

Annual Audit Letter

Hampshire County Council

Audit 2008/09

December 2009



Contents

Key messages	3
Financial statements and annual governance statement	5
Value for money and use of resources	7
Audit fees	14
Closing remarks	15

Status of our reports

The Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission explains the respective responsibilities of auditors and of the audited body. Reports prepared by appointed auditors are addressed to non-executive directors/ members or officers. They are prepared for the sole use of the audited body. Auditors accept no responsibility to:

- any director/member or officer in their individual capacity; or
 - any third party.
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Key messages

This report summarises the findings from our 2008/09 audit. It includes messages arising from the audit of your financial statements and the results of the work I have undertaken to assess your arrangements to secure value for money in your use of resources.

Audit Opinion and Financial Statements

- 1 I issued an unqualified opinion on the Council and Pension Fund financial statements on the 30 September 2009.
 - 2 External financial reporting processes are well developed and embedded and the Council's accounts met statutory requirements and financial reporting standards, and presented fairly its financial performance and position.
 - 3 There are no significant matters in relation to the Council's arrangements for producing its annual accounts that I need to bring to the attention of Members in this Letter.
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Value for money

- 4 I concluded that in all significant respects, the Council had proper arrangements in place to secure economy, efficiency and effectiveness in the use of resources, across each of the areas of my assessment for the year ending 31 March 2009 and therefore gave an unqualified VFM conclusion.
- 5 In my Use of Resources assessment, I concluded that the Council scored 3 out of a maximum of 4. This means that the Council is performing well and achieving value for money. Excellent financial management has enabled the Council to keep council tax low and make savings which can be reinvested in improved services. It has implemented effective arrangements that are forward looking, proactive, and include sophisticated measuring and assessment techniques. Outputs and outcomes demonstrate arrangements which are effective and have the intended impact.
- 6 Although the Council's overall score is 3 for 2008/09 compared to 4 last year this is due to the change in the assessment methodology and does not imply any deterioration in the Council's performance. Indeed, since last year, the Council has continued to make improvements in its arrangements, notably its approach to the planning of its finances; its arrangements for commissioning and the procurement of services; and its strategic asset management. I have highlighted these and other areas as examples of notable practice for wider dissemination via the Audit Commission's website.

- 7** In arriving at my conclusion I have been impressed by the wide spread of initiatives the Council is engaged in, some of which are beginning to deliver outcomes but others, for example the 'Driving Success' performance management system; the roll out of VFM score cards; the impact of the Personalisation Commission review on adult services reforms and work to build stronger relationships with the voluntary sector will require a longer lead in time for the benefits to crystallise.
- 8** In responding to this year's assessment the Council should aim to evidence continuous improvement over the coming year by demonstrating outcomes in each of its key priority areas. If the Council aspires to a level 4 overall it needs to be able to demonstrate innovation or best practice and delivery of strong outcomes for the community, including through partnership working, and achievement of excellent value for money in all that it does.
- 9** To assist, I will analyse the assessments made nationally to identify good practices and provide the Council with further information on arrangements or contacts for areas that match its improvement priorities. This will be concentrated on other county and unitary authorities, but I will also provide examples from other sectors where I believe that this will benefit the County.
- 10** In addition, we have hosted a series of joint workshops aimed at helping authorities prepare for the assessment of new KLOE (Key Lines of Enquiry) in 2009/10 by discussing and comparing the arrangements in place; sources of evidence to demonstrate outcomes; and learning from auditor's experiences from other sectors where the KLOEs have already been reviewed. Council representatives attended a workshop on workforce (a new area being assessed for the Council in 2009) which I hosted in November 2009.

Actions

- 11** Areas highlighted for action on the part of the Council referred to within the body of this letter are covered by recommendations in detailed reports which have been previously agreed with the Council.

Independence

- 12** I can confirm that the audit has been carried out in accordance with the Audit Commission's policies on integrity, objectivity and independence.

Financial statements and annual governance statement

The Council's financial statements and annual governance statement are an important means by which the Hampshire County Council accounts for its stewardship of public funds.

