

Annual Audit Letter

April 2006



Annual Audit and Inspection Letter

Havant Borough Council

Audit 2004-2005



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Key messages

Council performance

- 1 The Council has been undergoing a period of great change over the last three years, and its improvement plans were ambitious both in terms of increasing corporate effectiveness as well as delivering outcomes for the people of Havant. Much of the internal work has been achieved, but it is in many cases too early to see the outcomes in terms of measurable performance indicators, for example on recycling and open space. However a huge amount of progress has been made in the way the Council works in partnership and in engaging local communities. Other achievements include good customer focus, work on regeneration and housing.

Accounts and governance

- 2 We gave an unqualified audit opinion on the Statement of Accounts for the year ended 31 March 2005. Prior to doing so, we issued a report to the Standards Committee on certain matters arising from the audit, in accordance with statement of auditing standard (SAS) 610.
- 3 In overall terms the internal control arrangements are sound, but there is scope for further improvement in the Council's risk management arrangements.

Financial position

- 4 The Council continued to maintain strong financial control during 2004/05. Net expenditure was higher than budgeted, but the factors affecting this were clearly understood. The General Fund reserve level at the year end was in line with the minimum requirement identified by the current medium term financial strategy.
- 5 The Council continues to face significant budgetary pressures, but is taking appropriate steps to reduce costs and to ensure that it is able to focus its financial resources on corporate priorities.

Use of Resources

- 6 Our Use of Resources assessment is new and will be used to support the Value for Money conclusion we are required to give for the first time when concluding the 2005/06 audit. Our assessment is that, in overall terms, the Council is performing well. We have reported to management on areas where improvements can be made, for example, further embedding of risk management arrangements.

Action needed by the Council

- 7 In implementing and managing change, the Council should ensure that negative impacts on service users are minimised.

- 8** The Council also needs to continue to improve its engagement with black and minority ethnic groups and address weaknesses in performance on promoting race equality.
- 9** The Council should ensure that it addresses the issues arising from the Direction of travel report and the Use of Resources assessment.

Council performance

Direction of travel report

- 10 The Council was assessed as Good in the Comprehensive Performance Assessment published in 2004. We reported last year that the Council had developed a long-range improvement plan to address the issues raised, together with those arising from the peer assessment and other planning work. The plan addressed corporate effectiveness, as well as service specific objectives. The following commentary reviews progress on these, as well as achievement of improvement in its priorities within the three themes of the Economy, Social Inclusion and the Environment.

The Local Strategic Partnership and Community Strategy

- 11 The Council has made significant progress in developing effective Local Strategic Partnership (LSP) arrangements with improved community involvement. The Community Strategy has been revised and relaunched with priorities organised under three themes, underpinned by strategic action plans with clear accountability for leading on each issue. Using Liveability funding, Community Boards were piloted as a basis for community engagement and delivery of the community strategy and there are now six Boards within five communities. Funding and administration systems have been established for the LSP Strategic Board and Community Boards, some of which are now chaired by local community members rather than councillors. There are already signs of wider engagement and co-ordination on key issues for the borough, for example on community safety where existing ward-based groups are amalgamating with the Boards.
- 12 The LSP can already demonstrate a broad range of outcomes which it has facilitated or delivered including improved recreational facilities for young people, improvements to public transport services, healthy living projects and the development of a regeneration scheme for Wecock Farm.

Strategic Framework

- 13 The Council has established a clear strategic framework and approved a new medium term Corporate Strategy in 2005. This springs from the priorities set out in the Community Strategy, and identifies where the Council is responsible for delivering, supporting or contributing to delivery, with the result that there are much clearer links through corporate objectives to service strategies and plans. These link to performance agreements for individual staff. The improved framework has resulted in better focus for members and officers on what the Council is trying to achieve.

