

Audit and Inspection Annual Letter

Huntingdonshire District Council

INSIDE THIS LETTER

PAGE 2-3

- Key messages
- The purpose of this Letter
- Background to the audit and inspection programme

PAGES 3-8

- Objectives of audit and inspection
- Performance and inspection
- Financial aspects of corporate governance
- Audit assurance work
- Audit and inspection fees

PAGES 8-9

- Future audit and inspection work
- Status of our Audit and Inspection Annual Letter
- Closing remarks

PAGES 10-11

Appendix 1

- Auditor's Statutory Report on the Best Value Performance Plan

Reference:	STE01HU007-03AALFinal
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Date:	December 2003

Key messages

Our audit work for 2002/03 has been substantially completed and the following summarises the key outcomes from our work which are described in more detail within the Letter.

Performance

The Council will be undergoing its Comprehensive Performance Assessment (CPA) in early 2004. Our programme of performance work has completed a review of performance management arrangements and identified areas for improvement.

Financial aspects of corporate governance

Financial standing

The Council continues to maintain healthy levels of reserves. Medium term plans identify how reserves will be utilised and indicate an appreciation of the need for a significant increase in council tax by 2008/09 in order to sustain service developments and maintain standards. Budgetary control remains sound.

Systems of internal financial controls

The Council's main financial systems are well established. There were no matters arising from our work on the arrangements for ensuring proper systems of internal financial control are in place that need to be reported to Members.

Internal Audit plays a key role in ensuring effective systems are in place. Where Internal Audit has undertaken work on the Council's systems of internal financial control for 2002/03 we found that we could place reliance on it.

A risk management strategy is being developed. Arrangements are being developed to integrate the strategy into the service planning, resource allocation and budgeting procedures of the Council as soon as possible.

The Council has complied with the requirement to publish a Statement of Internal Control.

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

Overall we are satisfied that the Council does have proper arrangements in place to ensure standards of financial conduct and the prevention and detection of fraud and corruption. The Council has recently adopted a comprehensive Code of Corporate Governance and intends to monitor how effectively the Code is implemented.

Legality of transactions

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

Accounts

We are in the process of auditing the accounts and will issue an opinion before 31 December

Best Value Performance Plan audit

The Council's 2003/04 Best Value Performance Plan (BVPP) complied in all significant respects with statutory requirements. The necessary Best Value Performance Indicators (BVPIs) are included accurately in the BVPP.

The purpose of this Letter

This is our first joint audit and inspection 'Annual Letter' for Members which incorporates our Annual Audit Letter, and is presented by the Council's Relationship Manager and District Auditor. The Letter summarises the conclusions and significant issues arising from our 2002/03 audit and inspection programme and comments on other current issues. These are underpinned by separate reports issued and discussed during the year.

Auditors' responsibilities are summarised in the Audit Commission's statement of key responsibilities of auditors. The responsibilities of Audit Commission Inspectors are detailed in section 10 of the Local Government Act 1999. What we say in this Letter should be viewed in the context of that more formal background.

Background to the audit and inspection programme

Audit Commission changes

To ensure that Councils receive a tailored seamless service, integrated with the work of other inspectorates, the Audit Commission has appointed a Relationship Manager for each Council. The Relationship Manager is normally the Commission's primary point of contact with you and is also the interface between the Commission and the other inspectorates, Government Office and other key stakeholders. Dorothy Welsh is the Council's Relationship Manager.

Significant developments at Huntingdonshire District Council

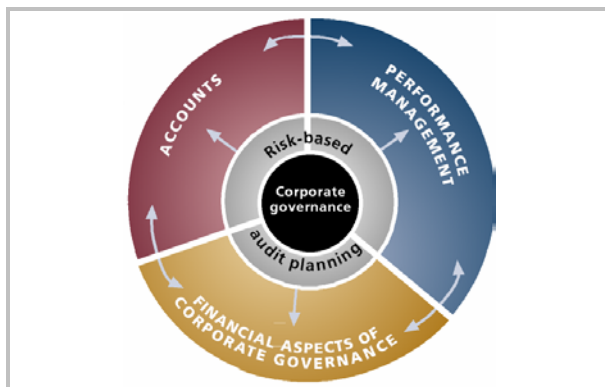
Throughout the year Members and officers have continued the drive to implement government initiatives such as the 'electronic government' programme, where it is a 'beacon' Council and preparations for comprehensive performance assessment (CPA). Also the Council has continued to develop its partnership working relationships, particularly the Huntingdonshire Strategic Partnership. It is also pushing ahead with its 'Customer First' initiative with the aim of making services more accessible and delivering improved seamless services to the public.

