

ANNUAL AUDIT AND INSPECTION LETTER 2008/09

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. ANNUAL AUDIT AND INSPECTION LETTER FOR 2008/09

- # 2.1 A copy of the Audit and Inspection Letter for 2008/09 is attached as Appendix 1. A copy of the Letter will be published on both the Council and the Audit Commission's website

3. PORTFOLIO HOLDER COMMENTS

- 3.1 The Policy and Resources Portfolio Holder comments that that the Council continues to perform well and provide good value for money. The financial statements produced by the Council also continue to be of good quality.
- 3.2 The challenge remains for everyone in the Council to build on this good work over the years ahead.

4. CRIME AND DISORDER, ENVIRONMENTAL AND EQUALITY AND DIVERSITY IMPLICATIONS

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

5. RECOMMENDATIONS

- 5.1 It is recommended that the Annual Audit Letter for 2008/09 be noted.

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Background Papers:

Annual Audit Letter

New Forest District Council

Audit 2008/09

December 2009



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Status of our reports

The Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission explains the respective responsibilities of auditors and of the audited body. Reports prepared by appointed auditors are addressed to non-executive directors/members or officers. They are prepared for the sole use of the audited body. Auditors accept no responsibility to:

- any director/member or officer in their individual capacity; or
 - any third party.
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Key messages

This report summarises the findings from our 2008/09 audit. It includes messages arising from the audit of your financial statements and the results of the work I have undertaken to assess your arrangements to secure value for money in your use of resources.

Audit Opinion and Financial statements

- 1 I gave an unqualified opinion on the Council's financial statements on 30 September 2009.
- 2 During the audit I identified two significant issues but these did not impact on the Council's ability to fund services, or the revenue required from Council Taxpayers. I also identified a few presentational issues affecting the notes to the financial statements. Management adjusted the financial statements for all the matters arising before I gave my opinion. The significant issues were:
 - the Council's failure to undertake an appropriate impairment review before approving the draft accounts; and
 - the method used for reporting fixed asset additions
- 3 Overall I am pleased to report that aside from the points raised above, the Council's draft financial statements and working papers were generally of a good quality. Clearly a key task for the Council will be to maintain this standard going forward particularly at a time of considerable change in local authority reporting requirements including the introduction of International Financial Reporting Standards in 2010/11.

Value for money

- 4 I issued an unqualified Value for Money conclusion on 30 September 2009 stating that in all significant respects, the Council made proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2009.
- 5 Overall, the Council is continuing to perform well, and compares well with other District Councils nationally. It generally exceeds the minimum requirements set out in the Audit Commission's Use of Resources guidance, and there is evidence of good outcomes for staff and other stakeholders in 6 of the 8 Use of Resources themes. The Use of Resources assessment contributed to the Audit Commission's wider Organisational Assessment in which the Council was also judged as performing well.
- 6 I also reviewed the circumstances of the Council's recent legal dispute with a contractor concerning works to the floors of Council leisure centres. I identified a number of opportunities for improvement in the Council's procedures particularly around risk management. I reported these more fully in a letter to the Council's Chief Executive which was also considered by the Standards Committee and the Final Accounts Committee at their joint meeting on 25 September 2009.

Actions

- 7 There are however a number of areas where there is scope for further action. Our audit identified the following key actions.
- Improve arrangements for impairing fixed assets.
 - Ensure readiness for the introduction of International Financial Reporting Standards in 2011.
 - Enhance arrangements for collecting, recording and checking performance information.
 - Further develop strategic workforce planning.
 - Continue the process for embedding risk management arrangements.

Independence

- 8 I can confirm that the audit has been carried out in accordance with the Audit Commission's policies on integrity, objectivity and independence.

Financial statements and annual governance statement

The Council's financial statements and annual governance statement are an important means by which the Council accounts for its stewardship of public funds.

Significant issues arising from the audit

- 9** I gave an unqualified opinion on the Council's financial statements on 30 September 2009.
- 10** During the audit I identified two significant issues and a few presentational issues affecting the notes to the financial statements. Management adjusted the accounts for all of these before I gave my opinion.
- 11** The significant issues related to the Council's fixed assets. When preparing its financial statements, the Council did not review its fixed assets at the Balance Sheet date to establish if there were indications of impairment, ie the market downturn. The Council undertook an impairment review during the audit and reduced its fixed assets in the Balance Sheet by just under £80 million. This also impacted on a number of other balances in the financial statements, but the adjustment did not impact on the Council's ability to fund services, or the revenue required from Council Tax payers.
- 12** The second significant issue was in respect of the way in which the Council had reported its fixed asset additions, these were shown net of revaluation and impairments, but should have been reported gross. This was amended during the audit, but it did not impact on any of the main financial statements.
- 13** The matters arising from the audit of the financial statements were reported in detail to a joint meeting of the Standards Committee and the Final Accounts Committee in September 2009.

