



Accountants &  
business advisers

## **Castle Point Borough Council**

### **Annual Audit and Inspection**

### **Letter 2004/05**

March 2006

## Contents

|   |                                   |   |
|---|-----------------------------------|---|
| 1 | Introduction and key issues ..... | 1 |
| 2 | Direction of Travel .....         | 2 |
| 3 | Key Lines of Enquiry.....         | 3 |

## Appendices

|   |  |
|---|--|
| A | interim Annual Audit and Inspection Letter 2004/05 |
|---|--|

# 1 Introduction and key issues

## Introduction and scope

- 1.1 This Annual Audit Letter summarises the findings of the audit and inspection work at Castle Point Borough Council ('the Authority') for the year ended 31 March 2005. Following a change to the timetable for reporting Direction of Travel work and Key Lines of Enquiry judgements for district councils, the statutory Annual Audit and Inspection Letter is being reported by 31 March 2006 in order to incorporate the results of those pieces of work.
- 1.2 We have previously reported the bulk of 2004/05 audit and inspection work in an interim Annual Audit and Inspection Letter, presented to Scrutiny Committee on 14 February 2006. This interim Letter is included in this statutory report as Appendix A.
- 1.3 This statutory letter builds upon the audit and inspection work set out in Appendix A and reports the two elements of audit and inspection work carried out in the period from November 2005 to February 2006, namely the Progress Assessment/Direction of Travel inspection work and Key Lines of Enquiry audit work.
- 1.4 The audit was been carried out in accordance with the *Audit Commission's Code of Audit Practice (the Code)* and *Statement of Responsibilities of Auditors and of Audited Bodies*. The responsibilities of Inspectors are included in section 10 of the Local Government Act 1999. The contents of this report should be viewed in the context of this more formal background.

## Background

- 1.5 To ensure that councils receive a tailored and seamless service, integrated with the work of other inspectorates, the Audit Commission has appointed a Relationship Manager for each council, who is the primary contact with you, and for the interface between the Audit Commission and other inspectorates. Your Relationship Manager is Ian Davidson.
- 1.6 The Appointed Auditor, PKF (UK) LLP, is the primary contact for the delivery of the core audit. The main objective of the auditor is to plan and carry out an audit that meets the requirements of the Code of Audit Practice by adopting a risk based approach that focuses work on your significant financial and operational risks.
- 1.7 The core audit is structured around three main elements:
- aspects of performance management;
  - financial aspects of corporate governance; and
  - opinion on accounts (including core financial systems).

## Key conclusions

- 1.8 Castle Point has made good progress since the Comprehensive Performance Assessment in 2004, with demonstrable improvements in priority areas and positive outcomes being delivered for local people.
- 1.9 Use of Resources arrangements are, overall, at minimum acceptable levels. There are areas performing well, specifically arrangements in respect of financial reporting and securing financial standing. However, despite notable progress during the last year in both risk and performance management, at the time of the assessment, arrangements were not at a sufficient level to achieve an "adequate" score for those sub-elements, although the current pace of change indicates that shortcomings should be addressed soon.
- 1.10 There are some good future plans which are well developed. However, the Council has not yet reviewed the full implications for the organisation if the housing service and leisure service are delivered by external organisations. The prompt and successful conclusion of both exercises are also key to the future of the Authority.

## 2 Direction of Travel

- 2.1 Castle Point has made good progress since the Comprehensive Performance Assessment in 2004. Improvements can be demonstrated in priority areas with positive outcomes being delivered for local people. The infrastructure and building blocks are being put in place to take the Authority forward although this has yet to be reflected in consistent improvements in performance.
- 2.2 Clear vision and priorities have been derived through some effective community engagement. Councillors and officers have a strong focus on improving services and are working closely and effectively to achieve this. Capacity has been improved at a number of levels including through new appointments together with comprehensive Councillor and officer development programmes.
- 2.3 With a focus on the recovery plan, the Council has delivered against its improvement priorities. This has included significant improvement to the benefits service and a focus on securing improvements to a failing leisure service that had been operating over budget. There remain areas for improvement however, including actions to improve environmental enforcement activity and provision of facilities for young people.
- 2.4 Service improvements have been, in part, achieved through an effective approach to use of partnerships. The Council is active within the Crime and Disorder partnership and has developed a close working relationship with the health sector. Both these areas have resulted in benefits for local communities. Communication with the public has also improved with the introduction of an improved council newsletter and the appointment of a media officer who is working closely with the local press. The Local Strategic Partnership however is not effective which impacts on improvement of services amongst key partners.
- 2.5 The Council is developing as a learning organisation. There is good use of peer reviews of services and the council is adopting good practice which is assisting delivery of improved services.
- 2.6 Robust service planning is not in place. This is acknowledged by the Council and a corporate service planning framework is being rolled out which has clear links to priorities and the budget setting process. The Council is also working to address its scrutiny function which is not currently fully effective. The service planning framework, together with a recently procured IT system, places the Council well to achieve further improvement. However there are still gaps in corporate capacity at the centre.
- 2.7 There are some good future plans which are well developed. Together with an improved website, the proposed forthcoming customer relationship management project aims to significantly improve the quality of the customer contact. However, the Council has not yet reviewed the full implications for the organisation if the housing service and leisure service are delivered by external organisations.

