

Annual Audit Letter

15/12/2005

Last saved: 10/01/2006 12:07:00

Annual Audit and Inspection Letter

Isle of Wight Council

Audit 2004-2005

The Audit Commission is an independent body responsible for ensuring that public money is spent economically, efficiently and effectively, to achieve high-quality local services for the public. Our remit covers around 11,000 bodies in England, which between them spend more than £180 billion of public money each year. Our work covers local government, health, housing, community safety and fire and rescue services.

As an independent watchdog, we provide important information on the quality of public services. As a driving force for improvement in those services, we provide practical recommendations and spread best practice. As an independent auditor, we ensure that public services are good value for money and that public money is properly spent.

Status of our reports to the Council

Our reports are prepared in the context of the Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission. Reports are prepared by appointed auditors and addressed to members or officers. They are prepared for the sole use of the audited body, and no responsibility is taken by auditors to any member or officer in their individual capacity, or to any third party.

Copies of this report

If you require further copies of this report, or a copy in large print, in Braille, on tape, or in a language other than English, please call 0845 056 0566.

© Audit Commission 2005

For further information on the work of the Commission please contact:

Audit Commission, 1st Floor, Millbank Tower, Millbank, London SW1P 4HQ

Tel: 020 7828 1212 Fax: 020 7976 6187 Textphone (minicom): 020 7630 0421

www.audit-commission.gov.uk

Contents

Introduction	5
Background to our audit and inspections	5
Key messages	5
Council performance	6
Action needed by the Council	7
Performance	8
CPA scorecard and summary	9
Direction of Travel statement	9
Fire CPA	13
Other performance work	14
Performance information	19
Working with other inspectorates and regulators	19
Accounts and governance	21
Use of resources judgements	21
Audit of 2004/05 accounts	23
Financial standing	24
Systems of internal financial control	25
Standards of financial conduct and the prevention and detection of fraud and corruption	27
Legality of transactions	27
Other work	29
Voluntary improvement work	29
Grant claims	29
National Fraud Initiative	29
Looking forwards	30
Future audit and inspection work	30
Revision to the Code of Audit Practice	30
Closing remarks	31
Availability of this letter	31

Appendix 1 – Background to this letter	32
The purpose of this letter	32
Audit objectives	32
Appendix 2 – Audit reports issued	34
Appendix 3 – Audit fee	35
Inspection fee update	35

DRAFT

Introduction

Background to our audit and inspections

- 1 The underlying approach to our audit this year was to support the Council in delivering its improvement agenda by focusing on a number of key themes. Our planned work was directed at assisting the Council improve community engagement; identify and address areas of under-performance; develop its capacity through improved leadership and the promotion of partnership working and to manage its finances effectively. Part of our audit this year has also examined how effectively the Council is using its resources in selected areas.
- 2 Since the plan was prepared, there has been a change in the administration of the Council and where priorities have altered we have reviewed our planned audit coverage to ensure that our work continues to add value to the Council. A significant recent development is the production of the Council's change management plan 'Aim High' and the Council's plans for its implementation which we refer to in our Letter.

Key messages

- 3 The Council is firmly committed to becoming a high-performing and cost-efficient organisation, delivering and sustaining efficient services with many of the basic provisions in place to improve value for money. The Council has delivered improvement in services over the past year and in collaboration with its partners has contributed positively to wider community outcomes. However, some services are not performing well or improving and the education service is a particular concern. The Fire CPA assessment in the year was 'poor' but this is not a reflection of poor service delivery.
- 4 The Council is now faced with a tough challenge, which is to ensure that the momentum for improvement that we have recognised in this Letter is maintained and built upon. There is a need to improve service outcomes consistently across the organisation and the Council has in place ambitious plans to change the way it works and at the same time deliver real improvement in services. However, the success of these plans depends on the Council strengthening its corporate capacity to make the changes happen. In our view recent changes to the Council's management structure have weakened the Council's corporate capacity in the short-term and its ability to progress its change agenda effectively.
- 5 The Council needs to carefully manage staff expectations during the transitional period and its efforts to win the hearts and minds of staff have met with varying degrees of success to date. The Council is beginning to engage more effectively with its workforce but anecdotal evidence is that morale is not good in some areas due to uncertainties amongst staff about the future. If not addressed this may lead to already vulnerable services being exposed to further risk and under-performance as key staff are lost. This is considered to be particularly important in

relation to education and children's services where other stakeholders have also expressed concern around the ability to deliver improvement.

- 6 The Council has improved its strategic planning framework with clear corporate objectives and targets which are linked to success factors and measurable outcomes. Formative 'gate keeping' processes are also being established which will ensure that future work programmes are undertaken only if they contribute to the corporate priorities and can be resourced. This is positive but in taking this agenda forward the Council needs to ensure there is a phased implementation of corporate priorities which does not over-stretch its resources and maintains a clear focus on what matters to the Council and its service users.
- 7 The Council will have a corporate assessment early next year as part of the revised CPA methodology and this will provide a useful evaluation of progress at this stage.

Council performance

- 8 The Council has developed a robust performance management framework and now needs to shift its emphasis from the measurement of performance based around the collection of performance indicators to the management of performance requiring a multi-dimensional view of performance and improvement.
- 9 There are opportunities to improve the delivery of services in other areas based on our work this year. In terms of future action, the Council needs to ensure that plans for integrated health and social care delivery are co-ordinated with other partnering and outsourcing initiatives including strategic partnering and developments around children's services. The Council must also seek assurances that the re-configuration of services will achieve effective use of resources.

Financial position

- 10 The Council's financial position remains sound but there are uncertainties and concerns regarding its medium-term financial prospects. When deciding on future expenditure plans the Council should ensure that its planned level of balances is sufficient to provide an adequate cushion given the emerging financial pressures and uncertainties in the year ahead.

