

Audit and Inspection Annual Letter

Borough of Poole

INSIDE THIS LETTER

PAGE 2

- Key messages

PAGE 3

- The purpose of this letter
- Objectives of audit and inspection

PAGES 4-9

- Background to the audit and inspection programme
- Council performance
- Other performance work

PAGES 10-12

- Other inspections
- Financial aspects of corporate governance

PAGES 13-14

- Audit assurance work
- Audit and inspection fees
- Strategic regulation: future audit and inspection work
- Status of our audit and inspection annual letter
- Closing remarks

PAGE 15

Appendix 1

- Audit and inspection reports issued during 2002/03

Reference:	CPPO001AAL03W - Final
Authors:	Martin Robinson Relationship Manager and District Auditor Chris Peachey Audit Manager
Date:	January 2004

Key messages

Overall conclusion

In autumn 2002 the council was categorised as 'Good' through the comprehensive performance assessment (CPA). Subsequently, it developed a range of improvement priorities aimed at further developing corporate management arrangements and improving key services.

The council is making good progress in implementing its post-CPA improvement priorities. Some relate to the internal operation of the council and some to improving priority services.

While implementing action in response to some of the council's improvement priorities may not lead immediately to observable improvements in the delivery of outcomes for the public, it should make this considerably more likely in the future. The council is building appropriate corporate arrangements to enable it to maintain the momentum of continuous improvement over the longer term.

Key council achievements

The council has made significant progress in key aspects of corporate management over the past year while maintaining a high level of service. Particularly notable achievements are:

- a two star rating for social services and a generally favourable report from a joint Audit Commission/Social Services Inspectorate review
- continuing progress on a number of aspects of the council's post-CPA Improvement Plan
- successful preparations for the transfer of the council's housing stock to an arms-length organisation
- re-establishment of a stable financial position, particularly in social services.

Implementation of post-CPA improvement priorities

Following the 2002 CPA, the council prepared an improvement plan to address weaknesses identified by the assessment. Progress has been and continues to be made against each of its six key areas.

Social Services joint review

The joint review report, published in June 2003, concluded that the council is serving most people well and has promising prospects of improvement.

Although generally positive, the review identified a number of aspects where the council needs to strengthen performance further, particularly by improving the standard and consistency of assessment, care planning and reviewing for both adults and children, and by improving outcomes for children looked after.

The council has put in place an action plan to address weaknesses identified in the report and has subsequently continued to make good progress on its implementation.

Progress towards establishing a housing arms length management organisation

The council received approval from the ODPM to set up an ALMO to manage its housing stock, one of only a small number to be selected so far. At the council's request, the Audit Commission carried out an 'indicative' inspection of the housing service to assist with preparations for ALMO status and to identify areas where further significant development might be needed.

The inspection was carried out in September 2003. It found that the council was providing a good (two star) service, although the prospects for improvement were assessed as uncertain.

The council's financial position

Last year we reported our concerns about the council's financial position, particularly the continuing overspending on social services, diminution of balances and weaknesses in financial reporting and decision-making.

The council has since taken vigorous and effective action to improve financial management, monitoring and reporting with the results that spending has been kept within budget in the current year and that progress is beginning to be made on replenishing reserves. A strong lead is being given by the Cabinet on this issue. But the financial environment for the council is still very challenging, necessitating continuing close scrutiny of financial standing by both officers and members.

The purpose of this letter

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

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

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

Objectives of audit and inspection

Audit

Our main objective as your appointed auditor is to plan and carry out an audit that meets the requirements of the Code of Audit Practice. We adopt a risk-based approach to planning our audit, and our audit work has focused on your 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 1.

EXHIBIT 1

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 & the prevention and detection of fraud and corruption.
- Legality of transactions.

Performance management

- Use of resources.
- Performance information.
- Best value performance plan (BVPP).

Inspection

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

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

Background to the audit and inspection programme

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

Because of a change to the Audit Commission's financial year, work carried out over the past calendar year arises both from the 2002/03 and from part of the 2003/04 audit and inspection plans.

Our audit and inspection plans for 2002/03 and 2003/04 were agreed with the council to help you prepare to meet the challenges you face and in the light of your CPA assessment, which as a 'good' authority entitles you to a reduced programme of inspection and performance audit.

The key challenges facing the council at the beginning of the audit year were:

- the need to identify and then to implement improvement priorities arising from the 2002 CPA report
- serious financial pressures with a recent history of significant overspends and falling balances
- pressure on the education service with falling rolls in some areas and a need to establish a more rational and consistent policy for the transfer of children from primary to secondary level
- management of the Poole Bridge project and the attendant opportunities to contribute to the regeneration of parts of the town
- the need to ensure that IS/IT capacity and infrastructure are sufficient to meet current and future demands.

This Letter refers to all accounts and governance work for 2002/03 and any inspection or performance work already completed and reported whether from 2002/03 or from 2003/04.

Council performance

The council is making good progress in implementing its post-CPA improvement priorities. Some relate to the internal operation of the council and some to improving priority services.

While implementing action in response to some of the council's improvement priorities is unlikely to lead immediately to observable improvements in the delivery of improved outcomes for the public, it should make this considerably more likely in the future. The council is building appropriate corporate arrangements to enable it to maintain the momentum of continuous improvement over the longer term.

Overview: CPA Scorecard

The following text, agreed with the council in December 2003, is copied verbatim from the Audit Commission's website.

How is the Borough of Poole run and what progress has the council made in the last year?

Borough of Poole continues to be a good council. The council has made improvements in some services over the last year. The council provides better than average services which are improving slowly. Many of the improvements being made are to the council's internal arrangements. These changes are needed so that services in the future can improve more quickly.

