

Annual Audit Letter

Gosport Borough Council

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- Auditor's report to Gosport Borough Council on its BVPP for the year ending 31 March 2003

Reference:	MCGO002AAL02W
Authors:	Martin Robinson, District Auditor Mark Catlow, Audit Manager
Date:	December 2002



KEY MESSAGES

The agenda facing District Councils remains a challenging one. This reflects the continuing impact of national initiatives alongside local priorities and pressures, such as:

- future funding arrangements for the 'Explosion' museum and development of the Priddy's Hard area
- departmental restructuring
- the partnership with Fareham Borough Council to provide joint building control services
- considering ways to fund housing improvements over the next ten years
- developing the LSP and community strategy
- developing and commencing thematic cross-cutting reviews of the Council's services
- preparing for Comprehensive Performance Assessment (CPA).

The Council faces these challenges in the context of continuing budgetary pressures and of severe constraints on staffing resources.

Key messages from this year's audit are set out below.

Financial position

Levels of reserves, both General Fund and Housing Revenue Account (HRA), have continued to fall and this issue remains a matter of serious concern both to District Audit and to the Council.

We remind Members that action is required to:

- prevent a further reduction in working balances in the short-term
- balance service expenditure and available resources
- restore General Fund Reserves to more prudent levels over the medium-term
- develop a medium-term financial strategy stating what are, and are not, the Council's funding priorities and target levels for reserves.

Members should also continue to ensure overall budget proposals are balanced, in particular by:

- seeking advice from statutory officers for any proposed changes to the recommended budget
- satisfying themselves that savings or income proposals are deliverable.

Members also now need to ensure a way forward is developed to address the projected funding gap of £21.5 million by 2010 identified in the Housing Business Plan.

Performance management

The Council is largely unable to assess and monitor the achievement of corporate objectives and the performance of services due to the currently limited use of tailored performance information.

To achieve these ends more fully, Members need to ensure that:

- quantified corporate and strategic targets and indicators, in support of the Council's overall objectives, are set
- performance against selected key indicators is regularly monitored at an appropriate level in the organisation
- budgetary processes are linked to, and support, service and community plans
- internal review processes highlight poorly performing services and challenge them to improve.

Best Value

Following the adoption of a thematic Best Value review programme, the Council needs to ensure its underlying review processes are strengthened. In particular, it needs to:

- enhance the 'challenge' and 'compete' dimensions of reviews
- ensure action plans drive delivery of corporate objectives, and are maintained.

Whilst our opinion on your Best Value Performance Plan (BVPP) was unqualified, we encountered some problems with the reliability of the data supporting Best Value Performance Indicators (BVPIs). We have therefore made a statutory recommendation to improve these aspects of your processes.

We have also made two other statutory recommendations covering aspects of performance management. The Council now needs formally to respond to the accompanying statutory recommendations (Appendix 1) within 30 working days.

E-government implementation

The Council's first Implementing Electronic (IEG) Statement, approved by the DTLR, details how you intend to meet the 2005 national targets.

It is important that e-government is not seen as an 'IT programme', but as a process of fundamental change and improvement to the way the Council delivers all of its services.

At the time of our review we concluded that the profile and importance of e-government needed to be raised within the Council and the whole process needed to be driven by a view of the desired outcomes and expected costs.

CPA

A key issue, already fully recognised by the Council, over the coming year will be the CPA, for which a methodology is in the final stages of development. We will continue to liaise with the Council as the timetable and requirements become clearer.

INTRODUCTION

The purpose of this Letter

This Annual Audit Letter summarises for Members the more important matters arising from our audit for 2001/02 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.

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



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 prevention and detection of fraud and corruption.

Performance management

Assessing your:

- procedures to secure economy, efficiency and effectiveness in the use of resources
- BVPP
- accuracy of performance information.

Accounts

- Our opinion as to whether your accounts present fairly the Council's financial position.

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.

