

Audit and Inspection Annual Letter

St Albans City and District Council

INSIDE THIS LETTER

PAGE 2 - 5

- Key messages
- The purpose of this Letter
- Background to the audit and inspection programme
- Objectives of audit and inspection

PAGES 5 - 11

- Council performance
- Financial aspects of corporate governance
- Audit assurance work
- Best value performance plan
- Audit and inspection fees

PAGE 11

- Strategic regulation: future audit and inspection work
- Status of our Audit & Inspection Annual Letter to the Council
- Closing remarks

PAGE 12

Appendix 1

- Audit and Inspection reports issued during 2002/03 audit

Reference:	STE02AL108-03AALFinal
Date:	December 2003

Key messages

This is the first year that we, the Audit Commission's Operations Directorate, have had direct responsibility for your external audit, having taken over from Deloitte.

This is our first joint audit and inspection 'Annual Letter' for Members which incorporates our Annual Audit Letter, and is presented by the Council's Relationship Manager and District Auditor. The letter summarises the conclusions and significant issues arising from our 2002/03 audit and inspection programme and comments on other current issues.

2002/03 has seen some significant changes to the Council's management team with the appointment of two new strategic directors, for Corporate Services and Community Services. As identified by your previous auditors the Council has had difficulties in the past in recruiting staff to key posts. Interim arrangements were in place for these posts pending the new appointments. The Council now has a full management team to deal with the issues that the Council faces.

The Council has had an initial peer review carried out by Solace Enterprises and a follow up visit in October 2003. This commented specifically on the four areas highlighted as the main areas for attention at the time of the original visit:

- the strength and clarity of the leadership of the Council
- the need to reduce or at least rank priorities
- the need to increase the Council's focus
- the Council's performance management systems.

The follow up visit commented that "major progress has been made" and commented on the commitment to change and improve being shared by leading members and senior officers. As might be expected the report also reflected on the fact that the change process is still in its early stages and hence the changes being made are yet to percolate through the organisation and achieve their full impact.

Performance

The Council will be undergoing its CPA in early 2004. Accordingly our programme of other performance work has been kept to a minimum. We did undertake some follow up on the recommendations made by the Council's previous auditors in respect of performance management. The results of this work were reported verbally to the Corporate Policy Manager and the Corporate Performance Officer.

Our overall view was that the Council has identified a performance management framework that incorporates those elements that we would expect to see but that at that time it was in the early stages of implementing it. Ensuring effective and consistent implementation will be important if the Council is to get the full benefits of the work on this.

Financial standing

The general fund balance has increased to £2.3m as at 31 March 2003. The Council's budget strategy for 2004/05 to 2006/07 shows that potentially the balance on the general fund could fall below the level that the Council has set as its minimum balance. Whilst the figures are not large the Council needs to ensure that it maintains its minimum level of balance. Careful budget monitoring will need to be continued. We do consider that the Council has good financial reporting and this is an essential factor that allows it to operate with a relatively low level of balances.

Systems of internal financial control

The Council complied with the requirement to publish a statement of internal financial control which sets out the work that the Council does to ensure that there are adequate and effective systems of internal financial control in place. We concluded that the systems are satisfactory overall and there are no matters that we wish to bring to the attention of Members.

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

Overall we concluded that the Council's arrangements for ensuring proper standards of financial conduct and to prevent and detect fraud and corruption are satisfactory. We identified that some parts of the framework of policies in place to prevent and detect fraud and corruption required updating and this has now taken place. Members and officers need to be reminded periodically of the requirements of such policies. Awareness needs to be maintained of the risks of fraud and corruption, and a suitable programme of pro active work in this area undertaken.

Legality of transactions

We concluded that the arrangements for ensuring legality of transactions with a financial impact were satisfactory overall. We have raised with officers the need to ensure that there are policies in place for the Data Protection Act and the Computer Misuse Act.

