

## **ANNUAL AUDIT AND INSPECTION LETTER 2004/05**

### **1. INTRODUCTION**

- 1.1 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.
- 1.2 The purpose of this report is to provide Members with an external overview of performance for the year and to raise any significant issues that require particular attention.

### **2. LETTER FOR 2004/05**

- 2.1 A copy of the Audit and Inspection Letter for 2004/05 is attached as Appendix 1. A copy of the Letter will be published on both the Council and the Audit Commission's website
- 2.2 The report concludes that good progress in achieving its corporate improvement plan and that the Council effectively utilises its resources to achieve value for money and maintains effective corporate governance arrangements.
- 2.3 The report also comments on the qualified audit opinion on the financial statements for 2004/05 and the reason for so doing. Although this issue has been fully considered by the Final Accounts Committee on behalf of the Council, it remains unresolved and subject to further discussion with District Audit.

### **3. PORTFOLIO HOLDER COMMENTS**

- 3.1 This is another excellent report that reflects the effective management and corporate governance arrangements within the Council which ensures the efficient use of the resources available for the provision of effective services to the public. The report indicates that although we were previously rated as an "excellent Council" we continue to improve, for which congratulations are due to the Chief Executive and his staff.

### **4. CRIME AND DISORDER AND ENVIRONMENTAL IMPLICATIONS**

- 4.1 There are no crime and disorder or environmental implications arising directly from this report.

### **5. RECOMMENDATIONS**

- 5.1 It is recommended that the Annual Audit Letter for 2004/05 be noted.

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**Background Papers:**

Published document

Annual Audit and Inspection Letter

March 2006



# **Annual Audit and Inspection Letter**

**New Forest District Council**

**Audit 2004-2005**

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## Key messages

The Council continues to focus on achieving its corporate objectives, by utilising its resources and through collaboration with partner organisations. Good progress has been made in relation to the Council's corporate improvement plan and our work has confirmed that the Council effectively utilises its resources to achieve value for money and to maintain effective corporate governance arrangements.

## Council performance

- 1 The Council is demonstrating continued improvement through the effective delivery of its CPA improvement plan with clear benefits to the local community. It is performing well in using the community strategy and other partnership initiatives to help meet its corporate priorities and has strengthened its capacity to deliver improvement through more robust performance management and councillor and officer development programmes. The Council has not met its improvement target of revising the procurement strategy although this is in progress. With regard to service delivery the Council continues to improve overall and this is reflected in the good progress made across its four key priorities. In the few areas where performance is not improving in relation to these priorities the Council is taking remedial action which is starting to show results.

## The accounts

- 2 Our audit opinion on your financial statements for 2004/05 was qualified by a 'limitation in scope' related to your capital accounts. This is because we have not been able to determine whether the capital accounts are presented fairly, because of the £4.7 million unexplained difference between the Council's Credit Ceiling at 31 March 2004 and its Capital Financing Requirement. Efforts to resolve this issue are continuing.

## Financial position

- 3 The Council's financial position continues to be soundly based. Net general fund expenditure in 2004/05 was £1.2 million below the original budget for the year, which was in part due to actions taken in advance to minimise budget pressures in 2005/06. The general fund balance amounted to £2 million at 31 March 2005, which was in line with the Council's financial strategy. The Council's predicted financial performance in 2005/06 indicates that it will remain within the general fund budget, although members will need to ensure that all practical steps are taken to minimise unplanned savings in the future.
- 4 To avoid a recurrence of slippage on its capital programme, the Council should use the outcomes of the corporate member-led group, due to report in March 2006, to help ensure that its capital planning processes are robust.

## Use of resources

- 5 Our assessment of the Council's use of resources showed that the Council has in place a robust governance and performance management framework that exceeds the minimum requirements in most respects. We suggest some enhancements to assist the Council to further improve its arrangements.

## Action needed by the Council

- 6 The main issues raised in this letter that require the Council's attention are as follows:
  - resolving the issue of unfinanced capital expenditure (£3.8 million) within its balance sheet; and
  - considering the benefits of implementing the recommended enhancements to governance and performance management arrangements arising from the use of resources assessment.



## Council performance

The Council is demonstrating continued improvement through the effective delivery of its CPA improvement plan with clear benefits to the local community. It is performing well in using the community strategy and other partnership initiatives to help meet its corporate priorities and has strengthened its capacity to deliver improvement through more robust performance management and councillor and officer development programmes. The Council has not met its improvement target of revising the procurement strategy although this in progress. With regard to service delivery the Council continues to improve overall and this is reflected in the good progress made across its four key priorities. In the few areas where performance is not improving in relation to these priorities the Council is taking remedial action which is starting to show results.

