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*St Albans District Council*

**Audit Letter 2002**

*December 2002*

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This report has been prepared on the basis of the limitations set out on page 11.

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## ***1. Executive summary***

*The audit process for 2002 is now drawing to a close. The purpose of the Audit Letter is to summarise the key issues to arise from our work over the last 12 months. This summary provides an overview of the key issues, grouped according to some of the key headings in the Audit Commission's Code of Audit Practice.*

### ***1.1. Performance management and related issues***

The Council has made good progress over the last 12 months in continuing to develop its performance management arrangements. There is now much more emphasis on ensuring that the performance data given to officers and members is timely and appropriate to their particular responsibilities. Good use is also being made of technology in that a lot of the performance information is available via a Council-wide intranet.

However, our audit of the Council's Best Value Performance Indicators (BVPIs) for 2001/02 has raised a more fundamental question as to the reliability of some of PI data being given to senior officers and members throughout the year. It was for this reason that we recommended in last year's Audit Letter that the Council should introduce some mechanism for carrying out independent checks on the PIs.

We understand that Internal Audit have taken on-board this role but it is clear that further work is required to ensure that senior officers and members can fully rely upon this information.

### ***1.2. Best Value Performance Plan (BVPP)***

We have issued our formal audit report on the Council's BVPP, confirming our view that the Plan complied with statutory requirements 'in all significant respects'. There are a few minor areas within which next year's Plan could be improved but our overriding view was that the Plan was very well written and presented and would give the public an excellent overview of the Council's overall performance.

### ***1.3. Financial aspects of corporate governance***

It is our view that the Council has continued to be prudent in its approach towards its finances. This is perhaps best borne out by the fact that a cornerstone of the Council's financial strategy is to balance its budget with limited (or zero) reliance on the use of balances and the Council is now debt free.

Our experience is that officers and members are intent on maintaining sound internal controls and minimising the risk of fraud and corruption. Officers have a good grasp of the local authority finance and legal regimes and are therefore well positioned to provide reliable advice to members.

### ***1.4. Auditing the accounts***

We will issue unqualified audit report on the 2001/02 accounts well before the 31 December 2002 deadline. As always, we have found that the Council's accountancy staff are very professional in the way they prepare the accounts which were backed by good quality working papers.

### ***1.5. Other areas of our work***

Our work on the certification of the Council's grant claims is progressing. There are no major issues to report.

No local electors took up their the right to question the Council's auditors on issues associated with the 2001/02 accounts.

### ***1.6. Changes in auditors***

In September 2002, the Audit Commission confirmed its earlier proposals to change the Council's auditors as part of its new 'framework contract arrangements' and District Audit will take on board this responsibility for 2003. This means that this is our last Audit Letter to the Council. We are extremely grateful for the co-operation and assistance from officers and members whilst we have acted as the Council's auditors..

## ***2. Review of developments in the year***

***Our audit work means that we are in regular contact with members and senior officers throughout the year. We have summarised below what we regard as being the key developments at the Council over the last 12 months.***

### ***2.1. Napsbury***

In March 2002 the Council settled its dispute over the award of costs to the Department of Health (DoH) by the Secretary of State in respect of the public inquiry into proposals to redevelop the former Napsbury Hospital site. Payments totalling £240,000 were made in February and March 2002 in full and final settlement of the award (£340,000) which was part funded from a provision in the 2000/01 accounts.

### ***2.2. Debt free status***

The Council repaid all its long-term debts to the Public Works Loans Board (PWLB) towards the end of the 2001/02 financial year. This means that the Council can now use all receipts from asset disposals and any surplus Provision for Credit Liabilities (PCL) to fund its capital programme.

### ***2.3. E-voting pilot***

The Council attracted national attention in May 2002 when it became one of only a handful of councils in the country to pilot the Government's plans for electronic voting. The experiment (in the Sopwell and Verulam wards) has been hailed as a success with a turnout of 39% in particular in the Verulam ward.

