

audit 2000/2001

Annual Audit Letter Gosport Borough Council

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DISTRICT AUDIT



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The purpose of this Letter

This Annual Audit Letter summarises for Members the more important matters arising from our audit for 2000/01 and comments on other current issues. We have produced separate reports during the year on completion of specific aspects of our work which have been discussed in detail with officers. The reports are listed at the end of this Letter for Members' information.

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.

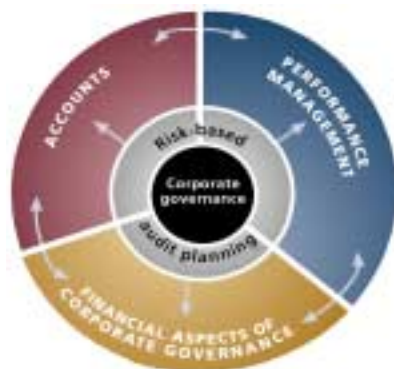
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Audit objectives

Audit work is based on the significant financial and operational risks that the Council faces and is structured around three main elements:

EXHIBIT 1

The three main elements of audit objectives



Accounts

We have to give an opinion on whether your accounts present fairly the Council's financial position.

Financial aspects of corporate governance

Assessing the adequacy of your controls to ensure:

- the legality of financial transactions
- your financial standing is soundly based
- your systems of internal financial control are adequate and effective
- proper standards of financial conduct, and to prevent and detect fraud and corruption.

Performance management

Assessing your:

- procedures to secure economy, efficiency and effectiveness from the use of your resources
- Best Value Performance Plan
- performance information.

Our audit has addressed the requirements of the Code of Audit Practice and we have worked with the Council to maximise the benefits of the integrated audit approach. We have reviewed your arrangements for dealing with risks and we have undertaken more detailed work in selected areas of higher audit risk.

We have also liaised with the Best Value Inspectorate to minimise duplication across our roles and responsibilities.

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Background to the audit

In another demanding year, the Council has made progress on major issues that include:

- developing a new constitution and a new political structure in time for full implementation in May 2002
- finalising the Millennium project and the opening of the Millennium Bridge
- opening the Priddy's Hard 'Explosion' museum

- preparing for the termination of the highways agency agreement and considering its impact on the development and environment unit
- responding to the 'Electronic Government' initiative and submitting an implementation statement to the DTLR during the year
- implementing the Best Value Review framework and preparing for year two reviews.

This progress has been within a wider context of continued financial pressures resulting in much of this work being accommodated within existing staffing resources and budgets.

KEY MESSAGES

The key messages emerging from this year's audit are set out below:

Performance management

The Council's approach to performance management, in the context of a small council, continues to develop well.

The key challenge for the Council now is to develop and cascade performance indicators, targets and service objectives to all levels of the organisation through the performance framework to support the delivery of your corporate objectives and community plan as they develop.

Best Value service reviews

Year one service reviews tended to focus on processes and the Best Value 'methodology' rather than corporate objectives and improving services for external users.

Members should take the opportunity provided by the new overview and scrutiny roles to:

- become more involved in challenging alternative options for service delivery
- ensure that year two action plans have a greater focus on actions to improve the delivery of external services and corporate objectives

- ensure targets are developed to enable you to measure your progress in delivering improved services.

Financial position

The Council's financial position deteriorated in 2000/01 with the General Fund balance reducing to a level below that previously considered prudent.

With a projected revenue overspend for 2001/02 and reductions in other reserves which could be used to support your revenue position this is becoming a matter of serious concern. The Borough Treasurer has advised you that the forecast level of working balances and the level of recurring expenditure with current tax and income levels is unsustainable. We concur with this view.

In this current budget cycle the Council needs to define the specific actions to be taken to prevent a further reduction in working balances in the short-term, to balance service expenditure and available resources and to restore balances to a more prudent level over the medium-term.

Corporate governance

The Council's arrangements for corporate governance can be strengthened.

In particular, Members will need to ensure there are robust processes in place to update standing orders, financial regulations and the Council's scheme of delegation in time for inclusion in the Council's new constitution in May 2002.

