

Annual Audit and Inspection Letter

Isle of Wight Council

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Council on it's Best Value
Performance Plan for 2004/05

Reference:	WI001 Annual Audit and Inspection Letter
Date:	December 2004

Executive summary

The purpose of this Letter

This is our audit and inspection 'Annual Letter' for Members which incorporates the 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; and
- Appendix 4 contains the auditor's statutory report on the council's Best Value Performance Plan (BVPP).

Key messages

Council performance

The council has made further improvements to its corporate arrangements over the last year and work is in hand to drive through an ambitious change programme that will impact on the future configuration of service departments and the way in which local services are delivered. Important changes are taking place in relation to services for children and young people and the council is engaged with its NHS partners in a radical overhaul of health and social care provision on the Island.

The council has remained focused on its improvement priorities and is strengthening its strategic planning framework to provide a longer term planning horizon and greater clarity of purpose. There have been further improvements in services over the last year.

The council's housing benefits service is now performing within the top quartile of authorities and adult social services are now serving most people well. Inspections of the planning and the homelessness and housing advice services have identified good progress in these areas.

Based on current plans, the council is well placed to further improve the way it works and the services it provides to local people but the capacity to deliver the complex agenda remains a key challenge for the council.

Fire and rescue service modernisation

The council's progress on modernising the fire and rescue service was poor as evidenced by two verification exercises this year. There were particular concerns around communication and engagement at all levels as well as leadership and corporate support. Action is now in hand to address this as a priority area.

Financial position

The council's financial position is relatively secure in the short-term but there are significant uncertainties regarding its longer-term financial prospects. Baseline appraisals of service budgets and benchmarking of service costs are needed to assist longer-term financial planning. The council also must continue to ensure that its future financial plans provide adequate levels of working balances and reserves.

Financial audit

There are no issues to raise with members following our annual financial audit. The accounts were presented promptly and the council seems well placed for earlier closedown as required over the next two years.

Action needed by the council

Members need to:

- maintain the momentum of change but ensure that the council stays focused on its key priorities over the medium-term and that the resources of the organisation are not overwhelmed by trying to tackle too much too soon;
- critically challenge whether the council has the capacity and range of management skills needed to progress its change and improvement agenda;
- sustain the drive towards creating a performance management culture across the whole of the organisation;
- achieve a greater integration of medium-term financial planning into the council's performance framework to provide a better awareness of the longer-term cost implications of strategic decisions;
- maintain the council's focus on identifying and tackling areas of under-achievement; and
- ensure that the fire modernisation action plan is addressed as a priority.

Council performance

The council has made further improvements to its corporate arrangements over the last year and work is in hand to drive through an ambitious change programme that will impact on the future configuration of service departments and the way in which local services are delivered. Important changes are taking place in relation to services for children and young people and the council is engaged with its NHS partners in a radical overhaul of health and social care provision on the Island.

The council has remained focused on its improvement priorities and is strengthening its strategic planning framework to provide a longer term planning horizon and greater clarity of purpose. There have been further improvements in services over the last year.

The council's housing benefits service is now performing within the top quartile of authorities and adult social services are now serving most people well. Inspections of the planning and the homelessness and housing advice services have identified good progress in these areas.

The council remains a 'fair' council but based on current plans, it is well placed to further improve the way it works and the services it provides to local people. However, the capacity to deliver the complex agenda remains a key challenge.

CPA scorecard

EXHIBIT 1

Element	Assessment
Overall	Fair
Current performance	
Education	3
Housing	2
Use of resources	4
Social care (children)	2
Social care (adults)	3
Benefits	4
Environment	3
Libraries and leisure	3
Capacity to improve (not reassessed in 2004)	2

(Note: 1=lowest and 4=highest)

CPA improvement report

Last year we acknowledged that the council had made significant progress since the CPA corporate assessment in 2002 and that improvements had been achieved in overall corporate arrangements. The council was pursuing a challenging agenda but maintaining the momentum of change was essential for the council to produce, over time, measurable outcomes in terms of service improvement. Continued capacity building and investment were highlighted as key themes for improvement together with the need to identify and tackle areas of under-performance.

In order to do this the council has enhanced its improvement agenda and has integrated its revised improvement priorities into the annual action statement and service plans.

Ambition and priorities

The council has set itself clear improvement priorities and during 2003/04 these have been reviewed and refreshed to reflect changing local priorities and in response to further challenge by external review agencies. The council's annual action statement for 2004/05 refocuses the council's improvement priorities into two over-arching themes:

- developing leadership, and
- improving service delivery.

