

# Annual Audit and Inspection Letter



## Hart District Council

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<b>Reference:</b>	HA296 Annual Audit and Inspection Letter (Final)
<b>Date:</b>	December 2004



## Executive summary

### The purpose of this letter

This is our first joint 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 Hart District Council is run and the delivery of its services was assessed by the Audit Commission in January 2004 as fair (on the scale of excellent/good/fair/weak/poor).

The council has since identified its improvement priorities and is investing to build capacity to improve the way it is run. The managerial restructuring is substantially complete and there is a clear enthusiasm and commitment from the management team and leading members to secure continuous improvement. The council is also investing time and resource in re-engaging with the LSP as well as building new partnerships.

Some services are already improving but much remains to be done to achieve this in all areas and to ensure that improvements already achieved are sustained. The future prospects for improving the housing service remain particularly uncertain and refuse remains a poorly performing service. Public satisfaction with services remains below the southeast average.

The next 12 months will therefore be a critical period for the council as it will need to demonstrate that its investment in capacity building, its learning from others and its re-invigorated partnership approach results in real improvements for the community.

### The accounts

We issued an unqualified audit opinion on the council's 2003/04 financial statements on the 30 November 2004.

In line with the revised Accounts and Audit Regulations the council will need to accelerate its processes for producing the drafting accounts. This will require the council to produce and approve its accounts by 31 July for the 2004/05 financial statements, and for 2005/06 onwards to meet a 30 June approval deadline. This will entail some realignment of priorities within the council to ensure that appropriate resources are earmarked for this task.

### Financial position

For 2003/04 the council spent £499k below its budget for the year. This included a £250k rent rebate and other windfall amounts that were not budgeted for. This balance was transferred into the council's general fund reserves, which now stand at £1.9 million.

As in previous years the financial outlook is finely balanced. With planned council tax increases limited to inflation, in year spending needs to be tightly controlled to ensure that significant drawing upon reserves are not required.

The current Medium Term Financial Strategy indicates that reserves are at the minimum level required to support future spending and contingencies, and this position should be carefully monitored to ensure that reserves are maintained at this level.

## Other accounts and governance issues

We are also required to review the financial aspects of the council's corporate governance arrangements, as they relate to:

- the legality of transactions that might have a significant financial consequence;
- systems of internal financial control; and
- standards of financial conduct, and the prevention and detection of fraud and corruption.

During the year we reported that your overall corporate governance arrangements are broadly satisfactory in all key areas, including your core financial systems. We comment later in this report on specific areas requiring attention.

## Action needed by the Council

In order to maintain its recent momentum and focus on improvement the council should ensure that:

- its various plans are fully aligned;
- future strategies are affordable and aligned with resources;
- its priorities are clear particularly given the policy of inflation only council tax increases;
- staff have the capacity and skills to deliver the council's ambitions;
- it is clear about the outcomes it expects from its improvement priorities and mechanisms are in place to monitor progress in these areas;
- the housing service improvement plan is prepared and approved early 2005; and
- scope for partnering with neighbouring councils is examined (particularly with the focus following Gershon being on efficiency savings).

The main issues arising from our corporate governance work that require Member attention are:

- to keep the overall financial position of the council under review and to consider the robustness and sustainability of the financial outlook on an ongoing basis;

- ensure that there is sufficient capacity to meet the earlier deadlines for approving the 2004/5 financial statements;
- to address its areas of outstanding compliance with the Race Relations and Freedom of Information Acts;
- to continue and enhance the development of Risk Management across the council, most importantly to underpin the internal control system; and
- to maintain and build additional momentum in the E-government implementation programme in order to meet the 2005 implementation deadline.

## Council performance

*The council has identified its improvement priorities and is investing to build capacity to improve the way it is run. Some services are improving but much remains to be done to ensure that this is achieved in all areas. The council needs to maintain this early momentum and ensure that all plans are aligned, that future strategies are affordable and that staff have the capacity and skills to deliver them. Furthermore being a relatively small council (particularly with the focus following Gershon being on efficiency savings) scope for partnering with neighbouring councils will also need to be examined.*

## CPA and improvement

In January 2004 the council was assessed as Fair under the Comprehensive Performance Assessment (CPA) framework. Initially improvement planning got off to a slow start. However, since the Chief Executive's return from maternity leave, the appointment of new corporate directors and the introduction of the new political leadership following the June elections there has been significant momentum. The council has now identified its improvement priorities in the light of the CPA findings and these were approved by members on 2 September 2004.

