

# Annual Audit and Inspection Letter

## Hampshire County Council

### INSIDE THIS LETTER

#### PAGES 2 - 9

- Executive Summary
- Key messages
- Council performance
- Accounts and Governance
- Other work
- Looking forwards
- Closing remarks

#### PAGES 10 - 13

#### **Appendix 1**

- Reports issued during 2003/04

#### **Appendix 2**

- Scope of audit and inspection

#### **Appendix 3**

- Audit and Inspection fees

<b>Reference:</b>	HA008 Annual Audit & Inspection Letter - FINAL
<b>Date:</b>	January 2005

## Executive Summary

### The purpose of this letter

This is our audit and inspection 'annual letter' for Members which incorporates our annual audit letter for 2003/04, and is presented by the council's Relationship Manager and District Auditor. 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 having completed specific aspects of our programme. These reports are listed at Appendix 1 for information.

Appendix 2 sets out the scope of audit and inspection.

Appendix 3 provides information about the fees charged.

## Key messages

### Council performance

*Hampshire County Council continues to be an excellent council.*

*It fully understands its contribution to the Community Strategy, identifying what it wants to achieve including challenging targets and ambitions.*

*Average educational achievement remains high and is improving within targeted schools in deprived areas. The council is addressing unauthorised absences and exclusions from schools although improvements are slower than expected.*

*The council has clear priorities for children's services and provides strong support to achieve them. A new children's and adolescent mental health trust has been created and services for adults continue to improve. Across all social care services some people wait too long for initial assessment although there are promising prospects for further improvement.*

*Arrangements to monitor performance are clearer and the council works effectively to improve services in partnership with others. As a result more nursing care is available for elderly people, levels of waste are reducing and recycling levels are amongst the best in the country.*

*Based on Hampshire's current plans, the council is well placed to further improve the way it works and the services it provides.*

### Audit of your 2003/04 accounts

*We issued an unqualified opinion on your 2003/04 financial statements on 9 December, slightly later than the deadline set by the Accounts and Audit regulations.*

*Over the next 12 months we intend to work jointly with you to prepare for the upcoming earlier accounts certification and audit deadlines.*

### Other accounts and governance issues

*Progress is being made to document and evaluate your revised financial systems. Once complete this will provide further support for the council's statement on internal control. Although we are unable to make a judgement on this at this stage, we will revisit this assessment once this work is complete.*

### Action needed by the council

The following specific actions for Members are recommended in the main body of this letter:

- ensure learning from scrutiny pilots improves members engagement in policy development and scrutiny;
- ensure that service and financial planning and performance reporting are robustly linked to underpin the council's capacity to deliver improvement;
- continue to develop performance management processes and timetables;
- work in liaison with the Audit Commission to ensure that earlier accounts closure and audit deadlines can be met in future;

- consider the outcomes of the work being undertaken by the County Treasurer to document and evaluate the council's revised financial systems in the context of the Statement on Internal Control; and
- ensure robust benefit realisation is undertaken in respect of the new Social Care Information System.

## CPA Improvement Report

### Ambition and priorities

The council remains ambitious and the publication in 2004 of the Hampshire Community Strategy provides a single vision over what is important to the community.

Key community strategy aims include:

- health and well-being;
- economic prosperity and life long learning;
- strong and safe communities; and
- environment, infrastructure and transport.

The county council fully understands how it contributes to these ambitions and there is much determination to continue to improve. It has identified what it wants to achieve and this forms the basis of stretching targets and ambitions set out in its own corporate strategy and local public service agreement (LPSA).

Scrutiny pilots have been established to explore ways of improving the engagement of elected members in policy development and scrutinising executive decisions. Area committee pilots are operating in Havant and Test Valley to act as the 'eyes and ears' of the council and enhance its role as community leader.

### Investment and future plans

Significant investments have been made to support the council's priorities including;

- £20 million towards the provision of 500 additional nursing home beds;
- social services received an 8.5 per cent increase in funding (£22.4 million) to address pressures on childrens services and improve services to older and vulnerable people;
- £3.5 million to improve Hampshire's highways and footpaths;

- £2.2 million new funding for pupils in identified deprived areas;
- £1 million for affordable housing within Hampshire;
- £1 million for accredited community safety support officers;
- £0.5 million to extend the use of public transport across the county.

