

Annual Audit and Inspection Letter

Gosport Borough Council

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Reference:	Gosport AAIL v3 discussion members– Draft Version 1
Date:	November 2004

Executive Summary

The purpose of this letter

This is our audit and inspection 'Annual Letter' for members which incorporates the Annual Audit Letter for 2003/04. It is presented by the Council's Relationship Manager and District Auditor. The letter summarises the conclusions and significant issues arising from our recent audit and inspection work at the council.

We have issued separate reports during the year having completed specific aspects of our programme. These reports are listed for information in Appendix 1.

Appendix 2 sets out the scope of audit and inspection.

Appendix 3 provides information about the fees charged.

Key messages

Council performance

The council was rated as 'good' following the comprehensive performance assessment (CPA) inspection, reported formally to the council in April 2004. The inspection showed that the council is performing well in a number of important areas, particularly in ensuring the provision of quality services to customers, often in partnership, and in achieving high levels of customer satisfaction.

A robust strategic improvement plan (the 'Strip') has since been developed, setting out the council's key proposals for delivering further improvement over the next three years. These include a particular emphasis on developing the council's overall strategic direction, improving performance and risk management, reviewing democratic arrangements and strengthening financial capacity. The council is now implementing actions agreed for 2004/05.

Financial position

The council's reserves remain below the 7% target recommended by your s151 officer although action has been taken to address this shortfall. If the latest revenue projection for 2004/05 is achieved, the council expects to reach the target level of reserves by 31st March 2005.

Other accounts and governance issues

We are required by professional standards to report to those charged with governance certain matters before we give an opinion on the financial statements.

The council approved the financial statements on 26th July, well in advance of the 31 August deadline. After agreeing minor amendments to the statements with officers we were able to issue an unqualified audit opinion in November. There are no matters that need to be brought to members' attention.

We have not identified any significant weaknesses in the overall control framework. However there is still scope for improvement in relation to risk identification and management.

Action needed by the Council

To continue to:

- implement the corporate action plan agreed following CPA and to keep it under active review
- monitor the financial position to ensure that reserves are restored to target levels
- fully integrate risk management into the council's management arrangements during 2005

Council Performance

The council was rated as 'good' following the CPA inspection, reported formally to the council in April 2004.

It has built upon this outcome by developing a robust and prioritised plan for further improvement over a three year period (the 'Strip'). This allows a realistic timeframe for implementation.

Comprehensive Performance Assessment

The assessment rated the council as 'good' and acknowledged that based on its current plans, the council will strengthen its community leadership and further improve service delivery if it continues to address its areas of weakness. The CPA report, published in April 2004, showed that the council is performing well in a number of respects, including:

- services provided to a high quality
- overall service performance and customer satisfaction among the best performing councils
- good use of partnerships to deliver improvements and a lasting focus on many initiatives
- strong teamwork within the council and effective working between the leader and the chief executive.

However, the assessment also found room for improvement, such as the need for:

- a clearer understanding of what the council wants to do in the longer term for the borough
- clearer leadership over time to the local community on important issues
- strengthened performance management to support the delivery of corporate objectives
- strengthening of the council's financial position.

Post CPA Improvement Planning

The council has responded positively to the issues raised in the CPA report and has since developed the Strategic Improvement Plan as a robust response to them.

The 'Strip' includes a range of specific high-level actions. These are supported by 'mini-action plans' and are intended in particular to help the council to:

- clarify and express more clearly its longer-term strategic direction
- improve and make more beneficial use of consultation
- take a more strategic approach to managing people
- strengthen performance and risk management
- improve aspects of local democratic arrangements and
- strengthen its financial capacity.

The plan addresses all the key issues raised in the CPA report. Actions are prioritised over the three year timeframe set for implementation.

Members have a very important role to play, in implementing some of the agreed actions, in monitoring the overall progress of the plan to ensure that it is delivered, and in revising the plan where necessary in the light of changing circumstances.

Performance Information

The findings from our review of the Best Value Performance Indicators (BVPIs) are not expected to lead to a qualified opinion on the June 2004 Best Value Performance Plan (BVPP). The opinion on the BVPP will be reported separately by Mazars.

Best Value Performance Plan and BVPIs

The audit of the council's BVPP, as part of the 2004/05 audit, is being completed by your incoming external auditor Mazars and the opinion will be separately reported. By agreement with Mazars, we audited the performance information contained within the BVPP.

Our review of the BVPIs revealed that 8% of indicators were either significantly inaccurate or failed to comply with the definition, slightly lower than last year's error rate of 9%. This is not expected to lead to a qualified opinion on the BVPP. However, to ensure that the reporting of BVPIs is more reliable in future, there is still a need for improvement in your quality assurance arrangements.

