

Annual Audit and Inspection Letter

Walsall Metropolitan Borough Council

Audit 2004-2005

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- the scope of auditors' work is extended to cover not only the audit of financial statements but also value for money and the conduct of public business; and
- auditors may report aspects of their work widely to the public and other key stakeholders.

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Key messages

Overall the Council has continued to make good progress and has recently been categorised as a three-star Council which is improving well. The Council's finances are well controlled overall.

Council performance

- 1 The Council has achieved a CPA score of three stars and has been assessed as improving well in the Direction of Travel assessment. The Council's previous investment in improving the way it is managed is now delivering improved service performance, with particularly remarkable progress in children's services. Social care received an overall two-star rating.
- 2 The Council has established a sound framework for working with other partners, such as the Walsall Borough Strategic Partnership, the Health and Social Care partnership and the New Deal for Communities Partnership.
- 3 Part of the Council's overall strategy for further improvement was entering into a strategic partnership for the provision of a wide range of back office and customer-facing services, and considerable efforts have been devoted to the tendering and negotiating process. The negotiations did not, however, reach a successful conclusion, and it is important that the Council now puts into place alternative strategies for achieving service improvement in these areas. We understand that work has already commenced on this.

Accounts and governance

- 4 We gave an unqualified opinion on the accounts on 30 September 2005. The audit did not proceed as smoothly as in previous years, mainly because of the implementation of new financial systems. There will be increased pressure for the 2005/06 accounts because the deadlines for submission and audit of the annual financial statements are being brought forward again, although the Council is well placed given its record of successful early closure of the accounts.
- 5 The Council's finances are generally very well controlled. Some short-term breakdowns in control have occurred in the year, mainly due to implementation of new systems. Weaknesses were identified in payroll, creditor payments, debtors and contracting. Officers acted quickly and decisively to rectify the situation and we are happy that these weaknesses have been or are being addressed.

Action needed by the Council

- 6 We have made detailed recommendations to officers in our individual reports issued through the year. The broad message for members is to continue with the existing drive for improvement, using the Council's performance management arrangements to monitor and manage progress. More particular areas for action at present are ensuring that:
- appropriate alternative plans are firmed up for those services which were to be part of the strategic partnership;
 - action is quickly taken to improve the performance of the benefits service;
 - action is taken in response to the annual assessment of adults' services and in particular to increase the pace of change in services for older people; and
 - there is adequate control over the two major areas of grant-funded expenditure where we encountered problems this year - benefits and Sure Start.

Performance

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The Council has established a sound framework for working with other partners such as the Walsall Borough Strategic Partnership, the Health and Social Care Partnership and the New Deal for Communities Partnership.

CPA scorecard

Table 1 CPA scorecard

Element	Assessment
Direction of Travel judgement	Improving well
Overall	***
Current performance	out of 4
Children and young people	3
Social care (adults)	2
Use of resources	3
Housing	3
Environment	3
Culture	2
Benefits	2
Corporate assessment/capacity to improve (reassessed in April 2005)	3 out of 4

(Note: 1=lowest, 4= highest)

- 7 The CPA judgements this year have been made using the revised methodology: CPA - the harder test. As the title implies CPA is now a more stringent test with more emphasis on outcomes for local people and value for money. We have also added a new dimension, a Direction of Travel judgement that measures how well the Council is improving. Under the new framework the Council is improving well and its overall CPA category is three stars.

- 8 The scorecard text which was published alongside the new CPA categorisation is reproduced below. This was published at a time when negotiations on the strategic partnership were continuing. We understand that the Council is now developing plans for alternative approaches, building on work undertaken as part of developing the strategic partnership. Options being considered for the benefits service, for example, include working with an outside organisation to improve performance, building on the work done to implement new systems and processes in the service.
- 9 The Council has continued to make significant progress in its priority services and has robust plans in place to improve services for local people. Services for children have continued to improve, with an independent assessment for children's social care. Improvement has also been made in social care for adults, but the pace of change in older people's services needs to increase.
- 10 The benefits service has deteriorated; it is taking longer to process claims and the overall rating has reduced. The Council plans to address this through the partnership it is entering into with an outside organisation to provide many of its customer-facing and administrative services.
- 11 The Council continues to have a clear focus on improvement supported by a good planning framework which ensures that resources are directed towards priority areas. It plans are based on increasingly effective community involvement, including hard to reach groups. The Council's ability to improve is being strengthened by strong working with partner agencies and effective arrangements to monitor service performance and take any necessary remedial action. Resources continue to be well managed.

