
St Albans District Council

Audit letter - 2001

December 2001

This report has been prepared on the basis of the limitations set out on page 13.

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1. Executive summary

We have completed our audit of the Council's accounts for 2000/01. The purpose of this Audit Letter is to set out our key conclusions from this year's audit process. This executive summary sets out the key conclusions from our work over the last 12 months.

1.1. Best Value, performance management and performance information

We issued our statutory audit report on the Council's Best Value Performance Plan for (BVPP) on 25 June 2001. The 2001/02 BVPP is the second plan published by the Council, setting out how it intends to discharge its statutory duty to pursue Best Value.

We issued an unqualified opinion on the Plan but did put forward a recommendation on the need for the Council to review the amount of performance indicator (PI) data being provided to members and senior officers. It was our opinion that the amount of PI data appeared to be excessive and might undermine the effectiveness of the Council's performance management system. From interviews with members, they also perceive that they could have greater involvement in the Best Value review process at St Albans.

Our review took place against a backdrop of the beginnings of the implementation of the Council's new political structure. There was widespread recognition amongst officers and members that this provided an ideal opportunity to address the above issues. The system needs to be kept under review to ensure that it works effectively in the context of these new arrangements.

During our audit of the out-turn PIs for 2000/01 in September/October this year, we found that some officers attach a low priority to providing the back-up information to support the PI calculations. This was a major factor in us having to qualify our report to the Audit Commission on 15% of the 2000/01 PIs. We have recommended that random checks

should be carried out to ensure the necessary systems are being maintained and reinforce the importance of PIs in the context of the Council's performance management arrangements.

1.2. Financial aspects of corporate governance

The Council is facing ongoing financial constraints but continues to take a prudent approach to its finances. The Council is committed to maintaining an effective system of internal control, minimising its exposure to fraud and ensuring that it does not enter into transactions for which it does not have the necessary legal powers.

1.3. Use of Resources (formerly value for money) studies

At most local authorities auditors have been tasked by the Audit Commission with carrying out a formal follow up review on the national study initially carried out in 1998 on the arrangements for planning and controlling early retirement.

We are awaiting some information from the Council's officers, which will enable us to determine whether the Council's meets the criteria for this follow up review.

1.4. Auditing the accounts

We anticipate issuing an unqualified audit report on the 2000/01 accounts well before the 31 December 2001 deadline. The vast majority of our work is complete.

The Council's accountancy staff are well organised and produced a robust set of accounts backed by good quality working papers.

1.5. Other areas of work

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

We have not received any questions or objections from local electors in connection with the 2000/01 accounts.

2. Review of management developments in the year

2.1. Senior management restructuring

During 2001, the Council completed its restructuring of the senior management structure of the Council. Six former departments have been streamlined into three strategic directorates with the overall aim of making the Council more efficient, forward thinking and outwardly focused.

We have met with the new management team on a number of occasions which appears to be keen and committed to take the Council forward.

2.2. New political arrangements

The Council established a Cabinet Executive Committee in June 2001. The Council's new constitution was formally introduced from 1 October 2001, giving delegated authority to portfolio holders. The new Executive consists of nine members, three members drawn from each of the three main political parties. Three Overview and Scrutiny committees have been established, focusing on Enterprise/Civic Environment, Community Services and Corporate Services.

As with so many other local authorities across the country, the new arrangements are taking time to bed in as members adapt to their new roles. The new set-up is in its infancy and needs to settle down before a realistic assessment can be made as to its effectiveness at a council like St Albans.

2.3. Overall financial position of the Council

The Council has limited working balances and modest reserves. This tends to mean that the Council has to achieve savings year-on-year to enable it to meet changing legislative demands and fund growth in its services. Savings of £350,000 have had to be found in the current year together with increased income from fees and charges of £150,000.

The 2002/03 budget setting cycle could be even more demanding than usual because the Council appears likely to have to meet a number of sizeable one-off commitments as well as having to address underlying budget pressures.

