

Annual Audit Letter

Basingstoke and Deane Borough Council

INSIDE THIS LETTER

PAGE 2

- The purpose of this Letter
- Audit objectives

PAGE 3

- Background to the audit
- Key messages

PAGES 4 - 8

- Performance management
- Financial aspects of corporate governance
- Accounts
- Future audit work
- Status of our Annual Audit Letter to the Council

PAGE 9

- Closing remarks
- Reports arising from our audit

APPENDIX 1

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



Reference:	MBBA010AAL02W – Final
Authors:	Stephen Taylor – District Auditor Mike Bowers – Audit Manager
Date:	December 2002

The purpose of this Letter

This Annual Audit Letter summarises for Members the more important matters arising from our audit for 2001/02 and comments on other current issues. We have produced separate reports during the year on completion of specific aspects of our work, which are being discussed in detail with officers. The reports are listed at the end of this Letter for Members' information.

The Audit Commission has circulated to all audited bodies a statement, which 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.

The Letter includes a summary of our findings in relation to the audit of your Best Value Performance Plan (BVPP), which was published in June rather than March in line with revised legislation.

Audit objectives

Our Code of Practice requires us to design a programme of work to address the significant operational and financial risks you face which impact on our responsibilities. Our work focuses on whether you have adequate arrangements for the following.

Performance

- Securing economy, efficiency and effectiveness in the use of your resources.
- Best Value Performance Plan.
- Producing performance information.

Financial aspects of corporate governance

- Ensuring your financial standing is soundly based.
- Satisfying yourselves that your systems of internal financial control are both adequate and effective.

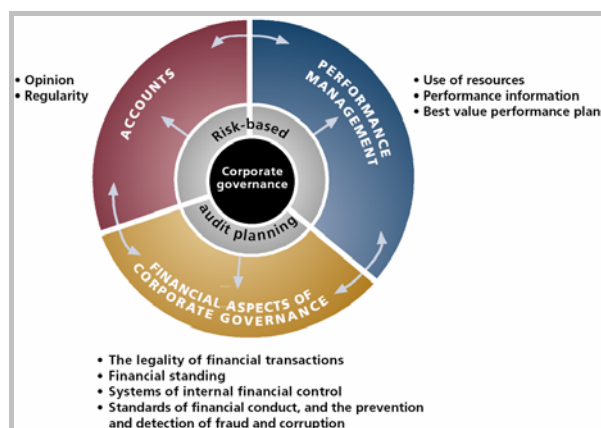
- Ensuring proper standards of financial conduct and to prevent and detect fraud and corruption.
- Securing the legality of transactions.

Accounts

- We have to give an opinion that your accounts present fairly the Council's financial position.

The position is shown as Exhibit 1 below.

EXHIBIT 1 THE AUDIT COMMISSION'S CODE OF PRACTICE



Our audit has addressed the requirements of the Code of Audit Practice and we have worked with the Council to maximise the benefits of the integrated audit approach. We have reviewed your arrangements for dealing with risks and we have undertaken more detailed work in selected areas of higher risk. We also liaise with Best Value Inspectors to minimise duplication across our roles and responsibilities.

Background to the audit

It has been another demanding year for the Council and within the above framework. The audit has focused and reflected on a number of key national and local issues including:

- continuing to develop and implement a new constitution with appropriate political and management structure
- developing performance management and accelerating progress on Best Value
- responses to new legislation
- e-government
- implementing new revenues systems.

The key messages emerging from this year's audit are set out below.

KEY MESSAGES

Overall conclusion

The Council has continued to address the challenges that it has faced in a positive manner during the year, changing its services and structures to ensure that it can meet its Community's needs.

The audit has however, identified a number of areas where action is recommended to ensure that performance can be sustained in the medium to longer-term.

The Council is taking action to address each of these issues and progress will be tested during the new Comprehensive Performance Assessment, which is likely to commence with a self assessment in the autumn of 2003.

The following key messages from this year's audit are highlighted for Members.

Performance management

The Council has made significant progress in establishing its overall corporate plan and the links between its vision and values to the allocation of resources within its revenue and capital programmes.

The Council's focus should continue to be on more effective alignment between its key priorities and resources to achieve greater impact in service delivery.

