

## **ANNUAL AUDIT AND INSPECTION LETTER 2003/04**

### **1. INTRODUCTION**

Each year the Council receives an Annual Audit and Inspection Letter that summarises the work undertaken by the Audit Commission and the District Auditor for the preceding year. The purpose of this report is to provide Members with an external overview of performance for the year and to raise any issues that need particular attention.

### **2. PRESENTATION**

The Council's Relationship Manager (and also District Auditor) Martin Robinson met with a small number of Members of the Administration and Opposition recently in order to go through the Annual Audit and Inspection Letter in more detail than would be possible in a normal Cabinet meeting. The purpose of bringing this report is to give other Members an opportunity to discuss any issues relating to the Letter.

### **3. 2003/04 LETTER**

3.1 The actual letter is attached for information.

3.2 It is not the intention to give any commentary to the report as it is self - explanatory. Overall the report is very positive however, a number of constructive comments have been made where the Council will need to ensure that they build on the solid foundation that has been put in place. These comments will be developed into actions to be included within the Council's Improvement Plan.

### **4. PORTFOLIO HOLDER COMMENTS**

This is an excellent report that reflects the sound and robust way that this Council is administered. It is comforting to know that the Audit Commission agrees that the Council is well run, has sound financial and corporate governance systems in place and is continually seeking to improve. This can only be good for the tax-payer and the community as a whole.

### **5. CRIME AND DISORDER IMPLICATIONS**

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

### **6. ENVIRONMENTAL IMPLICATIONS**

There are no environmental implications arising directly from this report.

## 7. RECOMMENDATION

It is recommended that the Annual Audit Letter for 2003/2004 be noted.

### **For further information:**

Chris Malyon  
Director of Resources  
Tel (023) 80285701  
E-mail: [chris.Malyon@nfdc.gov.uk](mailto:chris.Malyon@nfdc.gov.uk)

### **Background Papers:**

Published document

# Annual Audit and Inspection Letter

## New Forest District Council

### INSIDE THIS LETTER

#### PAGES 2 – 8

- Executive summary
- Key messages
- Council performance
- Accounts and governance
- Looking ahead
- Closing remarks

#### PAGES 9 – 14

#### Appendices

- Appendix 1 – Reports issued during 2003/04
- Appendix 2 – Scope of audit and inspection
- Appendix 3 – Audit and inspection fee
- Appendix 4 – Auditor's report to New Forest District Council on its Best Value Performance Plan for 2004/05

<b>Reference:</b>	NE003 Annual Audit Letter
<b>Date:</b>	December 2004

## Executive summary

### The purpose of this letter

This is our audit and inspection 'Annual Letter' for members, incorporating the Annual Audit Letter for 2003/04. It is presented by the council's Relationship Manager and District Auditor. The letter summarises the conclusions and significant issues arising from our recent audit and inspection work at the council.

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

Appendix 2 sets out the scope of audit and inspection.

Appendix 3 provides information about the fees charged.

Appendix 4 is our unqualified opinion on the council's Best Value Performance Plan.

## Key messages

### Council performance

#### CPA and improvement planning

The council has been rated as 'excellent' following the comprehensive performance assessment carried out in September 2003 and reported to the council in January 2004. This is a very considerable achievement for the council.

Recognising that all councils can continue to improve, an improvement plan has been prepared for delivering further improvements to services. The council is now focussing on implementing actions agreed for the current period.

#### Performance management system

Good progress has been achieved with the implementation with of the council's revised performance management system. An action plan will be developed with officers to address the areas where further improvements can be made.

### Financial position

The council continues to be in a healthy financial position at the end of the year. Net general fund expenditure before transfers to funds was £0.3 million lower than the original budget of £19.3 million. The general fund balance amounted to £2 million on 31 March 2004, in line with the council's financial strategy for 2005/08.

The council has experienced significant slippage on its capital programme during 2003/04, and is therefore taking action to enhance capital budget profiles and reporting, and to emphasise the importance of setting realistic implementation dates within the scheme approval process.

### Accounts and governance

Our audit of your financial statements is completed and we provided an unqualified opinion on your accounts on 30 November 2004. There are no issues that we need to bring to members' attention.

Your overall corporate governance arrangements are satisfactory from an audit perspective, and you are planning to further develop and embed a culture of risk management within the council and to complete the risk register.

You are addressing further corporate governance developments identified following your self-assessment against the CIPFA/SOLACE code of corporate governance.

