategy.

Risk management is the process of:

- identifying significant risks to the achievement of an authority's strategic and operational objectives
- evaluating their potential consequences
- determining and implementing the most effective way of controlling and monitoring them.

There are strong links between effective risk management and effective management, and risk management should therefore be integral to the corporate management arrangements of an authority. It is recognised by CIPFA/SOLACE as a fundamental feature of corporate governance. As the risk management process is fundamental to effective evaluation of policy and service delivery, it follows that its effective performance is key to the achievement of Best Value.

It is important that an organisation has procedures as well as a culture of identifying and assessing risk. Our review of risk management examined the Council's approach to risk management and considered what scope might exist for improvements to current arrangements.

The key actions identified for the Council were as follows:

- adopt a risk management strategy to demonstrate commitment and raise awareness
- produce a detailed action plan, including individual roles and responsibilities, for embedding the risk management approach throughout the Council
- develop systematic routines and methodologies for identifying and assessing risks in a consistent manner.

The Council has already taken steps to address some of the above recommendations.

Implementation of e-government

The Council's first Implementing Electronic Government (IEG) statement, approved by the DTLR, details how you intend to meet the 2005 national targets.

The Government required each local authority to produce an IEG statement by 31 July 2001, detailing how it intended to meet the 2005 national targets.

We have undertaken a high-level assessment of the Council's preparations for e-government, as outlined in your IEG statement, in the following areas:

- gaining commitment and raising awareness
- strategy and action plans
- management and planning
- infrastructure
- information management
- security and confidentiality
- resources and funding.

Our findings have been discussed with officers and a final report and action plan have been submitted for consideration.

The Council has met initial targets, by exceeding the electronic service delivery target for 2002 at around 40 per cent capability of Electronic Service Delivery (ESD).

It is important that e-government is not seen as an 'IT programme', but as a process of fundamental change and improvement to the way the Council delivers all of its services. The Council has taken steps to raise the profile of e-government and has a team of senior managers

and three members who act as e-champions. Key recommendations in this report include:

- continue to raise the profile of e-government within the Council
- the proposals in the IEG statement should be developed and managed as a comprehensive e-government strategic programme, including detailed plans, costs, benefits and assessment of risk
- work to determine the exact requirements, issues and likely costs and benefits of information management within the Council, should begin as soon as possible
- consideration should be given to improving public consultation with regard to the acceptability of the improved service proposals in the e-government programme.

These recommendations will help to ensure that the Council builds on the foundations established to improve the management and delivery of a comprehensive e-government strategy.

Responsive repairs

As a result of our ongoing risk assessment and concerns expressed by officers, a review of the Housing Responsive Repairs service was undertaken. This identified that the service has remained isolated from the ongoing service improvement that has occurred elsewhere in the Council. This has resulted in a section that is overly reliant on manual, paper based systems. Attention now needs to be given to modernising processes.

During the audit year, this area was identified for further work as the ongoing risk assessment and discussion with officers highlighted issues with the service delivery within housing reactive maintenance. It was therefore agreed that we would undertake a review of the reactive maintenance service with the aims of:

- identifying service improvements by undertaking a detailed profile of the responsive repairs chain
- comparing the findings of the review of the process chain with good practice at other authorities.

Our work suggests that the responsive maintenance service is not sufficiently integrated into the rest of the Council's activities, and would

benefit from considerable attention and development. Key findings include:

- very limited evidence of improvement over the last ten years, and none of the 'step change' considered to be needed
- a culture of resistance to change from front line officers
- over-reliance on inefficient manual, paper-based systems
- under-use of technology.

Improvements need to be directed particularly towards:

- updating the technology, which is well suited to greater levels of electronic interaction with customers
- delivering a customer-focused service
- proactively engaging in partnership working.

Officers have been very responsive to the detailed action plan that we have submitted and work is already underway to address the issues identified.

Follow-up

We have followed up recommendations made as part of last years performance audit work, summarised in Exhibit 2 below.

EXHIBIT 2

Key issues arising from our follow up of prior year recommendations

Service reviewed/ key findings	Further action
<p>Compliance with Data Protection Act 1998</p> <p>Good progress has been made in addressing the issues arising from this review and the majority of action points have been addressed.</p>	<p>Only eight of the 44 action points remain outstanding. For each of these, outstanding work is either in progress or the issues are being considered as part of the preparatory work for the Freedom of Information Act.</p>
<p>Information Security</p> <p>Good progress has been made on the recommendations, in line with the agreed action plan.</p>	<p>[CM4]</p> <p>The two outstanding areas of recommendations relate to the ongoing work on the Freedom of Information Act and security controls in relation to the new telephone system. Both of these areas are in progress.</p>
<p>Probity in Planning</p> <p>The Council has made a lot of progress on implementing our recommendations. A general Member Code of Conduct has been developed and a Planning Code of Conduct is due to be approved in the coming months. Progress has also been made on developing a protocol which will assist in the realisation of s106 obligations.</p>	<p>The only outstanding issue relates to arrangements for dealing with representations within the development plan process, delayed because the development plan process was delayed.</p>

Accounts

- Opinion
- Regularity

An unqualified opinion (is expected to be) issued in December 2002 on the financial statements.