Accounts

We are in the process of auditing the accounts and expect to give an opinion in December. The audit has not been as straightforward as in previous years due to a change in the key officer who prepared the accounts and a change in audit team. We acknowledge the assistance provided to the audit team by the Accountancy staff in dealing with the issues that have arisen this year, and their professional attitude. We have identified some significant adjustments to the accounts, the largest of which also affects the previous year. Overall more time has been required to undertake the audit than originally envisaged. We will be working with your officers to ensure that the next audit is more straightforward.

Best value performance plan audit

The Council's 2003/2004 Best Value Performance Plan (BVPP) complied in all significant respects with statutory requirements and was a well presented document. There was one reservation and one significant error found amongst the BVPIs. We did find that some targets had not been set and also that the quality of the working papers was variable. The work undertaken by Internal Audit on a sample basis was of great assistance in ensuring that indicators were properly calculated and that a proper audit trail was in place for those indicators that they reviewed.

The purpose of this letter

This is our first joint audit and inspection 'Annual Letter' for Members which incorporates our Annual Audit Letter, and is presented by the Council's Relationship Manager and District Auditor. The letter summarises the conclusions and significant issues arising from our 2002/03 audit and inspection programme and comments on other current issues.

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

Auditor's responsibilities are summarised in the Audit Commission's statement of key responsibilities of auditors. The responsibilities of Audit Commission Inspectors are detailed in section 10 of the Local Government Act 1999. What we say in this letter should be viewed in the context of that more formal background.

Background to the audit and inspection programme

Audit Commission changes

To ensure that Councils receive a tailored seamless service, integrated with the work of other inspectorates, the Audit Commission has appointed a Relationship Manager for each Council. The Relationship Manager is normally the Commission's primary point of contact with you and is also the interface between the Commission and the other inspectorates, Government Office and other key stakeholders. Brian Tytherleigh was appointed as the Council's Relationship Manager but subsequently left. Rob Murray was appointed on 17 October as the Council's Relationship Manager and he will be the primary point of contact in the future.

Significant developments at St Albans City and District Council

The Council has continued with its participation in the e-voting pilot scheme and has been invited to participate in the National Project Board for local e-democracy. The project board made up of 10 councils will deliver e-solutions to local authorities across the country.

There have been changes to the Council's senior management team, with the appointment in early 2003 of two new strategic directors: for corporate; and community services.

Objectives of audit and inspection

Audit

Our main objective as your appointed auditor is to plan and carry out an audit that meets the requirements of the Code of Audit Practice. We adopt a risk-based approach to planning our audit, and our audit work has focused on your significant financial and operational risks that are relevant to our audit responsibilities.

Central to our audit are your corporate governance arrangements. Our audit is then structured around the three elements of our responsibilities as set out in the Code and shown in Exhibit 1.

EXHIBIT 1

The three main elements of our audit objectives



Accounts

- Opinion.

Financial aspects of corporate governance

- Financial standing.
- Systems of internal financial control.
- Standards of financial conduct & the prevention and detection of fraud and corruption.
- Legality of transactions.

Performance management

- Use of resources.
- Performance information.
- Best Value Performance Plan.

Inspection

Inspection work is based around section 10 of the Local Government Act 1999, which requires us to carry out inspections and deliver reports that will:

- enable the Council and the public to judge whether best value is being delivered
- enable the Council to assess how well it is doing

- enable the Government to assess how well its policies are being implemented
- identify failing services where remedial action may be necessary.

Council performance

The Council will be undergoing its CPA in early 2004. Accordingly our programme of other performance work has been kept to a minimum. We did undertake some follow up on the recommendations made by the Council's previous auditors in respect of performance management. The results of this work were reported verbally to the Corporate Policy Manager and the Corporate Performance Officer.

Our overall view was that the Council has identified a performance management framework that incorporates those elements that we would expect to see but that at that time it was ain the early stages of implementing it. Ensuring effective and consistent implementation will be important if the Council is to get the full benefits of the work on this.