### Action needed by the council

*To continue to:*

- *implement the council's improvement plan;*
- *fully embed the new performance management system throughout the council;*
- *complete the integration of risk management into the council's culture; and*
- *focus on the control framework developments that you have identified through your self-assessment.*

## Council performance

*The council was rated as 'excellent' following the comprehensive performance assessment carried out in September 2003 and reported in January 2004. This is a very considerable achievement for the council.*

*Recognising that all councils can and should continue to improve, an improvement plan has been prepared for delivering further improvements to services. The council is now focussing on implementing actions agreed for the current period.*

*Good progress has been achieved with implementation of the revised performance management system. An action plan will be developed with officers to address the areas where further improvements can be made.*

## CPA and improvement planning

The assessment rated the council as 'excellent' and confirmed that it is an improving council which aspires to be the best. The CPA report, published in January 2004, highlighted that:

- the council is providing very high quality services that are continuing to improve, and customer satisfaction is outstanding;
- community leadership is strong;
- staff and councillors are professional, enthusiastic and work well together, with a clear understanding of their respective roles and responsibilities;
- the council has an empowering culture that is supportive and encourages innovation; and
- the council is outward looking and is effective at sharing learning and in learning from others.

The council responded positively to the challenges known prior to or raised within the CPA report by developing a comprehensive and detailed improvement plan that is now in the later stages of implementation.

This plan covers a number of areas for further improvement, including:

- the effectiveness of the recently strengthened performance management arrangements, which has yet to be proven;
- the procurement strategy which is under-developed; and
- developing your local strategic partnership and community planning.

## Review of performance management arrangements

In April 2003 the council implemented a new performance management system with the aim of aligning strategic, financial and service planning.

We have recently completed our overview of the council's progress in implementing the new performance management system. This work confirmed that the council has made progress in most of the key areas, including:

- linking the corporate medium term financial plan with service financial plans and targets;
- greater member ownership of service plan priorities;
- strengthening the links between corporate and service planning;
- improving the links between community strategy objectives and actions and service plans;
- clarifying and increasing the role of scrutiny;
- providing performance management training for councillors and managers;
- implementing priority led resource allocation;
- improved high level monitoring of key targets by corporate management team;
- managers taking effective action to manage poor performance;
- improved performance monitoring by review panels; and
- incorporating user views into service plan developments.

There are some areas where the council still needs to do further work to fully embed the new system. An action plan will be developed with your officers to address these issues, which include:

- developing a set of medium term targets in the corporate plan;
- ensuring robust links between the corporate plan, community strategy objectives and other strategies;
- moving resources from lower to higher priorities;
- embedding four year financial planning in all services;
- fully involving frontline staff in service plan development and monitoring, and increasing there awareness of the PMS;
- setting robust individual targets with clear links to the service plan objectives;
- demonstrating cabinet leadership in performance monitoring of key targets;
- use of exception reporting by review panels;
- ensuring wider scrutiny of the outcomes of the commercial services partnership; and
- developing wider engagement of service users in performance monitoring.

## Best Value Performance Plan (BVPP)

*The council's BVPP complies with legislation and we have given an unqualified opinion on your 2004 performance plan.*

Our review confirmed that your 2004 performance plan is compliant with legislation. The council has prepared and reported the specified performance indicators, although a number of amendments have been made to the published performance indicators following our audit.

Our unqualified opinion is attached to this letter at Appendix 4.

## Accounts and governance

*Our work in relation to the audit of your financial statements is completed and we have provided an unqualified audit opinion on your accounts on 30 November 2004.*

*Your overall corporate governance arrangements are satisfactory from an audit perspective. You are planning to further develop risk management culture within the council and to complete the risk register. You have also identified further developments that you are already addressing, following your self-assessment against the CIPFA/SOLACE code of corporate governance.*

### Audit of 2003/04 accounts

*We provided an unqualified opinion on the council's accounts on 30 November 2004.*

### Matters arising from the final accounts audit

The council approved the accounts on 27 August, meeting the 31 August 2004 deadline. The working papers provided for audit were of a good standard and we completed the detailed testing on the financial statements during October and November 2004. We provided an unqualified audit opinion on your financial statements on 30 November 2004.

### Reporting to the council – SAS610

Statement of Auditing Standards (SAS) 610 'Reporting to those charged with Governance' applies to our audit of your accounts. This requires us to report issues arising from our audit to members before we give our opinion on your financial statements.

There were no issues that need to be brought to members' attention under SAS610.

### Financial standing

*The council continues to be in a healthy financial position at the end of the year. Net General Fund expenditure before transfers to funds was £0.3 million lower than the original budget of £19.3 million. The General Fund balance of approximately £2 million at 31 March 2004 is in line with the council's financial strategy.*

*There was significant slippage of £2.2 million on the council's capital programme during 2003/04, equivalent to 17 per cent of the capital budget. In response, the council is enhancing budget profiles and reporting, and emphasising the importance of setting realistic implementation dates within the scheme approval process.*

### Current financial position

In 2003/04 the council's net General Fund expenditure before transfers amounted to £0.3 million less than the original budget of £19.3 million and £0.7 million less than the revised budget. The main areas of underspend were:

- tax and benefits service £111,000;
- net cost of benefits paid £138,000;
- car parks £62,000;
- golf course £59,000; and
- waste management and recycling £52,000.

