

Annual Audit and Inspection Letter

St Albans City and District Council

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Reference:	AL108 Annual Audit Letter
Date:	November 2004

Executive summary

The purpose of this letter

This is our annual audit and inspection letter for councillors, and is presented by the council's district auditor and relationship manager. The letter summarises the conclusions and significant issues arising from our recent audit and inspections of the council.

We have issued separate reports during the year. These reports are listed at appendix 1 for information.

Appendix 2 sets out the objectives of audit and inspection.

Appendix 3 provides information about the fees charged.

Key messages

Council performance

Our comprehensive performance assessment (CPA) inspection of St Albans assessed the council as 'fair' with potential for improvement. Many good services are delivered and focus is now needed to improve weaker areas to enhance the quality of life for the people of St Albans.

The council's best value performance plan (BVPP) complied in all material respects with legislation and statutory guidance. We will issue an unqualified opinion in due course. Good practice is demonstrated in relation to the quality assurance work undertaken before the BVPP is published.

Accounts and governance

Accounts

The core processes provide a sound basis for the production of the financial statements. The 2003/04 accounts were available by the statutory deadline and we are in the process of concluding our audit. Some noticeable improvements have been made in supporting working papers although there is still progress to be made. We expect to give an opinion by the end of November.

Financial standing

We have concluded that the arrangements to manage the council's financial position are sound. The council underspent against the original budget, enabling the general balance to increase to £3.3 million. The forecast for the current year is positive and significant work has been undertaken to assess the outlook for 2005/06 to 2007/08, including strengthening the medium term financial planning process. Comparison of St Alban's key financial standing ratios to other districts shows that the council's position at 31 March 2004 is relatively healthy.

Systems of internal financial control

We have not identified any significant weaknesses in the overall control framework.

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

We have concluded that arrangements are satisfactory and there are no matters to draw to the attention of members.

Legality of transactions

Overall we concluded that arrangements are satisfactory although some policies are still required.

Action needed by the Council

- Monitor the recently developed CPA improvement plan.
- Continue to monitor the financial position of the council.

Council Performance

Our CPA inspection of St Albans assessed the council as 'fair' with potential for improvement. Many good services are delivered and focus is now needed to improve weaker areas to enhance the quality of life for the people of St Albans.

The council's BVPP complied in all material respects with legislation and statutory guidance. We will issue an unqualified opinion in due course. Good practice is demonstrated in relation to the quality assurance work undertaken before the BVPP is published.

CPA and improvement

We carried out a CPA inspection as the first step in the wider improvement agenda set out in the Local Government Act 2003.

The Act encourages a greater focus on improved services for local people. It involves freeing good councils from central government controls and restrictions and providing poorer councils with more, and better focused, support for improvement. CPA makes an overall judgement of where each council stands. The assessment of the council was undertaken by a team from the Audit Commission and took place over the period from 19 to 23 January 2004.

St Albans was assessed as a fair council that has the potential for improvement.

The main elements of the assessment were:

- a self-assessment completed by the council;
- accredited peer challenge to inform the council's self-assessment;
- a corporate assessment of the council's overall effectiveness in supporting services to deliver improvements;
- an assessment of the council's service delivery performance through two diagnostic assessments on:
 - progress in meeting the decent homes standard; and
 - management of public space;
- the Benefits Fraud Inspectorate's (BFI) assessment of benefit services;

- the district auditor's assessment of performance on each of the main elements of the Code of Audit Practice; and
- audited performance indicators, inspection reports and plan assessments.

The corporate assessment concluded that the council was clear about the key challenges facing the area with clear aspirations to improve the local quality of life. Key strengths include:

- delivering many good services, achieving high satisfaction levels amongst residents;
- maintaining and managing the housing stock with tenants reporting high levels of satisfaction with the service they receive;
- protection and development of the local environment; and
- a strong financial position.

The assessment indicated a number of areas where the council could improve performance, by:

- drawing its vision, aims and objectives into a strategic plan;
- embedding a performance management culture; and
- maintaining focus across all objectives and service areas to enable service improvements to be made.

The Benefit Fraud Inspectorate assessed the benefits service as 'fair towards good' with a 'good' capacity to improve.

A number of strengths were noted, including:

- a clear service vision;
- effective performance monitoring;
- clear and accessible information; and
- sanctions used against fraudsters.