2.4. Best Value

Despite its resource constraints, the Council committed additional resources in 2000 in the form of two new posts to help address its statutory duty to pursue Best Value. Six more areas are scheduled for review in 2001/02, including housing management, heritage services, planning, community safety, and customer services. Despite the additional resources, it is clear that Best Value is still proving to be a major demand on officer time.

2.5. Recruitment and retention

The Council does encounter significant recruitment and retention problems at junior to middle management level, mainly because of the high costs of living in the South East. St Albans' experience in this regard is similar to other public sector bodies in region.

2.6. E-government

The Council submitted its Implementing Electronic Government (IEG) statement to the DTLR in July 2001. The Statement set out the Council's vision for E-government and how it would achieve the Central Government target of 100% electronic delivery for services which are capable of being delivered electronically by 2005.

The Council's best estimate (and concern) at this stage is that the initiative would cost £1.2 million without Government funding. Nonetheless, the E-government Project Team has been mandated by the Cabinet continue its work in this area and develop a formal E-government strategy.

3. Performance management

We issued an unqualified audit report on the Council's latest BVPP on 25 June 2001. We commented, however, on the need for the Council to consider reducing the amount of PI data being reported in the BVPP and within its performance management system. The performance management system needs to be kept under review to ensure that it works effectively in the context of the Council's new political arrangements.

3.1. Our audit report on the BVPP

We reported last year that we had concerns over the amount of PI data within the 2000/01 BVPP and flowing through the (then) fledgling performance management system. Our views then were borne out by the comments we received from members during this year's BVPP audit process who have commented on the level of data and appear to be concerned at what they perceive as 'information overload'.

Our work on the PIs in the 2001/02 BVPP was carried out in May 2001. We again recommended in our audit report that the Council should ensure that members and senior officers are receiving an appropriate level of performance information to enable them to manage effectively the Council's performance. We suggested that the Council might wish to focus on a fewer number of 'critical success' indicators for close monitoring. We received the following prompt response from the Council's officers:

Exhibit 1: Council's formal response to BVPP statutory audit report

'We are looking to continue to develop the Council's performance management system and there is a need to ensure that senior officers and members receive appropriate performance information. This is something we are planning to address particularly in light of the new political management arrangements.'

Peter Lerner, Head of Paid Service. Letter – 28 June 2001

3.2. Other areas for improvement

In addition to the statutory audit report, we issued a more detailed report setting out further recommendations to the Council. A summary of our recommendations is provided at Exhibit 2. These either augment the recommendation in our statutory report or reflect the need for greater member involvement in the Best Value process. Our recommendations reflect the approaches we have seen at other local authorities.

Exhibit 2: Detailed Best Value audit report 2001 – Key recommendations

- Engage in discussions with the relevant portfolio holders on what they see as the key performance measures upon which they wish to rely to manage their area of responsibility. Evaluate the suggestions, consult with relevant line managers/Responsible Officers and develop performance measures/systems as appropriate.
- Discuss the frequency and level of detail of reporting with the overall aim of ensuring that the portfolio holder (and other managers) get the right information in the right time frame in order to manage effectively. Specific consideration may need to be given to developing performance parameters that will trigger intervention/action by senior officers/members/portfolio holders in the event of deterioration in performance.
- Members and senior officers use the implementation of new political structures as an opportunity to define the role of elected members in the performance management /Best Value process, and implement the necessary processes and procedures to achieve this aim.
- Consider establishing informal 'members reference panels' to act as a sounding board for BVR teams at key stages in the BVR process.

We have received a constructive response from officers to each of the recommendations we have made. We understand that many of our recommendations have been or are in the process of being implemented.

3.3. *Actual performance indicators for 2000/01*

We completed our audit of the Council's out-turn performance indicators in October 2001 and sent our report to the Audit Commission by the 30 October 2001 deadline.

In last year's statutory audit report on the 2000/01 BVPP, we put forward the following recommendation:

Exhibit 3: Recommendation in 2000 Best Value audit report

'The Council should implement arrangements to provide assurance over the accuracy and completeness of the performance indicators being reported as part of its Best Value and performance management system.'