This under-spend, plus a prior year adjustment of £62,000, enabled the council to increase the capital reserve by £418,000, while maintaining a General Fund balance of £2 million in line with the financial strategy for 2005/08. In addition, earmarked revenue reserves amounted to £2.9 million at 31 March 2004.

The housing revenue account (HRA) surplus for 2003/04 was £0.53 million, marginally less than the original approved budget surplus of £0.61 million. The HRA balance amounted to £2.8 million at 31 March 2004, equating to £541 per dwelling (£431 at 31 March 2004). The HRA balance is budgeted to increase to £3.5 million by 31 March 2005.

### Financial standing projections

The financial strategy for 2005/08 gives proper consideration to operational and financial risks and pressures including council and cabinet decisions, one-off items, service changes, and other local and national pressures and changes such as the national park.

The strategy recognises the need to link resource planning with corporate priorities, and that significant savings in base revenue expenditure will need to be identified if the council wishes to keep the council tax increase below 5 per cent.

The council attained debt free status at 31 March 2004, enabling it to benefit from the transitional arrangements for the pooling of housing capital receipts. It is currently reviewing its future capital funding options, including long term borrowing (which would mean that it would lose its debt free status).

The financial strategy assumes that the general fund balance will be maintained at the lower of 10 per cent of net general fund turnover or £2 million.

### Capital programme

There has been slippage of £2.2 million against the council's approved capital programme of £13.2 million for 2003/04. Actual spending amounted to 83 per cent of the approved budget.

The council is therefore taking steps to address this slippage, including:

- enhancing its capital budget profiling and monitoring;
- improving financial reporting to members and corporate management team; and
- emphasising the importance of realistic implementation dates when seeking budget approval.

### Systems of internal financial control

*Your overall corporate governance arrangements are satisfactory from an audit perspective. You are planning to further develop risk management culture within the council and to complete the risk register.*

*You have also identified further developments, already being addressed, following your self-assessment against the CIPFA/SOLACE code of corporate governance.*

The council has developed robust arrangements to satisfy itself that its systems of internal financial control are both adequate and effective.

The further development of the risk management culture and the completion of the risk register has been recognised as the primary issue to be addressed by the council.

Further developmental areas have also been identified by the council, following its self assessment against the CIPFA/SOLACE framework. These include for example:

- the promotion of the council ethical framework with members;
- review of members ICT security policy; and
- completion of the council's strategic business continuity plan.

### Internal Audit

We have undertaken a review of Internal Audit as part of the 2003/04 audit and concluded that the quality and scope of their work is of a good standard and we can place reliance upon their work for our opinion purposes.

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

We have not identified any significant issues in respect of your arrangements to ensure proper standards of financial conduct and to prevent and detect fraud and corruption.

### Standards of financial conduct and legality of transactions

Our work in this area has not identified any significant weaknesses in the framework established by the council for ensuring the legality of its significant financial transactions.

The council is one of a large number of local authorities that have been referred to the Office of Fair Trading, concerning the provision of their local land search services. At this point there is no action that we need to take in relation to this issue.

### Other governance work

We have reviewed the council's progress against the best value review of the ICT service improvement plan and the government's e-government target.

Progress has been made with implementation of recommendations that had been made and, where not completed, the council is taking action to ensure that improvements are realised.

An updated action plan has been prepared and agreed with officers.

### Other work

#### Grant claims

Over recent years the number of claims requiring audit certification has grown and audit fees have risen in line with this growth. In accordance with its emphasis on strategic regulation, the Audit Commission has adopted a more risk-based approach to the certification of grant claims.

With effect from 2003/04, smaller claims will not be subject to audit or will receive a lighter touch audit. The audit approach for larger claims has been determined by risk and the adequacy of the council's control environment.

#### National Fraud Initiative

The council took part in the Audit Commission's National Fraud Initiative (NFI) 2002/03. The NFI, which is undertaken every two years, brings together data from local authorities, NHS bodies, government departments and other agencies, to detect a wide range of frauds against the public sector. Total savings from the 2002/03 exercise exceeded £83 million.

The Commission are repeating the exercise this year and will again collect payroll, pensions, housing benefits, student loan and housing rents data from local authorities. Alongside the core exercise a number of pilot initiatives are being undertaken at selected sites. These are focused on risk areas that were highlighted by local authorities and include payments made to privately run care homes, abuse of blue badge parking permits, serial insurance claimants and duplicate payments to suppliers. These pilot areas, if they prove effective, will be incorporated into future NFI exercises.



