

Annual Audit and Inspection Letter

14 March 2006



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Hart District Council

Audit 2004/2005

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Key messages

Council performance

- 1 Two years after being assessed as 'Fair', the Council is still building foundations for improvement. There are very encouraging signs, particularly over the last six months, that progress is being made and there are many new plans, strategies and frameworks either being developed or already in place. However, as these are very new or still in developmental stages there remains much to do to embed changes into the culture of the organisation. And, as yet significant and sustained improvement for service users and the wider community has not been demonstrated.

The accounts

- 2 We have yet to complete our audit of the accounts and issue an audit opinion. This is because the Council failed, for the second year running, to approve its Statement of Accounts by statutory deadlines. For 2004-05 this is significant. The deadline for approving the accounts was 31 July 2005 and some seven months later they remain to be adopted. Furthermore the Council has only in the last three months given closure of accounts a sustained focus at senior levels within the organisation. The Council's inability to meet the deadline for approving its accounts undermines its governance arrangements and its accountability to the community.

Other governance issues

- 3 The Council has major and wide-ranging weaknesses in its arrangements to manage and use its financial resources. The Council's systems and processes, particularly those associated with financial reporting and financial management, are mostly below minimum requirements which represents an inadequate level of performance. Furthermore weaknesses in these arrangements make it difficult for the Council to demonstrate that it is achieving value for money from the use of its resources.

Action needed by the Council

- 4 The new community plan and corporate plan provide a framework for the Council to focus on priorities which matter most to the community over the next few years. However, as it is now two years since the Council was assessed as fair it is essential that over the next year it is able to demonstrate that its emphasis on improving its foundations is actually resulting in significant improvements for service users. In order to achieve this Members must:
 - be much clearer on the outcomes and success measures for its stated priorities;
 - ensure that the new performance management framework is adopted and embedded and that the processes are supported by the necessary change in culture;
 - establish an Improvement Board of senior officers and key members, to monitor the performance of priority areas and follow up on poor performance; and
 - sustain their focus on the customer and ensure there is appropriate programme management in place to implement preferred strategies for waste collection, benefits and housing services.
- 5 Members need to ensure that there is a clear plan in place to close the Council's accounts at the earliest opportunity and that resources are then available to provide timely responses to the auditor so that the long delayed 2004-05 audit can be concluded.
- 6 It is acknowledged that the Council is either taking, or intends to take, action to address many of the areas of weakness identified in this letter. Continued engagement and focus from both members and senior officers will be needed in order to ensure that improvements are achieved and sustained.
- 7 The Council is beginning to work with others to improve its capacity in order to deliver its priorities. However, many of the weaknesses highlighted in this letter - including delays in producing the accounts, inaccurate preparation of benefit claims, the ability to maintain acceptable levels of internal audit and the time it is taking to secure significant improvements - all appear to be related to the Council's limited capacity. Given the Council's commitment to excellence of service Members need to ensure that it has the managerial, financial and staffing capacity to support this ambition.

Council performance

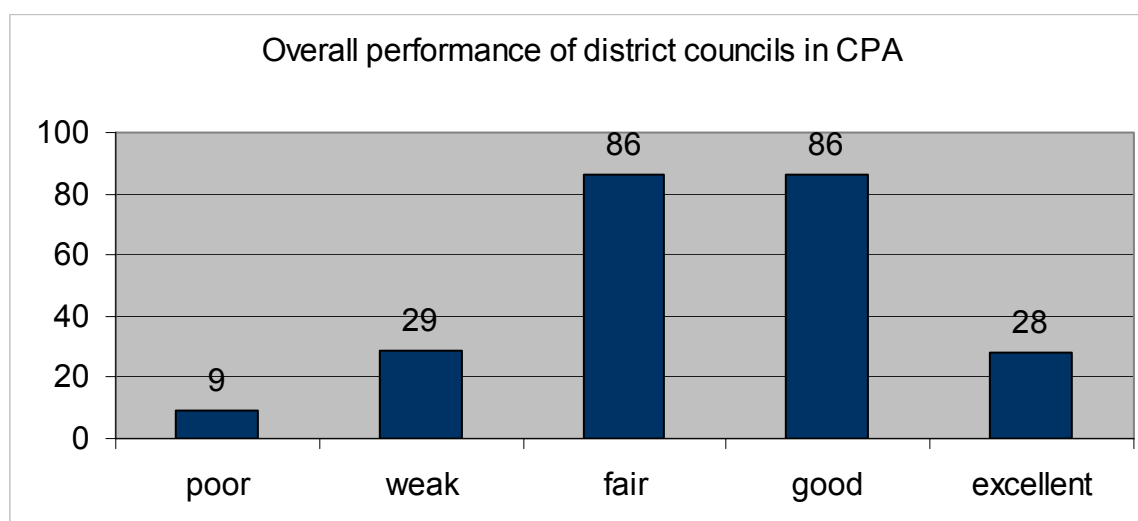
- 8 Hart was assessed as a 'Fair Council'; in the Comprehensive Performance Assessment (CPA) carried out in 2004. Two years on, the Council is still building foundations for improvement. There are encouraging signs, particularly over the last six months, that progress is being made and there are many new plans, strategies and frameworks either being developed or already in place. However, as these are very new or still in development stages there remains much to do to embed changes into the culture of the organisation. And, as yet, significant improvement for service users and the wider community has not been demonstrated.