### ***2.4. St Albans Local Strategic Partnership (LSP)***

The Council's LSP with other local public and private sector agencies was formed in April 2002. The St Albans & District LSP will now oversee the development of a community strategy, potentially focusing on a range of community safety, health, transport, environment and leisure initiatives in the area.

### ***2.5. Implementing E-Government (IEG)***

In November 2002, the Council submitted its second IEG Statement to the Government, outlining the plans for further work in partnership with the County Council and other districts in Hertfordshire to improve on line access to information on local authority services. This is intended to build on the first IEG Statement which resulted in the 11 councils receiving £2 million of funding from the Office of the Deputy Prime Minister (ODPM) to develop an integrated community portal based on the concept of 'One stop shop – many doors'.

### ***2.6. Senior management changes***

The Council's Strategic Director (Corporate Services) left in July 2002 after 18 months in post to take up the position of Chief Executive at Hart District Council. This was followed by the departure of the Strategic Director (Community Services) in November 2002 who has taken up a position at a private sector consultancy. The outgoing directors spoke very positively about their time at St Albans and the Council has now recruited replacements who will be in post in the early part of 2003.

### ***2.7. Best Value reviews and Inspection***

The Council embarked on three major Best Value reviews in the year, focusing on Leisure, Social Inclusion, and Audit/Corporate Services, the results of which will be reported to the Cabinet between January and March 2003. The Council's Transport services have recently been subject to a follow-up inspection, the initial feedback from which has been reasonably positive, despite the Council's difficulties in recruiting staff.

### ***2.8. Comprehensive Performance Assessment (CPA)***

District councils are to be subject to CPA over a two-year period starting in early 2003. The expectation is that all the districts in Hertfordshire are likely to be covered in the summer/autumn of 2003 and this gives the Council limited time to prepare for the assessment process. The Council has, however, set up a group of officers to look at the detailed requirements of the regime and consider the Council's response.

### 3. **Performance**

*Our main concern on the Council's performance management arrangements remains the reliability of some of the Council's performance indicators. However, the Council's arrangements have improved over the last 12 months with good use being made of technology. We have also issued an unqualified audit report on the Council's latest BVPP, which we believe gives an excellent overview of the Council's overall performance.*

#### 3.1. **Prioritisation of our work**

The Audit Commission's Code of Audit Practice now places less emphasis on 'national' Use of Resource (UoR) projects, developed centrally by the Commission and applied locally by auditors. Our priorities can now be decided locally, having regard to our assessment of local risks and priorities.

The overriding conclusion from our risk assessment for St Albans was that our primary focus should be to revisit the work we carried out last year on the Council's performance management arrangements. Our work was carried out in September 2002.

#### 3.2. **Performance management system**

The Council has clearly taken heed of our main recommendation in last year's statutory audit report on the BVPP on the need for the Council to ensure that members and senior officers are receiving an appropriate level of performance information to enable them to manage the Council's performance effectively. The Council is making good use of a Council-wide intranet to capture and report PI data. There is also more of a focus on local and national PIs which more closely align to the Council's overall aims and objectives. We also found that lines of accountability for performance were much better defined than a year ago when we last carried out our review.

On a less positive note, our audit of the Council's Best Value Performance Indicators (BVPIs) for 2001/02 (completed in October 2002) did give rise to issues which could call in to question the reliability of some of the PI data flowing through the performance management system.

As individual measures of the Council's performance, the BVPIs are a key component of the Council's overall performance management arrangements. As last year, we found that, despite the best of efforts on the part of the Council's lead Best Value Officer, some officers still attach a low priority to providing the back-up information to support the PI calculations and that, initially at least, a significant number of the PIs had been calculated incorrectly.

After various amendments to the Council's return to the Commission, our audit report eventually confined our concerns to just 13 PIs. However, the results of the audit raise a more fundamental question mark as to the reliability of some of PI data being given to senior officers and members throughout the year. It was for this reason that we recommended in last year's Audit Letter that the Council should introduce some mechanism for carrying out independent checks on the PIs.