Weaknesses in internal control

- 14** During the audit I identified only one area where I concluded that improvements could be made to the Council's controls over journals. A small number of Council staff were able to raise journals and set up account codes, without any form of independent review. To this end, I undertook additional testing of journals raised during the year and found no further errors.
- 15** On the basis of the additional testing I completed during the audit, I am satisfied that there was a low risk of material mis-statement due to the weaknesses in the journal controls. The Council is taking action to address the issues I raised, and I will follow up the outcomes during my 2009/10 audit.

Accounting Practice and financial reporting

- 16** I considered the qualitative aspects of your financial reporting during the course of the audit. I recommended that the Council improve its fixed asset valuation arrangements and the supporting documentation in respect of fixed assets. In particular the Council should ensure that:
- an annual impairment review is undertaken as at the Balance Sheet date; and
 - improve the audit trail through the Capital working papers through better signposting.
- 17** Overall I am pleased to report that aside from the points raised above, the Council's draft financial statements and working papers were of generally a good quality. Clearly a key task for the Council will be to maintain this standard going forward particularly at a time of considerable change in local authority reporting requirements including the introduction of International Financial Reporting Standards in 2010/11.

Use of resources and Value for money

I considered how well the Council is managing and using its resources to deliver value for money and better and sustainable outcomes for local people, and gave a scored use of resources judgement.

I also assessed whether the Council put in place adequate corporate arrangements for securing economy, efficiency and effectiveness in its use of resources. This is known as the value for money (VFM) conclusion.

Use of resources judgements

- 18** The new Use of resources (UoR) assessment framework is more demanding than the previous assessment. It is broader in scope and embraces wider resource issues such as people and workforce planning, and the use of natural resources (although this was not specifically reviewed at District Councils in 2008/09). It also places more emphasis on considering outcomes for local people.
- 19** I have also taken into account, where appropriate, findings from previous use of resources assessments (updating these for any changes or improvements) and any other relevant audit work.
- 20** In forming my scored judgements, I have used the methodology set out in the Audit Commission's [use of resources framework](#). Judgements have been made for each key line of enquiry (KLOE) using the Audit Commission's current four point scale from 1 to 4, with 4 being the highest.
- 21** The Council's UoR theme scores are shown in Table 1.

Table 1 Use of resources theme scores

Use of resources theme	Scored judgement
Managing finances	3
KLOE 1.1 - Does the organisation plan its finances effectively to deliver its strategic priorities and secure sound financial health?	3
KLOE 1.2 Does the organisation have a sound understanding of its costs and performance and achieve efficiencies in its activities?	3
KLOE 1.3 - Is the organisations financial reporting timely, reliable and does it meet the needs of internal users, stakeholders and local people?	3

Use of resources theme	Scored judgement
Governing the business	3
KLOE 2.1 - Does the organisation commission and procure quality services and supplies, tailored to local needs, to deliver sustainable outcomes and value for money?	3
KLOE 2.2 - Does the organisation produce relevant and reliable data and information to support decision-making and manage performance?	2
KLOE 2.3 - Does the organisation promote and demonstrate the principles and values of good governance?	3
KLOE 2.4 - Does the organisation manage its risks and maintain a sound system of internal control?	3
Managing resources	2
KLOE 3.1 - Is the organisation making effective use of natural resources?	Not scored in District Councils in 2008/09
KLOE 3.2 - Does the organisation manage assets effectively to help deliver its strategic priorities and service needs?	Not scored in District Councils in 2008/09
KLOE 3.3 - Does the organisation plan, organise and develop its workforce effectively to support the achievement of its strategic priorities?	2

Overall conclusion

- 22** Overall, the Council is continuing to perform well, and compares well with other District Councils nationally. It generally exceeds the minimum requirements set out in the Audit Commission's UoR guidance, and there is evidence of good outcomes for staff and other stakeholders - the Council has achieved level 3 judgements in 6 of the 8 KLOEs.
- 23** Level 2 judgements (performing adequately) have been given against the remaining two KLOEs, and in my UoR report to management, I identified improvement areas against these KLOEs.

Managing finances

- 24** The economic downturn and banking crisis is having a very significant impact on public finances and the bodies that manage them. The impact on treasury management strategies has been immediate, but there are wider and more fundamental impacts on the ability of public sector bodies to fund service delivery and capital programmes, including pressures on income streams. There are further challenges for policy priorities where patterns of demand for services are changing. This impacts on the audit and as part of my responsibility, I have reflected on the wider environment, specific issues and risks and the Council's response.