Direction of travel report

- 9 Hart DC was assessed as 'Fair' in the Comprehensive Performance Assessment carried out in 2004. These assessments have now been completed in all district councils with the following results.

Figure 1 Overall performance of district councils in CPA

Three times as many district councils are rated Good or Excellent than Poor or Weak



Source: Audit Commission

- 10 We reported last year that the Council spent much of the first year following this assessment undergoing a restructure, bringing in new people at Director and Head of Service level and determining its priorities for improvement. In September 2004 the Council approved a high level improvement plan, the primary aim being 'to improve services to our customers.' This also coincided with a change in political leadership which brought with it a fresh attitude to working with partners and a commitment to achieving continuous improvement. Although it took sometime to get to this position we reported that the Council was making progress in preparing the foundations for further improvement.

- 11 However, we did state that 2005 would be a crucial period for the Council as this would show whether its efforts to build capacity were effective and whether this was resulting in improved outcomes. One year on, and two years since the CPA assessment there are encouraging signs that the infrastructure is indeed being strengthened but this is still all very new and there is still much to do to embed changes into the culture of the organisation. The Council is not yet able to demonstrate that these new arrangements have resulted in significant and sustained service improvement.
- 12 The following commentary outlines the Councils progress in:
- building internal capacity – (progress made to implement improvement plans); and
 - securing service improvement – (improved services for customers).

Building internal capacity

- 13 The Council outlined its ten improvement priorities following the CPA inspection as:
- clarity of long term ambition;
 - community engagement;
 - objective led capital and revenue budgets;
 - improved focus and capacity;
 - partnership working;
 - improved income generation;
 - greater openness;
 - performance management;
 - ICT/e-govt to drive efficiency; and
 - co-ordinated approach to longer term planning, with Service Plans and Statutory Plans linked much more closely to corporate objectives.
- 14 The Councils focus has so far been on building a strong infrastructure to provide a solid foundation from which it can improve services. Over the last year the Council has been working closely with local stakeholders and the community plan has been re-launched. A new corporate plan has also been published following extensive public consultation. This generated a considerable response and consequently helped to shape the plan. In doing this the Council has become much clearer about its priorities and has differentiated between the services it will provide directly itself and those which it will work alongside partners to enable. It is clear that the Council has set an ambition to strive for excellence and that there are to be one, three and five year timescales for implementing all the changes required to achieve this. However, the Council is still to specify what success will look like and to articulate the outcomes from the community/user perspective that it is trying to achieve.

- 15 The Council's recently agreed Medium Term Financial Strategy (MTFS) has been used to shape the budget for 2006/07. This will help to ensure that resources are more closely aligned with the priorities in the corporate plan.
- 16 Linked with the development of a longer term ambition the Council has developed a project to ensure the voice of the customer permeates everything that the Council does. In June 2005 the Audit Commission published a report on customer access following an inspection. The findings of the report are detailed in paragraph 37 but the inspection identified a number of weaknesses in the existing service. The Council has started to make progress on taking forward improvements for customers, and this is also outlined later in this letter.
- 17 The Council is continuing to build its capacity. There has been a marked shift in attitude towards working with others including working with consultants (Public private partnerships programme - 4Ps) to identify potential for joint working arrangements with others. Building control and legal services were both planned to be delivered in partnership with Basingstoke and Deane from April 2006. However, this has now been delayed and an implementation date has yet to be agreed. ICT improvements are also being sought by working in partnership with Hampshire particularly around e-government and web site access. Longer term options are also being explored for a waste partnership. The Council has also engaged with the Department for Work and Pensions and is receiving assistance from their performance development team. This is helping to turn the poorly performing benefits service around. Clearly the shift in some areas from providing to enabling will present an opportunity for strong community leadership through partnership working. A partnership strategy is currently being developed to underpin this. This activity will help to improve the Council's capacity to face existing and developing challenges. However, it remains at a relatively early stage and the Council cannot yet demonstrate significantly improved outcomes for the community.
- 18 The performance management framework is being overhauled. It was identified within two of the Council's improvement priorities – performance management and co-ordinated approach to longer term planning. The Council has set about developing its performance management in a logical and structured way by reviewing and developing its approach in three key areas: leadership; culture; and systems. The Council self-assessed its performance management and ran a series of workshops and produced formal reports to gain support and commitment of senior managers and members in Spring 2005. It judged itself, two years after the original corporate assessment, to be somewhere between starting and developing in most areas. This was on an activity which was a high improvement priority for the Council. The self-assessment highlighted the absence of a clear corporate vision, priorities and SMART outcome targets as a major barrier to progress.