Other performance work

Review of project management arrangements

There is limited project management capacity within the council and no approved project management methodology has been adopted corporately. In order to reduce the risk associated with the current approach of in-house project management, the council should consider further developing its staff in project management techniques.

Through a review of project management processes within the council and comparison of the council's approach with best practice, some important weaknesses became evident. In particular:

- the business case for every significant project should include anticipated benefits and measures of success
- mechanisms are needed to formally 'close' all projects.

Project management capacity within the council is limited and no approved project management methodology has been adopted. The council should consider further developing its staff in the use of project management techniques, otherwise the current approach of managing projects in-house is likely to remain a high risk one.

E-government

In March 1999, the Government published the white paper 'Modernising Government'. In the light of this, the national target is that 100 per cent of dealings with the public should be capable of electronic delivery by 2005.

Follow-up of our earlier assessment in 2001/02 of the council's preparations for e-government showed that the council is making good progress

towards electronic service delivery. Initiatives include:

- commissioning of public access kiosks
- development of online facilities for members
- electronic forms
- online payments services.

As at 31 March 2004 the council reported that 71% of its transactions are capable of being delivered electronically.

Key issues the council should consider to enable it to achieve the national objective of delivering service improvement through e-government include:

- strong programme and project management arrangements, based on robust business case development
- a corporate approach to information management and information governance issues
- a corporate procurement strategy and supporting procedures.

Accounts and Governance

Audit of 2003/04 accounts

We gave an unqualified opinion on the council's accounts on 19 November 2004.

Matters arising from the final accounts audit

The council approved the accounts on 26th July, well in advance of the 31 August deadline. Working papers provided for audit were of a good standard. Following completion of detailed testing and after agreeing minimal alterations to the accounts with officers, we issued an unqualified audit opinion on the financial statements on 19 November.

Report to those with responsibility for governance in the council (SAS 610)

We are required by professional standards to report to those charged with governance certain matters before we give an opinion on the financial statements.

There were no issues arising from our audit of the accounts for 2003/04 that need to be brought to the attention of members, as reported to members through the SAS610 report of 19 November.

Financial standing

At the end of 2003/04 the council's reserves remained below the 7% target recommended by your s151 officer, although action has been taken to address this shortfall. If the latest revenue projection for 2004/05 is achieved, the council expects to reach the target level of reserves by 31st March 2005.

Current financial position**General Fund**

The General Fund outturn for 2003/04 was a surplus of £0.175 million, compared with the £0.1 million deficit for the year forecast at the revised budget stage. This improvement was principally achieved through better than forecast income receipts.

For 2004/05, the council agreed a level of council tax increase (11.5%) that allowed for the restoration of £0.19 million to revenue reserves. The latest monitoring report for 2004/05 indicates that the council is currently on course to achieve this.

The working balance at 31st March 2004 was £0.596 million, or 5.7% of forecast net expenditure for 2004/05 - below the council's 7% target level. However, the better than anticipated outturn in 2003/04 plus the planned transfer of £0.19 million to reserves in 2004/05 mean that the council is on course to achieve its 7% target by 31st March 2005.

Housing Revenue Account

The 2003/04 outturn position for the HRA was a surplus of £0.25 million, which increased the account balance to £0.94 million. The latest projection for 2004/05 is a deficit of £0.25 million, which will reduce the cumulative balance to £0.69 million.

Following the partial transfer of housing stock to Kelsey Housing Association on 31st March 2004, the council predicts that it is in a position to achieve the decent homes standards for its remaining housing stock by 2010.

Financial standing projections

The council's objective in its approved medium term strategy is:

"to minimise net debt and maximise income in order to provide investment in economic and efficient services within Council Tax increases of no more than 4% per annum".

In addition, the council has set a policy to achieve its target 7% general fund working balance level by March 2007 although recent projections suggest this might be achieved earlier than expected.

In order to help ensure this strategy can be adhered to over coming years, members will need to take a longer-term as well as a shorter-term view of the council's financial standing and its relationship to projected service levels. External factors such as the efficiency target being built in to future national grant settlement assumptions may have a significant impact.

Capital Programme

The Prudential Code came into force from 1st April 2004, replacing earlier controls on capital expenditure with a system based largely on self-regulation by local authorities. The council has determined the prudential indicators for the period 2004/05 to 2006/07 required to assess the affordability of capital expenditure plans.

As at 31st March 2004 the council had no long term external borrowing, although by 2006/07 current estimates are that £5.3m of external borrowing will be needed to meet the capital financing requirement. Members' involvement in monitoring this is essential to help ensure that capital expenditure is affordable and external borrowing remains prudent.