Comprehensive performance assessment

The Audit Commission is to carry out a comprehensive performance assessment of your Council. The assessment is likely to be completed by March 2004 and the results will be published by the Commission by May 2004. CPA therefore comprises the bulk of our performance management work for the audit plan for 2002/04.

Future of CPA

Comprehensive Performance Assessment (CPA) is about helping councils deliver better services to local people as part of the wider improvement agenda set out in the Local Government White Paper *Strong Local Leadership – Quality Public Services*. CPA has been developed to encompass the role of district councils in developing and contributing to sustainable social and economic environments for their communities and local area.

The main elements of the district councils CPA approach are:

- council self assessment
- accredited peer challenge to inform the self assessment
- a corporate assessment
- diagnostic assessments of the council's
 - management of public space and
 - work to ensure that its housing stock meets the 'Decent Homes' standard by 2010
- Benefit Fraud Inspectorate's assessment of benefit services
- appointed auditor assessments of performance on each of the main elements of the Code of Audit Practice
- audited performance indicators, inspection reports and plan assessments.

We will be asked to contribute through Auditor Scored Judgements, our view of the Authority's position on the elements that we cover during our audit, as shown in Exhibit 1 above. We provided the Authority with details of the areas to be assessed in order for officers to carry out a self assessment. We arranged a meeting on 20 November to discuss the results of this compared with the scorings initially allocated by the audit team. We will be updating the results of this following consistency discussions between Hertfordshire districts external auditors. We will update officers for any changes to the assessment.

Performance work

Following discussions with the Council's previous auditors we identified during our risk based planning in early 2003 the need to follow up on the work that they had undertaken on performance management. We also reviewed the action planning work that is being done on the Council's completed reviews on planning and transportation.

Our work was completed in the summer of 2003 and we reported back verbally our findings to the Corporate Policy Manager and the Corporate Performance Officer. Our overall view was that the Council has identified a performance management framework that incorporates those elements that we would expect to see but that at that time it was in the early stages of implementing it. Ensuring effective and consistent implementation will be important if the Council is to get the full benefits of the work on this.

Audit Commission inspections

The only inspection published since the time of the last Annual Audit Letter is the inspection of the Council's planning and development services, which was published in February 2003. This found that the service provided to residents is 'fair' with uncertain prospects for improvement. The inspection report commented positively on the steps being taken to make the service easier to reach for the public, and the improvements to the building control service. However satisfaction levels were found to vary and were particularly poor for planning applicants.

Financial aspects of corporate governance

Financial standing

The general fund balance has increased to £2.3m as at 31 March 2003. The Council's budget strategy for 2004/05 to 2006/07 shows that potentially the balance on the general fund could fall below the level that the Council has set as its minimum balance. Whilst the figures are not large the Council needs to ensure that it maintains its minimum level of balance. Careful budget monitoring will need to be continued. We do consider that the Council has good financial reporting and this is an essential factor that allows it to operate with a relatively low level of balances.

Level of balances

The general fund balance at 31 March 2003 was £2.3m, an increase of £1.2m since last year. As explained in the foreword to the accounts there were a number of favourable variances:

- a large refund of £636k was received in respect of NNDR on leisure premises which was backdated following an appeal
- there were higher levels of fees in building control and development control (£111k), and
- interest on balances was £293k higher than expected due to increased levels of balances.

The Housing Revenue Account (HRA) had a balance of £1m as at 31 March 2003, a decrease of £649k over the previous year, although above the budgeted balance of £812k. The balance on the HRA is being reduced to support expenditure and the forecast figure for 2003/04 of £556k is close to the budget figure of £595k.

The original budget was for a general fund balance for 2004 of £0.8m. The Head of Finance's report to Cabinet in December 2003 reported an estimated balance of £1.5m at 31 March 2004, due to various underspends and a favourable movement in investment income. Both the budgeted and estimated balance figure are well above the minimum working balance of £538,000 (3.5% of net revenue expenditure). The excess above the 3.5% figure is allocated towards financing one off items in future years.