## Direction of travel report

- 7 New Forest DC was assessed as 'excellent' in the comprehensive performance assessment (CPA) carried out in 2003/04. Since the CPA assessment, the Council has continued to build on its position by implementing its corporate improvement plan and focusing on the delivery of improvement against its four key corporate priorities.
- 8 In 2004/05 - the most recently audited year for best value PIs (BVPIs) - the Council's performance as measured by a basket of key indicators was good overall. The Council demonstrated improvement in 58 per cent of the indicators and 32 per cent were in the 'best 25 per cent of other councils' with only 13 per cent in the 'worst 25 per cent'.

## Improvement plan progress

### Community strategy and consultation

- 9 Working with its local strategic partnership (LSP) partners, the Council is implementing the community strategy through local multi-agency networks. The networks' action plans are focused on the strategy's themes of better access and preventative action and are effective in delivering outcomes for local people. Eighty per cent of the action plans were delivered in 2004/05. This is illustrated by progress on the health priority, which included an audit of the health needs of local traveller communities and achieving smoking reduction targets.
- 10 The Council has strengthened its consultation arrangements by co-ordinating with its partners on consultation programmes, establishing and consulting with a Young People's Panel on Council and community strategy priorities such as waste and recycling, and engaging with Citizens Panel members using focus groups as well as surveys.

### **Scrutiny and councillor development**

- 11 Review panels are more effectively engaged in providing challenge to the Council's performance in delivering its corporate plan. Panel work programmes are more focused on corporate priorities steered by an overarching Corporate Overview Panel established in 2004. Panel members now use an exceptions approach to performance management to focus on areas of relatively weak performance. An outcome of this more focused approach is the Council's decision to introduce kerbside waste collection in response a high level of missed collections. These improvements in scrutiny have been supported by skills training for lead scrutiny councillors. A wider audit of councillors' development needs is underway.

### **Performance management**

- 12 The Council has embedded its performance management framework as reported in the Audit Commission's 2003/04 'Review of Performance Management'. Service plans are more clearly linked to corporate plan priorities, use measurable targets and councillors contribute to service planning and target setting. Senior managers, as well as councillors, have adopted a strategic approach to performance management, focusing on areas for improvement and the Council's four key priorities. The Council has plans to further strengthen this approach by introducing a set of key indicators of performance from 2006/07.
- 13 To enable delivery of its priorities the Council has linked service planning with its medium-term financial plan and intends to ensure value for money by integrating budget monitoring with monitoring of its key performance plan and other targets.

### **Staff and organisational capacity**

- 14 The Council is implementing a programme of improvements for developing staff and organisational capacity which is engaging staff at all levels and strengthening key areas such as performance management. This programme includes:
- reviewing internal communications and piloting flexible working patterns to assist with employees' work/life balance while maintaining service standards;
  - developing the role of the Heads of Service Group to achieve greater strategic impact through working together on improvement plan actions such the as performance management framework and organisational capacity;
  - integrating workforce planning with service and financial planning so that future workforce needs are understood and addressed;
  - establishing a 'Learning Zone' intranet site to enable staff to meet their development needs through a range of methods such as online learning, and developing an ICT skills strategy;

- introducing a new complaints system to enable shared learning across the Council, although this will not be fully implemented until 2006/07; and
- securing external funding to support delivery of the Council's priorities including funding for the Crime and Disorder Partnership of over £400,000 over the last two years and £200,000 for work with children including the Forest Bus access to play project.

### **Strategies and policies to support the corporate plan**

- 15** The Council has produced and is implementing a number of key strategies and policies which are starting to have a positive impact on the delivery of its corporate priorities. These include:
- an equalities strategy to raise the Council's achievement from level 2 to level 3 of the government's equality standard by April 2007;
  - a homelessness strategy which emphasises prevention and has contributed to a decline in the number of homeless households in the District;
  - supplementary planning guidance aimed at increasing the supply of affordable housing and a rural housing strategy addressing sustainability;
  - a children and young people's plan for implementing 'Every Child Matters' in partnership with Hampshire County and District Councils;
  - a strategy to achieve the decent homes standard for its housing stock by 2010 following the Council's decision to retain ownership of its housing; and
  - a county-wide waste management strategy aimed at achieving an overall recycling rate of 50 per cent (of which 40 per cent relates to the New Forest) by 2010 through the Project Integra Partnership.
- 16** The revision of the Council's procurement strategy has not been completed but a review group is due to report to councillors in March 2006.