Other accounts and governance issues

- 11 Your overall corporate governance arrangements are satisfactory in most key areas. As part of the CPA process, we have assessed the Council's overall arrangements for the effective use of resources as meeting minimum requirements. Our judgement is that controls assurance is not yet firmly embedded in the organisation and we also have concerns about internal audit's ability to deliver an effective service in the future.

Action needed by the Council

12 The top-level messages requiring Member action are summarised below.

In the immediate term:

- corporate capacity needs to be maintained and built upon and care taken to ensure that changes in senior management arrangements do not result in destabilisation and loss of momentum which could impact on services, even in the short-term;
- services that are vulnerable to disruption during the current period of management change need to be identified and contingency plans developed to ensure that service continuity can be maintained with a view ultimately to a consistent improvement focus. This is particularly important for education and children's services;
- in the current situation at the Council, it is important that an environment of trust and openness is promoted between officers and members to avoid a negative long term impact. This should be achieved through a balanced culture that provides leadership whilst also stimulating and encouraging challenge; and
- the Council should also satisfy itself during the current changes that its governance arrangements remain adequate to ensure that all decisions of a sensitive nature are properly scrutinised as to their financial and legal content in order to protect against actions that may be deemed contrary to law or subject to challenge.

Thereafter:

- plans should be developed for the phased implementation of corporate priorities as the Council implements its change management plan which do not over-stretch resources and a progressive and integrated approach to the introduction of strategic partnering over the longer-term;
- the Council needs to be proactive in supporting the further development of performance management including competency and staff appraisal processes;
- the medium-term financial strategy should be developed to explicitly reflect priority areas for service delivery, particularly these which are currently performing poorly. Members may need to take difficult decisions to target savings or shift resources to priority areas; and
- the Council needs to focus on the further development of its assurance framework, including an annual effectiveness review which is owned by Members and take action to address concerns about Internal Audit's ability to deliver an effective service in the future.

Performance

The Council's performance in improving services for local people is mixed. It has made good progress against priorities such as the Fire and Rescue Service and it has successfully promoted safety to young people and in partnership with the Police, burglaries and car theft has reduced. Social care services for adults continue to be good and the Council has further improved the housing benefits service.

However, there are opportunities to improve the delivery of services in other areas, particularly the education service. Test results for four to seven-year-olds remain good but education standards need to improve in other age groups including GCSE performance which is poor.

The Council has ambitious plans for improving the way it works and delivering services in the future. These plans are robust but they can only be delivered from a position of strength which requires the Council to maintain and build on its existing corporate capacity otherwise it risks losing the impetus gained so far.

The Council has developed a robust performance management framework and now needs to shift its emphasis from the measurement of performance based around the collection of performance indicators to the management of performance requiring a multi-dimensional view of performance and improvement.

In terms of future action the Council needs to ensure that plans for integrated health and social care delivery are co-ordinated with other partnering and outsourcing initiatives including strategic partnering and developments around children's services. The Council must also seek assurances that the re-configuration of services will achieve effective use of resources.

CPA scorecard and summary

Table 1 CPA scorecard

Element	Assessment
Direction of Travel judgement	Improving adequately
Overall	Two-star performance
Current performance <ul style="list-style-type: none"> • Children and young people • Social care (adults) • Use of resources • Housing • Environment • Culture • Benefits 	<ul style="list-style-type: none"> • 2 • 3 • 2 • 3 • 3 • 3 • 3

(Note: 1=lowest, 4= highest)

- 13 The CPA judgements this year have been made using the revised methodology: CPA - the harder test. We have also added a new dimension, a Direction of Travel judgement, which measures how well the Council is improving. Under the new framework, the Council is improving adequately and its overall CPA category is two-star.

Direction of Travel statement

Service improvement

- 14 The Council continued to deliver improvements in services during 2004/05. Sixty-seven per cent of indicators across all services show improved performance compared with 52 per cent in the previous year and the number of indicators in the best quartile of authorities has increased to 42 per cent compared to 36 per cent last year while around 18 per cent of indicators remain in the bottom quartile of authorities.

- 15 The Council has focused its efforts on priority areas but outcomes have been mixed. Performance in the provision of services for children and young people has been variable and 27 per cent of school improvement indicators are in the worst quartile of authorities. Good outcomes in promoting safety amongst young people, developing the Children's Scorecard and improving Key stage 2 results, especially level 4 English, must be balanced against little progress in improving attainment levels at GCSE A* to C, remaining at 44 per cent, or reducing absences in schools. This year's joint assessment by Ofsted and CSCI judged the Council's education services to be delivering below the minimum requirement for users.
- 16 The Council's Housing Benefit Service has continued to improve, with a recent BFI report identifying good performance in security, user focus, resource management and a reduction in the time taken to process claims. However, there were more errors with the accuracy rate declining in the year from 97 per cent to 96 per cent, and the level of benefit overpayments recovered by the Council was 57 per cent in 2004/05 compared with 60 per cent in the previous year.
- 17 Adult social services are continuing to perform well and there is improvement in the Council's performance in some areas; for example 81 per cent of new care packages were provided for older people in 2004/05 where waiting time was within standard compared with 78 per cent in the previous year and the service continued to sustain a near nil return on delayed discharge from hospital. Children social services performed well in some areas, with the health needs of looked after children being met effectively.
- 18 The Council maintains its good track record on waste management and continues to show improvement in the level of waste recycled or composed with 75 per cent indicators reaching the best quartile of authorities. However, although the planning service has improved its performance in processing planning applications within 8 weeks (60 per cent in 2004/05 compared with 47 per cent in the previous year) this is still in the bottom quartile of authorities and the time taken to process major planning applications within 13 weeks has deteriorated from 60 per cent last year to 46 per cent in 2004/05.