We understand that Internal Audit have taken on-board this role but it is clear that further work is required to ensure that senior officers and members can rely upon this information. The key issues for the Council are to:

- Introduce a more systematic method of collecting and collating PI data. Our experience at other local authorities suggests that a standard template for each indicator detailing precisely how the PI should be calculated, including information sources could prove to be effective and
- Introduce further spot checks during the year in order to confirm that the PI data is reliable and up-to-date.

#### 3.3. **Best Value Performance Plan**

We have issued an unqualified audit report on the Council's 2002/03 BVPP. As a document aimed at the general public, it is our view that the

Plan is very well written and concise summary of the Council’s current performance. It sets out the Council’s overall aims in a very readable manner, together with its immediate priorities for the 2002/03 year. The Plan is organised in such a way that it is clear what the linkages are between the Council’s overall aims and plans for improvement.

### 3.4. *Inspection outcomes*

The BVPP reports on the outcome of the Council’s inspections to-date and provides a summary of progress on action plans which have been agreed with the Commission’s inspectors.

Whilst we are not responsible for the judgements expressed by the inspectors, we are committed to working with them in line with the agreed memorandum of understanding between auditors and inspectors. We have had numerous discussions with the inspectors over the last 12 months in connection with their inspections at the Council, the results of which have been:

<b>Transport published January 2002</b>	<b>Fair Service – poor prospects for improvement</b>
<b>Housing repairs – published March 2002</b>	<b>Good service – promising prospects for improvement</b>

### 3.5. *Comprehensive Performance Assessment (CPA)*

The Audit Commission is in the process of piloting its district council CPA methodology at selected sites across the country and the current plan is that all the districts in Hertfordshire will be subject to CPA in the summer/autumn of 2003.

It is currently intended that all districts will be categorised into one of five performance bands over a two-year period. The CPA methodology will involve a significant emphasis on self assessment, peer review and a focus on performance across two main service blocks (housing and open spaces).

The Council has set up a group of officers to look at the detailed requirements of the regime and consider the Council’s response. The Council’s incoming auditor will be required to assess the Council’s performance under each key aspect of the Code of Audit Practice using criteria developed by the Commission itself. The key areas of focus will be as follows:

<b>Code area</b>	<b>Summary of audit considerations</b>
<b>Financial standing</b>	<b>Setting a balanced budget Adequacy of financial monitoring and reporting Achievement of financial targets Adequacy of financial reserves, including provisions for liabilities</b>
<b>Internal financial control</b>	<b>Monitoring of key controls over financial systems Adequacy of internal audit arrangements Risk identification and management</b>
<b>Standards of financial conduct, including the prevention and detection of fraud and corruption</b>	<b>Compliance with the new ethical framework Compliance with the CIPFA/SOLACE Code on Corporate Governance Arrangements for preventing and detecting fraud and corruption</b>
<b>Financial statements</b>	<b>Timeliness and quality Adequacy of supporting records</b>
<b>Legality of financial transaction</b>	<b>Arrangements for the consideration of the legality of significant financial transactions Responses to new legislative developments</b>

We would encourage the Council to enter into early discussions with District Audit to help inform their assessment of the Council’s performance across the above categories.

### 3.6. Corporate governance and risk management

The Council recognises that compliance with the CIPFA/SOLACE Code on Corporate Governance and the Commission’s guidance on risk management (‘Worth the risk – improving risk management in local government’ – July 2001) constitutes good professional practice and is a key expectation under CPA.

The Council has now taken stock of the extent to which its existing processes meet these requirements and has identified further work which will be required to move towards full compliance with the CIPFA/SOLACE Code and the Commission’s requirements.

### 3.7. Follow-up on progress on prior year Use of Resource work

We have obtained an update from officers on the progress on the reports issued over the last two to three years which have not been overtaken by legislative and other developments.

Key recommendations / observations	Position as at November 2002
<b>Service and financial planning - 1999</b>	
At the time of our review in 1999, the Council was preparing its revenue and capital budgets on an annual basis which was largely incremental and had not developed a planning framework to drive its budgetary and financial planning processes.	The 2002/03 BVPP comments on the interaction between the Council’s service planning and budgeting arrangements. The Council’s medium term financial strategy sets the broad parameters within which the Council sets its budget and the inter-relationship with the Best Value review process. This in turn links to the Government’s overall expectation that local authorities will achieve a 2% efficiency target. It is clear from all of this that the Council’s service and financial planning arrangements are constantly evolving.