Use of resources and Value for money

- 25** The Council plans its finances effectively to deliver its strategic priorities and is in sound financial health. Through effective financial planning, financial capacity is strong and stable, even as income falls in this current economic climate. The Council has a good track record of operating within its set budgets and in providing good quality services and value for money. The Council is taking a proactive and positive approach to the recession by assuring the sustainability of resources and continuing to achieve well in planned savings and efficiencies. It is buying time by using reserves and its good financial standing.
- 26** Your Corporate Plan 2008-2012 is concise with clear vision and succinct aims. Financial and service planning is well established and new portfolio plans and service action plans are in place.
- 27** Service planning is based on knowledge of need gained through consultation, but local communities and other stakeholders are not fully engaged in financial planning and options for spending. True public engagement in finance is not yet in place yet as the Council is not at participatory budget stage. The external consultation on the corporate plan does however influence financial planning as this is integrated into corporate and service planning.
- 28** Medium term and annual financial planning is effective. The Council has a balanced medium term budget, achieved within a well organised process and set timetable. The medium term financial plan identifies risk, resource and cost pressures to both the revenue and capital programme. Efficiency savings plans are robust and implemented. Savings requirements are identified in portfolio plans and service budgets. The Council uses its reserves and balances appropriately and has no external debt – a key achievement.
- 29** The Council did not have any of its own investments in Icelandic banks or their UK subsidiaries when these banks went into administration in October 2008. It reviewed its Treasury Management strategy as part of the 2009/10 budget setting cycle and after officer and Member scrutiny, the Council approved the strategy within the Council's Medium Term Financial Strategy and Budget setting report. Since then, it has reviewed its strategy and arrangements against CIPFA's Treasury Management March 2009 bulletin and is making some changes to strengthen its arrangements further.
- 30** Spending and service delivery is evaluated for impact on wider social, environmental and economic factors. This is evident in the Council's use of equalities and diversity impact assessments – which have improved outcomes for vulnerable people such as Gypsies and Travellers.
- 31** The Council has completed an innovative Green Audit with nine improvement plans in place. These are being used to target work, for example, by improving vehicle and building's fuel efficiency and ensuring a strong focus on sustainable procurement. It also has Green Audit Themes to reduce the district's carbon footprint and this has for example, helped to insulate more homes, improve the monitoring of air quality and provide climate change education road shows in schools, youth and community groups.

- 32** Leisure services has been the subject of a thorough review and has used benchmarking well. It has delivered £0.5m savings and at the same time introduced free swimming for young and old which has actually increased revenue at its centres. More people visit the centres now (30,000 free swims in 2008/09 – up by 25 per cent from when people had to pay) and spend more on other things like catering or trying other activities.
- 33** The Council achieves good value for money in the majority of its key service areas. It compares well to other councils, as it has many high performing services at lower costs: culture, housing management, council tax and administration services. It is high spending, but with high satisfaction, in sport and recreation services and has good performance in environmental services with high satisfaction and lower than average costs.
- 34** Good financial monitoring is achieved by regular budgetary control reports to nominated budget holders, Executive Management Team, the relevant Portfolio Holder, Final Accounts Committee and the Cabinet. All elected Members have access to Cabinet Agendas and the financial reports; and they can request additional, more detailed information and question any financial issues. Good challenge is evidenced through in-year monitoring by the Final Accounts Committee.
- 35** The latest published financial statements and Annual Audit and Inspection Letter are available on the Council's website. The Council has achieved the Level 3 Equalities Standard; one of the requirements was to produce information in a number of formats. The Council works with local communities to understand their needs and examples include use of the equalities network, in particular with disabilities groups, who have made a valuable contribution to issues around website design and document production. Arrangements are in place for responding to requests for translation of Council produced information.

Governing the business

- 36** Arrangements to procure quality services and supplies tailored to local need to deliver sustainable outcomes and vfm are robust. The Council has a clear vision of intended outcomes for local people which shapes its commissioning and procurement, and this is based on a good understanding of needs. It understands the inequalities and diversity of its local communities and their needs. Equality is addressed in procurement by assuring that approved contractors commit to equalities. It also has a strong focus on sustainable procurement - this helps it ensure that it gets the best outcomes for local people from its procurements.
- 37** The Council is focused on improving customer services and access to them, and makes good use of technology to deliver this through its IT strategy and further improving its customer contact approach.
- 38** Commissioning and procurement is based on an understanding of the local market. There are robust improved arrangements for specifying and monitoring contracts to ensure compliance with contract terms and conditions. Improvement has been implemented since the difficulties with a past leisure centre floor maintenance contract.