Objectives of audit and inspection

Audit

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

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

EXHIBIT 1**The three main elements of our audit objectives****Accounts**

- Opinion

Financial aspects of corporate governance

- Financial standing
- Systems of internal financial control
- Standards of financial conduct & 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
- identify failing services where remedial action may be necessary.

Performance and inspection

The Council will be undergoing its Comprehensive Performance Assessment (CPA) in early 2004. Our programme of performance work has completed a review of performance management arrangements and identified areas for improvement.

Comprehensive performance assessment

The Audit Commission is to carry out a comprehensive performance assessment of your Council. The assessment team will visit the Council in March 2004 and the results will be published by the Commission in July 2004.

Future of CPA

Comprehensive Performance Assessment (CPA) is about helping councils deliver better services to local people as part of the wider improvement agenda set out in the Local Government White Paper *Strong Local Leadership – Quality Public Services*. CPA has been developed to encompass the role of district councils in developing and contributing to sustainable social and economic environments for their communities and local area.

The main elements of the district council CPA approach are:

- council self assessment
- accredited peer challenge to inform the self assessment
- a corporate assessment
- diagnostic assessments of the council's
 - management of public space and
 - contribution to the management of the local housing market
- Benefit Fraud Inspectorate's assessment of benefit services
- appointed auditor assessments of performance on each of the main elements of the Code of Audit Practice
- audited performance indicators, inspection reports and plan assessments.

We will be asked to contribute through Auditor Scored Judgements, our view of the Council's position on the elements that we cover during our audit, as shown in Exhibit 1 above. We will be doing this work early in 2004 and will discuss our proposed assessment with your officers before it is finalised.

Performance management

To support the Council's initiative to assess and improve its performance management, we have completed a complementary review of its arrangements. This sought to identify strengths and weaknesses and to consider the roles and responsibility of Members, senior officers, service managers and staff within the performance management framework.

Three focus groups were used covering front line staff, service managers and heads of service to ascertain the level of understanding and application of current performance management arrangements. Each group also assessed priorities for improvement and a way forward. Three interviews were also carried out with the Executive Member responsible for driving performance management forward and with two of the corporate directors.

The clarity of the corporate direction pursued by the Council may be obscured by the wide range of priorities and medium term objectives and because there is no overall review of performance at either Management Board or Cabinet. The Council has recognized the need to focus on fewer priorities and is undertaking a review currently. Although service delivery was seen as sound, some of the staff participating in the focus groups felt that the Council could be more in touch with its customers.

Current performance information is focused on inputs and is not seen to drive improvement. Although performance measures are in place some are not seen as being meaningful. Both front line staff and service managers were unclear about aspects of the performance management system for example how performance is managed corporately. Managers acknowledged the need to develop and improve performance management systems. The current work being undertaken on a balanced scorecard is seen as a positive development.

The following key areas for improvement have been identified:

- setting corporate priorities with clear success criteria
- ensuring performance is reviewed and managed corporately at both Management Board and Cabinet and that the new performance management systems being developed reinforce corporate focus
- developing management competencies for performance management and providing training and development for managers to meet these competencies.
- establishing effective baseline information against which to compare improvement
- engaging both the staff and the public in setting priorities and performance targets
- demonstrating to both staff and the public how performance information is used to improve services. Reinforcing and rewarding good performance.
- increasing the engagement of non executive Members in performance management.

Audit Commission inspections

During the period covered by this Letter there were no inspection reports issued by the Audit Commission for this Council.

Financial aspects of corporate governance

Financial standing

The Council continues to maintain healthy levels of reserve. Medium term plans identify how reserves will be utilised and indicates an appreciation of the need for a significant increase in council tax by 2008/09 in order to sustain service developments and maintain standards. Budgetary control remains sound.

Financial reserves 2002/03

The Council maintained a healthy financial position during 2002/03. Procedures for closing the housing revenue account were completed on 31 March 2002 which allowed the balance to be transferred to the general fund. This boosted the general fund balance by £2.4m. Revenue spending in 2002/03 was generally in line with the original budget, although investment income was greater than anticipated. The budget included provision to increase revenue reserves by £800k. As a result the overall general fund balance increased from £17.7m to £21.5m.