Democratic structures and capacity

- 14 For Overview and Scrutiny, the Council aimed to achieve clarity of roles, better engagement of members, and improved use of resources. The role of scrutiny boards and relationships with the Executive have been reviewed and defined, and 2 new boards were set up to replace 4 previous ones (Environmental and Community, Strategy and Regeneration). A Customer Care and Performance panel is responsible for monitoring and reviewing performance.
- 15 Members' engagement has increased, for example they have begun to get involved in developing work programmes, and the refocused boards have led to a perceived increase in efficiency and effectiveness both in engaging with each other, with the Executive and with the relevant community boards. Scrutiny boards have taken on both specific reviews and policy development work commissioned by the Executive. Examples of impact include influencing decisions made by the Primary Care Trust on closing beds at Emsworth hospital, and the decision to retain the Hayling Island ferry service. It is also clear that members are beginning to get to grips with scrutinising performance but there is less evidence that they influence the actions that are taken to address problems. A review of the performance of the restructured boards is underway.
- 16 The Council has taken action to address member development and performance, and by establishing training and induction programmes. This has helped to improve the quality of scrutiny and policy development work and increase members' engagement in performance management. Facilitated sessions arranged for the Executive supported members in identifying corporate priorities and substantial budget savings.

Performance Management

- 17 The Council has significantly strengthened its performance management processes and the cultural changes to support this are starting to become apparent. One of the main areas addressed was to strengthen the Members' role as already mentioned. Another was to establish performance indicators relating to corporate priorities and to ensure that targets relating to service priorities are reflected in individual staff performance agreements.
- 18 However the impact of these improvements has yet to be reflected in measurable outcomes. Data for 2004/05 shows only 20 per cent of national Best Value Performance Indicators (BVPIs) in the top 25 per cent of performers - which compares unfavourably with other councils rated as Good in CPA. Comparing BVPIs from 2002/03 with those for 2004/05 suggests improvement has been limited and slower than other councils, with only 40 per cent of BVPIs improved, and comparatively more (60 per cent) remaining below average. More recent unaudited figures show a greater level of improvement in some areas and we would expect to see this reflected in the final figures for 2005/06. We also recognise that the Council has delivered improvements not necessarily represented through the BVPIs and we will reflect these in our commentary on achievement of corporate priorities below.

Customer Care

- 19 The Council aimed to improve corporate customer care arrangements, customer relationship management and the quality of services. The Audit Commission inspection of Customer Focus rated the Council as good with promising prospects for improvement. Strengths included an effective customer service centre, good communications to customers, strong focus on social inclusion and effective use of technology. Weaker areas were engagement with BME communities and evaluation of whether access methods are meeting needs.
- 20 A Customer Access Strategy is now in place, customer complaints arrangements have been reviewed and a customer service centre established, with the aim of providing a 'one-stop shop' for customers. The percentage of interactions with the public that can be delivered electronically has improved, although other councils have improved more, meaning that the Council is no longer in the top 25 per cent of performers in this area. The proportion of Council buildings accessible to disabled people is above average and improving.
- 21 The Council's performance on race equality as measured by PIs is a weaker area. It is at Equality Standard Level 0 although it plans to adopt Level One by March 2006. Its score against a checklist of progress in promoting race equality is among the worst performers at 21 per cent.

People Management

- 22 The Council aimed to address issues raised in a Staff Opinion Survey, set in place a staff performance and development scheme and improve management capacity. Achievements include the introduction of individual staff performance agreements, applying the Health and Safety Executive's draft Management Standards (relating to stress) throughout the Council and reviewing pay and reward systems. To date the Council has been unable to implement the recommendations of this review due to shortage of resources but a budget allocation has now been approved for 2006/07 to progress this. The average number of days of sickness absence has remained static at over 11 days per capita. In other councils performance has improved, which means that the Council has slipped to the worst 25 per cent of performers. However management team has treated this as a priority and a number of measures have been introduced including a health promotion day for staff and training for managers.