Recommendations for improvements include:

- develop a benefit take-up strategy; and
- annual reviews of recruitment and vetting procedures.

The CPA report has been discussed with the council, which has been given the opportunity to examine the Commission's assessment. This report provided the basis for improvement planning by the council which has recently been concluded.

Other performance work

Under the Local Government Act 1999, specific local government bodies are required to comply with the general duty of best value, which is defined as making arrangements to secure continuous improvement in the way in which their functions are exercised, having regard to a combination of economy, efficiency and effectiveness.

The council is required to publish annually a BVPP, which summarises its assessment of performance and its plans in relation to best value. The council is responsible for preparing the BVPP and for the information and assessment that are set out within it and the assumptions and estimates on which they are based. It is also responsible for putting in place appropriate performance managements and internal control systems, from which the information and assessments in the BVPP are derived.

Auditors are not required to form a view on the completeness or accuracy of the information or the realism and achievability of the assessments published by the audited body in its BVPP.

We concluded that the council's 2004/05 BVPP contains all the key elements required by legislation and statutory guidance. We will, therefore, be issuing an unqualified opinion on the BVPP in due course.

The extent to which all best value performance indicators (BVPIs) have been included in the BVPP, and the accuracy of that information, continues to be a major element of the best value audit.

Our BVPI audit this year found that:

- there were minor errors in calculation in respect of six BVPIs; and
- there was only one reservation expressed to the Commission, on BVPI 183a and b, (stays in temporary accommodation), as a result of the calculation not being reconcilable to council systems.

The council continues to demonstrate good practice in relation to the quality assurance work undertaken before the BVPP is published, primarily through the work undertaken by internal audit.

Accounts and governance

Audit of 2003/04 accounts

The core processes provide a sound basis for the production of the financial statements. The 2003/04 accounts were available by the statutory deadline and we are in the process of concluding our audit. Some noticeable improvements have been made in supporting working papers although there is still progress to be made. We expect to give an opinion by the end of November.

Review of core processes

We examined the council's core processes to assess the basis on which the accounts are prepared, namely:

- the main accounting system;
- the budgetary control process; and
- the year end closedown process.

We concluded that there was generally a low risk of any of these processes leading to a material mis-statement in the financial statements. There are no key recommendations arising from our work to bring to the attention of councillors.

Audit of the financial statements

The published accounts are an essential means by which the council reports its stewardship of the public funds at its disposal and its financial performance in the use of those resources. Councillors approved the council's annual accounts on 31 August 2004, the statutory deadline.

As a result of the issues reported last year in relation to working papers, we ran a workshop to facilitate improvements for this year's audit. Whilst there have been some progress, there is still scope to improve further in some areas and we will continue to work with finance staff to secure this.

Report to those with responsibility for governance in the council

We are required by professional standards to report to those charged with governance (in this case the Overview and Scrutiny Committee - Corporate Services) certain matters before we give an opinion on the financial statements. To date, we have not identified any such matters but we will write formally to the committee to confirm this prior to issuing the opinion.

Financial standing

We have concluded that the arrangements to manage the council's financial position are sound. The council underspent against the original budget, enabling the general balance to increase to £3.3 million. The forecast for the current year is positive and significant work has been undertaken to assess the outlook for 2005/06 to 2007/08, including strengthening the medium term financial planning process. Comparison of St Albans' key financial standing ratios to other districts shows that the council's position at 31 March 2004 is relatively healthy.

Our interim work noted that the council has established proper arrangements to monitor its financial position and take appropriate remedial action during the course of the year.

General fund net expenditure for the year was £15.989 million which was £1.591 million (9.1 per cent) below the original budget, resulting in an increase in the general fund reserve of £0.943 million, to a balance of £3.295 million. As explained in the foreword to the accounts, there were a number of favourable variances, for example, reduced benefit administration costs (£0.250 million) and improved level of interest received on balances (£0.537 million).

The housing revenue account (HRA) incurred a deficit of £0.048 million. This is an improvement over the prior year deficit of £0.824 million.

Future financial position

The cabinet considered, on 12 October 2004, the current position in relation to the 2004/05 budget and the initial financial forecast and financial strategy for 2005/06 and beyond.