In his report to Cabinet in December 2003 the Head of Finance set out the budget forecasts for 2004/05 to 2006/07. This shows the forecast use of balances and reserves position. There is £650k which could be used to finance expenditure or build reserves. However if used to finance expenditure the general fund balance would fall below the minimum level as shown in Exhibit 2 below. Whilst the figures are not large the Council needs to ensure that it maintains its minimum level of balance.

EXHIBIT 2**Use of balances between 2004/05 and 2006/07**

Balance brought forward	1,520	623	577
Use of balances	247	46	-
Balance for new items or to increase reserves	650		
General fund balance carried forward	623	577	577
Working balance required (3.5%)	577	596	627

Cabinet Paper 2 December 2003

The CPA scored judgements for auditors asks auditors to consider as part of their judgement whether the general fund balance is forecast to be at least equal to 5% of net operating expenditure. The Council's budgeted and estimated balance is within this range although the stated policy is below it. It is the Council's responsibility to set a minimum balance, taking into account the professional opinion of the Head of Finance, and the risks that the Authority faces. Given the relatively low level of minimum balance the Council will need to ensure that effective budgetary control is exercised. We do consider that the Council has good financial reporting and is an essential factor that allows it to operate with a relatively low level of balances.

Systems of internal financial control

The Council complied with the requirement to publish a statement of internal financial control which sets out the work that the Council does to ensure that there are adequate and effective systems of internal financial control in place. We concluded that the systems are satisfactory overall and there are no matters that we wish to bring to the attention of Members.

The Council is responsible for putting in place arrangements to satisfy itself that its systems of internal financial control are both adequate and effective. During our audit we reviewed those arrangements and found that they were satisfactory overall. We did find that whilst there were procedure notes in place for most business critical systems, this was not the case for council tax and NNDR. There were software manuals available but not detailed procedure notes for staff to follow. We understand that a computerised package for procedure manuals has been installed.

The Council complied with the new requirement to incorporate a statement of internal financial control within its financial statements. This sets out the Council's approach to ensuring effective systems of internal financial control, including the work undertaken by Internal Audit. It also reflects the fact that the Overview and Scrutiny (Corporate Services) Committee undertakes the role of an Audit Committee.

Internal Audit

We have agreed a protocol with Internal Audit in 2003 which formally sets out how we will co-operate to ensure that the Council receives best value from its total audit resource.

We undertook a detailed review of Internal Audit's arrangements compared with the CIPFA Code of Practice for Internal Audit. We also reviewed a sample of Internal Audit's files. We found that we were able to rely on the work that we reviewed.

Whilst there were some detailed recommendations arising from our review, which have been discussed and agreed with the Head of Internal Audit there are no matters that we need to report to Members.

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

Overall we concluded that the Council's arrangements for ensuring proper standards of financial conduct and to prevent and detect fraud and corruption are satisfactory. We identified that some parts of the framework of policies in place to prevent and detect fraud and corruption required updating and this has now taken place. Members and officers need to be reminded periodically of the requirements of such policies. Awareness needs to be maintained of the risks of fraud and corruption, and a suitable programme of pro active work in this area undertaken.

At the time of our interim visit in May we found that the Council had key documents such as:

- an anti fraud and corruption policy, and a
- code of official conduct, including a hospitality policy.

However these needed updating and Members and officers reminded of the requirements. We also raised with officers the need to be pro active in preventing and detecting fraud and corruption eg reminding staff of possible indicators of fraud. This is especially important given that Internal Audit's resources are limited for undertaking pro active work.

We reported our findings in our interim memo which was issued in June 2003 and action has been taken on the points raised.

Finally we also undertook some detailed testing on Members allowances and expense claims. We have raised recommendations with officers including the need to:

- monitor the allowances paid to ensure that these are in line with expectations, and
- ensure that there is adequate supporting documentation for claims.