Significant issues arising from the audit

- 13** The most significant issue arising from the audit is that I was able to issue an unqualified audit opinion on the Council's financial statements and those of the Pension Fund on the 30 September 2009. During my planning process I raised a number of risks that I would need to review during my audit, including the treatment of impairments and re-valuation of fixed assets in the current economic climate and the new reporting requirements on the Pension Fund accounts. I am pleased to find that the Council had accounted correctly for these risk areas.
- 14** The key issues raised for the Council's attention related to a £442,000 understatement of the year-end cash overdrawn balance and a corresponding overstatement of creditors and the double counting of cash held on deposit of £1.5 million on the Pension Fund account. These errors were subsequently amended in your accounts. In addition the Council made a number of prior year adjustments to the accounts which under FRS3 were not required. Management declined to amend the accounts on the grounds that the adjusted figures help the readers understanding and are not material. I am content with this argument.
- 15** As your auditor, I am also required to report on your whole of government accounts consolidation pack. I reported on 1 October 2009 that, in my opinion, the pages of the pack were consistent with the statement of accounts for the year ended 31 March 2009 on which I had entered my opinion.

Material weaknesses in internal control

- 16** I did not identify any significant weaknesses in your internal control arrangements. I have reviewed the Council's Internal Audit function this year in accordance with my cyclical programme and concluded that Internal Audit meets all the required standards and that their work can be relied upon for the purposes of my audit.

Accounting Practice and financial reporting

- 17** I considered the qualitative aspects of your financial reporting, and have no specific issues to raise that would merit inclusion in this Letter. Your finance staff are well aware of reporting requirements and have made provision for future developments including readiness for the implementation of International Financial Reporting Standards (IFRS).
- 18** In my detailed report to officers I have included suggestions for improving closedown and audit liaison arrangements and my staff will be meeting with the Council's finance team to develop collaborative working for the future.

Value for money and use of resources

I assessed whether the Council put in place adequate corporate arrangements for securing economy, efficiency and effectiveness in its use of resources. This is known as the value for money (VFM) conclusion.

I also considered how well the Council is managing and using its resources to deliver value for money and better and sustainable outcomes for local people, and gave a scored use of resources judgement.

VFM Conclusion

- 19** I assessed your arrangements to secure economy, efficiency and effectiveness in your use of resources against criteria specified by the Audit Commission. For 2008/09 the Audit Commission specified the use of resources KLOE for the Council as set out in Table 1, as the relevant criteria for the VFM conclusion at the Council.
- 20** I issued an unqualified conclusion stating that in all significant respects, the Council made proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2009.

Use of resources judgements

- 21** The new UoR assessment framework is more demanding than the previous assessment. It is broader in scope and embraces wider resource issues such as use of natural resources and strategic asset management. It also places more emphasis on considering outcomes for local people. It is particularly important to recognise that the KLOE are more strategic and focus much more explicitly than previously on value for money achievements than on processes.
- 22** In forming my scored use of resources judgements, I have used the methodology set out in the [use of resources framework](#). Judgements have been made for each key line of enquiry (KLOE) using the Audit Commission's current four point scale from 1 to 4, with 4 being the highest.
- 23** I have also taken into account, where appropriate, findings from previous use of resources assessments (updating these for any changes or improvements) and any other relevant audit work.
- 24** The Use of Resources scores for the Council are shown in Table 1 below. I have issued a detailed report on my assessment which is issued along side this Letter.

Table 1 Use of resources scores

Use of resources theme	VFM criteria met?	Scored judgement
Managing Finances		3
KLOE 1.1 - Does the organisation plan its finances effectively to deliver its strategic priorities and secure sound financial health?	Yes	4
KLOE 1.2 - Does the organisation have a sound understanding of its costs and performance and achieve efficiencies in its activities?	Yes	3
KLOE 1.3 - Is the organisations financial reporting timely, reliable and does it meet the needs of internal users, stakeholders and local people?	Yes	3
Governing the Business		3
KLOE 2.1 - Does the organisation commission and procure quality services and supplies, tailored to local needs, to deliver sustainable outcomes and value for money?	Yes	4
KLOE 2.2 - Does the organisation produce relevant and reliable data and information to support decision-making and manage performance?	Yes	3
KLOE 2.3 - Does the organisation promote and demonstrate the principles and values of good governance?	Yes	3
KLOE 2.4 - Does the organisation manage its risks and maintain a sound system of internal control?	Yes	3
Managing Resources		3
KLOE 3.1 - Is the organisation making effective use of natural resources?	Yes	3
KLOE 3.2 - Does the organisation manage assets effectively to help deliver its strategic priorities and service needs?	Yes	4
KLOE 3.3 - Does the organisation plan, organise and develop its workforce effectively to support the achievement of its strategic priorities?	Not applicable in 2008/09	Not scored in 2008/09