Members should also ensure that the actions already taken by the Borough Treasurer to address weaknesses in the Council's 2000/01 Internal Audit are effective.

As part of your ongoing responsibilities to ensure corporate governance arrangements are in place, Members should:

- approve the Internal Audit plan
- monitor progress against that plan
- receive Internal Audit reports.

In addition the Borough Treasurer should provide annual assurance to you that your systems of internal control are adequate and effective.

Accounts

We issued an unqualified opinion on your accounts on 16 November 2001.

The Policy and Resources committee approved your financial statements on 20 June 2001 and we issued an unqualified opinion on these statements on 16 November.

Whilst we were able to issue an unqualified opinion, we noted that the Council did not comply with the 2001 Accounting Code of Practice in the following areas:

- no assessment of impairment of asset values was undertaken at year-end
- in common with last year, assets totalling £6m had not been revalued within the last 5 years
- some assets had not been depreciated in accordance with the requirements of FRS 15.

We have discussed these issues with officers and are satisfied that procedures have been reviewed to comply with these requirements in future years. Members should monitor the Council's progress in implementing these changes.

Recommendation

R1 Members should monitor the action taken by officers to implement accounting requirements in respect of fixed assets.

New main accounting system

The Council introduced a new main accounting system in February 2001. As part of this year's audit we have reviewed and assessed the design and operation of fundamental controls within this new system.

Our overall conclusion is that controls within this system are satisfactory and its introduction should make financial reporting and monitoring processes more efficient. To consolidate these improvements we have recommended to officers that additional modules covering purchase and sales ledgers and the cashbook should be

considered for implementation as soon as resources allow.

As part of our review we also made a number of recommendations aimed at strengthening internal controls in this new system which officers are currently considering. There are no issues that we wish to raise with Members.

Financial aspects of corporate governance

Legality of financial transactions

We are satisfied with the Council's arrangements for ensuring the legality of transactions with financial consequences.

We reviewed the Council's overall arrangements and there are no issues we wish to report to Members. Members of the public have raised no issues during the audit.

Financial standing

The Council's financial position deteriorated in 2000/01 and your financial position is now a matter of serious concern.

In this current budget cycle the Council needs to define the specific actions to be taken to prevent a further reduction in working balances in the short-term, balance service expenditure and available resources and restore balances to more prudent levels over the medium-term.

General fund spending and balances

The Council's financial position deteriorated in 2000/01, the General Fund balance reducing to a level below that previously considered prudent.

The Borough Treasurer advised Members of this position on 21 June. The main contributory factors were reductions in Housing and Council Tax benefit grants and additional interest caused by cash flow financing. There are no indications that poor budgetary control was a major factor in this overspend.

Financial pressures facing the Council have continued into 2001/02. Current budgetary reports indicate that working balances will reduce further by year-end. An estimated net overspend of £240,000 was reported in September 2001 and, whilst some of this may be offset by the release of a provision in year, the Borough Treasurer estimates working balances could fall to below £500,000 by 31 March.

In light of the continued reduction in other reserves which could be used to support your revenue position, as outlined in the budget monitor report dated 19 September, we support the Borough Treasurer's conclusion that the level of working balances is unsustainable.

Action is now required in this current budget cycle. The Council needs to define the specific actions to be taken to:

- prevent a further reduction in working balances in the short-term
- balance service expenditure and available resources
- restore balances to more prudent levels over the medium-term.

Recommendation

R2 Members should ensure action is taken in this current budget cycle to prevent further deterioration in working balances in the short-term, balance service expenditure and available resources and restore balances to more prudent levels over the medium-term.

Recovery of arrears

Following the partial suspension of arrears recovery arrangements during 2000/01, we recommended in last year's Management Letter that you closely monitor arrears levels and recovery performance.

This year we revisited your arrangements to recover arrears of local taxation. Following this work our conclusion is that, whilst the level of arrears is still historically high, officers have taken appropriate action in response to this issue.

We also note that, since year-end, there has been a 35% fall in local taxation arrears to

£1.6m, and collection levels for 2001/02 are currently above target.