As the Annual Audit Letter is an important means by which the public might learn about the Council's stewardship of public funds the Council must:

- publish the Annual Audit Letter as soon as practically possible following its receipt
- keep copies of the Letter available for purchase by any person on payment of a reasonable sum.

OVERVIEW OF THE AUDIT

The outcomes of our work are reported below, using the three Code areas defined above of:

- financial aspects of corporate governance
- performance management
- accounts.

Financial aspects of corporate governance

Financial standing

Despite our comments in last year's Annual Audit Letter the Council's reserves, both General Fund and HRA, have continued to decline and this issue remains a matter of serious concern.

The 2002/03 budget approval process created additional financial pressures for the Council and we repeat our recommendation to Members that action is required in this current budget cycle to:

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

- *develop a medium-term financial strategy stating what are, and are not, the Council's funding priorities and target levels for reserves.*

Members should also continue to ensure overall budget proposals are balanced, in particular by:

- *seeking advice from statutory officers for any proposed changes to the recommended budget*
- *satisfying themselves that savings or income proposals are deliverable.*

As it is likely to involve a significant lead time, Members now also need to ensure a way forward is developed to address the projected funding gap of £21.5 million identified in the Housing Business Plan.

Budget setting processes

Our conclusion is that the financial planning framework operated by the Council is satisfactory.

We also acknowledge the action currently being taken by the Council to increase consultation and improve transparency within budget setting processes, including:

- seeking the views of the electorate in considering budget scenarios
- consulting with stakeholders over specific service proposals and potential funding priorities and costs
- more involvement by Members in considering budgetary options in advance of the annual budget setting meeting.

These actions should aid the Council to implement a stronger budgetary approval process and to avoid late amendments to budgets in future years.

As part of their responsibilities for corporate governance, Members should also ensure overall budget proposals are balanced; in particular, advice should be sought from statutory officers for any proposed changes to the recommended budget.

Members should also satisfy themselves that any savings or income proposals are deliverable and that a plan of action can be developed early during the financial year setting out specific actions to deliver any unidentified savings.

Medium-Term Financial Strategy

To support the wider improvements to the annual budgetary process, and to provide a framework for longer-term financial planning, the Council needs to develop a medium-term financial strategy.

Current consultation and the community strategy should both inform, and require the preparation of, a strategy that:

- demonstrates how plans and priorities are linked to resources (both capital and revenue) over the medium-term
- states the Council's priorities and how these will be funded
- recognises that there may be low priority areas for funding and potential for resource reallocation
- approves a policy on the overall level of reserves to be held
- describes the proposed steps to restore the balances on reserves over the medium-term.

The Borough Treasurer is currently considering these issues and Members should ensure they contribute to the formulation of this document.

2001/02 revenue outturn

The Authority's net expenditure in 2001/02 was £10.16 million, an outturn which entailed an additional transfer from reserves of £500k. Key contributing factors to this overspend related to:

- 'Explosion' museum deficit (£200k)
- housing benefit subsidy (£142k).

We have discussed the reasons for this variance with officers and are satisfied that the overall position was managed by officers during the year and that action has been taken to avoid similar large variances in this year's budget.

Revenue balances

The balance on the general reserve currently stands at £500k, or 4.1 per cent of net General Fund revenue expenditure. The Council's latest revenue monitoring statement (September 2002) indicates a potential overspend of up to £80k in 2002/03. Officers feel, however, that this projection represents a 'worst case' scenario and that the actual outturn is likely to improve significantly as the year progresses.

As the Council's financial position has deteriorated further in the last 12 months, we repeat our recommendation to Members that action is required in this current budget cycle to:

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

Housing Revenue Account (HRA)

The HRA balance stood at £590k at 31 March 2002, a reduction of £550k over the year. Current projections for 2002/03 indicate the balance could fall to around £400k by year-end.

This would be equivalent to about £105 per property, well below the national average of £300 per property.