Economy: economy, employment, training and skills development

- 23 In 2005, the Council approved a medium term Regeneration Strategy which aims to reinvigorate the economy and employment, raise aspirations for lifelong learning, and address inequalities and underinvestment in Havant communities. Urban Design Frameworks have been prepared for Havant and Waterlooville Town Centres and this includes the promotion of the evening economy in the town centres. Development projects are underway with already visible outcomes. The Council has used Liveability funding to develop a public realm design

framework and an open spaces plan. The Council has also been an active participant in the development of the partnership and plan for urban South Hampshire (PUSH).

- 24 Much of the Council's work in this area is facilitative, for example it offers advice on external funding opportunities related to training or regeneration. In 2005 businesses in the Borough won seven of eight categories of the Portsmouth News Business Awards.
- 25 The 2004/5 PIs for development control relating to speed of processing and appeals allowed are all in the worst 25 per cent of authorities. A factor was the turnover of staff in that year which the Council is addressing for example through professional development for officers. A number of other initiatives are underway to improve performance including training for councillors and members of Community Board, and sourcing of specific expertise on urban design.

Social Inclusion: Health, Housing, Crime and Disorder, Young People/Age-Related Issues, Anti-poverty

- 26 The Council has achieved many of its planned actions on housing. A revised Housing Strategy has been produced and a more formal framework for partnerships with registered social landlords has been established. The Housing allocations policy has been reviewed and the Havant register will be transferred from Hermitage Housing Association to the Council from May 2006. The Council also has agreement with Portsmouth City Council for a joint register and with neighbouring councils to run the South Hampshire choice-based lettings from 2007. This shows an active approach to partnership to maximise services.
- 27 The Council is currently meeting the decent homes standard for private sector housing but not for the public sector. A stock condition survey has been completed and a strategy agreed to remedy unfitness: the Council aims to meet the standard by 2010 in line with Portsmouth City Council (PCC) which owns a significant proportion of housing stock in the Borough. The Council is performing well on levels of unfit housing and reducing the amount of private sector housing vacant for six months or more.
- 28 Performance on affordable housing has fallen over the last 3 years. However the new housing strategy aims to deliver 100 homes per year and some large schemes are just coming on stream which will support this aspiration. The Borough will also benefit from the West of Waterlooville Major Development Area which is partly located in Winchester district.
- 29 On combating homelessness, achievements include reducing the use of hostels to zero and halving the length of stay in bed and breakfast accommodation for homeless people. However the average length of stay is still amongst the worst performing authorities and the Council did not meet its own target for reducing the number of households waiting more than two years in temporary accommodation. Negotiations are underway with Hermitage and PCC to address shortages of accommodation.

- 30 The Council secured funding of over £500,000 to support a Healthy Living Programme run at local community venues in Leigh Park and Wecock Farm. The programme includes a cooking project for people on a budget, health information for young people, and advocacy projects for mental health issues and substance misusers.
- 31 Performance on crime reduction is mixed, but overall there is a good rate of improvement in comparison with similar authorities. A notable achievement is the Pride of Place project which enables residents and local community agencies to work together to make Leigh Park safer and free from the fear of crime, and increase pride in the area. This has resulted in a reduction in crime and anti-social behaviour.
- 32 The Council's performance on housing benefits had deteriorated in 2004/05, with its own improvement targets not met and decreases in processing times which put the Council among the worst performing authorities. However an inspection by the Benefits Fraud Inspectorate has concluded that the Council has an effective recovery programme in place and that initial improvements are sustainable.

