

# Audit and Inspection Annual Letter 2003

## Isle of Wight Council

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- Auditor's statutory report on the best value performance plan

<b>Reference:</b>	SGWI001AAL03W – Final
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<b>Date:</b>	January 2004

## Key messages

### Overall conclusions

*The Council maintains its rating as a 'fair' authority following the CPA refresh this year and has achieved an overall service performance of 3 out of 4. This is a good outcome and needs to be viewed in the context of the progress that the Council has achieved over the past year. During this time the Council has risen to the challenges presented by CPA and is driving forward an extremely challenging improvement plan.*

### Performance management

*In terms of improvements in performance management the Council has made good progress. Greater attention is being given to the things that matter, more effective organisational structures are evolving and there is improved engagement with the public. The Council is also committed to achieving service objectives through partnership.*

*Although a robust corporate framework is an essential component of a highly performing authority these improvements have not yet had an impact consistently across the Council in terms of demonstrable improvements in services. There is still much for the Council to do to build on its achievements to date and recent service inspections and best value reviews have highlighted areas of underperformance that will need to be taken forward by the Council as priority items in the future.*

*The Council's substantial improvement agenda also needs to be matched with its capacity to manage change and this represents a major challenge for the Council. The close working arrangements with its partners that have been developed in recent years need to be further extended and a strategic approach to people management and workforce planning implemented to assist in delivering this agenda.*

## Financial aspects of corporate governance

### Financial standing

*The Council continues to face financial pressures in the delivery of front line services, particularly, Social Services and Education. The Council has improved service and financial planning and financial reporting. Finalisation of the medium term financial strategy is now necessary to ensure council tax rises are kept within planned limits in 2004/05 and also to ensure that financial reserves can be maintained at a prudent level over the longer-term.*

### Systems of internal financial control

*Our work did not identify any material issues relating to specific systems. Improvements have been made to the effectiveness of Internal Audit arrangements.*

### Legality of transactions

*We are satisfied that the Council has adequate arrangements for ensuring the legality of financial transactions. Weaknesses in the Council's decision making and procurement processes highlighted by the Council's internal enquiry into the externalisation of Wight Leisure and our review of the music festival are being addressed.*

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

*Arrangements for maintaining standards of conduct and for preventing fraud and corruption are adequate. However, there is scope to increase the level of proactive anti-fraud and corruption work undertaken by Internal Audit and to reinforce ethical values and standards of conduct across the organisation.*

## Audit assurance work

### Accounts

*We gave an unqualified opinion on the financial statements on 23 December 2003. The Council needs to improve the timeliness of its accounts process to achieve earlier closedown of its accounts in 2003/04 and subsequent years in*

line with the timetable for 'whole of Government' accounts.

**Best value performance plan audit**

We issued an unqualified audit opinion on the Council's best value performance plan (BVPP) on 19 December 2003. Although there have been improvements since last year, further improvements are needed in relation to the Council's arrangements for the production of the published performance indicators.

**The purpose of this letter**

This is our first joint audit and inspection 'Annual Letter' for Members which incorporates our Annual Audit Letter, and is presented by the Council's Relationship Manager and District Auditor. The letter summarises the conclusions and significant issues arising from our 2002/03 audit and inspection programme and comments on other current issues.

We have issued separate reports during the year having completed specific aspects of our programme. These reports are listed at Appendix 1 for information.

Auditor's responsibilities are summarised in the Audit Commission's statement of key responsibilities of auditors. The responsibilities of Audit Commission Inspectors are detailed in section 10 of the Local Government Act 1999. What we say in this letter should be viewed in the context of that more formal background.

**Background to the audit and inspection programme**

To ensure that Councils receive a tailored seamless service, integrated with the work of other inspectorates, the Audit Commission has appointed a Relationship Manager for each Council. The Relationship Manager is the Commission's primary point of contact with you and is also the interface between the Commission and the other inspectorates, Government Office and other key stakeholders.

Over the past year the Council has risen to the challenges presented by CPA and is targeting its efforts to improve its CPA score and to secure continuous service improvement in the delivery of its services.

A particular feature of the Council's improvement agenda this year has been the development of its corporate arrangements and it has invested significantly in the strengthening and improvement of its corporate infrastructure. In recognition of these local priorities, our audit and inspection programme, this year, has been designed to support the delivery of this improvement agenda.

**Objectives of audit and inspection**

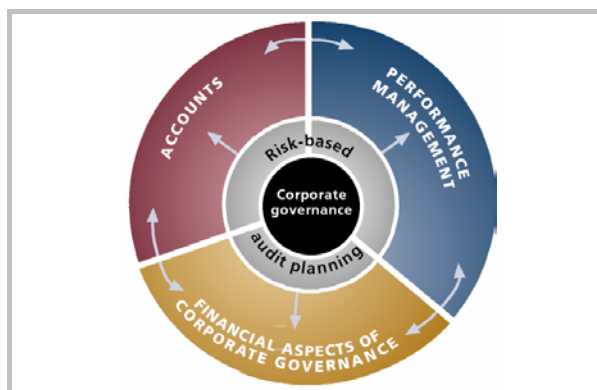
**Audit**

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 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 of Audit Practice and shown in Exhibit 1.

**EXHIBIT 1**

The three main elements of our audit objectives



## 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
- identify failing services where remedial action may be necessary.