In last year's Management Letter, we emphasised the fact that it was important that PIs were no longer the end product of a year end exercise to meet Audit Commission requirements but an ongoing mechanism through which the Council's performance will be monitored. During last year's Best Value audit process, and the audit of the out-turn PIs for 1999/2000, we found that some officers still felt that the requirement to produce the information had been prescribed by the Strategic Policy Unit.

During our audit of the out-turn PIs for 2000/01 in September/October this year, we again encountered problems of this nature. This represented deterioration on the equivalent exercise last year which we found to be well managed. Despite the best of efforts on the part of the Council's Best Value and Performance Information Officer, we found that some officers attached a low priority to providing the back-up information to support the PI calculations. This was a major factor in us having to qualify our report to the Audit Commission on 15% of the 2000/01 PIs.

One way of reinforcing the importance of PIs and maintaining the necessary supporting systems could be to implement random checks. This could be carried out by Internal Audit or the Strategic Policy Unit.

3.4. *Inspection outcomes*

The outcome of only one of the three inspections carried out to date has been published so far. The Council's Contract and Procurement service was rated as being a 'fair service, unlikely to improve'. We understand that the more recent inspection on Transport has culminated in a similar assessment.

We are committed to working with the Commission's inspectors in line with an agreed memorandum of understanding and have held meetings over the year to brief them on the outcome of our own work.

3.5. *Review of the Best Value regime*

The Secretary of State for Transport, Local Government and Regions announced a review of the Best Value regime on 1 October 2001, the principal aims of which are summarised at Exhibit 4 below:

Exhibit 4: Terms of reference for DTLR review of Best Value

- **Review the statutory guidance to focus on higher standards and not just lowest cost;**
- **Review the concerns of local government employees transferred to the private sector;**
- **Consider how staff can be fully involved in the Best Value process; and**
- **Review the scope for giving successful authorities more opportunities to carry out work for other authorities, or for private and voluntary sector bodies.**

We understand that an announcement on the outcome of the review is due in early December 2001. We will brief officers on the implications this will have on the Best Value audit regime when further details are known.

3.6. **Corporate governance**

CIPFA/SOLACE published guidance in mid-2001 on how local authorities should adopt a new formal framework of corporate governance. This included the adoption by authorities of formal corporate governance arrangements and annual disclosures, by way of a published statement (either in the Best Value Performance Plan or in the Annual Report and Accounts) on how local authorities are progressing with compliance with the framework.

We would urge members and officers to commit to applying the guidance and, in particular, publishing a statement in 2002 on its corporate governance arrangements.

3.7. **Risk management**

In July 2001, the Audit Commission published a management paper 'Worth the risk – improving risk management in local government'. The paper sets out the importance of risk management as a mechanism for;

- Identifying risks – events or actions which may adversely affect on organisation's performance; and
- Putting in place processes by which these risks are identified, evaluated and controlled.

Risk management is a key aspect of any local authority's broader arrangements for effective corporate governance and its structures/processes (including internal controls) for effective performance management.

In other areas of the wider public sector (such as in respect of Registered Social Landlords) there are mandatory requirements around risk management. There are, at present, no such requirements in the local authority sector. However, the Commission reports that some councils are becoming increasingly conscious of the need for effective risk management arrangements because of the pace of the modernisation agenda and the increasingly high profile nature of local authority 'failures'.

The management paper includes a series of useful checklists to help councils self assess their current position on risk management, one of which is aimed at members. We recommend the paper to members.

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

- *Monitor progress on the implementation of the officers' responses to the recommendations in our detailed audit report on Best Value;*
- *Generally, keep the performance management system under review to ensure that it works effectively alongside the Council's new political arrangements;*
- *Consider the implementation of random checks to ensure that PIs are accurate and adequate supporting systems are being maintained;*
- *Seek to follow the corporate governance guidance set out by CIPFA/SOLACE and publish a statement on the Council's corporate governance arrangements in 2002; and*
- *Give consideration to the Audit Commission's management paper 'Worth the risk – improving risk management in local government', focusing in particular on recommendations on the role elected members should be playing in the process.*

4. Use of Resources studies

We had scheduled a review to assist the Council in the development of its strategy on E-government. This is not now to proceed for the time being but we are about to carry out a brief follow up on our report in 1998 on the planning and control of early retirement.