The Environment: Built environment, Public Space, Transport, Sustainability

- 33 The Liveability Pilot project, started in 2004, aims to reform services in order to improve the Borough's open spaces. This has delivered a Public Realm Design Framework for Waterlooville and Havant town centre. The Council has been able to use the capital resources to deliver key strategic and community board projects to enhance the external environment in the borough. The community based capital funding has been delivered through the Community Boards, enabling them to identify and address local priorities and increasing their profile and credibility in the community. As well as capital projects, the Community Boards have been engaged with service improvements: for example they have helped identify litter hotspots for specific attention.
- 34 The Council's performance on waste is mixed. A review of the waste management strategy has taken place with a new strategy shortly to be considered by Executive. In the meantime the Council has pressed ahead with introducing alternate weekly collection. The first phase started in 2005 with full coverage of the Borough planned by the end of 2006 with anticipated savings of £300,000 over the next three years. It is too early to see the results of this initiative: the Council did not meet its own recycling target in 2004/05 and although the rate had improved slightly up to then, the Council did not improve as fast as others. The percentage of the population served by a kerbside collection service has been static for the last three years, and does not compare well with other authorities but satisfaction levels for recycling facilities are good. The volume of household waste collected has not improved, against a national trend of improvement, although its performance is above average. Costs of waste collection have risen by 31 per cent since 2002/03 - a higher rate of increase than other councils - due to investment in wheelie bins and vehicles.

- 35 Street cleanliness has improved significantly, halving the percentage of land considered to be significantly littered, and satisfaction with cleanliness remains high. Satisfaction with parks and open spaces has also fallen slightly - but probably does not yet reflect the outcomes of Liveability funded initiatives around the Borough.
- 36 A restructure of Environmental Services has taken place aiming to create clearer strategic direction and accountability, more effective scheduling of workloads and costing information, better targeting of services, and improved management information.

Other performance work

Local partnership working

- 37 The Council and the LSP is part of the county wide Hampshire Local Area Agreement (LAA) and it has agreed with other key partners a shared LAA Action Plan. This aims to deliver future improvements over the next three years for the people of Hampshire in supporting children and young people; supporting older people and vulnerable adults; and in supporting the infrastructure and conditions for a prosperous and sustainable Hampshire.
- 38 The details of the LAA are due to be finalised in the early part of 2006 and it is too early for us to assess its organisation, management and governance arrangements, or its potential to deliver improvement. However, it is clear that the Hampshire LAA is progressing well, and some difficult key milestones have been achieved very quickly over the past six months as a result of good cooperation and agreement from partners including Hampshire District Councils. Links between the Havant LSP and the LAA have been established with a focus on the environment and community services as local priorities.
- 39 Havant is the only district in Hampshire to take a lead in LPSA targets (for the environmental block, with regard to BVPI 199).

Best Value and performance information

- 40 We completed our audit of the 2005/06 Best Value Performance Plan (BVPP) and issued our statutory report on 6 December 2005. On the basis of our audit work, we were satisfied that in all significant respects, the BVPP was prepared and published in accordance with statutory requirements.
- 41 Our audit work on the Best Value Performance Indicators (BVPIs) in 2005, confirmed that, in overall terms, the Council's arrangements for the collection and reporting of the performance indicators are working well. It was necessary for us to qualify one indicator, as supporting information had not been retained to substantiate the figure published in the BVPP. However, only two other minor amendments were required to the published information, which was a significant improvement on the previous year. The detailed matters arising from our audit have been reported to managers and action is being taken to ensure the problems do not re-occur.

Accounts and governance

We have given an unqualified audit opinion on your accounts for the year ended 31 March 2005.

In overall terms the Council's financial standing is sound. Net expenditure in 2004/05 was higher than budgeted, but the factors affecting this were clearly understood. The general fund reserve level at the year end is in line with the minimum requirement identified by the current medium term financial strategy.

The Council continues to face significant budgetary pressures, but is taking appropriate steps to reduce costs and to ensure that it is able to focus its financial resources on corporate priorities.

In overall terms the internal control arrangements are sound, but there is scope for further improvement in the Council's risk management arrangements.