## 3 Key Lines of Enquiry

### Introduction

3.1 The Use of Resources judgements evaluate how well the Authority manages and uses its financial resources. They are a more stringent test of performance than the auditor scored judgements (ASJs) that have formed part of the comprehensive performance assessment (CPA) framework up until 2004. They focus on the importance of having sound and strategic financial management to ensure that resources are available to support the Authority's priorities and improve services. There are five themes covering

- Financial reporting
- Financial management
- Financial standing
- Internal control
- Value for money.

3.2 The Audit Commission has determined the overall Use of Resources score by combining our separate scores for each of the themes covered. The score is determined by reference to the following scale:

| Level | Performance   |
|-------|---|
| 1     | below minimum requirements – inadequate performance       |
| 2     | only at minimum requirements – adequate performance       |
| 3     | consistently above minimum requirements – performing well |
| 4     | well above minimum requirements – performing strongly     |

3.3 Each judgement area consists of a number of key lines of enquiry and areas of audit focus and evidence. There are also descriptions of performance against each key line of enquiry showing performance levels 2, 3 and 4.

3.4 The Key Lines of Enquiry (KLoE) scoring scale differs notably from that applicable to the ASJ regime, with KLoE reflecting the Audit Commission's "Harder Test". Where previously "adequate" might have been scored as a 3, KLoE guidance would dictate a score of only 2. Further, achievement of higher performance levels is more difficult and arrangements must be seen to be embedded. The KLoE scores awarded need to be seen in this context.

## Results

- 3.5 The Authority has been awarded an overall score of **2**. The underlying component scores for each of the Key Lines of Enquiry and the sub-themes are as follows:

| Theme and Key Line of Enquiry  | Score    |
|--|----------|
| 1.1 <i>Annual accounts</i>   | 3        |
| 1.2 <i>Promotion of external accountability</i>                          | 3        |
| <b>1 Financial Reporting</b>   | <b>3</b> |
| 2.1 <i>Medium term financial strategy, budgets and capital programme</i> | 3        |
| 2.2 <i>Managing performance against budgets</i>                          | 2        |
| 2.3 <i>Managing the asset base</i>                                       | 2        |
| <b>2 Financial Management</b>  | <b>2</b> |
| 3.1 <i>Managing spending within available resources</i>                  | 3        |
| <b>3 Financial Standing</b>  | <b>3</b> |
| 4.1 <i>Managing significant business risks</i>                           | 1        |
| 4.2 <i>Maintaining a sound system of internal control</i>                | 2        |
| 4.2 <i>Arrangements to promote and secure probity and propriety</i>      | 2        |
| <b>4 Internal Control</b>  | <b>2</b> |
| 5.1 <i>Current achievement of good value for money</i>                   | 2        |
| 5.2 <i>Managing and improving value for money</i>                        | 1        |
| <b>5 Value for Money</b>   | <b>2</b> |
| <b>Overall</b>   | <b>2</b> |

## Analysis

- 3.6 The scoring reflects sound and developing financial reporting and management arrangements, but with development needs in the areas of risk management and the full implementation of planned performance management arrangements, alongside needed improvements to data quality.

