

## Annual Audit and Inspection Letter

# Havant Borough Council

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<b>Reference:</b>	Havant Borough Council –Annual Audit & Inspection Letter
<b>Date:</b>	21 December 2004

## Executive Summary

### The purpose of this letter

This is our audit and inspection 'Annual Letter' for Members, which incorporates the Annual Audit Letter for 2003/04, and is presented by the Council's Relationship Manager and Appointed Auditor. The letter summarises the conclusions and significant issues arising from our recent audit and inspections of the Council.

We have issued separate reports during the year. These reports are listed at Appendix 1 for information.

Appendix 2 sets out the scope of audit and inspection.

Appendix 3 provides information about the fees charged.

## Key messages

### Council performance

The way the Council is run and the delivery of its services was assessed by the Audit Commission in January 2004 as 'good' (on the scale of excellent/good/fair/weak/poor).

The Council responded positively to the CPA report and rapidly developed a long-range improvement plan to address the issues raised, together with those arising from the peer assessment and other planning work.

### Financial Position

Financial performance in 2003/04 was broadly in line with the budget and it has been possible to maintain the general fund reserve position at the strategic minimum level.

The Council continues to face budgetary constraints, but the action being taken to identify issues and options at an early stage will provide a sound basis for effective decision making.

## Accounts and governance

We issued an unqualified audit opinion on the Statement of Accounts on 30 November 2004.

The overall corporate governance arrangements are generally satisfactory, but further action needs to be taken in relation to business continuity planning.

### Action needed by the Council

- Monitor implementation of improvement priorities and their impact.
- Monitor and manage capacity limitations which may impact on delivery of improvement priorities.
- Continue to strengthen performance management arrangements, including ownership of performance information at all levels, ensuring that performance management is embedded into organisational culture and practice.
- Ensure that the development of business continuity planning continues to be taken forward.
- Take full account of the issues identified in the financial strategy when determining the 2005/06 budget.

## Council Performance

*The way the Council is run and the delivery of its services was assessed by the Audit Commission in January 2004 as 'good' (on the scale of excellent/good/fair/weak/poor).*

*Following this assessment, an Improvement plan was developed based on corporate priorities and the issues raised in the report. The auditors and relationship manager have met with senior management to monitor initial progress but a detailed assessment of performance against the plan will be reported in the audit and inspection letter for 2005/6.*

*The 2004/05 Best Value Performance Plan has been prepared and published in accordance with statutory requirements.*

*In general, adequate systems were in place for producing the 2003/04 Best Value Performance Indicators. However, there is a need to embed the ownership of performance information throughout the Council*

## **Comprehensive Performance Assessment**

The Council was rated as 'good' following the comprehensive performance assessment (CPA) inspection reported to the Council in January 2004.

The assessment showed that the Council is both performing well and improving in a number of respects including:

- high citizen satisfaction rates for some services, for example, household waste collection
- work with businesses and public sector partners to make improvements in poorer areas and create jobs
- partnership work with police and with young people which is reducing crime and juvenile nuisance
- priorities based on a wide range of consultations with the community, partners and government.

The assessment found room for improvement in the following areas:

- performance in dealing with benefit claims and rent allowances
- developing better plans to meet recycling targets
- developing overview and scrutiny
- strengthening and embedding performance management.

## **Improvement Planning**

The Council responded positively to the CPA report and rapidly developed a long-range improvement plan to address the issues raised, together with those arising from the peer assessment and other planning work. The improvement plan includes strategies to improve corporate effectiveness, as well as service specific objectives.

The high level improvement plan is underpinned by a hierarchy of strategies and delivery plans

and supported by a robust monitoring system at corporate management and member levels.

## **CPA Improvement Reporting**

The auditors and relationship manager meet regularly with senior management to monitor progress against the improvement plan. Initial action has been taken on number of issues raised by the corporate assessment including:

- finalisation of the community strategy and developing locality forums
- revised structures for Scrutiny and Overview and member development work
- developing a corporate scorecard to strengthen performance management
- starting a review of benefits policies and procedures
- developing options for improved refuse collection and recycling arrangements.

We will provide a more detailed view on progress on delivering the Council's improvement priorities in the audit and inspection letter for the next fiscal year.