Best Value

The Council has been proactive in building Members capacity and skills in relation to their involvement in the Best Value and Scrutiny processes. The Best Value Reviews have enabled the Council to reassess its services, to ensure that they are effective and focused on local needs.

The Review Programme is to take a more strategic and thematic approach, although the prioritisation of Best Value Reviews will need to be revisited.

Disaster recovery and business continuity plans

Following the reorganisation within the Council officers have questioned the robustness of the Council's disaster recovery and business continuity plans. These concerns have been confirmed through our joint review of these Plans, which indicated that they had been prepared in respect of one off situations and are largely out of date.

The recommendations that have been made to address this situation have been agreed with officers.

Financial position

The Council continues to benefit from sound financial management, which is reflected within the level of revenue and capital reserves at the financial year-end.

The improved control over budgets together with the development of closer links between the Council's revised priorities and the allocation of resources should assist the Council to maximise service delivery.

Members should review the revenue and capital balances to ensure that the levels can be justified to underpin the medium-term financial strategy.

Legality of financial transactions

We are in ongoing correspondence with an elector in respect of issues relating to a housing grant and Members expenses. This has been referred to the Audit Commission. In addition, we have raised an issue of legality with the Council and await a response.

Performance management

The Council has made significant progress in establishing its overall corporate plan and the links between its vision and values to the allocation of resources within its revenue and capital programmes.

The focus should now continue to be on more effective alignment between its key priorities and resources to achieve greater impact in service delivery.

Overall framework

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.

It is recognised, however, that the Council's overall objectives are not being fully reflected within Service Plans. The Council is therefore developing its business planning processes to align service delivery more closely to the corporate objectives and to move more closely toward a portfolio structure, and away from a service based approach.

The role of the Overview and Scrutiny Committees in relation to performance management is being developed, to include the review of Performance Indicators to identify areas of poor performance and develop appropriate responses.

Last year we recommended that the Council should develop its systems to set more effective targets which draw upon trend and comparative information. A dedicated team has been established to develop the performance management process including meaningful Performance Information (PIs), robust targets and trend information.

The Service Planning process is also to be developed to provide more robust performance measures that reflect the priorities of the corporate plan and encourage closer working with partners, to derive meaningful measures.

The Council's focus should now be on continuing to develop and improve the alignment of corporate priorities and resources.

Best Value

The Council has been proactive in building Members capacity and skills in relation to their involvement in the Best Value and Scrutiny processes. The Best Value Reviews have enabled the Council to reassess its services, to ensure that they are effective and focused on local needs.

The Review Programme is to take a more strategic and thematic approach, although the prioritisation of Best Value Reviews will need to be revisited.

We have given an unqualified opinion on your 2002/03 BVPP, having completed our audit and concluded that your plan complies with the Act.

Culture

The Council has continued to seek continuous service improvement through its Best Value Review Programme, which together with the developing Community Plan and Local Strategic Partnership has aided it to focus service delivery on Community needs.

The level of corporate support for Best Value is reflected in the range of performance management developments that have been established and the positive response that continues to be given to external reviews.

Development

There has been extensive training for Members in relation to the Best Value and Scrutiny processes, to develop their ability to effectively challenge service delivery and process issues.

The Council has developed credible Best Value Implementation Plans, adapting them as circumstances have changed. The Plans also identify the implications for staff and resources, which the Council has been able to resource through budget bids or through prioritisation and reallocation of resources.

The monitoring processes for Best Value Improvement Plans have also been improved, through the establishment of a dedicated corporate resource co-ordinating progress. The Council is aiming to use this information to provide a wider perspective on progress with

Best Value Implementation Plans and to assess the impact of overall improvements.

Review programmes

The revised Best Value Review Programme provides for a more thematic and cross-cutting approach, which will allow the Council to take a more corporate view of services and ensure they are effectively aligned to meet corporate objectives.

The Council has not however, revisited its prioritisation of Best Value Reviews and will therefore need to do this, following the development of the Local Strategic Partnership and the Community Plan, alongside the developing performance management system.

Performance information

We are satisfied that the systems for collecting and recording performance indicators are sound. An action plan has been prepared and agreed with officers which will make minor improvements where necessary.