Contributions to wider community outcomes

- 19 The Council views the development of the Local Area Agreement as a catalyst for joined up working with the Local Strategic Partnership, health and other agencies to develop shared targets for the community.
- 20 As part of its individual commitment to community leadership, the Council has actively pursued partnership working to drive forward service improvement to reflect the needs of the wider community. Collaborative working with the police has resulted in a safer and more crime-free community with the number of burglaries and car thefts having substantially reduced over the last year to put the Council's performance in the upper quartile. In addition, the Council has achieved the 2006 PSA target to increase the number of people receiving treatment for drug and alcohol abuse 15 months ahead of schedule, with ongoing initiatives in schools and with young people contributing to significant reduction in substance misuse, bullying and teenage pregnancy.

- 21 To ensure that communities have a real voice in shaping and improving services, the Council has consulted local people on the quality of services and proposed changes, as with the Integrated Risk Management Plan for Fire and Rescue. The implementation of a Community Governance Strategy will improve the quality and effectiveness of community consultation, by engaging more effectively with town and parish councils and the voluntary sector.

Improvements to both access and quality of service for all citizens

- 22 Mainstream improvement in access and the quality of services has been a key consideration for the Council over the last three years. The 'Great Access to Great Services' (GAGS) programme did not achieve its planned outcomes but has delivered some practical improvements, including a central call centre, the introduction of a call recording management system, network of help centres and an easy- to-access website.
- 23 Eighty per cent of enquiries for those service fully transferred to the system are now resolved at the first point of contact. People who could not, previously, make contact during normal working hours now have the benefit of extended opening times and the Council is currently developing a round the clock call centre. 70 per cent of services were e-enabled at the date of our review with 100 per cent achieved by the target date of end of 2005. This is a marked improvement from the 24 per cent achieved in 2003/04.
- 24 The provision of similar information through a variety of channels means that hard-to-reach groups can now access information from home or another environment appropriate to them. For example, all planning applications are now viewable on-line before decisions are made.
- 25 After a slow start, the Council's Equality and Diversity Strategy is developing well and the Council is exceeding the basic requirement to undertake impact assessments for race equality by covering the whole diversity agenda of age, gender, disability, sexual orientation and geographical location. This approach is now reflected in each service plan.
- 26 The Council aspires to delivering further improvement in front line access to services. Work is ongoing to harness customer comments and complaints in order to identify what needs to be done, possibly via a strategic partner, to streamline and produce an effective, integrated front-line service and relationship with its citizens.

Value for money

- 27 Our value-for-money assessment of the Council was undertaken in 2005. It found that although the Council is firmly committed to becoming a high-performing and cost-efficient organisation, delivering and sustaining efficient services with many of the basic provisions in place to improve value for money, there is much that needs to be done to embed a culture of value for money within the organisation.

- 28 The Council has made some progress in developing its service and financial planning arrangements. Corporate information is being collected on the short and longer-term costs of its actions and each service must now provide evidence of value for money through unit cost comparisons and benchmarking to demonstrate step changes in efficiency. The Priority Improvement Area system has been successful in the past to deliver improvement in those services under-performing but the Council needs to establish more effective target-setting arrangements across all areas to track improved efficiency and effectiveness across all services.
- 29 The Council recognises that further work must concentrate on producing a robust medium-term financial plan, and cost comparisons, to reflect corporate priorities and projects.

Improvement plans to sustain future improvement

- 30 The Council is radically overhauling its strategic planning framework to address shortcomings and to sustain future improvements. The Council has recognised that priorities had become unclear and confused and has developed a change management plan 'Aim High', setting out the Council's new political vision, corporate objectives and targets which are now linked to success factors and measurable outcomes. Within this framework there are a number of underlying improvement plans, most notably the Local Area Development Plan and the development of a new Children's Trust which are intended to deliver sustainable improvement in specific priority areas.
- 31 For the first time, this new planning framework sets out to establish the golden thread linking highest level strategic thinking through medium and long-term strategic planning to service improvement plans and individual personal development plans and targets. Formative 'gate keeping' processes are being established to ensure that work is authorised only if it adds value and can be resourced.
- 32 The Council has so far demonstrated sound project management of its Local Area Agreement and Children Trust initiatives and plans for both these projects are progressing. Capacity will always be an issue for the Council but plans have been developed to deal with this through the appointment of a 'change agent' and a progressive approach to the introduction of strategic partnering over the longer-term.
- 33 To date, the Council's performance management arrangements have focused at the corporate level on predominantly performance indicators rather than strategic milestones within improvement plans. A shift in emphasis is required towards a multi-dimensional view of performance and improvement.

- 34 The Council's change agenda is robust but is also challenging and ambitious and can only be delivered from a position of strength. This requires the Council to maintain and build on its existing corporate capacity otherwise it risks losing the impetus gained so far. However, plans to reshape the Council have involved changes in the senior management arrangements with proposals for the displacement of key staff in senior positions within the organisation and there are concerns amongst staff generally about the future. These two factors in themselves are destabilising in the short-term; they will weaken the Council's ability to deliver its change management plan and may lead to already vulnerable services being exposed to further risk and under-performance in the future.

Fire CPA

- 35 The CPA review assessed the Fire and Rescue Service as poor. At the time of the review in April 2005, the service was in the process of recovering from a legacy of weak leadership that had impeded its ability to move forward as a modernised service. The new management team were rising to the challenge of delivering change across the service although tangible outcomes as a result of the introduction of improvements had yet to be delivered. Our headline conclusions were:
- the service has previously been inward looking and resistant to change;
 - the Authority is self-aware about its weaknesses and shows a strong determination to move on from its problematic past;
 - it has clearer, more relevant ambitions and a strong commitment to improvement which form the basis of a realistic recovery plan;
 - best value reviews are leading to improvements such as in training and personal protective equipment; and
 - despite some organisational problems and the demands of an ambitious change programme, motivation and morale are high and the Authority is providing, in many areas an effective fire and rescue service.
- 36 Since then, the Fire and Rescue Service has continued to improve and tangible outcomes are now in evidence. Whereas this is very good news, there are still questions that remain over whether the service has the capacity to improve sufficiently on its own to deliver best value for money and options for working with Hampshire Fire and Rescue are being considered. Discussions between the Council and the Office of the Deputy Prime Minister are also continuing.

