

audit letter

Hart 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 my 2008/09 audit. It includes key messages arising from the audit of your financial statements, the results of the work undertaken to assess your arrangements to secure value for money and also your use of resources assessment. Key messages are that:

- I have issued an unqualified audit report on the financial statements but the Council still needs to ensure that action is taken so that system weaknesses are addressed.
- I have concluded that arrangements are in place to secure value for money except in the area of management of the workforce in the 2008/09 year.
- The Council's financial position remains challenging, and this is being tackled by service reductions and savings agreed for the 2009/10 budget but also requires agreement to service savings planned for subsequent years.

Audit opinion and financial statements

- 1 I issued an audit report on 22 September which provided an unqualified opinion on the financial statements for the year ending 31 March 2009.
- 2 The Council's finance team produced statements to a satisfactory standard at the year-end. However, there were a number of changes agreed during the audit and there remain a number of weaknesses in the Council's financial systems and these need to be addressed.

Value for money

- 3 I issued a value for money conclusion on 22 September stating that the Council had adequate arrangements to secure economy, efficiency, and effectiveness in the use of resources except for in the area of management of the workforce in the 2008/09 year.
- 4 I also assessed how well the Council was managing and using its resources to deliver value for money and better and sustainable outcomes for local people. This includes providing scored use of resources judgements. I have concluded that the Council's arrangements to manage its finances, govern its business and manage its resources were adequate in the year overall, in that they were largely consistent with established professional practice and guidance, meeting statutory requirements and operate effectively, except in the area of management of its workforce. I concluded that the Council scored 2 out of a maximum of 4 overall.

Other audit matters

- 5 The economic downturn and banking crisis has been having a significant impact on public finances and the bodies that manage them. The Council's financial position remains a concern. The financial position has been helped by actions taken for the 2009/10 budget and planned for subsequent years. However further service reductions and savings will be required for the 2010/11 budget and subsequent years.

Actions arising from this letter

- 6 I have identified areas for improvement in this audit letter and, where appropriate, recommendations are included in the reports provided during the course of my audit. In my view key actions for the Council are to:
- sustain improvements in financial reporting and ensure readiness for the implementation of International Financial Reporting Standards;
 - progress areas of improvement identified by our use of resources assessment, particularly workforce planning;
 - deliver necessary savings to maintain a balance budget going forward; and
 - ensure it is in a position to manage risks and achieve optimum outcomes from the outsourcing of services.

Audit fee

- 7 In our original audit plan, the estimated fee for the 2008/09 audit was £120,798. This fee remains appropriate and I have not required a supplementary fee to complete the audit work.

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. Key messages are that:

- I issued an audit report on 22 September which provided an unqualified opinion on the financial statements for the year ending 31 March 2009.
- The Council's finance team produced financial statements to a satisfactory standard at the year-end. However, there were a number of changes agreed during the audit and there remain a number of weaknesses in the Council's financial systems.

Financial statements

- 9 I have issued an unqualified opinion on the 2008/09 financial statements on 22 September.
- 10 The Council's finance team produced statements to a satisfactory standard at the year-end.
- 11 In carrying out the audit I focused on a number of risk areas. These included the introduction of a partially implemented general ledger in the 2007/08 year, a relatively large number of amendments being required to the draft accounts in previous years and some organisational changes in-year, including some outsourcing of services and financial systems. I was able to obtain satisfactory assurance in respect of these risk areas.
- 12 I did not identify any material errors during the course of the audit.
- 13 A number of minor adjustments were made and agreed between the receipt of the draft financial statements in June and the final statements being presented to Audit Committee in September. These were outlined in detail in my annual governance report in September.
- 14 A key challenge is to maintain or improve standards following the recent organisational changes and to further reduce the number of changes required as a result of the opinion audit. Specific areas to improve from this year have included improving reconciliations, ensuring that the cash flow statement is properly supported and also that accounting for fixed assets is correct from the outset.

Material weaknesses in internal control

- 15 I have reported to officers on a number of system weaknesses. Whilst some weaknesses remain in the controls over the operation of financial systems, particularly for the general ledger, payroll, accounts payable and accounts receivable systems, I did not identify weaknesses in the design or operation of systems that would result in a material error in the financial statements.
- 16 However, the Council needs to ensure that action is taken so that system weaknesses are addressed. This needs to be achieved by the Council working with the external provider for the provision of central support services following the revised arrangements put in place from September.