Direction of Travel report

Improving outcomes

- 12 The Council has continued to improve outcomes for citizens and service users, with previous improvements to the way the Council is managed increasingly leading to real improvements to services. The improvements are not yet universal and in some cases significant further improvement is required, but the overall picture is very encouraging. Table 2 shows that more than half of the key service performance indicators improved in 2004/05, compared with 2002/03, and also shows the variation between services, although this is a crude measure, especially where small numbers of indicators are included for some services.

Table 2 Core service PIs

Service area	Percentage improved	Percentage in best quartile	Percentage in worst quartile
Education	64	10	48
Social care	20	31	15
Environment	56	26	16
Housing	100	75	0
Community safety	100	50	0
Capacity	50	13	33
Culture	17	13	25
Overall	54	22	26

Note improvement is measured over two years ie comparison of 2004/05 with 2003/04. Source Audit Commission PI pack v3.00 (Nov 2005)

Children's services

- 13 The transformation of children's services in Walsall has been remarkable. Both education and social care were in their own right the subject of government intervention in 2001 due to poor performance, but the overall assessment from Ofsted and the Commission for Social Care Inspection is now that Walsall's children's services are consistently delivering above minimum requirements for users. This builds on the 2004 Ofsted inspection which concluded that education provision in the Borough was highly satisfactory.

- 14 The most recent assessment identified improvements made in many areas, including:
- improvements to child protection arrangements;
 - improved support for looked after children;
 - a range of improvements in educational attainment at all levels; and
 - progress in improving school attendance.
- 15 The assessment commented that the Council is already aware of the areas needing further improvement. These include:
- continuing work to reduce the number of children looked after and also the proportion of those children who are placed outside the Borough;
 - improve services for children with disabilities;
 - continuing to work to improve educational attainment, particularly at Key Stages 3 and 4;
 - implementation of the action plan arising from the youth service inspection; and
 - reducing the numbers of young people who are not in education, employment or training.

Adult services

- 16 The Council's social care for adults was assessed as 2 out of 4 for CPA purposes – meeting minimum requirements. The service is undergoing a modernisation process to achieve further improvements. The assessment commented favourably on the effective management of transfers from hospital, closer working with the health service and successful integration of learning disability and mental health services. A wider range of specialist services has been established for older people, and there is increased service take-up from ethnic communities.
- 17 While commenting on the need to ensure service provision continues smoothly during the remainder of the modernisation period, the assessment also highlights other areas for improvement, including improving the range of intermediate care services and developing additional support services for carers.

Benefits

- 18 The performance of the Council's benefits service has deteriorated, with the Benefits Fraud Inspectorate scoring the service as 2 out of 4 for CPA purposes. The time taken to process new claims increased from 46 days in 2003/04 to 69 days in 2005/05, while there was a similar deterioration for processing changes of circumstances. The service was intended to be part of the strategic partnership and the Council is currently considering options to work with an outside organisation to improve performance, building on the existing investment in new systems and processes.

Other areas

- 19 Working with partners, the Council has secured substantial decreases in some types of crime. Domestic burglaries, robberies and vehicle-related crimes have fallen, but there have been small increases in violent crime and sexual offences. Various measures have been taken to reduce crime and anti-social behaviour, including the 'Ready, Steady Summer' programme for young people and work with drug-dependent offenders.
- 20 Improvements have been secured in environment-related services. Replacement of street lighting has continued and the condition of roads has improved with over 50 kilometres of roads resurfaced in each of 2004/05 and 2005/06. Kerbside recycling has been extended, resulting in improved recycling performance, although Walsall's recycling performance was only slightly above average in 2004/05 and the volume of waste collected increased. Improvements have been made to recovery of abandoned vehicles and dealing with fly tipping.
- 21 There have also been improvements in community housing services, with key indicators for homelessness improving and in the best quartile.
- 22 The Council has worked hard on community cohesion, with a number of significant initiatives organised with partners, including the STAR (standing together against racism) programme and engagement with hard to reach groups through, for example, Youth Opinions Unite.
- 23 The Council's score for use of resources was 3 out of 4. This now features to a significant degree in the overall CPA categorisation and, for the first time, includes an assessment of value for money.