Other performance work

Performance management arrangements

- 37 In our letter last year, we said that a key challenge for the Council was the need to develop a culture of performance management to consistently drive service improvement. Since then we have carried out work to support the Council in the development of performance management both at a corporate level and within the newly formed Children's Services Directorate. We concluded that the Council's performance management framework had the capability of being developed into a sound tool to drive up performance and that arrangements within Children's Services were developing well. However, the Council has not managed the change from performance measurement to performance management and the key priority to embed performance management in the culture of the organisation remains.
- 38 We found that the Council's performance when compared against the good practice benchmarks identified by the Audit Commission was lacking in a number of respects. We concluded that:
- message from leaders that performance really does matter not clearly understood by staff;
 - thinking is still in terms of process and internal focus rather than outcomes for the community;
 - it is generally not clear what matters most to the Council;
 - the Council is not good at translating national agendas and high level targets into something meaningful for the organisation;
 - staff are not signed up so that everyone feels they are on the same side;
 - the performance management framework has not led to consistent improvements on the ground;
 - there is a need to measure what matters to encourage effort around what is most important; and
 - it is difficult for staff to take timely action to improve performance because knowledge on how well they are meeting outcome targets is low.
- 39 Since our work was completed, there are signs of a shift in culture. We have been assured that the guiding principles of good performance management highlighted in our report have been incorporated into the Council's change management programme and it is the intention that these will be delivered as the programme unfolds. These intentions are noted but a successful transition will not happen by chance alone and without a clear steer from the leaders of the organisation. Therefore together with officers we have identified the following key themes to assist the Council manage the progressive step change from performance measurement to performance management.

- **Leadership** - directors and heads of service together with Cabinet members must provide a stronger lead to demonstrate that performance matters.
 - **Planning framework** - there is a need to improve the corporate, service and team planning framework to provide a simple and clear statement of aims, priorities and desired outcomes.
 - **Performance reporting** - arrangements for reporting on performance need to be improved to provide a clear and concise statement of progress towards achieving corporate objectives and priorities.
 - **Staff buy-in** - there needs to be a golden thread that makes explicit the contribution of individual staff to meeting corporate, service and team objectives, priorities and targets.
- 40 Although our detailed recommendations provide a framework on which to base future developments, we have offered to assist further by promoting best practice through a series of workshops directed at key managers and Members. We are currently discussing how we can help further with your officers.

Creating a customer focused organisation and improving access to services

- 41 The Council has shown a clear commitment to improving the quality of access to front line services but its progress in establishing a successful delivery vehicle for improving access to services has been slow with limited impact across the range of Council services as a whole. At the time of our review earlier this year, it was clear that the Council's original vision for improved access to better services was tired and either needed radical overhaul or replacement. In addition, there were conflicts between this work plan and the work needed to meet e-government targets and the Council had decided to redeploy resources in favour of the e-government programme.
- 42 We concluded that what the Council needed was a wider customer focus and access to services strategy to provide the framework within which related projects could be co-ordinated and to ensure the integration of the e-government programme with other initiatives. Progress has been made in addressing some of these concerns and in particular over the latter months of the year the Council has shown improved performance in relation to its e-government targets. Long-standing barriers to combining first points of contact for different Council services have largely disappeared and 'one stop shop' points of contact for the public now exist.
- 43 The new administration of the Council has also publicly confirmed its intention to examine a strategic partnership model as the favoured delivery vehicle for improving access to better services. In addition a wider customer focus and access to services strategy is now an integral part of the Council's revised corporate plan.

- 44 We view these developments positively, although we would caution there are risks which the Council needs to acknowledge and be confident in its ability to manage. Strategic partnering represents a major procurement exercise and is therefore subject to the same regulatory and value for money considerations as any traditional contract. The Council needs to adopt a progressive approach to strategic partnering; ensure its services are made fit for purpose and base decisions on strategic partnering on full business case appraisal.
- 45 We will be reviewing the Council's progress in taking forward strategic partnering as part of our 2005/06 audit.

Integration of health, social care and housing services

- 46 Our work was carried out over an extended period of time to enable us to assess how effectively the Council in collaboration with its NHS partners were managing the risks associated with the proposal for establishing a joint health, social care and housing organisation on the Island in the context of a constantly-changing environment.
- 47 Our detailed findings which were reported in April 2005 assisted the Council in carrying out its own 'gateway review' to evaluate how well-aligned the proposed project outcomes were to the Council's own values and to steer the Council's subsequent actions. Following this and a change in the national agenda the timetable for the creation of a new organisation has been extended until April 2007 allowing additional time for all parties to lay firm foundations and to ensure that plans are consistent with the developing agenda, nationally within the NHS and other Council priorities. As well as opportunities, there are also potential barriers to the successful delivery of this initiative, both in terms of project management and differences in the cultural and legislative backgrounds of the partner organisations, which we identified from the first phase of our review.
- 48 The success of this venture, depends on close collaborative working on the part of all but equally the Council must ensure that its involvement in the process is not overwhelmed by the NHS agenda. On the positive side, project management arrangements have been strengthened and we are re-assured by the more measured pace of the process. Although there is still no certain end vision of what the new organisation will look like, a business case is being developed which will help guide the project.
- 49 In terms of future action, the Council needs to ensure that plans for integrated health and social care delivery are co-ordinated with other partnering and outsourcing initiatives including strategic partnering and developments around children's services. The Council should seek assurances that the re-configuration of services will achieve effective use of resources. Further considerations for the Council include:
- developing a governance framework which accommodates the different cultures and legislative foundations of each key stakeholder;
 - achieving an equitable financial balance between the partners and developing protocols for financial decision-making;

- creating risk sharing arrangements which have regard to the different legislative backgrounds of the partners;
 - identifying opportunities for exploiting partnership working with other stakeholders through LAA or LSP avenues;
 - greater user engagement and consultation; and
 - early consideration of employment issues and engagement with the workforce.
- 50 Our planned follow-up work early in the 2006 will help confirm how effectively the potential barriers identified by our initial work are being managed.