- 3.7 Given the current pace of change at the Authority, we do not consider that residual areas assessed as below minimum requirements need persist for long. The areas assessed as falling below minimum standards were:
- KLoE 4.1 Risk Management: Whilst we have accepted that a combination of strategic risks and ownership documented in the risk register and documenting operational risks in various departmental plans (rather than in a single, corporate register) would be sufficient for the purposes of achieving minimum internal control standards, neither element has been linked to strategic business objectives, even though the Authority's strategy states that this should be done.
  - KLoE 5.2 Managing and improving value for money: Systematic and consistent arrangements for managing and improving value for money were not in place at the time of the review, although we recognise that significant effort has been made over the last year to secure improvement and that this drive forward is continuing.
- 3.8 The drive towards an overall Level 3 score will not be an overnight exercise, given the need to properly embed arrangements, but is certainly achievable.

### **National and regional context**

- 3.9 We are unable at this point in time to provide national or regional analysis of scores to provide any context for the Authority's scores outlined above. Analysis had been expected to be received from the Audit Commission, but, given the need to allow for any appeals against scores awarded, this will not now be able to be provided until after the publication embargo relating to local elections has been lifted. Local analysis, in co-operation with our regional Audit Commission colleagues, has also been forbidden.

### **The way forward**

- 3.10 A detailed report has been prepared and issued to officers, setting out scoring and areas that should be addressed to reinforce or progress arrangements. We have differentiated action plan points between those areas where we are aware that the Authority is already taking action and those where further action appears necessary.
- 3.11 Where the Authority has achieved a solid Level 3 score, we will provide details of notable practice in place at other authorities when this is released by the Audit Commission. For these areas, it will be for the Authority to determine whether value for money would be achieved in allocating the level of resource necessary to achieve improvements.
- 3.12 We have no Member-level recommendations to make in this Letter.

## **Appendix A – interim Annual Audit and Inspection Letter 2004/05**

### **Castle Point Borough Council**

### **Interim Annual Audit and Inspection Letter 2004/05**

December 2005

## Contents

|   |                                 |    |
|---|---------------------------------|----|
| 1 | Introduction.....               | 1  |
| 2 | Results of audit work .....     | 4  |
| 3 | Audit and Inspection fees ..... | 10 |

## Appendices

Appendix 1 – Recommendations and Council Action Plan

Appendix 2 – Audit and Inspection reports and opinions issued for 2004/05

## 4 Introduction

### Introduction and key findings

- 4.1 This Interim Annual Audit and Inspection Letter summarises the findings of the audit and inspection work at Castle Point Borough Council ('the Authority') for the year ended 31 March 2005. Following a change to the timetable for reporting Key Lines of Enquiry judgements for district councils, the statutory Annual Audit and Inspection Letter will be issued in March 2006 to incorporate the Use of Resources judgements and the annual Direction of Travel statement.
- 4.2 The audit has been carried out in accordance with the *Audit Commission's Code of Audit Practice (the Code)* and *Statement of Responsibilities of Auditors and of Audited Bodies*. The responsibilities of Inspectors are included in section 10 of the Local Government Act 1999. The contents of this report should be viewed in the context of this more formal background.

### Background

- 4.3 To ensure that councils receive a tailored and seamless service, integrated with the work of other inspectorates, the Audit Commission has appointed a Relationship Manager for each council, who is the primary contact with you, and for the interface between the Audit Commission and other inspectorates. Your Relationship Manager is Ian Davidson.
- 4.4 The Appointed Auditor, PKF (UK) LLP, is the primary contact for the delivery of the core audit. The main objective of the auditor is to plan and carry out an audit that meets the requirements of the Code of Audit Practice by adopting a risk based approach that focuses work on your significant financial and operational risks.
- 4.5 The core audit is structured around three main elements:
- aspects of performance management;
  - financial aspects of corporate governance; and
  - opinion on accounts (including core financial systems).
- 4.6 The Outline Audit and Inspection Plan for 2004/05, presented to Members in June 2004, covered specific audit work for the periods as outlined in the table below:

| Audit work   | Period    |
|--|-----------|
| Aspects of performance management                      | 2004/05   |
| Opinion on accounts (including core financial systems) | 2004/05   |
| Financial aspects of corporate governance              | 2004/05   |
| Best value performance plan published *                | June 2004 |
| Best value performance indicators *                    | 2003/04   |

\* Due to timing overlaps in audit years, the results of this audit were reported in the 2003/04 Annual Audit and Inspection Letter. This 2004/05 Letter includes results from our review of the 2004/05 Performance Indicators and Best Value Performance Plan.

