

Audit and Inspection Annual Letter

Basingstoke & Deane Borough Council

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Reference:	MBBA010AAL03W – Final
Authors:	Martin Robinson, District Auditor and Relationship Manager Mike Bowers, Audit Manager
Date:	December 2003

Key messages

The comprehensive performance assessment (CPA) process has been and continues to be the focus for the current year for Basingstoke & Deane Borough Council, as it has been for all other district councils in Hampshire. The council has also continued to respond to a number of other key challenges, details of which are listed on page four of this letter.

It is not yet possible to report the outcomes of your CPA, which will be shared in draft with you in early December and finalised in January 2004. This letter therefore covers other aspects of the programme of audit and inspection activity in the context of the key business risks faced by you.

Issues arising from our work which warrant members' attention include:

Comprehensive performance assessment

The council's comments on a draft CPA report will be invited early in December and the report will be finalised in January 2004.

Once the report is received, and regardless of the overall outcome of the assessment, the key objective for the council will be, through the improvement planning process, to prepare to respond to any issues raised.

The pre-CPA auditor judgements assessment concluded that the council has sound arrangements in place in most of the areas considered, with some areas for further improvement.

Financial standing

Net operating expenditure in 2002/03 was £0.6 million lower than the original budget of £16.4 million. The general fund balance amounted to £2.1 million at 31 March 2003, which is above the minimum prudent level of £1.5 million approved by members.

The council's medium-term financial strategy covers forward projections of revenue income and expenditure and also sets out how it intends to benefit in the future from its substantial reserves. The strategy is still developing and is underpinned by the policy and budget framework.

Decriminalised parking

The council has implemented substantially effective arrangements for the delivery of its decriminalised parking enforcement (DPE) service. Areas highlighted by our review for further attention have been shared with officers, who are developing an action plan in response to the audit.

Best value performance plan

We have issued an unqualified opinion on the 2003 best value performance plan (BVPP). Arrangements for the collection and reporting of performance information reported in the BVPP are satisfactory, although there were a small number of amendments and omissions.

Legality

Effective arrangements are in place to ensure the legality of the council's financial transactions.

There are no issues outstanding from the consideration of an elector's complaint made in 2001/02, and the council has satisfactorily resolved an outstanding legal issue relating to the same year. The 2001/02 audit has therefore now been closed and there are no issues to bring to members attention for 2002/03.

Accounts

The audit of the council's financial statements for 2002/03 has been completed, and an unqualified opinion was given on 17 November 2003.

The purpose of this letter

This is our first joint audit and inspection 'annual letter' for members presented by the council's relationship manager, who is also your 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 relevant to the council.

The Audit Commission earlier this year appointed a relationship manager to each council, to act as the focal point for contact between the council and the Audit Commission. Although this took effect formally at the start of the 2003/04 audit and inspection year, this 2002/03 letter is presented as a relationship

manager letter incorporating the annual audit letter.

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

Auditor’s 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 (the Act). What we say in this letter should be viewed in the context of that more formal background.

Objectives of audit and inspection

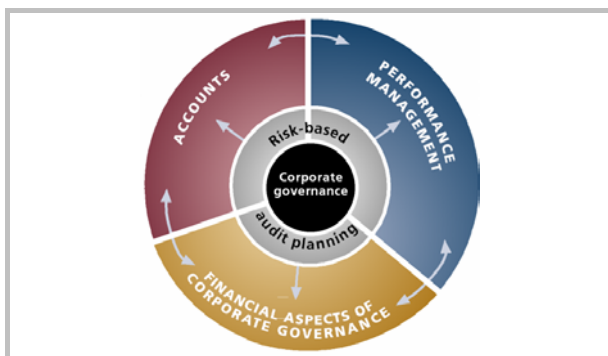
Audit

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.
- BVPP.

Inspection

Inspection work is based around section 10 of the Act, 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.

Background to the audit and inspection programme for 2002/03

Draft CPA reports for Hampshire districts are scheduled for distribution to councils for comment in early December 2003. Because these reports will not be finalised until January 2004, this annual letter for 2002/03 refers only in general terms to CPA.