We raised these issues in our interim memo to officers and await their response to these.

National Fraud Initiative

The National Fraud Initiative (NFI) is the Audit Commission's data matching exercise. Its main aim is to help identify and reduce housing benefit fraud, occupational pension fraud, tenancy fraud and payroll fraud. The NFI is carried out every two years and data matches were provided to you.

The Council's Investigations and Internal Audit Sections have reviewed the output from the NFI. The Investigations section has not completed all its reviews however for those investigated to date a total of £22,000 of overpayments has been found.

Legality of transactions

We concluded that the arrangements for ensuring legality of transactions with a financial impact were satisfactory overall. We have raised with officers the need to ensure that there are policies in place for the Data Protection Act and the Computer Misuse Act.

There were no Council policies on the Data Protection and Computer Misuse Acts in place at the time of our audit visit. The Council has had a period when it did not have a Head of Information and Communication. There is now an officer in this post and we have written to her on the need to address this.

Audit assurance work

Accounts

We are in the process of auditing the accounts and expect to give an opinion in December. The audit has not been as straightforward as in previous years due to a change in the key officer who prepared the accounts and a change in audit team. We acknowledge the assistance provided to the audit team by the Accountancy staff in dealing with the issues that have arisen this year, and their professional attitude. We have identified some significant adjustments to the accounts, the largest of which also affects the previous year. Overall more time has been required to undertake the audit than originally envisaged. We will be working with your officers to ensure that the next audit is more straightforward.

Members of the Council approved the Council's financial statements on 24 September 2002.

Our work on the Council's core financial processes involved a detailed review of the main accounting system, budgetary control procedures and final accounts closedown procedures. We are satisfied that the financial systems and processes are operating satisfactorily for the purposes of our opinion and we have reviewed the year end balances as part of our audit work on the Council's financial accounts.

Our work on the audit of the financial statements is in progress. The Council's Principal Group Accountant who has prepared the financial statements in recent years left the Council in June 2003. The Council was successful in appointing a successor who took up her post at the end of June 2003. This was good as potentially there could have been a significant time lag before a new officer was appointed given notice periods etc.

This is the first year that we have undertaken the audit and our approach to the audit is not the same as our predecessors. Our expectations of working papers in particular has turned out to be different. A change in both the primary compiler of the statement of accounts and audit team has meant that this year's audit has been

less straightforward than had previously been the case. We have identified three significant adjustments to the statement of accounts to date:

- an adjustment to the cash at bank figure and debtors to ensure that the Giro bank figure of £37k is included in the cash figure
- exclusion from the HRA of part of week 53 which falls into 2003/04, the value for this is £300k on the housing rents figure and £125k on the rent rebates figure
- the Council did not revalue its housing revenue assets in either 2001/02 or 2002/03, a requirement of resource accounting. This results in the figures for fixed assets changing by over £80m.

The latter adjustment has required an adjustment to the previous year's statement of accounts as well. This has entailed a significant amount of work for both the Council's officers and the audit team. We wish to acknowledge the assistance and professional attitude of your officers in dealing with the matters raised. We will however need to charge an additional fee in respect of this work. We will be working with your officers to ensure that the next audit of the financial statements is smoother.

Reporting to the Council

There is a new auditing standard which applies to our audit of your accounts - Statement of Auditing Standard (SAS) 610 'Reporting to those charged with governance'. This requires us to report issues arising from our audit, to Members before we give our audit opinion on your financial statements. This is in order to enable Members to determine whether items that have not been adjusted for by officers, which have been identified during the audit, should be adjusted. Our expectation is that there should not be any such items. However we will be writing formally to Members to inform them of our findings from our audit.

In previous years we have discussed such issues with officers rather than Members, but the SAS encourages openness and accountability by ensuring that Members take responsibility for the Council's accounts.