Whilst we have not completed a formal assessment of progress this year, in this section of the letter we comment on the progress the council has made so far.

Being a relatively small council the initial focus following CPA has understandably been on creating capacity to improve the way in which the council is run. New corporate directors have been recruited and heads of service are now in place. The council has also invested time and resource in re-engaging with the local strategic partnership and is generally becoming much more external facing with new partnerships being established. As a result the council is actively participating in community planning and a draft community plan is currently being consulted upon.

Political structures are also adapting and there has been a shift to greater inclusivity. An independent member has been appointed to the cabinet and a broad cross section of members has been involved in establishing the local development framework. Training has also been provided for scrutiny members and the recent scrutiny review of youth activities has received national recognition. Relationships between the cabinet and corporate directors are strengthening through joint away days and more frequent and structured briefing sessions.

The council has become more open and willing to learn and is doing so from 'excellent' councils. The chief executive and corporate directors are engaging with other councils to identify and import good practice in three particular areas ie visioning, performance management and the use of performance improvement boards. The council is also actively engaging with the Audit commission and Government Office on the latter two areas.

Significant investments are also being made in other areas to secure future improvement. Most notable are developments in HR processes and systems and this investment has recently been recognised with an IIP accreditation. The second is securing and using DWP funding to procure and implement the new revenues and benefits system. Officers have reported effective implementation resulting from good partnering with the supplier, sound project management, clear leadership from the corporate director and good communication with staff. The council has also learnt from a previous troubled systems implementation and is supporting the system change with consultancy support to tackle other process and cultural issues within the revenues and benefits unit.

These are all encouraging developments and help demonstrate that the council does have a focus on improvement. However, this is clearly the start of the journey and there is a significant way to go.

It is therefore essential for the council to maintain this early momentum and to continue its focus on securing improvement. To do this effectively the council will need to be clear about its ambition and its role in delivering the community plan and ensure that there is a clear and consistent thread running between the community plan, corporate plan, service plans and individual targets. It will also need to be clear about its priorities especially in the context of an inflation only council tax increase. And, it will need to ensure that it has sufficient skills and capacity to develop future plans and implement its learning from excellent councils. Furthermore the council will also need to be much clearer about the outcomes it expects in its improvement priority areas and ensure that progress in these areas is regularly monitored and ensure that these do lead to improved quality of services experienced by the local community. The next 12 months is therefore a critical period in which the council will need to demonstrate that's it reinvigorated partnership approach, its learning and investments in capacity building are translated into real improvements for the community and that the actions over the last months have not been symptomatic of a council revving in neutral.

Within the CPA report a number of weak services were highlighted including housing benefits, refuse collection, planning and housing strategy and enabling activities along with relatively low user satisfaction results. The overall picture remains mixed.

Following CPA there has been a clear acceptance that refuse is indeed an issue. Two additional refuse vehicles were purchased as an initial response and this has prevented the service from deteriorating further. However, further analysis has identified significant structural problems and the council will receive an options paper (including partnering with other councils and different methods of collection) in January 2005.

In 2003/04 the council was designated as a planning standards authority for not meeting performance standards. By July 2004 action had been taken to improve performance but serious concerns remained that the council would not be in a position to achieve all the national targets by 2007 ie 60 per cent of major applications processed within 13 weeks, 65 per cent of minor applications in 8 weeks and 80 per cent of other applications in 8 weeks. Progress continues to be monitored quarterly by the Government Office. Un-audited PIs suggest that these targets were exceeded in the period July to September 2004. The sustainability of this performance will be supported by the Local Development Framework (LDF) being in place. In this respect there is some concern that Hart is falling behind other councils in the area and that more momentum and progress is needed if a fit for purpose development plan is to be in place by September 2007.

In 2001/02 public satisfaction with the councils services at 66 per cent was below the average for district councils nationally. Indications are that the council's performance has mirrored the national picture declining by a further 12 per cent. However, at 54 per cent this satisfaction level is now 4 per cent lower than the southeast average.

Benefits performance is improving. The average speed of processing a claim is now 38 days (Government target 35 days), compared to 100 days in 2002/03. As referred to above this service is currently being inspected and a report will be issued early in 2005.

The council has struggled for many years to deliver its housing service and the earlier CPA assessment confirmed this. Over the last nine months it is clear that action has been taken to improve performance. However, the recent self-assessment by the housing team highlights that weaknesses still outweigh strengths and that there are some significant barriers that will impact on prospects for further improvement. However, this honest and open assessment now provides the section with a firm foundation from which it can build a comprehensive service improvement plan.