Audit of 2004/05 accounts

Matters arising from the final accounts audit

- 42 We issued an unqualified audit opinion on the Council's accounts on 28 October 2005. This was ahead of the audit deadline of 31 October specified in the Accounts and Audit Regulations 2003.
- 43 Professional auditing standards (Statement of Auditing Standard [SAS] 610 require us to report to those charged with governance (the Standards Committee for your Council) certain matters before we give our opinion on the Statement of Accounts. These include any misstatements in the draft accounts that are not subsequently adjusted for. In the course of our audit we identified two material misstatements and a number of other non-trifling errors which were then adjusted. However, the Council chose not to adjust for some minor misstatements and we reported these to the Standards Committee for consideration under SAS 610 on 25 October 2005.

Accounts 2005/06

- 44 The timetable for the preparation and audit of the 2005/06 financial statements is one month earlier than for 2004/05 - with the accounts requiring Members' approval by 30 June 2006. Whilst the Council is well placed to achieve the earlier deadline this will put significant pressure on closedown processes. We will work closely with officers to address accounts issues as they arise, to help to ensure that the audit process is as effective as possible.

Financial standing

2004/05 financial performance

- 45 Financial performance in 2004/05 demonstrated a continuation of the effective financial control noted in recent years. Details of the outturn position for the year were reported to the Standards Committee on 28 July 2005. The key points are highlighted below.

General fund spending

- 46 Net General Fund expenditure in the year was £15.06 million compared to an original budget of £14.69 million. The outturn report to the Standards Committee identified a range of factors which had resulted in this variance. Significant factors included reduced income from investments due to the delayed sale of the Potash Terrace site and essential expenditure authorised by the Executive, in such areas as legal services and cemeteries.

Capital programme

- 47 Capital expenditure in 2004/05 amounted to £3.97 million, compared to an approved capital programme of £5.23 million. The majority of the underspending was due to changes in the phasing of projects, with expenditure of £0.9 million carried forward to 2005/06. The sources of financing were capital receipts (£1.82 million) which were fully utilised in the year, grants (£0.88 million) and revenue contribution (£0.79 million).

Income collection

- 48 The Council has continued to achieve reasonable performance levels in the collection of council tax and national non-domestic rates. At 31 March 2005, it had achieved collection rates of 96.8 per cent and 98.5 per cent respectively, which are in line with the average for district councils.

Level of reserves

- 49 As a consequence of the adverse budget variance, a contribution of £0.25 million was required from the general fund reserve in the year and the balance at 31 March 2005 stood at £1.22 million. This was below the minimum level of 10 per cent of net expenditure (£1.47 million) identified in the MTFS. However, the reserve requirements were reassessed as part of the MTFS update in June 2005 and the minimum level of non-earmarked reserves is now set at 8 per cent of net spend.
- 50 At the year end, the Council had utilised all available capital receipts and the balance of capital reserves available to finance future capital schemes stood at £1.42 million.

Financial outlook

- 51 The latest outturn projection for 2005/06 indicates that expenditure will be slightly below the budget. However, the Council continues to face significant financial constraints going forward. The report to the Executive on the 2006/07 Budget clearly sets out the issues for Members and we are pleased to note the steps the Council is taking both to reduce expenditure and to ensure that resources are focused on Council priorities.

Systems of internal financial control

Overall framework for internal financial control

- 52 In overall terms the internal control arrangements are sound and good progress had been made in addressing recommendations arising from earlier years' audit work.
- 53 We identified certain areas where further action is required and these were reported to officers. In particular, we noted that the Council was still in the process of arranging a service level agreement with Hampshire County Council with respect to business continuity planning - this has now been signed. Our subsequent audit work in relation to the Use of Resources assessment also highlighted the scope for further improvement in the Council's risk management arrangements, which is now being addressed. These are described further in the Use of Resources section of this letter.