## **Other inspection work**

The Audit Commission has agreed with the council to undertake an inspection early in 2005 of progress in delivering the Customer Access Strategy. This has been designed to support the council's improvement activity in a key strategic area. The outcome of the inspection will be a scored and published report and also key issues will be reported in the audit and inspection letter for the next fiscal year.

## **Other performance work**

### **Best Value Performance Plan (BVPP)**

We have completed our audit of the 2004/05 BVPP. 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 and we issued an unqualified audit opinion on 3 December 2004.

### **Performance information**

In undertaking our audit work in relation to the Best Value Performance Indicators (BVPIs), we

concluded that, in overall terms, there are adequate systems in place to produce the BVPIs.

We identified a number of amendments to the BVPIs published in the BVPP, of which four were significant changes. They were the result either of calculation errors or misinterpretation of the PI definitions. In a further two instances (percentage of disabled employees and percentage of ethnic minority employees) it was not possible for us to verify the indicators as supporting data had not been retained.

The detailed matters arising from our audit of the BVPIs have been reported to managers, together with other matters arising from the BVPP audit, and action is being taken to ensure the problems do not re-occur. We concluded that it was not necessary for us to qualify the BVPP in respect of these errors.

We are pleased to note the involvement of Internal Audit in reviewing the BVPIs and the emerging local performance indicators, and were able to place reliance on aspects of their work.

Reports produced by Internal Audit for senior management have emphasised the need to embed the ownership of performance information across the Council and have provided constructive support to the development of the overall performance management culture.

#### **e-government**

Compliance with the e-government and the Electronic Communications Act 2000 has been identified, nationally, as a significant risk for local government.

We are pleased to note the progress being made by the Council to take forward its e-government agenda and it appears to be well placed to meet the Government's targets. There were no matters arising from our audit work.

#### **Working with other inspectorates and regulators**

An important aspect of the role of the Relationship Manager is to work with other inspectorates and regulators who also review

and report on the council's performance. These include:

- Benefits Fraud Inspectorate (BFI); and
- Local Government Office contact.

We share information and will seek to provide 'joined up' regulation to the Council.

We have had an initial meeting with other regulators following the CPA review, but there are no matters to draw to your attention at this stage.

## **Accounts and Governance**

*We issued an unqualified opinion on the Statement of Accounts on 30 November 2004.*

*Financial performance in 2003/04 was broadly in line with the budget and it has been possible to maintain the Council's general fund reserve position at the strategic minimum level.*

*The overall corporate governance arrangements are generally satisfactory, but further action needs to be taken in relation to business continuity planning.*

*The Council continues to face budgetary constraints, but the action being taken to identify issues and options at an early stage will provide a sound basis for effective decision making.*

### **Audit of 2003/04 accounts**

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

The published accounts are an essential means by which the Council reports its stewardship of the public funds at its disposal and its financial performance in the use of those resources.

We have completed our audit work in relation to the accounts and we issued an unqualified audit opinion on 30 November 2004.

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

We are required by professional standards to report to those charged with governance any

unadjusted misstatements in the accounts that are non-trifling and are advised to report on any adjusted misstatements, where these are material.

We are pleased to report that only a small number of misstatements were identified during our audit, the majority of which were adjusted in the final accounts. In one instance the Council chose not to adjust the accounts on the grounds that it was not material and this was decision was approved by the Standards Committee on 29 November 2004.

### **Approval deadline**

There were no problems this year in relation to the timeliness of producing the draft accounts and Members approved these by the 31 August deadline. However, the Government's deadline for Member approval will move forward to 31 July next year and 30 June the following year. It will, therefore, be important to ensure that there is effective planning of the accounts closedown process and appropriate scheduling of key meetings to enable these deadlines to be met.

## **Financial standing**

### **2003/04 financial performance**

Financial performance in 2003/04 has continued to demonstrate sound financial control. Details of the outturn position for the year were reported to the Standards Committee in August 2004. The key points are highlighted below.

#### **General fund spending**

In 2003/04, the Council spent £15.34m compared to a revised estimate of £15.41m a slight overspend of £68,000. This was mainly due to continuing low interest rates and recruitment costs.