Value for money and use of resources

Overall conclusion

- 25** The Council has performed well in managing and using its resources to deliver value for money and better and sustainable outcomes for local people. There were areas of Council's performance, for example financial planning; commissioning and arrangements for procuring goods and services and strategic asset management which I considered to be excellent. I have also highlighted examples of notable practice in these and other areas for dissemination more widely via the Audit Commission's website.
- 26** Although the Council's overall score is 3 this year compared to 4 last year this is due to the change in the assessment methodology and does not imply any deterioration in the Council's performance overall or within theme areas. I have been impressed by the broad scope of the Council's improvement agenda. Some of the Council's initiatives have delivered tangible outcomes during the year and I have had regard to those in my assessment. However, there are others requiring a longer lead in and I will be looking for evidence of outcomes in these areas as the benefits unfold during next year's use of resources assessment.

Managing finances

- 27** The Council manages its finances effectively to deliver value for money in the provision of its services. It has a closely aligned financial and service planning framework which links to its corporate objectives and takes account of cross sector and Local Area Agreement (LAA) targets, which in turn are informed by close stakeholder consultation. The Council can demonstrate that its priorities are well articulated and shared with partner organisations. Its service outcomes have been delivered in line with its corporate and service priorities and it has made efficiencies in the way it delivers services.
- 28** What stands out in particular this year is the strength of the Council's underlying financial position; its responsiveness to recessionary pressures; evidence of clear outcomes in priority areas, and ambitious but affordable plans for the future despite a low level of grant funding relative to other counties.
- 29** Financial governance and leadership are effective and embedded, and the Council is improving the standards of financial management in schools. School balances have been reduced by £6.7 million in the year and schools are beginning to look more strategically at the utilisation of remaining balances and in the management of their finances generally.
- 30** Cost and performance information is used effectively by the Council which has enabled it to target resources to priority areas leading to improved service outcomes and greater efficiencies. For example, services for children have improved as the result of a £1 million shift of resources from residential care to community care and an additional £2.5 million in foster care provision has been invested to secure a sizeable payback over longer timeframe

- 31** Costs and activity are explicit in the Council's financial monitoring reports which are used to track overall performance and support decision making. Benchmarking is used to good effect by the Council. Work by the Council on benchmarking office assets against a range of public/private sector assets to assess performance and determine better ways of working has already had a massive impact on culture and working practices with resulting savings and productivity.
- 32** Financial planning is carried out over a longer term time horizon and takes account of the impact of recessionary pressures. Excellent financial management has enabled the Council to keep council tax low (contained in 2009/10 and 2010/11 to 1.9 per cent, the second lowest council tax rise in the country) and make savings which can be reinvested in improved services.
- 33** Such a longer term view is very important at present given the economic downturn and banking crisis. This is having a very significant impact on public finances and the bodies that manage them and I have reflected positively on the Council's response to this wider environment, specific issues and risks as part of my assessment.

Governing the business

- 34** The Council has a clear vision of outcomes based on an up to date assessment of need and governs itself effectively to provide value for money and deliver improved outcomes for local people. It is leading the way on sustainable procurement across the economy and leads on a range of procurement initiatives which deliver value for money not only to the Council but to other participating partners. The Council involves service users in commissioning decisions.
- 35** The Council's performance management arrangements are well developed. It produces relevant and reliable data; has clear and agreed data sharing protocols with its partners and it uses information effectively to inform decision making. It is refining its approach to performance management although it is too soon to assess the impact of these changes.
- 36** The impact and outcomes of performance monitoring can be evidenced by the Council. This includes the re-negotiation of the waste management contract; review of the home to school transport service; block contract negotiations for the provision of residential care, and the initiative on asset utilisation, which have all delivered efficiencies and cost savings.
- 37** The governance framework is robust and the change agenda introduced by the new Chief Executive although challenging, is viewed positively by the Council's senior management who see developments as re-invigorating and by partners who perceive a wider span of engagement on the part of the Council. A substantial part of the change agenda has been delivered with the completion of the corporate service reviews, the appointment of key staff and the establishment of new management teams. Risk management arrangements are firmly embedded within the Council, permeate all aspects of the Council business and operate effectively at both the corporate and service level.