Internal audit

- 54 In the course of our audit, we considered the quality and scope of the Council's internal audit function. In our view, there are effective arrangements in place and, in general, the work performed by Internal Audit was of a good standard and complied with the relevant auditing guidelines. We did identify some weaknesses in the audit testing performed in relation to certain of the key financial systems, which reduced the extent of reliance we could place in those areas. These have been discussed with internal audit and appropriate action has been taken.

Other financial aspects of corporate governance

- 55 We have not identified any significant weaknesses in your arrangements to prevent and detect fraud and corruption, or in relation to the legality of financial transactions.

Legality of transactions

- 56 We have not identified any significant weaknesses in the framework established by the council for ensuring the legality of its significant financial transactions.

Use of resources judgements

- 57 The Use of resources assessment focuses on how the Council's financial management is integrated with its strategy and corporate management approaches, supports council priorities and delivers value for money. The assessment builds on the 'auditor scored judgements' which formed part of the comprehensive performance assessment in 2004, but is recognised as being a harder test - as it focuses on the extent to which arrangements are embedded within an organisation. It is anticipated that the assessment will be carried out annually in the future, as part of each council's external audit, and will form part of the new CPA framework for District Councils.
- 58 We have assessed the Council's arrangements in five areas, as set out in the following table.

Table 1 Use of Resources assessment

Element	Assessment
Financial reporting	2 out of 4
Financial management	3 out of 4
Financial standing	3 out of 4
Internal control	2 out of 4
Value for money	3 out of 4
Overall	3 out of 4

(Note: 1= inadequate performance, 2 = adequate performance, 3= performing well, 4 = performing strongly)

- 59 In reaching these individual assessments, we have drawn on our audit outcomes and supplemented this with a review against specified Key Lines of Enquiry. Summary conclusions are as follows.

Financial reporting

- 60 The Statement of Accounts for 2004/05 was prepared and approved in accordance with statutory and regulatory requirements and comprehensive working papers were provided for the audit.
- 61 The accounts submitted for approval by Members were accompanied by an explanatory report highlighting key issues and there was evidence of Member scrutiny. There were two material misstatements in the draft accounts, but we did not consider that these were indicative of any significant control weakness.

- 62 The Council has effective arrangements for promoting external accountability, particularly through the use of its website. Further changes in reporting of information are being considered for 2005/06 in response to recent consultation, including the publication of summary accounts.

Financial management

- 63 The Council has a comprehensive medium term financial strategy (MTFS), which reflects the corporate strategy and has clear links to other internal strategies and the annual budget process. There is potential to develop the MTFS further, in line with best practice, to include, for example, the financial effects of partnerships and modelling of balance sheets.
- 64 Effective arrangements are in place for budget setting and monitoring, with an appropriate level of involvement from budget holders, senior management and Members. Delegated responsibilities are clear and detailed guidance is provided to budget holders. Budget monitoring is proactive, focusing on areas of key risk, and also includes the regular review of progress in achievement of planned savings and efficiency gains.
- 65 There are also effective arrangements for managing the Council's assets. The Capital Strategy, Asset Management Plan and asset register have been reviewed in the last year and a planned maintenance programme is in place, supported by a stock condition survey, with no evidence of any significant maintenance backlog.

Financial standing

- 66 The Council sets balanced budgets and has maintained spending within overall budget without excessive rises in council tax. There is no history of unexpected under or overspends.
- 67 A formal reserves policy is in place and is reviewed annually. Target levels of reserves and balances are identified and these are linked to the budget and MTFS. Performance is regularly monitored and reserves are kept within agreed ranges.
- 68 Targets for income recovery are set and monitored. Levels of debt recovery and associated costs are also monitored, but there is currently no formal review of the cost effectiveness of recovery action.

Internal control

- 69 A risk management strategy was approved in 2003 and a detailed register of corporate risks 'the risk list' has been developed. Officer responsibilities have been assigned for each corporate risk, which includes reporting quarterly to the Risk Management Strategy Group (officer group). However, at present, there is no specific link between the risk list and the Council's strategic business objectives or individual service objectives. Also, no specific risk assessments have yet been undertaken in relation to partnership working, which has been identified as a key risk area.