It is essential that this plan addresses:

- links to the LSP;
- the range of strategies needed to address homelessness and housing conditions;
- the future resourcing of strategies and the capacity and skills of staff required to deliver them; and
- scope for partnering with neighbouring councils.

The service improvement plan will be completed by early 2005. We will monitor progress and re-inspect the housing service to assess the extent of improvement at some time to be agreed in 2006.

### Other performance work

Our work focused on the council's compliance with best value requirements. Our approach involved discussion with officers in April 2004, to clarify the matters that needed to be included in the BVPP in order for it to comply with the legislative requirements. We also provided a checklist of the Performance Indicator information to be included in the 2004/05 BVPP.

We concluded that the BVPP complied with the governing legislation in all significant respects and issued an unqualified audit opinion on 22 October 2004.

### Performance information

The required 2003/04 PI data and future years' targets were carefully compiled. In each of the last two years we reported that a significant proportion of outturn PIs and targets had been omitted and that this had resulted in our qualification of the BVPP. We are therefore very pleased to report that the outturn BVPI information has been prepared in accordance with the statutory definitions and presented carefully and that the PI targets have also been presented where required this year.

The council is to be commended for the attention it has paid to these issues in its preparation of the 2004/05 BVPP.

## Accounts and governance

*We issued an unqualified opinion on the council's accounts on 30 November 2004.*

*Your overall corporate governance arrangements are satisfactory in most key areas. However, arrangements in some should be enhanced.*

### Audit of 2003/04 accounts

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

We anticipate that we will be able to issue an unqualified audit opinion on the council's 2003/04 financial statements at the end of November.

Our audit fieldwork found a number of errors in the financial statements, with significant problems affecting the business rates balances disclosed in the collection fund. These problems were partly due to difficulties with the LOGOS IT system, but also partly due to the lack of experienced staff in the revenues department, following the recent departure of key audit contacts. As a consequence our audit queries took much longer than anticipated to resolve. Once the current benefits inspection has been completed the council should therefore examine arrangements in revenues and benefits to ensure that its staffing levels in that department are adequate. A replacement for LOGOS has been procured and it is anticipated that it will 'go live' during early 2005.

The council missed the deadline of 31 August for approval of the draft accounts by committee, obtaining approval on 7 September. The accelerated timetable for approval and certification requires, for the 2004/05 financial statements, approval by 31 July and auditor certification by 31 October. For the 2005/06 financial statements the deadlines are 30 June for approval and 30 September for auditor certification.

If the council is to meet this timetable it will require a realignment of resources towards achieving that goal, and a high level commitment towards meeting this important benchmark of financial governance. At a lower level, investment in resources such as replacement IT and additional personnel is required to ensure that all underlying records are subject to adequate management review prior to audit.

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

We are required by professional standards to report to those charged with governance (in this case the Staff and General Purposes Committee) certain matters before we give an opinion on the financial statements.

We presented our report to members on 29 November 2004 and issued our audit opinion on 30 November.

### Financial standing

*The council's financial position is finely balanced, and in year spending will require careful monitoring to ensure that additional drawings on reserves are not required.*

#### **General fund spending and balances**

The council under spent its budget by £499k in 2003/04. This included a £250k rent rebate and other windfall amounts that were not budgeted for. This balance was transferred into the council's general fund reserves, which now stand at £1.9 million. It is important that this reserve is maintained as an additional source of working capital and to cover potential contingencies. It is also important the level of the general fund reserve is reviewed regularly to ensure that it is available to protect against adverse changes in the council's financial forecast.

Having signalled the intention to limit council tax increases to inflation, the council has restricted capacity for budgetary growth in the medium term. Spending plans up to 2007/08 assume only limited increases from the 2004/05 budget, which are skewed towards pay awards, homelessness services and making up a projected shortfall in income from leisure services. Importantly, the council will need to ensure that it provides funding in 2005/06 and beyond for capacity building to support its agreed improvement agenda.

### Capital programme

Capital expenditure is planned using a rolling programme. In year capital spending amounted to £1.45 million, a significant reduction on the prior year spend of £5.7 million following the abolition of the Social Housing grant. This funding contributed £4.4 million to the 2002/03 programme; therefore its withdrawal will see a significant reduction in capital spending in the long term.