Systems of internal financial control

We have not identified any significant weaknesses in the overall framework of internal financial control. There is still scope for improvement in relation to risk identification and management.

Internal audit

We have been able to place reliance on internal audit's work to support our opinion audit. Although there was some slippage in their 2003/04 programme, all 2003/04 reports were made available to us for review before we carried out the final accounts audit.

As reported last year there remains a lack of IT expertise in the section, although officers are continuing efforts to address this and are negotiating to pool skills with the audit section of another council.

Risk management

We reported last year, following our work on pre-CPA auditor scored judgements, the need to strengthen risk management arrangements and to involve members in assessing, prioritising and managing risks.

The council has an action plan in place to achieve the objectives of the approved Risk Management Strategy. So far, though, progress on further developing arrangements has been slow as the council has dealt with other priorities. A key element will be to complete the corporate risk register.

Other arrangements

Our review of compliance with the council's arrangements for staff recruitment revealed some instances of non-adherence to council policy on the taking up of references.

The council should also take steps to remind all staff involved in procurement of the need to comply with the council's standing orders on procurement.

Standards of financial conduct, prevention and detection of fraud and corruption, and legality of transactions

We have not identified any significant weaknesses in your arrangements to ensure proper standards of financial conduct, to prevent and detect fraud and corruption, and to ensure the legality of financial transactions.

Other work

Grant Claims

Over recent years the number of claims requiring audit certification has grown and audit fees have risen in line with this growth. In accordance with its commitment to strategic regulation, the Audit Commission has adopted a more risk-based approach to the certification of grant claims. With effect from 2003/2004 the smaller claims will not be subject to audit or will receive a 'lighter touch' audit.

The approach to larger claims will be determined by risk and the adequacy of the Council's control environment.

A key area where the council can improve its existing arrangements (and in so doing reduce the cost of grant claim certification) is in the quality of working papers provided to support its grant claims.

National Fraud Initiative

The Council took part in the Audit Commission's national fraud initiative (NFI) 2002/03. The NFI, which is undertaken every two years, brings together data from local authorities, NHS bodies, government departments and other agencies, to detect a wide range of frauds against the public sector. Total savings from the 2002/03 exercise exceeded £83m.

The Commission are repeating the exercise this year and will again collect payroll, pensions, housing benefits, student loan and housing rents data from local authorities. Alongside the core exercise a number of pilot initiatives are being undertaken at selected sites. These are focused on risk areas that were highlighted by local authorities and include payments made to

privately run care homes, abuse of blue badge parking permits, serial insurance claimants and duplicate payments to suppliers. These pilot areas, if they prove effective, will be incorporated into future NFI exercises.

Working with other inspectorates and regulators

An important aspect of the role of the Relationship Manager is to work with other inspectorates and regulators who also review and report on the council's performance. These include:

- Benefits Fraud Inspectorate (BFI); and
- Local Government Office contact.

We share information and seek to provide 'joined up' regulation to the council.

During the last year the council has received an assessment from the BFI; we will incorporate the findings from this assessment into our planning of the audit of the Housing Benefit grant claim.

Looking ahead

Future audit and inspection work

With effect from 2004/05, the council's appointed auditor will be Mazars. The Audit Commission will continue to appoint a relationship manager, responsible for maintaining a high-level relationship with the council and other external regulators and for planning and overseeing inspection activity.

The Audit Commission and Mazars have submitted a draft plan for 2004/05 audit and inspection work. The work covered by this plan, including Mazars' audit of the 2004/05 accounts, will be reported in next year's Annual Letter.

We have sought, wherever possible, to ensure that our work relates to the improvement priorities of the council. Mazars and the Audit Commission will continue with this approach when planning our combined programme of

work for 2005/06. We will also continue to work with other inspectorates and regulators to develop a co-ordinated approach to regulation.

Revision to the Code of Audit Practice

The Audit Commission has consulted on a revised Code of Audit Practice, applicable to the audit of the 2005/06 accounts. The new Code, which will be laid before Parliament in January 2005, is designed to secure:

- a more streamlined audit, which is proportionate to risk and targeted on areas where auditors have most to contribute to improvement;
- a stronger emphasis on value for money, focussing on bodies' corporate performance and financial management arrangements (rather than individual services and functions); and
- better and clearer reporting of the results of audit works.

Further details will be provided in the Audit and Inspection Plan for 2005/06.

CPA 2005 and beyond

The Audit Commission has consulted on a new framework for CPA in 2005 and beyond. The main changes proposed are as follows:

- Rationalisation of service blocks.
- 'Achievement' assessment element of Corporate Assessment to be driven by review of Community Plan and shared priority themes.
- Move away from rigid numerical model, to one based on rules.
- Stronger focus on service delivery for users and customers.
- More robust and explicit view of value for money and cost-effectiveness.

