

## Annual Audit and Inspection Letter

### Walsall Metropolitan Borough Council

#### INSIDE THIS LETTER

##### PAGES 2 – 15

- Executive summary
- Key messages
- Council performance
- Accounts and governance
- Other work
- Looking forwards
- Closing remarks

##### PAGES 16 – 19

#### Appendices

- Appendix 1 – Audit and inspection reports issued
- Appendix 2 – Scope of audit and inspection
- Appendix 3 – Audit and inspection fees

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## Executive summary

### The purpose of this letter

This is our audit and inspection 'Annual Letter' for Members which incorporates the Annual Audit Letter for 2003/04, and is presented by the Council's Relationship Manager and District Auditor. The letter summarises the conclusions and significant issues arising from our recent audit and inspections of the council.

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

Appendix 2 sets out the scope of audit and inspection.

Appendix 3 provides information about the fees charged.

## Key messages

### Council performance

The Council has continued to make significant progress over the past year. The corporate assessment report in March 2004 commented that the rate of improvement was rapid and that the council has travelled a long way since the findings of the Corporate Governance Inspection of 2001. Since then, improvements have continued, with notable achievements including:

- the Autumn 2004 Ofsted inspection, which rated your education service as 'highly satisfactory';
- implementation of Local Neighbourhood Partnerships to enhance citizen involvement at local level;
- some important achievements in your environmental services, with 'excellent prospects' of further improvement;
- rapid progress with the 'putting the citizen first' project; and
- further improvement in our judgement on the council's use of resources, which now scores the maximum of 4.

The recent update of scores under the Audit commission's comprehensive performance assessment (CPA) process rated Walsall as a 'weak' authority, having improved from 'poor' in 2003, and scores for some key service areas have improved significantly. The current 'weak' category is disputed by the council.

### The accounts

We gave an unqualified opinion on the council's accounts on 30 September 2004 as planned. There were a number of issues to be addressed and the executive director has taken appropriate action.

### Financial position

The council's financial position is sound. There was a surplus of £3.3 million on the consolidated revenue account for the year (1 per cent of net revenue expenditure) and the general fund balance stood at £6.7 million at 31 March which is ahead of the figure required in the medium term financial strategy.

The current financial position for 2004/05 shows that the Council is on target to meet its spending plans.

### Other accounts and governance issues

Your overall corporate governance arrangements are satisfactory in most key areas. We identified a need for further improvement in some areas and officers have taken action to address weaknesses.

### Action needed by the Council

You can demonstrate considerable achievements in a short space of time and we expect you to continue to move forward in a way which:

- is structured – your current improvement plans already provide a sound basis for moving forward;

- is sustainable – you need to ensure that you plan for the long-term continuation of improvements beyond the gains currently being made;
- safeguards probity – continues to adopt high standards of probity whilst seeking to achieve improvements;
- is outward-facing – you have already made good progress in improving the way you work with other authorities, partnerships and agencies, and need to continue with this; and
- focuses on improvements to the services experienced by the people of the Borough – this is what will enhance the council's reputation which has not yet improved in all areas to match the improvements to the way the council works.

## Council performance

*Walsall's overall categorisation under the comprehensive performance assessment is 'weak'. The council's ability to improve and the standard of its services have both improved significantly.*

### CPA scorecard

*An updated CPA scorecard was published on 16 December 2004, indicating that Walsall is a 'weak' authority. Service scores improved in education, housing and use of resources.*

Element	Score (December 2004)	Score (May 2004)
Overall	weak	weak
Current performance:	(out of 4)	(out of 4)
education	3	2
housing	2	1
use of resources	4	3
social care (children)	2	2
social care (adults)	2	2
benefits	3	3
environment	2	2
libraries & leisure	2	2
Council ability	2	2

*(Note: 1=lowest, 4=highest)*

The council has made significant improvements to the way it works and many of its services over the last year.

Walsall's education service has now been judged highly satisfactory in an independent review. There has been good progress in a relatively short time, but the council and its education partner realise that much remains to be done to improve attainment.

The housing services which the council still runs are improving, with particular improvement in services for the homeless.

Environmental services have improved significantly and are well placed to improve further as a result of investment in road repairs, composting and recycling.

Walsall again has 'one star' for its social services and they are improving steadily.

The council has improved many aspects of the way it is managed. It has set up new arrangements for involving local communities and working with other organisations at a local level. It has maintained its very strong focus on improving services.

Based on Walsall's current plans, the council has the potential to significantly improve the way it works and the services it provides to local people.