The Audit Commission is changing the start of its operational year from November to April, so the programme of work carried out in 2002/03 is less than in a 'normal' year.

In addition to the major impact of CPA over the last year, the council has continued to respond to a number of other challenges, including:

- continuing development of your performance management arrangements;
- establishing your local strategic partnership and community plan;
- implementing a 'corporate style' senior management structure through the creation of a Board of Directors;
- moving towards a three-year planning process;
- producing a borough-wide local plan by 2016;
- making progress with the implementation of e-Government; and
- progressing the development of GIS and EDMS.

We look forward to continuing to work closely with you in the near future as you develop your response to these and other issues raised by the audit and CPA processes, particularly through improvement planning.

Comprehensive performance assessment

The council's comments on a draft corporate assessment report will be invited in early December and the report will be finalised in January 2004.

Once the report is received, the council will need to prepare its response to any issues that are raised. We look forward to working closely with you on this, through the improvement planning process.

CPA: general background

CPA is primarily intended to help 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'. It 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 CPA for district councils are:

- council self-assessment;
- accredited peer challenge to inform the self-assessment;
- a corporate assessment, informed by on-site inspection by the Audit Commission;
- diagnostic assessments of the council's:
 - management of public space
 - progress in meeting the decent homes standard or contribution to the management of 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 (discussed elsewhere in this letter); and
- audited performance indicators, inspection reports and plan assessments.

CPA: outcomes and next steps

The council's comments on a draft CPA report will be invited in early December and the report will be finalised in January 2004.

Once the report is received the council will need to prepare its response to any issues that are raised. We look forward to working closely with you on this as you develop and implement your post-CPA improvement priorities.

Performance management

We report in this section the limited amounts of performance audit work carried out in 2002/03, under the headings of:

- *performance management framework;*
- *use of resources (decriminalised parking review); and*
- *BVPP/performance information.*

Performance management framework

The council needs to continue to develop its performance management arrangements and members have an important role to play in this.

As an important element of the pre-CPA auditor judgements work carried out by the local audit team, we updated our understanding of the council's arrangements for managing performance. The aim of this work was primarily to provide the CPA team with our current understanding of your performance management arrangements, so that they could use our knowledge as part of the CPA process.

Last year, we concluded that the council has a clear corporate plan that provides the strategic direction of the authority. This plan informs both the service planning and appraisal processes. We recognised that the role of the overview and scrutiny committees in relation to performance management was being developed, and that the service planning process was to be developed to provide more robust performance measures.

Our work this year has confirmed that the council has established a dedicated central team to continue to develop its performance management framework, and in particular a quarterly performance monitoring process.

The council has continued to develop the links between its corporate priorities and resource allocation process, primarily through the three year policy and budget framework. Members' capacity is also being developed in relation to the best value process and their scrutiny role.

Discussion of council's performance management framework will also be included in the CPA report, and the council will have the opportunity to respond through improvement planning to any areas that might be highlighted for further improvement.

Decriminalised parking enforcement

The council has implemented substantially effective arrangements for the delivery of its DPE service. Areas highlighted by our review for further attention have been shared with officers, who are developing an action plan in response to the audit.

In common with a number of other councils, Basingstoke and Deane has taken on responsibility for on-street parking enforcement in addition to its existing responsibility for off-street parking. The council introduced a decriminalised parking enforcement service from 1 October 2002.

An outcome of our risk-based planning process, we agreed to review and comment on your preparations for and implementation of this new service, including:

- development of a strategic approach for the service;
- ensuring policy and procedures comply with legislation;
- financial arrangements and controls; and
- other operational matters.

The review concluded that the council has implemented substantially effective arrangements for delivery of its DPE service. Areas highlighted for further development have been shared with officers, who are developing an action plan in response to our recommendations. These included:

- ensuring that DPE is included within the parking service plan;
- ensuring that the management information module of the notice processing system (COPPT) is implemented;
- confirming that parking attendants understand the requirements and procedures when issuing PCNs; and
- considering whether to incorporate the parking service within the corporate one-stop shop front line service.

