

Annual Audit and Inspection Letter

Basingstoke and Deane Borough Council

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Reference:	Annual Audit and Inspection Letter
Date:	10 December 2004

Executive summary

The purpose of this Letter

This is our audit and inspection 'Annual Letter' for members, incorporating 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.

Appendix 4 is our opinion on your Best Value Performance Plan.

Key messages

Council performance

The council has been rated as 'excellent' following the Comprehensive Performance Assessment (CPA) carried out in September 2003 and reported to the council in January 2004. This is a very considerable achievement for the council.

A robust corporate improvement plan has since been developed, setting out the council's action plan for delivering further improvement over the next three years. The council is now implementing actions agreed for 2004/05.

Financial position

The council continues to be in a healthy financial position at the end of the year. Net operating expenditure during 2003/04 was £2.3 million lower than the original estimate of £17.8 million, due in part to the early achievement of planned service savings. The general fund balance amounted to £1.5 million on 31 March 2004, in line with the Policy and Budget Framework for 2004/05.

The council has experienced significant slippage on its capital programme during 2003/04, and is therefore taking action to improve delivery in future years.

Accounts and governance

We are required by professional standards to report to those charged with governance certain matters before we give an opinion on your 2003/04 accounts. A separate SAS 610 report was presented to members, concerning the two issues arising from our audit of the accounts for 2003/04 that need to be brought to the attention of members.

After agreeing minimal alterations to the 2003/04 accounts with officers, and following the presentation of the SAS 610 report to members, we provided an unqualified audit opinion on 19 November 2004.

Your overall corporate governance arrangements are satisfactory from an audit perspective, and you are planning to complete the integration of risk management into your management arrangements during 2005. The council approved its draft 2003/04 accounts on 22 July 2004, well in advance of the August deadline.

Action needed by the council

- Continue to implement the corporate action plan agreed following CPA.
- Fully integrate risk management into the council's management arrangements during 2005.
- Continue to focus its attention on the management of its capital programme, including the delivery of individual schemes.

Council performance

The council was rated as 'excellent' following the Comprehensive Performance Assessment (CPA) carried out in September 2003 and reported in January 2004.

It has built upon this very successful outcome by developing a robust and prioritised plan for further improvement that allows a realistic timeframe for implementation.

Comprehensive Performance Assessment

The assessment rated the council as 'excellent' and confirmed that it is well placed to deliver further improvements. The CPA report, published in January 2004, highlighted that the council:

- engages well with the public, making use of innovative consultation techniques;
- is taking a leading enabling role within the local strategic partnership, which is developing the vision set out within the community strategy for the next 10 to 15 years;
- has used its significant financial resources to deliver significant developments within the borough, and also to attract additional joint funding for schemes such as the 'milestones' museum; and
- continues to view customer access to services as a high priority, and makes effective use of community facilities in promoting its services.

However, the assessment also found room for improvement including:

- under-performance in some core service areas;
- the relatively high cost of some of its key services, and an inconsistent approach to cost-effectiveness; and
- more challenging financial circumstances ahead for the council, which it is taking steps to address.

Post-CPA improvement planning

The council has responded positively to the challenges raised within the CPA report by developing a robust corporate improvement plan.

The plan has a number of good practice features, in that it:

- allocates clear responsibilities for specific actions;
- sets a realistic timeframe for implementation;
- specifies how progress against planned improvements will be monitored and reported; and
- allocates a relative priority to each action, using colour coding.

The council has also considered the resource implications of the implementation plan, which is reflected in the realism of the time frame that has been set for its implementation.

Performance information

Best Value Performance Plan (BVPP)

We have provided an unqualified opinion on your 2004 performance plan.

Our review confirmed that your 2004 performance plan is compliant with legislation. The council has prepared and reported the specified performance indicators, although a number of amendments have been made to the published performance indicators following our audit.

Our unqualified opinion is attached to this Letter at Appendix 4.

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 the Benefits Fraud Inspectorate (BFI) and Local Government Office contact. We share information and seek to provide 'joined up' regulation to the council.

Accounts and governance

We have provided an unqualified audit opinion on your 2003/04 accounts on 19 November 2004.

The council's overall control framework is robust and we have not identified any significant weaknesses within it. The council is planning to fully integrate risk management into its management arrangements during 2005.

Audit of 2003/04 accounts

We provided an unqualified opinion on the council's 2003/04 accounts on 19 November 2004.