## CPA improvement report

Walsall has made significant improvements to its services and ways of working over the past year. Following its corporate assessment in February 2004, its categorisation improved to 'weak'. This is subject to legal challenge by the council. In December 2004, the overall categorisation remained as weak although there were significant improvements in service scores, particularly for education, housing and use of resources.

### Background

The corporate assessment carried out in February 2004 was the first such assessment at Walsall. It did not have one at the same time as all other single tier and county authorities in 2002 because at that time the council had already been subject to a corporate governance inspection. The categorisation published in May 2004 following the corporate assessment was the first time that Walsall's performance had been based on the full range of service scores and council ability score.

The corporate assessment found that the council 'has travelled a long way since it was described as the worst council in England' and that its current rate of improvement was rapid. As a result of the council's recategorisation, the ODPM monitoring has moved to a 'light touch' arrangement.

The Council produced a comprehensive improvement plan following the corporate assessment. This report is now commenting on the progress which the council has made since the corporate assessment and on the performance of core services.

### Ambition and priorities

The corporate assessment report commented very favourably on the council's drive and hunger to improve, and on its clear, recent, aspirations. Since then, the clear ambitions set out in Vision '2008' have been developed further and work is underway to translate the vision into specific objectives for 2005 and beyond. The strong political and managerial leadership has continued, with the local election results in June 2004 creating a period of stability.

The council has been working hard to develop its community leadership role during 2004. It has worked with partners to increase the effectiveness of the Walsall Borough Strategic Partnership and has set up local neighbourhood partnerships (LNPs) to improve community leadership at local level.

The corporate assessment commented that the council's priorities are based on effective and comprehensive consultation with the communities of Walsall. This process of prioritisation is continuing as the specific pledges for future years are developed.

### Capacity

The council has continued to increase its capacity during 2004. Important gaps in the council's management structure have been filled, while the executive management team established in 2003 has remained stable through 2004. The local election results in June 2004 allowed a number of experienced executive members, including the leader of the council, to remain in position.

The council has also increased capacity by working through outside organisations. An urban regeneration company for Walsall has been established and the council is working effectively with key partners such as Education Walsall (SERCO) (education provider) and the main housing providers. Effective working between the council and Education Walsall is one of the main reasons for the success of the education services, as assessed in the recent Ofsted report.

### Performance management

The corporate assessment found that the council had an established performance management framework which was increasingly challenging areas of unsatisfactory performance. Since then the system has been further refined and better resourced.

The council did not achieve a significant number of its performance targets (BVPIs) in 2003/04 and achievement of more of these in 2004/05 will be a key test of the effectiveness of performance management.

The council's risk management processes are sound and have become more embedded during 2004. Risk awareness at both member and officer level has increased, and the management of risk is embraced in key mainstream activities such as project management and service and financial planning.

### Investment

The council had already put in place most of the necessary 'building blocks' at the time of the corporate assessment, and had many strengths in these areas. Since then, it has continued to develop in areas such as IT. The 'putting the citizen first' project has continued through 2004 and is expected to result in the council entering into a major strategic partnership during 2005 for the provision of many support services.

The council has continued to make financial investments in improving priority areas, having in some cases successfully obtained external funding. One example is investment in waste management, especially the expansion of recycling through the kerbside collection of dry recyclables.

It is using new prudential code powers to borrow to invest in highways improvement, a recognised improvement need.

The council has continued to demonstrate a responsiveness to external challenge, despite the very substantial demands arising from this external challenge in the past year. One example is the way the council responded to our inspection of housing in February 2004, enabling it to increase its score from 'poor' to 'fair' in nine months.

### Achievement

Overall, the council's services have improved significantly, although this is not yet fully reflected in best value performance indicators (BVPIs), which measure levels of performance up to March 2004. In 2003/04, 44 per cent of comparable BVPIs improved. Significant improvements include areas such as school exclusions, road safety and council tax collection. Analysis across service areas shows a fairly consistent pattern of improvement (Exhibit 1).

The benefits service, which had the worst record of improvement in 2003/04, has seen significant improvements in 2004/05, although these have not yet been audited.

#### EXHIBIT 1 BVPIs BY SERVICE

Area	% improved	% best quartile	% worst quartile
Education	65	18	50
Social care*	60	23	0
Housing	33	33	0
Environment	45	31	27
Benefits	10	8	33
Use of resources	42	33	25
Libraries and leisure	36	18	27
Overall	44	23	28

*Note: Social care indicators are split into five bands rather than quartiles.*

BVPIs include indicators of consumer satisfaction with the council overall and particular services. Those for particular services are included in the above analysis. For the council as a whole, satisfaction remains among the worst 25 per cent of authorities, both before and after adjusting for deprivation. Satisfaction for particular services is mixed, although almost all indicators are below the average for other authorities. The council recognises that it needs to sustain recent improvements in services and maximise the impact of its public relations to ensure that satisfaction levels improve.