We therefore support the Borough Treasurer's view that £400k represents the minimum prudent level of reserves that the Council should maintain over the short-term. The overall level of reserves that should be held within the HRA over the medium-term should also be considered and approved as part of formulating the medium-term financial strategy.

Over the longer-term, the housing strategy document reveals a significant funding gap (£21.5 million) between projected levels of capital resources and those that are required to meet the decent homes standard by 2010.

As there is likely to be a significant lead time between the selection of a way forward and its realisation, Members need to ensure this issue is addressed over the next year and a way forward found that addresses the identified funding gap.

Systems of internal financial control

Officers have already recognised that some improvements can be made to the Council's systems of internal financial control. Members should ensure the actions currently being taken are effective.

Our work this year assessed whether the Council's arrangements to satisfy itself that its

systems for internal financial control are adequate and effective.

Our conclusion is that, whilst many of the expected controls are in place within Gosport, officers have already recognised a number of areas that will require attention over the next year.

In particular there is a need to:

- revisit the Council's new constitution to ensure it is complete and up-to-date
- document and evaluate changes in internal controls and procedures following the implementation of each new financial system.

Following the completion of our audit, we note the Council has already taken action to refocus the work of Internal Audit to ensure sufficient coverage of the main financial systems and increase Member involvement via the operation of an Audit Committee.

Risk management

Further work is needed to develop a culture of, and methodology for, risk management within the Council.

Members have a key role to play in defining risk, providing corporate commitment and ensure the task and outcomes are properly planned and resourced.

As part of our overall assessment of your arrangements for corporate governance we reviewed the development of risk management arrangements within the Council.

Officers have already recognised that further work is still needed to develop a culture of, and methodology for, risk management.

To begin this work, the Borough Treasurer has asked Internal Audit to undertake a series of service-level workshops to identify the risks facing the Council. This is now being augmented by a wider consideration of strategic risks the Council faces.

Whilst we support this initiative, to make progress on this agenda there are a number of important steps for the Council to take, including:

- the development of a structured implementation strategy (project plan) for implementing risk management

- ensuring the concept of risk is fully understood within the organisation.

Members will have a key role in this process to:

- determine what the Council means by 'risk' and what levels of risk are unacceptable
- provide a clear and ongoing corporate commitment to the development of a risk framework
- ensure this agenda is appropriately resourced.

Alongside this, the Council also needs to undertake an audit of its existing decision-making structures to identify if there are current practices which could be enhanced or built upon rather than duplicated or replaced.

Without the above, there is a danger that the Council's current approach will lead to a 'compliance' based approach to risk management which is viewed as a 'bolt-on' to existing processes rather than building in the concepts of managing risk within everyday decisions.

Fraud and corruption

Your overall arrangements for preventing and detecting fraud and corruption are satisfactory.

We have reviewed your overall arrangements to prevent and detect fraud and corruption and of the controls in place to prevent and detect fraud and corruption in respect of gifts and hospitality.

Our work showed that the majority of expected controls were in place in these systems. Whilst we have made some recommendations to strengthen controls in specific areas there are no issues that we wish to raise with Members.

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 for ensuring the legality of transactions with a financial consequence.

Following the departure of the previous Borough Solicitor, a temporary monitoring officer was appointed by the Council. We understand that a

process to appoint a permanent replacement to this post is now well underway.

There are no specific legal issues we wish to bring to Members' attention.

Performance management

The Council is largely unable to assess and monitor the achievement of corporate objectives and the performance of services due to the currently limited use of tailored performance information.

To achieve these ends more fully, Members need to ensure that:

- *quantified corporate and strategic targets and indicators, in support of the Council's overall objectives, are set*
- *performance against selected key indicators is regularly monitored at an appropriate level in the organisation*
- *budgetary processes are linked to, and support, service and community plans*
- *internal review processes highlight poorly performing services and challenge them to improve.*

Best Value and Performance Indicators

Following the adoption of a thematic Best Value review programme, the Council needs to ensure its underlying review processes are strengthened. In particular, it needs to:

- *enhance the 'challenge' and 'compete' dimensions of reviews*
- *ensure action plans drive delivery of corporate objectives, and are maintained.*

Whilst our opinion on your BVPP was unqualified, we encountered some problems with the reliability of the data supporting BVPIs. We have therefore made a statutory recommendation to improve these aspects of your processes.