The report will be finalised shortly with your officers.

BVPP and performance information

We have issued an unqualified opinion on the 2003 BVPP. Arrangements for the collection and reporting of performance information reported in the BVPP are satisfactory, although there were a small number of amendments and omissions.

Our review confirmed that the BVPP is compliant in all significant respects with legislation and most specified BVPIs had been prepared and reported. The relatively small number of amendments and omissions does not in itself require us to qualify our opinion on the plan.

Our unqualified opinion on the plan is attached at appendix 2 to this letter.

Financial aspects of corporate governance

Our audit of financial aspects of corporate governance for 2002/03 was designed in a large part to underpin and inform the auditor scored judgements (ASJs). These were finalised following a county-wide moderation process and made available to the corporate assessment team before their on-site work started in September. The summary scores will be included within the final CPA report.

Financial standing

Net operating expenditure in 2002/03 was £0.6 million lower than the original budget of £16.4 million. The general fund balance amounted to £2.1 million at 31 March 2003, which is above the minimum prudent level of £1.5 million approved by members.

The council's medium-term financial strategy covers forward projections of revenue income and expenditure and also sets out how it intends to benefit in the future from its substantial reserves. The strategy is still developing and is underpinned by the policy and budget framework.

Our auditor judgements review concluded that the council's revenue and capital budget setting process are sound. Financial monitoring processes are well developed and the council is actively managing its levels of reserves.

EXHIBIT 2

Auditor scored judgements (financial standing)	Score (out of 4)
Setting a balanced budget	4
Setting a capital programme	4
Financial monitoring and reporting	4
Meeting financial targets	2
Financial reserves	3
Summary score	3

Financial performance 2002/03

Net operating expenditure in 2002/03 was £0.6 million below original estimate. The main variations against estimates were:

- losses on revaluation of investments (£1.4 million);
- service overspending (£0.1 million) offset by additional interest income (£1.3 million); and
- increased rental income (£0.8 million).

The general fund balance reduced by £0.5 million over the year, to £2.1 million at 31 March 2003. This remains significantly above the minimum prudent level of £1.5 million approved by members.

However, in addition to the general fund working balance discussed above, the council continues to hold substantial revenue and capital reserves. These amounted to £20.5 million and £71.5 million respectively on 31 March 2003.

Capital expenditure amounted £30.6 million in 2002/03, excluding non-approved investments. This represents a shortfall against planned spending of £2.2 million, primarily due to difficulties in progressing schemes. As a consequence a number of schemes have been slipped into 2004/05.

Budget for 2003/04 and future forecasts

The council's original estimate for 2003/04 includes a net transfer to reserves of £2.2 million, after drawing on the general fund balance to cover one-off priorities and other pressures. The general fund balance is anticipated to be £1.6 million at 31 March 2004.

The latest forecast predicts a revenue surplus of £127,000 in 2004/05 and deficits in each subsequent year up to £1.6 million in 2008/09. The council has undertaken a financial policy review in order to provide simpler and more transparent financial framework, which will enable it to address these potential deficits, and is undertaking longer term financial planning.

The council has a capital programme of £36.2 million for the three years 2003/04 to 2005/06. This programme is to be funded from existing revenue and capital reserves as well as capital receipts and specific grants and contributions.

The council's intention is to utilise £91.7 million of its capital and revenue reserves to generate income that will be used to support its revenue programme from 2006/07. The balance of £14.8 million will be available to fund future capital programmes from 2006/07.

Budget setting and control arrangements

Our auditor judgements review concluded that the council's revenue and capital budget setting process are robust. The council is developing a three year budget framework, to take account of developments, corporate priorities and other known factors. The council's financial monitoring processes are well developed and it is actively managing its level of reserves.

Performance against revenue budgets for each financial year since 2000/01 resulted in an under spending against the original budget, which led to a '2' score for this measure.