Walsall's education service, which is provided through a partner organisation, has improved significantly. Sixty five per cent of BVPIs improved in 2003/04, while the summer 2004 attainment results (which will be 2004/05 BVPIs) indicate further improvement. Overall progress has been recognised in the recent Ofsted inspection in which the council was scored as highly satisfactory.

The inspectors commented favourably on:

- the sense of common purpose among councillors, officers and schools;
- the high level of confidence in the council and its partner shown by head teachers and schools;
- the good quality of the strategy for improving schools;
- a commitment to continuous improvement through partnership; and
- a high level of self awareness.

The inspectors found that further work is needed, but that the progress made to date indicates good capacity for further improvement.

The overall scores for social care have remained as they were in 2003, but this was expected as the council consolidated the improvements which were first recognised in 2003. The Commission for Social Care Improvement, which has taken over responsibilities of the former Social Services Inspectorate, is satisfied with the overall progress made by Walsall and rates prospects for improvement as 'promising'.

Environmental services have improved significantly, although this is not yet reflected in the CPA score because many of the improvements are recently implemented and were therefore not measured in the 2003/04 BVPIs. An inspection of environmental services published in November 2004 (covered in more detail later in this letter) rated the services as fair and with excellent prospects for improvement, reflecting the many recent changes to these services which are now starting to be reflected in improved performance.

The council's score for housing covers only those housing services which were retained when the council's housing stock was transferred to other providers in 2003. Services were rated as poor in an inspection carried out in January 2004, but by the time of our follow-up inspection in October, many improvements had been achieved and the service was scored as 'fair' (see later in this letter).

### Future plans

The council's future plans continue to be based on vision 2008 and the pledges which flow from this. In addition, it has set up a comprehensive CPA improvement plan covering the period from May 2004 to March 2008 which links effectively with other elements of the planning framework.

Based on Walsall's current plans, the council is well placed to continue to improve the way it works and the services it provides to local people.

### Work in support of improvement priorities

#### Housing

In our most recent inspection in November 2004, housing services were scored as fair (one star) with promising prospects for improvement. This represents a significant improvement on the earlier inspection in January 2004 which rated the Council as a no star authority but with promising prospects for improvement. Our particular concerns were around services for the homeless, the lack of systems to obtain feedback and delays in the systems for providing aids and adaptations through disabled facilities grants.

The council compiled a comprehensive improvement plan as a result of the January inspection and our follow-up inspection focused on those actions which the council said it had completed by October. We found that progress was being made broadly in line with the improvement plan. Key improvements included:

- a reduction in the time taken to issue homeless decisions, and reduced use of bed and breakfast accommodation for the homeless;
- the establishment of the Walsall Care and Repair home improvement agency, and quicker processing of enquiries for renovation grants; and
- an improved range of information for customers, and better interpreting and translation facilities.

We identified further areas where partial progress had been made, reflecting the targets set out in the improvement plan. Prospects for further improvement were promising because of the recent track record of improvement, the clear focus on performance management, the commitment of staff and effective relationships with partners. We did, however, identify three factors which may hinder progress and need to be addressed:

- difficulties in recruiting staff to carry out occupational therapy assessments;
- the variable quality of action plans in key strategic documents; and
- consultation with service users is not yet well developed.

### Environment

Our inspection of environmental services (highways, waste, street cleansing, aspects of grounds maintenance), found that services were fair (one star) with excellent prospects for improvement. Very good progress has been made in improving these services since they were first inspected in 2001, brought about by increased investment, improved management, a committed workforce, effective partnerships and closer working across the service. Cleanliness standards have improved, road casualty figures have fallen and road conditions appear to be improving, although the extent of this is uncertain because of the council's lack of reliable trend data. The council also has an efficient and relatively low cost refuse service.

However, levels of service are not consistent across all elements of environmental services and there are varying degrees of public satisfaction. Overall, services, as measured by BVPIs, are generally above average, although there is below average performance in some key waste indicators and inconclusive information on the condition of roads.

The council has put in place the right framework for further improvement in services, with improved procurement and performance management, effective leadership and significant additional investment. Some of this investment is already in place and is starting to benefit the Borough's residents, while more will take place in the coming 12 months.

## Other performance work

### Use of agency staffing

Expenditure on agency staff as a percentage of total Social Services wages costs at Walsall MBC had risen from 12 per cent in 2001/02 (£3.4 million) to 17 per cent (£4.8 million) in 2002/03 so we identified this as an audit risk. We had concerns about the way in which agency support was procured.