## Key findings

- 4.7 The Authority has made good progress in a number of critical challenge areas, including taking steps to address leisure provision issues, determining social housing options to achieve the Decent Homes Standard by 2010, and taking steps to address internal capacity issues.
- 4.8 There have been developments in target setting, performance management and partnership monitoring arrangements, but there is significant scope for further improvements to be made before mechanisms can become embedded as part of a comprehensive corporate performance management regime. Further consideration will be given to the robustness of these arrangements, and ongoing progress, as part of our Key Lines of Enquiry (KLoE) assessment work currently underway. Our findings will be reported in the final Annual Audit and Inspection Letter to be issued in March 2006.
- 4.9 During the period, the Authority has achieved a successful financial outturn despite continuing cost pressures and has maintained arrangements for guarding against fraud and corrupt practices, ensuring the legality of financial transactions and maintaining a satisfactory system of internal financial control at a sound level. There have also been developments in a significant project to fund affordable housing developments and in another significant project, in partnership with Castle Point and Rochford PCT and Southend PCT, to improve doctors' facilities (Primary Health Care) and to further develop the Paddocks site on Canvey.
- 4.10 However, notable data quality issues were identified as a result of our recent Best Value Performance Indicators review, where we qualified 6 performance indicators, 3 of which were "High risk CPA indicators", and had to amend a further 23 of the 67 indicators reviewed. This indicates a lack of ownership within the service departments for producing accurate and compliant performance indicators, and consequently undermines the validity of performance information reported to Members and the focus and considered extent of action taken in response to reported performance.
- 4.11 Key areas requiring attention include:
- Putting in place a performance management framework – several key components are in place and have been improved, but the underlying operational procedures and controls need to be determined and documented in accordance with the recently agreed timetable;
  - Securing the necessary improvements to currently poor data quality;
  - Establishing comprehensive operational risk-management arrangements – progress has been made in certain areas, but arrangements need to be comprehensively and consistently put in place and operated;
  - Partnership management – the good progress made in drafting and adopting a commendable partnerships Strategy needs to be built upon in terms of completing a comprehensive partnerships register that is then used to review partnerships to ensure strategic fit, adequate governance arrangements and securing of value for money.
- 4.12 A summary of our findings and conclusions is shown in Section 2.
- 4.13 Recommendations to Members to address the key findings identified in this report are summarised in the Action Plan at Appendix 1. Detailed findings and recommendations to officers have been communicated in reports during the year and a record of reports issued is shown in Appendix 2

## Status of our report

- 4.14 This Letter is prepared in the context of the Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission and is addressed to Members and officers. It is prepared for the sole use of the Authority and no responsibility is taken by auditors to any Member or officer in their individual capacity or to any third party.
- 4.15 External Auditors and Inspectors do not act as a substitute for the audited body's own responsibility for putting in place proper arrangements to ensure that public business is conducted in accordance with law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively.

## Confirmation of independence

- 4.16 We are required to make an annual declaration relating to our independence and objectivity and can confirm that the Audit Commission's requirements have been complied with and that we are not aware of any relationships that may bear on the independence and objectivity of the Appointed Auditor and audit staff.

## Acknowledgement

- 4.17 We would like to thank the Authority's staff for the co-operation and assistance provided to us during the audit and inspection work completed in the period.

## 5 Results of audit work

- 5.1 The key findings from the audit work undertaken as part of the 2004/05 Outline Audit and Inspection Plan are outlined in the table below:

| <b>Aspects of performance management</b>  |
|---|
| <p><b>Improvement planning</b></p> <p>A Recovery Plan was agreed by Members in November 2004. There is a monthly Monitoring Board which is Chaired by a representative from the Office of the Deputy Prime Minister and an Authority Recovery Committee in place whose functions include the on-going monitoring of progress in implementing the projects that underpin this Recovery Plan.</p> <p>The Authority's formal Progress Assessment is due to be published by the Audit Commission on 20 December 2005.</p>   |
| <p><b>Inspections</b></p> <p>There have been no inspections carried out to date. An inspection of the Authority's Street Scene service is planned for January 2006. A Progress Assessment has been carried out and this will be reported publicly on 20 December 2005.</p>  |
| <p><b>Preparation for future Comprehensive Performance Assessment (CPA)</b></p> <p>The CPA process for district councils is still under consultation, and so there is currently no clear message that we can provide at this stage. The Authority, as a poor CPA authority, is currently subject to a formal Progress Assessment (as discussed above) and auditors need to carry out work to support Key Lines of Enquiry assessments.</p> <p>We have held discussions with officers on the arrangements for the Use of Resources judgements and our requirements for the provision of evidence against the Key Lines of Enquiry criteria which would support these judgements. The findings from this work will be reported in the Final Annual Audit and Inspection Letter for 2004/05, to include the Progress Assessment results, which will be published by 31 March 2006.</p> |