## Council performance

*The Council has made significant progress over the past year, with tangible improvements in overall corporate arrangements. The action taken has not yet led to demonstrable service improvement across all Council services. Continued progress on the current improvement priorities will mean that the Council is well placed to improve the way it works and the services it provides to local people. The Council's CPA assessment remains as fair.*

## CPA scorecard

Isle of Wight Council has been measured as fair in the way that it serves its local people.

We have assessed core service performance in the service areas shown in the exhibit below. Each service is scored on a scale from 1 to 4, with 1 being the lowest and 4 being the highest.

Overall service performance has been assessed as 3 out of 4

### EXHIBIT 2

#### Service scores

Service	Dec 2003	Dec 2002
Education	3	3
Social care (adults)	3	2
Social care (children)	3	3
Environment	2	3

### EXHIBIT 2 CONT'D

Service	Dec 2003	Dec 2002
Housing	2	2
Libraries and leisure	3	3
Benefits	2	2
Use of resources	3	3

## CPA improvement report

### Improvement programme

The CPA corporate assessment in 2002 identified the need for improvements in key aspects of the Council's management arrangements, including developing performance management, identifying priorities and linking service and financial planning to drive improvements for the local community.

CPA also highlighted a number of services, such as housing provision and benefits where action was needed to improve performance.

Since the Audit Commission reported the findings last year, the Council has worked hard to address these issues through a substantial programme of change, improvement and modernisation.

This has involved setting out in the Council's CPA improvement plan, five priority themes for securing improvement opportunities which underpin the Council's corporate objectives and overall ambition of improving island life:

- ensuring the momentum of change is maintained
- developing performance management
- improving organisational development
- modernising political structures
- improving the best value review process.

Responsibility is assigned within the plan for each area of improvement and this contains realistic although challenging timescales for delivery.

The Council's annual action plan for 2003/04 contains ambitious targets for delivering improvements in each of the corporate priority areas. These are underpinned by more detailed

service plans setting out the activities supporting the aims.

The Council has also identified four key service areas; homelessness, planning, highways and benefits, that have been under-performing and action is being taken as a priority to deliver improved services for citizens in these areas.

### Policy framework

The Council's overall vision is to 'improve island life' by:

- giving excellent service
- listening to people
- working in partnership
- being open and fair
- caring for our unique environment.

In support of this vision the Council has produced a hierarchy of plans to provide a co-ordinated planning framework comprising:

- island futures community strategy
- IoW corporate plan
- annual plan
- service plans
- personal performance review and development plans.

The Council's policy framework relies heavily on partnership working and partnership links are expressly stated in the corporate plan as a means of delivering service improvement.

The community strategy has been developed through the local strategic partnership (LSP) and other key players which articulates the improvement agenda for the Council to achieve through partnerships and is clearly based on the views expressed through community consultation.

The recent publication of a draft healthcare strategy with the IOW NHS Healthcare Trust and the IOW PCT is a major milestone achievement for the Island community which promises to provide the foundation for the provision of seamless health and social care services across the Island.

The Council has also entered into a local public services agreement with central Government which offers rewards for achieving 12 challenging performance targets over three

years. These targets are built around the Council's overall priorities and will generate service enhancements in addition to achieving 7.5 per cent efficiency savings overall by 2006.

The past year has seen significant developments in the Council's planning framework. At the more detailed level the Council's corporate plan demonstrates how the Council's corporate priorities are being brought together and progressed over a three year period. The annual action statement demonstrates how the Council's corporate priorities are being translated into key objectives and targets for infrastructure and service developments over the coming year.

This annual plan is supported by a series of more detailed service plans which explicitly link the corporate and service priorities, performance and resources together.

Improvements to the Council's service and financial planning cycle this year has enabled the Council to make more informed decisions about resource allocations on the basis of corporate and service priorities.

The Council is now very well placed to expand its planning horizon to develop a longer-term vision for the Island.

### Investment and capacity

The Council's substantial improvement agenda needs to be matched with the Council's capacity to manage change. There is evidence to show that the Council is now focusing on the things that matter most and action is in hand to improve capacity through:

- developing approaches to recruitment and retention, sickness management and workforce retention
- establishment of a new top level management team, including internal and external appointments and recruitment to key posts
- seeking better ways of joint working across departments
- establishing robust IT infrastructure
- deployment of 'task and finish' groups to bring key skills together to work on specific projects.

There is also evidence that the Council engages in a wide range of operational partnerships and alliances with local providers. In addition to the Island Futures LSP, these include the Isle of Wight Economic Partnership which has a good track record in delivering regeneration projects, strong community networks and a significant number of community forums across the Island.

Plans for partnership working with mainland bodies are also being developed. Closer working with the mainland has very important implications for the sustainability of tourism on the Island and the Council is currently considering the role of the new Tourism South East's regional sub-committee for the Isle of Wight in relation to tourism.

The Council's 'Great access to great services' initiative is an important component in improving public access to services. However, it is an ambitious project and to date progress has been slower than expected.

The Council's budget strategy for 2003/04 has been explicitly linked to the improvement agenda. A new prioritisation framework has been implemented this year which has involved the allocation of resources being driven by the service planning process, which in turn will be closely linked to corporate key objectives. This included tangible investment in the four service priority areas.