Members approved the Council's financial statements on 20 September. The audit work in this area started in October and we anticipate issuing our opinion in December.

Financial aspects of corporate governance

Legality of financial transactions

The Council's arrangements for ensuring the legality of transactions with financial consequences are satisfactory.

We reviewed the Council's overall arrangements and there are no issues to report to Members. No matters have been brought to our attention by members of the public.

Financial standing

The Council continues to maintain a sound financial position, with both good budgetary control and a good year-end debtors position. Reserves have increased significantly year-on-year, due in large part to the commutation adjustment.

General fund

The Council continues to maintain a sound financial position. For 2001/02 the original budget was £17,990k compared to the revised budget of £17,878k and the provisional outturn figure of £17,692k, before transfers to reserves. This shows good overall control of expenditure over the year. The Council has set a net budget of £18.5 million for 2002/03, which represents a 9 per cent increase on Band D Council Tax.

The level of earmarked reserves has shown significant upward movement this year, as shown by Exhibit 3 below:

EXHIBIT 3 REVENUE RESERVES		
Reserve	2001	2002
	£'000	£'000
General Fund	1,308	2,036
DSO's[CM6]	1,181	444
Total unallocated	2,489	2,480
Other earmarked	4,715	8,329

The increase in earmarked reserves is a result of a Commutation Adjustment, whereby a sum changed from an un-useable reserve to a useable reserve.

When the £8.3 million is broken down, the amount of the reserve over which the Council has discretion over the spending is significantly less:

- Commutation reserve: £2.3 million
- major repairs (for HRA): £2.3 million
- other: £3.7 million

Recent forecasts show that the 'other' element will be spent by the end of 2003/04. Overall however, the Council's financial position continues to be secure in the short-term, but medium-term revenue and capital forecasts show increasing pressures over the next few years, exacerbated by uncertainty over future government grant funding.

HRA

The level of HRA reserves has increased significantly year-on-year and now stands at £494 per property:

HRA Reserve	2001	2002
£'000	1,470	2,099
£ per property	455	494
District Council average	385	

Over coming years, the Council plans to use the reserves for maintenance of the housing stock and, as with the 'other' earmarked reserves, these resources will be depleted over the medium-term.

Systems of internal financial control

Implementation of the new main accounting system progressed largely as planned, but has caused some problems with the timeliness of control procedures which officers are seeking to address.

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

The Council implemented a new main accounting system in 2001 and this caused some problems with the timeliness of some control procedures, which officers are seeking to address.

During the year, we undertook a brief review of its implementation and operation. While the implementation process progressed as planned and broadly in line with budget, and it is now operating satisfactorily, some minor 'teething problems' were experienced. The Council now needs to develop the reporting aspects of the system to ensure to maximise the benefits, particularly around year-end closedown procedures.

Procurement

During the financial year, a brief review of the Council's procurement arrangements was undertaken. At the time of the review the Council did not have a procurement strategy, but had assessed their arrangements against good practice guidelines and was in the process of developing a strategy. The Council has some of

the good practice arrangements in place, such as a central purchasing unit but development is needed in areas such as central monitoring and reporting of procurement. Since this review was undertaken, the Council has drafted a procurement strategy, which was presented to Cabinet in November 2002.

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 this year we specifically reviewed the arrangements for the declaration of gifts and hospitality. There were no significant issues arising, although some minor points to strengthen your arrangements were outlined in our Interim Audit Report.

Future audit work

We shall, from next year, be moving our financial and operational year to start from 1 April rather than 1 November. In order to achieve this change, we will shortly be compiling a 17-month audit plan to encompass two audit years.

We are currently considering the significant operational and financial issues and risks facing the Council that will need to be addressed in this audit programme. We will discuss our risk assessment with your officers before producing an Audit Plan.

A key area for the Audit Commission will be the CPA. The role of local auditors and inspectors in helping the Council prepare for, and to help inform the process is as yet unclear but will be reflected in our forthcoming plan.