Integration of children's services

- 51 Following the implementation of the Children Act 2004, authorities are required to make wide-ranging changes to the way that services for young people and children are planned and delivered in partnership with local health, criminal justice, education and voluntary sector bodies. For some time now, the Council has been working closely with its partners to develop a blueprint for the development of integrated children's services. Our review was carried out to assess progress and the prospects for improved outcomes for children and young people.
- 52 The Council is implementing the plans agreed with partners for the establishment of a children's trust and shadow board arrangements have been introduced in preparation for the establishment of a trust by April 2006. All partners interviewed at the commencement of our work said they were confident that the timetable set for this and the production of a Children and Young Persons Plan by April 2006 would be met. However, there is slippage on a number of tasks, including project management, due for completion on or before April 2006.
- 53 In addition, there is now a risk that the Council's plans could be destabilised as the result of the recent management changes within the Children's Services' Directorate; certainly some stakeholders now appear less assured about the direction of the project than they were at the start of our review.
- 54 The Council's original blueprint for integrated children's services remains sound and in keeping with governmental policy. However, it is no longer clear whether it can be delivered in accordance with the original timetable. The Council needs to consider whether under new management direction it is able to progress its plans for integration of children's services and establishment of a children's trust as intended. If it is unable to do so or the integration of children's services as originally envisaged is no longer consistent with current political priorities it needs to develop alternative plans quickly and engage with all partners to avoid any erosion in public confidence and ensure that investment opportunities created so far are not lost.

Management of property disposals

- 55 In recent years, the Council has faced many challenges, from within its own organisation and from external stakeholders, on whether the sale of individual land and buildings assets provides best value. These challenges continued despite the Council's efforts to tighten-up its internal procedures governing the conduct of its property transactions. It was against this background that we carried out an independent assessment of the Council's arrangements for the disposal of land and buildings.
- 56 We concluded that some areas of the Council's approach to managing property transactions were sound. It disposes of property it no longer requires and makes reasonable efforts to try to maximise the value of surplus property assets prior to their disposal. The Council works in partnership with other public service agencies to identify opportunities for combining property transactions and has clear information about its past, current and future property disposals. There are also has robust procedural rules governing the way that property transactions are conducted.
- 57 However, there were other aspects the Council approach that required improvement. It did not:
- have an up-to-date strategic plan for the management of the Council's property assets;
 - have a historical track record for separating operational management decisions by staff and strategic decisions by councillors on property matters;
 - consistently use its scrutiny arrangements on property transactions to best effect;
 - always achieve constructive and harmonious relationships between key property professional staff and some councillors;
 - consistently ensure that all relevant councillors are informed clearly about how and why the Council conducts property transactions in the way that it does;
 - always maintain good communications with the local community on its property transactions;
 - clearly distinguish between strategic and operational responsibilities;
 - match its resources to deliver its programme of property disposal work to the quantity of work; and
 - follow the disciplines of project management in its approach to its property disposals.

- 58 In response to our recommendations, officers have initiated improvements around a number of key themes as follows:
- developing a new asset management plan, using the Council's new constitutional arrangements, that sets out how it will manage its property assets to maximises their contribution to delivering services to users and meeting wider corporate objectives;
 - ensuring that relevant councillors and staff across the organisation are kept appropriately informed about how the Council manages its property portfolio; and
 - providing a more disciplined approach to managing the delivery of the Council's property transactions and property contracts.

Performance information

- 59 The new Code of Audit Practice no longer requires us to review and report on the Council's published Best value performance indicators; instead we are required to form a judgement on the Council's arrangements for ensuring the quality of data used by the Authority to manage its performance.
- 60 Our audit this year concluded that while there have been improvement in some aspects of the Council's arrangements for producing performance information, the Council's quality assurance procedures are not being applied consistently in all cases and action is needed to improve the data quality of performance information produced by the Council. We have made recommendations to assist the Council make improvements.

Working with other inspectorates and regulators

- 61 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.
- 62 We share information and seek to provide 'joined up' regulation to the Council. During the last year the Council has received the following assessments from other inspectorates as summarised in Table 2.

Table 2 Results of assessments/inspections 2005

Other inspectors and regulators	Service	Performance
Ofsted and the Commission for Social Care Inspection	Education	A service that does not deliver minimum requirements for users
	Children's Social care services	A service that delivers only minimum requirements for users
Commission for Social Care Inspection	Adult social services	A service that delivers above minimum requirements for users
Benefit Fraud Inspectorate	Housing benefits	A good service

Source: Other regulator reports

- 63 We have drawn on these assessments where appropriate to supplement our own work and inform our judgements about the Council's arrangements. More detailed commentary where appropriate is incorporated in other parts of this letter.

Accounts and governance

We have given your accounts an unqualified audit opinion. There is a need to improve arrangements for producing capital accounts in future years.

Your overall corporate governance arrangements are satisfactory in most key areas. However, there are some aspects of the Council's arrangements for the effective use of resources that we have assessed as below minimum standards. These relate to the quality of financial reporting and the financial management process. In addition to this controls assurance is not yet firmly embedded in the organisation and we have concerns about internal audit's ability to deliver an effective service in the future.

The Council's financial position remains sound but there are uncertainties and concerns regarding its medium-term financial prospects. When deciding on future expenditure plans the Council must ensure that its planned level of balances is sufficient to provide an adequate cushion given the emerging financial pressures and uncertainties in the years ahead. Action is also needed to bring the Council's capital programme on track.