This year, for the first time, the Council is also exploring opportunities for releasing financial resources through what is referred to as a 'headroom exercise'. This involves a detailed scrutiny of areas of current service expenditure with a view to re-distributing resources from low to high priority areas.

In terms of capital investment the Council is exploring strategic partnership as a means of securing additional resources, with a number of ambitious projects, including the waterfront development at Cowes and the esplanade development at Ryde attracting external funding.

### **Learning and focus**

A notable shift in the Council's approach to improvement has been its development as a learning council and its willingness to seek out and learn from best practice elsewhere.

This year the Council took part in a peer review of its overall arrangements carried out on its behalf by the Improvement and Development Agency (IDeA). The outcome of this review was positive and the Council intends to use the experience to further develop its modernisation and improvement agenda.

### **Performance management**

A performance management system is now firmly in place at a corporate level and good progress has been made in rolling this out across the organisation. Further work is needed to ensure the new arrangements achieve their full potential and ultimately that service improvements are delivered and sustained on a long term basis.

Reporting of performance management information is a particular strength of the Council's new arrangements which has evolved over a relatively short period.

Our audit of the Council's best value performance indicators published in the Council's BVPP still raises concerns about the integrity of this information. The Council needs to ensure there are consistent quality assurance processes across all services and the full range of performance management information.

The Council has invested this year in the development of its risk management arrangements with benefits evident in terms of both service and financial planning. Processes are now largely in place although there is still some way to go ensure that risk management operates as an integral part of the Council's overall arrangements.

The new political structures have settled down and the Executive has taken on a more focused strategic role. There is also evidence of extensive participation by Members in actively developing their leadership and representative roles. The Council is now directing attention to supporting the development of the scrutiny function.

### **Achievements**

Whilst the changes in management arrangements have yet to have a consistent impact on service delivery there are signs that the Council is genuinely committed to the

modernisation of its services and is taking forward a very challenging agenda with enthusiasm and professionalism.

The Council has achieved some significant improvements in services over the last year.

Most notably in 2002/03:

- overall, 63 per cent of indicators across all services, where comparisons can be made with the previous year, show improved performance and 22 per cent are in the best quartile of authorities
- 21 per cent of targets were met compared with only nine per cent in 2001/02
- there has been an overall improvement in Social Services performance. For children's social services there has been an improvement in five of the 20 PAF indicators with 85 per cent now showing at least acceptable performance. For adult social services there has been an improvement in six of the 31 PAF indicators with 68 per cent now showing at least acceptable performance
- 60 per cent of Education indicators, where comparisons can be made showed improved performance although with the exception of number of school exclusions per 1,000 pupils all fall somewhat short of the best quartile of authorities. Performance by 11 year olds and 15 year olds at GCSE remain unsatisfactory
- the proportion of waste recycled or composted has increased from 28.5 per cent to 30.6 per cent; the proportion of household waste used to recover heat, power or other energy sources has increased from 6.1 per cent to 17.2 per cent and the Council provides kerbside collection of recyclables to all households.

Although there has been some progress in relation to the Council's four priority improvement areas this has not been consistent across the board.

### **Housing benefits**

There has been some improvement in the average time for processing new housing benefit claims, down from 70 to 69 days and the average time taken to process change of circumstances has fallen from 13 to 12 days.

However, performance in other areas still approached the bottom quartile of authorities.

The recent BFI review carried out this year concluded that although the service had a number of strengths, other areas needed further development to reach acceptable standards of performance.

### **Highways**

This service has been the subject of a best value review and has seen a marked improvement over recent years. An action plan has been produced to achieve continued improvement in this area and to ensure service targets are met in the longer-term.

### **Housing**

This service has achieved good performance in relation to bringing into use or demolishing unfit dwellings but other areas, including homelessness requires ongoing attention.

### **Planning**

This service shows improvement based on local performance indicators and there is an Audit Commission inspection of the service planned for early in 2004.

Significant progress has been made on cross cutting themes. A statement of intent in terms of integrated social and health care has been adopted by all key players and its delivery will be a long term venture. The Council has looked creatively at its partnering and procurement opportunities and the coastal management centre, the construction of the Military Road using innovative engineering methods and transfer of care homes to the private sector are illustrations of success.

The Council's best value programme is on track and there is evidence that best value is now part of the culture of the organisation.

### **Next steps**

Whilst there is clear evidence of a drive to improve services, the Council remains relatively low performing in some key areas. Around 37 per cent of the best value performance indicators showed no improvement last year, and 21 per cent remained in the worst quartile.

For areas not showing improvement, the Council needs to be satisfied it is addressing them or has decided they are low priority.

The Council is faced with a challenging agenda, involving major development in corporate arrangements and the introduction of key drivers to deliver the changes that matter. Successes so far can be seen in the following areas:

- performance management
- positive approach to prioritisation
- organisational development
- rising to the challenge of client/citizen focus
- working in partnership.

The Council must ensure it maintains the momentum of change that is currently in evidence across the organisation. Continued capacity building and investment will be particularly important to producing the desired outcomes.

Innovative solutions will also be required to meet future investment needs, but the Council has already demonstrated its commitment to partnership working and has had success in attracting external funding for key schemes.

Whilst the challenge remains substantial, the Council has shown it is capable of achieving the improvement it seeks. The IDeA peer review has provided the Council with a useful external perspective on itself; what it is doing well and what it needs to do better to deliver its corporate agenda.