4.1. Risk based approach

Last year's changes to the Audit Commission's Code of Audit Practice mean that there is now less emphasis on 'national' Use of Resource projects, developed centrally by the Commission and applied locally by auditors. Use of Resource priorities can now be decided by auditors, having regard to their assessment of local risks and priorities in discussion with senior officers and members.

The overriding conclusion from our risk assessment for St Albans was that our primary focus should be to determine whether the Council is making satisfactory progress on the implementation of a performance management system. Our work was carried between March and June of this year and the results of work are set out a Section 2.

Thereafter, we had provisionally agreed with officers that our next priority would be to help the Council to develop its response to the Government's E-government targets. We have subsequently agreed that it would not be appropriate to progress this work at this particular stage. We will, however, be having further discussions on this subject with officers as part of the planning phase for next year's audit.

4.2. Early retirement

We have commenced a follow up exercise to assess the progress being made by the Council towards more effective planning and control of early retirement carried out since our last review in 1998.

The fact that the Council only has around 450 staff does mean that only a handful of early retirements can skew the Council's performance

against the Government's lower quartile target of ensuring that only 0.45% of the workforce retire early. Nonetheless, the Council is aiming to achieve the Government's target by 2004/05 which, in St Albans's case, equates to roughly two retirees per annum. Our main areas of focus are set out at Exhibit 5 below:

Exhibit 5: Early retirement follow up – areas of focus

- Review the Council's performance using trend data;
- Confirm that the Council has appropriate policies in place to plan and manage early retirements effectively;
- Confirm that the policies are followed in practice;
- Confirm that the lines of decision making and accountability are transparent;
- Establish the Council's approach to:
 - The 'abatement' of benefits paid to those who have been re-employed in local government; and
 - Accounting for the liabilities associated with discretionary awards, and past part-time staff's pension rights.

We are awaiting some information from the Council's officers, which will enable us to determine whether the Council meets the criteria for this follow up review.

4.3. Follow up of other VFM studies

We have carried out a brief review in order to assess the current status on VFM studies carried out in previous financial years. We have focused on the progress made on the key recommendations we agreed with the Council in each report. Where appropriate, we have also sought to establish whether some reports and recommendations have been overtaken by legislative and other developments. Our key findings are set out in Exhibit 6 overleaf.

Exhibit 6: Progress on previous VFM studies

Key recommendations / observations	Position as at October 2001
Service and financial planning - 1999	
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.	Service and financial planning arrangements are under constant review. The Council has a medium term financial strategy which sets the broad parameters within which the Council sets its budget but this is sometimes undermined by unforeseen commitments.
Income and charging - 1999	
<p>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.</p> <p>Our main recommendation was on the need to give greater encouragement to service managers to consider the wider Council policy considerations when proposing charges.</p>	The Council's budget position means that this is a major area of focus on an ongoing basis and a major factor in the Council's budget process. The Head of Finance wrote to all chief officers at the start of the current year's 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 Community Services Overview and Scrutiny Committee is focusing on further opportunities to more closely align fees and charges policies and the Council's non-financial policies in the leisure area. The Cabinet is reviewing fees and charges as part of the budget process and some fees and charges may be increased in the current year.

Key recommendations / observations	Position as at October 2001
PAYE - 2000	
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.
VAT - 2000	
The local authority VAT environment has changed over the years after successive changes to introduce private sector VAT principles into activities that have hitherto been the preserve of the public sector. Nonetheless, 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.

4.4. Key issues and recommendations for member attention

- *Note that we will be having discussions with officers in the near future with regard to the priorities for the 2002 Use of Resources programme.*

5. Financial aspects of corporate governance

The Council continues to take a prudent approach to its finances but is facing ongoing financial constraints. The Council is committed to maintaining an effective system of internal control, minimising its exposure to fraud and ensuring that it does not enter into transactions for which it does not have the necessary legal powers.