We have also made two other statutory recommendations covering aspects of performance management. The Council now needs formally to respond to the accompanying statutory recommendations within 30 working days.

This year our audit of Best Value involved three discrete but interlinked elements:

- compliance of the BVPP with statutory requirements
- assessing systems to produce and publish performance information
- considering the extent to which Best Value is succeeding in improving performance.

Your BVPP complied in all significant respects with legislation and we have therefore issued a unqualified opinion on it, included within Appendix 1 to this report. This document also includes a small number of statutory recommendations made under section 7 of the 1999 Act.

The Council must consider this statutory audit report on the BVPP and formally respond to the statutory recommendations within it within 30 working days from the date of this report.

The following paragraphs set out the main conclusions which underpin our statutory recommendations.

The Best Value Performance Plan (BVPP)

The Council toned down the style of its BVPP this year to reduce production costs. Whilst this revised style did detract somewhat from the impact of the document, it remained accessible and clearly presented.

However, although most of the required BVPIs and targets were included within the plan there was little wider analysis of the Council's overall performance. The BVPP therefore did not discharge particularly well the key requirement of reporting the Council's performance to its stakeholders.

We recommend that the Council consider how it can report its performance more informatively in future BVPPs, highlighting achievements as well as the challenges the Council faces.

Best Value service reviews

We are pleased to note that the Council has adopted a thematic Best Value review (BVR) programme which appears to link well to the Council's existing strategic priorities. This is a positive step which will help the Council develop broader more strategic actions and targets from

its review programme to support the delivery of corporate objectives.

However, the introduction of larger, cross-cutting BVRs has been universally challenging for many authorities, the majority of which have greater capacity and can devote more resources to the process than Gosport.

To generate maximum benefit from this revised review programme the Council needs therefore to ensure that underlying BVR processes are sound.

However, following a good start, the Council has not yet responded fully to the challenges outlined in previous Annual Audit Letters and in particular to strengthen BVR processes in the light of lessons learned from early reviews.

In particular, there is now considerable potential to strengthen both internal processes and Member involvement (especially in terms of Scrutiny), to ensure that:

- greater challenge is undertaken within reviews
- processes are developed to keep action plans refreshed and up-to-date
- alternative service provision options are fully and fairly considered
- action plans focus on service outcomes and corporate priorities.

Performance management framework

Although the formal requirement to review all services over a five year period was rescinded by the Local Government Act 2000, there is still an expectation that services will be subject to review and poorly performing areas challenged to improve. The Council therefore needs to demonstrate that it:

- makes effective use of performance information in setting and monitoring corporate objectives
- has an ongoing process to highlight poor or deteriorating performance.

We commented last year that the Council has not yet developed cascading performance indicators, targets and service objectives to all levels of the organisation and our work this year highlighted that only limited progress has so far been made on this agenda.

There is now an urgent need to:

- set key corporate and strategic targets and indicators
- develop and integrate local performance indicators and targets, both at corporate and service levels, into performance management processes
- develop the service planning framework to link action plans to the budgetary process
- demonstrate that internal review processes highlight and challenge poorly performing services to improve over an appropriate period.

Performance information

We have completed the audit of your Best Value Performance Indicators (BVPIs).

We encountered some problems with the reliability of the data supporting BVPIs. We found that, of the 37 indicators tested, 16 were either inaccurate and likely to mislead or of uncertain accuracy.

Although our findings did not cause us to qualify our opinion on your BVPP, action is needed to ensure that performance data is reliable and that calculations are accurate and in accordance with published definitions. This is the subject of a statutory recommendation to which the Council is required to respond within 30 working days.