## Looking ahead

### Future audit and inspection work

We agreed the audit and inspection plan for 2004/05 with officers in April 2004. The results of work that we undertake will be reported in next year's Annual Letter.

We have sought to ensure, wherever possible, that our work relates to the improvement priorities of the council (although following the CPA assessment of 'excellent' we do not carry out mandatory performance or inspection work). We will continue with this approach when planning our combined programme of work for 2005/06 and we will continue to work with other inspectorates and regulators to develop a coordinated approach to regulation.

### Revision to the Code of Audit Practice

The Audit Commission has consulted on a revised Code of Audit Practice for application to the audit of the 2005/06 accounts. The new Code, which will be laid before Parliament in January 2005, is designed to secure:

- a more streamlined audit, which is proportionate to risk and targeted on areas where auditors have most to contribute to improvement;
- a stronger emphasis on value for money, focussing on bodies' corporate performance and financial management arrangements (rather than individual services and functions); and
- better and clearer reporting of the results of audits.

Further details will be provided in the Audit and Inspection Plan 2005/06.

### Working with other inspectorates and regulators

An important aspect of the role of the Relationship Manager is to work with other inspectorates and regulators who also review and report on the council's performance. These include the Benefits Fraud Inspectorate (BFI); and Local Government Office contact. We share information and seek to provide 'joined up' regulation to the council.

### CPA 2005 and beyond

The Audit Commission on 9 December 2004 issued a consultation paper on the future of CPA for local government. For county and unitary authorities, a new framework is proposed for 2005 and beyond, with a greater emphasis on outcomes for local people and on value for money.

For district councils, however, a full programme of re-inspection is not proposed. District councils will receive a 'use of resources' judgement as part of the routine audit, and will also receive an annual 'direction of travel' statement. Based on these, a corporate assessment may be triggered where there is robust evidence of sustained progress over time.

### Closing remarks

This letter has been discussed and agreed with senior officers. A copy of the letter was presented to members on 13 December 2004.

The council has taken a positive and constructive approach to our audit and inspection. I would like to take this opportunity to express my appreciation for the council's assistance and cooperation.

## Availability of this letter

This letter will be published on the Audit Commission's website at [www.audit-commission.gov.uk](http://www.audit-commission.gov.uk), and also on the council's website.



**Martin Robinson**  
**District Auditor and Relationship Manager**  
**15 December 2004**

## Status of our reports to the council

*Our annual audit and inspection letter is prepared in the context of the Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission. Annual audit and inspection letters are prepared by relationship managers and appointed auditors and addressed to members and officers. They are prepared for the sole use of the audited and inspected body, and no responsibility is taken by the Audit Commission or its appointed auditors to any member or officer in their individual capacity, or to any third party.*

## Reports issued during 2003/04

Report	Date issued
Audit Plan	March 2003
CPA Report	January 2004
Regularity and Governance Report	June 2004
ICT Best Value and E-Government Update	September 2004
Review of Performance Management - Draft	November 2004
Final Accounts Report	December 2004
Annual Audit and Inspection Letter	December 2004

## Scope 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 and the prevention and detection of fraud and corruption.
- Legality of transactions.

#### Performance management

- Use of resources.
- Performance information.
- Best Value Performance Plan.

## 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.

**The Audit Commission has circulated to all audited bodies a statement that 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 and inspection fee

### Audit fee update

Audit area	Plan 2003/04 £	Actual 2003/04 £
Accounts	27,256	27,256
Financial aspects of corporate governance	19,671	19,671
Performance	31,485	31,485
<b>TOTAL CODE OF AUDIT PRACTICE FEE</b>	<b>78,412</b>	<b>78,412</b>
Grant Claim certification	22,900	22,900
Additional Voluntary work (under Section 35)	0	3,000

### Inspection fee update

The full year inspection fee is £15,800. The work reported in this audit and inspection letter has been funded by an element of the fee covering 2003/04 and by an element of the fee covering 2004/05. In both years the actual fee will be in line with that planned.

## Auditor's report to New Forest District Council on its Best Value Performance Plan for 2004/05

### 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 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 Local Government Act 1999 (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; and
- 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 Local Government Act 1999; and
  - whether the Secretary of State should give a direction under section 15 of the Local Government Act 1999.

### 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.

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.

### **Unqualified 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 Local Government Act 1999 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.

### **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 the Local Government Act 1999; and
- I do not recommend that the Secretary of State should give a direction under section 15 of the Local Government Act 1999.



**Martin Robinson**  
**District Auditor and Relationship Manager**  
**15 December 2004**