5.1. Financial highlights 2000/01

The Council's financial performance in 2000/01 is summarised on pages 2 to 6 of the accounts. The key highlights are:

- Net General Fund expenditure was £13.2 million against a budget of £14.5 million. There were a number of reasons for the variance against budget, the most notable of which was the £0.5 million increase in the statutory transfer from the Housing Revenue Account (HRA) to the General Fund;
- General Fund balances increased by £0.4 million to £2.3 million at 31 March 2001 (but are budgeted to reduce to £0.5 million);
- The working balance on the HRA increased by £0.3 million to £1.7 million; and
- Capital expenditure was £6.6 million, mainly on housing related initiatives. The majority of this was financed from the proceeds from the disposal of other assets.

5.2. Overall financial standing of the Council

The Council is facing financial pressures from a number of sources, the most significant of which are summarised at Exhibit 7.

Exhibit 7: Key financial pressures

Napsbury	In February 2001 the Secretary of State made a partial award of costs against the Council in favour of the Department of Health in respect of the public inquiry into proposals to redevelop the former Napsbury Hospital site. A claim of £0.9 million was lodged with the High Court in August 2001 but is the subject of a dispute.
Contractor claim	The Council has settled a claim from a contractor in respect of the Verulamium Museum Extension which will involve additional capital expenditure in the current year of £180,0
Central Government funding	The level of Central Government support (Revenue Support Grant and Redistributed Non-Domestic Rates) will be announced shortly. The Council benefited from an 8.1% increase in respect of the current year but there is a widespread expectation that the 2002/03 settlement will not be as generous.
Interest receivable	Interest rates are at their lowest for 40 years. The Council earned interest of close on £1 million in 2000/01 but the expectation is that this will reduce significantly in the current year.
Gearing	Increases in the Council's net expenditure requirement trigger proportionately higher increases in the levels of Council Tax.

Continued

Overall financial standing of the Council (continued)

The Council is budgeting to reduce its working balance on the General Fund to around £0.5 million in the current year. This is a significant reduction on the £3.5 million working balance the Council reported 5 years ago. The Council's capital and revenue reserves of around £2.2 million are also comparatively modest for a council of St Albans size and earmarked for other purposes. The Council is having to contemplate further savings in order to help alleviate the financial pressures referred to at Exhibit 7.

There is no definitive guidance available to local authorities on the definition of what would constitute a prudent level of working balances. Nonetheless, we reiterate the view we have expressed in previous Management Letters that we do not believe that it would not be financially prudent to allow the balances to fall below £0.5 million. We note that officers are formulating their guidance to members on this basis.

5.3. Other aspects of the Council's finances

5.3.1. Local taxation arrears

(In carrying out our audit work, we also assess the Council's performance on the collection of income due, most notably in respect of Council Tax and NNDR. We also assess whether the Council has set aside adequate provision in its accounts against the non-collection of the amounts due. Exhibit 8 summarises the position.

Exhibit 8: Arrears as 31 March – 1999 to 2001

Arrears as at:	31 March 1999	31 March 2000	31 March 2001
	£m	£m	£m
Council Tax	1.0	1.0	1.2
Business Rates (NNDR)	0.6	0.9	1.5
Total	1.6	1.9	2.7

The increase NNDR arrears mostly reflects non-payment of a bill by the owners of a golf course who are in dispute with the District Valuer over the valuation attached to the course. The remainder of the increase in arrears as at 31 March 2001 is because of a temporary slow down in recovery action whilst new computer systems were being introduced.

Our review of other arrears has not highlighted any discernible collection problems and, where appropriate, the Council has set aside adequate provisions against the possibility of not collecting the above debts.

5.3.2. Housing rents arrears

Housing rent arrears decreased in the year to the equivalent of 2.4% of the rent debit compared to 2.7% in 1999/2000. This is below the Audit Commission's best practice target of 2.5%.

5.4. Financial systems

No major issues emerged from our review and testing of the major financial systems to assess whether we can rely on the systems for the purposes of our opinion on the Council's accounts. In carrying out this work, we rely as much as possible on the work of Internal Audit.