Review of procurement and e-government implementation plans

The Council's first IEG statement, approved by the DTLR, details how you intend to meet the 2005 national targets.

It is important that e-government is not seen as an 'IT programme', but as a process of fundamental change and improvement to the way the Council delivers all of its services.

At the time of our review we concluded that the profile and importance of e-government needed to be raised within the Council and the whole process driven by a view of the desired outcomes and expected costs.

Implementation of e-government is important for two main reasons:

- to ensure achievement of national expectations and targets
- to improve the accessibility and effectiveness of the Council's service to its stakeholders.

To meet these objectives, local authorities need a comprehensive strategy for e-government and to be working to ensure all services that are capable of electronic delivery are available by 2005.

Earlier in the year we undertook a high level assessment of the Council's preparations for e-government. Overall, we concluded that the Council has made a reasonable start:

- it has produced outline plans to take e-government forward and secured one-year funding from the DTLR
- e-champions have been appointed at Member and officer level.

However, the Council now needs to raise the profile and importance of e-government. The key recommendations from this review include:

- increasing senior management involvement in the e-government strategy
- developing proposals in the IEG statement into strategic programme, approved and adopted formally by the Council
- appointing a programme manager manage implementation and report to a Strategy Board/Steering Group, comprised of members of the corporate management team
- determining the exact requirements, issues and likely costs and benefits of information management within the Council
- implementing the security recommendations of the CLAS consultant as a priority
- carrying out a comprehensive assessment of the funding, skills and training required to implement the proposed e-government programme
- formulate a procurement strategy so that a controlled and effective approach to purchasing is adopted across all departments.

Together, these recommendations will help to ensure that the Council builds on the foundations already established to improve the

management and delivery of a comprehensive e-government strategy.

Accounts

We issued an unqualified opinion on your statement of accounts on 20 December..

The Policy and Organisation Board approved the financial statements in September and we issued an unqualified opinion on these statements on 20 December.

The Council has made some progress in addressing the issues reported to Members in last year's Management Letter and the Borough Treasurer intends to address the remaining areas over the coming year, there are no further issues that require Members attention.

Future audit work

We shall, from next year, be moving our financial and operational year to start from 1 April rather than 1 November. In order to achieve this change, we will shortly be compiling a 17-month Audit Plan to encompass the next two audit years.

We are currently considering the significant operational and financial issues and risks facing the Council that will need to be addressed in this audit programme. We will discuss our risk assessment with your officers before producing an Audit Plan.

A key area for the Audit Commission will be the CPA. The role of local auditors and inspectors in helping the Council prepare for, and to help inform, the process is still developing and will be reflected in our forthcoming plan.

Status of our Annual Audit Letter to the Council

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

Closing remarks

A summary of the issues raised in this Letter, and the audit work undertaken during 2001/02, was presented to Members on 4 December 2002.

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.

Martin Robinson
District Auditor
December 2002

Reports issued during the audit

Risk management (September 2002).
Best Value – BVPP compliance and performance management (November 2002).
Review of procurement and e-government implementation plans (August 2002).

Reports in progress

Audit of accounts (expected January 2003).
Financial aspects of corporate governance (expected January 2003).

Auditor's report to Gosport Borough Council on its BVPP for the year ending 31 March 2003

Certificate

I certify that I have audited Gosport Borough Council's BVPP in accordance with section 7 of the Act and the Audit Commission's Code of Audit Practice. I also had regard to supplementary guidance issued by the Audit Commission.

Respective responsibilities of the Council and the auditor

Under the Act the Council is required to prepare and publish a BVPP summarising the Council's assessments of its performance and position in relation to its statutory duty to make arrangements to secure continuous improvement to the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness.

The Council is responsible for the preparation of the plan and for the information and assessments set out within it. The Council is also responsible for establishing appropriate performance management and internal control systems from which the information and assessments in its plan are derived. The form and content of the BVPP are prescribed in section 6 of the Act and statutory guidance issued by the Government.