- 70 The Staffing Matters Committee has recently been given responsibility for risk management and is to receive quarterly risk management reports in the future. To date, no annual review of the overall risk management strategy had been undertaken by Members, but we understand this is to be introduced at the end of the current financial year. At the time of the audit, there had been no recent risk management awareness training for Members (last undertaken in 2003) and there is scope to further develop the risk management training provided to staff.
- 71 The Council maintains a sound system of internal control, mainly led by the work of internal audit and there is regular reporting and follow-up of internal audit recommendations. However, consideration should be given as to how greater corporate involvement in the Assurance Statements (Code of Corporate Governance) or SIC can be achieved.
- 72 Appropriate arrangements are in place to ensure probity and propriety, including codes of conduct for members and officers and detailed policies in relation to anti-fraud and corruption and whistleblowing. However, there have been no specific reviews of how effectively Members are complying with the code of conduct or of complaints.

Value for money

- 73 There is regular review of financial and non-financial performance by senior management and Members, with a focus on key performance indicators and priorities. The Council has a good understanding of its costs and key performance indicators. Target setting has been robust and challenging, for example in relation to recycling and environmental health to improve performance.
- 74 The Council has assessed the external factors that affect its spending and spending patterns reflect its policies and strategies, for example the focus on areas of deprivation and the costs of policy decisions are routinely evaluated.
- 75 In 2004/05, performance against national BVPIs was mixed. However, in a number of key areas where performance was comparatively weak, such as the benefits service and development control, there were specific factors impacting on that year. These have been addressed, with a corresponding improvement noted in 2005/06. There is, however, a need for the Council to be able to demonstrate sustained improvement in key services over time.
- 76 There is widespread community consultation, the results of which are taken into account in decision making, for example, in relation to the spending of Liveability funding. The Council is also making effective use of the local strategic partnership (Havant Community Partnership) to help drive community involvement.
- 77 The MTFS efficiency target of 2 per cent has been achieved for the last three years and the Council has adopted a strategy to achieve a further 10% cost savings over the next three years. There are already a number of initiatives under way which are aimed at improving service delivery and value for money going forward, including the phased introduction of the alternate weekly refuse collection service. The Council has also had considerable success in the recent

past in attracting external funding, notably the award of £3 million of Liveability grant funding to assist regeneration.

- 78 There is an established procurement policy in place, which is applied to all procurement exercises. The Council is also actively exploring opportunities for development of strategic partnership arrangements with Southampton City Council and partnering opportunities with its ICT provider, Steria.

Other work

Grant claims

- 79** In line 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 accordingly, but the exact fee for this work depends on the number and the monetary value/complexity of claims in the year.

We are satisfied that the Council has appropriate arrangements in place for managing and quality assuring grant claims submitted for audit and there are no matters that require to be drawn to the attention of Members.

Looking ahead

Future audit and inspection work

- 80 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.
- 81 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 within the next month.

Revision to the Code of Audit Practice

- 82 The statutory requirements governing our audit work, are contained in:
- the Audit Commission Act 1998; and
 - the Code of Audit Practice (the Code).
- 83 The Code has been revised with effect from 1 April 2005. Further details are included in our Audit Plan which has been agreed with [insert name of Committee] in [insert date] 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

Following consultation in 2005, the Audit Commission is currently developing a revised framework for CPA for District Councils. This will be published in summer 2006 with implementation planned 2007.

Closing remarks

- 84 This letter has been discussed and agreed with the Corporate Management Team. It will be presented to the Executive on 27 March 2006.
- 85 The Council has taken a positive and constructive approach to our audit and inspection work. We would like to take this opportunity to express my appreciation for the Council's assistance and co-operation.