### **Customer access to services**

- 17** The Council has significantly improved performance on making services available electronically, from 49 per cent available in 2004/05 to 92 per cent by the end of December 2005, and has plans to add the booking of leisure facilities to its website.
- 18** The Council's contact centre provides a one-stop approach to service delivery for a range of services including refuse collection. It has improved customer response times with 88 per cent of callers waiting less than a minute and there are plans to add more services for example travel information for older and disabled people.

### **Local Area and Public Service Agreements (LAA and LPSA) and working with stakeholders and partners**

- 19 The Council and the LSP are part of the Hampshire LAA and LPSA and have agreed priorities and a shared action plan with key partners. The LAA aims to deliver improvements over the next three years in supporting children and young people, supporting older people and vulnerable adults; and supporting the infrastructure and conditions for a prosperous and sustainable Hampshire. As the details of the LAA were only finalised in February 2006 it is too early for us to assess its organisation, management and governance arrangements, or its potential to deliver improvement. However, the Hampshire LAA is progressing well and has achieved some key milestones over the last six months.
- 20 The Council is working with the LSP to build the capacity of the voluntary and community sector. The LSP has adopted the county-wide voluntary sector compact and its plans include enabling the sector to provide services for children and young people through better access to funding sources.
- 21 Joint working with parishes and parish councils on planning issues has improved. The majority of parishes have either started or completed their parish plans and the proportion of planning decisions referred to Development Control Committee reduced by 20 per cent from 2004 to 2005 partly as a result of good liaison between the planning service and parish councils.
- 22 The Council has demonstrated a willingness to work in partnership with the new National Park Authority and is providing some support services to the authority.

### **Commercial Services Partnership**

- 23 The commercial services partnership with Test Valley Borough Council has delivered a range of benefits with regard to waste collection, repairs and street cleansing services including more flexible use of operatives and equipment. However the Council recognises that there is scope for greater efficiencies and savings and an options review is underway which is due to report in June 2006.

### **Improvement against key priorities**

- 24 The Council's four key priorities in its corporate plan 2003/07 are: manage our finances; crime and disorder and community safety; housing; and clean streets and public spaces.
- 25 The following paragraphs show progress in each of the Council's key priorities with reference to the relevant targets and performance measures in the Council's annual performance plan 2005/06.

### **Manage our finances**

- 26** Indicators for 2004/05 show a mixed record of improvement over three years. The Council was in the best 25 per cent for council tax and NNDR collection with performance improving. Performance on prosecution for fraud was above average and improving, however fraud investigations had reduced. Performance on undisputed invoices paid on time was below average but is improving in 2005/06. Refuse collection costs are above average and increasing which reflects investment in the recycling service as part of Project Integra. A 2005 survey of the Citizens and Young People's Panels showed high resident satisfaction (94 per cent) with the waste collection service.
- 27** For this key priority the Council has met its performance plan key targets for 2004/05 and most for 2005/06. The Council achieved efficiency gains from a restructuring of the benefits service, implemented a new HR and payroll and reviewed its current leasing policy, concluding that current arrangements represented the best value for money.

### **Crime and disorder and community safety**

- 28** Actual crime is relatively low when compared to others for burglaries, robberies and vehicle crime where crime rates reduced over a three year period to 2003/04. During the same three year period violent crime increased, which the Authority has indicated was due to a change in recording criteria, although it decreased in 2004/05. The best value survey 2003/04 showed that fear of crime was low across all indicators, with performance in the best 25 per cent for the majority of indicators. Residents' perception was that vandalism, litter, graffiti and anti-social behaviour were not significant problems. The 2005 survey showed that most residents including young people (over 80 per cent on average) feel relatively safe in their local area during the day, although there is a perception that some crimes such as anti-social behaviour and vandalism have worsened in the last year.
- 29** The Council has met its performance plan key targets for 2004/05 and already achieved some of its 2005/06 targets for this key priority. These include financial plans for continued funding of its CCTV system and making effective use of anti-social behaviour contracts. As a member of the Crime and Disorder Partnership the Council is working effectively in partnership to prevent crime. In 2004/05 the partnership used area-based co-ordinators to facilitate local solutions to nuisance problems and implemented schemes to engage young people at risk of being involved in criminal activity.

### **Housing**

- 30** The Council's housing performance is improving and generally above average compared to other councils, but housing homeless households and the condition of private sector housing are areas of concern.