A greater focus on strategic planning has identified more that the council would like to do and more challenging targets for the future. This has arisen out of the re-statement of corporate priorities and the council's renewed vision for the long-term sustainability of the Island economy. As a consequence the council's new improvement agenda is both ambitious and demanding. Over the medium-term it has set itself targets to:

- achieve the organisational change necessary for the integration of social and health care services by April 2006;
- achieve effective working of the new children services directorate and to establish a Children Trust by April 2006;
- deliver the council's housing renewal programmes and create more affordable housing in line with the SE regional plan;
- develop and implement wide ranging education reforms aimed at improving school performance;
- modernise the fire and rescue service;
- promote economic development and regeneration across the island;
- improve the condition of the highways infra-structure and the delivery of an integrated public transport policy; and
- improve the effectiveness and responsiveness of its customer interface.

In addition the council is revising its corporate priorities in areas such as:

- tackling issues of diversity and equality;
- progressing e-governance to meet government targets;
- implementing a range of initiatives around people management;
- improving communications; and
- further developing performance management.

Each one of these would be challenging on its own but taken together constitute a formidable agenda.

The 2004/05 annual action statement contains 95 priorities with timescales for completion ranging from the short-term up until April 2006 and beyond. At the mid-year point a total of 18 (20 per cent) of the council's priority objectives had been achieved and only three were identified as being behind schedule. Some of the outstanding targets are task related which based on the council's performance so far, should be achieved within the target period.

However, an equivalent number are out-come-focused and will be much more difficult to achieve in the timescales set out in the annual action statement. Fourteen of the council's more ambitious priorities, around for example economic development and regeneration have not yet been assigned target dates for completion.

The council is aware of the tensions involved in balancing the delivery of corporate priorities and steps are already being taken to identify the top corporate priorities which the council will take forward into its 2005/06 corporate plan. When this is done, it is important that the refreshed priorities are clearly communicated throughout the organisation and resources allocated accordingly.

Focus and learning

The council has remained focused on developing its corporate processes and is beginning to make the management and cultural changes needed to support the delivery of service improvements.

The action being taken to strengthen leadership sharpens the corporate focus on critical issues such as strategic leadership, performance management, partnership working and how the council can best organise itself to engage effectively with the public. The development of the corporate infra-structure will support improvement and modernisation initiatives at service level. This is evident in relation to the corporate support that is currently being provided to the fire and rescue service to manage the challenges of modernisation.

There is also a more explicit focus on improving service delivery in key service areas such as children, adult and community services, fire and rescue and economic development.

Constructive engagement with key players both internal and external to the organisation is also important to the council. Time is being made available for senior management of the council to take part in discussions on strategic development, to encourage forward thinking and to raise awareness of corporate and service priorities. A new consultation forum (the Island Panel) has also been established which is engaged in a wide range of public consultation on important council issues.

The introduction of an earlier service planning cycle this year has also helped ensure more robust scrutiny of individual service plans and the greater alignment of service aims with corporate improvement priorities.

The council has also directed attention to supporting the development of the scrutiny function and we have been directly involved this year in facilitating workshops with members of the executive, select committees and democratic services to support the development of this function.

The council has done a lot to expand its horizons and has benefited in a number of ways from the experiences of other organisations, through sharing of information on benchmarking forums, participating in peer reviews and other forms external challenge, including CPA at other local authorities and by visiting 'good practice' authorities to learn about specific service areas and working practices. The council has also had a follow-up visit to its 2003 peer review with positive outcomes.

Looking ahead the council is at the forefront of leading edge developments in terms of its health and social agenda and it could shortly be participating in one of the first integrated health/social care organisation of its type in the country.

Investment and future plans

The council has invested in its priority areas and has developed good plans to address remaining weaknesses. It is actively engaged in seeking out investment opportunities both internally by developing its people and strengthening leadership, externally through engagement with its partners and by actively exploring alternative funding options to generate fresh investment.

There is evidence that future plans have been focused to address the council's improvement agenda. The development of a 2020 strategic vision is underway to provide a medium to long-term planning horizon for the council and its partners. This will be underpinned by a new council corporate plan and financial strategy which will provide the single strategic framework to take the council's vision forward in 2005/06 and beyond. This is important in the lead up to the council elections in May 2005 in order to provide the new administration with a clear strategic framework with shared priorities to ensure that current momentum is not lost.

The 2020 vision currently being developed will have a broader focus on long-term sustainable and economic growth. It will also connect the Island vision more directly with the south-east regional planning agenda and enable potential conflicts in priorities to be identified and reconciled.

Capacity

Last year, the council was assessed as having a number of strengths in the way it used partnership and procurement to improve its capacity but more effort was required.

The council has since focused further attention in this area. It has taken positive action to enhance its own capacity, including human resource initiatives, the use of consultants, member training and developing project management expertise.

It has also actively sought out more innovative service delivery solutions that involve greater collaborative working with partners. Examples of this include joint commissioning initiatives with NHS partners and ultimately the integration of health and social care services.

The council has also been more active this year in acquiring, through the greater use of consultants and other external agencies, those skills that it lacks internally to support delivery of improvement priorities.