The key issue for the Council now is to ensure the momentum of change is sustained so that it can build on its achievements and produce measurable outcomes in terms of service improvements in the long-term.

## Other performance work

### People management strategy

The Council has recently adopted its new people management strategy which will provide the strategic direction for the delivery of its people management objectives over the next three years.

At our initial appraisal of the Council's proposals we expressed concern over the capacity of the

Council to deliver its programme to the timescales intended given its existing resource constraints. Recent discussions with officers have indicated that although capacity will remain an issue, a new appointment is to be made shortly and the prospects for delivery are now more certain.

At the request of the Council we are currently tracking progress and we will draw any issues to the attention of Members in our next Letter.

### Implementation of new legislation

Our audit this year involved a review of the Council's response to the introduction of new legislation. Detailed work was carried out in the following areas:

#### Race Relations Amendment Act

Under the Act it is unlawful to discriminate against anyone on grounds of race, colour, nationality (including citizenship), or ethnic or national origin. The amended Act also imposes general duties on many public authorities to promote racial equality. This applies to jobs, training, housing, education and the provision of goods, facilities and services.

The CPA process last year highlighted to the Council the fact that it was somewhat behind in preparing and delivering its equalities agenda and as a result could be at risk of non-compliance with the requirements of the Act unless action was taken promptly. Accordingly, action to progress the equalities agenda was made a priority in the Council's improvement plan.

As part of our audit we reviewed the Council's progress in formalising arrangements to achieve compliance with the duties of the Act and in addition we facilitated a series of workshops with the Council and other stakeholder organisations in an effort to raise awareness of the diversity agenda.

The Council has made good progress in addressing the equalities agenda over recent months. It has nominated a lead Director to take charge of its equalities and diversity programme and a number of initiatives are being progressed under the general direction of the Community Partnership Team. It has also developed an innovative training programme working with the



Garnett Foundation, an independent drama group. By the year-end it is anticipated that over 250 staff will have taken part in this programme.

The challenge for the coming year will be for the Council to take ownership of this wide ranging and diverse agenda, develop its role as a community leader and work with its partners in supporting a diverse and equitable society.

We will be revisiting this area as part of next year's audit to assess what progress has been made and whether we can provide on-going assistance.

### **Freedom of Information Act**

The key component of the Government's public sector modernisation agenda is the requirement for information to be made readily available to the citizen and to be shared between public bodies to facilitate improvements in services.

The Council has made good progress in this area and is more advanced than many of its neighbours; an internal survey of record management processes has been undertaken, funding has been allocated to establish a dedicated information management team, the purchase of an electronic record management system is currently being evaluated and the Council has achieved its target of producing a publication scheme by the end of the year.

Nevertheless, a substantial amount remains to be done to achieve full compliance with the Act by the 1 January 2005.

### **Care Standards Act**

The Care Standards Act 2000 reformed the regulatory system for care services in England and Wales. We have concluded that the Council has actively responded to the requirements of the Act and has taken the necessary steps to ensure registration procedures are being followed. The implications are understood and the significant resource and staff issues associated with the registration procedures are being considered by the Council.

The long-term costs of training provision and recruitment will need to be assessed to ensure that funds are available to achieve and maintain compliance in the longer-term.

### **Education Act 2002**

The Council has responded well to the requirements of the Education Act 2002; the required timescale for setting the 2003/04 schools budget was met and a schools forum was established early in the year in line with the regulations. Arrangements for 2004/05 are also well in hand and the Council has plans to further develop the role of the schools forum over the coming year in line with good practice.

However, further financial pressures together with the requirement for schools to prepare three-year budgets make it necessary for the Council to adopt a long-term view of its schools funding strategy. We understand that this is in hand.

### **Project management**

Project management in its widest sense applies to any process undertaken by the Council where there is a pathway towards a pre-determined outcome.

The first phase of our work consisted of an initial mapping exercise to identify the level of project management skills across the Council and to assess the standards of performance applied to projects that are undertaken. Our findings and proposals for further work were presented to the Director's Group in December 2003.

Our work identified many positive features in existing arrangements but it was also clear that the Council had no consistent standards for the management of projects and there were no mechanisms for co-ordinating projects, sharing good practice and providing advice.

We found that IT projects largely follow the established 'Prince 2' methodology. However, the Council has yet to implement all the recommendations agreed following its internal review of arrangements in June 2003 in order to benefit fully from the opportunities identified.

We will be running a facilitated workshop with key staff early in the 2004 to help the Council develop its response to our initial findings and to develop a series of stepped procedures that can be applied consistently across the Council.

**Partnership management**

We have followed up the Council’s progress in implementing the agreed recommendation contained in our 2001/02 report on the Isle of Wight Economic Partnership and the Tourism Partnership.

There has been good progress in responding to the issues raised in relation to the Isle of Wight Economic Partnership. We have identified opportunities to further develop these partnership arrangements and an action plan with recommendations for improvement has been agreed with officers.

However, the Council will be unable to respond fully to our recommendations in relation to the Tourism Partnership until a decision is taken on whether the new Tourism South East’s (TSE) regional sub-committee will assume the role intended for the new Tourism Partnership. In the meantime it is recommended that:

- the TSE sub-regional committee for the Isle of Wight invites the Isle of Wight Economic Partnership to join the committee
- the Council’s role in relation to any future tourism partnership is confirmed and set out in the community development service plan 2004/05.