- 19 During the summer of 2005, the Council has worked to develop its own approach to performance management by reviewing how successful councils have developed their approach and working through how this might be applied at Hart. A report, 'Developing Hart's approach to improving performance management,' was approved by Cabinet and Scrutiny in October 2005. This set out what needed to be done and included a list of proposed activities to build the Hart approach.
- 20 This is a major step forward for the Council. It is essential that the Council moves quickly to implement the project plan and the proposed activities so that performance management is implemented and embedded. Whilst developing the approach has been a necessary step, Hart's performance management does not currently support better performance for local people and until this is embedded the Council's capacity to improve will be limited.
- 21 Key areas within the planned approach that the Council needs to focus on are:
- establishing an Improvement Board of senior officers and key members, to monitor the performance of priority areas and follow up on poor performance;
 - developing the 'golden thread' that needs to flow from the corporate plan so that it is clear how the corporate plan will be implemented and how individuals will contribute; and
 - making performance and performance management part of the way people work.
- 22 To successfully improve its performance management the Council will need to continue to give an effective lead from the top of the organisation and provide resources to support improvement.
- 23 Elsewhere in this letter we comment on the arrangements the Council has in place for:
- financial reporting;
 - financial management;
 - financial standing;
 - internal control; and
 - value for money.
- 24 We are concerned that the Council's arrangements in a number of areas are below minimum acceptable levels (as determined by the Audit Commission's 'Use of Resources' methodology). Although the Council recognises that there is much to do to improve this unsatisfactory position it is inevitable that this will place additional pressures on its already stretched resources. Further details on this are included in our 'Use of Resources' assessment later in this letter.

Securing service improvement

- 25 The Council's performance, measured by key indicators presents a mixed picture.
- 26 Since 2002/03, Harts performance as measured by a basket of national performance indicators (PIs) has improved. Some 59 per cent of PIs in 2004/5 (the most recent full year of audited data) are getting better but 41 per cent are not improving. However, 56 per cent of PIs still remain in the below average, and eight of the 12 PIs in the worst 25 per cent have not improved. This reflects where the Council is at on its improvement journey. The priority has so far been placed on building a strong infrastructure as a platform for service improvement. The Council anticipates that once these foundations become embedded outcomes for service users should then begin to show noticeable improvement - although this is not yet demonstrated.
- 27 The following paragraphs show progress in each of the Council's priorities (as outlined in the new corporate plan). The Council has set six priorities – three it intends to deliver on, and three where it will act as an enabler. The enabling priorities show the Council's commitment to contribute to improvements in the economy, health and transport. This letter covers progress on the ones the Council has agreed to deliver on itself. The absence of a clear set of priorities up to December 2005, has made reporting progress against earlier priorities difficult.

The Community and the individual

- 28 In this priority, the Council aims to recognise the diverse community needs and improve access to services within a safer environment. However, performance indicators for 2004/05 show an overall mixed picture and inconsistent level of improvement from the previous year. There were low rates of public satisfaction with services in the last national survey in 2003/04 - where the Council was in the worst 25 per cent with only 54 per cent of the public satisfied.
- 29 The Council has been active in putting initiatives in place to meet this priority. A new warden scheme has been launched and the Council has a nationally accredited CCTV system. The Council has put in place resources to deal with anti-social behaviour. It has also helped to introduce a number of initiatives with partners – such as Pub Watch and anti binge drinking campaigns. The Hart Neighbourhood Centre has been purpose built with staff employed to work on social inclusion and community cohesion on behalf of the 'Safer Hart Partnership' and all agencies.
- 30 Hart has been confirmed as reaching level 1 of the equality standard during 2005/06. All councils have a statutory duty to promote equality. Most councils had already achieved at least level 1, some time ago. The Council therefore made a slow start and still has much to do. Level 1 is just the first run on the ladder for getting systems in place and it is only at level 5 where outcomes are achieved ie a council has demonstrable evidence that it is reducing inequalities. The Council has stated its ambition to reach level 5 by 2008. This target is extremely stretching and the achievement of these higher levels will need to be supported by clear plans, commitments and resources.

- 31 Benefits performance has been poor but the service has showed some recent improvements. The Benefit Fraud Inspectorate (BFI) inspected the Council in 2002. The inspection found the Council to be delivering a poor service and it was very slow to react to the recommendations. A further inspection therefore took place in 2005. The BFI found that the service was still poor. Since this judgement was made the Council has worked with the BFI improvement team and has made real progress. It had implemented 65 per cent of the recommendations by September 2005. Performance submissions to the department for Work and pensions show that improvements are taking place in processing times for each quarter in 2005/06.
- 32 In a letter dated 20 October 2005 DWP stated *'The action plan is comprehensive and makes clear your Authority's commitment to bringing about long term improvement in its administration of Housing and council tax benefit. I am pleased to note that the majority of the BFI recommendations have already been implemented and that the benefits improvement plan continues to be developed. I am sure that the service will improve further following the successful introduction of the new revenues and benefits system and the availability of accurate mgt information'*. Whilst this is good progress basic controls remain weak, and this is covered later on in this letter.

Planning and the environment

- 33 The Council's aims in this priority are based around the desire to improve infrastructure, waste collection, and the quality of the environment. Satisfaction with waste collection remains low and customers are becoming increasingly concerned with the length of time being taken to improve the service. Most related indicators are not improving. Reports to Cabinet during 2005 show a clear recognition that the Council faced a number of risks including its inability to provide even a minimal service and the difficulty of meeting the national waste strategy recycling targets. There was also recognition that that the Council needed to move away from a 'waste collection' ethos to leading and encouraging the community to greater responsibility for reducing waste. The Council has approved a new waste strategy in 2005. Changes are planned in the method of collection, and it is procuring a new fleet of vehicles. The Council has recognised that it will take time for the new arrangements to bed in.
- 34 Excellent progress has been made in raising planning service performance standards – as a result the Council is no longer designated as a Planning Standards Authority.