Satisfaction

- 24 The Council has worked hard to measure and improve the satisfaction of local residents. At the time of the last statutory best value survey in 2004, satisfaction levels remained low. A new survey in May 2005, piloting the ODPM tracker survey approach, indicated considerable improvements. Although not strictly comparable with the 2004 survey, the results give a positive picture with overall satisfaction rated as 56 per cent (34 per cent in 2004).

Plans for future improvement

Plans and strategies

- 25 The Council's planning framework helps ensure that resources are directed to priority areas. The 2005 corporate assessment found that the Council's ambitions were clearly set out in its plans, with clear prioritisation and an intense focus on improving public services. The Council's plans reflect a clear understanding of the challenges faced and are rooted in consultation and owned by partners.

- 26 The Council has continued to develop its 'corporate integrated planning and performance framework' which brings together the hierarchy of service plans with financial plans, risk management and performance management arrangements. The way that planning and monitoring processes are brought together provides a good basis for further improvement in performance.
- 27 Local Neighbourhood Partnerships have continued to develop during the year, with outline partnership plans developed in all nine. These link into the corporate planning framework and the community plan.
- 28 The Council has a good track record of implementation of its plans. Of the 37 pledges made for 2004/05, more than two-thirds had been met and the remainder were partially met. Within 2005/06, 68 per cent of the Beacon PIs were on track after the first quarter to meet the annual target, and action was being taken to improve those indicators where performance was not on target.
- 29 We identified your medium-term financial strategy and related processes as particularly strong and included them in the Audit Commission's national database of good practice.

Improving value for money

- 30 The Council has made significant improvement to its arrangements for achieving value-for-money, although it cannot yet demonstrate that value-for-money is being consistently achieved. More detail is included in the 'use of resources' section of this letter.

Performance management

- 31 The Council has continued to improve the way it monitors performance and drives improvement. The 2005 corporate assessment noted that performance management had improved with members playing a more effective role. These improvements have continued through 2005, with a key focus continuing to be the 'Beacon' basket of performance indicators, which was reviewed for 2005/06. External assessments have generally commented favourably on performance management arrangements, although their effectiveness is questioned in the adult social care assessment.

Capacity

- 32 The 2005 corporate assessment commented that there is good capacity within the Council, with strong corporate management, good staff morale and a 'can do together' culture. Strong corporate management has continued through 2005, with some important changes such as the appointment of a new director for children's services and reorganisation of other executive director responsibilities to achieve, for example, the bringing together of adult social care and housing.

- 33** The Council has been working very hard to enhance its capacity by entering into a strategic partnership with Fujitsu, the preferred bidder selected through a tendering process. However, it has not been possible to conclude negotiations and the Council now needs to review other options for achieving the necessary investment and service improvement in the services which were to be part of the partnership. We understand that this has commenced and the draft capital programme for 2006/07 onwards includes use of the prudential code to fund investment in ICT and enabling infrastructure.
- 34** The Council does work effectively with many other partners. The improvements in the education service have been founded on partnership working with its external partner Serco, while the children's services annual assessment also highlights strong partnership working to deliver the 14 to 19 strategy and in aspects of children's social care including the Area Child Protection Committee. The Council is also working well with partners to improve adult social care.
- 35** The Council has experienced recruitment difficulties in some areas, resulting in a high dependency on agency staff in children's social care. Officers are aware of the risks arising from this and continue to work to reduce this reliance.

Other performance work

Community associations and delegated budgets

- 36** We identified an audit risk in relation to the way that the Council allocated funds to community associations and monitored the effectiveness of delivery. We therefore carried out a review to complement your own review of this area. Our findings are summarised below.

Strategic approach

- 37** At a strategic level the Council is now clear about what it wants to achieve with its youth service: it wants to focus its resources on the 13 to 19 age range, and it wants the funding to 'follow' young people. It has underpinned this by publishing its first curriculum framework for youth work. It has yet to decide on the details of its funding formula and on the precise model for service delivery. The Council is less clear about its strategic approach to community development.