Key recommendations / observations	Position as at November 2002
<b>Income and charging - 1999</b>	
The main purpose of the review was to assess whether there was a degree of coherence between the Council’s charging/non-financial policies. This is arguably less of an issue at St Albans because the Council outsourced its leisure services in the early 1990s.	As last year, the Council’s budget position means that this is a major area of focus on an ongoing basis. The Head of Finance writes to all chief officers at the start of the budget cycle to remind them of the key points in the Audit Commission publication ‘The Price is Right’. A working party of the Council’s Overview and Scrutiny (Community Services) Committee has focused on further opportunities to more closely align fees and charges policies and the Council’s non-financial policies. The leisure Best Value review is addressing fee-related issues as part of its remit.
<b>Our main recommendation was on the need to give greater encouragement to service managers to consider the wider Council policy considerations when proposing charges.</b>	
<b>PAYE - 2000</b>	
Based on our limited review, the general level of compliance with Inland Revenue requirements appeared to be good for an employer of the Council’s size.	We agreed an action plan with officers in order to address a number of relatively minor issues and this is being progressed.
<b>VAT - 2000</b>	
The Council’s arrangements for administering VAT appeared to be satisfactory.	Again, we agreed an action plan with officers in order to address a handful of relatively minor issues. Most of these issues are under review on an ongoing basis.

**3.8. Key issues and recommendations for member attention**

- *Introduce a more systematic method of collecting and collating PI data;*
- *Introduce further spot checks during the year in order to confirm that the PI data is reliable and up-to-date;*
- *Enter into early discussions with District Audit to help inform their assessment of the Council's performance across the CPA 'audit indicator' categories;*
- *Continue the development of the Council's responses to CIPFA/SOLACE Code on Corporate Governance and the Audit Commission's management paper 'Worth the risk – improving risk management in local government'; and*
- *Aim to publish a statement on the Council's corporate governance arrangements in the 2002/03 accounts.*

## 4. *Financial aspects of corporate governance*

*Based on our work under the Commission's Code of Audit Practice, it is our view that the Council has continued to be prudent in its approach towards its finances. The Council remains committed to maintaining effective internal controls, minimising its exposure to fraud and ensuring that it does not enter into transactions for which it does not have the necessary legal powers.*

### 4.1. *Financial highlights 2001/02*

The Council's financial performance in 2001/02 is summarised on pages 2 to 6 of the accounts. The key highlights are:

- The Council redeemed £15 million of long term debt in the year and plans to remain debt free for the foreseeable future;
- Net General Fund expenditure was £14.6 million, broadly in line with budget;
- General Fund balances stood at just over £1.1 million, £0.6 million more than expected at the time the 2001/02 budget was set, mainly because the statutory transfer from the Housing Revenue Account to the General Fund in 2000/01 was £0.5 million higher than expected;
- The working balance on the HRA decreased by £0.1 million to £1.6 million; and
- Capital expenditure was £5.9 million, the majority of which was spent on improvements and repairs to council dwellings. Around 50% of this was financed from the Council's Major Repairs Allowance and the remainder from capital receipts, revenue or other reserves.

### 4.2. *Financial outlook – 2002/03 and beyond*

The Council is in the process of considering its budget options for 2003/04 and beyond and the impact of this on Council Tax levels. The Head of Finance's report to Cabinet in October 2002 sets out the broad context to the 2003/04 budget, and subsequent years, including:

- The expectation that the 2002/03 out-turn will be broadly in line with budget and working balances will remain at around £0.5 million;
- The outcome of the actuarial review of the Hertfordshire County Pension Fund and the substantial increase in the Council's pension fund contributions;
- The impact of the most recent pay award, under which there will be a further increase of 3.5% in 2003/04;
- Reducing levels of balances and the impact of interest rates remaining at their lowest levels for almost 40 years;
- Increases in members allowances of 20% in accordance with previous Council decision; and
- Increased employer's National Insurance Contributions as set out in the Chancellor's April 2002 budget.

