

Annual Audit Letter

December 2005



# **Interim Annual Audit Letter**

**Hambleton District Council**

**Audit 2004-2005**

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## Key messages

### Council performance

- 1 No significant issues to report.

### The accounts

- 2 We gave an unqualified opinion on the Council's accounts on 5 October 2005 and there were no matters to bring to the attention of members.

### Financial position

- 3 The Council has arrangements to ensure its financial standing is soundly based and has responded proactively to the impact of capping. The need to set a reasonable council tax level means scope for growth in the budget is unlikely unless savings or additional income are gained. To improve your financial position you will need to balance the level of service provision with the duty to control spending.

### Financial aspects of corporate governance

- 4 The Council has arrangements to ensure the control framework is satisfactory. Internal Audit continues to provide an effective function and should take steps to further improve the approach to assessing audit risks.
- 5 We have not identified any significant weaknesses in the Council's arrangements for maintaining proper standards of financial conduct.
- 6 We have not identified any significant weaknesses in the Council's framework for ensuring the legality of its financial transactions.

## Background to this letter

### The purpose of this letter

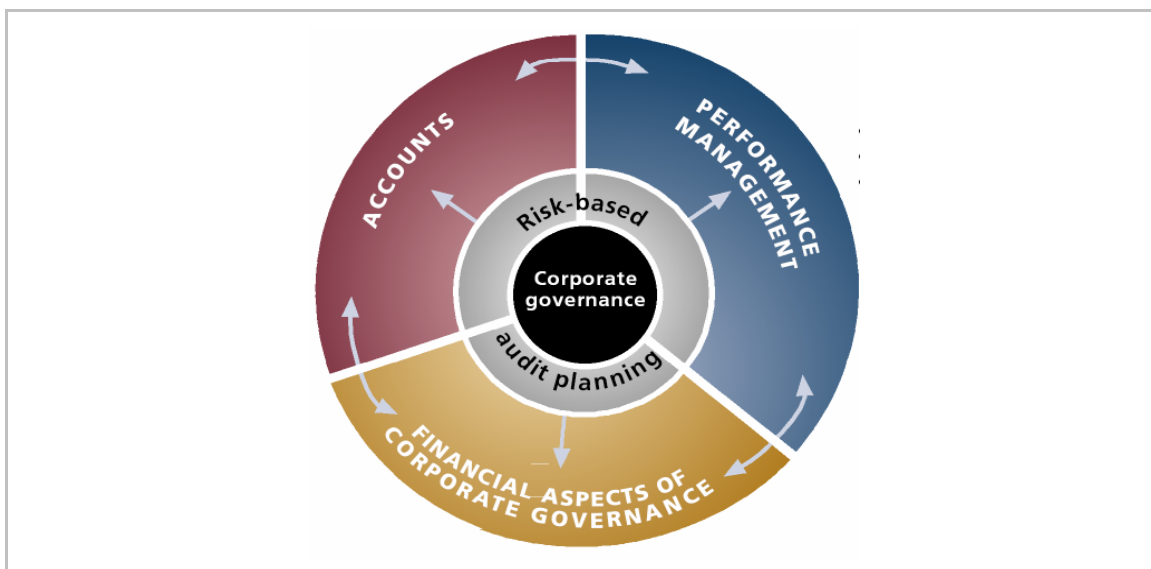
- 7 This Annual Audit Letter summarises the conclusions and significant issues arising from our recent audit. We have issued separate reports during the year setting out the findings and conclusions from the specific elements of our programme. These reports are listed at Appendix 1 for information.
- 8 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 in that statement. What we say about the results of our audit should be viewed in the context of that more formal background.
- 9 Appendix 2 provides information about the fee charged for our audit.
- 10 The 'use of resources' and 'Direction of Travel' assessments will be published in March 2006 and the Annual Audit and Inspection Letter will then be finalised. I have issued this 'Interim' Annual Audit Letter in my capacity as District Auditor under the Code of Audit Practice; it does not therefore include any inspection work undertaken as part of my Relationship Manager role.

### Audit objectives

- 11 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 the significant risks that are relevant to our audit responsibilities.

## Figure 1 Code of Audit Practice

Code of practice responsibilities



- 12 Central to our audit are your corporate governance arrangements. Our audit is then structured around the three elements of our responsibilities as shown below.

### Performance management

- Use of resources.
- Performance information.
- Best value performance plan.

### Accounts

- Opinion.

### Financial aspects of corporate governance

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

## Council performance

There is scope for the Council to work more effectively with partners, for example on alcohol and young people. The Council is well placed to deliver the challenging e-government targets.