We raised our concerns in this area of our audit with Internal Audit who worked with Social Services to develop a corporate response.

Agencies are commercial enterprises and many pride themselves on their reputation and high standards. However, recent coverage in the media has shown that some agencies have few checks in place. The contract should be monitored and communication between the agency and social services should be effective.

There was no overall policy within social services on recruitment of agency staff and use of agency staff appeared excessive in some areas: there had been no recruitment of permanent staff at certain localities for some time. While guidance on *when* to use agency cover and *which* option to select was available, it was not monitored for uniform application across the service area.

It is good practice for service managers to be aware of the total expenditure on agency staffing, as this will inform their recruitment strategy and enable them to draw up staff plans and to manage their budget. More locally, managers and staff responsible for booking temporary staff should also be aware of the staff budget and how it is to be used to provide staffing cover.

Although the Council's financial systems enabled identification of some costs associated with providing agency cover to meet shortfalls in staffing levels, these needed to be further developed to assist effective management.

Many of the issues raised in our report have now been addressed. The action taken has been reported to the Audit Committee, new contracts have been drawn up and monitoring procedures improved. The Audit Committee has called for a further report to enable it to monitor progress.

## Performance information

Overall the quality of working papers has improved although this was not consistent across the Council. The most marked improvement was in the Regeneration, Housing and Built Environment Directorate which invested in staff training during the year.

The total number of Performance Indicators that were either materially misstated or qualified in 2002/03 was 12 (before the addendum was published). In 2003/04 the number dropped to 5 (before the addendum was produced), this is a vast improvement on the previous year. In 2002/03 and 2003/04 the Council produced an addendum which showed all the performance indicators that had been amended after the audit.

## Working with other inspectorates and regulators

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

- Ofsted;
- Commission for Social Care Inspection (CSCI);
- Benefits Fraud Inspectorate (BFI);
- DfES; and
- Government Office for the West Midlands.

In Walsall's case, we have worked with the ODPM lead official and through the forum of the Interim Board.

We share information and seek to provide 'joined up' regulation to the council. During the last year the council has received the following assessments from other inspectorates:

- the Ofsted inspection, which judged the service to be highly satisfactory;
- CSCI annual performance assessment and star rating process, which judged the council to be a 'one star' social services authority; and
- BFI assessment for CPA purposes, which judged Walsall to be 'fair'.

## Accounts and governance

*We have given your accounts an unqualified audit opinion. Your overall corporate governance arrangements are satisfactory in most key areas. We identified a need for further improvement in some areas and officers have taken action to address these issues.*

### Audit of 2003/04 accounts

*We gave an unqualified opinion on the council's accounts on 30 September 2004.*

### Matters arising from the final accounts audit

The published accounts are an essential means by which the council reports its stewardship of the public funds at its disposal and its financial performance in the use of those resources. Members approved the council's draft annual accounts on 9 July 2004 and the final version on 30 September 2004. The council is therefore well placed to meet the targets of earlier closure of accounts as it has achieved the required dates in each of the last two years.

### Report to those with responsibility for governance in the council

We are required by professional standards to report to those charged with governance certain matters before we give an opinion on the financial statements. Our report under SAS (statement of auditing standard) 610 was considered at your Audit Committee on 30 September 2004 prior to the adoption of the accounts and prior to our opinion.

We reported on two issues:

- there were errors in the accounting estimates produced from the Nurcis system, resulting in a net adjustment to the consolidated revenue account of £998,000 for these items. More detail is given on Nurcis later in this Letter; and
- our creditors sample testing identified over-accruals totalling £350,000 in relation to renovation grants and £210,000 of duplicates arising from NRF activities. The accounts were also adjusted for these items.



## Financial standing

*The council's financial position is sound.*

### General fund spending and balances

There was a surplus of £3.3 million on the consolidated revenue account for the year (1 per cent of net revenue expenditure) and the general fund balance stood at £6.7 million at 31 March. This is ahead of the figure required in the medium term financial strategy

In addition the HRA has now been formally closed and the balance of £2.1 million can be transferred to the General fund. This has been built into the financial planning for 2004/05.

The current financial position for 2004/05 shows that the council is on target to meet its spending plans. A revenue underspend of £1 million is forecast with a predicted general reserve of £5.9 million. There is also a predicted capital surplus of £2.2 million because of the larger than expected HRA receipts.

### School balances

School balances now stand at £5.08 million (£4.5 million 2002/03) The total budget share was £101 million so overall there is little cause for concern about the management of expenditure within budget. Four schools had budget deficits at the year end totalling £470,000. Action needs to be taken to help these schools back into financial balance.