For 2004/05, the projected year end position on the general fund is an underspend of £0.454 million which equates to 2.8 per cent of the base budget of £15,935 million. A significant improvement in the financial position of the HRA is expected, with the year end balance projected at £2.288 million. This represents an increase of over £1.5 million from the balance reported at 31 March 2004.

The report by the head of finance for the 2005/06 – 2007/08 budget outlook clearly highlights the financial issues facing the council, and what decisions are required as a consequence such as members determining clearly what is and is not a priority for the council. In addition, work has been ongoing to identify areas to reduce expenditure or opportunities to increase income.

The impact on the projected level of balances is positive with potential balances being available to cover approved once-off/time limited new items or to increase reserves, as shown in Exhibit 1.

EXHIBIT 1: USE OF BALANCES

	2005/06 £000	2006/07 £000	2007/08 £000
Balance brought forward	2,121	1,870	1,815
Use of balances to cover one-off new items	251	55	22
General fund balance carried forward	1,870	1,815	1,793
Working balance required (now 5 per cent, previously 3.5 per cent)	794	806	835
Balance for new items of to increase reserves	1,076	1,009	958

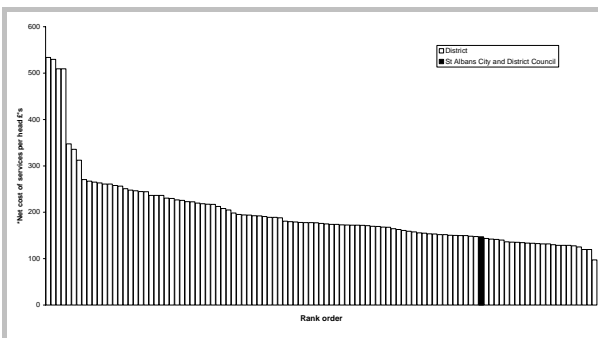
Cabinet paper 12 October 2004

There is also a recognition that the medium term financial planning process needs to be strengthened and officers are working to address this.

Key ratios

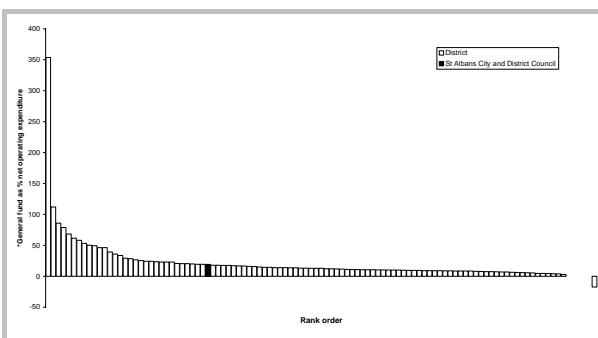
The Audit Commission 'balances database' assesses St Albans's financial health compared to other district councils in terms of a number of key financial ratios. The database shows that the net cost of services per head of population at St Albans remains below the average for district councils (Exhibit 2).

EXHIBIT 2: NET COST OF SERVICES



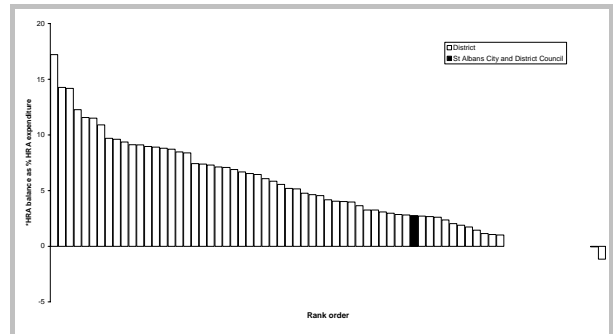
St Alban's general fund as a percentage of the council's net operating expenditure is relatively high compared to other districts, suggesting this balance is healthy (Exhibit 3).

EXHIBIT 3: GENERAL FUND



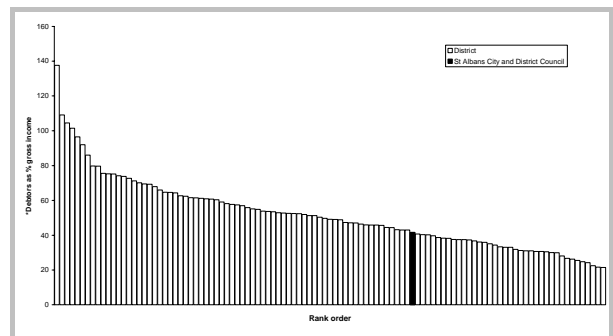
The HRA balance as a percentage of HRA expenditure is low compared to other districts, suggesting this balance is a risk (Exhibit 4).