- 31 In the Council's role as 'landlord', rent collection and re-letting homes performance are in the 'best 25 per cent', although re-let times have increased to 23 days. Tenants' overall satisfaction with the housing service in the 2003/04 BVPI survey was high. The percentage of non-decent homes has improved significantly, with 18 per cent non-decent in April 2004, and the Council is on target to meet the government target for its housing stock by 2010.
- 32 The Council has been successful in meeting its targets for new affordable homes. A total of 235 new homes were delivered in the period 2003/04 to 2004/05 against a target of 200, and a further 106 had been completed by the end of December 2005. The Council has strengthened its approach to increasing the supply of affordable housing through better joint working between the housing and planning services in the early stages of scheme development and on supplementary guidance, and it has developed a draft strategy to address the housing needs of key workers. Cabinet is due to consider proposals for the future funding of affordable housing in April 2006.
- 33 Although performance is improving for the time spent by homeless households in temporary hostel accommodation it remains in the worst 25 per cent. The Council is addressing this through prevention measures which have resulted in a significant reduction in homeless acceptances over the last three years. The Council's performance has worsened on making private sector homes fit and is in the worst 25 per cent. This is due to a combination of the additional unfit homes identified in a recent housing condition survey and very low take-up of improvement grants. A new grants policy was introduced in September 2005 to help improve performance and meeting the decent homes standard for private sector housing.

#### **Clean streets and public spaces**

- 34 Performance has improved and is above average or in the best 25 per cent compared to other councils for indicators relating to this key priority. Cleanliness standards and residents satisfaction with this service are high, a key target for this priority. Recycling has improved with the Council achieving 25 per cent of waste recycled in 2004/05, however the forecast performance of 26 per cent for 2005/06 will fall short of meeting the government and Council's own target of 30 per cent. A review of collection methods is underway aimed at enabling the Council to achieve 30 per cent recycled. Missed waste collections have reduced over the last three years, from 145 to 102 per 100,000. Most abandoned vehicles are investigated quickly and 25 per cent of those investigated removed within a day.
- 35 The Council is meeting its key performance plan targets for this priority. It has started improvements to some public conveniences and further proposals for investment and rationalisation of public conveniences that, in consultation with town councils, will be considered by Cabinet in March 2006.

### **BFI and housing benefit performance**

- 36** The Council has not had a BFI inspection since the CPA assessment but continues to assess itself against the BFI standard to aid improvement. In September 2005 the Council self-assessed its performance against the four BFI themes and developed an action plan which includes setting targets to help increase levels of overpayment recovery and improving communication with landlords to minimise housing repossessions.
- 37** Performance has improved in processing new housing benefit claims and was above average in 2004/05. The accuracy of processing was in the best 25 per cent. Recovery of overpayments and dealing with changes in circumstances remain a concern and were both below average in 2004/05.

### **Best value performance plan**

- 38** Our audit of best value has two discrete but interlinked elements:
- compliance of the best value performance plan (BVPP) with statutory requirements; and
  - assessing systems to produce and publish performance information.
- 39** Our work in this area has been completed and there are no issues arising that we need to bring to the attention of members.



## Accounts and governance

Our audit opinion on your financial statements for 2004/05 was qualified by a 'limitation in scope' related to your capital accounts. This is because we have not been able to determine whether the capital accounts are presented fairly, because of the £4.7 million unexplained difference between the Council's Credit Ceiling at 31 March 2004 and its Capital Financing Requirement. Efforts to resolve this issue are continuing.

The Council's financial position continues to be soundly based. Net general fund expenditure in 2004/05 was £1.2 million below the original budget for the year, which was in part due to actions taken in advance to minimise budget pressures in 2005/06. The general fund balance amounted to £2 million at 31 March 2005, which was in line with the Council's financial strategy. The Council's predicted financial performance in 2005/06 indicates that it will remain within the general fund budget, although members will need to ensure that all practical steps are taken to minimise unplanned savings in the future.

To avoid a recurrence of slippage on its capital programme, the Council should use the outcomes of the corporate member-led group, due to report in March 2006, to help ensure that its capital planning processes are robust.

## Accounts

- 40 The Council approved the accounts on 29 July, in advance of the 31 July 2005 deadline. The working papers provided for audit were of a good standard and we completed the detailed testing on the financial statements during September and October 2005. Further time before giving the opinion was agreed in order to maximise the opportunity to resolve the 'Adjustment A' issue.
- 41 The deadline for the approval of the accounts is coming forward next year to 30 June 2006. The Council is aware of this and is well placed to meet this new requirement.

### **Matters arising from the final accounts audit**

- 42 Your officers initially calculated the Council's Adjustment A as being £5.7 million. This represents the difference between the Council's capital financing requirement and its credit ceiling.
- 43 The capital financing requirement has been calculated at £3.8 million and represents the level of unfinanced capital expenditure in the Council's balance sheet at 31 March 2004. The credit ceiling is a calculation, based in legislation, of the Council's level of external debt under the previous capital control system and amounted to -£1.9 million at 31 March 2004. The difference between these two amounts is £5.7 million.