### Income collection and arrears

Income collection and arrears are broadly similar to 2002/03 (Exhibit 2).

**EXHIBIT 2 INCOME COLLECTION**

Area	2002/03 £m	2003/04 £m
Council tax	5.7	5.7
NNDR	2.1	2.4
Housing rents	0.6	0.5
Other debtors	21.1	20.1
Gross Total	29.5	28.7
Provision	(6.8)	(7.5)

Council tax collection in 2003/04 improved from 96.3 per cent to 96.8 per cent and is below average for all authorities, but in the second quartile and above average for all metropolitan councils. The collection rate for non-domestic rates decreased slightly and, as a result, is in the bottom 25 per cent of all authorities and the third quartile slightly below the average for all metropolitan councils.

### Pensions fund deficit

Most local authority pension funds currently have a substantial deficit: the council's share of the West Midlands fund is currently exceeded by its actuarially assessed pension liabilities, although the situation is better than in the previous year (Exhibit 3).

**EXHIBIT 3 PENSION FUND**

	2002/03 £m	2003/04 £m
Estimated liability	479,717	464,016
Estimated assets	398,120	310,085
Net liability	181,597	153,931

Whilst the net liability is a huge sum, the council has many years to fund the excess liabilities. In practice, the excess will be funded by increasing the rate of the council's contributions to the scheme, and this is taken into account in the council's plans.

## Systems of internal financial control

*We have not identified any significant weaknesses in the overall control framework which have not been addressed.*

### Internal Audit

Internal audit provides an essential element of the system of internal control as it is through the IA service that the council obtains assurance that its procedures are sound and adhered to in practice.

Based on the number of audits which have reached draft report stage, the service has achieved a 93.6 per cent completion rate against a target of 90 per cent. This demonstrates a significant increase in performance over previous years and is a reflection of the additional resources made available, which has enabled the council to both re-focus and increase internal resources and work with a private sector partner.

As in previous years we are satisfied with the quality of the IA work. All planned procedures are completed, there is sufficient evidence on files to support the work done and there is clear evidence of supervisory review. This is sufficient for our purposes where we seek to place reliance on IA work.

We have discussed with the Chief Internal Auditor ways of:

- improving the clarity of overall conclusion in individual audit reports; and
- enhancing the value of quarterly reports to the Audit Committee.

Securing action on some Internal Audit recommendations has been challenging in the past. The level of confirmed implementation at the next audit visit in 2003/04 was 73 per cent (76 per cent in 2002/03). As the cycle of visits can be up to four years this is clearly unacceptable both from IA's viewpoint and the council's as a whole. The Audit Committee has recognised the importance of securing action and the Chief Internal Auditor has now introduced a procedure requiring service managers to confirm that recommendations have been implemented. This should help ensure a further improvement in control at operational level.

#### **Lafis feeder system interface**

Early in 2003/04, a significant (£1.7 million) imbalance occurred between the main ledger (Lafis) and the payroll system. As a result the main ledger had not recorded significant transactions which had occurred in the Council's bank accounts. Lafis, the cashbook and the general bank account were not updated for this transaction until March 2004.

The Council needed to review the operating and financial procedures in place for the payroll service to ensure that financial transactions were promptly and properly recorded and accountability demonstrated. We have made recommendations for improvement which officers have agreed and implemented.

In the interface between Lafis and the new housing benefits overpayments system (hbops), debtors for rent allowance overpayments since September 2003 had not been input to Lafis. There had been no reconciliation between the two systems, so Lafis had been updated for these rent allowance overpayment debtors raised. The budget for rent allowance overpayments income was significantly different to that received. We made recommendations for improvement, and reconciliations are now up to date and processes improved.

#### **Social Care and Supported Housing systems**

Social care is a complex area and officers endeavour to provide the best estimates for budget and outturn at year end. Outturns are risk assessed and reality checks are routinely used to ensure an acceptable degree of confidence in the figures. Further improvements are required in the budget and monitoring process because there needs to be confidence that the figures produced are reliable. Issues identified are:

- records on Nurcis were not up to date due to staff vacancies and timing issues in the receipt of supporting documentation from care managers; and
- there is a backlog of forms to input onto Nurcis but it is not possible to provide an estimate of the extent of the backlog and this has an impact on year end accruals and the review of bad debt provision for clients from whom contributions towards cost of care cannot be recovered.

### Debtors system

The controls over the debtors system can be further strengthened to ensure that the respective responsibilities of services and those charged with overall monitoring are working effectively. In particular:

- arrears procedures need critical evaluation as there is more than £2 million of debtors which are more than one year old; and
- education services should ensure that a designated officer is responsible for following up debtors which have been suspended.