Since our work was completed the Council has carried out an internal review of partnership arrangements which has identified opportunities for improving the overall co-ordination and regularisation of partnership arrangements across the Council. We will track the Council’s progress as part of our ongoing audit.

**Procurement**

Our follow-up work this year has shown good overall progress against the milestones and priority areas agreed with officers last year and several examples of good practice are now in place.

The Council needs to ensure that it maintains the momentum of change in this area and builds on the improvements so far. Efforts in the future will need to focus on:

- developing the range of procurement skills across the organisation

- the incorporation of procurement into the overall risk management and business planning framework.

**Other Audit Commission inspections**

The service inspections completed by outside agencies this year are shown in Exhibit 3.

**EXHIBIT 3**

**Results of inspections 2003**

Service	Performance
Housing benefits – BFI	Fair
Social services - children	Good
Social services - adults	Good

There continue to be many positive messages from inspection reports, particularly about the progress that has been made in developing corporate arrangements. The results confirm that the Council’s improvement agenda has the potential to deliver tangible improvements to services.

An inspection of the education service by Ofsted was carried out in September 2003 but at the date of this Letter the findings have not been published.

**Connecting with the public (GAGS)**

In addition to the service inspections highlighted above, in July 2003 the Audit Commission carried out a staged inspection of the Council’s best value review ‘Connecting with the public’ and the related organisational development review ‘Great access to great services’ (GAGS).

This was not a full scored assessment but was carried out as part of the Commission’s staged inspection programme, to assist Councils to maximise the potential of their best value reviews. A further site visit took place in November 2003 to assess current developments.

At our initial visit we said that overall, the Council was slowly moving in the right direction with ambitious plans for improvement. We

concluded that GAGS was a vital and integral part of the Council's modernisation agenda but that, so far the public had seen very little change as a result.

Since then the Council has been progressing a number of initiatives, including:

- the refreshing of a citizen's panel to provide residents with an opportunity to express views on key issues
- earmarking of £2.4 million funding for the project over a five-year period and the identification of potential savings opportunities
- scrutiny of the project proposals by external consultants
- acquisition of new electronic document management system
- initial discussions with potential partners
- the agreement of a communication and public relations strategy and the development of a training programme for staff on customer service.

All of these initiatives are essential components of success but because many are internally focused, their impact is still not visible to customers and evident as measurable outcomes.

GAGS is a long-term venture for the Council and its success is dependant on there being:

- full commitment on the part of Members, officers and external partners to ensure that ownership of GAGS is widened
- rigorous risk appraisal at the outset of the project to ensure that key risks are identified and where possible mitigated
- effective project management throughout the duration of the project to ensure that outcomes are achieved
- openness and transparency in relation to the Council's decision-making process, including procurement
- access to expert and legal advice at all critical stages of the project.

We intend carrying out a further inspection of GAGS in 2004.

### Other inspections

Inspections are planned to be carried out shortly in the service areas of planning and transportation.

### The future of CPA

The Audit Commission has consulted on the future arrangements for CPA and has concluded that it will be developed by:

- the introduction of a new CPA framework in 2005/06 and again in 2010, that enables assessments to be made in the context of an agreed set of local and national policy priorities
- the release of annual improvement reports in December 2003 and December 2004.

The CPA programme from January 2005 will seek to understand the impact of the council in their locality, and to recognise the leverage, co-ordination and leadership the council provides to achieve a wider improvement agenda.

The precise shape and nature of this approach has yet to be finalised, though the Commission has recognised the need to agree the strategy for improvement reporting after 2004, leading up to a further re-assessment from 2010.

## Financial aspects of corporate governance

### Financial standing

*The Council continues to face financial pressures in the delivery of front line services, particularly, Social Services and Education. The Council has improved service and financial planning and financial reporting. Finalisation of the medium-term financial strategy is now necessary to ensure council tax rises are kept within planned limits in 2004/05 and also to ensure that financial reserves can be maintained at a prudent level over the longer-term.*

### Review of 2002/03

Budgets are consistently met to within a small percentage variance.

In 2002/03 net general fund expenditure exceeded the budget for the year by £408,000 requiring a transfer from the general fund reserve to achieve a balanced position. In reality the underlying position was less strained than appeared from the face of the accounts due to departmental slippage amounting to £2.2 million which were carried forward into the 2003/04.

The general fund balance at the year end was £2.07 million which is broadly in line with the two per cent level regarded by the Council as a minimum prudent level.

### 2003/04 and longer-term

Changes to the grant distribution formula and a shift in the distribution of resources away from the Island increased the financial pressures facing the Council in 2003/04. Although the final settlement was not as unfavourable as originally expected and the Council succeeded in retaining a share of the area cost adjustment for the Island, the relative loss in grant for the first year amounted to £4.5 million.

In overall terms the Council's budget requirement for 2003/04 increased from £133 million to £148 million and the corresponding average band D Council tax increase required to fund the gap between budget requirements and central government grant allocations increased by 14.3 per cent from £906 to £1,037.

The Council is of the view that some £11.3 million of the increase in its budget requirements for the year was due to changes to the grant distribution formulae and other external factors. The Council minimised the impact of the grant loss as far as it was able to through non-essential service reductions and efficiency savings but further savings opportunities were limited without impacting adversely on critical services.