5.5. ***Information Technology (IT) and Information Systems (IS)***

The Council is an intensive user of IT and all the Council's main financial systems are computerised. We therefore carry out a review each year to ensure that there are no major weaknesses in 'general' controls over the Council's IT and IS which might impact on our audit. Again, there were no major issues to emerge from this work which warranted being drawn to the attention of members.

5.6. ***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. We found that Internal Audit's work was of a good standard.

We are grateful to Internal Audit for the co-operation and assistance they have provided to us over the year.

5.7. ***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.

5.8. ***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.

5.9. ***Questions and objections from local electors***

We have not received any questions or objections (formal or otherwise) from local electors in connection with the 2000/01 accounts

The 'appointed day' on which local electors had the right to meet with us and formally question us on such issues was 30 October 2001. No local electors chose to do this.

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

- ***Note that we have reiterated our view that we do not believe that it would not 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.***

6. Auditing the accounts

We anticipate issuing an unqualified audit report on the 2000/01 accounts well before the 31 December 2001 deadline. The vast majority of our work is complete.

6.1. Accounts preparation process

Members formally adopted the Council's accounts for the year to 31 March 2001 on 19 September 2001. This was well ahead of the 30 September 2001 deadline prescribed by the Accounts and Audit Regulations.

As in previous years, we found that the Council's Principal Accountant had compiled the accounts in a professional manner.

6.2. Accounting developments – FRS 17

From 2001/2, the accounts will need to contain new disclosures relating to the Council's pension costs and deficits, moving towards full accounting for these in 2003/4. This will provide added clarity as to St Albans' future commitments. The key issue for St Albans will be to ensure that the actuary provides adequate information in order to make this disclosure. The Council will need to assess the cost implications of this in terms of actuary fees.

6.3. Grants

In addition to the £1.2 million of RSG received from Central Government in 2000/01, the Council receives significant additional grant funding in respect of:

- Housing benefits – part reimbursement for the costs incurred in paying housing and council 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 2000/01.

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 in line with the 30 October 2001 deadline.

6.4. Key issues and recommendations for member attention

- ***Ensure that early consideration is given to the practical implications of FRS17***

7. Next year's audit plan

7.1. *Baseline risk assessment*

We will carry out a risk assessment in order to assess what work we believe we need to undertake to discharge our obligations under the Audit Commission's Code of Audit Practice. We will then discuss our planned programme of work with officers.

7.2. *Best Value and performance management*

We will be reviewing the Council's performance management arrangements again in the spring of 2002, focusing in particular on how the arrangements are operating in the context of the Council's new political structures. This will inform our comments in our statutory audit report to the Council on its 2002/03 BVPP. This report will need to be sent to the Council by the 30 June 2002 deadline.

7.3. *Performance information*

Historically, local authorities have their out-turn PIs audited and submitted to the Audit Commission (the Council's 2000/01 PIs were audited and forwarded to the Commission in October 2001). From 2002, this ceases and auditors will take a view on the amount of work they need to carry out on the PIs under their 'performance information' responsibility.

This may mean that there will be selective testing of actual PIs as part of the work on the Council's BVPP or at other stages in the year. Factors to be considered include each local authority's own internal control arrangements and any history of problems. We will discuss this with St Albans' officers in the near future to assess the practical implications of these changes at a local level.

7.4. *Inspection*

We will continue to liaise with the Council's Lead Inspectors in order to try and ensure that they benefit from our cumulative knowledge of the Council and we are kept informed of inspection developments. We will follow the Memorandum of Understanding between Auditors and Inspectors issued by the Audit Commission.

7.5. *New relationship management pilot*

We are having preliminary discussions with the Audit Commission on the possibility of carrying out a pilot of a new audit/inspection arrangement at two local authorities. On one, the Commission's lead inspector will act as lead relationship manager for both inspection and external audit. On the other, we will have the lead relationship role. The aim is to help the Commission develop its thought processes around the joint audit/inspection model announced earlier this year.

We will brief officers on the outcome of the pilots and how the new arrangement might impact on St Albans in the future.

8. Statement of responsibility

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

Deloitte & Touche
December 2001

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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.

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