**Aspects of performance management (continued)****Use of Resources****Performance Management Framework**

A draft Performance Management Framework (PMF) was produced by the Authority in April 2005, representing a notable step forward in documenting arrangements. However, our review, which considered the completeness of this document and the adequacy and effectiveness of its content, identified that there was still a significant amount of work to be done in order to address the Authority's medium and longer term aims, objectives and priorities from a performance management perspective. We made a number of recommendations aimed at improving the focus and content of the PMF, in order to increase its effectiveness as the arrangements are further developed and ultimately embedded.

We have since reviewed and fed back on the successor "Cutting the Mustard" document. We found this to be a very helpful guide to Members and staff on the Authority's aims for Performance Management. What is needed now is to draft documents which translate the aims set out in Cutting the Mustard into procedure notes specifying *how* the various steps and components of the Framework will be undertaken and *how* they will interact. The Authority has recently approved plans to address this, largely by June 2006, to be monitored by the Recovery Committee.

The Authority have implemented the Covalent performance information software. This is effectively being used to generate user-friendly management reports within 2 weeks of each quarter end, a significant improvement in performance management information. However, data quality issues undermine this notable achievement, as discussed on page 7.

**Target Setting**

The Authority produced a set of central guidance papers aimed at assisting service departments in setting soundly based performance targets and achieving consistency of approach in doing so. We found the central guidance produced and distributed to be both accessible and useful, but made a number of recommendations aimed at further enhancing its content and effectiveness.

Of concern was that our review of two 'tracer' service areas identified notable inconsistencies in the way in which central guidance was being applied in the process of target setting. Overall we concluded that further work is required to strengthen, and roll out, a uniform approach to target setting.

**Partnerships**

The Authority has produced a draft Partnerships Strategy which is a good first step forward in the management of Partnerships. However, this strategy now needs to be communicated to staff and supported by a comprehensive register of partnerships that can be used to centrally review and manage the Authority's involvement in them. There is currently insufficient information about the Authority's partnership activity to enable such a register to be compiled in a comprehensive way, making it impossible for the Authority to assess whether its strategic aims, priorities and objectives are being met through each partnership and value for money is being achieved.

**Risk Management**

During the financial year, progress was limited due to resource limitations, and this was properly disclosed in the Authority's Statement on Internal Control. More recently, progress has been achieved through the use of external assistance in developing, through workshops, an operational risk register. We will review this area further as part of our 2005/06 programme and KLoE review.

We worked closely with officers during the exercise to review community hall involvement and options to provide comprehensive and immediate feedback in an example area needing a robust risk and financial assessment to provide sufficient and relevant evidence to enable Members to reach a properly informed conclusion. This "piloting" can now be drawn upon for future appraisals in similar or other areas.

***Members should ensure recently agreed actions in respect of the PMF are implemented to timescale and satisfy themselves that appropriate action is being taken to implement the recommendations from the Partnerships reviews, thus strengthening the management arrangements in place in these critical areas.***

**Aspects of performance management (continued)****Use of Resources (continued)****Social Housing Options**

The Authority has made good progress in completing a robust options appraisal to support proposals to address the Decent Homes Standard requirements for the Authority's housing stock by 2010. The preferred option of Large Scale Voluntary Transfer (LSVT), consistent with that determined by a number of near and similar neighbours, was put to the Government Office for the Eastern region (GOEast) in June 2005 and received approval in July 2005. The Authority must now progress with this option, including securing appropriate partners, addressing any consequent financial impact on residual services and ultimately securing the key "Yes" vote necessary to proceed.

The Authority is continuing to progress with a significant project working in partnership with Registered Social Landlords, to develop affordable housing options. This project will be subject to ongoing review during 2005/06.

**Officer Restructuring and Capacity**

The Authority has undergone significant change at senior officer level during the period and to date. An Interim Chief Executive was appointed to assist driving the Authority through the key Recovery planning stage and to set various key projects in motion. The structure of the senior team was reviewed, with four Directors appointed to lead in the areas of Finance and Resources. The Authority successfully appointed a permanent Chief Executive from April 2005. An indication of the impact of these changes will flow from the impending Progress Assessment, but we will also be undertaking a specific assessment as part of our 2005/06 work.