At the year end the Council also held £34.7m of useable capital receipts resulting mainly from council house disposals.

The Council has recently considered its medium and longer term financial strategy and has taken account of these relatively healthy balances. The combined programme of revenue and capital spending is focussed on Council priorities and identifies how the reserves will be utilised whilst maintaining modest increases in council tax. The strategy acknowledges that use of reserves cannot be sustained indefinitely and there is an appreciation that by 2008/09, under the current local government financing regime, there will be a need for significant increases in council tax levels to maintain service standards. Members must continue to address this crucial issue.

Systems of internal financial controls

The Council's main financial systems are well established. There were no matters arising from our work on the arrangements for ensuring proper systems of internal financial control are in place that need to be reported to Members.

Internal Audit plays a key role in ensuring effective systems are in place. Where Internal Audit has undertaken work on the Council's systems of internal financial control for 2002/03 we found that we could place reliance on it.

A risk management strategy is being developed. Arrangements are being developed to integrate the strategy into the service planning, resource allocation and budgeting procedures of the Council as soon as possible.

The Council has complied with the requirement to publish a Statement of Internal Control.

The Council has responsibility for developing and implementing systems of internal control, including systems of internal financial control and ensuring that it has proper arrangements in place to monitor their adequacy and effectiveness in practice. We reviewed the arrangements that the Council has put in place.

The Council's main financial systems are well established and there were no major changes to these in 2002/03. No issues have arisen from our work that need the attention of Members.

We work closely with Internal Audit to prevent duplication of audit coverage. We assess the quality of its work compared to standards set out in CIPFA's Code of Practice. We concluded that we could rely on the Internal Audit work and gain assurance from it in the areas relevant to our audit.

Internal Audit has already developed a wider ranging audit plan based on risk analysis. It is likely that, as the Council develops its corporate risk assessment processes, there will be a need for further re-assessment of how Internal Audit is deployed.

We have noted that the Council is continuing to develop a risk management strategy and has appointed a risk management officer as part of this process.

As risk management is developed it needs to be fully integrated into the service planning, resource allocation and budgeting processes.

Statement of Internal Control

There is a new requirement in 2002/03 to include within the statement of accounts approved by the Council a Statement of Internal Control. This sets out the framework that comprises the system of internal financial control, and the work undertaken by Internal Audit, other managers and external audit in reviewing the effectiveness of the system of internal financial control. In addition the Statement comments on the adoption of the local Code of Corporate Governance and affords the opportunity to disclose any weakness in control when compared with the CIPFA/SOLACE framework and how these are to be addressed.

Our audit work has not identified any reason to challenge the correctness of the disclosures in the Council's Statement.

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

Overall we are satisfied that the Council does have proper arrangements in place to ensure standards of financial conduct and the prevention and detection of fraud and corruption. The Council has recently adopted a comprehensive Code of Corporate Governance and intend to monitor how effectively the Code is implemented.

Our work has shown that the Council has in place adequate arrangements to ensure financial conduct and for the prevention and detection of fraud and corruption

We are aware that the Council has recently adopted a comprehensive Code of Corporate Governance. It is important that requirements of the Code are built into the operational procedures of the Council, where this is not already the case, as soon as possible.

Members should consider how they will monitor compliance and the success of the implementation of the Code.

We have also noted that the Council has recently adopted an employee's Code of Conduct and an anti-fraud and corruption policy both of which we have recommended in the past.

The Council continues to contribute towards the National Fraud Initiative (NFI), the Audit Commission's data matching exercise. Its main aim is to help identify and reduce housing benefit fraud, occupational pension fraud, tenancy fraud and payroll fraud.

Legality of transactions

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

We reviewed the Council's overall arrangements and there are no issues to report to Members.

Audit assurance work

Accounts

We are in the process of auditing the accounts and will issue an opinion before 31 December.

Members approved the Council's financial statements on 24 September 2003 and our audit is in progress.

Our work on the Council's core financial systems indicates that, for 2002/03, they provide a sound base for the preparation of accurate financial statements.