Affordable housing

- 35 Hart had an inspection of housing in 2003, which found the service to be 'fair and unlikely to improve'. Further weaknesses were identified in the service as part of the 2004 comprehensive performance assessment. In October 2004, we undertook a short piece of work to assist the Council in taking forward the challenging housing agenda. The Council now has a Housing strategy - since August 2005 - that is 'fit for purpose'.

It has also made progress in meeting its target to reduce the time families stay in bed and breakfast accommodation and a reduction in the amount of temporary accommodation for homeless people. Closer working is taking place with the benefits service and this is helping to improve the speed of payment to vulnerable people.

- 36 The service faces continued challenges in the next 12 months. The homelessness service was bought back 'in-house' in January 2006 and a full inspection of the service will be undertaken by the Audit Commission in March 2006. This will provide a detailed analysis of the standard of the current service in the context of development pressures, and its prospects for further improvement.

Future focus

- 37 The new community plan and corporate plan provide a framework for the Council to focus on the priorities which are important to the community over the next few years. However, it is now almost two years since the Council was assessed as 'fair'. It is therefore essential that over the next year the Council is able to demonstrate to the people of Hart that the emphasis on improving its infrastructure is beginning to show improved outcomes for service users. The Council recognises that this can only be achieved by:
- embedding the new performance management framework to drive improved outcomes. This will require strong leadership (political and managerial) and a shift in culture to use information systems and data to better manage performance;
 - sustaining focus on the customer, determining and implementing the preferred strategy for waste collection, benefits and housing services; and
 - using ICT/e-Government to drive service efficiency.

Other inspections and performance work

- 38 The Audit Commission conducted an inspection of customer access in Hart in February 2005 and the report was published in June 2005. The Council was assessed to be providing a 'poor' service with uncertain prospects to improve. The report identified that there was a lack of good district-wide access to, and information about, services for residents. Access standards and performance were below expectations, and achievements were below the level of similar councils elsewhere.
- 39 The Council was aware of the limitations that our inspection highlighted and was already investing resources and energy to prepare for improvements. Front line staff were well regarded for their friendliness and efficiency. However, as the Council had set a broad ambition to 'put customers at the heart of everything' following the earlier CPA we were concerned that implementation timescales were unclear and that the outcomes had not been clearly specified. We therefore asked the Council to ensure that improvements happened quickly.

- 40 Hart has now picked up the momentum and through improved programme management with the support of a dedicated project manager, is now implementing many of the planned changes. There has already been progress to improve the telephone system, the website and the facility to make payments electronically. All these, when fully implemented, are expected to have a positive contribution to directly improved access for customers.
- 41 Further progress is being made as other projects are developed. Improvements are planned for the main reception area at the Council offices. Better use of information technology to support key front line services - such as document imaging in revenues and benefits, and full implementation of a customer relationship management system - are also expected to contribute to further improvements for customers in 2006/07. These and other IT developments will also help to address weaknesses raised in recent inspection reports.

Local area agreements

- 42 The Council and the Local Strategic Partnership (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. As the details of the LAA were only finalised in February 2006 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 co-operation and agreement from partners including Hampshire District Councils. The Council has also signed up to the four main improvement priorities in LPSA2.

Accounts and governance

- 43 We have yet to complete our audit of the accounts and issue an audit opinion. Our work on financial governance concluded that arrangements require strengthening in a number of areas.

Audit of 2004/05 accounts

Matters arising from the interim audit

- 44 Our work on the accounts comprises our interim review of the Council's general control environment and fundamental financial systems, followed by a final audit visit later in the year. Our interim review was designed to test the key financial systems to ensure that they are robust and could be relied upon to produce accurate data for inclusion in the statement of accounts.
- 45 We reported the results of our interim audit work to the Staff and General Purposes Committee in July 2005. In this report, we stated that we could place reliance on only four of the nine systems that were tested. Our main concerns related to the Business Rates (NNDR) system, and accordingly we raised recommendations aimed at securing improvements that would rectify the weaknesses that were found.

Matters arising from the final accounts audit

- 46 Our final audit comprises our detailed audit testing on the Council's statement of accounts. It is a requirement, under the Accounts and Audit Regulations (2003) that local authorities approve their accounts by 31 July 2005, and that they should be certified by 31 October 2005. At the outset of our final audit visit, on 22 August, the Council had yet to produce and approve a set of draft accounts.
- 47 It remains the case that the Council has to approve a set of draft financial statements, some seven months after the statutory deadline. This is second consecutive year that this important deadline has been missed.
- 48 The Head of Finance indicated that difficulties in obtaining robust balances from the Revenues and Benefits department in relation to NNDR and Housing Benefit balances for inclusion within the accounts was the prime reason for her being unable to certify the accounts and forward them to committee for approval.
- 49 This has been partly borne out by our audit, which highlighted a number of discrepancies in the NNDR figures, most notably a £218,000 'conversion adjustment' between the new IBS revenues system and its predecessor LOGOS. During the course of the audit year we also qualified the 2004/05 NNDR and Housing Benefit grant claims, which provided further evidence that the financial data produced by the Revenues and Benefits department could not be adequately supported by robust processes and audit trails. This raises further questions about the Council's ability to produce figures suitable for inclusion within its accounts.