### Pensions fund deficit

The council's pension liabilities are part of the Hampshire County Council pension fund, and they represent an additional long-term financial pressure on the council. Whilst the funding ratio improved during 2003/04 from 64 per cent to 71 per cent the deficit is in excess of £9 million and additional one-off contributions will be required to maintain and improve the funding ratio.

## Systems of internal financial control

*We have not identified any significant weaknesses in the overall control framework, however we consider that arrangements for the implementation of Risk management and E-government could be strengthened.*

### Internal Audit

We have reviewed Internal Audit's work in areas such as adherence to professional standards, staffing levels, qualifications and skills, reporting arrangements, and planned and actual coverage of systems. We have also undertaken detailed film reviews for each key financial system and a review of all reports issued during the year.

We concluded that the work was generally adequate and provided a satisfactory level of assurance to the council on the adequacy of internal financial controls.

We understand that the council has not yet been successful in recruiting a full time Audit Manager, although interviews are being held in December. The previous incumbent left earlier in the year, since when this post has been filled in an acting capacity. Overall, we understand that the 2004/05 internal audit programme has not slipped to date and we consider that internal audit is well placed to make further advances.

### Risk management

The Accounts and Audit Regulations (2003) require all local authorities to have in place adequate risk management strategies and to report on the effectiveness of these arrangements in the Statement of Internal Control in the statement of accounts for that year. Strengthening risk management is one of the councils' improvement priorities.

The council has made progress over the last year in developing a methodology to record and assess risks by introducing risk management guidelines. This has been accompanied by the development of a register of operational risks, although this has yet to be completed. The Leadership Team has also developed a register of strategic risks, which it plans shortly to discuss with heads of service. Internal Audit is training service teams in risk management and operational risks are being incorporated into departmental service plans.

The council still has much work to do to embed a risk management culture across all areas of its activity. This could be achieved by introducing further staff training to ensure that new risks are identified and managed. There is also a need to ensure that each department is identifying its operational and project risks in a formalised way so that the council can be aware corporately of these risks as well as its strategic risks. Further development of the risk register is needed to aid the assessment and management of risks such as including the monitoring of the risks highlighted.

### E-government

We have reviewed the council's progress with the implementation of the E-government programme. The programme requires that 100 per cent of dealings with the public should be capable of being conducted electronically by 2005.

The latest position indicates that planned expenditure on E-government has fallen behind profile and therefore there is a risk that the council may not meet the 2005 deadline.

The council should assess these risks and address them promptly to ensure that it has the IT resources in place to meet the E-government agenda.

### Standards of financial conduct and the prevention and detection of fraud and corruption

*We have not identified any significant weaknesses in your arrangements to prevent and detect fraud and corruption or in your arrangements to ensure proper standards of financial conduct.*

#### Standards of Financial Conduct

We consider that that the council has in place adequate arrangements to ensure proper standards of financial conduct, including:

- formal mechanisms for corporate governance, including Standing Orders and Standing Financial Instructions; and
- documented anti-fraud policy and response plan and Officers' and members' codes of conduct.

#### Anti-fraud and Corruption Arrangements

We are required to review the council's arrangements to maintain proper standards of financial conduct and prevent and detect fraud and corruption.

Effective controls prevent unnecessary exposure to risk. Any risk-based approach to a sound system of internal control should recognise and address risks of fraud and corruption. To confirm the effectiveness of the council's controls we used the Audit Commission's Fraud Risk Assessment Tool. This provided assurance that overall arrangements were sound.

### National Fraud Initiative

For 2002/03 the NFI found over £83 million of fraud and overpayments nationally, an increase of 66 per cent on the previous reporting period. In the near future this service will be extended to include data matching techniques to assist in countering:

- corrupt tendering practices;
- serial insurance claimants;
- benefits claimed by owner occupiers; and
- abuse of parking permits

Over the last two years the council has not fully participated in the National Fraud Initiative, submitting only the Housing Benefit data. It does, however, plan to submit payroll data in the next round of data collection.

### Legality of transactions

*We are required to consider whether the council has adequate arrangements to ensure the legality of transactions that might have significant financial consequences.*

Overall, we consider that the council has in place adequate arrangements to ensure the legality of significant financial transactions. However, we note that some procedures require updating to bring them into line with the new organisational structure. The council must also address the outstanding requirements of the Race Relations and Freedom of Information Acts, and we understand that work is in hand to meet these legislative requirements.

### Other work

#### Grant claims

Over recent years the number of claims requiring audit certification has grown and audit fees have risen in line with this growth. In accordance with Strategic Regulation, the Audit Commission has adopted a more risk-based approach to the certification of grant claims.