The report also flags a number of uncertainties around the possible reconsideration of a local cinema project, the potential impact of PPP schemes, preparations for the Euro and the outcome of the Government's local authority financial settlement.

### 4.3. *General Fund balances*

The 2002/03 budget is balanced to the extent that the Council expects to meet its budgetary commitments without having to use any General Fund balances which (as previously discussed) currently stand at around £1 million. In many respects, the balance represents a contingency to meet any commitments, which were not foreseen at the time the Council set its budget/Council Tax level.

The adequacy of the balance is very much a judgmental issue having regard to a whole range of factors including the level of reserves, the robustness of the local authority's budget setting process and the effectiveness of the budgetary control process – it is of note that the Audit Commission's guidance on how auditors should judge the performance of local authorities for the purposes of CPA (referred to at 3.5) provides a guideline that earmarked reserves/balances should be around 5% of forecast net operating expenditure and this would be approximately £750,000 in St Albans case. However, the guidance prompts auditors to have regard to other factors including financial monitoring and reporting in arriving at their overall assessment.

Based on our knowledge of working with the Council over the last 7 years, we would reiterate the view that we do not believe that it would be financially prudent to allow the balances to fall below £0.5 million. We note that the Head of Finance is advising members on this basis.

#### **4.4. *Other aspects of the Council's finances***

##### **4.4.1. *Local tax collection***

A key measure of financial performance is how effective the Council is at collecting local taxes. Under the Best Value regime, the Government has set all district councils targets of collecting 98.2% of Council Tax due and 98.7% of Business Rates. The Council is already exceeding the Council Tax target having collected 98.7% in 2001/02, putting St Albans in the top 25% of all districts.

At 98.3%, the Council is fractionally behind the Business Rates target but expects to exceed this in the current year.

##### **4.4.2. *Housing rents arrears***

Housing rent arrears decreased in the year to the equivalent of 2.2% of the rent debit compared to 2.4% in 2000/01. This is below the Audit Commission's best practice target of 2.5%.

#### **4.5. *Financial systems***

We carry out a review or testing of controls over all the Council's major financial systems to assess whether there are any issues we need to be

aware of in the context of our opinion work on the Council's accounts. In carrying out this work, we rely as much as possible on the work of Internal Audit. A number of minor issues have been reported to officers but none of the issues warrant being reported to members.

#### **4.6. *Information Technology (IT) and Information Systems (IS)***

The Council is heavily reliant on IT and all the Council's main financial systems are computerised. As part of our work, we carry out a brief review each year to confirm that there are no major weaknesses in controls over the Council's IT and IS which might otherwise impact on our work. Again, a number of minor issues have been reported to officers but none of the issues warrant being reported to members.

#### **4.7. *Internal Audit***

We carry out an annual review of Internal Audit's work performance and status within the Council to confirm that we can rely on their work as part of our audit. Our overall aim has always been to try and avoid any duplication of internal/external audit effort in line with the Commission's 'managed audit' principles.

We found that Internal Audit's work was of a good standard and are grateful to the Head of Internal Audit and his team for the co-operation and assistance they have provided to us over the year.

#### **4.8. *Anti-fraud and corruption***

The Council has the primary responsibility for ensuring that proper arrangements are in place to prevent and detect fraud and corruption. Our responsibility is to review the Council's arrangements for the prevention and detection of problems of this nature to determine whether there would appear to be any major weaknesses in this respect.

In practice, we review the Council's overall arrangements on an annual basis, supplemented by 'one-off' reviews in areas which are known nationally or locally to be susceptible to fraud. The results of this year's reviews were satisfactory.

#### **4.9. *Legality***

We are required to assess the adequacy of the Council's arrangements for ensuring that the Council does not engage (or propose to engage) in financial transactions for which it does not have the necessary legal powers.

Our work includes discussions with officers, a review of Council minutes, a review of any national issues raised by the Audit Commission and, if necessary, responding to questions raised with us by the Council or by members of the public

As last year, the Council's arrangements appear to be satisfactory and there are no issues to draw to the attention of members.