### Capacity

There is a determination to secure improved outcomes against a background of significant demand pressures. The council uses its community leadership role to secure change and build partnerships; increasing capacity and maximising the total resources available to achieve improvement.

Recent examples of this include;

- the second local public service agreement for Hampshire will commence in April 2005 and addresses cross cutting priorities between local government and health;
- more nursing care capacity is becoming available following a partnership with the NHS; the council is the first local authority in the county to directly employ nurses in social care;
- investment in key bus routes is made using money secured by partnerships with bus operators and district councils; and
- Chandlers Ford railway station opened in 2003 following a partnership with the Strategic Rail Authority, South West Trains and Network Rail.

The council has identified the people and resources to assess and respond to agenda created by the Children Bill. Much of the change is expected to be in place by April 2006.

Internal structures and procedures continue to be reviewed and strengthened. A corporate procurement network has been established to and a new strategic contract for agency staff has commenced.

Work to integrate service and financial planning is continuing and there is commitment to delivering this by 2005/06. Members must ensure this difficult issue is robustly addressed; linking finance and priorities underpins the council's capacity to deliver improvement.

### Performance management

The council has simplified its arrangements to monitor performance by revising its corporate strategy to provide a single, integrated focus for performance.

For each overall aim, the council has clarified;

- the steps that will contribute to achieving it;
- what it means in terms of outcomes;
- how the outcomes will be measured; and
- key milestones and targets over the short to medium term.

This information is publicly available on the council's website and in the council's annual performance plan. More information on this document is set out in the 'performance information' section of this letter.

Outside of this, the council's wider performance management framework and culture continues to develop. The building blocks are in place but processes and timetables need integrating to ensure continued improvement.

Departments have identified their key priorities and the council has recently completed its first integrated six month performance monitoring and reporting cycle. It is too soon however to identify the impact of these developments.

### Achievement

The council's strong tradition of devolved management providing flexibility to deliver good/excellent local services continues. It also continues to strive for top quartile performance in key service indicators, over half of which have improved since 2002/03.

Its services are increasingly available to all members of the community, targets for the provision of services electronically are expected to be met and 74 per cent of all council buildings are accessible by disabled people.

Performance has improved in 9 of the 13 LPSA targets from their baseline position, particularly in relation to improvements in road safety and the amount of waste diverted from landfill. For the remaining areas, stretching educational LPSA targets particularly have not yet been achieved.

The council's achievements against its corporate objectives include:

#### *Maximising life opportunities*

- Hampshire pupils' performance in tests and GCSE examinations for 2004 remained good, in particular in primary schools which achieved the best results ever in English and Maths for 11 year olds (KS2);
- GCSE improvement is 50 per cent higher in 12 schools in areas of relative deprivation targeted for support by the LEA;
- 300 additional nursing care beds will be available from March 2005, with more to follow in 2005/06;
- a pathfinder Children's Trust has been created for children and adolescent mental health services;
- an intensive early care programme has been established to help people with long term illnesses avoid the need for hospital care;
- more school pupils are using museums and discovery centres are opening to extend the appeal of libraries;
- there are fewer unauthorised absences from schools, although improvements are still needed to reach target levels in some areas; and
- the kinship care scheme which allows more children to have stable home placements with friends and families.

#### *Stewardship of the environment*

- the council is leading a rural pathfinder pilot to review how services from animal health to transport can be more effectively and efficiently delivered;
- the council is a lead partner in the development of a material resources strategy which will aim to minimise new resources needed and maximise use of recycled materials;
- the level of waste going to landfill sites reduced from 72 per cent in 2002/03 to 58 per cent in 2003/04;
- overall recycling performance, through the project Integra partnership, is top quartile. Some areas, such as Eastleigh, have recycling rates above 30 per cent;
- bus usage on key routes in urban areas has increased by up to 20 per cent, although total bus journeys continue to decline.

*Achieving economic prosperity*

- 100 areas of land is being used for affordable housing and to regenerate the Popley area of Basingstoke;
- broadband internet access is being promoted via the Hampshire broadband partnership; and
- 56 apprenticeship posts have been developed.