Allocation of funding

- 38** Current arrangements for allocating funding to community associations are not robust, and there is evidence that delegated funding is not always being spent in line with strategic requirements. Existing service level agreements are weak, and the Council recognises this. A project appraisal process has recently been introduced, which has the potential to provide a much more robust link between strategic aims and service delivery, although further work needs to be done to ensure that costs are adequately accounted for. Outcomes and performance targets will need to be clearly specified in SLAs.

Monitoring arrangements

- 39 The Council has strengthened its performance management and quality assurance arrangements by publishing and implementing a quality assurance framework. Service delivery by the community associations is now being monitored by a combination of qualitative and quantitative assessment. These arrangements, which will need to be included in the SLAs, are expected to evolve further, as the Council develops and embeds its project-based approach to delegated funding. In addition, the Council should review its internal reporting arrangements to enable senior managers and members to review progress against strategic objectives. Audit arrangements for CAs are in place, however the Council is not maintaining an up-to-date and complete record of key CA documents, such as statements of accounts and minutes of meetings.

Partnerships and governance

- 40 With the increasing emphasis on partnership working we considered in detail how the Council is developing its planning, governance and performance management process for the future. We did this by considering three partnership areas.

Walsall Borough Strategic Partnership

- 41 The partnership's commissioning approach to allocating neighbourhood renewal funding is good practice, in that it allows resources to be allocated in a much more strategic way, with broader outcomes for the borough, and has the potential to more effectively engage mainstream funding. The Council is playing a positive and supportive role on the partnership.
- 42 Arrangements for decision making are sound. There is a comprehensive framework for commissioning, meetings are effectively minuted and reports and minutes are publicly available on the internet. Financial monitoring reports are of high quality. There is scope to improve the service level agreements that underpin commissions and to make more effective use of performance information. The partnership needed to identify the reasons for underspend in 2004/05 and, if appropriate, strengthen programme management arrangements. We understand that this has now been done.

Health and Social Care Partnership

- 43 The revised partnership and executive structures in social care and health provide a clear focus for strategic and user focused oversight, alongside much clearer decision making and performance management arrangements. Joint working between the Council and tPCT is developing strongly, and the new partnership structures have considerable potential to help deliver better, more joined up and more user focused services.

- 44 There is potential for the partnership to learn from the learning disability service, where partnering and service integration is well established and where users, carers and stakeholders are effectively engaged. Now that the partnership and executive structures have been put in place, a key next step is to develop the joint strategies that will shape service delivery.

Walsall New Deal for Communities

- 45 Following a difficult year in 2003, the Walsall New Deal for Communities has made good progress with improving its governance arrangements, and internal audit recommendations have been implemented. Financial reporting has significantly improved. Projects are progressing as expected and the Blakenall village centre opened in June 2005.
- 46 The Council is carrying out its accountable body role effectively. An accountable body agreement is now in place. Senior council officers attend the New Deal Board as observers and have worked hard to develop understanding about respective roles and responsibilities. Nevertheless, tensions remain and both the Council and New Deal need to ensure that these are effectively managed.

Putting the Citizen First project

- 47 During the period covered by this letter, the Council was continuing to negotiate with its preferred partner in order to finalise this major strategic partnership. The contract was initially intended to commence on 1 April 2005 but this was not achieved due to the Council's correct decision not to sign the contract until it was entirely satisfied with the terms and conditions. At the end of 2005, an affordability gap remained and it has not been possible to negotiate a solution. The Council is therefore no longer in negotiations and is considering other options.
- 48 Nevertheless, the proposed contract formed a key focus for our work during the year. We have kept a watching brief on progress and have raised issues about aspects of the contract conditions, the service specifications, the role of internal audit post contract and the strength of the client monitoring team. At the request of the audit committee we have given our views to the committee on the issues which needed to be addressed. We had also been working with Internal Audit and the prospective contractor to agree the appropriate internal and external audit arrangements needed once the contract came into force. Our work has not identified any issues of major concern in the way the procurement was being carried out.

Performance information

- 49 Our audit of performance indicators and the Best Value Performance Plan resulted in fewer amendments and reservations than in previous years. This was because officers had generally prepared better supporting working papers. In addition some training had been provided to officers during the year. There has also been an enhancement of the internal quality assurance processes in some directorates which should be replicated in all areas of the Council.
- 50 We gave an unqualified opinion on your Best Value Performance Plan in December 2005.