Best Value Performance Plan audit

The Council's 2003/2004 Best Value Performance Plan (BVPP) complied in all significant respects with statutory requirements and was a well presented document. There was one reservation and one significant error found amongst the BVPIs. We did find that some targets had not been set and also that the quality of the working papers was variable. The work undertaken by Internal Audit on a sample basis was of great assistance in ensuring that indicators were properly calculated and that a proper audit trail was in place for those indicators that they reviewed.

The Best Value Performance Plan and Performance Indicators

The Best Value Performance Plan (BVPP) contained the key elements required by the statutory guidance. The BVPP communicates clearly the Council's approach to Best Value, including performance management, service and financial planning and consultation. We did feedback verbally to officers the need to highlight wherever possible how the action taken under Best Value has led to an improvement in the services provided.

The extent to which all BVPIs have been included in the BVPP, and the accuracy of that information, continues to be a major element of the Best Value audit.

The Council's previous auditors found that there were:

- difficulties in obtaining back up documentation for the BVPIs
- errors in the calculations of the BVPIs.

This year we are pleased to report that:

- there were no omissions in the outturn data other than the number of racial incidents recorded by the Council per 100,000 population, and the percentage of this for which further action was taken
- there was only one significant change to a BVPI (average length of stay in hostel accommodation)

- there was only one reservation expressed to the Audit Commission, on BVPI 109, planning applications, where the planning decision date had been used to compile the indicator rather than the decision despatch date.

We did however find that four targets had not been set where the Audit Commission would normally have expected to see targets set for the indicators concerned. We found the work undertaken by Internal Audit in advance of our audit helpful in ensuring that the indicators were properly stated and in improving the audit trail for the sample indicator information that they checked.

The findings from our Best Value audit were considered by an Audit Commission consistency panel and our statutory opinion has been issued separately. We will be issuing a separate report to officers on the findings from our audit, where we will be stressing the importance of maintaining proper audit trails for how the indicators have been calculated.

Audit and inspection fees

The proposed fee of £188,000 for the 2002/04 audit was set out in our audit plan. We do not envisage any significant changes to the fee that was agreed with the strategic directors, other than a small additional fee in respect of the audit of the financial statements.

Members should note that in order to bring the Audit Commission financial year in line with the local authorities, the current plan covers the period from November 2002 to March 2004. In this time we will deliver two statutory audits and two audit and inspection annual letters.

Strategic regulation: future audit and inspection work

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

For the first time we have brought together all our planned work and that of the other key inspectorates. These co-ordinated and proportionate plans are available on the Audit Commission website.

Our audit and inspection programme for 2003/04 is included in the Audit & Inspection Plan 2002-04 which was issued in August 2003. The key area of audit work to be completed in 2003/04 is a review of the public private partnership for car parking, and a review of IT arrangements.

We will discuss the timetable for planning the 2004/05 audit and inspection programme, linked to your improvement priorities, with officers later in 2003. Our future programmes will be structured across the following themes that help to clarify the purpose of our work:

- assessment
- improvement
- assurance.

Status of our Audit & Inspection Annual Letter

Our Annual Letter is prepared in the context of the Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission. The Letter is prepared by the Relationship Manager and appointed auditor and is addressed to Members and officers. It is prepared for the sole use of the audited body, and no responsibility is taken by auditors to any Member or officer in their individual capacity, or to any third party.

Closing remarks

This Letter will be discussed and agreed with the Overview and Scrutiny Committee, Corporate Services on 27 January. It was discussed with the strategic directors on 18 December. A copy of the Letter will be provided to all Members.

Finally, I would like to take this opportunity to express my appreciation for the assistance and co-operation provided during the course of the work. Our aim is to deliver a high standard of audit and inspection which makes a positive and practical contribution which supports the Council's improvement agenda. We recognise the value of your co-operation and support.



Karen McConnell
District Auditor

Rob Murray
Relationship Manager

Date

Audit and Inspection reports issued during 2002/03

Audit plan	August 2003
Interim memo (draft)	June 2003