*Building strong and safe communities*

- the council was awarded the European award for road safety in summer 2004; and
- 30 community safety officers are working in partnership with neighbourhood warden schemes in district areas.

Outside of these areas, the council recognises the challenges it faces. Key messages from external inspections of services and performance management include;

- the need to seek new options to reduce traffic congestion in south Hampshire;
- improvements in care management processes for children and adults services are needed; people sometimes wait too long for initial assessment;
- there are a number of areas in the county where there will be excess school places and a projected decline in pupil numbers;
- educational performance in two targeted schools has not increased as expected;
- recycling levels are above most other councils, but below expected targets; and
- exclusions from secondary schools in Hampshire remain relatively high.

**Performance information**

We completed our statutory audit of your 2004/05 Best Value Performance Plan in September and an unqualified opinion and our statutory report was issued in November.

Your performance information continues to improve. Reservations were placed against four indicators, significantly fewer than in previous years. Work is still needed however to achieve a 'right first time' culture and to reduce compilation errors. Officers are aware of this and there are no further issues for Members' attention.

**Accounts and governance**

*We issued an unqualified opinion on your 2003/04 financial statements on 9 December, slightly later than the deadline set by the Accounts and Audit regulations.*

*Your overall corporate governance arrangements are satisfactory in most key areas and work is in hand to document your revised financial systems. Although we are unable to make a judgement on this at this stage we will revisit our assessment of your controls once your evaluation is complete.*

**Auditor scored judgements**

Auditor scored judgements continue to be completed as part of our annual audit responsibilities and were reported to the governance committee in December 2004.

The results of this work provide a summary assessment of aspects of your corporate governance arrangements. Each score is determined against set criteria of good practice and are on a scale of 1 (inadequate) to 4 (good).

**EXHIBIT 1: AUDITOR SCORED JUDGEMENTS 2004**

Area	Score
Financial statements	3
Financial Standing	4
Systems of internal financial control	3
Standards of financial conduct and prevention and detection of fraud and corruption	4
Legality	4

**Audit of 2003/04 accounts**

*We issued an unqualified opinion on your 2003/04 financial statements on 9 December, slightly later than the deadline set by the Accounts and Audit regulations. We intend to work jointly with you over the next 12 months to prepare for the upcoming earlier accounts certification and audit deadlines.*

In accordance with Statement of Auditing Standard (SAS) 610, we reported the main outcomes of our audit to the governance committee on 9 December 2004 and issued an unqualified opinion the same day.

Members should note that the Code of Audit Practice requires us to follow Statements of Auditing Standards (SAS's). SAS 440 requires auditors to obtain written confirmation of certain representations from management before they issue their opinion. These representations were received from the council on 8 December.

Section 11 of the accounts and audit regulations 2003 requires the council to publish its 2003/04 accounts by 30 November. Our opinion was therefore issued after this deadline.

### **Whole of Government accounts**

Last year, we asked the council to consider how SAP can be used to prepare for earlier accounts closure timetables by enhancing continuous financial reporting processes.

Officers have commenced this work and, as part of this, we will be taking the opportunity to work jointly with the council to ensure that the entire accounts closure and audit process is as efficient as possible in future years.

### **Pension fund**

As in previous years, we issued a separate unqualified opinion on the Pension Fund.

## **Financial standing**

*Good arrangements are in place to maintain a satisfactory financial position.*

Our work again confirmed that you have sound arrangements to address financial issues. This section summarises the main messages in relation to your financial standing not directly related to your improvement priorities.

Issues that relate to your improvement priorities, including the ongoing work to develop the links between financial and service planning, are considered within the CPA Improvement report in the 'council performance' section earlier in this letter.

### **Financial monitoring**

Following our comments to you last year, your financial reporting processes have improved. All Executive Members now receive quarterly capital and revenue budget monitoring reports. There are no further issues for Members.

## **Systems of internal financial control**

*Progress is being made to document and evaluate your revised financial systems. Once complete this will provide further support for the council's statement on internal control. Although we are unable to make a judgement on this at this stage we will revisit this assessment once this work is complete.*

Your overall arrangements remain sound and progress is in hand to document the controls in your revised financial systems. Once this exercise is complete, we will revisit our assessment of the council's arrangements for internal financial control in our 2005/06 audit letter.