#### **Capital programme**

Capital expenditure in the year amounted to £6.75m, compared to the total for approved schemes of £8.162m. It was financed principally from capital receipts available for investment as a consequence of the Council's debt free status (£4.98m) and from grants and contributions (£0.74m). Where there was slippage in the

programme, this has been carried forward into 2004/05.

#### **Level of reserves**

At 31 March 2004, the Council's General Fund balance stood at £1.77m. Of this total, £0.31m relates to underspending on 2003/04 commitments, which has been carried forward for spending in 2004/05. The net reserve balance of £1.47m is in line with the strategic minimum balance of 10% of the 2004/05 budget of £14.69m.

#### **Income collection**

In last year's Audit Letter, we reported on the improving position with regard to Council Tax arrears. Although the gross arrears at 31 March 2004 were slightly higher than at the previous year end, this was in a year when Council Tax had increased by 15%. In real terms, the arrears position continued to improve, reducing from 8.6% to 7.6% of the total Council Tax collectable. We understand that officers expect the position to improve further as a result of action being taken in conjunction with the contractors.

#### **Financial outlook**

Last year, we commented on the developments that had taken place with regard to the Council's strategic planning process, which were helping Members to make informed decisions in setting the 2004/05 budget. In particular, this included the introduction of a medium term financial strategy. The approach has continued to be developed in the past year, in line with the financial strategy, with early consideration of key issues by the Budget Review Panel and within individual services.

From our discussions with senior management, it is evident that continuing budgetary constraints will require Members to make some difficult choices on spending priorities for 2005/06. However, the early consideration of key issues and options will help to provide a sound basis for effective decision making.

## Systems of internal financial control

In overall terms, the Council has appropriate arrangements in place to satisfy itself that its systems of internal financial control are adequate and are operating effectively in practice.

Our audit work identified a number of detailed recommendations for further action and these have been reported to management. In particular, we have highlighted the need for further development in the Council's approach to business continuity planning.

In previous years, we have reported the need to improve the Council's arrangements in this area. Whilst progress has been made towards the development of a high level corporate disaster plan, detailed planning at a departmental level remains incomplete. The Management Team has recognised the importance of taking the process forward and business continuity planning, together with health and safety, is to be given particular consideration in the 2005/06 budget process.

### Risk management

Last year, we reported on the significant progress made by the Council in developing its approach to risk management. We are pleased to note that the process has continued to be taken forward during the year, with a clear lead from the Management Team.

### Internal Audit

In undertaking our audit work, we have considered the quality and scope of the Council's internal audit function. We found that the work was of a good standard and complied with the relevant auditing guidelines.

## Standards of financial conduct and the prevention and detection of fraud and corruption /legality of financial transactions

We have not identified any significant weaknesses in your arrangements to prevent

and detect fraud and corruption or to ensure the legality of financial transactions.

Our work to support the auditor scored judgements for CPA indicated that the Council's performance in both of these areas was relatively strong. Our subsequent audit work has not highlighted any significant changes to systems or procedures which might weaken the arrangements.

## Other work

### Grant Claims

Over recent years the number of claims requiring audit certification had grown and audit fees had risen in line with this growth. In accordance with Strategic Regulation, the Audit Commission has now adopted a more risk-based approach to the certification of grant claims. With effect from 2003/2004 the smaller claims have not been subject to audit, or have received a "lighter touch" audit. The approach to larger claims has been determined by risk and the adequacy of the Council's control environment.

We are currently in the process of completing our work in relation to the 2003/04 grant claims and do not envisage any problems in meeting the required deadlines (mainly 31 December 2004). There are no matters arising from our audit work to date that require to be drawn to the attention of Members.

## Looking ahead

### Future audit and inspection work

The Audit Commission and Mazars have submitted a plan for 2004/05 audit and inspection work. The work in this plan, including Mazars' audit of the 2004/05 accounts, will be reported in next year's Annual Letter.

We have sought to ensure, wherever possible, that our work relates to the improvement

priorities of the Council. Mazars and the Audit Commission will continue with this approach when planning our programme of work for 2005/06. We will seek to consider, with you, work to support your improvement priorities, and develop an agreed programme by 31 March 2005. We will continue to work with other inspectorates and regulators to develop a co-ordinated approach to regulation.