Comprehensive Performance Assessment

Following the publication of the White Paper 'Strong Local Leadership – Quality Public Services' arrangements are now being finalised for Comprehensive Performance Assessments at district councils. This will bring together the views of the Council on its own performance with those of all external regulators to produce for the first time an assessment of overall performance and which will be the basis for future internal and external improvement planning.

The starting point will be a self-assessment of the Council's proven capacity to improve. We look forward to working with the Council to facilitate this process and then working with you during the Comprehensive Performance Assessment process.

New political arrangements

The Council has made significant efforts to ensure that all members are given the opportunity to be involved in the democratic process. Members are consulted prior to Cabinet

making key decisions and efforts are made to ensure that they have adequate opportunity to contribute to the debate.

Members have reviewed the current Overview and Scrutiny arrangements and a revised structure is to be considered by full Council in December 2002.

The Council should continue to monitor the success of the new Member structures when they are put in place and have been tested, to ensure that they are effective and meet its needs.

Community Strategy

The Local Government Act 2000 introduced a duty on local authorities to prepare a community strategy which promotes the economic, social and environmental, wellbeing of their areas. Community strategies must be developed through a Local Strategic Partnership (LSP) whose membership and size should reflect its aims and breadth. Both the strategy and partnership are intended to form the umbrella framework for other key partnerships and planning processes. The emphasis of the duty is on effective engagement and involvement of local communities in both the development and implementation of the strategy.

At Basingstoke and Deane the LSP has been established and a draft strategy has been drawn up for consultation with the aim of informing the 2003/04 budget.

We will continue to monitor progress and plan to review the draft strategy.

Disaster recovery and business continuity arrangements

Following the reorganisation within the Council officers have questioned the robustness of the Council's disaster recovery and business continuity plans. These concerns have been confirmed through our joint review of these Plans, which indicated that they had been prepared in respect of one-off situations and are largely out-of-date.

The recommendations that have been made to address this situation have been agreed with officers.

Officers have questioned whether sufficient disaster recovery plans are in place to minimise the Council's exposure to unacceptable levels of risk, against the background of the replacement of major financial systems, the development of the new Geographical Information System and the delivery of the Government's e-government agenda.

We have therefore jointly undertaken a review of the robustness of the disaster recovery plans with Internal Audit, in order to identify any improvements that can be made.

The main conclusions from the review were that the Council is addressing disaster recovery and business continuity on a reactive basis and not as a result of a risk analysis exercise. There are plans in place together with an Information Systems Register and these now require updating following the restructuring.

There is no overall formal disaster recovery strategy in place, which should be directly linked to the business planning process, or ongoing management of the process.

A Risk Management Group has been established, which meets twice a year and has access to funding. This group does not, however, generally address potential IT risks such as the loss of power to the computer suite because such risks are seen as an operational issue.

An analysis of risks has been prepared as part of this review, which details potential risks and ascribes to them an indicative risk score of either High, Medium or Low. Examples of good practice that should be in place within the Council have also been provided within guidelines on the IT risk assessment process.

An action plan has been prepared and agreed with officers, to address the recommendations that have been made as part of this review.

Festival Place

The Council has successfully overseen the completion of the 'Festival Place' development, working with its partners. The development opened to the Public in October 2002 providing a wide range of retail outlets and associated facilities.

The Council is to reassess the value of its interest in the completed development during

2002/03, based upon advice from its professional advisers. We will monitor this process within the 2002/03 audit.

Financial aspects of corporate governance

Legality of financial transactions

We are in ongoing correspondence with an elector in respect of issues relating to a housing grant and members expenses. This has also been referred to the Audit Commission. In addition, we have raised an issue of legality with the Council and await a response.

During the year we reviewed the Council's overall arrangements to ensure the legality of transactions with a financial consequence, and have highlighted some issues in the following paragraphs for Members' attention.

Correspondence with electors

We have been in ongoing correspondence with an elector concerning grant aided repairs to his property, and Members expense claims.

I am satisfied that we have dealt with the issues to my satisfaction and there are no points that I wish to challenge further.

These issues, which relate to the 2001/02 audit, have also been referred by the elector to the Audit Commission. I am therefore unable to close the 2001/02 audit until they have been dealt with and are resolved.