The council also has a good track record on delivering its budget forecast and historically there has been no major distortion of priorities as a result of financial pressures. However, finances are a major constraint on capacity; there is a gap between the cost of fulfilling some of the council's strategic aims and readily available resources which cannot be met through the redistribution of existing resources. More innovative funding solutions are needed.

The council has been actively exploring alternative sources of funds to meet future investment needs and new funding streams have already been secured through the Isle of Wight Economic Partnership, including bids for SE England development agency funding under the Area Investment Framework (AIF). The possibility of securing Public Financing Initiative (PFI) funding for investment in the highways infra-structure is also being actively explored by the council.

A medium-term financial strategy is currently being prepared. This will be a critical document to link the council's corporate priorities as described in the new corporate plan to the cost of achieving these and to enable meaningful decisions on priorities and affordability to be taken in relation to the scarcity of resources.

Despite the attention that the council has given to developing its capacity over the past year, it remains a major constraint on improvement. The council recognises the need to engage more effectively with middle management and to develop the role and confidence of middle managers in delivering improvement priorities. A number of initiatives are being developed to pursue this agenda including a recently established 'women into management' group.

In relation to the council's IT infra-structure we have further concerns and point to the slow progress in meeting e-governance targets and the council's own doubts as to whether its own internal IT resource can meet the demands currently being placed upon it, let alone being able to service the new initiatives that are coming on stream.

The council is currently looking towards strategic partnership as a likely means of increasing overall capacity; this will involve engaging with external parties to help the council achieving its customer focused goals.

It is important that the council continues to challenge itself on whether it has the capacity and range of management skills to progress the current agenda and if not, what needs to be done in terms of prioritisation, capacity building and project management to ensure satisfactory outcomes in each case.

Performance management

A key plank of the council's drive for better leadership is the further development of the performance management framework to move from a system which simply measures performance to one which is an integral part of improvement culture of the council. Improvements have included the introduction of an explicit risk management element to the quarterly reporting process.

At member and senior management level there is a strong sense of ownership and there is evidence of a clear understanding of how performance management can assist the organisation achieve its objectives. The more explicit linkage in the quarterly performance management reports with the priorities contained in the annual action statement and the refining of key performance indicators are examples of improvement in this area.

However, it is less clear whether the same sense of ownership and understanding exists at other levels of the organisation, particularly on the part of middle managers and more needs to be done to develop the content and style of performance reporting information to ensure that it meets the diverse needs of different user groups. We understand that the council is now beginning to tackle this issue.

The challenge for the council is to ensure that it develops a culture of performance management to consistently drive service improvement and lead ultimately to services that meet the needs of the community.

Achievement

Given the council's focus post CPA, many of the positive achievements of the council over the past year have been in areas of organisational development and improvements in overall corporate arrangements.

-utting themes have dominated both internally, for example the diversity training programme and the creation of a new children services directorate, and also in conjunction with partners for example joint commissioning arrangements with the PCT, making a reality of the joint health and social care strategy and the launch of the Island branding strategy. The council has also received outstanding public recognition for the quality of its website and the new call centre is performing well; resolving 35 per cent of calls received within county hall at the first point of contact.

There have been some significant improvements in services over the last year. Most notably in 2003/04:

- 52 per cent of indicators across all services, where comparisons can be made with the previous year show improved performance. Although this is slightly down on last year (63 per cent) there are now more indicators in the best quartile of authorities, 38 per cent than in the previous year (22 per cent); and
- 47 per cent of targets were achieved compared with only 21 per cent last year.

Although the overall trend is positive, the council remains relatively low performing in some key areas. Around 36 per cent of BV performance indicators, excluding those already in the best quartile showed no improvement last year and 21 per cent remained in the worst quartile.

The council's performance monitoring information also shows variable achievement against local targets with 30 per cent of the council's key PI/PSA targets not being achieved last quarter. Poor performance was particularly marked in relation to PSA targets with only half of the targets being achieved so far; with problems being experienced principally in the areas of education and employment.

Priority improvement areas

Over the last year, two new priority improvement areas have been identified; fire and rescue service and school performance. Homelessness has been removed.

Housing Benefits: following the publication of a highly critical report by the Benefit Fraud Inspectorate (BFI) last year, the council, with the assistance of the BFI has made significant strides in improving performance.

This service is now performing within the top quartile of authorities. For example the average time taken by the council to process new claims now stands at 24 days which is a significant improvement on the 69 days reported last year. The average time taken to process changes to circumstances has also improved from 12 to 9 days.

Highways: the performance of this service has been maintained over the past year but the poor condition of the island's road network and the lack of readily available funding for investment make it an ongoing priority.

Planning: overall performance of this service has been mixed. The council has done well on major planning applications; 60 per cent of applications were decided within 13 weeks which compares favourably with the target of 50 per cent. However, performance on minor applications was disappointing; only 47 per cent of applications decisions completed within eight weeks falling significantly short of the target of 65 per cent.