### Best value performance plan

- 13 Our duty under the Local Government Act 1999 is to audit your best value performance plan (BVPP). This work is complete and no matters have arisen that we wish to report to members.

### Partnerships – alcohol and young people

- 14 This project focused on the effectiveness of partnership working across North Yorkshire, using the theme of young people and alcohol as a case study. District CPA highlighted services for young people as a key risk area and our NHS plan work on drug treatment services highlighted alcohol misuse amongst young people as a high-risk, especially in market towns within the county. Alcohol and young people is also a national priority, as recognised by the Alcohol Harm Reduction Strategy for England published in March 2004.
- 15 This cross-cutting approach relies on effective partnership working between all levels of government, the drinks industry, the health service and other strategic and community-based partners.
- 16 The case study indicated some limitations to partnership working in Hambleton. There are examples of good partnership working related to anti-social behaviour, but partnership working relating to health impacts is less well developed. A number of high-level issues have arisen so far.
  - Priorities relating to young people and alcohol are not explicitly stated within the Community Plan for Hambleton, although the theme of 'A Safe Community' includes a reference to specific action to reduce the number of young people involved in crime and disorder. You see the issue of young people and alcohol as a key issue in terms of anti-social behaviour and, through the Community Safety Partnership, has taken a number of initiatives to educate young people away from alcohol misuse.
  - The commitment of partners is variable. Effective action has been taken through the Community Safety Partnership to address anti-social behaviour and to provide an element of health education. However, the health impacts of alcohol misuse are not given the same level of priority by the LSP's Healthy Community theme group. Activity relating to substance abuse currently focuses mainly on drugs rather than alcohol. There is also a lack of clarity about the role of some partners, particularly those who have a county-wide perspective.

- Performance management in terms of assessing the impact of activities is an issue for all partners. A general lack of local baseline data makes it difficult to assess progress in tackling young people and alcohol issues.
- 17 Two important developments have occurred since our review:
- a new Crime and Disorder strategy was produced in April 2005; and
  - the LSP (local strategic partnership) has a number of new thematic, including health.
- 18 Both these will assist in driving the partnerships and young people and alcohol agendas forward.

## Access to services and e-government

- 19 The government has set challenging targets for local authorities of 100 per cent provision of electronic access for identified services by the end of 2005. Since last year's letter, we have reported on your plans to meet these targets. Our report issued in early 2005 concluded that you have made sound preparations for delivering their targets on e-government and against the ODPM's 'priority services' agenda.
- 20 There remains a significant challenge to actually deliver the ambitious programme of work, but agreement to continue in partnership will help with delivery of that change. The key challenges will be:
- maintaining effective programme and project management arrangements;
  - extending the customer services unit to deliver further phases of the single contact point philosophy; and
  - maintaining contract management arrangements within the partnership.
- 21 Members are well briefed and demonstrate considerable interest and knowledge in this subject. The Member e-Champion is supported by an Access to Services Group which is used to assess key parts of the delivery strategy.
- 22 The Access to Services Implementation Plan has progressed in order to deliver your requirements outlined in the Customer Access Strategy, which was updated in June 2005. Work to meet the Government Priority outcomes in partnership with Agilisys is progressing satisfactorily including the plan to integrate front and back offices for the major services. Officers report that you have met 98 per cent of the e-government targets.

## Accounts

We gave an unqualified opinion on the Council's accounts on 5 October 2005 and there were no matters to bring to the attention of those charged with governance.

### Audit of 2004/05 accounts

- 23 The published accounts are an essential means by which you report the stewardship of the public funds and financial performance in the use of those resources. Members approved the accounts on 28 June 2005, well ahead of the 31 July statutory deadline. The statutory deadline will be brought forward to 30 June for the 2005/06 accounts and based on this year's performance you are well placed to meet this.
- 24 The professionalism, availability and helpfulness of your finance staff made a significant contribution to the successful and timely completion of the audit. A number of minor errors were corrected during the course of the audit.

### Report to those with responsibility for governance in the Council

- 25 We are required by professional standards to report to those charged with governance (in this case the Finance and Resources Overview and Scrutiny Committee) certain matters before we give an opinion.
- 26 There were no matters arising that we needed to formally report under SAS 610 and a letter was issued to those charged with governance to this effect.

## Financial aspects of corporate governance

### Financial standing

The Council has arrangements to ensure its financial standing is soundly based and has responded proactively to the impact of capping. The need to set a reasonable council tax level means scope for growth in the budget is unlikely unless savings or additional income are gained. To improve your financial position you will need to balance the level of service provision with the duty to control spending.