Accounting Practice and financial reporting

- 17 I also consider the qualitative aspects of your financial reporting. The Council needs to be planning for future developments including ensuring readiness for the implementation of International Financial Reporting Standards (IFRS), with progress being reported to the Audit Committee.

Value for money and use of resources

I assess whether the Council has 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. I have issued a qualified conclusion for the 2008/09 year stating that the Council had adequate arrangements to secure economy, efficiency and effectiveness in the use of resources, except in the area of management of its workforce.

VFM Conclusion

- 18 I assess your arrangements to secure economy, efficiency and effectiveness in your use of resources against criteria specified by the Audit Commission. From 2008/09, the Audit Commission are specifying each year which of the use of resources KLOE are the relevant criteria for the VFM conclusion at each type of audited body.
- 19 As outlined in my use of resources assessment below, I identified weaknesses in your arrangements in the year for organising and developing the workforce effectively to support the achievement of the Council's strategic priorities. I have therefore issued a qualified conclusion stating that the Council had adequate arrangements to secure economy, efficiency and effectiveness in the use of resources, except in this area.

Use of resources judgements

- 20 In forming my scored use of resources judgements, I have used the methodology set out in the [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. Level 1 represents a failure to meet minimum requirements and level 2 represents adequate performance.
- 21 The assessment framework is more demanding than the previous one. It is broader in scope and embraces wider resource issues such as people and workforce planning, and the use of natural resources. It also places more emphasis on considering outcomes for local people.
- 22 The Council's use of resources theme scores are shown in Table 1 with the underlying KLOE scores summarised in Appendix 1. My detailed findings were reported in my separate Use of Resources report.

Table 1 Use of resources theme scores

Use of resources theme	Scored judgement
Managing finances	2
Governing the business	2
Managing resources	1

23 Our overall assessment of how Hart is managing and using its resources to deliver value for money and better and sustainable outcomes for local people was that the Council was performing adequately in the use of its resources in the 2008/09 year. The management of finances and governance arrangements was adequate but aspects of workforce management less satisfactory in that period.

Managing finances

- 24** The Council was performing adequately in the management of its finances. In particular, the medium term financial strategy was well linked to the Corporate Plan, the Council was considering spending requirements over the medium term, it was pursuing opportunities to manage and reduce costs and there was some consultation with the public over options and priorities for the 2009/10 budget. There was also some use of benchmarking in VFM reviews of some services.
- 25** Spending was being monitored monthly and the Cabinet generally received quarterly budget monitoring reports within one month of quarter-end.
- 26** The financial statements and supporting working papers were of a satisfactory standard and were produced within deadlines. However, the lack of commitment accounting meant that managers were still keeping manual records.
- 27** The Council also needed to ensure targets were set/performance monitored for collecting all types of income.

Governing the business

- 28** In the year, the Council was progressing the outsourcing of support services and had outsourced revenues and benefits. The Council's programme of service reviews had challenged value for money (VFM) and targeted higher cost services.
- 29** The reliability of data was adequate in-year, with some changes agreed during our audit and action taken to improve in areas previously found to be incorrect. Performance information was being used to inform corporate decision making.

Value for money and use of resources

- 30** Members and officers were working together towards a common purpose set by the corporate plan in the year. The Audit Committee was increasing its effectiveness. A framework was in place to help provide assurance over governance arrangements. Strategies and plans were generally in place, including a business continuity plan, a risk management strategy and policy, an anti fraud and corruption policy, a whistle blowing policy and codes of conduct. However, standing orders and financial regulations still needed to be updated for recent organisation changes.

Use of natural resources

- 31** The only area assessed in the 2008/09 year under this heading for district councils was workforce planning. The performance in this area in the 2008/09 year was not adequate whilst the Council was instead focused on the externalisation of support services, including the HR function. In the year, the Council was unable to respond adequately to training needs and corporate training was suspended, although a training plan has since been put in place. There had been some improvement in sickness in the year, but levels were still in the worst 25 per cent. Management of poor individual performance was not consistent and performance management systems were poor. The workforce was representative of people with disabilities, but not of BME communities and for women at top earner level. Training for existing staff on equalities and diversity was also not available in 2008/09 and was late for new starters.

Service provision by an external provider

- 32** The Council has entered into two contracts with an external service provider over the period covered by this letter. The first was for the delivery of the Council's revenues and benefits service, from May 2008, and the second was for the delivery of central support services from September 2009, covering customer services, information technology, finance and human resources.
- 33** Achieving successful outcomes from letting these contracts will be essential in order for the Council to achieve planned improvements to these services, the externalisation of central support services, in particular, results in some complex changes which affect the Council and the way it operates. These changes present a range of financial, legal and operational risks.
- 34** The Council has reported that progress has been made in improving revenues service performance since the letting of the contract, and the Council will also now be aiming to improve the performance of its central support services, in terms of efficiency, improved resilience and providing better outcomes for local people, following the change to the method of providing these services.