Steps are being taken to re-structure the service and to recruit the additional staff required to deal with the rise in planning applications. On-going monitoring by the council is required.

School performance: the Ofsted inspection carried out in September 2003 judged the overall effectiveness of the council's education provision to be satisfactory although uneven; insufficient progress in raising educational standards and some aspects of social inclusion however were highlighted as major concerns.

In terms of educational attainment, performance has been variable. Overall, 58 per cent of indicators showed improved performance with 35 per cent being in the best quartile of authorities. However, school improvement results were once again disappointing, particular round key stage 4 where the percentage of 15 year olds achieving five or more GCSE's grade A* to C fell to 44 per cent against a target of 51 per cent.

The council has responded positively to these concerns and a challenging action plan linked to the priority improvement framework is currently being progressed. In addition, the council has completed the first phase of a major public consultation into future school organisation and is on track to report more fully to members on the outcome of this exercise by March 2005.

Other key services

Children services

There has been a slight decline in the performance of children's services this year. The Commission for Social Care Improvement judged that the council was providing a good level of service with a promising capacity for improvement but that there were also some things that required serious attention and that the council was starting from a relatively low base in a number of areas.

The creation of a new Children Services Directorate, bringing together elements of social services and education has been a further achievement for the council this year.

Adult services and community development

The council has made good progress over the last year and has maintained its three star rating for adult social services. Joint work with the NHS has reduced levels of delayed discharge and there is evidence of improvements in the quality and cost effectiveness of service delivery, including the successful introduction of a new meals on wheel services.

Environment

The council has undertaken action to improve its performance in environmental services. 59 per cent of indicators show improved performance this year and half are in the best quartile of authorities. Waste management performance continues to improve and the proportion of waste recycled or composed in 2003/04 reached 35 per cent compared with 30.6 per cent last year; well in excess of government targets, although further efforts are needed to minimise waste. Trading standard performance also showed improvement this year, crime levels remain low and the public is satisfied with the cleanliness of the Island.

Next steps

The past year has seen the council revisit its strategic priorities with a longer-term focus. While there is clear evidence of a drive to improve services, sustained performance improvement is still to be achieved in some key areas.

The key challenge now facing the council is to create the capacity and investment to deliver its very ambitious change programme and to translate the strategic strengths of the organisation into sustainable improvements in service delivery.

Key elements of this are to:

- complete the re-focusing of its corporate priorities in line with the emerging 2020 vision;
- continue to develop overall corporate arrangements;
- engage more fully with middle management on the council's priorities and improvement programme;
- manage the cultural change towards more effective performance management across the whole organisation;
- further strengthen governance arrangements with the Local Strategic Partnership and other key partners; and
- progress the strategic partnership and explore other innovative solutions to capacity building.

Other performance work

People management strategy

Over the last year the council has effectively translated the messages from CPA and the auditor risk assessment into significant improvement in the management of its staff. The council's HR function is now providing better leadership, clearer strategic direction and increased capacity to ensure that updated policies are translated into real outcomes.

The People Management Framework details the tools, behaviours and competences necessary to ensure that staff at all levels are developed, managed fairly and understand their roles and responsibilities in terms of personal performance and contribution to overall council objectives and values.

At the same time, the council is giving particular attention to issues of diversity and access through the GAGS project, the development of flexible working initiatives and the support of women into senior management.

It is now crucial that this real momentum is maintained and closely monitored to ensure that it is embedded into the culture of the organisation and allows the council to respond effectively to future workforce needs.

Fire and rescue service

This year we have carried out a two staged assessment of the council's progress in delivering the national programme of fire and rescue service modernisation as determined by the national fire service pay agreement and subsequent White Paper 'Our fire and rescue service'. The results of this were poor.

The initial phase of our work identified major barriers to the council's delivery of this agenda and despite action being taken in response to our initial findings, the second phase of our work, several months later concluded that management action had achieved little or no progress in seven out of the eight areas of the modernising agenda.

There were a number of reasons for this:

- lack of effective communication and engagement across the service;
- member engagement was still at a very early stage;
- the integrated risk management plan was not linked to the council's medium-term financial priorities;
- joint working between fire and rescue service and council's support services on modernisation issues was piecemeal; and
- there had been little progress in implementing changes relating to pre-planned overtime, duty systems and part-time working.

The very serious messages arising for this work have assisted in galvanising the council into taking more direct and immediate action. The fire and rescue service has been designated a priority improvement area, a comprehensive programme of change management has been initiated, supported by the council's corporate services and has the backing and support of Members. For our part we have worked closely with officers in developing the service's improvement plan and have continued to act as a 'critical friend', attending key meetings and workshops to provide critical comment and guidance.

Although the council is now beginning to make the critical changes required to achieve a modernised fire and rescue service, there is still much that needs to be done. It is important that the issue remains high on the council's agenda and we will continue to monitor progress during the current year.

In addition to addressing issues relating to fire modernisation, the council is also currently engaged on a self-assessment in the lead up to Fire CPA in 2005.