Status of our Annual Audit Letter to the Council

Our Annual Audit Letter is prepared in the context of the Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission. Annual Audit Letters are prepared by appointed auditors and addressed to Members or officers. They are prepared for the sole use of the audited body, and no responsibility is taken by auditors to any Member or officer in their individual capacity, or to any third party.

Closing remarks

A summary of the issues raised in this Letter, and the audit work undertaken during 2001/02, was presented to Cabinet on the 4 December 2002.

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.

Martin Robinson
District Auditor
November 2002

Reports issued during the audit

- risk management
- review of management arrangements for ICT and implementing e-government
- responsive repairs
- interim audit report
- best value action plan (draft)

Other external reviews

In addition to our own work, we have also taken account where appropriate of other relevant external reviews, including:

- Audit Commission inspection report covering planning services
- IDeA follow-up

Auditor's Report to New Forest District Council on its BVPP for the year ended 31 March 2002

Certificate

I certify that I have audited New Forest District Council's BVPP in accordance with section 7 of the Local Government Act 1999 (the Act) and the Audit Commission's Code of Audit Practice. I also had regard to supplementary guidance issued by the Audit Commission.

Respective responsibilities of the Council and the Auditor

Under the Act, the Council is required to prepare and publish a BVPP summarising the Council's assessments of its performance and position in relation to its statutory duty to make arrangements to secure continuous improvement to the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness.

The Council is responsible for the preparation of the plan and for the information and assessments set out within it. The Council is also responsible for establishing appropriate performance management and internal control systems from which the information and assessments in its plan are derived. The form and content of the BVPP are prescribed in section 6 of the Act and statutory guidance issued by the Government.

As the Council's auditor, I am required under section 7 of the Act to carry out an audit of the BVPP, to certify that I have done so, and:

- to report whether I believe that the plan has been prepared and published in accordance with statutory requirements set out in section 6 of the Act and statutory guidance and, where appropriate, recommending how the plan should be amended so as to accord with statutory requirements
- to recommend:
 - where appropriate, procedures to be followed in relation to the plan
 - whether the Audit Commission should carry out a Best Value Inspection of the Council under section 10 of the Act
 - whether the Secretary of State should give a direction under section 15 of the Act.

Opinion

Basis of this opinion

For the purpose of forming my opinion on whether the plan was prepared and published in accordance with the legislation and with regard to statutory guidance, I conducted my audit in accordance with the Audit Commission's Code of Audit Practice. In carrying out my audit work I also had regard to supplementary guidance issued by the Audit Commission.

I planned and performed my work so as to obtain all the information and explanations which I considered necessary in order to provide an opinion on whether the plan has been prepared and published in accordance with statutory requirements.

In giving my opinion I am not required to form a view on the completeness or accuracy of the information or the realism and achievability of the assessments published by the Council. My work therefore, comprised a review and assessment of the plan and, where appropriate, examination on a test basis of relevant evidence, sufficient to satisfy me that the plan includes those matters prescribed in legislation and statutory guidance and that the arrangements for publishing the plan complied with the requirements of the legislation and statutory guidance.

Opinion

In my opinion, New Forest District Council has prepared and published its BVPP in all significant respects in accordance with section 6 of the Act and statutory guidance issued by the Government.

Recommendations on procedures followed in relation to the plan

Where appropriate, I am required to recommend the procedures to be followed by the Council in relation to the plan.

Basis of recommendations

For the purpose of making my recommendations, I conducted my audit in accordance with the Audit Commission's Code of Audit Practice. In carrying out my audit work, I also had regard to supplementary guidance issued by the Audit Commission.

I planned and performed my work so as to obtain all the information and explanations that I considered necessary in order to enable me to determine whether or not to make recommendations in this report on the matters that came to my attention during the audit. However, my work cannot be relied upon to identify every weakness or opportunity for improvement. In particular, it has not necessarily covered the same areas as a best value inspection.

For this purpose, my audit included a review and assessment and where appropriate, examination on a test basis of evidence relevant to the adequacy of the systems set in place by the Council for collecting and recording specified performance information; and the testing of specific performance indicators selected by the Audit Commission for its comprehensive performance assessment of the Council.

Recommendations

On the basis of my audit work, I consider that there are no statutory recommendations which need to be brought to your attention.

Recommendations on referral to the Audit Commission/Secretary of State

I am required each year to recommend whether, on the basis of my audit work, the Audit Commission should carry out a best value inspection of the Council or whether the Secretary of State should give direction.

On the basis of my work:

- I do not recommend that the Audit Commission should carry out a Best Value Inspection of New Forest District Council under section 10 of the Act
- I do not recommend that the Secretary of State should give a direction under section 15 of the Local Government Act 1999.

DA signature:	Martin Robinson District Auditor
Date:	November 2002