- 44 Considerable efforts have been made by officers to explain this difference by reviewing the accounting records back to 1997. Officers have identified adjustments in prior years of £1 million to the Council's credit ceiling, which has reduced the unexplained balance to £4.7 million. This is likely to be due to errors or differences arising in the capital accounts or the credit ceiling dating back before 1997. The Council is not required to retain accounting records for these earlier financial years and therefore cannot produce them.
- 45 The Council needs to consider how it will address the unfinanced capital expenditure of £3.8 million identified in the balance sheet at 31 March 2004. The remaining £0.9 million of the unexplained difference may be the result of statutory differences in balance sheet accounting and the capital financing of transactions under the previous capital accounting control system. We will continue to work with the Council as it seeks a resolution to this issue.
- 46 It is important that Adjustment A is materially reconciled and that the underlying cause of the Council's capital financing requirement of £3.8 million is identified and addressed. We have no alternative other than to express a limitation in scope in the audit opinion for 2004/05.

### **Report to those with responsibility for governance in the Council**

- 47 We are required by professional standards to report to those charged with governance (in this case to the Final Accounts Committee) certain matters before we give an opinion on the financial statements.
- 48 We reported the findings from the audit of your financial statements to the Final Accounts Committee on 15 December 2005. The key issue that we reported related to the unexplained Adjustment 'A' of £4.7 million, the difference between the Council's capital financing requirement and credit ceiling at 31 March 2004.
- 49 Following the meeting we gave a qualified opinion on your financial statements for 2004/05 on 20 December 2005. This was because of the necessity for a limitation in scope because of the issue discussed above.

## **Financial standing**

### **General fund spending and balances 2004/05**

- 50 Net general fund expenditure for 2004/05 amounted to £17.4 million, which was £1.2 million lower than the original estimate, which was in part due to actions taken in advance to minimise budget pressures in 2005/06. The general fund balance at 31 March 2005 was £2 million, in line with the Council's financial strategy that it should be maintained at the lower of 10 per cent of net general fund expenditure or £2 million.
- 51 Key variations against the original budget were:
- portfolio/service budgets £1.1 million; and
  - increased interest earnings £0.15 million.

## Financial forecast 2005/06

- 52 General fund actual expenditure on services was close to the profiled budget for the period April to December 2005, amounting to £14.79 million (or 98 per cent of the profiled budget of £15.1 million for the period).
- 53 The full year forecast of general fund net expenditure in 2005/06 predicts a reduction in net expenditure of £307,000 against an original budget of £19.7 million. Explanations for the key variations against the original budget are provided to members on a rolling basis and include:
- variations on service expenditure -£77,000;
  - increased interest earnings -£230,000; and
  - transfer to reserves in relation to the Adjustment 'A' +£219,000.

## Financial projections to 2009/10

- 54 The Council has projected forward its expenditure plans from 2006/07 through to 2009/10, giving appropriate consideration to the operational and financial risks and pressures including local and national factors and known developments.
- 55 This forecast builds upon the proposals that had previously been considered by Cabinet and some new proposals. The general fund budget for 2006/07 amounts to £21 million which translates into a council tax increase of 2.75 per cent over the previous year.
- 56 The financial strategy indicates that expenditure plans should only be supported if the additional cost is unavoidable, has a good payback period and significantly assists the Council to achieve one of its key priorities. All expenditure plan proposals are required to link to service planning process and the corporate plan and should include consideration of short and long-term costs.
- 57 A risk assessment has been carried out to assess the level of general fund balance that would be prudent for the Council to maintain. The assessment concluded that the general fund balance should be maintained at £2 million, and that the risk assessment should be carried out on an annual basis.

## Housing revenue account

- 58 The housing revenue account (HRA) surplus for 2004/05 exceeded the original budget of £0.67 million by £0.13 million. The HRA balance amounted to £3.6 million at 31 March 2005, equating to almost £701 per dwelling (£541 per dwelling at 31 March 2004).
- 59 The full year forecast for 2005/06 indicates that the HRA surplus will be £961,000, based on actual performance to December 2005, which is in excess of the budgeted level. This will result in the HRA balance amounting to £4.5 million at 31 March 2006, which will help finance the Council's planned response to the decent homes standards.