Stamp duty saving scheme

We are also awaiting a response from the Council in respect of concerns that we have raised over a stamp duty saving scheme that was used within a land deal. The deal involved four parties, one of which was the Council. One of the parties received advice from their legal adviser's tax department of a scheme to minimise stamp duty payable. The Council has sought written confirmation that the scheme remains legal. A reply is currently outstanding.

Financial standing

The Council continues to benefit from sound financial management, which is reflected within

the level of revenue and capital reserves at the financial year-end.

The improved control over budgets together with the development of closer links between the Council's revised priorities and the allocation of resources should assist the Council to maximise service delivery.

Members should continue to review the revenue and capital balances to ensure that the levels remain appropriate to underpin the medium-term financial strategy.

Financial performance

The Council's net operating expenditure during 2001/02 was £1.18m higher than the original estimate. This was mainly due to a reduction of £0.8m in interest income and losses arising from the revaluation of investments amounting to £2.1m, off set by savings on the net cost of services of £2.3m.

An additional £5.3m was however added to revenue reserves during the year, which totalled almost £22m at the financial year-end, other capital reserves amounted to £6.3m.

The General Fund balance rose to £2.6m by the 31 March 2002, which represents a prudent financial basis on which to fund future spending plans given future uncertainties.

Capital expenditure in 2001/02 amounted to £33.7m, of which £8.4m related to investments in equities. The balance of capital expenditure was £8.5m below budget, the most significant element of which related to delays in progressing Social Housing Schemes (£5m).

Forward projections

The Council has recently forecast a net revenue surplus for 2002/03 amounting to £0.2m and forward projections based on known factors predict a surplus for 2003/04 of £0.2m, followed by deficits of £0.2m and £0.6m in 2004/05 and 2005/06.

A number of guidelines for resource allocation to new initiatives have also been provided to Members, which will enable the Council to prioritise expenditure and balance its budgets.

The Council continues to plan a significant capital programme, which will be principally funded from capital receipts and revenue and

capital reserves. These plans will significantly impact upon the funds within the Development Purposes Reserve (DPR) which are expected to fall to £11.5m by 2005/06, of which £8.5m is available for use.

The results of the property portfolio condition survey have still to be quantified, which will potentially reduce the DPR balance further.

We will continue to monitor the Council's financial standing at subsequent audits, however Members should continue to review the revenue and capital balances to ensure that levels remain appropriate to underpin the medium-term financial strategy.

Systems of internal financial control

There were no material issues arising from our work. Minor control improvement recommendations have been agreed with officers.

On the basis of our work, we are satisfied with your internal financial control arrangements.

The quality and scope of Internal Audit's work is of a good standard and we have been able to place reliance on their work.

Asset management plan and capital strategy

The Council has submitted its revised Asset Management Plan and Capital Strategy to the Government Office for the South East (GOSE). Confirmation has been received from GOSE that they have judged the Council's submissions as good; these are reflected in the CPA assessment process. The Council will need to continue to produce its Asset Management Plan and Capital Strategy in future years, but will no longer need to submit them for approval.

Review of revenues systems

The Council has implemented a major IT project to replace its revenues systems, including Housing Benefits, Council tax and Non-Domestic Rates. The project started in October 2000 and culminated when the International Business Systems (IBS) systems went live on 7 December 2001.

We have jointly reviewed the implementation of the new systems with Internal Audit, in order to provide an independent assessment of the process.

Our overall conclusion is that staff have spent a considerable amount of time and effort implementing the new systems within a relatively short time scale. Systems management and administration is being provided by staff within the Local Taxation and Benefits Section, supported by the Council's IT Services.

Software issues are being referred to IBS so that they can be resolved.

The more significant issues that arose during the review include:

- ensuring that the process that is used to prepare the benefit subsidy claim is robust and accurate
- establishing management and system administration roles for the system and identifying individuals to perform them
- deciding whether or not to develop and utilise the sundry debtors module as an alternative to the Aptos debtors system.

An action plan has been prepared and agreed with officers to address the issues that have arisen during the course of the audit, where necessary in advance of the audit of the National Non Domestic Rate and Housing and Council Tax Benefits Grant claims.

Prevention of fraud and corruption

Arrangements for preventing and detecting fraud and corruption are satisfactory, although the Council has still to formally adopt its draft anti-fraud and corruption strategy.