EXHIBIT 4: HRA BALANCE



The total level of debtors as a percentage of gross income at St Albans is below average, suggesting that the council does not have a problem in collecting arrears that are due to it (Exhibit 5).

EXHIBIT 5: DEBTORS AS % GROSS INCOME



Findings from the key ratios suggest that the financial health of St Albans is generally satisfactory. As noted earlier, the HRA balance is projected to improve significantly by 31 March 2005.

Systems of internal financial control

We have not identified any significant weaknesses in the overall control framework.

Our review of the council's overall arrangements for internal financial control did not highlight any issues that need to be brought to councillors' attention.

The internal audit function is a fundamental part of the council's governance arrangements. Our detailed review of internal audit's work confirmed that they were generally compliant with the CIPFA Code of Practice for Internal Audit.

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

We have concluded that arrangements are satisfactory and there are no matters to draw to the attention of members.

Improvements have been made to the council's arrangements for ensuring proper standards of financial conduct and to prevent and detect fraud and corruption. The new 'code of official conduct for district council employees' outlines the key requirements in respect of probity and conduct, including:

- anti fraud and corruption policies;
- gifts and hospitality;
- declaration of personal interests; and
- IS/IT security.

Action has also been taken to improve the arrangements surrounding councillors' allowances and expense claims since our review last year.

Legality of transactions

Overall we concluded that arrangements are satisfactory although some policies are still required.

The council's framework for ensuring the legality of its significant financial transactions has been strengthened through the introduction of a computer misuse policy. However, although referred to in the 'internet and email code of practice', a policy is still required in relation to the Data Protection Act.

Other work

Grant claims

Over recent years the number of claims requiring audit certification has grown and audit fees have risen in line with this growth. In accordance with the principle of strategic regulation, the Audit Commission has adopted a more risk-based approach to the certification of grant claims.

With effect from 2003/04 the smaller claims have not been subject to audit, for example discretionary housing payments, or have received a lighter touch review. The approach to larger claims has been determined by risk and the adequacy of the council's control environment.

The majority of our certification work is currently in progress and we will report on the council's arrangements for managing and quality assuring grant claims submitted for audit in early 2005.

National fraud initiative

The council took part in the Audit Commission's national fraud initiative (NFI) 2002/03. The NFI, which is undertaken every two years, brings together data from local authorities, NHS bodies, government departments and other agencies, to detect a wide range of frauds against the public sector. Total savings from the 2002/03 exercise exceeded £83 million [of which £27,619 savings were identified at this Council].

The Commission are repeating the exercise this year and will again collect payroll, pensions, housing benefits, student loan and housing rents data from authorities. Alongside the core exercise a number of pilot initiatives are being undertaken at selected sites. These are focused on risk areas that were highlighted by authorities and include payments made to privately run care homes, abuse of blue badge parking permits, serial insurance claimants and duplicate payments to suppliers. These pilot areas, if they prove effective, will be incorporated into future NFI exercises.

Looking forward

Future audit and inspection work

The plan for 2004/05 is currently being finalised and we have reported in this letter those aspects that have already been completed. The remaining elements of that plan, including our audit of the 2004/05 accounts, will be reported in next year's annual audit and inspection letter.

We will seek to ensure, wherever possible, that our work relates to the improvement priorities of the council when planning our programme of work for 2005/06. We will seek to reconsider, with you, your improvement priorities in the light of the CPA assessment and your own analysis, and develop an agreed programme by 31 March 2005. We will continue to work with other inspectorates and regulators to develop a co-ordinated approach to regulation.

Revision to the Code of Audit Practice

The Audit Commission has consulted on a revised Code of Audit Practice for application to the audit of the 2005/06 accounts. The new Code, which will be laid before parliament in January 2005, is designed to secure:

- a more streamlined audit, which is proportionate to risk and targeted on areas where auditors have most to contribute to improvement;
- a stronger emphasis on value for money, focussing on corporate performance and financial management arrangements (rather than individual services and functions); and
- better and clearer reporting of the results of audits.