Matters arising from the final accounts audit

The council approved its 2003/04 accounts on 22 July, well in advance of the August deadline. The working papers that were provided for audit were of a good standard and we completed the detailed testing on your 2003/04 accounts during August and September. We provided an unqualified audit opinion on your 2003/04 accounts on 19 November 2004.

Reporting to the council – SAS 610

Statement of Auditing Standards (SAS) 610 'Reporting to those charged with Governance' applies to our audit of your 2003/04 accounts. This requires us to report issues arising from our audit to members before we give our opinion on your 2003/04 accounts.

There were two issues that need to be brought to members' attention under SAS 610. These relate to:

- the basis of the unfunded liabilities pension liabilities; and
- the accounting treatment in respect of the reversal of the pension reserve.

A SAS 610 report has been prepared and presented to the Finance and Accounts Review Panel in November 2004.

Financial standing

The council continues to be in a healthy financial position at the end of the year. Net operating expenditure was £2.3 million lower than the original estimate of £17.8 million; the general fund balance amounted to £1.5 million on 31 March 2004, in line with the Policy and Budget Framework.

The council has experienced significant slippage on its capital programme during 2003/04, and is therefore taking action to improve delivery in future years.

Current financial position

In 2003/04 the council's net operating expenditure amounted to £15.5 million which was £2.3 million less than the original budget and £1.18 million less than the revised budget, before allowing for transfers to and from reserves. This position was primarily due to:

- realised gains on investments of £1.5 million;
- a combination of additional income and under-spending against budget of £0.8 million; and
- the early achievement of planned service savings.

This under-spend enabled the council to make additional contributions to revenue and capital reserves of £0.8 million and £1.5 million respectively, while maintaining a general fund balance of £1.5 million in line with the policy and budget framework for 2004/05. In addition, earmarked revenue reserves amounted to £20.5 million at 31 March 2004.

The council has carried out a comprehensive review of its financial policies and reserves during 2003/04. The Corporate Director and Returning Officer has confirmed that the 2004/05 budget is robust and supported by adequate reserves, as required under the Local Government Act 2003.

Financial standing projections

The proposed budget strategy for 2005/06 to 2007/08 gives proper consideration to the operational and financial risks including council and cabinet decisions, one-off items, service changes, and other local and national pressures.

The overall medium-term financial forecast predicts a general fund surplus of £1.8 million for 2005/06, falling to £1.7 million in 2006/07 and then a small surplus of £0.02 million in 2007/08.

Capital programme

There has been slippage of £11 million against the council's original capital programme of £18.5 million for 2003/04. Actual spending amounted to only 41 per cent of the original budget.

The council has therefore taken steps to address this slippage, including:

- rephasing the timing of schemes in the capital programme;
- introducing a capital appraisal assessment for each new scheme, including a risk assessment of delivery; and
- requiring heads of service to explain any future delays in the progress of each capital scheme to the performance panel and senior management team.

Systems of internal financial control

We have not identified any significant weaknesses in the council's overall control framework. The council has an action plan in place which will enable it to integrate risk management into its management arrangements, following the adoption of the risk management strategy in June 2004.

The council has developed robust arrangements to satisfy itself that its systems of internal financial control are both adequate and effective.

The cabinet approved the risk management strategy in June 2004, which is supported by a risk register. An action plan is in place that will enable the council to fully embed risk management into its management arrangements during 2005.

Internal Audit

Last year we assessed Internal Audit as being 'adequate.' Since then additional resources have been made available to the section. We have undertaken another review of Internal Audit as part of the 2003/04 audit and concluded that we could place reliance upon their work for our opinion purposes. Although slippage had occurred within their 2003/04 programme, all 2003/04 reports were available to us before we carried out the final accounts audit.

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

We have not identified any significant issues in respect of your arrangements to ensure proper standards of financial conduct and to prevent and detect fraud and corruption.

Standards of financial conduct and legality of transactions

Our work in this area has not identified any significant weaknesses in the framework established by the council for ensuring the legality of its significant financial transactions.

We have not identified any significant changes to systems or procedures which would weaken these arrangements significantly.

Other governance work

Progress has been made with implementation of recommendations made in previous audit reports covering:

- ICT strategy - GIS review;
- disaster recovery; and
- review of revenues systems.

The council is also continuing to address the government's 'Implementing E-Government' agenda, focussing on the 83 priority outcomes that were set in April 2004.

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 emphasis on strategic regulation, the Audit Commission has adopted a more risk-based approach to the certification of grant claims.

With effect from 2003/04, smaller claims will not be subject to audit or will receive a lighter touch audit. The audit approach for larger claims has been determined by risk and the adequacy of the council's control environment.