Use of resources assessment

- 51 As part of 'CPA - the harder test' the Audit Commission introduced a new assessment to measure the Council's use of resources. It builds on the previous 'auditor scored judgements' but includes tougher scoring criteria and now also assesses value for money.
- 52 The assessment comprises five elements:
- financial reporting – the preparation, accuracy and publication of annual accounts;
 - financial management – the preparation of financial plans (MTFS, decision conferencing), budgeting and budgetary control;
 - financial standing – the soundness of the basis of the Council's financial position (are MTFS targets met, are there sufficient resources to deliver/meet the Council's spending decisions);
 - internal control – the way in which the Council has established governance structures which enable it to meet its obligations effectively to control the use of public funds; and
 - value for money – how the Council's services can be seen to be providing good value for taxpayers and service users.
- 53 The elements are scored on a range of 1 (poor) to 4 (good practice).
- 54 Auditors were also asked to identify elements of good practice which could be used by the Audit Commission and other auditors to help other Council's progress. At Walsall we identified two such areas:
- the combined medium-term financial strategy and decision conferencing and budget preparation processes which have been at the heart of the Council's improvement; and
 - the use of cost sharing between the Council, West Midlands Fire Service and your insurers (Zurich Municipal) for a senior fire officer to carry out fire risk assessment.

- 55 The Council gained an overall score of 3 (the maximum being 4) which compares favourably with many authorities.
- 56 The scores for individual elements are set out below.

Table 3 Use of Resources

Walsall achieved an overall score of 3

Element	Score
Financial reporting	2
Financial management	3
Financial standing	3
Internal control	3
Value for money	2

Use of resources summary scores

- 57 Key actions needed to achieve improved scores are as follows.
- Performance management systems should ensure that there is a clear link between the use of the asset base and the delivery of objectives.
 - Review the way in which capital projects are managed to ensure effective delivery. This has been identified as a corporate risk (No 18).
 - Review the control of grant funded projects to ensure that the Council is aware of any significant problem areas that may arise. This has already been raised in relation to Sure Start and was also a concern for us in relation to the benefit subsidy claim.
 - Continue to enhance the Council's counter fraud culture by ensuring that there is greater understanding of, and compliance with, CPRs and FPRs across the whole Council. These are currently being updated and a training programme is planned.
 - Review the effectiveness of the Council's whistleblowing processes.
 - Review partnership agreements to ensure they are kept up-to-date and ensure officers are aware of the accountability and governance issues.
 - Enhance community wide satisfaction by increasing the level of community understanding of what the Council does and how it provides value for money.
 - Further develop the use of project management and ensure that it is effectively applied to capital projects next year.
 - Whole life cost implications should be applied to all major decisions.
 - There needs to be further development of procurement into a corporate tool. This should include ensuring compliance.

Accounts and governance

We gave an unqualified opinion on the accounts on 30 September 2005.

Further improvement is needed in the preparation of evidence to support all the figures in the accounts as the deadlines for submission and audit of the annual financial statements continue to be brought forward and next year the Council will have to submit information for the preparation of whole of government accounts.

Audit of 2004/05 accounts

- 58 We gave an unqualified opinion on the Council's accounts on 30 September 2005.

Report to those with responsibility for governance in the Council

- 59 We are required by professional standards to report to those charged with governance (in this case to the Audit Committee) certain matters before we give an opinion on the financial statements. This report was given to the Audit Committee before their consideration of the accounts at its meeting on 30 September. We raised a number of significant issues for the consideration of the Committee. The significant matters reported were as follows.
- Provisions in the accounts were reduced by a total of £548,000 as we agreed with management that the circumstances which caused the provision to be created were no longer applicable.
 - £384,000 in relation to a limestone works project had been included in debtors when the grant funding body had informed the Council that additional funding to cover this amount would not be agreed until the Council had completed a survey to justify the expenditure. In this particular case the original grant allocation had been exceeded without formal request for additional approval to spend. The Council has asked for but not yet received additional approval. English Partnerships has granted retrospective approvals in the past and management feel that it is not unrealistic that this current request will be approved.
- 60 The following technical adjustments were reported although they had no net impact on the accounts.
- At the start of the audit management drew to our attention an error of £2.43 million which affected both debtors and creditors equally.
 - A total of £4.16 million was shown as un-presented cheques in the balance sheet which were actually creditors.
 - £456,000 in relation to a European Social Fund grant had been incorrectly included in income and expenditure.