Further details will be provided in the audit and inspection plan 2005/06.

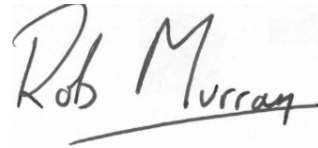
Closing remarks

This letter has been discussed and agreed with the corporate management team. A copy of the letter will be presented at the Overview and Scrutiny Committee – Corporate Services on 23 November 2004.

The council has taken a positive and constructive approach to our audit and inspection and I would like to take this opportunity to express my appreciation for the council's assistance and co-operation.

Availability of this letter

This letter will be published on the Audit Commission's website at www.audit-commission.gov.uk, and also on the council's website.



Rob Murray
District Auditor and Relationship Manager
November 2004

Status of our reports to the council

Our annual audit and inspection letter is prepared in the context of the Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission. Annual audit and inspection letters are prepared by relationship managers and appointed auditors and addressed to councillors and officers. They are prepared for the sole use of the audited and inspected body, and no responsibility is taken by the Audit Commission or its appointed auditors to any councillor or officer in their individual capacity, or to any third party.

Audit & inspection reports issued

Reports	Date
Audit and inspection plan 2002/04	August 2003
Comprehensive performance assessment	June 2004
Audit and inspection plan 2004/05 (draft)	November 2004
Annual Letter	November 2004
Review of financial statements	Due December 2004
Review of BVPP and BVPIs	Due December 2004
Review of grant claims	Due January 2005

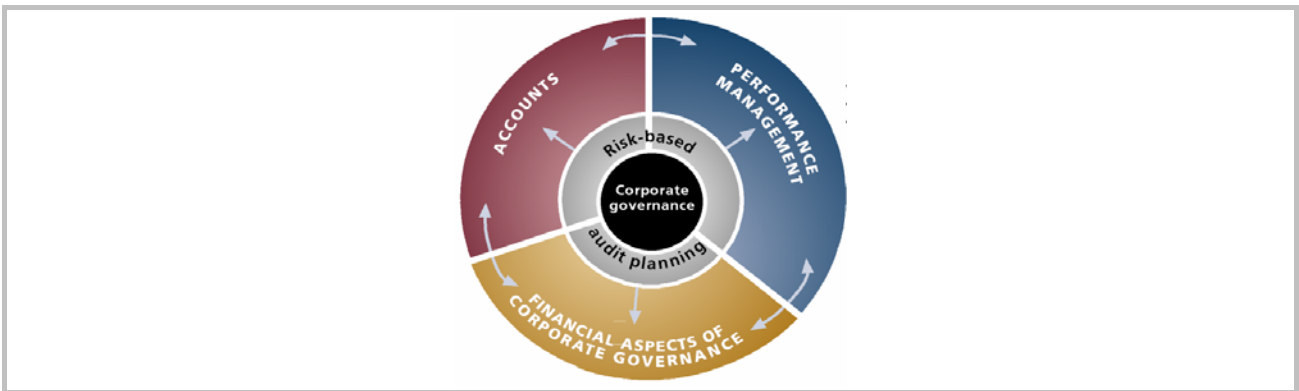
Scope of audit and inspection

Audit

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

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

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; and
- identify failing services where remedial action may be necessary.

The Audit Commission has circulated to all audited bodies a statement that summarises the key responsibilities of auditors. Our audit has been conducted in accordance with the principles set out in that statement. What we say about the results of our audit should be viewed in the context of that more formal background.

Audit and inspection fees

Audit fee update

Audit area	Plan 2003/04 £	Actual 2003/04 £
Accounts including planning and control	48,700	48,700
Financial aspects of corporate governance	9,000	9,000
Performance	33,800	33,800
TOTAL CODE OF AUDIT PRACTICE FEE	91,500	91,500
Grant Claim certification	38,500	*38,500

** Actual fee yet to be determined as this work is in progress*

Inspection fee update

The full year inspection fee is £17,300. The work reported in this audit and inspection letter has been funded by an element of the fee covering 2003/04 and by an element of the fee covering 2004/05. In both years the actual fee will be in line with that planned.