- 35** We reviewed some aspects of the implementation of the Council's approach to the letting of the revenues and benefits contract and reported on this to the Audit Committee last year. We are about to review the further progress made in operating both the revenues and benefits and the recently let central support services contracts and to assess whether the planned benefits for the Council and local residents are on target to being delivered in line with the Council's business case and targets agreed. This will include a review of how well the Council is managing the contracts, the risks and the impact of the changes to these services and finally also the organisational changes being put in place within the Council for the changed arrangements.

Economic downturn and pressures on the public sector

- 36** The economic downturn and banking crisis have been having a significant impact on public finances and the bodies that manage them. The impact in some areas has been immediate but there are wider and longer term impacts on the ability of public sector bodies to fund service delivery and capital programmes, including pressure on income streams.
- 37** In recent years, the Council has had to face a position in which it has received the lowest level of Revenue Support Grant (RSG) per head of population of any district council in the country, due to the area being perceived as having relatively few needs. This has provided serious financial challenges, to the extent that the Council has had to curtail the range of services and facilities provided in a number of areas. In each of the last four years the Council has had to find savings in excess of £1m a year (around 10 per cent of its net revenue budget) to balance its books. This includes closing facilities, reducing services, increasing charges and a wide range of cost reductions. The Council has also been working hard to improve its value for money, and has generated significant efficiency improvements, but the scope for achieving these is reducing, particularly as savings have been reducing managerial capacity in the Council.
- 38** The economic recession has had a further adverse impact in the 2008/09 year. The Council lost around a half of a million pounds of interest income per annum as a result of the decline in interest rates. It has experienced adverse budget changes, including increasing energy costs, reducing income, including from property searches and planning applications, as well as increasing demand in other areas, such as housing benefit.
- 39** The Council's Medium Term Financial Strategy is currently being updated but is likely to foresee the need to make further savings of around £0.5m in the 2010/11 budget in addition to the funding gap of £1.5m addressed for the 2009/10 budget. The Council is also currently tackling an over spend against this reduced 2009/10 budget. The Council's financial position therefore remains a significant concern given the factors outlined in the above paragraphs.

Closing remarks

- 40 I have discussed and agreed this letter with the Chief Executive and the Head of Finance (the Section 151 officer). I am presenting this letter at the Audit Committee on 10 December 2009 and will provide copies to all councillors.
- 41 Further detailed findings, conclusions and recommendations in the areas covered by our audit, which excludes inspection activity, are included in the reports issued to the Council during the year in Table 2.

Table 2 **Reports issued in-year**

Report	Date issued
Audit Plan	March 2008
Interim regularity report	May 2009
Annual governance report	September 2009
Auditor's report giving the opinion on the financial statements and VFM conclusion	September 2009
Use of Resources 2009	September 2009

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- 42 The Council has taken a positive and constructive approach to our audit. I wish to thank all officers for their continued support and co-operation.

Patrick Jarvis
District Auditor
December 2009

Appendix 1 – Use of resources scores and conclusions

Theme	VFM criterion met?	UoR score
1. Managing finances		2
1.1 Does the Council plan its finances effectively to deliver its strategic priorities and secure sound financial health?	Yes	2
1.2 Does the Council have a sound understanding of its costs and performance and achieve efficiencies in its activities?	Yes	2
1.3 Is the Council's financial reporting timely, reliable and does it meet the needs of internal users, stakeholders and local people?	Yes	2
2. Governing the business		2
2.1 Does the Council commission and procure quality services and supplies, tailored to local needs, to deliver sustainable outcomes and value for money?	Yes	2
2.2 Does the Council produce relevant and reliable data and information to support decision making and manage performance?	Yes	2
2.3 Does the Council promote and demonstrate the principles and values of good governance	Yes	2
2.4 Does the Council manage its risks and maintain a sound system of internal control?	Yes	2
3. Managing resources		1
3.1 Is the Council making effective use of natural resources?	Not applicable in-year	Not scored in-year
3.2 Does the Council manage its assets effectively to help deliver its strategic priorities and service needs?	Not applicable in-year	Not scored in-year
3.3 Does the Council plan, organise, and develop its workforce effectively to support the achievement of its strategic priorities?	Not met	1

The Audit Commission

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