

ANNUAL AUDIT LETTER 2002/2003

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 2002/2003. The purpose of the letter is to summarise for Members the important matters that have arisen from the audit. In addition the Auditors, in respect of the individual audits that have been undertaken, provide separate detailed reports.

2. PRESENTATION OF THE REPORT

The District Auditor has in previous years given the Cabinet a brief presentation of the salient points of the review. In view of the contents of the report it has been agreed that the District Auditor will attend the meeting to answer any questions that Members may have on the report.

3. 2002/2003 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 a few minor issues that are in hand and need to be seen through to completion.

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 2002/2003 be noted.

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Background Papers:

Published document

Audit and Inspection Annual Letter

New Forest District Council

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- Auditor's statutory report on the Best Value Performance Plan 2003/04

Reference:	MBNE003AAL03W – Draft 3
Authors:	Martin Robinson, District Auditor and Relationship Manager Mike Bowers, Audit Manager
Date:	November 2003

Key messages

The current year has been and continues to be dominated for New Forest District Council, as it has been for all other district councils in Hampshire, by the comprehensive performance assessment (CPA). Preparations for this, including very importantly, the self-assessment, have been a key focus for officers and members alike.

It is not yet possible to report the outcomes of your CPA, which will be shared in draft with you late in November and finalised in January 2004. This letter therefore covers other aspects of the programme of audit and inspection activity in the context of the key business risks faced by you.

Issues arising from our work which warrant members' attention include:

Comprehensive performance assessment

The council's comments on a draft CPA report will be invited late in November and the report will be finalised in January 2004.

Once the report is received, and regardless of the overall outcome of the assessment, the key objective for the council will be, through the improvement planning process, to prepare to respond to any issues raised.

The pre-CPA auditor judgements assessment concluded that the council has sound arrangements in place in most of the areas considered, with some areas for further improvement.

Financial standing

General Fund net expenditure was £531,000 lower than the original estimate in 2002/03. Together with a substantial prior year adjustment (£1.57m) and some more minor items, this allowed £2.143m to be transferred to the council's capital reserve. The General Fund balance remains at approximately £2 million at 31 March 2003, in line with the minimum level recommended within the council's financial strategy.

Performance management

The council needs to continue to develop its performance management arrangements and members have an important role to play in this.

Best Value Performance Plan (BVPP)

The council's 2003 BVPP is compliant in all significant respects with legislation, and therefore we have issued an unqualified opinion on the plan. Our review of Best Value Performance Indicators confirmed that arrangements for the collection and reporting of PIs are satisfactory, although there were a small number of amendments and omissions.

Auditor scored judgements

Auditor scored judgements (ASJs), drawing largely on the findings of our interim audit, were very good. The few areas of relative weakness are already being addressed by officers.

Accounts

The audit of the council's financial statements for 2002/03 is continuing, and will be concluded during November 2003. Subject to the conclusion of the work and final review, we anticipate giving an unqualified opinion.

The purpose of this Letter

This is our first joint audit and inspection 'Annual Letter' for members presented by the council's relationship manager, who is also your district auditor. The Letter summarises the conclusions and significant issues arising from our 2002/03 audit and inspection programme and comments on other current issues relevant to the council.

The Audit Commission earlier this year, appointed a relationship manager to each council, to act as the focal point for contact between the council and the Audit Commission. Although this took effect formally at the start of the 2003/04 audit and inspection year, this 2002/03 letter is presented as a relationship manager letter incorporating the annual audit letter.

We have issued separate reports during the year having completed specific aspects of our programme. These reports are listed in appendix 1 for information.

Auditor’s responsibilities are summarised in the Audit Commission’s statement of key responsibilities of auditors. The responsibilities of Audit Commission Inspectors are detailed in section 10 of the Local Government Act 1999. What we say in this Letter should be viewed in the context of that more formal background.