Closing remarks

This letter has been discussed and agreed with Corporate Management team. A copy of the letter will be presented to the Policy & Organisation Board on 1st December 2004.

The council has taken a positive and constructive approach to our audit and inspection work and I would like to take this opportunity to express my appreciation for the council's assistance and co-operation.

Availability of this letter

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 and Relationship Manager

Date

Status of our reports to the council

Our annual audit and inspection letter is prepared in the context of the Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission. Annual audit and inspection letters are prepared by relationship managers and appointed auditors and addressed to members and officers. They are prepared for the sole use of the audited and inspected body, and no responsibility is taken by the Audit Commission or its appointed auditors to any member or officer in their individual capacity, or to any third party.

Audit & Inspection reports issued

Title of report	Date issued	Current status
Review of project management arrangements	February 2004	Final
CPA report	April 2004	Final
Procurement and E-government update	May 2004	Final
Interim audit memorandum	June 2004	Final
Audit of the Best Value Performance Indicators	November 2004	Final
Opinion report	Planned issue date December 2004	Draft to be discussed with officers

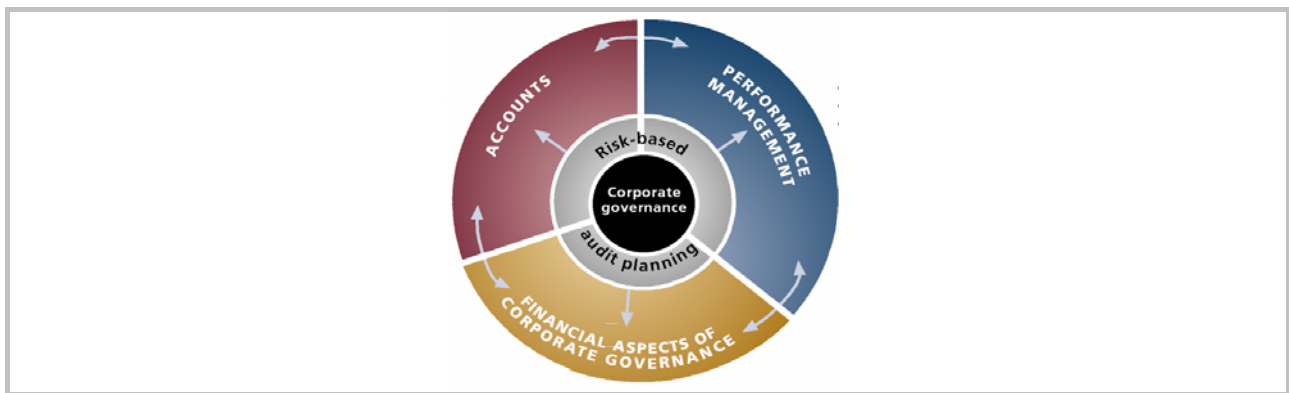
Scope of audit and inspection

Audit

Our main objective as your appointed auditor is to plan and carry out an audit that meets the requirements of the Code of Audit Practice. We adopt a risk-based approach to planning our audit, and our audit work has focused on your significant financial and operational risks that are relevant to our audit responsibilities.

Central to our audit are your corporate governance arrangements. Our audit is then structured around the three elements of our responsibilities as set out in the Code and shown in Exhibit 1.

The three main elements of our audit objectives



Accounts

- Opinion.

Financial aspects of corporate governance

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

Performance management

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

Inspection

Inspection work is based around section 10 of the Local Government Act 1999, which requires us to carry out inspections and deliver reports that will:

- enable the Council and the public to judge whether best value is being delivered;
- enable the Council to assess how well it is doing;
- enable the Government to assess how well its policies are being implemented; and
- identify failing services where remedial action may be necessary.

The Audit Commission has circulated to all audited bodies a statement that summarises the key responsibilities of auditors. Our audit has been conducted in accordance with the principles set out in that statement. What we say about the results of our audit should be viewed in the context of that more formal background.

Audit and Inspection fee

Audit fee update

Audit area	Plan 2003/04 £000's	Actual 2003/04 £000's
Accounts	32.7	32.7
Financial aspects of corporate governance	17.3	17.3
Performance	22.6	22.6
TOTAL CODE OF AUDIT PRACTICE FEE	72.6	72.6
Grant Claim certification (2003/04)_	30	In progress
Additional Voluntary work (under Section 35)	0	0

Inspection fee update

The full year inspection fee is £15,800. The work reported in this audit and inspection letter has been funded by an element of the fee covering 2003/04 and by an element of the fee covering 2004/05. In both years the actual fee will be in line with that planned.