Value for money and use of resources

- 38** Partnership governance is established but the Council recognises there is a need for greater public confidence in the effectiveness of partnership working. My review of the Crime and Disorder Partnership showed that partner organisations were beginning to work effectively together and relations are improving. The Council has provided details of other partnerships, including its Voluntary Sector Compact which demonstrates good relationships and work is planned by the Council to assess outcomes in each case.
- 39** An Audit Committee has now been established to replace the former Governance Committee which will promote a greater degree of independence from the Council's executive function.

Managing resources

- 40** I concluded that the Council has made good progress in the management of natural resources and its physical assets. The environment is a clear and well established priority and the Council has ambitious plans to make this an integral part of the Council's future policies.
- 41** The Council is one of only a few councils signed up to the Aalborg principles on sustainability (a series of 10 principles endorsed by the international community) and it uses this commitment effectively. Aalborg, sustainability and use of natural resources is integrated into the Council's performance management system and has played a key part in ensuring sustainability in developments such as Ashburton Court (see below).
- 42** The Council is aiming to be a climate change centre of excellence. In March 2009 Hampshire County Council won a national award in the Government Business Awards for its environmentally friendly work. The award recognised the positive work the Council is doing to move the concept of sustainability from the fringes to the heart of the organisation.
- 43** The Council has a well established corporate procurement network and is making positive progress in the sustainable procurement flexible framework. The Council considers the environmental impact of its suppliers of goods and services within its commissioning and procurement. It uses a green buying guide, purchases ethical and fair trade products and uses local suppliers of goods. For example food for school meals is locally sourced and its new highways contract includes a strong emphasis on sustainability.
- 44** The Council's strategic property review commenced in 2006 and since then has developed into a much broader based initiative (Hampshire Work-style) in which service priorities and strategies are supported through a process of change and asset management, renewal and reinvestment. The 'Hampshire Work style' agenda has already delivered outcomes (eg the creation of flexible working environments at Montgomery House, Winchester and Adult Services and the PCT Joint Venture in Fareham) and has also identified north east Hampshire as the next area to be tackled.

- 45 Ashburton Court is the Council's flagship project and is an example of innovative practice in strategic asset management. Clear outcomes are being delivered in terms of savings in floor area, property and IT costs which have been reinvested in mobile technology leading to cultural change. Changes in flexible working promise to generate further savings over the longer term.
- 46 The recession has impacted on the Council's disposal programme but this has not been de-railed, only introduced the need for more creative thinking in how the Council funds its plans in the current economic climate. The Council has and is continuing to benefit from greater efficiency in asset utilisation and increased productivity.
- 47 What we rate highly from our assessment is the breadth of the Council's vision; the extent to which it is taking partners with it in securing effective utilisation of public sector assets and the very real outcomes that have been achieved so far. We have highlighted strategic asset management as an area of innovative practice.

Management of Property Disposals

- 48 I reviewed the Council's processes for identifying land and buildings that are surplus to requirements; establishing how decisions are evidenced and documented; and examining the procedures that are followed to ensure that subsequent negotiations are conducted with integrity and in an open and transparent manner so that the Council's interest is preserved in all respects and best value is assured. I carried out this work with the support of the Council's internal audit section.
- 49 I concluded that the Council's approach to managing its property disposals is sound; it has adequate arrangements to dispose of land and buildings it no longer requires; it holds clear information about its past, current and proposed future property disposal; there are robust procedures in place governing the way that property disposals are handled and it makes reasonable efforts to maximise the value of surplus property prior to disposal.
- 50 In response to my recommendations, the Council is documenting its disposal policy and will update its procedural guidance to include the process for recording offers received and specify the criteria for reporting on disposals to Members.