Systems of internal financial control

The council has robust systems of internal financial control in place, although it acknowledges the need for the further development of risk management, and has therefore been developing this area.

EXHIBIT 3

Auditor scored judgements (internal financial control)	Score (out of 4)
Monitoring of financial systems	4
Adequacy of internal audit	3
Risk identification and management	2
Summary score	3

Resourcing of internal audit is monitored by the section 151 Officer, who brought in additional external contractors to assist with the completion of the audit programme. Some audits still needed to be deferred to 2003/04. The section is now fully staffed, and has an additional part-time member of staff to provide assistance in the short-term.

The council is continuing to develop its risk management strategy and risk register. Although only given a '2' score, this is often an

area where development is needed by district councils.

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

Robust procedures to ensure the standards of financial conduct and prevention and detection of fraud and corruption are in place.

The council is in the process of carrying out a review of its arrangements against the requirements of the CIPFA/SOLACE framework, and there are plans for the scrutiny panel to fulfil the role of an audit committee.

EXHIBIT 4

Auditor scored judgements (standards of financial conduct)	Score (out of 4)
Ethical framework	3
Governance arrangements	4
Treasury management	4
Prevention and detection of fraud and corruption	3
Summary score	4

The council has good or strong arrangements in most of the areas covered by the auditor judgements, reflected in the overall score of '4'.

A review of the council's arrangements against the requirements of the CIPFA/SOLACE framework is being undertaken by a group of officers.

The role of the scrutiny panel is to be developed to include terms of reference for an audit committee, so that it can fulfil this role for the council.

National Fraud Initiative

The National Fraud Initiative (NFI) is 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. The NFI is carried out every two years and data matches were provided to you by the Audit Commission.

Officers have confirmed that the review of the data has been progressed and will be completed by 31 December 2003.

Legality of transactions

Effective arrangements are in place to ensure the legality of the council’s financial transactions.

There are no issues outstanding from the consideration of an elector’s complaint made in 2001/02, and the council has satisfactorily resolved an outstanding legal issue relating to the same year. The 2001/02 audit has therefore now been closed and there are no issues to bring to members attention for 2002/03.

EXHIBIT 5	
Auditor scored judgements (legality)	Score (out of 4)
Roles and responsibilities	4
Legality of significant financial transactions	4
New legislation	4
Summary score	4

The complaint raised by an elector during the 2001/02 audit, concerning grant aided repairs to his property and members’ expense claims, has been completed. There are no outstanding issues that remain to be addressed.

The council has also addressed the outstanding issue from 2001/02, by writing to the inland revenue requesting that they determine whether there is a liability to stamp duty on the part of the council in relation to a land transfer.

The 2001/02 audit has therefore now been closed.

Accounts

The audit of the council’s financial statements for 2002/03 has been completed, and an unqualified opinion was given on 17 November 2003.

Financial statements

The council approved its financial statements in advance of the 30 September 2003 deadline.

During the audit we noted that officers had circulated all members and senior management requesting confirmation of the existence, or non-existence, of related party transactions. However, eight members have failed to complete and return their confirmation to Accountancy, although five of these are now former members. The council should ensure in future that all members comply with this requirement.

Auditor scored judgements

Several aspects of the preparation of the annual statements of account were assessed:

EXHIBIT 6	
Auditor scored judgements (accounts)	Score (out of 4)
Timeliness	3
Quality	3
Supporting records	3
Summary score	3

In recent years, only minor adjustments were needed to the draft financial statements, and satisfactory supporting working papers were provided for the audit.

We will continue to work with officers to minimise the minor adjustments within the draft financial statements and to continue to improve the working papers that are provided for audit.

Preparations for WGA

Whole of government accounts (WGA) will be commercial-style accounts covering the whole of the public sector. Arrangements are already under way for a set of audited and published central government accounts and in 2003 a revised future accounting timetable for local government was introduced. The accounts and audit regulations will gradually bring forward the accounts approval deadlines and the first published WGA is scheduled for 2006/07.