Use of resources judgements

- 64 The use of resources assessment is a new assessment which focuses on financial management but links to the strategic management of the Authority. It looks at how the financial management is integrated with strategy and corporate management, supports council priorities and delivers value for money. It will be carried out annually, as part of each council's external audit. The use of resources judgement and scores form part of the CPA framework.
- 65 For the purposes of the CPA we have assessed the Council's arrangements for use of resources in five areas and our overall judgement is that the Council is delivering minimum standards. In reaching this judgement, we have drawn on our audit work and where required supplemented this with a review of specific areas. Our judgement was based at a point of time and we are aware from ongoing discussions with officers that improvements are being made which if delivered places the Council in a strong position to improve its score in future.
- 66 The most significant areas where further development is needed in each of the five elements are summarised below. Many of these are covered in more depth in other parts of the Letter.

Financial reporting

- The 2004/05 accounts were produced on time with supporting working papers, but required adjustment to correct material errors in relation to entries in the capital accounts.

Financial management

- There is no clear link between the Council's corporate plan, its medium-term financial plan and the allocation of resources as part of the budget process.
- The asset management plan and capital strategy are out-of-date and do not evidence the effective management of the Council's asset base.

Financial standing

- The financial position of the Council is currently strong with a positive outturn for 2004/05. There are however concerns over the ability to sustain this in the short to medium-term.

Internal control

- Council-wide risk management arrangements are in place and whilst these are assessed as good, they are not yet fully embedded within the culture of the organisation and have yet to be extended to fully embrace all partner organisations.
- More needs to be done to develop an overall controls assurance framework across the organisation.
- The Council is at risk of failing to achieve minimum requirements in relation to its internal audit unless this function is strengthened

Value for money

- Some routine review and challenge of value for money exists but the position is variable and application of financial benchmarking is not yet widely or consistently applied in practice.
- Service planning and performance management frameworks are not yet firmly embedded into the culture of the organisation and until this is done individual services will have difficulty demonstrating planned step changes in efficiency.
- The Council needs to ensure that its political aspirations are in all respects consistent with achieving value for money.

Audit of 2004/05 accounts

- 67 We gave an unqualified opinion on the accounts of the Council on 31 October 2005.
- 68 In general, the quality of the accounts and working papers presented for audit was satisfactory and we were pleased to note that there has been improvement in a number of areas in the current year. We concluded that we could rely on the three main processes that form the basis for the preparation of the financial statements, namely; budgetary control; main accounting system and year-end closedown procedures. This reduced the amount of detailed work that we needed to undertake on the financial statements.
- 69 However, the quality of the Council's capital accounting was, once again, an area for concern. There is a need for significant improvement in the arrangements for producing capital accounts in a number of respects. In particular this relates to the accuracy of the fixed asset register which could not be reconciled to the ledger and errors and uncertainties in the treatment of revaluations and disposals. This situation impacts upon the efficiency and the cost of the audit and also increases the burden upon the Council's accountants who have to explain the inconsistencies and prepare additional working papers retrospectively.
- 70 The accounts have once again been brought forward by a month which adds pressure to all involved and we will work with finance staff to ensure that the earlier deadline of September for the audit opinion next year can be achieved.

Report to those charged with governance

- 71 We are required by professional standards to report to those charged with governance (in this case the Audit Committee) certain matters before we give an opinion on the financial statements. We reported to the Audit Committee issues arising from the audit of the accounts on 24 October 2005 including notification of an expected modification to the audit report on the grounds of limitation of scope relating to the Council's capital accounts if material differences in the accounts could not be proven. Explanations subsequently provided by officers provided us with the necessary assurances to avoid a qualified opinion.

Financial standing

- 72 The Council's financial position remains sound but there are uncertainties regarding its medium-term financial prospects. Council spending in 2004/05 was largely in line with budget after making allowances for £1.3 million of unspent funds carried forward to fund expenditure plans that were deferred to 2005/06. Last year, slippage on departmental spending amounted to £1.4 million. The Council has used cash flow savings to make further contribution to balances, some £2.2 million at the start of the year. This is a prudent course of action given the Council's uncertain financial position and the changing nature of the Council's financial priorities.

- 73 Based on current forecasts, the Council will not maintain spending within available resources in 2005/06. Projected overspends and shortfalls in income targets totalling £1.1 million have been identified as at the end of October 2005 which required immediate action on the part of management if their impact in the current financial year is to reduce. At present the Council is confident that it can manage this situation within existing resources.
- 74 The budget for 2006/07 will need to be tightly drawn if the Council is to hold spending within inflation linked Council tax rises and at the same time deliver substantial efficiency savings without impacting adversely on services. Although the recent grant settlement has been better than expected, resulting in some £2 million of additional income next year and greater certainty for the future, the Council's finances will remain under pressure over the medium-term as the Council seeks to deliver its expenditure plans within these financial constraints.
- 75 The Council has undertaken a review of service budgets this year in order to more closely align service budgets with Council priorities and has engaged a consultant to identify opportunities for efficiency savings within Adult and Community Services to counter emerging financial pressures in this area. Although we are satisfied that this action has enabled the Council to re-base its budget and identify savings plans for 2006/07, difficult decisions may still need to be taken by Members in setting the budget for next year particularly in the area of Adult and Community Services where further savings are still required.

General fund spending and balances

- 76 Historically, the Council has held its general fund balances at around £2 million which as we said in our last letter is only acceptable in the context of the Council's history of financial prudence. As the Council's financial circumstances change, it is important that the level of balances is kept under review to ensure there is an adequate cushion commensurate with the financial risks.
- 77 In addition to a general fund balance of £2 million the Council also has a number of reserves totalling £27 million at the 31 March 2005, the majority of which are 'earmarked' for specific purposes and are therefore not available to provide in-year financial support to the General Fund.
- 78 The Council will need to satisfy itself when deciding on future expenditure plans that its planned level of balances is sufficient to provide an adequate cushion given the emerging financial pressures and uncertainties in the years ahead.