Objectives of audit and inspection

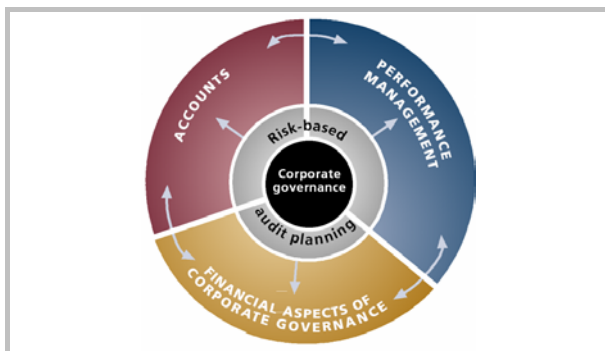
Audit

Our main objective as your appointed auditor is to plan and carry out an audit that meets the requirements of the Code of Audit Practice. We adopt a risk-based approach to planning our audit, and our audit work has focused on your significant financial and operational risks that are relevant to our audit responsibilities.

Central to our audit are your corporate governance arrangements. Our audit is then structured around the three elements of our responsibilities as set out in the Code and shown in exhibit 1.

EXHIBIT 1

The three main elements of our audit objectives



Accounts

- Opinion.

Financial aspects of corporate governance

- Financial standing.

- Systems of internal financial control.
- Standards of financial conduct & the prevention and detection of fraud and corruption.
- Legality of transactions.

Performance management

- Use of resources.
- Performance information.
- BVPP.

Inspection

Inspection work is based around section 10 of the Local Government Act 1999, which requires us to carry out inspections and deliver reports that will:

- enable the council and the public to judge whether best value is being delivered;
- enable the council to assess how well it is doing;
- enable the Government to assess how well its policies are being implemented; and
- identify failing services where remedial action may be necessary.

Background to the audit and inspection programme for 2002/03

Draft CPA reports for Hampshire districts are scheduled for distribution to councils for comment in early December 2003. Because these reports will not be finalised until the new year, this annual letter for 2002/03 refers only in general terms to CPA.

The Audit Commission is changing the start of its operational year from November to April, so the programme of work carried out in 2002/03 is truncated compared to a 'normal' year.

In addition to the major impact of CPA within the last year, the council has continued to respond to a number of other challenges, including:

- Dibden Bay public enquiry;

- proposed national park status for the New Forest;
- developing the Local Strategic Partnership;
- continuing development of your performance management arrangements; and
- responding to the continuing demand for housing within the district.

We look forward to continuing to work closely with you in the near future as you develop your response to these and other issues raised by the audit and CPA processes particularly through improvement planning.

Comprehensive performance assessment

The council's comments on a draft corporate assessment report will be invited late in November and the report will be finalised in January 2004.

Once the report is received the council will need to prepare its response to any issues that are raised. We look forward to working closely with you on this, through the improvement planning process.

CPA: general background

CPA is primarily intended to help councils deliver better services to local people as part of the wider improvement agenda set out in the Local Government white paper 'Strong Local Leadership – Quality Public Services'. It has been developed to encompass the role of district councils in developing and contributing to sustainable social and economic environments for their communities and local area.

The main elements of CPA for district councils are:

- council self-assessment;
- accredited peer challenge to inform the self-assessment;
- a corporate assessment, informed by on-site inspection by the Audit Commission;
- diagnostic assessments of the council's:
 - management of public space;

- progress in meeting the decent homes standard or contribution to the management of housing market;
- Benefit Fraud Inspectorate's assessment of benefit services;
- appointed auditor assessments of performance on each of the main elements of the Code of Audit Practice (discussed elsewhere in this Letter); and
- audited performance indicators, inspection reports and plan assessments.

CPA: outcomes and next steps

The council's comments on a draft CPA report will be invited late in November and the report will be finalised in January 2004.

Once the report is received, the council will need to prepare its response to any issues that are raised. We look forward to working closely with you on this as you develop and implement your post-CPA improvement priorities.

Performance management

We report in this section the limited amount of performance audit work carried out in 2002/03, under the headings of:

- *performance management framework; and*
- *BVPP/performance information.*

Performance management framework

The council needs to continue to develop its performance management arrangements and members have an important role to play in this

As an important element of the pre-CPA auditor judgements work carried out by the local audit team, we updated our understanding of your arrangements for managing performance with your officers. The aim of this work was primarily to provide the CPA Team with our current understanding of your performance management arrangements, so that they could use our knowledge as part of the CPA process.