Given this, there are no further issues that we wish to raise with Members.

Systems of internal financial control

The Council's arrangements for corporate governance require strengthening. Key messages from our work this year include the need for the Council to ensure:

- *robust processes and plans are in place to prepare updated standing orders, financial regulations and scheme of delegation*
- *Internal Audit complies fully with relevant standards in future audit years.*

Members have a key role to play in developing and monitoring the Council's response to these issues.

Our work this year assessed whether the Council's arrangements to satisfy itself that its systems of internal financial control are adequate and effective.

Our conclusion is that whilst many of the expected controls are in place within Gosport, key aspects of your corporate governance arrangements need further development. In particular you need to ensure:

- your key financial documents are updated in time for inclusion in your new Constitution
- the work and coverage of Internal Audit is satisfactory.

Key financial documents

The Council also has been aware of the need to update its standing orders, financial regulations and scheme of delegation for some time to properly reflect recent changes in legislation and the Council's structure. The Council has planned this work to coincide with the development of the new political structures and new constitution from October 2001.

This approach is a sensible one and will allow these documents to be revised on a 'live' basis, a similar approach has been adopted by many other local councils during their trial periods.

However, following the late introduction of the 'small shire council' exemption, and the need to

develop Gosport's response to this, the Council's trial period is starting relatively late. This means that the Council needs to ensure that robust processes are in place to prepare these documents in time for inclusion in the Council's new constitution in May 2002.

Members should monitor the progress in developing these documents and ensure that the Council has robust procedures in place to develop these as part of a wider constitution in time for next summer's deadline.

Recommendation

R3 Members should ensure that the Council has robust procedures in place to develop, and monitor progress in developing, key financial documents within the wider constitution in time for next summer's deadline.

Internal Audit

Internal Audit is a fundamental part of the Council's corporate governance arrangements and, as such, is subject to a detailed review as part of our annual audit.

Our overall conclusion is that for the 2000/01 audit year, Internal Audit did not fully comply with the new CIPFA standards. We have reported the reasons for this assessment to officers, our main concerns relate to the:

- under-delivery against the agreed Internal Audit plan, especially in respect of coverage of fundamental financial systems
- level of resources available to Internal Audit
- failure to consistently apply appropriate standards in respect of planning, audit evidence and review.

We have discussed these issues with officers and note that the Council has already taken action to increase the level of resources available to Internal Audit.

As part of their responsibilities to monitor the work of Internal Audit and agree the annual Internal Audit plan, Members should ensure that continued action is taken by officers to address these weaknesses.

Recommendations

R4 Members should:

- approve the Internal Audit plan
- monitor progress against that plan
- receive and evaluate Internal Audit reports.

R5 The Borough Treasurer should provide annual assurance to Members that your systems of internal control are adequate and effective.

Fraud and corruption

Your overall arrangements for preventing and detecting fraud and corruption are satisfactory, with the majority of expected controls in place.

We have reviewed your overall arrangements to prevent and detect fraud and corruption and there are no significant issues we wish to raise with Members.

This year we undertook detailed reviews of the controls in place to prevent and detect fraud and corruption in respect of:

- letting of contracts
- making payroll payments
- dealing with credit income
- paying Housing Benefits.

Our work showed that the majority of expected controls were in place in these systems. We have made a small number of recommendations to strengthen controls in specific areas that have been agreed by officers. There are no issues that we wish to raise with Members.

The Council participated in the Audit Commission National Fraud Initiative and no significant frauds were identified from the data matching exercise.

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Performance management

Use of resources

The Council has made progress in developing an effective performance management framework and continues to show officer-led commitment to Best Value and continuous service improvement.

Best Value

We issued an unqualified opinion on your Best Value Performance Plan on 25 June. The Council continues to demonstrate officer-led commitment to Best Value and continuous service improvement, and processes are already being strengthened in light of the experience from the year one review programme.

We issued an unqualified opinion on your Best Value Performance Plan on 25 June 2001. We also made a number of statutory recommendations and you approved your response to these within the statutory period.

Our comments here update the main messages reported to you previously in our report on your Best Value Performance Plan.