At the date of this letter revenue expenditure is largely in line with budget projections although there are a number of emerging budget risks, such as pressures on the Council's highway maintenance and leisure services budgets that will require careful management over the remaining months of the year. These are being tracked as part of the Council's performance management arrangements.

The Council is optimistic that the budgetary pressures will ease slightly in 2004/05 and that

it will be better placed to set a balanced budget that restricts Council tax rises next year to single figures while maintaining general fund balances at prudent levels.

Over the past year the Council has undertaken a number of initiatives to improve its financial management arrangements which if successful, will assist it to deliver this very challenging agenda. These include:

- a greater integration of service and financial planning and the closer alignment of the budget and annual service planning cycles to assist with the allocation of resources
- the adoption of a more systematic approach to the management of financial risk
- a 'headroom exercise' to identify opportunities for the re-allocation of existing resources
- improvements in financial reporting and the introduction of training programmes in financial management.

Further work is needed to:

- bring together the various components of the Council's financial plans and budget forecasts in a medium-term financial strategy
- review the Council's policy on reserves and working balances to ensure that these are set at an appropriate level and that adequate contingency arrangements are in place for the future

Our work this year has also identified improvements in the Council's capital programme and there is now a clearer link between this and the asset management plan.

### Systems of internal financial control

*Our work did not identify any material issues relating to specific systems. Improvements have been made to the effectiveness of Internal Audit arrangements.*

For purposes of obtaining assurance on the Council's internal controls we place reliance as far as possible upon the work of Internal Audit.

We have reported to Members in previous Letters our concern about the effectiveness of Internal Audit and as a consequence we have

been unable, in the past, to fully rely on its work in support of our audit.

During the year the Council restructured the audit section and has taken steps to address the underlying weaknesses in arrangements that we have highlighted in our previous reports. The Internal Audit section is now better resourced and the introduction of a risk based approach to planning has resulted in better focused and more effective audit coverage.

Formal reporting of Internal Audit findings through the newly established audit panel provides an increased level of accountability and a forum for tracking the implementation of audit recommendations.

We have recommended that Internal Audit should prepare a comprehensive annual report at the year-end for presentation to the Audit Panel setting out performance against plan for the year, key achievements and the targets for the future.

### **Standards of financial conduct & prevention and detection of fraud and corruption**

*Arrangements for maintaining standards of conduct and for preventing fraud and corruption are adequate. However, there is scope to increase the level of proactive anti-fraud and corruption work undertaken by Internal Audit and to reinforce ethical values and standards of conduct across the organisation.*

We have reviewed the Council's overall arrangements for the prevention and detection of fraud and corruption. Whilst arrangements are adequate, there is scope to increase the level of proactive anti-fraud and corruption work undertaken by Internal Audit to reinforce ethical values and standards of conduct across the organisation.

The Council has taken action to disseminate details of the new ethical framework to officers, partners and the public and an ethical audit by the Standards Committee is underway. Training courses have been held during the year and induction arrangements are in place to help Members and officers approach decision making with a regard to ethics and probity. Action is also in hand to develop formal arrangements for

Members to monitor and test compliance with codes of conduct and the wider ethical framework.

We are discussing with officers how we can support the Council to firmly embed a good conduct culture within the organisation.

### **National Fraud Initiative**

The National Fraud Initiative (NFI) is the Audit Commission's data-matching exercise. Its main aim is to help identify and reduce housing benefit fraud, occupational pension fraud, tenancy fraud and payroll fraud. The NFI is carried out every two years and data matches were provided to you earlier this year

The co-ordination of this exercise at the Council is carried out by Internal Audit although investigative work is in the main assigned to officers in the Council's revenue and benefits section.

There are no matters arising from the NFI this year that we need to bring to the attention of Members but we would recommend that the results when they are finalised are collated in a report for presentation to the Audit Panel.

### **Legality of transactions**

*We are satisfied that the Council has adequate arrangements for ensuring the legality of financial transactions. Weaknesses in the Council's decision making and procurement processes highlighted by the Council's internal enquiry into the externalisation of Wight leisure and our review of the Music Festival are being addressed.*

### **Overall arrangements**

During the year we have held discussions with officers and reviewed reports as issues with a legal implication have arisen and we have reviewed the Council's overall arrangements. We have concluded that arrangements are adequate.

The Council's arrangements could be further enhanced by raising the profile of the section 151 officer through making the associated duties explicit within the constitution.

There have been no formal challenges to items in the 2002/03 accounts but we have had a

number of informal contacts from electors covering:

- the disposal of Prince Consort House
- expenditure on un-adopted roads
- the Council's planning service.

The first of these remains a live issue for us at this stage but it is hoped that this will be concluded shortly.

### Music festival

In relation to the music festival, reported in our last Letter, our enquiries are now complete and my predecessor issued a separate annual audit letter on this matter to the Council in November 2003.

The report concluded that there were significant weaknesses in decision-making processes but no matters requiring the exercise of further formal audit action.

### Wight Leisure externalisation

The Council's Monitoring Officer and Chief Financial Officer issued their joint report on the externalisation of Wight Leisure to a 'not-for-profit distributing organisation' in January 2004. The joint review was undertaken following a highly critical report by an external consultant into the Council's management of the externalisation process conducted in May 2003. All action on this project was halted pending the outcome of this latest enquiry.