Last year we concluded that the guidance on your new performance management system, when implemented, would result in stronger arrangements. This would include a corporate

approach to service planning, closer links between resource allocation and service planning, and enhancement of corporate management team's role in performance management.

Our work this year has confirmed that the council has continued to develop its performance management framework by implementing this guidance. This will help to embed performance reporting across the council and to develop member involvement in performance monitoring against corporate objectives. The first full cycle of the new performance management process will be completed during April 2004, and we have agreed to review progress during March 2004.

BVPP and performance information

The council's 2003 BVPP is compliant in all significant respects with legislation, and we have therefore issued an unqualified opinion on the plan. Arrangements for the collection and reporting of PIs are satisfactory, although there were a small number of amendments and omissions.

Our audit confirmed that the BVPP is compliant in all significant respects with legislation, and we have therefore issued an unqualified opinion on the council's 2003 BVPP (attached as appendix 2 to this Letter).

Arrangements to prepare and report the council's Best Value PIs are satisfactory, with a relatively small number of inaccuracies and omissions noted within our review.

Financial aspects of corporate governance

Our audit of financial aspects of corporate governance for 2002/03 was designed in a large part to underpin and inform the ASJs. These were finalised following a county-wide moderation process and made available to the corporate assessment team before their on-site work started in September. The summary scores will be included within the final CPA report.

Financial standing

General Fund net expenditure was £531,000 lower than the original estimate in 2002/03. Together with a substantial prior year adjustment (£1.57m) and some more minor items, this allowed £2.143 million to be transferred to the council's capital reserve. The General Fund balance remains at approximately £2 million at 31 March 2003, in line with the level recommended within the council's financial strategy.

The council's revenue and capital budget setting processes are sound, financial monitoring processes are well developed, and reserves are being actively managed.

EXHIBIT 2

Auditor scored judgements (financial standing)	Score (out of 4)
Setting a balanced budget	4
Setting a capital programme	4
Financial monitoring and reporting	4
Meeting financial targets	2
Financial reserves	4
Summary score	4

Financial performance 2002/03

The council's General Fund balance amounted to £2.036 million at 31 March 2003, following the transfer of £2.143 million to the capital reserve that principally consisted of:

- prior years adjustments of £1.57 million; and
- savings against the General Fund net expenditure original estimate of £0.531 million.

This level of balances is broadly in line with the ten per cent level recommended within the council's financial strategy.

The prior year's adjustments arose principally from a refund of previous years' business rates (£1 million), following the revaluation of the council's recreation centres, and an adjustment in respect of previous years' minimum revenue provisions (£0.566 million).

The Housing Revenue Accounts (HRA) deficit for 2002/03 was £364,000, less than the approved

budget deficit of £877,000. The HRA balance amounted to £2.26 million at 31 March 2003, equating to £431 per dwelling (£494 at 31 March 2002).

Budget for 2003/04

The Director of Resources’ report to Cabinet in October 2003 forecast that General Fund total revenue expenditure in 2003/04 would amount to £19 million, requiring a transfer from balances of £532,000. The report recognises, however, that the council has under spent against its profiled General Fund budgets for the year to date, and further work is therefore being carried out in order to refine the year-end projection.

The council’s financial strategy recommends that the General Fund balance should be maintained at a minimum of ten per cent of net revenue expenditure, (ie, £2 million).

The HRA is forecast to have a surplus of income over expenditure totalling £463,000 in 2003/04, some £151,000 lower than the original budget. The HRA balance will then amount to £2.72 million (or £519 per dwelling).

Budget setting and control arrangements

ASJ scores indicate that the council’s revenue and capital budget setting process are robust. Each portfolio or committee produces an estimated cost of services which incorporates agreed spending plans that align with the overall financial strategy and spending priorities.

The council’s financial monitoring processes are well developed and it is actively managing its level of reserves.

The council’s gross general fund expenditure was above the original budget for each financial year since 2000/01, which led to a score of ‘2’ for this ASJs measure. It is acknowledged that the council prefers to measure its performance against revised revenue budgets.

Systems of internal financial control

The council has robust systems of internal financial control in place, which is reflected within the overall score in this area. The need to

improve the council’s bank account and sundry debtors/creditors reconciliation is discussed within the accounts section below. The need for further development of the council’s risk management process is a common issue for many district councils.