Culture

There continues to be significant officer-led commitment to internal change in support of continuous service improvement throughout the Council. The modernisation agenda now provides an opportunity for Members to become more involved in moving this process through their role in respect of overview and scrutiny.

Performance management

The Council's approach to performance management, in the context of a small council, continues to develop. The management team has begun to introduce a 'top-down' approach to performance management with the identification of key performance indicators to measure service delivery.

The key challenge for the Council is now to develop and cascade performance indicators, targets and service objectives to all levels of the organisation through the performance framework, to support the delivery of the Community Plan as it develops.

Best Value service reviews

The year-one review programme was completed in accordance with the planned timetable. We reported to you in June that this was clearly a learning process for many involved and initial reviews often did not effectively challenge service options or lead to outcomes that are

likely to lead to significant service improvements.

The Council has responded to this by appointing an independent manager to each review team, the Council intends that this will strengthen the 'challenge' stage of each review. Officers also expect that the independent manager will help ensure future action plans are driven by SMART outcome based indicators and challenging targets which link to the delivery of corporate goals.

Members will need to monitor the success of these developments to ensure a sound platform is developed from which the Council can achieve continuous service improvement and to realise the potential of its Best Value processes across all service areas.

Recommendations

- R6 Members should take the opportunity provided by their overview and scrutiny role to become more involved in Best Value and in challenging service options and service review outcomes.
- R7 Ensure progress to develop and cascade performance indicators, targets and service objectives is made to support the delivery of the Community Plan.

Asset management

Our study found ways to reinforce your asset management practices. In particular improvements can be made to strengthen the management information available, clarify the lines of responsibility and authority for property management and ensure adequate financial provision is made for property maintenance.

Local Authorities have a responsibility to ensure proper stewardship of the physical, human and financial resources under their control. The non-housing land and buildings owned by Gosport Borough Council are worth around £26m, a significant investment of public money and the Council's second largest resource after employees.

Better asset management is also high on the national agenda. DETR is modernising the capital finance framework by introducing:

- a cross-service allocation for the bulk of central government capital support to councils – a single capital pot
- requirements to produce a Capital Strategy and Asset Management Plan
- allocating resources partly on a needs-based formula and partly through a competitive assessment of the council’s corporate and service strategies.

The Council delivers the majority of its services to the public from its holdings of land and property. They are a visible representation of the Council. It is therefore vital that these assets are fit for purpose, sustainable and capable of supporting the Council’s objectives.

Under Best Value, Members and officers need to consider how well the location, design and quality of council buildings contribute to, or impede, effective service delivery.

We reported our initial findings to you last year and following this, we have now completed our review of your arrangements.

Our overall conclusion is that your asset management practices need strengthening. In particular improvements can be made to strengthen the management information available, clarify the lines of responsibility and authority for property management and ensure adequate financial provision is made for property maintenance.

We have reported our detailed findings to officers and action has already been taken to address our main concerns. Our main recommendations, together with the Council’s response to date are shown in Table 1.

Recommendation

R8 Members should consider the actions arising for them from our review of the Council’s asset management procedures.

TABLE 1 KEY FINDINGS: ASSET MANAGEMENT

Key issue	Key message	Comment/Recommendation
Strategic approach	The Council has a well-defined capital strategy and capital programme to support this. However, managerial structures and responsibilities for asset management are unclear and hamper the delivery of effective asset management.	The December personnel board will consider a report recommending the establishment of a corporate property officer post to assume responsibility for asset management and planning issues.
Maintenance	Much of the Council’s property appears to be deteriorating. Evidence indicates that at current funding levels, the Council’s portfolio is not sustainable in the long-term and may deteriorate further.	Members should ensure the Council’s financial strategy includes provision to address this maintenance backlog.
Property information	The Council’s ability to make the best property decisions and maximise efficiencies in running costs is hampered by underdeveloped property management systems and information.	A key task for the corporate property officer should be to develop a single asset database that can be shared by all interested parties. The completion of property ownership records should also be a priority.
Non-operational property	There is evidence that when surplus property has been identified there is a robust approach to disposal or re-use in line with Council policies.	The Council should set and monitor objectives for its non-operational estate and strengthen the rationale for holding property for strategic purposes. The Council should set investment return targets for the various types of non-operational property.