Use of resources and Value for money

- 39** The Council manages its procurement effectively. It has an established Central Purchasing Unit. Its procurement strategy supports the Corporate Plan which in turn supports the Sustainable Community Strategy. Delivery of the Procurement Strategy is monitored by the EMT and Members including procurement champions. The Council's procurement achieved £139,420 savings in 2008/09.
- 40** A programme of service reviews aim to identify service and value for money improvements. The Council shares with partners, delivery of some smaller services and retains its in-house management of its larger waste, housing and leisure services, all of which provide good services with high user satisfaction.
- 41** The Council acknowledges the importance of good data quality, and published performance information is subject to data quality checks. However, it does not have an overarching strategy to assure itself that its published performance information is robust. The Council works to assure data quality through a number of informal process checks and while our performance indicator spot check work has not identified any significant data quality issues, the Council's arrangements for collecting, recording and checking performance information are inconsistent.
- 42** Centralised ICT services control data effectively. Data processed in major systems is maintained and checked by dedicated systems administrators. The information systems themselves are best-of-breed applications conforming to industry standards for data processing as opposed to bespoke systems. The data in these systems is also subject to regular internal audits. Data security policies and guidance are in place covering all key business areas. Disaster Recovery Plans which cover business critical information systems are in place along with a dedicated ICT Security Team, Data Protection and Freedom of Information Officer.
- 43** Performance management is good. Members and officers receive fit-for-purpose information to support their decision making. The Council aligns information provision with needs, and regularly reviews this. Performance management is continuing to improve and contribute to data quality and improved performance data presentation. A key strength of the Council is that its good performance management system is used to drive improvement. This has resulted to improvements in planning and housing services for example.
- 44** The Council promotes good governance in a number of ways. The independent Standards Committee Chairman reports to the Council annually on the Standards Committee's work and findings. This is not a mandatory legal requirement, but the Council requires this to report the challenge provided by the Committee across the organisation. This also promotes the ethical agenda to full Council.
- 45** A number of successful joint or collaborative working arrangements have been run with the public and other agencies, and the Council has been proactively working to deliver its targets in the existing Local Area Agreement – performance against 2008/09 targets is good. Alongside the Local Strategic Partnership (LSP), the Council has inputted into the development of the Local Area Agreement for 2008/12 influencing target setting and aligning the local Sustainable Community Strategy to the Local Area Agreement where appropriate.

- 46 The Council has developed its risk management arrangements and towards the end of the year, they were starting to be integrated with business processes, but were not embedded throughout 2008/09.
- 47 A strong counter fraud culture is demonstrated by the Council; the effectiveness of which is demonstrated by both the outcomes of fraud investigations and the number of fraud referrals made by members of staff internally and their managers and members of the public. This culture supports a zero tolerance to fraud which is publicised through training, awareness and annual reporting.
- 48 The Council is seen as a leading authority in fraud and corruption arrangements within the Hampshire and IOW partnership and offers advice and assistance to other authorities as appropriate. It is one of only two councils in Hampshire that have established computer forensic equipment and techniques aligned to procedures specified by Hampshire Constabulary's Hi Tech Crimes Unit.

Managing resources

- 49 The Council's organisation and development of its workforce is adequate. It works to ensure that it has the right people with the right skills and has successful and appropriate recruitment processes through a range of recruitment channels including the development and use of the Hampshire Recruitment Portal. Staff training and development is strong and linked through performance appraisals, service level training plans, corporate level evaluation and training needs for the future. It develops its managers through a formal development programme. The Council has a good awareness of the cost and value of training. Poor performance is tackled through the staff appraisal process for individuals and the monitoring of service action plans and service performance indicators at service level.
- 50 Organisational change is effectively managed and supported, and the workforce is involved in the process. The Council communicates well with staff on change management issues and has effective partnership working with staff representative groups. Examples being the recent review of its senior management structure and the continuing pay review. It takes action on the views of employees. This is evident in its employee survey action plan.
- 51 Some workforce issues remain to be resolved or improved. The total number of employees continues to rise despite a significant increase in contracts terminated. The Council has implemented a new vacancy management procedure to address this as part of measures to reduce its headcount and efficiency in line with its organisational change policy. Better past strategic workforce planning would have helped this. It performs well in the number of black and ethnic minority staff it employs, but not as well for employees retiring ill, employing disabled people and employing women at higher levels in the organisation. The Council's pay structure is not yet complete. It has conducted an equal pay audit but not yet fully implemented equal pay for approximately 20 per cent of its workforce. This is on track to be completed in 2009/10.