Members of the Governance committee should also consider the processes and outcomes of this work to support their subsequent review of the council's statement on internal control.

### **Project Enterprise – benefits realisation**

Over the past 12 months the council has worked hard to put in place measures to recover the planned level of benefits. Your work on this area since our first assessment now reflects good practice in benefits management. There are no further issues for Members' attention.

### **Risk management**

The development of risk management continues. Your approach to assessing strategic risks has strengthened and the development of a database to track and monitor risks is underway.

A risk management improvement plan has also been approved which will form the basis for further improvement. From our work, there are no issues for Members' attention.

### Social care information system

Hampshire's social services department is currently updating its social care information system (SCIS) to help meet the increasing demands of service users and staff as well as complying with new e-Government requirements. The system is also central to addressing the requirements of the Children Bill.

Our review found that appropriate management arrangements are in place to implement SCIS effectively and efficiently, which include;

- using a sound, well resourced project management organisation and methodology;
- adopting a robust approach to identifying and managing risks;
- preparing users well through road shows and intensive training; and
- recovery of several months slippage from early plans.

The key issues for Members are to ensure:

- a robust benefit realisation strategy is in place to deliver the planned benefits of the system;
- any benefit realisation plan reflects the increase in costs (6 per cent over the original budget of £5.2 million); and
- progress is maintained so that the council's mainframe can be decommissioned by March 2005.

### Nursing home care

The capacity of the market for residential care with nursing provision is a key issue for Hampshire as a whole. The council and strategic health authority's joint response to this issue was to fund and build 500 additional residential care beds. The initial cost was estimated at £60 million, with ongoing revenue costs needed to provide the nursing care.

We reviewed the business case and proposals for this scheme and found that:

- the process used for selecting the chosen option appears reasonable;
- the approach adopted by the business case to the financial appraisal appears robust;

- suitable arrangements to ensure value for money in respect of the chosen option have been established; and
- the Partners appear to have acted reasonably with regard to exercise of their statutory duties in respect of this initiative.

Following these outcomes, there are no issues for Members' attention from this work.

### Partnerships

The council performance section of this letter demonstrates how central partnerships are to the delivery of services within Hampshire.

The council is actively engaged in a diverse and complex set of partnership arrangements and, as part of our audit, we are currently finalising our review of the council's corporate arrangements for operating in partnership. Our final report will be issued early in 2005.

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

*We have not identified any significant weaknesses in your arrangements to prevent and detect fraud and corruption.*

We continue to be satisfied with your arrangements. Your governance 'self assessment' process highlighted a small number of issues which officers have taken steps to address. There are no matters for Members' attention.

### Legality of transactions

*The council's arrangements to comply with legislation remain satisfactory.*

We have not identified any significant weaknesses in the framework established by the council for ensuring the legality of its significant financial transactions. There are no issues for Members' attention.

## Other work

### Follow-up

#### E-Government

*Progress continues towards e-Government Targets but there is still much to do in order to meet the target.*

Progress has been made since our last review, although later than agreed in some areas. In particular, we noted an e-Government strategy and 'road-map' now exists to guide preparations for this deadline.

We intend to revisit this project in 2005 to update our records and consider how you plan to meet the new, more challenging, targets set by the Government during 2004. In advance of this work, there are no issues for Members' attention.

### 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.

The Commission are repeating the exercise this year and we will again collect payroll, pensions and student loan data from you.

Alongside the core exercise a number of pilot initiatives are being undertaken at selected sites focussing on 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 Forwards

### Future audit and inspection work

We have an agreed plan for 2004/05 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 letter. Our planned work, together with that of other inspectorates, is included on both the Audit Commission and LSIF (Local Services Inspectorates Forum) websites.

We have sought to ensure, wherever possible, that our work relates to the improvement priorities of the council. We will continue with this approach when planning our programme of work for 2005/06. 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 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 bodies' 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.

## CPA 2005 and beyond

The Audit Commission has also consulted on a new framework for CPA in 2005 and beyond. The main changes proposed are as follows:

- rationalization of service blocks;
- 'achievement' assessment element of corporate assessment to be driven by review of community plan and shared priority themes;
- move away from rigid numerical model, to one based on rules;
- corporate assessments to be undertaken on a rolling programme, including Audit Commission/OFSTED joint area reviews of children and young people;
- stronger focus on service delivery for users and customers; and
- more robust and explicit view of value for money and cost-effectiveness.