- 27 The 2004/05 outturn was a £170,000 underspend on a £10.4 million budget. General fund reserves remain at £2 million with earmarked revenue reserves at £13.2 million. The useable capital receipts reserve is £12 million.
- 28 The original 2005/06 net budget of £10.5 million was set with a 17.6 per cent increase in council tax, using £2.9 million of reserves (council tax reserves). The Government's decision to 'cap' at a council tax increase of 5 per cent resulted in a budget reduction of £196,604. Some new schemes planned for 2005/06 have been put on hold as a result. Although naturally disappointed with by the Government's decision to cap, officers and members have worked hard to produce a workable budget for the current year.
- 29 The need to set a reasonable council tax level means scope for growth in the budget is unlikely unless savings or additional income are gained. To improve your financial position you will need to balance the level of service provision with the duty to control spending by:
  - reviewing costs and implementing action to achieve savings;
  - monitoring delivery to ensure budgeted cost reductions are secured; and
  - examining specific areas to identify the scope for further savings in future years.
- 30 At the end of 2004/05, you had approximately £8.8 million as earmarked 'council tax reserves', earmarked to keep council tax levels low in the future. Based on council tax increases of 5 per cent, these reserves available to support council tax would be diminished in 2008/09. You have approved revised medium-term and long-term (ten years) financial strategies to take the impact of capping into account. These will be subject to regular review.
- 31 The position against the budget is reported to Cabinet quarterly. Latest budget monitoring reports (at half-year stage) forecast a £43,000 overspend against original estimates.

## Systems of internal financial control

The Council has arrangements to ensure the control framework is satisfactory. Internal Audit continues to provide an effective function and should take steps to further improve the approach to assessing audit risks.

### Internal Audit

- 32 Internal Audit (IA) plays an important role in providing assurance to management that the systems of internal control are effective. This year we have undertaken a detailed review of Internal Audit against the standards set out in the CIPFA Code of Practice for Internal Audit in Local Government and to assess whether IA:
- provides sufficient assurance to management on the operation of your internal control framework; and
  - provides work of a standard that we can then place reliance on in respect of key financial systems.
- 33 Overall we found that Internal Audit provides an effective service that complies with the CIPFA standards as a whole. We were able to rely on the work undertaken by Internal Audit. There is scope to improve the approach to undertaking and documenting a full audit risk and needs assessment when producing the audit strategy and providing a clear trail to the annual Audit Plans.
- 34 In October 2005, you took the decision to establish a separate Audit and Governance Committee, with a remit also covering risk management. The audit committee function had previously been carried out by the Finance and Resources Overview and Scrutiny Committee. The 'Audit Committee' now receives progress on Audit Commission and IA work and we will be inviting members to be involved in our 2006/07 audit planning process. It will take some time for the 'audit committee' to develop its role fully and we have provided a good practice checklist to assist.

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

We have not identified any significant weaknesses in the Council's arrangements for maintaining proper standards of financial conduct. Internal Audit is to undertake specific fraud probes where risks emerge.

### Overall arrangements

- 35 From our work we note that you have procedures in place designed to ensure that proper standards of conduct are maintained. We have not identified any significant weaknesses in your arrangements to prevent and detect fraud and corruption.

## National Fraud Initiative

- 36 In 2004/05, you took part in the Audit Commission's National Fraud Initiative (NFI 2004/05). The NFI, which is undertaken every two years, aims to help identify and reduce fraud by bringing together data from NHS bodies, local authorities and government departments and other agencies, to detect a wide range of frauds against the public sector. These include payroll and housing benefit fraud, with the details of housing benefit fraudsters being passed back to the employing body to allow them to consider the implications and take action as appropriate.
- 37 Internal Audit and the Benefit Fraud Investigation team have been working through the matches identified by the NFI to determine what, if any, further action should be taken in each case. Relevant returns in relation to the NFI have been submitted to the Audit Commission.

## Legality of transactions

We have not identified any significant weaknesses in the Council's framework for ensuring the legality of its financial transactions.

- 38 We have not identified any significant weaknesses in your framework established for ensuring the legality of significant financial transactions.

## Use of resources judgements

- 39 The use of resources assessment is a new assessment which focuses on financial management but links to strategic management. It looks at how the financial management is integrated with strategy and corporate management, supports your priorities and delivers value for money. It will be carried out annually, as part of each council's external audit. I will report the findings in my final letter in March 2006. We anticipate in future the judgements will form part of the CPA framework.