Capital programme

- 79 For the past three years, the Council's has failed to deliver its capital programme, with the largest levels of slippage in 2003/04 and 2004/05, amounting to more than 20 per cent of the budget for each year. This situation is unacceptable and urgent action is needed to bring the Council's capital programme on track.
- 80 Slippage of this level on the capital programme brings into question whether the Council's scarce capital resources are being directed to best effect and suggests weaknesses in the management of capital projects. It has also meant that the

Council's net borrowing has been lower than budgeted with a resultant gain to the General Fund due to preferential interest rates on investment.

- 81 The Council needs to satisfy itself that the reasons for slippage in capital projects are clearly understood; future capital programmes need to be based of realistic assumptions; integrated with the capital strategy and asset management plan and effective project arrangements introduced for all capital projects.

Systems of internal financial control

- 82 We have not identified any significant weaknesses in the overall control framework although we are concerned that the effectiveness of the Council's internal audit could be compromised in the future unless action is taken to ensure it has the capacity to deliver a balanced audit programme and has the appropriate skills and expertise to enable it to maintain high professional standards in the conduct of its work. The Council delayed the production of its Statement of Internal Control and it is necessary to ensure that the overall assurance framework becomes embedded throughout the Council including a robust annual review to demonstrate the effectiveness of controls.

Internal Audit

- 83 We have assessed the Council's internal audit as providing an effective service overall and this year we have relied on the work of internal audit to support our own audit programme. However, internal audit is not on track to complete its programmed coverage for 2005/06 and its prospects of being able to produce a comparable audit plan in terms of its scope and coverage next year and to deliver this within existing resource constraints is doubtful.

- 84 The requirements of the new International Auditing Standards (UK&I), effective for 2005/06 also increases the amount of work the external auditor has to carry out in relation to documenting controls in key financial systems. This presents an increased opportunity for us to rely on the work of Internal Audit to minimise any additional cost to the Council that may result as a consequence. Preliminary discussions with the Chief Internal Auditor indicate that any significant support for this work is unlikely without seriously compromising the effectiveness of Internal Audit in other areas.
- 85 The Council needs to ensure that its internal audit has sufficient capacity and the appropriate skills to enable it to meet professional standards in the discharge of its function over the forthcoming period. In particular, we recommend that the internal audit programme is reviewed to ensure sufficient priority is given to assessing the effectiveness of key controls in material systems. Failure to do this will expose the Council to financial and operational risks during an unstable period in the months ahead and in addition will increase the cost of regulation to the Council if we are unable to rely on the work of internal audit in support of our audit.

Statement of Internal Control

- 86 The Council is required to conduct a review at least once a year to demonstrate the effectiveness of its system of internal control and to include a statement on internal control as part of its published financial statements. As part of our audit, we undertook a joint piece of work with internal audit to assess the Council's arrangements for preparing this statement prior to its compilation. Our findings were critical of the Council's arrangements and in view of this the Council agreed to extend the period required for preparing the statement on internal control for 2004/05 to allow additional time for the collation of information and to improve the process. The statement on internal control was adopted by the Audit Committee, under delegated authority from the Council on 22 September 2005.
- 87 We are pleased to report that the Council now has a clearer understanding that controls assurance is not a year end exercise solely for the production of the year end statement but is an integral part of overall management arrangements designed to ensure the achievement of the Council's corporate goals. What is now important is that the impetus is built upon and a framework of controls assurance developed further including an annual effectiveness review which needs to be owned by Members.
- 88 We have made recommendations in our detailed report and will continue to track progress as part of our ongoing audit.

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

- 89 We have not identified any significant weaknesses in your arrangements to prevent and detect fraud and corruption, but have suggested a number of areas where these could be strengthened to enable the Council to demonstrate that it actively promotes an anti-fraud culture.
- 90 In particular, the Council's anti-fraud and corruption strategy and its whistleblowers' charter should be updated to ensure that they reflect developing good practice and changes in the Council's arrangements. The Council must also take steps to ensure that existing employers are fully aware of the requirements of Standing Orders and Financial Regulations and that all new staff receive a basic, all round understanding of the Council's regulatory framework as part of their induction. It is not just about having rules but ensuring these rules are understood and complied with.
- 91 The public also has the right to expect the same ethical values and standards of conduct adopted by the Council to apply to any partner or contractor employed on behalf of the Council. This needs to be made more explicit by the Council in its dealings with outside organisations, particularly as the outsourcing of existing Council services features prominently in current plans.
- 92 Public confidence and trust in the integrity of the Council's arrangements and undertakings should also be promoted through the publication of an outward facing statement on the Council's values.

Legality of transactions

- 93 We have not identified any significant weaknesses in the framework established by the Council for ensuring the legality of its significant financial transactions. However, we have voiced concerns earlier in this Letter about the way in which the Council is approaching its change agenda and the potentially destabilising affect this may have on the organisation in the short term. The Council must continue to ensure that it reacts to advice from its statutory officers, and in the pursuit of its objectives, it does not unwittingly take any decision which is likely to result in an action which is contrary to law or outside of its powers or which exposes it to the risk of legal challenge.
- 94 The transitional arrangements for the education service and its potential externalisation represent an example of the type of high risk procurement ventures that the Council may be faced with. There are also complex issues to be considered by the Council in relation to severance of senior manager contracts and the potential termination of other staff employments under the re-organisation.

- 95 We are concerned by the pace and scale of change that is on the horizon together with the erosion of corporate capacity at least in the short-term which may limit the level of professional support and guidance that has been available to Members in the past. All Council decisions must be supported by professional legal and financial advice and Members must avoid the temptation to circumvent due processes on the pretext of a speedy resolution.
- 96 We would ask that the Council keeps us informed of any proposal that it considers sensitive or at risk of challenge, including severance agreements as it progresses its plans for change over the coming months.

DRAFT

Other work

Voluntary improvement work

- 97 During 2004, we carried out a review to help the Council assess its progress in focusing on equalities outcomes and to facilitate an assessment of its performance over a period of months. This was outside of the statutory audit and therefore not reported in this letter.