Transport

The council is currently engaged in a review of transport on the Island. Over the last year we have supported the council's preparations for this work by commenting on proposals and providing guidance based on our wider experience.

Progress so far has been slower than expected but a review team has now been established, consultation with key stakeholders has commenced and external challenge of the emerging proposals is being planned.

We have offered to provide further assistance as part of our ongoing audit.

Project management

In our last Annual Audit and Inspection Letter we said that we would be continuing to work closely with officers to support the development of effective project management arrangements across the council. Since then we have hosted one workshop with key staff and have helped the council establish its own internal training programme that is currently being rolled out to staff on a prioritised basis.

It is essential that the focus is maintained in this area given the council's challenging agenda and volume of initiatives in hand currently.

Performance information

We issued an unqualified audit opinion on the Council's Best value Performance Plan on the 3 December 2003.

Last year we recommended that the council took action to enhance its quality assurance procedures so as to prevent and detect errors in performance information prior to publication.

Although the council took positive action; including the introduction of a revised quality assurance protocol for the production of 2004/05 performance information and we carried out interim audit work to test compliance with these revised arrangements, we still found errors in the published information. A total of 9 per cent of the published performance indicators were found to be significantly incorrect, which although an improvement compared with 17 per cent last year, is still at a level which needs continuing attention.

Despite these concerns, many of the issues identified by our audit testing were able to be resolved thanks to the concerted efforts of all involved in the PI process and the overall outcome was good. Only one performance indicator could not be agreed by the conclusion of the audit resulting in one reservation this year compared with five last year.

We have made a number of recommendations to further improve the arrangements for supporting the production of the 2004/05 performance indicators. These include:

- reviewing the role of PI co-ordinators within departments and ensuring they have the capacity to discharge their responsibilities effectively;
- promoting ownership and understanding of the process amongst the staff involved in the day-to-day collection of information;
- ensuring that staff have sufficient time to comply with standards of documentation and evidencing; and
- introducing compliance checks.

Following the completion of our work the council's Internal Audit has carried out an independent review of the areas of highest risk, which in conjunction with our findings will assist the council prepare a prioritised response plan to achieve further improvement next year. The findings from this work are due to be reported to management shortly.

Other Audit Commission inspections

Homelessness and housing advice

This year the Audit Commission carried out an inspection of the council's homelessness and housing advice service. The service was assessed as providing a 'fair' one star service that has excellent prospects for improvement. The inspection found evidence of improvement in a number of areas since the last review in 2002, for example:

- the council has succeeded in increasing the range of temporary accommodation available which in general is sensitive to customers needs;
- use of bed and breakfast accommodation has been significantly reduced;
- good quality advice is now available from the law centre;
- some new initiatives have been introduced to improve the council's preventative work, such as the rent deposit scheme; and
- the range and quality of published information has improved and people can easily obtain quality advice and information about the service.

These are good achievements but further efforts are needed to raise the performance of the service still further. The council's prospects for doing this have been assessed as excellent. The key areas that the service should focus on have been identified as:

- providing a more customer-focussed service;
- ensuring people in temporary accommodation are kept well informed of their progress with their homelessness or housing register applications;
- continuing to build on initial diversity work;
- fully introduce the complete range of planned preventative measures; and
- simplifying the performance management reporting information.

Planning

The Audit Commission has also recently carried out an inspection of the council's planning service. The service was assessed as providing a 'fair' one star service that has promising prospects for improvement.

Under new management, the service is undergoing a process of significant change. It has already improved from a low base through structural change and investment in more effective business processes. However, much remains to be done to turn it into a customer-focused service that is responsive to the needs of the local community.

While the council has, and is, implementing internal improvements, these are yet to be recognised within the community. In addition, there are currently significant pressures on staff resources which are affecting the delivery of improvement actions and service performance.

The key areas that the service should focus on have been identified as:

- improving the customer focus of the service to meet users expectations;
- optimising the contribution of the planning service to wider corporate and community agendas;
- developing staff capacity;
- utilising the best value review framework as a basis to secure maximum improvement; and
- setting clear and measurable targets for the service and monitoring and reviewing service performance and progress towards achieving this goal.

Working with other inspectorates and regulators

An important aspect of the role of the Relationship Manager is to work with other inspectorates and regulators who also review and report on the council's performance.

During the year the council was inspected by Ofsted; adult and children services were reviewed by the Commission for Social Care Inspection and the Benefit Fraud Inspectorate although not undertaking a formal inspection, was actively involved in supporting the council deliver its improvement plan for the benefit service.

The results of these service inspections by outside agencies are shown in Exhibit 2.

EXHIBIT 2 RESULTS OF INSPECTIONS/ASSESSMENTS 2004

Service	Performance
Housing Benefits - BFI	Fair towards good.
Social services - children	Serving some children well.
Social services - adults	Serving most adults well.
Education - Ofsted	Satisfactory.