Crime and disorder reduction partnership

- 51 The focus of my work was to review the County Council's contribution, its capacity management and partnership working towards reducing crime and disorder across the county.
- 52 Grant funding of crime and disorder has shifted from the former eleven district-based Crime and Disorder Partnerships to a new county wide group, (the Hampshire County Strategy Group on Crime and Disorder) and the profile and influence of the County in contributing to crime and disorder reduction has increased substantially.
- 53 After a difficult start the Group is becoming established; understanding and relationships have improved and partners are now working better together. There is evidence that spending is becoming more strategic, flexible and better matched to need.

Value for money and use of resources

- 54 Tangible benefits are beginning to emerge but the Group still has some key challenges to address in matching funding to need and there is scope for it to be more influential in improving county wide community safety.
- 55 I am pleased to report that the Group has agreed that from September 2009, there will be a move towards combined strategic assessments in order to bring the strategic assessment, planning and priority setting process in line with that of the local and police authority budgetary setting. This is an important step as the future prospects of the Group are dependent on delivery of these plans.
- 56 On a further positive note the Council has improved its own community safety mainstreaming capacity and internal community safety processes are becoming embedded. There is increased awareness of and strong support both politically and managerially for the need to improve it across the Council.
- 57 There are tensions in the partnership and the Group still has to mature and evolve to ease these tensions and build confidence and trust but the overall direction of travel is encouraging.

Health inequalities

- 58 During the year I have reviewed the implementation of previous audit recommendations (2007/08) on tackling health inequalities by the Primary Care Trust (PCT) in collaboration with the Council.
- 59 The focus of my work was to establish what improvements the PCT and the Council made in response to my recommendations and to assess how the PCT progresses recommendations for which partner organisations, including the Council are jointly responsible. Although the primary audience for this work was the PCT, I also issued the report to the Council as a key contributor.
- 60 I concluded that the PCT and the Council, together with other partners, have made good progress in addressing the issues highlighted in my report. However, I identified shortcomings in the way the lead body (PCT) monitors and manages the implementation of recommendations where these feature in joint action plans. Current arrangements do not take into account the needs of shared action plans and there is no formal mechanism, agreed between the Council and the PCT, for monitoring progress against jointly owned targets, which increases the risk of non delivery of the benefits intended.
- 61 In response the PCT has produced a joint protocol on the implementation of shared recommendations which it is working with the Council to implement.

Audit fees

62 Table 2 below sets out the comparison of actual to planned audit fees for 2008/09.

Table 2 Audit fees

	Planned	Actual	Variance
Financial statements and annual governance statement	£148,600	£148,600	0
Value for money	£103,600	£103,600	0
Pension Fund	£ 44,900	£ 64,900	£ 20,000
Total audit fees	£297,100	£317,100	£ 20,000
Non-audit work	0	0	0
Fees for dealing with elector queries	0	£ 15,350	£ 15,350
Total	£297,100	£ 332,450	£ 35,350

63 This was the first year in which I conducted a separate audit of the pension fund and the fee increased as it became clear my initial estimate was too low. Additional fees for elector queries related to four issues raised during the year including one objection which was subsequently withdrawn.

Closing remarks

- 64** I have discussed and agreed this letter with the Chief Executive and the County Treasurer. I will present this letter at the Cabinet on 21 December 2009 and will provide copies to all board members/committee members.
- 65** Further detailed findings, conclusions and recommendations in the areas covered by our audit are included in the reports issued to the Council during the year.

Table 3

Report	Date issued
Annual audit plan	March 2008
Crime and Disorder Reduction Partnership	April 2008
Report to those charged with governance	September 2009
Management of Property disposals	September 2009
Use of Resources report	October 2009
Final accounts memo	November 2009
Annual audit letter	December 2009

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- 66** The Council has taken a positive and constructive approach to our audit. I wish to thank the staff of the Council for its support and co-operation during the audit.

Kate Handy
District Auditor
December 2009

The Audit Commission

The Audit Commission is an independent watchdog, driving economy, efficiency and effectiveness in local public services to deliver better outcomes for everyone.

Our work across local government, health, housing, community safety and fire and rescue services means that we have a unique perspective. We promote value for money for taxpayers, auditing the £200 billion spent by 11,000 local public bodies.

As a force for improvement, we work in partnership to assess local public services and make practical recommendations for promoting a better quality of life for local people.

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