- 50 In September 2005 we completed our first tranche of accounts audit and provided the Council with our audit findings. These included the need for the Council to address the difficulties in obtaining reliable financial data from the Revenues and Benefits system, but there were also various queries based on other areas of the draft accounts.
- 51 Prompt clearance of these queries would have enabled us to meet the audit certification deadline of 31 October 2005. However, officers have been unable to respond effectively to many of our queries, and to this date certain key issues remain unresolved.
- 52 In addition to problems with the NNDR balances, our audit has also found a number of other discrepancies, which the Council has yet to provide a satisfactory response to, including:
- capital expenditure of £323,000, which prima facie, we consider to be revenue in nature;
 - a provision in relation to the Anite contract which we consider should be treated as an earmarked reserve; and
 - mis-posting balances overstating creditors and expenditure by £88,000, which still has to be corrected.
- 53 The failure of the Council to address these issues, together with the late signing off of the Statement of Internal Control by the Leader and Chief Executive, caused delays to the audit. This also continues to raise serious questions about capacity within the finance department to deal with routine queries and processes.
- 54 The Council must seek to address all outstanding issues as a matter of immediate priority. We acknowledge that additional capacity has been bought in to assist in the Finance and Revenues & Benefits departments, and others anticipate that this will help bring matters to a swift conclusion. We are pleased to note that additional resource has also been put in place to assist in the preparation of the 2006/07 budget.

Conclusion

- 55 We are concerned that whilst officers recognised the need to address the systems difficulties in order to prepare its accounts, and that additional resource was required for this, there was still a failure to then agree quickly what action needed to be taken. We discussed these matters with officers and members at the Staff and General Purposes Committee on 31 October 2005, but action had not been taken by 23 November, at which point we wrote to the Acting Chief Executive to outline our concerns. Only at that stage did the Council give sustained focus at senior officer and Member level to overcoming the issues that were holding up the preparation of its 2004/05 accounts. In addition, it was only then that the Council procured the additional resource needed to assist in this process.

- 56 It is critical that the Council learns from the difficulties it has faced in preparing the 2004/05 accounts, the NNDR 3 grant claim and the Benefit Subsidy claim. It should prepare an action plan to tackle these issues by 31 March 2006 and Members should monitor progress closely. It is particularly important that permanent capacity in the Finance and Revenues & Benefits services is rebuilt, and that issues are rectified to enable the 2005/06 accounts to be completed in line with the required deadlines, ie Member approval is required by 30 June and audit certification by 30 September.

Report to those with responsibility for governance in the Council

- 57 We are required by professional standards to report to those charged with governance before we give an opinion on the financial statements. We will arrange to do this once the Statement of Accounts has been approved by Members.

Financial standing

Whilst the Council's financial position is sound it appears likely that reserves will again be called upon to produce a balanced annual budget. This is not a sustainable policy.

Financial outturn and outlook

- 58 For 2004/05 the Council reported a provisional outturn spend of £25.3 million. Whilst, pending completion of the 2004/05 accounts, the final position is uncertain, it seems likely that the Council incurred a significant deficit. This is mainly due to the one-off reorganisation costs of £488,000, coupled with £411,000 set aside to meet costs of the termination of the Anite contract.
- 59 The deficit will be fully funded from the Council's general fund reserves, which stood at £1.9 million at 31 March 2005, and Members should pay increasing concern to the deterioration in this position which will further restrict the ability of the Council to fund one-off items of expenditure and to support overspends against budgets.

Financial outlook

- 60 The Council uses its Medium Term Financial Strategy to set out its financial planning framework on a four-year rolling basis, and over that time period the Council has identified a number of significant constraints that will impact on its financial planning. These include the following:
- restricted or no growth in revenue support grant from central government;
 - the need to balance spending priorities as outlined in the Corporate Plan with efficiency savings against baseline budgets;
 - the requirement to improve the solvency of Hart's portion of the County Council pension fund, which at the last actuarial valuation had a deficit valued at £16.2 million; and

- limited increases in council tax income, other than inflationary increases.

61 As we noted last year, the medium term financial planning and annual budget processes will therefore require careful balancing of priorities, although, as has been the trend in recent years, it seems likely that withdrawals from reserves will be required to produce a balanced financial position. This trend cannot be considered sustainable policy in the longer term, and ultimately an adequate minimum level of reserves will need to be maintained as a contingency balance.

Systems of internal financial control

62 We are required to consider the adequacy of arrangements put in place by management to satisfy itself that its systems of internal financial control are both adequate and effective. Effective internal financial control includes the overall control environment, including internal audit, identification, evaluation and management of risks and documentation and review of control procedures.