The introduction of new consolidation processes, standardised accounting policies and intra-government balance agreement procedures are likely to represent a significant challenge over

the next three years. We will continue to work supportively with the council in this area.

Reporting to the council – SAS 610

A new auditing standard applies to our audit of your accounts - Statement of Auditing Standards (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.

There were no issues arising from our audit of the accounts for 2002/03 that needs to be brought to the attention of members.

Audit and inspection fees

The proposed fee for the 2002/03 audit was set out in our audit and inspection plan agreed at the start of the year.

Members should note that in order to bring the Audit Commission financial and operational year in line with local authorities', the current plan covers the period from November 2002 to March 2004. Over this period, we will deliver two statutory audits (2002/03 and 2003/04) and two annual audit letters.

The table below sets out our latest estimate of the actual fee for combined audit years 2002-04 on the basis that some work remains in progress or (in the case of the 2003/04 audit) not yet started, together with explanations where there are variances.

EXHIBIT 7

Audit fees

Audit area	Plan 2002/04	Revised Estimate 2002/04
	£	£
Accounts	61,606	61,606
Financial aspects of corporate governance	40,957	40,957
Performance	28,590	28,590
TOTAL CODE OF AUDIT PRACTICE AUDIT FEE	131,153	131,153
Inspection (1)	15,800	15,800
Additional s35 work	10,000	10,000
Certification of grant claims 2002/03 only (2)	20,800	24,930
TOTAL AUDIT AND INSPECTION FEE	177,753	181,883

(1) *Inspection fees are net of ODPM grant received.*

(2) *The grant claim audit continues until the end of 2003 and the actual fee reported is our current estimate of the likely fee for the 2002/03 certification work.*

The variance in the predicted cost of grant certification work relates to the increased requirements of the housing and council tax benefits audit, as specified by the relevant grant-paying department.

Strategic regulation: future audit and inspection work

Strategic regulation contributes to improvement in public services by ensuring that regulators collaborate to identify each council's priorities for improvement, and provide assessments that are useful to managers, professionals, politicians and the public.

Our future work programme for 2004/05 and beyond will be determined to a substantial degree by the issues raised in the council's CPA. It will be proportionate both to the council's inherent risks and to its assessed performance. To help to clarify its purpose, the work programme will be structured across the following themes:

- assessment;
- improvement; and
- assurance.

Audit and inspection planning for 2004/05, closely linked to your improvement priorities, will be carried out in early 2004.

Key areas of work already included in our current programme of work that remain to be completed are:

- interim review for 2003/04; and
- final accounts audit for 2003/04.

Status of our Letter to the Council

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 District Auditor and his team 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 was discussed and agreed with senior officers on 26 November 2003. A copy of the draft letter will be provided to all members following presentation to the Cabinet on 11 December 2003.

Finally, I would like to take this opportunity to express my appreciation for the assistance and co-operation provided during the course of the past year. 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.

Martin Robinson
District Auditor and Relationship Manager
18 December 2003

Audit and inspection reports issued during 2002/03 or currently under discussion

Title of report	Date issued	Current status
Audit and Inspection Plan 2002/04	March 2003	Final
Interim Audit Report 2002/2003	June 2003	Final
Auditor Judgements	August 2003	Final
Decriminalised Parking Review	September 2003	Draft with officers
Review of Financial Statements	Target 30/11/03	To be discussed with officers in December 2003.

Auditor's statutory report on the best value performance plan

Auditor's report to Basingstoke & Deane Borough Council on its best value performance plan for 2003.

Certificate

I certify that I have audited Basingstoke & Deane Borough Council's BVPP in accordance with section 7 of the Local Government Act 1999 (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; and
 - 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.

To the extent that figures included in the plan are estimates, my audit work comprised an assessment as to whether the estimates made by the council had been properly compiled in all significant respects on the basis of the assumptions stated by the council, as at the date at which the plan was prepared.

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, Basingstoke & Deane 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.

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 Basingstoke & Deane 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.

Signature **Date**