Notable progress in the key area of the PMF has been made following the appointment of a Recovery and Improvement Manager to increase capacity in this area. However, whilst there have been significant improvements, there are still gaps in corporate capacity.

**Decision making arrangements**

The Member/officer liaison group established as part of Recovery procedures appears to be working well and constructively. The new Constitution was approved on 31 October 2005, and this will be subject to further review during 2005/06.

**Leisure services**

Good progress has been made, and continues to be made, in a number of areas.

Proposals to outsource the main leisure facilities have been revisited following initial disappointment, with alternative proposals receiving notably improved interest from external contractors. The project is ongoing and continues to be monitored.

The review of community halls has previously been referred to under "Risk Management". Useful consultation undertaken with users further aided the development of robust options appraisals.

***Members should ensure sufficient information is provided on a timely basis to enable appropriate monitoring of delivery against the LSVT aim and ensure lessons learnt from the community halls financial and risk analysis developments are incorporated into the leisure centres' project appraisal process.***

## Aspects of performance management (continued)

### Best Value Performance Plan and Performance Indicators

An unqualified BVPP opinion will be issued in respect of the 2005 BVPP.

The audited Performance Indicators for 2004/05 were submitted to the Audit Commission on 10 October 2005, meeting the submission deadline. We were able to conclude that six of the nine 'High Risk CPA indicators' on which we were required to give a specific opinion were fairly stated. However, three CPA indicators were reserved (highlighted in bold below).

Our audit resulted in a total of 6 indicators (9%), including the 3 CPA indicators discussed above, being reserved because the Authority did not have a robust system in place for collecting the data, and therefore could not provide accurate information for the indicator. The indicators that were reserved were:

- BV62: Proportion of unfit private sector dwellings made fit or demolished by the Authority
- BV79a: Accuracy of housing and council tax benefit claims processing
- **BV183a: Average length of stay in bed and breakfast accommodation for the homeless**
- **BV199: Street cleanliness**
- BV203: Change in the number of families in temporary accommodation
- **HIP HSSA: Vacant homes for more than 6 months**

A further 23 of the 67 indicators reviewed (34%) were amended because they had been inaccurately calculated or recorded, or did not comply with the indicator definition as set out by the ODPM, but it was possible to retrospectively calculate a compliant indicator value. In addition there were a number of indicators where there were significant delays in the provision of supporting working papers for review.

These results indicate a lack of ownership within the service departments for the timely production of accurate performance indicators supported by robust evidence that fully comply with the ODPM definitions. Corporate Management Team recognise and accept the issues raised and are putting in place measures with the aim of correcting these shortcomings.

***Members should satisfy themselves that appropriate action is being taken by service departments to review and strengthen the mechanisms in place for compiling and calculating performance indicators that fully comply with ODPM definitions.***

### Financial Aspects of Corporate Governance

#### Legality

The Authority's arrangements for ensuring the legality of financial transactions are adequate and our review has not identified any significant issues that we wish to bring to your attention at the current time.

The Day of Public Rights took place on 22 July 2005 at which there were no formal objections received from members of the public in connection with the Authority's accounts.

## Financial Aspects of Corporate Governance (continued)

### Financial standing

#### Budget setting

The Authority improved its budget-setting arrangements for 2005/06 by taking a stepped approach towards priority-based budgeting. This involved services starting with prior year budgets and a continuation of service levels assumption, then putting forward proposals for service development and for savings to Members for consideration, and the redistribution of overall savings to fund priority developments. We understand that recent developments should lead to a greater alignment between service planning and budget setting, increasing the links to the Authority's priorities.

The Council Tax increase for 2004/05 was 2.98%, in line with inflation, and therefore well below the government's capping limit. The Medium Term Financial Strategy (MTFS) highlights the main cost pressure facing the Authority over the next five years to be inflation of around £350k per annum. For 2005/06 the budget includes a Council Tax increase of 4.97%, but this is anticipated to revert back to 2.98% in subsequent years. Reserves have remained above the minimum acceptable level determined by the Authority of £1m.

Our review of the revisited MTFS, Capital Strategy, Asset Management Plan and Human Resources Strategy earlier this year as part of our 2005/06 work confirmed notable improvements in linkages, but commented that these would benefit from clarification of and better reflecting Members' longer term aims, particularly specific projects and initiatives. This would also assist the move to true priority-based budgeting.