This enquiry found that the externalisation programme was not properly project managed and that the Council's own internal regulations were breached in a range of areas.

The Council has sought independent legal advice which confirms that expenditure incurred by the Council was within its powers, although there remains an issue of value for money in relation to the total expenditure of £81,000.

The report concludes although there are issues relating to the management of the programme, there is no evidence of impropriety. It also endorses the view that it was appropriate to halt the externalisation at this point to provide the Council with the opportunity to re-appraise its options.

There are many important messages arising from this enquiry that the Council must have regard to in relation to any procurement project that it undertakes in the future. For our own part we are satisfied that the Council has undertaken a full and searching enquiry into the circumstances of the externalisation and has supplemented its own enquiries where appropriate with independent legal advice.

The Council now must:

- decide on the future of leisure services and whether the externalisation model originally proposed is a viable one
- in doing so, consider all the relevant facts and ensure that a decision is based on a clear business case linked to corporate priorities and the community plan
- ensure that where a vehicle needs to be established for the purpose of externalisation it is properly constituted
- avoid conflict of interest at all times in relation to Members, officers and all related parties
- maintain total transparency and openness in decision-making
- adopt a robust approach to project management.

We will continue to track this issue as part of our ongoing audit.

## Audit assurance work

### Accounts

*We gave an unqualified opinion on the financial statements on 23 December 2003. The Council needs to improve the timeliness of its accounts process to achieve earlier closedown of its accounts in 2003/04 and subsequent years in line with the timetable for 'whole of Government accounts'.*

### Closedown of accounts

Our work on final accounts this year covered:

- testing of the key controls within the general ledger systems

- a review of procedures for preparing and controlling the budget
- a review of closedown procedures
- review and testing of the financial statements.

Members approved the Council's financial statements in September 2003 and we issued an unqualified audit opinion on 23 December 2003.

The Council needs to bring forward its timetable for the closure of accounts in line with the requirements of the 'whole of Government accounts'. The closedown of the 2003/04 accounts by the end of July 2004 as planned will constitute a significant challenge to the Council. To achieve this will require a radical overhaul of the approach to accounts closedown adopted by the Council in the past.

A closedown working group has already been established with revised terms of reference and we have agreed with the Chief Financial Officer that we will attend key meetings of this group over the coming months in order to provide support and ensure that audit requirements are incorporated as an integral part of the closedown process.

### Reporting to the Council

There is a new auditing standard which applies to our audit of your accounts - Statement of Auditing Standard (SAS) 610 'Reporting to those charged with governance'. This requires us to report issues arising from our audit, to members, in your Council's case, the Audit Panel before we give our audit opinion on your financial statements.

In previous years we have discussed such issues with officers rather than members, but the standard encourages openness and accountability by ensuring that members take responsibility for the Council's accounts.

We reported to the Audit Panel under SAS 610 on 25 November 2003. The significant matters we reported were:

- capital charges (notional interest) and depreciation appearing in the accounts are understated and affect the cost of services appearing in the consolidated revenue account
- the provision in respect of potential liabilities under S117 of the Mental Health Act could be understated by as much as £400,000 based on current estimates.

As the items were not material Members decided not to adjust the accounts but additional disclosures have been made.

### Best value performance plan audit

*We issued an unqualified audit opinion on the Council's BVPP on 19 December 2003. Although there have been improvements since last year, further improvements are needed in relation to the Council's arrangements for the production of the published performance indicators.*

We have commented in detail on your arrangements to comply with best value in the earlier section 'Council performance'. Having completed our statutory audit of your 2003/04 BVPP we report to you our opinion and statutory BVPP report. These are included in this Letter at Appendix 2.

Last year, we issued a qualified opinion on the Council's 2002/03 BVPP because a significant number of the published performance indicators were inaccurate or unsupported. In our Letter to Members we said that a significant improvement in the accuracy and evidencing of performance data was required if the Council was to be successful in accessing the rewards and freedoms through the CPA and local PSA processes, both of which rely heavily upon these measures.

Our audit this year found improvements in the Council's arrangements for preparing its performance indicators with a substantially greater involvement this year on the part of the corporate centre. Nevertheless our testing still identified significant errors; 17 per cent of the published performance indicators were found to be incorrect and we expressed reservations in respect of five of those.

Qualification of the BVPP was only avoided because the Council was able to publish an addendum to the BVPP with the amended figures by the 31 December 2003.

In our statutory BVPI report we have included one recommendation which requires the Council

to enhance its quality assurance procedures so as to prevent and detect errors in published performance information and improve the overall reliability of performance information.

Since the completion of our audit we have been working with officers to ensure that improved arrangements are in place to support the production of the 2003/04 performance indicators. A workshop with key officers was held in November 2003 at which consideration was given to:

- roles and responsibilities of staff involved in the production of performance information
- quality assurance procedures.

A further workshop is planned for early 2004 to prepare for the publication of the 2004/05 BVPP.

## Other work

### Grant claims

The Council's arrangements for the preparation of grant claims and their submission to audit are adequate and there are no issues that we need to draw to the attention of members.

## Strategic regulation: future audit and inspection work

Strategic regulation contributes to improvement in public services by ensuring that regulators collaborate to identify each council's priorities for improvement, and provide assessments that are useful to managers, professionals, politicians and the public.