- 61 In addition we reported on some issues which related to the management of grant claims, including expenditure incurred on Sure Start schemes. For some of these claims, instalments of grant had been withheld because of the late submission for audit of 2003/04 grant claims. This grant claim is administered by the Council's education partner. This delay was partly due to problems with the national Sure Start unit's computer systems but in all the Council had incurred expenditure of over £2.9 million in 2004/05 with a loss of interest to the Council estimated to be £137,000. In 2005/06 there is £5.7 million grant owing for the first half of the financial year. This had not been identified by the budgetary control processes in a timely way to enable action to be taken. All these schemes have now been audited and grant receipt is expected imminently.

Other matters arising from the final accounts audit

- 62 The published accounts are an essential means by which the Council reports its stewardship of the public funds at its disposal and its financial performance in the use of those resources. The Audit Committee approved the Council's annual accounts on 30 September 2005.
- 63 The audit of the financial statements was more difficult than in previous years. We discussed this with management as the audit progressed and we have jointly agreed that the reasons for this have been as follows.
- The change from LAFIS to Oracle Financials. All changes in major computer systems result a steep learning curve for all those using them. This resulted in management taking slightly longer than usual to close the accounts and auditors taking longer than usual to understand the different way in which information was presented. The accounts were still completed well within the statutory timescales and with one year's experience this should not be a major problem next year.
 - As a result of the later close down, a small proportion of the initial working papers were not adequate to support the figures in the accounts.
 - Some Council staff key to our audit were on annual leave when we were trying to carry out the majority of our audit work in August. Adequate working papers would have reduced the problems which arose from this issue. We have discussed this with management and are developing a comprehensive, minimum standard set of working papers.
- 64 We have been informed by management that the issues which have arisen have been noted and that specific action and training plans have been put in place.

Financial standing

The Council's financial position at 31 March 2005 was sound and in line with the medium-term financial strategy and this has continued through 2005/06.

General fund spending and balances

- 65 While the Council's overall financial position is sound, a potential overspend was identified for 2005/06 and action is being taken to prevent this. In October 2005, Cabinet was informed that there was a likely over spend of £1.3 million on revenue. By November, this had grown to a forecast overspend of £2.3 million. However, the current forecast overspend has reduced to £0.5 million, evidencing the overall sound financial management and prompt and robust budgetary control.
- 66 The Executive Director (corporate services) has ensured that plans are put in place to address this remaining overspend.

School balances

- 67 Last year we commented on the level of school balances and particularly that a small number of schools had significant deficits. The balances overall have increased from £808,000 last year to £3,275,000 this year. Action plans have been developed in conjunction with your education partner and the level of significant deficits has reduced.

Income collection and arrears

- 68 Last year we also commented on the high level of debtors. These still remain an issue which needs to be addressed. Overall debtors increased from £37,623,000 to £55,643,000. The main reasons for the increases were a 60 per cent increase in government departments debtors (mainly due to capital grants which were paid after the year end) and a 38 per cent increase in general debtors. There is a significant provision to cover these debts but the Council still needs to increase its efforts to reduce the overall level.
- 69 With regard to specific categories of debt, council tax and NNDR debts showed a stable position in 2004/05, although the implementation of new systems has led to lower recovery rates so far in 2005/06. Council tax debt stood at just over £6 million on 31 March 2005, approximately 6 per cent of the debit. The best value indicator for percentage collected placed the Council in the second quartile in 2004/05 and, once adjusted for deprivation, the top quartile. The comparative position is not as good for non-domestic rates, however. While recovery improved in 2004/05 (arrears decreasing from 3.6 per cent to 3.5 per cent of the debit), performance remains in the worst quartile.