Probity in Planning

The Council has responded positively to the Government's increased focus on probity and your arrangements comply with good practice in many respects. We made a number of recommendations, many of which have already been addressed by the Council.

The conduct of planning decisions by councils plays an important role in reassuring both the public and central government of the high ethical standards adopted by Councils. Decisions often have a significant impact on the public, not only in terms of land values but also the physical environment and economic prosperity of an area.

It is therefore important that decision-making processes and relationships with third parties are carefully managed to ensure probity.

Our review assessed whether your:

- management arrangements for determining planning applications and land use allocations provide a robust and transparent decision-making process
- procedures guard against allegations of third parties having improper influence on the planning process
- systems for managing planning obligations ensure value for money for the community.

We concluded that the Council has responded positively to the Government's increased focus on probity and your arrangements comply with good practice in many respects.

Our findings have been discussed with officers and a final report and action plan agreed. Key changes arising from this report include:

- the Council has revised and strengthened the Members' Code of Practice for planning matters in line with the good practice examples supplied and in respect of guidance for dealing with third parties
- all reports to committee are now in a written format
- minutes now reflect any debate by Members on contentious or disputed applications.

In addition, as part of the new political arrangements the Council has:

- considered the need for training and updates are provided to all Members involved in the planning process
- increased the size of the planning committee to 10, which will help ensure the committee is not open to allegations of undue influence.

In light of the changes the Council has made, or has planned, there are no further issues we wish to raise with Members.

Community safety

Continued improvements in community safety arrangements across Hampshire are apparent.

As last year, we have reviewed progress on Community Safety issues across Hampshire.

Within Gosport, burglary and vehicle crime have fallen in recent years, although violent crime has increased. Good progress has been made with the review of the last strategy, and with 'Section 17' training to involve mainstream services in community safety issues.

From our wider work with all partners we note that further improvements could be made through:

- summarising crime and disorder performance routinely for Members' attention
- reviewing the level of resources allocated to improving community safety
- ensuring that the delivery arrangements for the next strategy make full use of published evidence on 'what works' in crime reduction.

We will continue to monitor the progress of community safety issues on a Hampshire-wide basis and we will report any further issues to Members as appropriate.

Overview and scrutiny

As part of our audit plan this year, we have agreed with officers that we will undertake a short review of the development of overview and scrutiny within the Council.

In advance of this work, the key messages emerging elsewhere include the:

- importance of a pro-active role by committees or boards in recommending

policy initiatives as well as scrutinising decisions

- need to prioritise work programmes and define tasks to ensure that the committee workload is manageable
- importance of managing the resource and support demands of committees
- need to ensure Members are equipped with the interview skills required to operate effective scrutiny interviews.

We intend to report any key messages from this work to officers and Members as appropriate during February 2002.

Performance information

Systems for compiling and recording your annual performance indicators remain sound and they were published in accordance with statutory requirements.

We have completed the audit of your Best Value and Audit Commission Performance Indicators (BVPI and ACPI).

As in previous years, the systems for collecting, recording and publishing the indicators were sound. There are no issues that we wish to raise with Members.

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Future audit work

We are currently considering the significant operational and financial risks that face the Council that will need to be addressed in next year's audit.

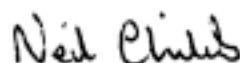
We will discuss our risk assessment with your officers before producing an Audit Plan.

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Closing remarks

A summary of the issues raised in this Letter, and the audit work undertaken during 2000/2001, was presented to Members on 29 November.

Finally, I would like to take this opportunity to express my appreciation for the assistance received from officers and Members during the course of this audit.



Neil Childs
District Auditor

4 December 2001

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Reports issued during the audit

- Accounts Audit (November 2001)
- Corporate Governance (October 2001)
- Best Value Performance Plan (June 2001)
- New Main Accounting System (November 2001)
- Probity in Planning (February 2001)
- Asset Management (February 2001).