## Capital programme

- 60 Capital expenditure in 2004/05 was £10.5 million compared to an adjusted budget of £11.6 million. Slippage against the planned programme was therefore £1.1 million or 9.8 per cent, somewhat lower than in 2003/04 (£2.2 million or 17 per cent).
- 61 Actual capital expenditure for the period April to December 2005 amounted to £4.9 million, representing 61 per cent of the profiled budget for the same period of £8.1 million. The Council has predicted that capital expenditure within the year will amount to £13.3 million by 31 March 2006, achievement of which will depend upon substantial progress being made in the last quarter of the year.
- 62 The Council has acknowledged that it needs to review the management of the capital programme in order to ensure that it minimise the causes of recurring slippage. A corporate councillor-led review was therefore been set up in June 2005 which will report to the Corporate Overview Panel in April 2006. Improving the management of the capital programme was identified as a key area for improvement in the Council's use of resources reported later in this letter.

## Governance arrangements

We have not identified any significant weaknesses in your overall control framework, including standards of financial conduct and the prevention and detection of fraud and corruption and the legality of financial transactions. The key issue that arose during our review is that the Council needs to ensure that it embeds risk management into its corporate arrangements.

### Internal Audit

- 63 The quality and scope of Internal Audit work is of a good standard and complies with relevant professional standards. We are able to place reliance on their work for our opinion purposes and we support their findings and recommendations, a number of which have been incorporated within our review of core processes.
- 64 We will continue to work closely with Internal Audit during the course of the year, and we will liaise with them in relation to the integration of our respective audit plans.

### Risk management

The key issue that arose during our review of the Council's arrangements is risk management, in particular demonstrating that it has embedded risk management within its corporate business processes including strategic planning, policy making and review and performance management.

## Use of resources assessment

Our assessment of the Council's use of resources showed that it has in place a robust governance and performance management framework that exceeds the minimum requirements in most respects. We have suggested some enhancements to assist the Council to further improve its arrangements.

- 65 The use of resources assessment is a new assessment which focuses on financial management but links to the strategic management. It looks at how the financial management is integrated with strategy and corporate management, supports council priorities and delivers value for money. It will be carried out annually, as part of each council's external audit. We anticipate in future the use of resources assessment will form part of the CPA framework for district councils.
- 66 We have assessed the Council's arrangements in five areas.

**Table 1 Assessment of the Council's arrangements**

<b>Element</b>	<b>Assessment</b>
Financial reporting	3 out of 4
Financial management	3 out of 4
Financial standing	3 out of 4
Internal control	3 out of 4
Value for money	3 out of 4
<b>Overall</b>	<b>3 out of 4</b>

*(Note: 1=lowest, 4=highest)*

- 67 In reaching these judgements we have drawn on the above work and supplemented this with a review against specified key lines of enquiry (KLOE).
- 68 The headlines from our work are highlighted below, detailing the key areas that need to be improved in order for the Council to progress to next level within the use of resources judgement. A number of the suggested improvements relate to the higher level KLOE, which the Council may view as aspirations that should not be implemented. Value for money is considered separately to the aspects of financial management.

## **Table 2 Use of resources assessment: improvements needed (aspects of financial management)**

Summary of the main improvements that would be needed to progress to the next level within a future assessment

Financial reporting	<p>The Council prepares its accounts in accordance with relevant standards and timetables. These processes could be further improved by:</p> <ul style="list-style-type: none"> <li>consulting stakeholders on the publication of intelligible and accessible summary accounts or an annual report.</li> </ul>
Financial management	<p>The financial management framework is robust and soundly based. These arrangements would be further enhanced by:</p> <ul style="list-style-type: none"> <li>describing in financial terms the joint plans agreed with partners, within the financial strategy, and being able to demonstrate how the financial plans and strategies have contributed to the achievement of corporate objectives.</li> </ul> <p>The management of performance against budget could be improved by:</p> <ul style="list-style-type: none"> <li>informing budget monitoring by making a risk assessment and linking the process to operational activity indicators; and</li> <li>providing 'traffic lights' to highlight key variances for members, in a similar way to the system used by the Council within its performance management.</li> </ul> <p>Asset management might be further enhanced through:</p> <ul style="list-style-type: none"> <li>establishing performance measures and benchmarking to describe and evaluate how the Council's asset base contributes to the achievement of corporate and service objectives, and results should be communicated to relevant stakeholders.</li> </ul>
Financial standing	<p>Arrangements to manage spending within available resources, and ensuring that reserves and balances are well controlled, are already effective. They might be improved by:</p> <ul style="list-style-type: none"> <li>enabling members to set challenging targets and monitor key financial health indicators; and</li> <li>monitoring the opportunity costs of maintaining its levels of reserves and balances, and compare these to the benefits accrued from holding them.</li> </ul>