### CPA 2005 and beyond

The Audit Commission is consulting on a new framework for CPA in 2005 and beyond. The main changes proposed are as follows:

- Rationalisation of service blocks.
- 'Achievement' assessment element of Corporate Assessment to be driven by review of Community Plan and shared priority themes.
- Move away from rigid numerical model, to one based on rules.
- Stronger focus on service delivery for users and customers.
- More robust and explicit view of vfm and cost-effectiveness.

### Revision to the Code of Audit Practice

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

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

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

### Closing remarks

This letter has been discussed and agreed with the Corporate Management Team and will be presented to leading members on 12<sup>th</sup> January 2005.

The Council has taken a positive and constructive approach to our audit and inspection work and we would like to take this opportunity to express our appreciation for the assistance and co-operation we have received.

### Availability of this letter

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

Linda Krywald  
**Relationship Manager**

Mazars LLP  
**Appointed auditors**

### Status of our reports to the Council

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

**Audit & Inspection reports issued**

Audit plan 2004/05	July 2004 (Reported to The Executive, 14 July 2004)
Audit report: financial aspects of corporate governance 2003/304	August 2004
Audit report: Audit of the Best Value Performance Plan 2004/05 and Best Value Performance Indicators 2003/04	December 2004
Audit report: Final accounts audit 2003/04	December 2004
Inspection reports:	None issued

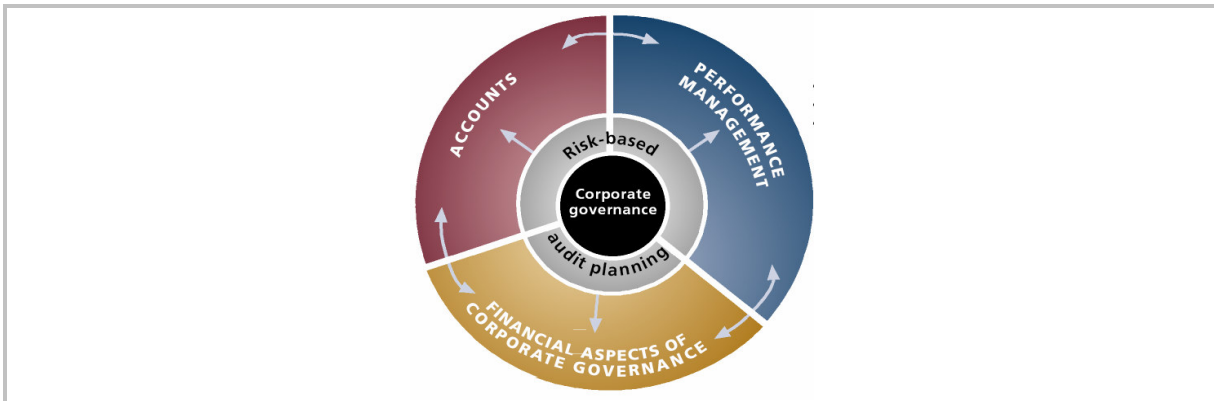
## Scope of audit and inspection

### Audit

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

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

#### The three main elements of our audit objectives



#### Accounts

- Opinion on the Statement of Accounts.

#### Financial aspects of corporate governance

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

#### Performance management

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

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.

**Inspection**

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

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

## Audit and Inspection fee

### Audit fee update

Audit area	Audit Plan 2003/04 £	Actual fee 2003/04 £
Accounts	35,550	35,550
Financial aspects of corporate governance	19,000	19,000
Performance	33,050	33,050
TOTAL CODE OF AUDIT PRACTICE FEE	87,600	87,600
Grant Claim certification	52,000 (based on 02/03)	In progress
Additional Voluntary work (under Section 35)	None	None

### Inspection fee update

The full year inspection fee is £15,800 for 2003/04 and £9,200 for 2004/05. The work reported in this audit and inspection letter has been funded by an element of the fee covering 2003/04 and by an element of the fee covering 2004/05. In both years the actual fee will be in line with that planned.