#### Budget monitoring

Monitoring arrangements have recently been improved following success in addressing a long-standing finance department capacity issue. Reports now presented appear clear, focused and accessible, using a "traffic light" system to aid their use and understanding.

The Authority reported the following outturn results for 2004/05:

#### Revenue and balances

- £89k deficit in the Consolidated Revenue Account. This represents an over spend of £63k against the original budget set, or an under spend of £461k after allowing for carry-forwards against revised budgets.
- General Fund balance of £1.782m. This reserve remains reasonable, although the financial pressures anticipated over the next three years are likely to draw upon current reserve levels but not, we understand, to below the minimum level assessed of £1m.
- net surplus on the Collection Fund of £505k which has increased the Collection Fund balance to £862k.
- £91k Housing Revenue Account deficit, reducing the fund balance to £490k.

#### Collection rates and arrears

- National Non-Domestic Rates (NNDR) and Housing Rents collection rates, 99.4% and 99.5% respectively, have both improved by comparison to the previous year. This outturn fell only marginally short of the Authority's target collection rate for NNDR of 99.6% and met the target rate for Housing Rent collection of 99.5%.
- The Council Tax collection rate of 98.0% was not only below the Authority's target of 98.5% it was also considerably reduced compared to the previous year (99.6%). This is thought, in part, to be the impact of a 'one off' diversion of resources into the implementation of the new IBS Revenues and Benefits IT system during the year, and the Authority currently anticipates the 2005/06 performance to be on track to meet the its 99% target and remain in the top quartile.
- Gross arrears levels rose in respect of Council Tax, up £135k (11%) to £1.331m, and Housing Rents, up £18k (21%) to £105k, although adequate compensatory increases were also made to the corresponding bad debt provisions.
- Levels of gross NNDR debts and sundry debtors fell compared to 2003/04 and the levels of bad debt provisions made against these debts remain adequate.

***Members should ensure recent progress is built upon and continue to provide support for the move towards longer-term, priority-based budgeting.***

### Financial Aspects of Corporate Governance (continued)

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

Our work has not identified any significant weaknesses in the Authority's arrangements for the prevention and detection of fraud and corruption and for maintaining proper standards of financial conduct.

#### Systems of internal financial control

The Statement on Internal Control (SIC) highlighted that progress is being made in developing the Authority's internal control arrangements, although some gaps were still apparent. In particular, our use of resources work, the results of the BVPI audit and review of the SIC content suggest that risk and performance management arrangements are embryonic and a significant amount of work is still required before they can be considered fully embedded. Furthermore, we have not yet received formal responses to the recommendations made in our use of resources reports, increasing the risk that timely implementation of audit recommendations will not be achieved.

Our review of Internal Audit identified a number of recommendations for improving the effectiveness of their work and the joint arrangements, particularly in relation to the documentation of their work. We were, however, able to place reliance on their work for opinion purposes, for the most part. Lack of staff in the department put pressure on Internal Audit's ability to deliver their full 2004/05 audit programme. However, the core work was delivered to a better standard than before and appropriate steps have now been taken to improve the resourcing levels and prevent further hindrance.

The introduction of the new IBS Revenues and Benefits system has given rise to a number of issues, including data transfer anomalies and testing, that have needed to be addressed both for our opinion audit of the Authority's Statement of Accounts and for our reviews of grant claims on behalf of the Audit Commission. Lessons learnt should be taken on board for any future systems changes.

#### Opinion, including financial systems

We issued an unqualified audit opinion on the financial statements on 17 October 2005, prior to the statutory deadline of 31 October 2005.

Our work on the core financial systems indicated that they were adequate as a basis for preparing accounts, although there were some control weaknesses identified, particularly the absence of regular reconciliations between the general ledger and various modules of the Academy revenues and benefits system.

Arrangements for producing complete, accurate and compliant draft financial statements and supporting working papers continue to be good. This is demonstrated by the low level of presentational changes and adjustments required to be made to the accounts as a result of audit. There were no unadjusted non-trifling misstatements requiring inclusion in our SAS610 report to 'those charged with governance'. This performance is notably good and is to be commended.

- 5.2 We have included Member recommendations on the key issues arising from our work within Appendix 1. We look forward to receiving Members' response to the recommendations arising from our work and we will monitor the implementation of the action points arising in future audits.