There is a new auditing standard which applies to our audit of your accounts - Statement of Auditing Standard (SAS) 610 'Reporting to those charged with governance'. This requires us to report issues arising from our audit, to Members before we give our audit opinion on your financial statements.

In previous years we have discussed such issues with officers rather than Members, but the SAS encourages openness and accountability by ensuring that Members take responsibility for the Council's accounts.

No issue is identified in the report which requires the attention of Members.

Best Value Performance Plan audit

The Council's 2003/04 Best Value Performance Plan (BVPP) complied in all significant respects with statutory requirements. The necessary Best Value Performance Indicators (BVPIs) are included accurately in the BVPP.

The Best Value Performance Plan and Performance Indicators

The Best Value Performance Plan (BVPP) contained the key elements required by the statutory guidance. The BVPP communicates clearly the Council's approach to Best Value, including performance management, service and financial planning and consultation. An unqualified audit opinion is attached at Appendix 1 as confirmation of our audit findings.

The extent to which all BVPIs have been included in the BVPP, and the accuracy of that information, continues to be a major element of the Best Value audit. This year the Audit Commission has permitted amendments to be made by way of addendum to the BVPP to rectify any omissions or errors before audit work is concluded.

Working closely with your officers we have reached a position where there are no BVPI omissions in the up-dated BVPP and a number of amendments have been agreed and made to the original published data. We expressed reservations about the accuracy of four BVPIs where procedures being followed were not sufficient to provide data to calculate the defined BVPI.

Audit and inspection fees

The proposed fees for our work for 2002/04 were set out in our audit and inspection plan and are summarised in Exhibit 2. We do not envisage any significant changes to the fee that was agreed with the Management Team.

Members should note that in order to bring the Audit Commission financial year in line with the local authorities, the current plan covers the period from November 2002 to March 2004. In this time we will deliver two statutory audits and two Audit and Inspection Annual Letters.

EXHIBIT 2

Audit and inspection fees

	2002/03 £	2003/04 £
Accounts	36,500	32,600
Performance	14,300	52,100
Financial aspects of corporate governance	13,700	12,300
Sub-total for statutory Code audit	64,500	97,000
Inspection	N/A	15,800
Grant certification	26,000	26,000
Non audit work	0	0
Total Fee	90,500	138,800

Future audit and inspection work

For the first time we have brought together all our planned work and that of the other key inspectorates. These co-ordinated and proportionate plans are available on the Audit Commission website.

Our audit and inspection programme for 2003/04 is included in the Audit & Inspection Plan 2002/04 which was issued in May 2003.

We will discuss the timetable for planning the 2004/05 audit and inspection programme, linked to your improvement priorities, with officers early in 2004. Our future programmes will be structured across the following themes that help to clarify the purpose of our work:

- assessment
- improvement
- assurance.

Status of our Audit and Inspection Annual Letter

Our Annual Letter is prepared in the context of the Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission. The Letter is prepared by the Relationship Manager and appointed auditor and is addressed to Members and officers. It is 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

This Letter will be submitted to the Council early in 2004.

Finally, I would like to take this opportunity to express my appreciation for the assistance and co-operation provided during the course of the work. Our aim is to deliver a high standard of audit and inspection which makes a positive and practical contribution which supports the Council's improvement agenda. We recognise the value of your co-operation and support.



Mick West
District Auditor



Dorothy Welsh
Relationship Manager

18 December 2003

Auditor's Statutory Report on the Best Value Performance Plan

Auditor's Report to Huntingdonshire District Council on its Best Value Performance Plan for the 2003/04

Certificate

I certify that I have audited Huntingdonshire District Council's best value performance plan in accordance with section 7 of the Local Government Act 1999 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 Local Government Act 1999 (the Act) the Council is required to prepare and publish a best value performance plan 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 best value performance plan 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 best value performance plan, 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 Local Government Act 1999;
 - whether the Secretary of State should give a direction under section 15 of the Local Government Act 1999.

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

Unqualified opinion

In my opinion, Huntingdonshire District Council has prepared and published its best value performance plan in all significant respects in accordance with section 6 of the Local Government Act 1999 and statutory guidance issued by the Government.

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 Huntingdonshire District Council under section 10 of the Local Government Act 1999;
- I do not recommend that the Secretary of State should give a direction under section 15 of the Local Government Act 1999.

Signature  Date **18 December 2003.**

Mick West
District Auditor, Audit Commission