Use of resources and Value for money

52 Service workforce planning at a basic level is addressed but strategic workforce planning is not yet embedded across the Council. The Council's Corporate Plan has an appropriate workforce focus in that it includes clear aims for delivery through people. The Council's 2005 to 2008 people strategy was not focussed sufficiently on workforce planning or outcomes. The new strategy should address this. Service action planning addresses short term workforce, succession and development in some services; but medium term and longer vision backed by gap analysis and action to assure future workforce is not in place. An updated workforce planning and development framework has just been launched and work is under way to bring service workforce plans together into a strategic document to provide a stronger strategic approach to workforce planning. This will help it make sure that its future workforce is better able to adapt to change and to meet future needs.

Leisure Centre Sports Hall Floors

53 To assure myself over the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources in respect of the procurement and court action in relation to the floors at three of its leisure centres, I have reviewed the Council's internal review and other available documentation provided by the Council and the initial contractor.

54 I did not feel it was necessary to make a report in the public interest or take other formal audit action as the Council had carried out an internal review and has agreed an action plan to address the matters identified in that review. However, in my report to the joint Standards Committee and Final Accounts Committee in September 2009, I did add some emphasis to matters raised in the Council's internal review where I felt it was appropriate.

55 Overall, the Council needs to ensure that should similar circumstances occur in future it has better processes in place for assessing risk and for obtaining a better standard of professional support, which is sufficiently objective and independent. We will monitor the Council's action plan developed to address the matters identified by the internal review. The key issues for the Council are to:

- ensure that such contracts are let with a clear specification;
- make a more robust assessment of potential risks in considering legal action; and
- involve members more fully throughout the process.

56 We reported these matters in more detail to the Standards Committee in September 2009

VFM Conclusion

57 I assessed your arrangements to secure economy, efficiency and effectiveness in your use of resources against criteria specified by the Audit Commission. This year, the Audit Commission specified the use of resources KLOE for the Council as set out in Table 1 as the relevant criteria for the VFM conclusion at the Council.

58 Where the scored judgement is 2 or above, I conclude that the VFM criteria has been met. Therefore, as the Council scored at least 2 in all categories I was able to issue an unqualified conclusion stating that the Council had adequate arrangements to secure economy, efficiency and effectiveness in its use of resources.

Audit Fees

- 59** During the 2008/09 audit, I needed to undertake additional audit procedures on the Council's fixed asset impairments and controls over journals to assure myself the financial statements were not materially mis-stated. I also needed to formally review the procurement and court action in relation to the three leisure centre sports hall floors.
- 60** None of the above were envisaged when setting the 2008/09 fee,) I have had to charge the Council an additional fee of £4,671 to cover the costs incurred in undertaking this additional work. This has been discussed with the Executive Director (Finance)
- 61** Table 2 below summarises the actual fees against the planned audit fees for 2008/09.

Table 2 Audit fees

	Actual £	Planned £	Variance £
Financial statements and annual governance statement	76,793	72,122	4,671
Value for money and Use of resources	31,185	31,185	0
Whole of Government Accounts	1,747	1,747	0
Total audit fees	109,725	105,054	4,671
Non-audit fees	0	0	0
Total	109,925	105,054	4,671

Audit Commission

Closing remarks

- 62** I have discussed and agreed this letter with the Chief Executive, the Executive Directors and the Leader of the Council. I will present this letter at the Cabinet meeting on 6 January 2010. Copies were provided to all Council members before 31 December 2009.
- 63** Further detailed findings, conclusions and recommendations in the areas covered by my 2008/09 audit are included in the reports listed in Table 3.

Table 3

Report	Date issued
Audit and Inspection Plan	June 2008
Supplementary Opinion Audit Plan	August 2009
Leisure centre sports hall floors review	September 2009
Annual Governance Report	September 2009
Use of Resource Report	September 2009
Final Accounts Memorandum	November 2009
Housing and Council Tax Benefit Claim Report	December 2009
Annual Audit Letter	December 2009

- 64** The Council has taken a positive and constructive approach to our audit, and I wish to thank the Council's staff for their support and co-operation during the audit.

Patrick Jarvis
 District Auditor
 December 2009

The Audit Commission

The Audit Commission is an independent watchdog, driving economy, efficiency and effectiveness in local public services to deliver better outcomes for everyone.

Our work across local government, health, housing, community safety and fire and rescue services means that we have a unique perspective. We promote value for money for taxpayers, auditing the £200 billion spent by 11,000 local public bodies.

As a force for improvement, we work in partnership to assess local public services and make practical recommendations for promoting a better quality of life for local people.

Copies of this report

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