Internal Audit

63 The most effective mechanism for ensuring that internal financial controls are adequate is the presence of an effective and independent Internal Audit service to test the effectiveness of controls. We 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 also completed detailed file reviews for each key financial system and a review of all reports issued during the year. We have concluded that the work undertaken by Internal Audit provided a satisfactory level of assurance to the Council on the adequacy of internal financial controls, and that it is also sufficient to support the Statement on Internal Control which will be included within the statement of accounts.

Risk management

64 Further progress has been made over the last year in developing a methodology to record and assess risks. Training has been introduced for staff to help identify risks and the Risk Management policy has been revised, as recommended in 2003/04. We also note that the recent service plans for 2005/06 have included risk assessments.

65 However, the Council still has further work to fully embed risk management. At the time of our review we noted that a corporate risk register had been established and was subject to review and updating, although Members had not reviewed it in detail. We also found that the operational risk register was complete and available to staff but the project risk register had yet to be completed.

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

- 66 We are required to review the Council's arrangements to maintain proper standards of financial conduct and prevent and detect fraud and corruption. It is not our function to prevent or detect breaches of proper standards of financial conduct or fraud and corruption. We are, however, alert to such possibilities.
- 67 We have not identified any significant weaknesses in your arrangements to prevent and detect fraud and corruption. However, as in the previous year Internal Audit also carried out a review of fraud and its report highlighted that the risks of fraud are not widely considered at a department level and that awareness of internal fraud policies and arrangements was poor amongst staff.
- 68 Internal Audit also found that fraud policies were not up to date and had not been recently reviewed. Moreover, they also found that there was no individual with specific responsibility for the review or awareness of anti-fraud procedures across the organisation. Since the date of this review the financial regulations have been amended and the Head of Finance has been given overall responsibility for anti-fraud activities across the Council.

Legality of transactions

- 69 We have not identified any significant weaknesses in the framework established by the Council for ensuring the legality of its significant financial transactions.
- 70 The Audit Commission's Code of Audit Practice makes it clear that it is the responsibility of the audited body to act within the law and to put in place proper arrangements to ensure that its financial affairs are conducted in accordance with the law and relevant regulations. The role of external auditors is to ensure that audited bodies have put in place these arrangements to safeguard legality.
- 71 We reviewed the Council's overall arrangements to ensure the legality of transactions and were alert to potential issues in the course of the audit. We have reviewed Council reports and minutes to identify any decisions or transactions that are of unusual or questionable legality and have no concerns to report to Members regarding these arrangements.
- 72 We have also reviewed the Council's response to recent legislation (ie Race Relations Amendment Act (2000), Freedom of Information Act (2000), Civil Contingencies Act (2004) and the Proceeds of Crime Act (2002)). We reported that the Council's arrangements for responding to this legislation required strengthening, and that further work would be required to demonstrate evidence of compliance. Specifically, we noted that arrangements for meeting the general and specific duties under the Race Relations Amendment Act (2000) had not been sufficiently developed.

Use of resources judgements

- 73 The use of resources judgement is a new assessment that focuses on financial management but links to the strategic management of the Council. It considers how financial management is integrated with strategy and corporate management, supports priorities and delivers value for money. It will be carried out annually, as part of each council's external audit. We anticipate that in future the Use of Resources judgements will form an integral part of the CPA framework for district councils.
- 74 We have assessed the Council's arrangements in five areas, based on the arrangements that were in place and in operation at the time of the assessment. The results of the assessment are summarised in Table 1 below.

Table 1 Use of resources scores

| Element | Assessment |
|----------------------|-------------------|
| Financial reporting | 1 out of 4 |
| Financial management | 1 out of 4 |
| Financial standing | 1 out of 4 |
| Internal control | 2 out of 4 |
| Value for money | 1 out of 4 |
| Overall | 1 out of 4 |

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

- 75 Our overall assessment of the Council's arrangements to manage and use its financial resources is that they are not adequate. This is reflected in the overall score of 1 and in the individual scores of 1 for four of the five elements that comprise the use of resources judgement. The Council's arrangements are only judged to meet the minimum requirements (adequate performance) in relation to internal control, represented by level 2 in the table above.
- 76 In reaching these judgements, we have drawn on the outgoing external auditor's work and supplemented this with a review against the Audit Commission's specified Key Lines of Enquiry. This included interviews with senior officers and members and review of key documents, including the Council's self assessment.
- 77 The Council needs to take action in a number of areas in order to achieve a better outcome from this assessment in a future year. Highlighted below are the key areas that need to be improved in order for the Council to progress to next level within the use of resources judgement. Value for money is considered separately to aspects of financial management.