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

*We have not identified any significant weaknesses in your arrangements to prevent and detect fraud and corruption.*

The council has put in place the procedures we would expect to provide a sound framework for control in this area. These include:

- the implementation of ethical standards and a standards committee;
- a code of conduct for members and officers;
- an anti-fraud and corruption policy;
- guidance on the receipt and declaration of hospitality;
- a whistle blowing policy; and
- a robust Audit Committee with a planned programme of work.

The council also engaged CIPFA to carry out an ethical governance audit in the autumn of 2003. This received a favourable report with the comment that the standards committee was receiving good support from the council's monitoring officer.

Internal Audit have carried out a number of major investigations during, the most significant being around Goscote EMB and NRF. This demonstrates that officers are fully aware of the need to report concerns to IA and that IA take such issues seriously. Our review shows that IA carries out investigations in a thorough way.

The Audit Committee remit includes the annual statement of accounts and risk management and it reviews the work of both internal and external auditors.

As part of our work in relation to fraud, we carried out targeted testing of amendments to bank details in the payroll system. This identified a need for further tightening of procedures, as there was in some cases no written authorisation for the changes made. This has been addressed.

### Legality of transactions

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

During the year we have dealt with a number of queries from members of the public relating to the legality of the council's actions. These have been satisfactorily resolved and there are no issues which we need to bring to members' attention at present.

### Other governance work

#### Putting the Citizen First Project

The 'Putting the Citizen First' project is an ambitious programme which, alongside the benefits it promises, carries with it a number of potential risks for the council's future financial governance. We have therefore monitored the progress being made.

The council has put sound processes in place to manage all the stages so far and our reviews show that the assessments of contractor submissions have been:

- well structured; and
- well evidenced.

The council has now selected a preferred partner and has embarked upon the final stage of selection by negotiating the details of the contract. It is important that at this stage the council clearly specifies what it needs from the preferred partner and how it intends to develop processes which will ensure the partnership is managed in a way which enables the council to demonstrate it has effective systems of internal control for the benefit of the council and the citizens.

### **Pooled Budget with Walsall teaching PCT**

A pooled budget arrangement for Learning Disabilities has been established between Walsall MBC and Walsall Teaching PCT. The aims and objectives of the pooled budget, according to the agreement between two parties, are:

- to improve the adult learning disability services that users and carers receive;
- to ensure that public resources are used as efficiently and effectively as possible; and
- to work within the priorities determined by the local Learning Disability Strategy.

The total pooled budget amounts to £19.7 million with the contributions from the PCT and the Council being £10.3 million and £9.4 million respectively. For each body this equates to a significant proportion of their budget. In relation to the council it is approximately 10 per cent of the Health and Social Care Budget.

As part of our audit of council and the PCT, we carried out a review of the pooled budget, focusing on the appraisal process followed, the agreement and the financial arrangements.

#### *Appraisal process*

On the basis of the information available to us we consider that the appraisal process followed the recommended guidance.

#### *Agreement*

The agreement is substantially compliant with the relevant statutory instrument, SI 2000/617. Potential areas for improvement in future agreements are to include details of the staff structure, reference to goods, and accommodation.

#### *Financial arrangements*

Whilst always receiving quarterly budget reports and service plan monitoring reports, reporting to the pooled budget executive group needed strengthening. There was insufficient information on variances or detail against performance. The new pooled budget agreement incorporates amendments and details the improved arrangements which should address the weaknesses. The group will now receive:

- quarterly budget reports;
- activity reports;
- performance reports; and
- service plan monitoring reports.

The council has addressed this and the executive group have received activity reports since February 2004 and performance reports from May 2004.

## Other work

### Grant claims

The Council obtains income of about £115 million from a wide variety of specific government grants. This supports a significant proportion of the Council's activity. We are required to audit these grant claims separately and report our findings to the relevant government department.

For grants submitted for 2002/03 (the most recent year for which the process is complete), as in previous years, we qualified our certificate on a number of grant claims. The level was about the same as in 2001/02. Whilst many of these arose from minor lapses in procedures which we are required to report there are a number of significant issues for officers to consider. These included:

- where possible, the timing of Internal Audit work should be adjusted so that, as well as meeting the council's requirements, it also enables us to take it into account in our grant claims work;

- the council needs to pay particular attention to the accountability regime for grants which involve relationships with third parties (eg SRB, Sure Start, New Deal, and criminal justice);
- a small proportion of the grants claims submitted for audit did not immediately reconcile to the ledger. This resulted in significant audit effort and therefore additional audit costs, which are avoidable; and
- not all project managers appear to be fully aware of, or fully comply with, CPRs and FPRs.