For the first time we have brought together co-ordinated audit and inspection plans that make clear how our work supports the improvement agenda of each single tier and county council. These plans are now available on the Audit Commission website.

Our joint audit and inspection plan for 2003/04 was presented to Members in April 2003 following close working with officers and

members. We have developed a programme of work that is proportionate to both the Council's risks and its performance as assessed through CPA. We have structured our work programme across the following themes that help to clarify the purpose of our work:

- assessment
- improvement
- assurance.

The key areas of work programmed for 2003/04 are:

- effectiveness of political structures
- business re-engineering
- e-government
- inspection of the planning service
- staged inspection of transport.

Audit and inspection planning for 2004/05, linked to your improvement plan, will be carried out in early 2004.

## Status of our Audit and Inspection Annual Letter

Our Annual Letter is prepared in the context of the Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission. The Letter is prepared by the Relationship Manager and District Auditor and is addressed to Members and officers. It is prepared for the sole use of the audited body, and no responsibility is taken by auditors to any Director or officer in their individual capacity, or to any third party.



## Closing remarks

This Letter was discussed and agreed with the Chief Executive, Director and the Directors' Group on the 8 January 2004. A copy of the Letter will be provided to all Members and will be presented to the Executive on 28 January 2004.

Finally, I would like to take this opportunity to express my appreciation for the assistance and co-operation provided during the course of the work. Our aim is to deliver a high standard of audit and inspection which makes a positive and practical contribution which supports the Council's improvement agenda. We recognise the value of your co-operation and support.



Stephen Taylor  
District Auditor and Relationship Manager  
16 January 2004

## Audit and inspection reports issued during 2002/03

Audit Plan	January 2003
CPA – Code of Practice Assessment	October 2003
Final accounts memorandum	November 2003
SAS 610 report	September 2003
2002/03 best value performance plan and BVPI Audit	November 2003
Response to new legislation Race Relations (Amendment) Act 2000	December 2003
Response to new legislation Care Standards Act 2000	December 2003
Responses to new legislation Freedom of Information Act	May 2003
Responses to new legislation Education Act 2002	January 2004
Project management ( presentation)	December 2003
IT project management	November 2003
Partnership management	November 2003
Procurement and Risk management – follow-up	November 2003
Connecting with the Public (Inspection)	July 2003/January 2004
Diversity and equalities workshop	June 2003

## Auditor's statutory report on the best value performance plan

### Auditor's report to Isle of Wight Council on its best value performance plan for 2003/04

#### Certificate

We certify that we have audited Isle of Wight Council's BVPP in accordance with section 7 of the Local Government Act 1999 (the Act) and the Audit Commission's Code of Audit Practice. We also had regard to supplementary guidance issued by the Audit Commission.

#### Respective responsibilities of the Council and the Auditor

Under the Act the Council is required to prepare and publish a BVPP 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 BVPP are prescribed in section 6 of the Act and statutory guidance issued by the Government. As the Council's auditors, we are required under section 7 of the Act to carry out an audit of the BVPP, to certify that we have done so, and:

- to report whether we 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
- 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 Act
  - whether the Secretary of State should give a direction under section 15 of the Act.

## Opinion

#### Basis of this opinion

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

We planned and performed our work so as to obtain all the information and explanations, which we considered necessary in order to provide an opinion on whether the plan has been prepared and published in accordance with statutory requirements. In giving our opinion we are 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. Our work therefore comprised a review and assessment of the plan and, where appropriate, examination on a

test basis of relevant evidence, sufficient to satisfy ourselves 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 we have qualified our audit opinion on the plan we are 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 our opinion, Isle of Wight Council has prepared and published its BVPP in all significant respects in accordance with section 6 of the Act and statutory guidance issued by the Government.

### **Recommendations on procedures followed in relation to the plan**

Where appropriate, we are required to recommend the procedures to be followed by the Council in relation to the plan.

### **Basis of recommendations**

For the purpose of making our recommendations, we conducted our audit in accordance with the Audit Commission's Code of Audit Practice. In carrying out our audit work, we also had regard to supplementary guidance issued by the Audit Commission. We planned and performed our work so as to obtain all the information and explanations that we considered necessary in order to enable us to determine whether or not to make recommendations in this report on the matters that came to our attention during the audit. However, our work cannot be relied upon to identify every weakness or opportunity for improvement. In particular, it has not necessarily covered the same areas as a best value inspection.

For this purpose, our audit included a review and assessment, and where appropriate, examination on a test basis of evidence relevant to the adequacy of the systems set in place by the Council for collecting and recording specified performance information; and the testing of specific performance indicators.

### **Recommendations**

On the basis of our audit work, we consider that the matters set out below should be brought to your attention:

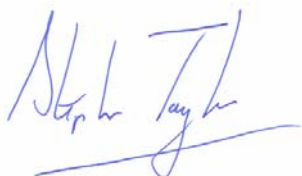
- there is a need for enhanced quality assurance procedures to prevent and detect errors in published BVPIs and improve the reliability of performance information.

**Recommendations on referral to the Audit Commission/Secretary of State**

We are required each year to recommend whether, on the basis of our 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 our work:

- we do not recommend that the Audit Commission should carry out a best value inspection of Isle of Wight Council under section 10 of the Act
- we do not recommend that the Secretary of State should give a direction under section 15 of the Act.



Stephen Taylor

District Auditor and Relationship Manager

16 January 2004