Accounts and governance

We have given your accounts an unqualified audit opinion.

Your overall corporate governance arrangements are satisfactory in most key areas however on-going attention needs to be given to long-term financial planning and the council's internal control self-assessment framework needs to be further developed.

Audit of 2003/04 accounts

We gave an unqualified opinion on the council's financial statements on the 30 November 2004. The council has improved the timeliness of the production of its 2003/04 accounts and has in place adequate plans to achieve future deadlines in line with Government requirements.

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. Members approved the council's annual accounts on 21 July 2004.

In last year's annual audit and inspection letter we emphasised that timeliness in producing the accounts will become increasingly important over the next few years as the deadline for completion of the accounts is brought forward in line with the government's requirement.

Whilst the accounts have been prepared to meet the requirements this year, the timetable will be more demanding next year and in subsequent years. We are satisfied that the council has adequate plans in place to achieve earlier closedown of accounts in line with government requirements.

Report to those with responsibility for governance in the council

We are required by auditing standards to report to those charged with governance (in this case the Audit Panel) certain matters before we give an opinion on the financial statements. There was one issue reported.

Our audit identified the need for an adjustment to be made to the fixed asset figure included in the council's balance sheet to bring the figure appearing in the ledger into agreement with the underlying records. The £16 million reduction in fixed assets was an accounting adjustment and there was no financial effect to the council's overall revenue position.

Financial standing

The council's financial position is relatively secure in the short-term but there are significant uncertainties regarding its longer-term financial prospects. Baseline appraisals of service budgets and benchmarking of service costs are needed to assist longer-term financial planning.

The council also must continue to ensure that its future financial plans provide adequate levels of working balances and reserves.

Review of 2003/04

Council spending in 2003/04 was largely in line with budget after making allowances for £1.4 million of unspent funds carried forward to meet commitments in 2004/05. Last year, slippage on departmental spending amounted to £2.2 million.

The general fund balance at the year-end remained at £2.07 million which is only acceptable in the context of the council's history of financial prudence.

2004/05 and the longer-term

Budgetary pressures have eased slightly in 2004/05, in part due to a more favourable than expected revenue support grant settlement but also because of prudent financial planning on the part of the council. As a result the council was able to keep council tax rises to below 5 per cent as planned whilst maintaining spending levels on key services.

The success of the council's financial strategy for 2004/05 was achieved through a combination of closer linkage of the budget process with the council's service planning framework, income generation through increased taxation on second homes and soliciting the views of the public in a widespread budget consultation exercise.

At the date of this letter revenue expenditure is largely in line with budget projections although there is a number of emerging budget risks such as pressures on the council's highway maintenance and adult services budgets and uncertainties over the continuing funding of IT-related projects. These are being tracked as part of the council's performance management arrangements.

Looking ahead to 2005/06 and beyond the council's financial prospects are not so certain. The council is required to make further significant savings in 2005/06 and although saving plans have been agreed which if delivered will enable the council to achieve its financial targets for the year, current budget projections provide little room to manoeuvre in the event of further financial pressures emerging. The council will also need to satisfy itself when deciding on future expenditure plans that its planned level of balances is sufficient to provide an adequate cushion given these uncertainties in the years ahead.

In addition, the government's national initiative to deliver efficiency in public services will place increased pressure on the council's finances over the next three years. Relative to the 2004/05 baseline, local authorities nationally, will be required to contribute to achieving annual efficiency gains of at least £6.45 billion in total by 2007/08. The Government expects these gains to result from improvements in the way services are delivered and not at the expense of a fall in the quality of service delivery.

To assist the council respond to those challenges we have agreed to carry out a benchmarking comparison of how much the council currently spends on different areas of service and compare this to the performance of similar authorities using the Audit Commission financial databases. We will report our findings to officers shortly.

We understand that the council is on track to produce its medium-term financial strategy by the end of March 2005. When this is in place the council will be better informed about the affordability of its long-term spending plans and the likely consequences of the financial uncertainties and pressures that it currently faces. Members can then take policy decisions within the context of this framework.

Systems of internal financial control

We have not identified any significant weaknesses in the overall control framework. An internal control self-assessment framework has been established which the council needs to develop further in the coming year. Although Internal Audit provides an effective service overall further improvements can be made.

Internal Audit

Our assessment is that Internal Audit provides an effective service overall. However, there are four areas where performance could be further improved:

- delivery of the audit plan – higher than expected staff turnover during 2003/04 and delays in filling key posts meant that just 70 per cent of the planned coverage was delivered;
- achieving a balance between compliance and risk based audit coverage – over the past year Internal Audit coverage has been skewed in favour of risk based work, with the consequence that a full programme of compliance checks has not been carried out on all the council's key financial systems;
- securing action on audit recommendations – there is no formal process to follow-up the implementation of audit recommendation to confirm that improvements have been made and to alert management and the Audit Panel of areas where progress is lacking; and
- improving transparency of reporting to the Audit Panel – the 2003/04 report did not contain particulars of performance against planned coverage, key achievements, and progress on implementing recommendations.