Internal control	<p>Internal control arrangements are well developed within the Council. The key area for improvement is risk management, and in particular:</p> <ul style="list-style-type: none"> <li>• linking the risks within the corporate risk register to strategic business objectives; and</li> <li>• including a risk assessment within reports to support strategic policy decisions and project initiation documents.</li> </ul>
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## Value for money

- 69** The Council has a good understanding of those of its services that are relatively high cost and the extent to which these are clearly matched to corporate priorities and policies. The Council is delivering high quality services for generally low cost and this includes achieving high levels of customer satisfaction. It also assesses the short and medium-term costs of service expenditure and policy proposals.
- 70** A good level of awareness of 'value for money' (VFM) principles is demonstrated by the Council. This is supported by some well-embedded performance management systems, which includes the benchmarking of costs and performance within the performance management framework and enables councillors and managers to challenge costs and performance at both service and corporate levels. Challenging efficiency targets to drive value for money improvement are set, and the Council is able to demonstrate efficiency savings and expects to achieve more than the 2.5 per cent target over three years.
- 71** The Council is investing in ICT to improve efficiency and has significantly improved its performance on enabling e-access to services. Although relatively high cost services are the focus of internal reviews, improvement outcomes so far are limited (housing benefit) as the 2005/06 reviews for most of these services, such as housing management, have not yet reported.
- 72** The following improvements would enable the Council to further enhance its ability to achieve value for money:
- integrate financial and performance monitoring into the new balanced scorecard approach to performance management when it is implemented;
  - use the current review of the capital programme to remedy the causes of recurrent slippage;
  - demonstrate improvement in higher cost services as a result of internal reviews;
  - monitor and ensure there is no unintended impact of cost reduction efficiencies on service users;
  - identify non-cashable savings to achieve more than 2.5 per cent Gershon efficiencies;

- develop and implement a new procurement strategy which embodies value for money and ensure that good practice procurement principles are applied; and
- secure increased and significant savings from future joint procurement, without unintended loss of quality, and improve efficiency gains from the commercial services partnership as an outcome of the current review.

## Other work

### Grant claims

- 73 In accordance with Strategic Regulation, the Audit Commission has continued with a more risk-based approach to the certification of grant claims. We have reduced our audit of these claims but our ability to reduce further depends on the adequacy of the Council's control environment.
- 74 The Council's arrangements for managing and quality assuring grant claims submitted for audit has continued to be sound.

### National Fraud Initiative

- 75 In 2004/05, the local authority took part in the Audit Commission's National Fraud Initiative (NFI). The NFI, which is undertaken every two years, aims to help identify and reduce fraud by bringing together data from NHS bodies, local authorities and government departments and other agencies, to detect a wide range of frauds against the public sector. These include housing benefit fraud, occupational pension fraud, tenancy fraud and payroll fraud as well as, new for 2004/05, right to buy scheme fraud and providing new contact details for former tenants with arrears in excess of £1,000.
- 76 The NFI 2004/05 results were distributed on CD-ROM on 31 January 2005 and participating bodies were required to provide savings returns reporting progress made as at 31 May 2005, 30 September 2005 and 31 December 2005.
- 77 There were no identified frauds in the council area and the Council has met the deadlines for the submission of returns to the Audit Commission.



## Looking forwards

### Future audit and inspection work

- 78 We have an agreed plan for 2005/06 and we have reported in this letter those aspects that have already been completed. The remaining elements of that plan, including our audit of the 2005/06 accounts, will be reported in next year's Annual Letter.
- 79 We have sought to ensure, wherever possible, that our work relates to the improvement priorities of the Council. We will continue with this approach when planning our programme of work for 2006/07. We will seek to reconsider, with you, your improvement priorities and develop an agreed programme by 31 March 2006.

### Revision to the Code of Audit Practice

- 80 The statutory requirements governing our audit work, are contained in:
- the Audit Commission Act 1998; and
  - the Code of Audit Practice (the Code).
- 81 The Code has been revised with effect from 1 April 2005. Further details are included in our Audit Plan which has been agreed with officers on 11 March 2005. The key changes include:
- the requirement to draw a positive conclusion regarding the Council's arrangements for ensuring value for money in its use of resources; and
  - a clearer focus on overall financial and performance management arrangements.

### A new CPA framework

- 82 The Audit Commission is currently considering the results of the consultation on the proposals for revising the CPA framework for District Councils. The revised framework will be published in the early part of 2006 with implementation from April 2006.