At the request of senior officers, we have worked jointly with finance staff to develop and deliver two workshops for officers involved in managing grant aided expenditure and additional workshops have been provided to project managers by staff from the finance directorate.

For grant claims submitted for 2003/04 we have noted an improvement in some areas but the council has recognised that it needs to continue to ensure that all staff involved are fully aware of the requirements of grant regimes.

### National Fraud Initiative

The council continues to take part in the Audit Commission's national fraud initiative (NFI) the latest being in 2002/03. The NFI, which is undertaken every two years, brings together data from local authorities, NHS bodies, government departments and other agencies, to detect a wide range of frauds against the public sector. Total savings from the 2002/03 exercise exceeded £83 million. There were no major issues arising from this at Walsall.

The Commission is repeating the exercise this year and will again collect payroll, pensions, housing benefits, student loan and housing rents data from Authorities. Alongside the core exercise a number of pilot initiatives are being undertaken at selected sites. These are focused on risk areas that were highlighted by authorities and include payments made to privately-run care homes, abuse of blue badge parking permits, serial insurance claimants and duplicate payments to suppliers. These pilot areas, if they prove effective, will be incorporated into future NFI exercises.

## Looking forwards

### Future audit and inspection work

We have an agreed plan for 2004/05 and we have reported in this letter those aspects that have already been completed. The remaining elements of that plan, including our audit of the 2004/05 accounts, will be reported in next year's Annual Letter. Our planned work, together with that of other inspectorates, is included on both the Audit Commission and LSIF (Local Services Inspectorates Forum) websites.

We have sought to ensure, wherever possible, that our work relates to the improvement priorities of the council. We will continue with this approach when planning our programme of work for 2005/06. We will seek to reconsider, with you, your improvement priorities in the light of the latest CPA assessment and your own analysis, and develop an agreed programme by 31 March 2005. We will continue to work with other inspectorates and regulators to develop a co-ordinated approach to regulation.

## Revision to the Code of Audit Practice

The Audit Commission has consulted on a revised Code of Audit Practice for application to the audit of the 2005/06 accounts. The new Code, which will be laid before Parliament in January 2005, is designed to secure:

- a more streamlined audit, which is proportionate to risk and targeted on areas where auditors have most to contribute to improvement;
- a stronger emphasis on value for money, focussing on bodies' corporate performance and financial management arrangements (rather than individual services and functions); and
- better and clearer reporting of the results of audits.

Further details will be provided in the Audit and Inspection Plan for 2005/06.

## CPA 2005 and beyond

The Audit Commission has also consulted on a new framework for CPA in 2005 and beyond. The main changes proposed are as follows:

- rationalization of service blocks;
- the 'achievement' assessment element of corporate assessment to be driven by review of community plan and shared priority themes;
- a move away from rigid numerical model, to one based on rules;
- corporate assessments to be undertaken on a rolling programme, integrated with the new joint area reviews of children and young people;
- a stronger focus on service delivery for users and customers; and
- a more robust and explicit view of vfm and cost-effectiveness.

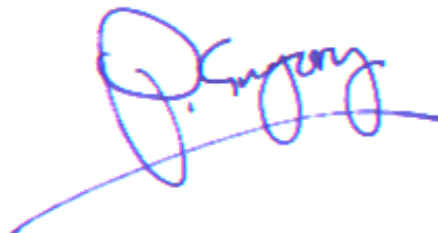
## Closing remarks

This letter has been discussed and agreed with senior officers. A copy of the letter will be presented at the audit committee on 1 February 2005. The Executive Director (CFO) has undertaken to circulate a copy of the letter to all elected members.

I would like to take this opportunity to express my appreciation for the courteous assistance and co-operation we have experienced from officers and members as we have carried out what has been a very demanding programme of work for you. We have sought through our work to carry out this substantial programme in a way which has contributed towards rather than distracted from your improvement efforts. We look forward to working with you as your improvement continues.

## Availability of this letter

This letter will be published on the Audit Commission's website at [www.audit-commission.gov.uk](http://www.audit-commission.gov.uk), and also on the council's website.



**John Gregory**  
**District Auditor**  
**Relationship Manager**

**January 2005**

## Status of our reports to the council

Our annual audit and inspection letter is prepared in the context of the Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission. Annual audit and inspection letters are prepared by relationship managers and appointed auditors and addressed to members and officers. They are prepared for the sole use of the audited and inspected body, and no responsibility is taken by the Audit Commission or its appointed auditors to any member or officer in their individual capacity, or to any third party.