Table 2 Use of Resources judgement: improvements needed (aspects of financial management)

Summary of the main improvements needed to achieve an 'adequate' assessment in a future assessment on the same basis

| | |
|----------------------|---|
| Financial reporting | <p>To rectify the major shortcomings experienced in relation to the 2004/05 accounts, as described elsewhere in this Letter, the accounts for 2005/06 and subsequent years need to be:</p> <ul style="list-style-type: none"> • prepared for approval by members, and made available for audit, by the relevant statutory deadlines; • supported from the outset by adequate working papers; and • free from material errors and mis-statements. |
| Financial management | <p>The Council is in the process of developing its financial management processes. Improvements will need to include:</p> <ul style="list-style-type: none"> • ensuring there is a clear link between the medium-term financial strategy and strategic objectives; • preparing and using cashflow forecasts through the year; and • using prudential indicators to assess the affordability of capital projects. <p>Management of performance against budgets needs to be improved by:</p> <ul style="list-style-type: none"> • profiling revenue budgets through the year; • ensuring the proposed improvements to capital monitoring are achieved and including capital budgets in the budget book; and • addressing known control weaknesses in revenues and benefits. <p>Weaknesses in asset management can be overcome by:</p> <ul style="list-style-type: none"> • completing the formal review of assets currently underway, and then producing an asset register; and • ensuring the recently-introduced approval process for capital schemes becomes embedded. |
| Financial standing | <p>Although in recent years spending has broadly been kept within available resources, improvements to ensure financial standing can be managed effectively in the future include:</p> <ul style="list-style-type: none"> • ensuring that members approve a policy on the level and nature of reserves; and • providing financial monitoring reports, covering revenue and capital and for both reporting actual expenditure as well as budgets, for consideration by Cabinet on a timely basis. |

| | |
|------------------|---|
| Internal control | <p>In order to improve internal control it will be necessary to make a number of improvements such as:</p> <ul style="list-style-type: none"> • strengthening risk management arrangements, for example by developing a clearer linkage between strategic business objectives and corporate risks, assessing risks relating to partnerships, at least quarterly reporting of risk management to the staff and general purposes committee, and ensuring training for all its members; • adopting the standing orders and financial regulations that have been updated to match the current organisational structure; and • strengthening arrangements to ensure probity and propriety, by assessing compliance with the code of conduct, reviewing compliance with the requirement to disclose gifts and hospitality, and developing a strong anti-fraud and corruption culture supported by members and officers to include proactive counter-fraud and corruption work and evidencing support for the Council's whistle-blowing policy. |
|------------------|---|

Value for money

- 78 The Council does not have a system in place in which performance and costs can readily be brought together. This makes it difficult for the Council to demonstrate that it is meeting the needs of the local community with the most effective use of its resources.
- 79 Cost comparison is undertaken only at the level of specific services, and is not considered strategically so that the Council as a whole might use this as a way of identifying best practice and learning from others. There is no robust system in place in which members are informed about cost comparisons. Managers do not have the necessary information to provide a robust challenge of internal recharges.
- 80 There is a lack of accessible information for the Council to be clear about important financial issues in revenues and benefits, both very significant in their impact on the Council's financial position. Work on related issues has distracted the Council from being able to support some aspects of VFM, such as monitoring its progress on meeting efficiency targets.
- 81 The Council is starting to work with others to improve its capacity, although it is premature to be able demonstrate the clear benefits of these initiatives. Members challenge overspends but there is no system in place to provide them with an ongoing assessment of the relative cost of services compared with other councils.

- 82 The Council is starting to put systems and processes in place that will help overcome these weaknesses, with a new Medium Term Financial Strategy in place to inform spending plans for 2006/07 onwards. Structured project management is starting to be put in place and the new procurement strategy will help provide a basis for the Council, providing it is supported with the right commitment and action, to maximise other potential efficiencies.
- 83 The Council's ability to achieve, manage and improve value for money would be improved if it were to:
- develop and embed a framework that brings together cost, performance and priorities, to ensure that value for money is an integral part of management of performance;
 - implement a structured approach to using cost comparison as a means of identifying potential efficiency gains;
 - develop information to help inform the Council of potential areas for improved efficiency, such as trend information and comparison with other councils;
 - further enhance the approach to recording and reporting information on costs, to include mechanisms for managers to challenge internal costs and for members to challenge cost information;
 - use its intelligence information to help ensure that service delivery in priority areas matches public expectations;
 - more thoroughly investigate alternative means of service provision so that the greatest possible community benefit might be achieved from its resources;
 - ensure that the scrutiny process fully supports a drive to improve VFM;
 - consider how members can ensure that VFM is reviewed across the organisation;
 - implement robust monitoring systems to help ensure it stays on track to meet efficiency targets; and
 - ensure that a full cost benefit analysis is undertaken when considering service delivery options.

The way forward

- 84 It is acknowledged that the Council is taking action that should, when implemented and in operation, address some of areas that have been identified for improvement. Continued focus from both councillors and from officers on the key issues arising from the assessment will be needed in order to ensure that improvements are achieved and sustained.

Other work

Grant claims

- 85 In accordance with Strategic Regulation, the Audit Commission has continued with a more risk-based approach to the certification of grant claims. This has reduced the volume of audit work of these claims and the consequent audit fees.
- 86 During 2004/05 we certified three claims on behalf of the Council. Most notably these included the Benefits Subsidy and National Non-Domestic Rates (NNDR3) returns, both of which represent significant income streams for the Council.
- 87 Our audit certificate for the NNDR3 claim was qualified on five separate issues, and we reported to the Office of the Deputy Prime-Minister that the claim might contain errors in excess of £0.7 million in value. The Housing Benefits claim was qualified on the basis of errors affecting seven separate components of the amount claimed. This was reported to the Department for Work and Pensions, and it is likely that they will require further audit work to be undertaken on the claim to determine the full extent of the errors we found, and may also withhold payments to the Council.