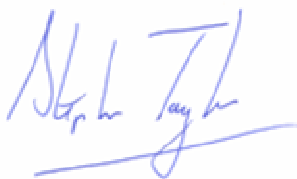
## Closing remarks

This letter has been discussed and agreed with the Chief Executive and County Treasurer. A copy of the letter was presented to the cabinet on 24 January 2005.

The council has taken a positive and constructive approach to our audit and inspection 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](http://www.audit-commission.gov.uk), and also on the council's website.



**Stephen Taylor**  
District Auditor

25 January 2005

## 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 members 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 member or officer in their individual capacity, or to any third party.

## Audit reports issued

Reports	Date
Audit plan	July 2003
Nursing Home Care	January 2004
Performance Indicators – pre audit	February 2004
Audit Update report 1	June 2004
Interim Audit report	June 2004
Social Care Information System	June 2004
Audit Update report 2	September 2004
Performance Indicators report	November 2004
Accounts and SAS610 report	December 2004
CPA improvement report	December 2004
Annual audit and inspection letter	January 2005
Partnerships	February 2005

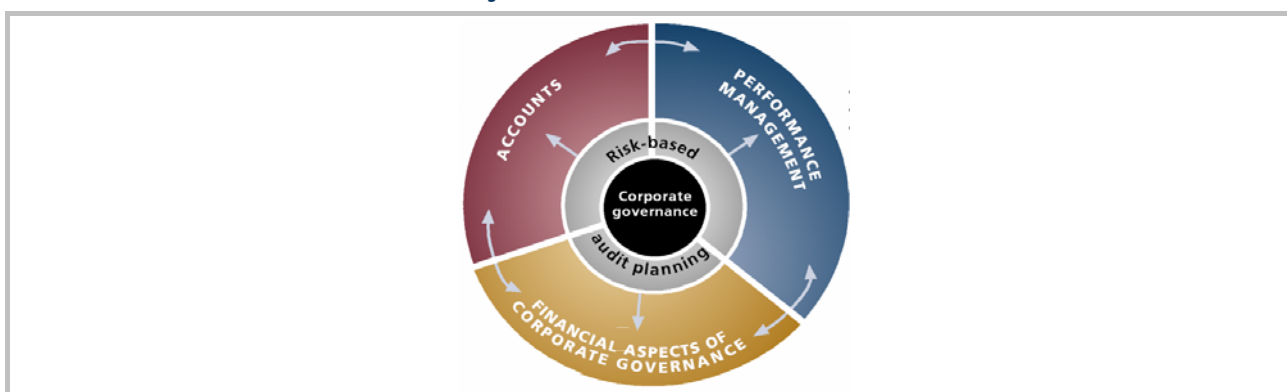
## Scope of audit and inspection

### 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.
- The council's 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.

For Hampshire, as an 'excellent' council, the audit and inspection regime was reduced and we have not undertaken any local performance audit studies or any new inspection work at the council in 2003/04.

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 fee

### Audit fee update

Audit area	Plan 2003/04	Actual 2003/04
Accounts	106,000	106,000
Performance (including CPA and Best Value – see note below)	37,000	37,000
Financial Aspects of Corporate Governance	105,000	105,000
TOTAL CODE OF AUDIT PRACTICE FEE	248,000	248,000
Grant Claim certification	85,000	123,000
Additional Voluntary work (under Section 35)	n/a	8,700

### Performance

In accordance with the council's excellent status, no local performance or inspection work was undertaken at the council in 2003/04. The performance element of our fee relates to work undertaken on the council's updated CPA assessment and our statutory duties in relation to your Best Value Performance Plan and performance indicators.

### Grants

The fee for grant certification is associated with grant claims for the financial 2002/03 year. In accordance with strategic regulation, our 2004/05 audit plan, which will include the certification work on your 2003/04 financial year claims, estimates the revised fee for grant certification as £65,000.

### Inspection fee update

The full year inspection fee is £43,600, representing the standard fee for Excellent councils. 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.