## Closing remarks

- 83 This letter has been discussed and agreed with the Chief Executive and Director of Resources. A copy of the letter will be presented to members on 12 April 2006.
- 84 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 co-operation.

## Availability of this letter

- 85 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  
March 2006

# Appendix 1 – Background to this letter

## The purpose of this letter

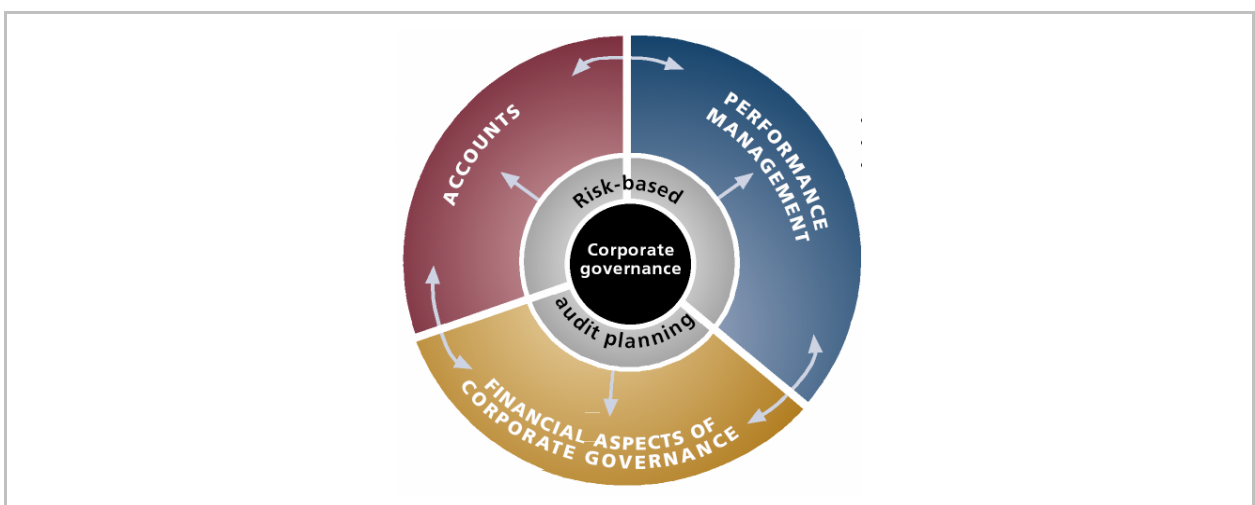
- 1 This is our audit and inspection 'Annual Letter' for members which incorporates the Annual Audit Letter for 2004/05, which is presented by the Council's Relationship Manager and District Auditor. The letter summarises the conclusions and significant issues arising from our recent audit and inspections of the Council.
- 2 We have issued separate reports during the year setting out the findings and conclusions from the specific elements of our programme. These reports are listed at Appendix 2 for information.
- 3 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.
- 4 Appendix 3 provides information about the fee charged for our audit and inspections.

## Audit objectives

- 5 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.
- 6 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 Figure 1.

**Figure 1 Code of Audit Practice**

Code of practice responsibilities



## **Accounts**

- Opinion.

## **Financial aspects of corporate governance**

### **7** Reviewing how effectively the Council ensures:

- financial standing;
- systems of internal financial control;
- standards of financial conduct and the prevention and detection of fraud and corruption; and
- legality of transactions with significant financial consequences.

## **Performance management**

- Use of resources.
- Performance information.
- Best value performance plan.

## **Inspection objectives**

### **8** 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.

## Appendix 2 – Audit and Inspection reports issued

**Table 3**

<b>Report title</b>	<b>Date issued</b>
Audit Plan	April 2004
Interim Report	July 2005
Report on the 2004/05 Financial Statements to Those Charged with Governance (SAS 610)	December 2005
Auditor's Report on the Best Value Performance Plan - 2005/06	December 2005
Final Accounts and Grant Claims	January 2006

## Appendix 3 – Audit and Inspection fee

**Table 4      Audit fee update**

<b>Audit area</b>	<b>Plan 2004/05 (£)</b>	<b>Actual 2004/05 (£)</b>
Accounts	36155	36155
Financial aspects of corporate governance	23611	23611
Performance	14762	14762
<b>Total Code of Audit Practice fee</b>	<b>74528</b>	<b>74528</b>
Additional voluntary work (under section 35)	-	-
<b>Total</b>	<b>74528</b>	<b>74528</b>

### Inspection fee update

The full year inspection fee is £2,203. The work reported in this audit and inspection letter has been funded by an element of the fee covering 2004/05 and by an element of the fee covering 2005/06. In both years the actual fee will be in line with that planned.