National Fraud Initiative

- 88 The Audit Commission's National Fraud Initiative (NFI) aims to identify public sector fraud through data matching. The most recent national exercise found over £83 million of fraud and overpayments nationally, an increase of 66 per cent on the previous reporting period. Local authorities are required to submit data sets of payroll and benefits data on a biennial cycle, and then given a number of potential data matches to investigate.
- 89 Whilst the Council was able to provide the benefits data for the most recent data matching exercise, it did not provide the requested payroll data by the required date. Although the Council has since provided payroll data to the NFI, it was not in the required format, and therefore could not be used by to produce payroll data matches. This is a further area in which the Council will need to address as a matter of urgency, as its non-compliance leaves it exposed to potential losses from fraud.

Looking forwards

Future audit and inspection work

- 90 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 and the forthcoming housing inspection will be reported in next year's Annual Letter.
- 91 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 by 31 March 2006.

Revision to the Code of Audit Practice

- 92 The statutory requirements governing our audit work, are contained in:
- the Audit Commission Act 1998; and
 - the Code of Audit Practice (the Code).
- 93 The Code has been revised with effect from 1 April 2005. Further details are included in our Audit Plan which has been agreed with the Staff and General Purposes Committee in March 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

- 94 The Audit Commission is currently considering the results of the consultation on the proposals for revising the CPA framework for District Councils. The revised framework will be published in the early part of 2006 with implementation from April 2006.

Closing remarks

- 95 This letter was discussed and with Corporate Directors and the Leader of the Council on 20 February 2006. A copy of the letter was also presented at the Staff and General Purposes Committee on 7 March 2006.
- 96 The Council has taken a positive and constructive approach to our audit and inspection we would like to take this opportunity therefore to express our appreciation for the Council's assistance and co-operation.

Availability of this letter

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

Martin Robinson
District Auditor

Neil Childs
Audit Commission Relationship Manager

Henry Arthurs
Baker Tilly Audit Partner

14 March 2006

Appendix 1 – Background to this letter

The purpose of this letter

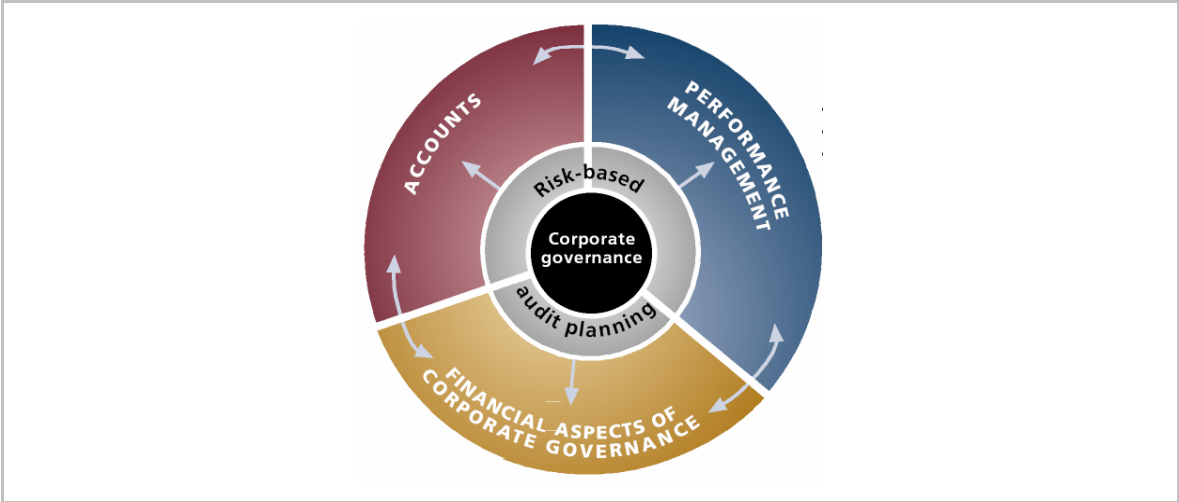
- 1 This is our audit and inspection 'Annual Letter' for members which incorporates the Annual Audit Letter for 2004/05, which is presented by the Council's Relationship Manager and Appointed Auditor. The letter summarises the conclusions and significant issues arising from our recent audit and inspections 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 Figure1.

Figure 2 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 3

| Report title | Date issued |
|---|--------------------|
| Audit and Inspection Plan – 2005/06 | March 2005 |
| Financial Systems and Financial Aspects of Corporate Governance | July 2005 |
| Customer Access Inspection Report | June 2005 |
| Audit and Inspection Letter | February 2006 |

Appendix 3 – Audit and inspection fee

Table 4 Audit fee update

| Audit area | Planned 2004/05 (£) | Actual 2004/05 (£) |
|---|----------------------------|---------------------------|
| Accounts | 42,328 | 51,553 ¹ |
| Financial aspects of corporate governance | 23,280 | 23,280 |
| Performance | 21,942 | 21,942 |
| Total Code of Audit Practice fee | 87,550 | 96,775 |

Inspection fee update

The full year inspection fee is £10,678. The actual fee will be in line with that planned.

¹ This amount represents the value of fees billed to date. As the audit has yet to be completed the Authority will incur further fees.