Systems of internal financial control

- 70 Overall, the Council's system of internal control is sound. Internal Audit identified a number of key financial systems in 2004/05 which were not as well controlled as they and we would have expected. The main ones were:
- payroll;
 - creditor payments; and
 - debtors.
- 71 Considerable effort was made to quickly rectify the major control weaknesses so that by the time we came to give our opinion on the financial statements both they and we were satisfied that the control environment had been strengthened.
- 72 We have discussed this with management and Internal Audit and concluded that the pressures of change brought about by the introduction of a new ledger system and a new payroll system had created a temporary work overload which had led to a reduction in management control and supervision in the areas affected.
- 73 In their review of tendering for a range of revenue contracts, Internal Audit identified that, in some cases, officers were not fully implementing contract procedure rules. These rules form the basis on which the Council can demonstrate accountability in the use of public funds and as such should be followed at all times. The Council needs to ensure that all relevant staff are aware of the appropriate process they need to follow.

Internal Audit

- 74 We have continued to develop our working relationship with the Council's Internal Audit and have carried out some joint working in relation to Neighbourhood Renewal Funds and the strategic partnership. Both sets of auditors feel that this is the best way to maximise the total audit resources available to the Council.
- 75 In our audit planning we sought to place as much reliance as possible on the work of internal audit. They have adopted a new risk methodology based on five factors:
- criticality of service delivery;
 - reputation;
 - financial consequences;
 - established controls; and
 - corporate objectives.

- 76 Last year we commented that the overall conclusions on internal audit reports needed more clarity. IA reporting is robust with the overall audit opinion on each audit being clearly categorised into:
- good;
 - adequate;
 - poor; or
 - unsatisfactory.
- 77 This relatively minor change in reporting style had helped focus the attention of service managers on the actions needed.
- 78 We continue to be satisfied with the standard and range of internal audit work which meets expected professional standards and provides the S151 officer and the Council with the assurance needed. As a result, we continue to be able to place reliance on the work of Internal Audit and this enables us to reduce our own audit procedures.

Audit Committee

- 79 During the year the Audit Committee has continued to develop its role and is very supportive of auditors and risk managers. The committee has received additional training on risk management and risk awareness.
- 80 There has been a continuing concern about the level of implementation of agreed internal audit recommendations. The committee has now taken the decision to invite managers to attend the committee to explain their reasons for non-implementation. This initiative should help to reinforce the Council's commitment to ensuring high standards of governance throughout.

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

- 81 We have not identified any significant weaknesses in your arrangements to prevent and detect fraud and corruption.
- 82 Internal Audit have carried out a wide ranging review of revenue contracting processes which has identified a number of shortcomings in the way in which contracts are let. Some of the issues relate to missed opportunity to obtain value for money but many relate to failures to follow good tendering and contracting processes or to follow the Council's own CPRs.
- 83 The Council takes seriously all allegations of fraud and these are investigated by Internal Audit. In addition, there is a small benefits fraud team who use monthly DWP data and who also use the Audit Commission's National Fraud Initiative data. Using this, the team identified that an elected member had incorrectly claimed benefits. The Council quite properly took the case to an eventual successful prosecution.

Legality of transactions

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

Grant claims

- 85** 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.
- 86** The Council's arrangements for managing and quality assuring grant claims submitted for audit have improved in recent years and the Council has invested in training of officers responsible for the management of grant funding and the submission of grant claims for audit.
- 87** There are two significant areas of concern. Last year, the claims for Sure Start schemes were submitted for audit several months after the due date. As a result, we were unable to complete the audits by the required time and the Council suffered a cash flow loss. This has been repeated in the current year and of the 11 Sure Start claims we should have received for audit by 31 July 2005 we have still (in December) received only 5. We have had discussions with council officers to ensure that your education partner, which is responsible for submission of the claims, move this forward for the future.
- 88** The audit of the 2004/05 housing and council tax subsidy claim has been protracted but is now completed. Overall we identified ineligible expenditure in this claim of about £500,000 but this was offset by an error of £750,000 in the preparation of the claim so the Council has ended up a net £250,000 better off than it originally expected. We have discussed the reasons for the higher than usual level of errors and have identified the following:
- the pressures caused by the introduction of a new system in July 2005;
 - loss of key staff; and
 - extensive use of agency staff.
- 89** The Council needs to ensure that all grant funded expenditure is managed effectively at all times by properly experienced staff.