EXHIBIT 3

Auditor scored judgements (internal financial control)	Score (out of 4)
Monitoring of financial systems	4
Adequacy of internal audit	4
Risk identification and management	2
Summary score	3

The council is continuing to develop its risk management strategy and risk register. This is often an area where development is needed by district councils.

Standards of financial conduct and prevention and detection of fraud and corruption

Robust procedures to ensure standards of financial conduct and prevention and detection of fraud and corruption are in place.

The council intends to have fully adopted the 2001 Code of Treasury Management by 31 December 2003.

EXHIBIT 4

Auditor scored judgements (standards of financial conduct)	Score (out of 4)
Ethical framework	4
Governance arrangements	4
Treasury management	2
Prevention and detection of fraud and corruption	4
Summary score	4

The council has in place most of the measures that were expected, which is reflected within the scores that are shown above, the summary score of ‘4’ being good.

The council acknowledges that it needs to fully adopt the 2001 Code of Treasury Management, and the intention is to have done so by 31 December 2003.

National Fraud Initiative

The National Fraud Initiative (NFI) is the Audit Commission’s data-matching exercise. Its main aim is to help identify and reduce housing benefit fraud, occupational pension fraud, tenancy fraud and payroll fraud. The NFI is carried out every two years and data matches were provided to you by the Audit Commission. As part of our audit we assessed how you have responded to the output of the national data-matching exercise. We found that you had responded positively to NFI 2002 and that robust arrangements are in place to ensure that the data matches are appropriately investigated.

Legality of transactions

Effective arrangements are in place to ensure the legality of the council’s financial transactions. There are no issues to bring to members’ attention.

EXHIBIT 5

Auditor scored judgements (legality)	Score (out of 4)
Roles and responsibilities	4
Legality of significant financial transactions	4
New legislation	4
Summary score	4

Accounts

The audit of the council’s financial statements for 2002/03 is continuing, and will be concluded during November 2003. Subject to the conclusion of the work and final review, we anticipate giving an unqualified opinion.

Financial statements

The council approved its financial statements in advance of the 30 September 2003 deadline.

The audit will be concluded during November 2003 and, subject to the outcome of further discussions, we anticipate giving an unqualified opinion on the accounts.

The council accepts that improvements need to be made to its bank reconciliation process and to the reconciliation of sundry creditor and debtor balances, both fundamental elements of its system of internal financial control. Action is being taken to ensure that prompt and accurate reconciliations are produced to support the 2003/04 financial statements.

We will continue to work with officers to further develop the working papers that are provided for audit, with the aim of increasing the reliance that can be placed on these for the audit opinion.

Auditor scored judgements

Several aspects of the preparation of the annual statements of account were assessed:

EXHIBIT 6

Auditor scored judgements (accounts)	Score (out of 4)
Timeliness	3
Quality	3
Supporting records	2
Summary score	3

The review concluded that based upon previous years’ experience, only more minor errors had been found within the draft financial statements, and that although overall satisfactory supporting working papers were provided for audit, although there were some areas that need to be improved (as discussed above).

We will continue to work with officers to assist them to minimise errors within the draft financial statements and to improve the working papers provided for audit.

Preparations for WGA

Whole of Government Accounts (WGA) will be commercial-style accounts covering the whole of the public sector. Arrangements are already under way for a set of audited and published Central Government Accounts, and a revised

future accounting timetable for local government was introduced in 2003. The Accounts and Audit regulations will gradually bring forward the accounts approval deadlines and the first published WGA is expected in 2006/07.

The introduction of new consolidation processes, standardised accounting policies and intra-government balance agreement procedures are likely to represent a significant challenge over the next three years. We will continue to work supportively with the council on this issue.

Reporting to the council – SAS 610

There is a new auditing standard which applies to our audit of your accounts - Statement of Auditing Standards (SAS) 610 'Reporting to those charged with governance'. This requires us to report issues arising from our audit to members before we give our audit opinion on your financial statements.

In previous years, we have discussed such issues with officers rather than members, but the SAS encourages openness and accountability by ensuring that members take responsibility for the council's accounts.