## Audit and inspection reports issued

Report title	Date issued
Agency staffing	February 2004
Housing inspection	February 2004
Corporate assessment	March 2004
Interim audit memorandum	July 2004
SAS610 report	September 2004
Environment inspection	November 2004
Housing follow-up inspection	November 2004
Final accounts memorandum	November 2004
Performance indicators	November 2004
Putting the Citizen First	November 2004
Risk management	November 2004



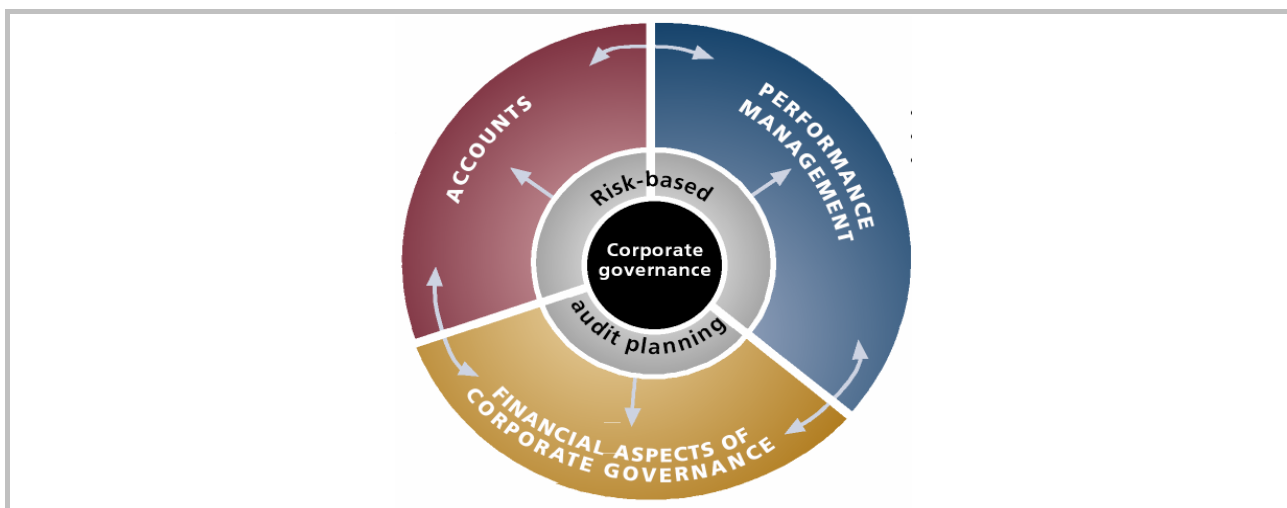
## Scope of audit and inspection

### Audit

Our main objective as your appointed auditor is to plan and carry out an audit that meets the requirements of the Code of Audit Practice. We adopt a risk-based approach to planning our audit, and our audit work has focused on your significant financial and operational risks that are relevant to our audit responsibilities.

Central to our audit are your corporate governance arrangements. Our audit is then structured around the three elements of our responsibilities as set out in the Code and shown in Exhibit 4.

#### EXHIBIT 4 THE THREE MAIN ELEMENTS OF OUR AUDIT OBJECTIVES



#### Accounts

- Opinion.

#### Financial aspects of corporate governance

- Financial standing.
- Systems of internal financial control.
- Standards of financial conduct and the prevention and detection of fraud and corruption.
- Legality of transactions.

#### Performance management

- Use of resources.
- Performance information.
- Best Value Performance Plan.

## Inspection

Inspection work is based around section 10 of the Local Government Act 1999, which requires us to carry out inspections and deliver reports that will:

- enable the Council and the public to judge whether best value is being delivered;
- enable the Council to assess how well it is doing;
- enable the Government to assess how well its policies are being implemented; and
- identify failing services where remedial action may be necessary.

The Audit Commission has circulated to all audited bodies a statement that summarises the key responsibilities of auditors. Our audit has been conducted in accordance with the principles set out in that statement. What we say about the results of our audit should be viewed in the context of that more formal background.

## Audit and inspection fees

### Audit fee update

Audit area	Plan 2003/04	Actual 2003/04
Accounts	71,000	71,000
Financial aspects of corporate governance	129,000	129,000
Performance	88,000	88,000
<b>TOTAL CODE OF AUDIT PRACTICE FEE</b>	<b>288,000</b>	<b>288,000</b>
Grant Claim certification	135,000	135,000 (est.)
Additional Voluntary work (under Section 35)	NIL	NIL

### Inspection fee update

The full year inspection fee is £157,000. The work reported in this audit and inspection letter has been funded by an element of the fee covering 2003/04 and by an element of the fee covering 2004/05. In both years the actual fee will be in line with that planned.