Looking forwards

Future audit and inspection work

- 90** We have an agreed plan for 2005/06. The work arising from 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.
- 91** 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

- 92** The statutory requirements governing our audit work, are contained in:
- the Audit Commission Act 1998; and
 - the Code of Audit Practice (the Code).
- 93** 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 Audit Committee in April 2005. 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

- 94** This letter has been discussed and agreed with the Executive Director (corporate services) who holds the post of Chief Finance Officer, on behalf of the Council. A copy of the letter will be presented at the Audit Committee on 27 February 2006. A copy will also be emailed to each councillor by the above Executive Director.
- 95** 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 considerable assistance and co-operation we have received from both officers and members.

Availability of this letter

- 96** This letter will be published on the Audit Commission's website at www.audit-commission.gov.uk, and also on the Council's website.

John Gregory
District Auditor and Relationship Manager

January 2006

Appendix 1 – Background to this letter

The purpose of this letter

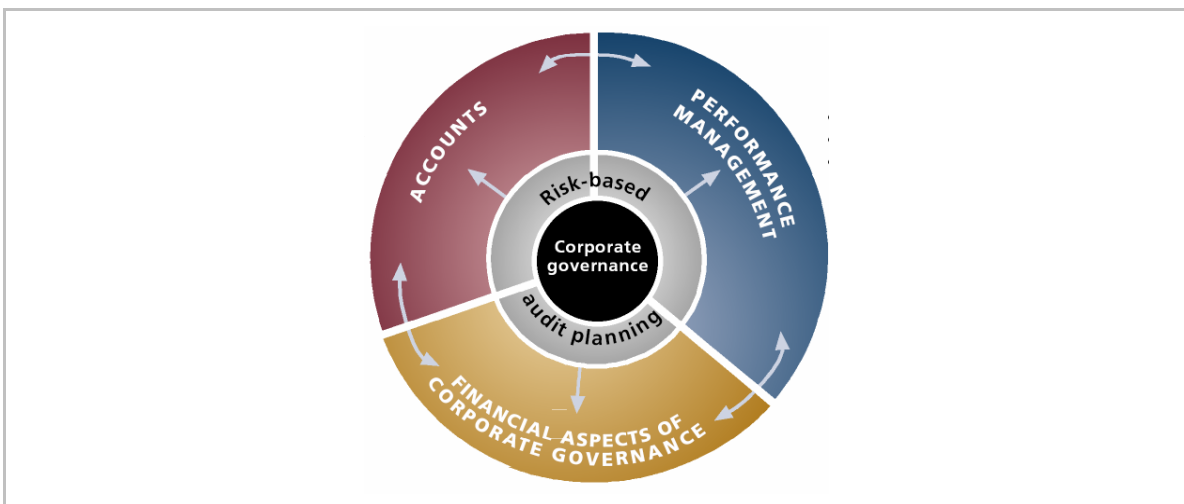
- 1 This is our Audit and Inspection 'Annual Letter' for members which incorporates the Annual Audit Letter for 2004/05, which is presented by the Council's Relationship Manager and District Auditor. The letter summarises the conclusions and significant issues arising from our recent audit and inspections 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.

Appendix 2 – Audit reports issued

Table 4

Report title	Date issued
Audit Plan	March 2005
Interim Memorandum	July 2005
Report on the 2004/05 Financial Statements to those Charged with Governance (SAS 610)	September 2005
Putting the Citizen First	Several reports December 2004 to July 2005
Nurrcis and Fiscom	July 2005
BVP 109	June 2005
Sure Start	October 2005
Audit of Grant Claims	July 2005
Final Accounts Detailed Report	October 2005
Community Associations	March 2005
Partnerships and Governance	May 2005
Oracle Financials	August 2005
Corporate Assessment 2005	May 2005

Appendix 3 – Audit fee

Table 5 Audit fee update

Audit area	Plan 2004/05	Actual 2004/05
Accounts	£95,000	£105,000
Financial aspects of corporate governance	£95,000	£85,000
Performance	£130,000	£130,000
Total Code of Audit Practice fee	£320,000	£320,000
Additional voluntary work (under section 35)	Nil	Nil
Total	£320,000	£320,000

- 8 Following the Council's categorisation of three stars, we will apply the principles of strategic regulation by reducing the audit and inspection fee for 2006/07.

Inspection fee update

- 9 The full year inspection fee is £72,000. 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.