The main issue arising from our audit of the accounts for 2002/03 that needs to be brought to the attention of members is the need to improve the arrangements for the reconciliation of the council's bank account, and the sundry debtor and creditor reconciliations, as discussed above.



Audit and inspection fees

The proposed fee for the 2002/03 audit was set out in our audit plan agreed at the start of the audit.

Members should note that in order to bring the Audit Commission financial year in line with local authorities', the current plan covers the period from November 2002 to March 2004. Over this period, we will deliver two statutory audits (2002/03 and 2003/04) and two annual audit letters.

The table below sets out our latest estimate of the actual fee for combined audit years 2002/04

on the basis that some work remains in progress or (in the case of the 2003/04 audit) not yet started, together with explanations where there are variances.

EXHIBIT 7

Audit fees

Audit area	Plan 2002/04	Revised Estimate 2002/04
	£	£
Accounts	61,968	61,968
Financial aspects of corporate governance	43,516	43,516
Performance	31,485	31,485
TOTAL CODE OF AUDIT PRACTICE AUDIT FEE	136,969	136,969
Inspection (1)	15,800	15,800
Additional s35 work	0	0
Certification of grant claims 2002/03 only (2)	22,900	28,269
TOTAL AUDIT AND INSPECTION FEE	175,669	181,038

(1) *Inspection fees are net of ODPM grant received.*

(2) *The grant claim audit continues until the end of 2003 and the actual fee reported is our current estimate of the likely fee for the 2002/03 certification work.*

The variance in the predicted cost of grant certification work relates to the increased requirements of the Housing and Council Tax Benefits audit and the benefits element of the HRA Subsidy claim, as specified by the relevant department.



Strategic regulation: future audit and inspection work

Strategic regulation contributes to improvement in public services by ensuring that regulators collaborate to identify each council's priorities for improvement, and provide assessments that are useful to managers, professionals, politicians and the public.

Our future work programme for 2004/05 and beyond will be determined to a substantial degree by the issues raised in the council's CPA. It will be proportionate both to the council's inherent risks and to its assessed performance. To help to clarify its purpose, the work programme will be structured across the following themes:

- assessment;
- improvement; and
- assurance.

Audit and inspection planning for 2004/05, closely linked to your improvement priorities, will be carried out in early 2004.

Key areas of work already included in our current programme of work that remaining to be completed by March 2004 are:

- interim and final accounts audit for 2003/04; and
- review of performance management arrangements.

Status of our Letter to the council

Our annual letter is prepared in the context of the Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission. The letter is prepared by the relationship manager and district auditor and his team and is addressed to members and officers. It is 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

This letter will be discussed and agreed with senior officers on 21 November 2003. A copy of the letter will be provided to all members following presentation to Cabinet on 3 December 2003.

Finally, I would like to take this opportunity to express my appreciation for the assistance and co-operation provided during the course of the past year. Our aim is to deliver a high standard of audit and inspection which makes a positive and practical contribution which supports the council's improvement agenda. We recognise the value of your co-operation and support.

Martin Robinson
District Auditor and Relationship Manager
November 2003

Audit and inspection reports issued during 2002/03 or currently under discussion

Title of report	Date issued	Current status
Audit and inspection plan 2002/04	March 2003	Final
Interim audit report 2002/2003	May 2003	Final
Auditor judgements	August 2003	Final
Review of financial statements	Target 30/11/03	To be issued

Auditor's Statutory Report on the Best Value Performance Plan 2003/04

Auditor's report to New Forest District Council on its Best Value Performance Plan for 2003/04

Certificate

I certify that I have audited New Forest District Council's Best Value Performance Plan 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 best value performance plan 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 best value performance plan 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 best value performance plan, 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; and
 - 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 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.

To the extent that figures included in the plan are estimates, my audit work comprised an assessment as to whether the estimates made by the council had been properly compiled in all significant respects on the basis of the assumptions stated by the council, as at the date at which the plan was prepared.

Where I have qualified my audit opinion on the plan I am required to recommend how the plan should be amended so as to comply in all significant respects with the legislation and statutory guidance.

Opinion

In my opinion, New Forest District Council has prepared and published its best value performance plan 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.

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 a 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 Act; and
- I do not recommend that the Secretary of State should give a direction under section 15 of the Act.

Signature **Date**