As the Council's auditor, I am required under section 7 of the Act to carry out an audit of the BVPP, to certify that I have done so and:

- to report whether I believe that the plan has been prepared and published in accordance with statutory requirements set out in section 6 of the Act and statutory guidance and, where appropriate, recommending how the plan should be amended so as to accord with statutory requirements
- to recommend:
 - where appropriate, procedures to be followed in relation to the plan
 - whether the Audit Commission should carry out a best value inspection of the Council under section 10 of the Act
 - whether the Secretary of State should give a direction under section 15 of the Act.

Opinion

Basis of this opinion

For the purpose of forming my opinion whether the plan was prepared and published in accordance with the legislation and with regard to statutory guidance, I conducted my audit in accordance with the Audit Commission's Code of Audit Practice. In carrying out my audit work, I also had regard to supplementary guidance issued by the Audit Commission.

I planned and performed my work so as to obtain all the information and explanations which I considered necessary in order to provide an opinion on whether the plan has been prepared and published in accordance with statutory requirements.

In giving my opinion, I am not required to form a view on the completeness or accuracy of the information or the realism and achievability of the assessments published by the Council. My work therefore comprised a review and assessment of the plan and, where appropriate,

examination on a test basis of relevant evidence, sufficient to satisfy me that the plan includes those matters prescribed in legislation and statutory guidance and that the arrangements for publishing the plan complied with the requirements of the legislation and statutory guidance.

Where I have qualified my audit opinion on the plan I am required to recommend how the plan should be amended so as to comply in all significant respects with the legislation and statutory guidance.

Opinion

In my opinion, Gosport Borough Council has prepared and published its BVPP in all significant respects in accordance with section 6 of the Act and statutory guidance issued by the Government.

Recommendations on procedures followed in relation to the plan

Where appropriate, I am required to recommend the procedures to be followed by the Council in relation to the plan.

Basis of recommendations

For the purpose of making my recommendations, I conducted my audit in accordance with the Audit Commission's Code of Audit Practice. In carrying out my audit work I also had regard to supplementary guidance issued by the Audit Commission.

I planned and performed my work so as to obtain all the information and explanations that I considered necessary in order to enable me to determine whether or not to make recommendations in this report on the matters that came to my attention during the audit. However, my work cannot be relied upon to identify every weakness or opportunity for improvement. In particular, it has not necessarily covered the same areas as a best value inspection.

For this purpose, my audit included a review and assessment, and where appropriate, examination on a test basis of evidence relevant to the adequacy of the systems set in place by the Council for collecting and recording specified performance information; and the testing of specific performance indicators selected by the Audit Commission for its comprehensive performance assessment of the Council.

Recommendations

On the basis of my audit work, I consider that the matters set out below should be brought to your attention:

Systems to collate, co-ordinate, produce and support published performance indicators within your BVPP should be strengthened to ensure they are accurately compiled in accordance with relevant guidance and applicable time scales.

The Council should:

- set key corporate and strategic targets and indicators
- further develop and integrate local performance indicators and targets into performance management processes
- link service action plans to the budgetary process
- demonstrate that internal review processes highlight and challenge poorly performing services to improve over an appropriate period.

Develop internal Best Value review processes to ensure:

- greater challenge is undertaken within reviews
- action plans are refreshed and kept up-to-date
- alternative service provision options are fully and fairly considered
- action plans focus on service outcomes and corporate priorities.

Recommendations on referral to the Audit Commission/Secretary of State

I am required each year to recommend whether, on the basis of my audit work, the Audit Commission should carry out a best value inspection of the Council or whether the Secretary of State should give a direction.

On the basis of my work:

- I do not recommend that the Audit Commission should carry out a best value inspection of Gosport Borough Council under section 10 of the Act
- I do not recommend that the Secretary of State should give a direction under section 15 of the Act.

DA signature:	 Martin Robinson District Auditor
Date:	20 December 2002