With effect from 2003/04 the smaller claims have not been subject to audit or have received a lighter touch. The approach to larger claims has been determined by risk and the adequacy of the Council's control environment.

We have completed our audit of the 2003/04 grant claims including the Housing Benefits and National Non-Domestic Rates claims and have issued unqualified audit opinions in each case.

## Looking forwards

### Future audit and inspection work

We have agreed a combined audit and inspection plan for 2004/05 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 2004/05 accounts, the inspection of customer access and the results of the benefit fraud inspection and supportive work on the performance management framework and the housing service improvement plan will be reported in next year's Annual Letter.

We will seek to ensure, wherever possible, that our work relates to the improvement priorities of the council when planning our programme of work for 2005/06. However, in view of the council's relatively weak performance in housing (even though this is not an improvement priority area) we will need to re-inspect this area within the next two years. We aim to have a combined programme agreed by 31 March 2005.

### 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 the Leader of the council. A copy of the letter will be presented to the Staff and General Purposes Committee on 18 January 2005.

This has been the first year of the new relationship Management arrangements and we are very appreciative of the council taking a positive and constructive approach to our audit and inspection. We are also grateful to your officers for their assistance and co-operation throughout the year.

### 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.



**Neil Childs**  
Relationship Manager



**Henry Arthurs**  
Baker Tilly Assignment Director  
December 2004

## 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 and inspection reports issued

Report title	Date issued
Combined Audit and Inspection plan	March 2004 (draft) October 2004 (final)
Key Financial Systems & Financial Governance Report	April 2004 (draft) July 2004 (final)
Matters Arising from the 2003/04 Accounts	August 2004
BVPP Audit Opinion	October 2004
Annual Accounts Audit Opinion	30 November 2004

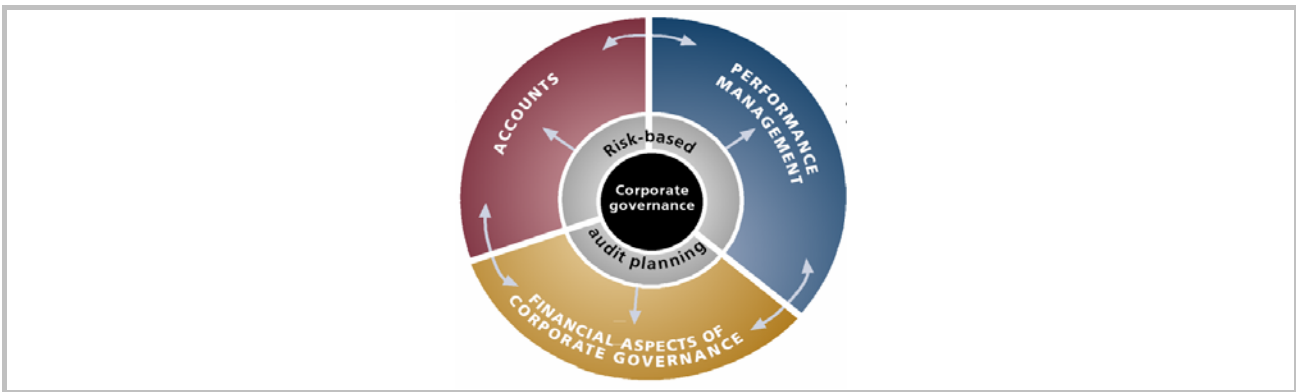
## Scope of audit and inspection

### Audit

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.

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.

#### EXHIBIT 1 THE THREE MAIN ELEMENTS OF OUR AUDIT OBJECTIVES



#### Accounts

- Opinion.

#### Financial aspects of corporate governance

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

#### Performance management

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

## 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.

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.

## Audit and inspection fees

### Audit fee update

Audit area	Plan 2003/04	Actual 2003/04
Accounts	39,153	39,153 + £4k*
Financial aspects of corporate governance	15,847	15,847
Performance	24,683	24,683
<b>TOTAL CODE OF AUDIT PRACTICE FEE</b>	<b>79,683</b>	<b>79,683 + £4k*</b>
Additional Voluntary work (under Section 35)	None	None

\* At the time of drafting this letter, a proposed additional fee for work undertaken on the final accounts audit had yet to be agreed with the council.

### Inspection fee update

The full year inspection fee for 2003/04 was £15,800. 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 (£12,632) covering 2004/05. In both years the actual fee will be in line with that planned.