Availability of this letter

- 86 This letter will be published on the Audit Commission's website at www.audit-commission.gov.uk and also on the Council's website.

Mazars LLP, Appointed Auditors
March 2005

Linda Krywald, Relationship Manager

Appendix 1 – Background to this letter

The purpose of this letter

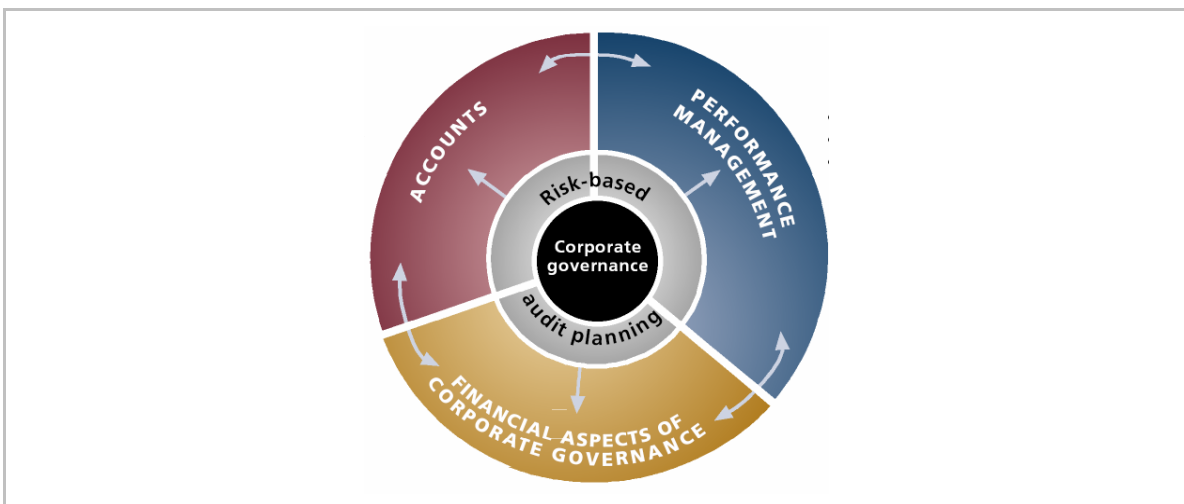
- 1 This is our audit and inspection 'Annual Letter' for members which incorporates the Annual Audit Letter for 2004/05, which is presented by the Council's Relationship Manager and its Appointed Auditors. The letter summarises the conclusions and significant issues arising from our recent audit and 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 2

Report title	Responsibility of	Date issued
Audit and inspection year 2004/05:		
Audit and inspection plan 2004/05	Audit Commission and Mazars LLP	July 2004
Customer Focus Inspection	Audit Commission	Xxx 2005
Report to management: Review of the financial aspects of corporate governance	Mazars LLP	August 2005
Report to those charged with governance on the financial statements 2004/05 (SAS 610)	Mazars LLP	October 2005
Report to management: Audit of the 2004/05 statement of accounts	Mazars LLP	February 2006
Audit and inspection year 2005/06:		
Audit and inspection plan 2005/06	Audit Commission and Mazars LLP	June 2005
Report to management: Audit of BVPP and performance indicators 2005	Mazars LLP	December 2005
Direction of Travel assessment	Audit Commission	March 2006
Use of Resources assessment	Mazars LLP	March 2006

Appendix 3 – Audit and Inspection fee

Table 3 Audit fee update

Audit Area	Audit Plan 2004/05	Actual fee 2004/05
Accounts	38,000	38,000
Financial aspects of corporate governance	25,500	25,500
Performance	23,250	23,250
TOTAL CODE OF AUDIT PRACTICE FEE	86,750	86,750
Grant Claim certification	26,950 (2003/04 actual)	24,000
Additional Voluntary work (under Section 35)	None	None

Inspection fee update

- 1 The full year inspection fee is £8,680. 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.