Grant claims

- 98 In accordance with Strategic Regulation, the Audit Commission has continued with a more risk-based approach to the certification of grant claims. We have reduced our audit of these claims but our ability to reduce further depends on the adequacy of the Council's control environment.
- 99 The Council's arrangements for managing and quality assuring grant claims submitted for audit has improved in recent years and we anticipate that the Council will benefit this year from a further reduction in the cost of this work.

National Fraud Initiative

- 100 In 2004/05, the local authority took part in the Audit Commission's National Fraud Initiative. The NFI, which is undertaken every two years, aims to help identify and reduce fraud by bringing together data from NHS bodies, local authorities and government departments and other agencies, to detect a wide range of frauds against the public sector. These include housing benefit fraud, occupational pension fraud, and payroll fraud.

Looking forwards

Future audit and inspection work

- 101 We have an agreed plan for 2005/06 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 2005/06 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.
- 102 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 2006/07. 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 2006. 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

- 103 The statutory requirements governing our audit work, are contained in:
- the Audit Commission Act 1998; and
 - the Code of Audit Practice (the Code).
- 104 The Code has been revised with effect from 1 April 2005. Further details are included in our Audit Plan which has been agreed with the Council. The key changes include:
- the requirement to draw a positive conclusion regarding the Council's arrangements for ensuring value for money in its use of resources; and
 - a clearer focus on overall financial and performance management arrangements.

Closing remarks

- 105 This letter has been discussed and agreed with the Chief Executive and the Assistant Chief Executives on the 22 December 2005. A copy of the letter will be presented at the Cabinet on 30 January 2006.
- 106 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

- 107 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 2005

Appendix 1 – Background to this letter

The purpose of this letter

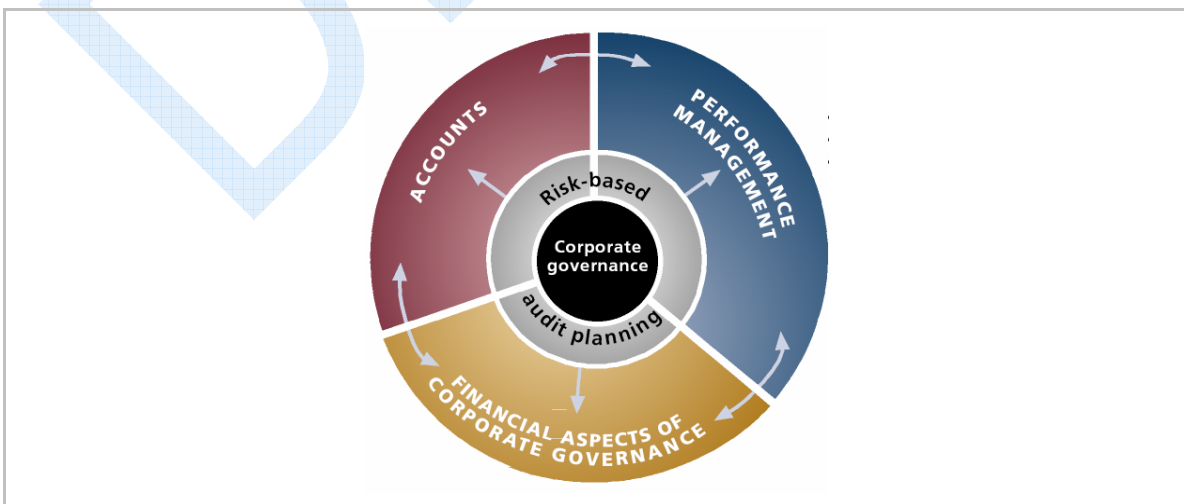
- 1 This is our Audit and Inspection ‘Annual Letter’ for members which incorporates the Annual Audit Letter for 2004/05, which is presented by the Council’s Relationship Manager and District Auditor. The letter summarises the conclusions and significant issues arising from our recent audit and inspections of the Council.
- 2 We have issued separate reports during the year setting out the findings and conclusions from the specific elements of our programme. These reports are listed at Appendix 2 for information.
- 3 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.
- 4 Appendix 3 provides information about the fee charged for our audit and inspections.

Audit objectives

- 5 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.
- 6 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 Figure 1.

Figure 1 Code of Audit Practice

Code of practice responsibilities



- 7 Central to our audit are your corporate governance arrangements. Our audit is then structured around the three elements of our responsibilities as shown below.

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.

DRAFT

Appendix 2 – Audit reports issued

Table 3

Report title	Date issued
Audit Plan	May 2004
Customer Focus and Access to Services	March 2005
Ethical Governance and Good Conduct– Workshop Feedback and Summary Reports (three reports)	May/August/October2005
E government	May 2005
Performance Management	April 2005
Risk Management of Proposals for a New Health, Social Care and Housing Organisation	April 2005
IT Arrangements	September 2005
Management of Property Disposals	September 2005
Report on the 2004/05 Financial Statements to Those Charged with Governance (SAS 610	October 2005
Statement of Internal Control	October 2005
Review of Financial Health	December 2005
Regularity and Accounts Memorandum	December 2005
Best Value Performance Indicators and Data Quality	December 2005

Appendix 3 – Audit fee

Table 4 Audit fee update

Audit area	Plan 2004/05 £,000	Actual 2004/05 £,000
Accounts	62	62
Financial aspects of corporate governance	73.5	73.5
Performance	95.5	103.5
Total Code of Audit Practice fee	231	239
Additional voluntary work (under section 35)	-	8
Total	231	247

Inspection fee update

The full year inspection fee is £83,000. The work reported in this Audit and Inspection Letter has been funded by an element of the fee covering 2004/05 and by an element of the fee covering 2005/06. In both years the actual fee will be in line with that planned. The results of our inspection work (Planning and Homelessness are reported in the 2003/04 Audit and Inspection Letter).