We understand that steps are being taken to address these improvement areas although we do have concerns about the capacity of Internal Audit to deliver a balanced programme based on current staffing levels.

Internal controls assurance

This year for the first time the council carried out a self-assessment of its own internal control arrangements as part of the new requirements to prepare a Statement of Internal Control. The requirement on controls assurance this year extended beyond financial control and comprised an internal assessment of the overall control framework. This statement was formally approved by the council on 21 July 2004.

In order to obtain assurances on the effectiveness of the internal control systems, the council sought contributions from relevant officers on key control issues. As part of this exercise Internal Audit carried out a separate review and assessment of the council's governance arrangements using guidance from SOLACE and CIPFA.

This work has proved a useful exercise to produce a baseline assessment of the council's control environment and although it did not reveal any significant control issues, scope for strengthen the existing internal control framework was identified.

The council has carried out this initial self appraisal in a methodical and systematic way and is intending to develop it further as part of an integrated risk management process to help the council more effectively manage risk and safeguard resources.

Key challenges for the council include making the cultural shift to ensure that internal controls assurance becomes part of the management culture of the organisation and not seen as a once a year exercise. In addition judgements on the adequacy of the control environment need to be subject to independent review and validation.

We will continue to support the council's ongoing development of these arrangements as part of our audit.

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.

The council has continued to focus on developing its ethical arrangements. Access to information has improved this year and the recent ethical audit carried out by the council has assessed how well Members and officers understand ethical and governance issues. A survey of public perceptions has also been undertaken and the findings of this work will be reported to Members shortly.

In last year's Letter we said that there was scope to increase the level of pro-active anti-fraud and corruption work carried out by Internal Audit to reinforce ethical values and standards of conduct across the council.

We are pleased to report that progress has been made in this area; Internal Audit's programme now includes work on specific risk areas and new procedures for investigating irregularities have been drafted.

It has also been agreed that over the next year that we will run in conjunction with Internal Audit a series of workshops designed to promote good conduct and ethical awareness amongst middle managers.

Legality of transactions

We have not identified any significant weaknesses in the framework established by the council for ensuring the legality of its significant financial transactions.

We have updated our assessment of the council's arrangements for ensuring the legality of financial transactions. The council's arrangements are adequate and there are no matters that we need to draw to the attention of members.

There have been no formal challenges to items in the 2003/04 accounts but we have had a number of informal contacts from electors covering:

- award of contracts; and
- property disposals.

There is no specific audit action that we need to take in respect of these items but in relation to property disposals we will have regard to the issues raised as part of our forthcoming review of property management.

Other work

Additional voluntary work

During 2003 we facilitated a series of workshops with the council and other stakeholder organisations in order to raise awareness of diversity and to help the council develop its

diversity and equalities agenda. This was outside of the statutory audit and therefore not reported in this Letter.

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 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 or have received a lighter touch. The approach to larger claims has been determined by risk and the adequacy of the council's control environment.

The council's arrangements for managing and quality assuring grant claims submitted for audit has improved in recent years. However, there is scope to improve some aspects of grants claim administration, including the appointment of a central claim's co-ordinator to ensure that supporting papers are in all cases prepared to a consistent standard and claims are received on time.

National Fraud Initiative (NFI)

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 nationally although there were no savings attributable to the Isle of Wight.

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 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 rolling programme, integrated with joint area reviews of children and young people;
- stronger focus on service delivery for users and customers; and
- more robust and explicit view of vfm and cost-effectiveness.

Closing remarks

This Letter has been discussed and agreed with the Chief Executive and Director of Finance on the 20 December 2004. A copy of the Letter will be presented at the Executive Committee on the 9 February 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, and also on the council's website.



Stephen Taylor
District Auditor and Relationship Manager
December 2004

Status of our Letter 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.

Reports issued during 2004

Report	Date ISSUED
Fire Verification Phase 1	February 2004
Audit Plan	March 2004
Project Management Report	April 2004
Fire Verification Phase 2	July 2004
Interim Memorandum	July 2004
Housing Inspection Report	August 2004
BV PI Report	August 2004
SAS 610 Report	September 2004
Planning Inspection Report	October 2004
Final Accounts Memorandum	December 2004
Auditor Scored Judgement – Updated Assessment	December 2004
Human Resource Strategy	December 2004