#### **4.10. *Questions and objections from local electors***

The 'appointed day' on which local electors had the right to meet with us and formally question us on issues associated with the accounts was 11 September 2002. We received no representation on this day, nor have we received any questions or objections (formal or otherwise) from local electors in connection with the 2001/02 accounts during the year.

#### **4.11. *Key issues and recommendations for member attention***

- *Note that we have reiterated our view that we do not believe that it would be financially prudent to allow the balances to fall below the £0.5 million level referred to in our previous management letters to the Council.*

## 5. Auditing the accounts

***We anticipate issuing an unqualified audit report on the 2001/02 accounts well before the 31 December 2002 deadline. The vast majority of our work is complete.***

### 5.1. Accounts preparation process

Members formally adopted the Council's accounts for the year to 31 March 2002 on 19 September 2002. This was well ahead of the 30 September deadline prescribed by the Accounts and Audit Regulations.

The majority of our audit work on the accounts took place in August 2002. The audit progressed smoothly and the Council's Principal Accountant had compiled the accounts in a professional manner.

### 5.2. Grants

In addition to the £1.7 million of Revenue Support Grant received from Central Government in 2001/02, the Council receives significant additional grant funding in respect of:

- Housing benefits – part reimbursement for the costs incurred in paying housing and Council Tax benefits and administering the benefits process;
- Housing subsidy – mainly in respect of renovation grants and benefit payments to private tenants; and
- NNDR – collection of business rates locally and remittances to the DTLR's 'Central Pool'. This is subsequently redistributed to authorities on the basis of population. St Albans received £5 million in 2001/02

We are in the process of auditing the relevant claims in line with guidance from the Audit Commission. The NNDR return has already been signed off and returned to the DTLR before the 30 October 2002 deadline.

### 5.3. New accounting and audit issues in respect of the 2002/03 accounts

District Audit will no doubt be in touch to arrange a meeting with the Council's officers to discuss accounting issues of relevance to the 2002/03 audit. Briefly, however, the key issues are as follows:

<b>FRS 3 – Prior year adjustments</b>	<b>Local authorities have not hitherto been required to comply with this Standard but will be required to do so in their 2002/03 accounts.</b>
<b>FRS 17 – Pension costs</b>	<b>The 2001/02 accounts contain disclosures relating to the Council's pension costs and deficits but further moves towards full compliance with the Standard are required up to 2003/4</b>
<b>FRS 18 – accounting policies and estimation techniques</b>	<b>FRS 18 introduces a requirement for more rigour around the calculation of accounting estimates, particularly in connection with provisions.</b>
<b>Accounts and Audit Regulations</b>	<b>As currently drafted, the Regulations will require disclosures on the Council's assessment of the adequacy of its internal control arrangements and senior officer salaries. The Regulations also set out plans for advancing the timetable for approval and publication of the accounts in anticipation of the move towards compliance with the Whole Government Accounts initiative.</b>

## **6. Statement of responsibility**

We take responsibility for this report which is prepared on the basis of the limitations set out below.

Deloitte & Touche  
December 2002

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Our audit work has been performed in accordance with the Audit Commission's Code of Audit Practice. The limitations of our audit work and the respective responsibilities of auditors and the Audited Body in respect of the audit are set out in the Audit Commission's publication "Statement of Responsibilities of Auditors and of Audited Bodies". This report has been prepared solely for the use of St Albans District Council and may not be reproduced in whole or in part or copied to any other party, other than publication of the letter in its entirety to meet the legal requirement to publish our annual audit letter or as part of the committee papers of the council. Copies of this annual audit letter have been sent to the Audit Commission. No responsibility to any third party (including without limitation, the Audit Commission) is accepted.

The matters raised in this report are only those that came to our attention during the course of our audit and are not necessarily a comprehensive statement of all the weaknesses that exist or all improvements that might be made. Any system of internal control can provide only reasonable, not absolute, assurance against material loss to the Council or material misstatements in the financial accounts. The Council should assess recommendations for improvements for their full impact before they are implemented.