## Other work

### Civil contingencies

- 40 The Civil Contingencies Act 2004 outlines the requirements necessary for authorities to better plan for and deal with emergencies that cause severe disruption to services at all levels. It looks at building 'service resilience', not just improving emergency planning, but including business (or service) continuity arrangements, including ICT. The Act draws attention to arrangements with partner and local organisations, and the testing of emergency and service continuity plans.
- 41 The purpose of the Audit was to present a 'snapshot' of your position in implementing the requirements of the Act, and we found that you are making good early progress in establishing the arrangements required. These could be strengthened through further work on developing the 'business continuity plan', under the Service Level Agreement with North Yorkshire County Council.

### Housing benefits

- 42 You have taken action to address the recommendations made in our October 2003 review:
- The Service Plan and Benefits Improvement Plan have been continually reviewed and updated;
  - Post opening procedures have been improved;
  - an additional member of staff in the Benefits Fraud Unit enabling more work on investigating suspected fraud;
  - the performance indicators for housing benefits have improved significantly.
- 43 A decision is awaited on the computerised management information system. This depends on the results of the feasibility study for working in partnership with Ryedale District Council on revenues and benefits.

### Grants

- 44 We have adopted a more risk-based approach to the certification of grant claims. With effect from 2003/04, claims with a value of less than £50,000 no longer require auditing and those between £50,000 and £100,000 have received a lighter touch audit. The approach to larger claims has been determined by risk and the adequacy of your control environment.
- 45 We have no issues to report on this year's work.

## Looking forward

### Future audit and inspection work

- 46 We have an agreed plan for 2005/06 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 2005/06 accounts, will be reported in next year's Letter.
- 47 We have sought to ensure, wherever possible, that our work relates to your improvement priorities. We will continue with this approach when planning our programme of work for 2006/07. We will seek to reconsider, with you, your improvement priorities in the light of the latest CPA assessment and your own analysis, and develop an agreed programme by 31 March 2006. We will continue to work with other inspectorates and regulators to develop a co-ordinated approach to regulation.
- 48 I would welcome the opportunity to discuss your emerging risks and priorities at the meeting scheduled to discuss this draft Interim Annual Audit Letter. Current risks identified include:
- the effects of capping; and
  - the revenues and benefits partnership.

### Revision to the Code of Audit Practice

- 49 The statutory requirements governing our audit work, are contained in:
- the Audit Commission Act 1998; and
  - the Code of Audit Practice (the Code).
- 50 The Code has been revised with effect from 1 April 2005. Further details are included in our Audit Plan which has been agreed with Finance and Resources overview and Scrutiny Committee in June 2005. The key changes include:
- the requirement to draw a positive conclusion regarding your arrangements for ensuring value for money in its use of resources; and
  - a clearer focus on overall financial and performance management arrangements.

### A new CPA framework

- 51 The Audit Commission is currently considering the results of the consultation on the proposals for revising the CPA framework for District Councils. Revised proposals will be announced in April 2006, followed by further consultation.

## Closing remarks

- 52 This letter has been discussed and agreed with chief officers.
- 53 The Council has taken a positive and constructive approach to our audit and I would like to take this opportunity to express my appreciation for your assistance and co-operation.

## Availability of this letter

- 54 This letter will be published on the Audit Commission's website at [www.audit-commission.gov.uk](http://www.audit-commission.gov.uk) and also on your website.

Mark Kirkham  
District Auditor  
December 2005

## Appendix 1 – Audit and inspection reports issued

**Table 1      Reports issued**

<b>Report title</b>	<b>Date issued</b>
Audit Plan	March 2004 Nov 2005
Partnership Working - Young people and Alcohol	July 2005
Review of Internal Audit	August 2005
Housing Benefits Action Plan Follow-up	September 2005
Report on the 2004/05 Financial Statements to Those Charged with Governance (SAS 610)	September 2005
Civil Contingencies	November 2005
Final Accounts and Governance Memorandum	December 2005
BVPP Report	December 2005
Interim Annual Audit Letter	December 2005

## Appendix 2 – Audit and Inspection fees

**Table 2      Audit fee update**

<b>Audit area</b>	<b>Plan 2004/05 (£)</b>	<b>Actual 2004/05 (£)</b>
Accounts	18,000`	18,000
Financial aspects of corporate governance	25,000	25,000
Performance	6,500	6,500
<b>Total Code of Audit Practice fee</b>	<b>49,500</b>	<b>49,500</b>
Inspection	3,000	3,000
<b>Total</b>	<b>52,500</b>	<b>52,500</b>