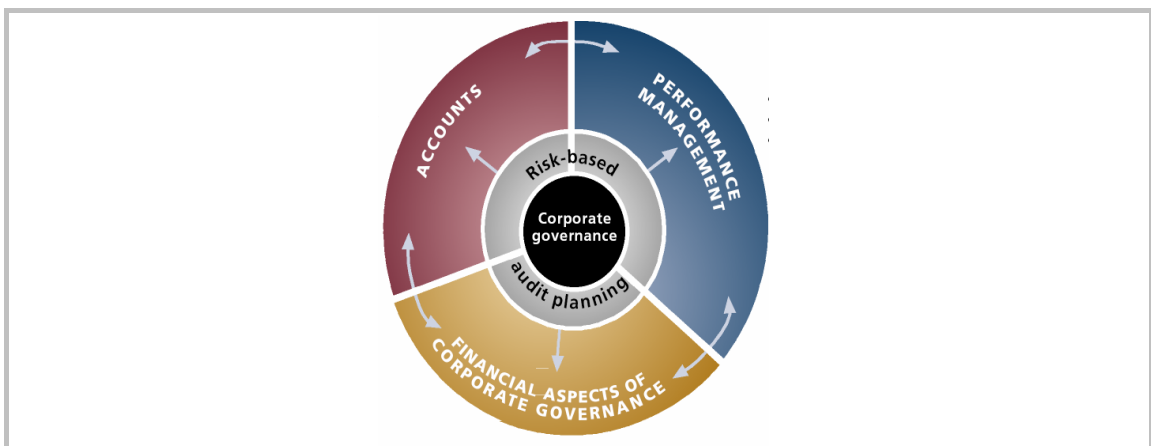
Scope of audit and inspection

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 3.

EXHIBIT 3 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 and 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 fee

Audit fee update

Audit area	Plan 2003/04 (£)	Actual 2003/04 (£)
Accounts	61,000	61,000
Financial aspects of corporate governance	70,000	70,000
Performance	98,000	98,000
TOTAL CODE OF AUDIT PRACTICE FEE	229,000	229,000
Grant claim certification	95,000	Not complete
Additional voluntary work (under section 35)	8,300	8,300

Inspection fee update

The full year inspection fee is £104,000. 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.

Auditor's report to Isle of Wight Council on its Best Value Performance Plan for 2004/05

Certificate

I certify that I have audited Isle of Wight Council's Best Value Performance Plan in accordance with section 7 of the Local Government Act 1999 and the Audit Commission's Code of Audit Practice. I also had regard to supplementary guidance issued by the Audit Commission.

Respective Responsibilities of the council and the auditor

Under the Local Government Act 1999 (the Act) the council is required to prepare and publish a Best Value Performance Plan summarising the council's assessments of its performance and position in relation to its statutory duty to make arrangements to secure continuous improvement to the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness.

The council is responsible for the preparation of the plan and for the information and assessments set out within it. The council is also responsible for establishing appropriate performance management and internal control systems from which the information and assessments in its plan are derived. The form and content of the Best Value Performance Plan are prescribed in section 6 of the Act and statutory guidance issued by the government.

As the council's auditor, I am required under section 7 of the Act to carry out an audit of the Best Value Performance Plan, to certify that I have done so, and:

- to report whether I believe that the plan has been prepared and published in accordance with statutory requirements set out in section 6 of the Act and statutory guidance and, where appropriate, recommending how the plan should be amended so as to accord with statutory requirements; and
- to recommend:
 - where appropriate, procedures to be followed in relation to the plan;
 - whether the Audit Commission should carry out a best value inspection of the council under section 10 of the Local Government Act 1999;
 - whether the Secretary of State should give a direction under section 15 of the Local Government Act 1999.

Opinion

Basis of this opinion

For the purpose of forming my opinion whether the plan was prepared and published in accordance with the legislation and with regard to statutory guidance, I conducted my audit in accordance with the Audit Commission's Code of Audit Practice. In carrying out my audit work, I also had regard to supplementary guidance issued by the Audit Commission.

I planned and performed my work so as to obtain all the information and explanations, which I considered necessary in order to provide an opinion on whether the plan has been prepared and published in accordance with statutory requirements.

In giving my opinion I am 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 council. My work therefore comprised a review and assessment of the plan and, where appropriate, examination on a test basis of relevant evidence, sufficient to satisfy me that the plan includes those matters prescribed in legislation and statutory guidance and that the arrangements for publishing the plan complied with the requirements of the legislation and statutory guidance.

Where I have qualified my audit opinion on the plan I am required to recommend how the plan should be amended so as to comply in all significant respects with the legislation and statutory guidance.

Opinion

In my opinion, Isle of Wight Council has prepared and published its Best Value Performance Plan in all significant respects in accordance with section 6 of the Local Government Act 1999 and statutory guidance issued by the government.

Recommendations on referral to the Audit Commission/ Secretary of State

I am required each year to recommend whether, on the basis of my audit work, the Audit Commission should carry out a best value inspection of the council or whether the Secretary of State should give a direction.

On the basis of my work:

- I do not recommend that the Audit Commission should carry out a best value inspection of Isle of Wight council under section 10 of the Local Government Act 1999; and
- I do not recommend that the Secretary of State should give a direction under section 15 of the Local Government Act 1999.



3 December 2004

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