

HERTFORDSHIRE COUNTY COUNCIL

**AUDIT COMMITTEE
THURSDAY 12 DECEMBER 2002 AT 10AM**

Agenda Item No.

2

RESPONSE TO THE DISTRICT AUDIT 2002 ANNUAL AUDIT LETTER

Report of Finance Director

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1. Purpose of report

To provide members with a response to the key issues and associated recommendations raised in the District Auditor's 2001/2002 Audit Letter, which covers:

- (a) the audit of accounts for the period ending 31st March 2002; and
- (b) the audit of the 2002/03 best value performance plans.

2. Summary

The key issues relate to:

- (a) Financial Standing;
- (b) Systems of internal financial control; and
- (c) Management - use of resources
 - i. Traded Services
 - ii. Pooled Budgets

The key issues are addressed in this report and responses to the issues are drafted for member consideration and approval.

3. Conclusion

The Committee are invited to agree that a copy of the responses set out in the report should be sent to the District Auditor as the formal response to the 2001/2002 Audit Letter.

4. **Background**

The District Auditor in her Audit Letter listed a number of key issues for members to address with details of the action required to address these issues.

The key issues and associated recommendations along with the County Council's response are set below.

5. **Key Issues/Recommendations and Responses**

Key Issue 1. Financial Standing

We have assessed the council's arrangements for financial standing as good.

The government is proposing the introduction of a new prudential code of borrowing. The proposed system removes the current restrictions on borrowing and relies upon controls within an authority to manage capital programmes and resources to be able to meet its liabilities. This will require the council to enhance further its longer-term financial planning, linking capital planning to risk management and revenue projections.

Recommendation:

In the context of the provisions of the Draft Local Government Bill the Council should review its arrangements for satisfying itself that the budgeted level of balances is adequate.

Council Response

When considering its budget the Council will continue to take advice from the Finance Director as to the level of budgeted balances. This advice will be given to reflect uncertainties and risks in part based upon previous experience and in part on forecasts. These factors will be brought together in the budget report agreed by County Council in February each year.

Key Issue 2. Systems of internal financial control

The Council's overall arrangements for internal financial control are adequate. The Council has scope to improve its arrangements for risk management though integrating members' views into the process. The first steps on this have now been taken. Members have highlighted risk areas and have asked officers to update them on how these risks are being addressed. This now needs to become an integral part of the Council's arrangements.

Recommendation:

The Council should ensure that members involvement in risk management becomes an integral part of its governance arrangements.

Council Response

A report setting out arrangements for member involvement in risk management and ensuring that it becomes an integral part of governance arrangements are considered in a report elsewhere on this agenda (item 4)

Key Issue 3. Management - use of resources

i. Traded Services

The Council had undertaken a best value review of traded services in 2000 which impacted upon the service. Our follow-up work has indicated that progress in implementing the recommendations of the best value review has been limited and in some areas, has not progressed.

Recommendation:

The Council should take action to implement the recommendations of the best value review of traded services, ensuring that measurable outcomes, timescales and targets are set.

Council Response

This issue is being dealt with by the Resources, Prosperity, Partnership and Consultation Scrutiny Committee who will include information on the review in a report to the next Scrutiny Committee.

ii. Pooled budgets

The Council has taken a leading role in initiating the creation of pooled budgets schemes with partners in the local health economy with the objective of improving the delivery of shared health/social services to local people. Such an innovative approach carries inherent risks, and our audit assessed whether basic controls and legality issues had been complied in the establishment of the schemes. Our report "Improving Services through NHS Flexibilities" was presented to the Joint Commissioning Board in July 2002. We concluded that there were a number of strengths in the development of the pooled budgets, including preparation of details and thorough partnership agreements, and clear accountability. There was a recognition of cultural and legal differences between the NHS and local government sectors and a willingness to work in partnership to overcome any obstacles. However, our report noted:

- the difficulties in establishing appropriate financial monitoring arrangements. The first financial reports to the Joint Commissioning Partnership Board have recently been generated in October 2002, six months into the financial year although it is understood that monitoring has taken place through the year by Hertfordshire Partnership Trust and Adult Care Services
- uncertainties in the financial position of the Hertfordshire health economy, which may impact upon both the ability of the pooled budget schemes to break-even, and upon the ability of the schemes to plan service developments and improvements effectively.

Recommendation:

The Council should ensure that it is clear over responsibilities in respect of any liabilities which may arise from the pooled budgets, and any resulting impact upon its own financial position. It should work with the Hertfordshire health economy to ensure financial difficulties have a minimal impact on service developments and improvements.

Council Response

The agreement sets out her liabilities but these will be reviewed in order to ensure that there is clarity. Monthly monitoring is taking place and a monitoring report is circulated to all members of the JCPB. A new Partnership Executive meeting with Primary Care Trust Chief Executives is being set up to ensure that the impact of any future financial difficulties are minimised.

6. Publication of the 2002 Annual Audit Letter

The Council is required:

- (a) as soon as reasonably practicable following its receipt to publish the Annual Audit Letter; and
- (b) to keep copies of the letter available for purchase by any person on payment of a reasonable sum.

To fulfil this requirement:

1. The Annual Audit Letter will be placed on the Council's web-site (www.hertsdirect.org); and
2. There will be reference to the letter in HERTSDIRECT the Council's newspaper.

Background Papers

1. *2002 Annual Audit Letter for Hertfordshire County Council*