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 £83 million.

The Commission are repeating the exercise this year and will again collect payroll, pensions, housing benefits, student loan and housing rents data from 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 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.

Looking ahead

Future audit and inspection work

We agreed the audit and inspection plan for 2004/05 with officers in April 2004. The results of work that we undertake will be reported in next year's Annual Letter. The Audit Commission's planned work, together with that of other inspectorates, is included on both the Audit Commission and the LSIF (Local Services Inspectorates Forum) websites.

We have sought to ensure, wherever possible, that our work relates to the improvement priorities of the council (although following the CPA assessment of 'excellent' we do not carry out mandatory performance or inspection work). The Audit Commission and the incoming auditors, PriceWaterhouseCoopers, will continue with this approach when planning our combined programme of work for 2005/06. We will 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 for application 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 audits.

Further details will be provided in the Audit and Inspection Plan 2005/06, which will be developed with PriceWaterhouseCoopers.

CPA 2005 and beyond

The Audit Commission has consulted on a new framework for CPA for 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 Senior Management Team. A copy of the Letter was presented to members on 23 November 2004.

The council has taken a positive and constructive approach to our audit and inspection. 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
10 December 2004

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.

Reports issued during 2003/04

Report issued	Date
Audit Plan	March 2003
CPA Report	January 2004
Interim Memorandum	June 2004
Annual Audit and Inspection Letter	December 2004
Final Accounts Report	December 2004

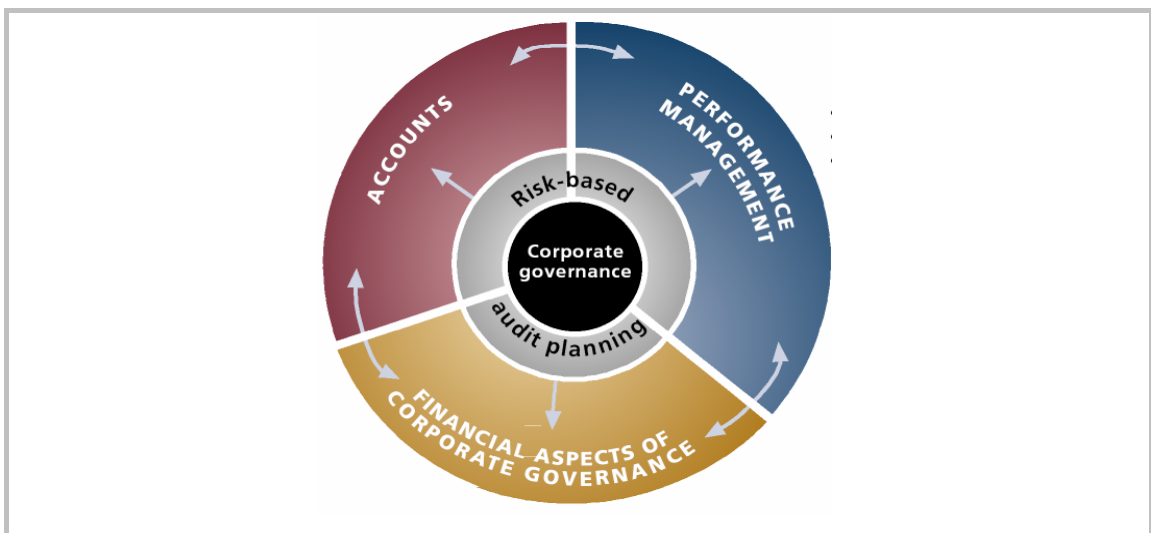
Scope of audit and inspection

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.

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 and 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	Actual 2003/04
Accounts	£26,276	£26,276
Financial Aspects of Corporate Governance	£19,180	£19,180
Performance	£28,590	£28,590
TOTAL CODE OF AUDIT PRACTICE FEE	£74,046	£74,046
Grant Claim Certification (best estimate 2003/04 actual)	£20,800	£24,500
Additional Voluntary Work (under section 35)	0	0

Inspection fee update

The full year inspection fee is £15,800. The work reported in this Annual 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.

Auditor's report to Basingstoke and Deane Borough Council on its Best Value Performance Plan for 2004/05

Certificate

I certify that I have audited Basingstoke and Deane Borough 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; and
- 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; and
 - 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.

Unqualified opinion

In my opinion, Basingstoke and Deane Borough 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 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.

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



Martin Robinson
District Auditor and Relationship Manager
10 December 2004