Overall arrangements for prevention of fraud and corruption have been reviewed and there are no significant issues that we need to bring to Members' attention. The Council has however, still to formally adopt its draft anti-fraud and corruption strategy.

Accounts

We were able to give an unqualified opinion on the Council's accounts in November 2002,

although we are unable to close the audit of the 2001/02 accounts due to unresolved issues including matters raised by an elector.

The Council approved its financial statements in advance of the 30 September 2002 deadline, and we have been able to complete the audit of the financial statements for the year.

During the audit we noted that officers had circulated all Members and Directors requesting confirmation of the existence, or non existence, of related party transactions. However thirteen Members have failed to complete and return their confirmation to Accountancy. The Council should ensure that all Members comply with this requirement in future.

Future audit work

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

As a result of current changes within the Audit Commission and in order to bring the audit year in line with your own financial year, the next Audit Plan will cover a 17-month period up to 31 March 2004. Within this plan we will include all the audit work to satisfy our responsibilities in respect of the audit of accounts for 2002/03 and 2003/04.

District Audit will also be merging with the Best Value Inspectorate to become the Operations Directorate of the Audit Commission and a major focus for our joint work next year will be the Comprehensive Performance Assessment.

We look forward to working with you in addressing this and other new challenges.

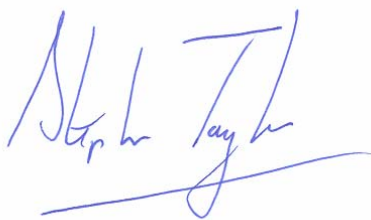
Status of our Annual Audit Letter to the Council

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

Member or officer in their individual capacity, or to any third party.

Closing remarks

Finally, I would like to take this opportunity to express my appreciation for the assistance received from officers during the course of our work. Our aim is to provide a high standard of audit service which makes a practical and positive contribution to the work of the Council. We recognise the value of your co-operation and support.



Stephen Taylor
District Auditor
9 December 2002

Reports arising from our Audit

- Interim Audit Memorandum (September 2002)
- Review of Revenue System (October 2002)
- Review of Disaster recovery and Business Continuity arrangements (October 2002)
- Final Accounts Audit 2001/2002 (November 2002)

Auditor's report to Basingstoke and Deane Borough Council on its Best Value Performance Plan for the year ending 31 March 2003

Certificate

I certify that I have audited Basingstoke and Deane Borough Council's Best Value Performance Plan (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 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 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
- where appropriate, recommending how the Plan should be amended so as to accord with statutory requirements
- to recommend:
 - where appropriate, procedures to be followed in relation to the Plan
 - whether the Audit Commission should carry out a best value inspection of the Council under section 10 of the Act
 - whether the Secretary of State should give a direction under section 15 of the Act.

Opinion

Basis of this opinion

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

We planned and performed our work so as to obtain all the information and explanations which we 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. Our work therefore comprised a review and assessment of the Plan and, where appropriate, examination on a test basis of relevant evidence, sufficient to satisfy ourselves 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.

Included in the Plan are the Council's estimates for the year ended 31 March 2002. Actual results for the year are likely to be different from the figures reported, because events and circumstances frequently do not occur as expected, and the differences may be material. To the extent that figures included in the Plan are estimates, our 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

Unqualified opinion

In my opinion, Basingstoke and Deane Borough Council has prepared and published its BVPP 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.

Basis of recommendations

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

We planned and performed our work so as to obtain all the information and explanations that we considered necessary in order to enable us to determine whether or not to make recommendations in this report on the matters that came to our attention during the audit.

However, our 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, our 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.

Recommendations

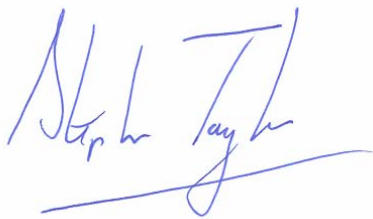
On the basis of our audit work, I do not consider that there are matters that should be brought to your attention.

Recommendations on referral to the Audit Commission/Secretary of State

I am required each year to recommend whether, on the basis of our 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 our 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 Act
- I do not recommend that the Secretary of State should give a direction under section 15 of the Act.

DA signature:	 Stephen Taylor District Auditor
Date:	9 December 2002