## 6 Audit and Inspection fees

- 6.1 We are required to disclose an analysis of the proposed and actual audit and inspection fees for the year and provide an explanation for any significant variations for each element of our work.
- 6.2 The proposed audit and inspection fees were set out in the Outline Audit and Inspection Plan 2004/05 at the start of the year.

| Audit area                                | Planned<br>2004/05<br>£ | Actual<br>2004/05<br>£ |
|---|-------------------------|------------------------|
| Accounts                                  | 53,851                  | 53,851                 |
| Financial aspects of corporate governance | 28,856                  | 28,856                 |
| Performance                               | 49,886                  | 49,886                 |
| <b>Code of Audit Practice fees</b>        | <b>132,593</b>          | <b>132,593</b>         |
| Certification of grant claims*            | 37,000                  | 48,750                 |
| <b>Total fees</b>                         | <b>169,593</b>          | <b>181,343</b>         |

\* Fees in relation to the audit of grant claims for the year ended 31 March 2004 covered by the 2004/05 Outline Audit and Inspection Plan.

- 6.3 The variance from our planned certification of grant claims fees related to delays and difficulties in obtaining the required information for auditing the Housing and Council Tax Benefit claim and changes to the format and requirements for testing the HRA Base Data Return.
- 6.4 Our planned work for the 2005/06 financial year is set out in the joint Outline Audit and Inspection Plan presented to the Scrutiny Committee on 13 December 2005. The proposed fees for 2005/06 are detailed within the Plan.

## Appendix 1 – Recommendations and Council Action Plan

These recommendations are made to Members and relate to the issues raised in this Interim Annual Audit and Inspection Letter. We have communicated detailed findings and recommendations in reports to officers during the year and a record of reports issued is shown in Appendix 2.

| Recommendation  | Council's response  | Implementation date  |
|---|---|--|
| <p><b>Use of Resources</b></p> <p>Members should ensure recently agreed actions in respect of the PMF are implemented to timescale and satisfy themselves that appropriate action is being taken to implement the recommendations from the Partnerships reviews, thus strengthening the management arrangements in place in these critical areas.</p> | <p>Members agree to monitor progress on the application of PMF through training programme.</p> <p>Members to receive a report on the number and effectiveness of partnerships currently supported.</p>  | <p>Sept 06</p> <p>Sept 06</p>  |
| <p>Ensure sufficient information is provided on a timely basis to enable appropriate monitoring of delivery against the LSVT aim.</p>   | <p>There is a project plan in place. This will be monitored through regular reports to Council and a Community Member working party will be created to manage the LSTV process. Councillor Mark Howard is Member Champion for stock transfer.</p> | <p>Quarterly, expected end date Autumn 2006 for ballot.</p>                |
| <p>Ensure lessons learnt from the community halls financial and risk analysis developments are incorporated into the leisure centres' project appraisal process.</p>  | <p>A full risk analysis will be undertaken together with lifetime costings.</p>   | <p>March 06</p>  |
| <p><b>Performance Indicators</b></p> <p>Ensure that appropriate action is being taken by service departments to review and strengthen the mechanisms in place for compiling and calculating performance indicators that fully comply with ODPM definitions.</p>   | <p>A new system is now in place. The indicators are to be audited.</p> <p>A training programme is to be established for all appropriate staff and Members and this will be completed by the end of the financial year.</p>                        | <p>March 06</p>  |
| <p><b>Financial Standing</b></p> <p>Members should ensure recent progress is built upon and continue to provide support for the move towards longer-term, priority-based budgeting.</p>   | <p>The Policy Framework and Budget Setting process for 2006/07 builds upon the progress made during 2005/06 by identifying schemes based on priorities, informed by consultation, for the years 2005/06 to 2007/08.</p>                           | <p>Report Agreed 22/2/06</p> <p>Schemes Implemented 2005/06 to 2007/08</p> |

## Appendix 2 – Audit and Inspection reports and opinions issued for 2004/05

|  |  |
|--|--|
| Outline Audit and Inspection Plan                        | February 2005                            |
| Submission and opinion relating to 2003/04 outturn BVPIs | October 2004                             |
| Opinion on 2004 Best Value Performance Plan              | December 2004                            |
| Target setting report                                    | June 2005                                |
| Performance Management Framework report                  | July 2005                                |
| Partnership Arrangements report                          | July 2005                                |
| Interim audit report                                     | Draft August 2005<br>Final November 2005 |
| SAS610 report  | September 2005                           |
| Accounts audit opinion and certificate                   | October 2005                             |