Education results are generally good. The progress of 14-year-olds has been very good this year but standards achieved by 11-year olds are still too low. A major 'state of education' debate is planned to address this. Big changes are taking place in housing, with the transfer of the housing stock to a new organisation. Particular areas for development are services for children and the time taken to process benefit claims; both are expected to improve.

Based on its current plans, the council is well placed to further improve the way it works and the services it provides to local people.

In December 2002 the Borough of Poole received a measurement of 3 out of 4 for the way it is run.

How does the Borough of Poole's main services perform?

Core service performance in eight key service areas has been scored on a scale from 1 to 4, with 1 being the lowest and 4 being the highest. Education and social care are given more importance in reaching the overall service score than other areas.

All scores were similar to those applicable in December 2002, with the exception of use of resources which increased from 3 to 4.

Overall service performance is scored 3 out of 4.

Impact on CPA category

The change to service performance scores reported above was not sufficient to prompt the option of a re-assessment of the council's CPA category for 2003.

CPA improvement report

Priorities

The 2002 CPA corporate assessment highlighted the importance at that time for the council to be clearer about its longer-term strategic and service priorities, and also about what are not priorities. The council has worked hard over recent months to start to address this, assisted by revised democratic arrangements generally accepted as supporting more effective working than was previously achievable.

In September 2003, the council set out its longer term high level strategic priorities. Developed in the months after the local elections in May 2003, this was informed by the outcomes of Poole's first 'state of the area' debate between the whole council and Poole Partnership in July 2003. The priorities have been developed in parallel with the broad strategic direction being established by the Poole Partnership and are consistent with this.

There is a determination on the part of the council to translate this strategic direction into real change. Key challenges for the council are now to:

- maintain momentum in the build up to the proposed corporate strategy due to be published in May 2004
- translate the broad strategic priorities already developed into specific, measurable priorities for services and for the whole council
- continue the process of increasing the clarity about what are not priorities, as recently started (some aspects of education transport having been highlighted as an area for reductions in funding)
- continue to develop the emerging medium-term financial plan to ensure better alignment of resources to priorities
- finalise, and then work to achieve, the priorities set out in the Local Public Service Agreement with central government.

Ambition

The council has for some years had a stated ambition for Poole, first expressed in 1997 through the vision and mission supported by core values. These remain in place, although the priorities to bring it about have in recent months been reconsidered as discussed above.

Over the past year, the council has given considerable emphasis to strengthening and making more visible its leadership, both of the community and internally, to help turn the vision into reality. At member level this has included:

- adopting a single-party cabinet
- allocating lead responsibility for council priority areas to individual portfolio holders in the cabinet.

Ambition within key services is also now clearer, with for example the stated intentions to:

- carry out a major review of school organisation with the core objective of improving educational outcomes
- aim for optimum outcomes for the whole community from redevelopment opportunities arising from construction of Poole Bridge and the central area regeneration
- introduce an ALMO for the housing stock
- be clearer about priorities for social care through more consistent application of eligibility criteria.

Future plans

An increasing emphasis on strategic leadership has given the council a more robust basis on which to develop future plans, both corporately and for individual services. The most important outcome of this, and an important challenge for the leadership, will be the corporate strategy and business plan scheduled for May 2004.

Specific plans to address known development needs or opportunities within individual services are in place and being implemented, particularly the:

- post-OFSTED action plan in education
- post joint review action plan in social services (including the action plan to address financial problems).

Longer-term plans for regeneration of the Poole central area are at a relatively early stage of development. The biggest challenge over the coming year or so is likely to be starting to implement outcomes of the 'state of education' debate to be carried out in 2004.

Post-CPA improvement priorities were agreed early in 2003 in detail for the year ahead but not for 2004 and subsequent years, because of the imminence at the time of the local elections in May 2003. In tandem with other developments, particularly development of the corporate strategy, the council now needs to develop a clear shared understanding of its improvement priorities for 2004.

Focus

Over the past year, the council has maintained a strong focus on addressing its improvement priorities for 2003, agreed following the corporate assessment in autumn 2002. Many of the priorities are internally-focused, based to a large extent on the findings of the corporate assessment.

Political and senior managerial arrangements have been substantially revised, giving a better focus on strategic priorities by the executive and by senior management.

The council recognises the need to develop a more effective role for non-executive members, particularly through the scrutiny function. It has started to develop this but so far with only partial success.

The political leadership has shown its intention to focus on some of the biggest service challenges facing the council, particularly the complex organisation of its schools. The biggest immediate challenge to social services, its tendency to exceed its annual budget by a significant amount, is being addressed effectively with the introduction of considerably more robust budgetary control arrangements.

The council is introducing alternative arrangements for housing management, representing a big change not just for the service but for the whole council. With a change of this magnitude proposed only a few months into the year, it is surprising that a focus on housing was not included early in 2003 among the council's priority service areas.

Key challenges in 2004 and beyond at the service level will be to maintain a focus on:

- ensuring a successful transition to ALMO status in housing
- redevelopment of the Poole central area
- starting to tackle the difficult issue of school organisation
- reorganisation of social services with likely moves towards children's trusts, although the existing commitment to breaking down barriers between services for children reported by the Social Services Inspectorate (SSI) will be an advantage here.

Capacity

Over the past year, the capacity of the council has been enhanced through changes and improvements to:

- member capacity, through revision of democratic arrangements
- senior officer capacity, through refinement of the relationship between members of the Cabinet and policy directors
- financial capacity, through better budgetary control generally and particularly in social services.

A key initiative to enhance senior officer capacity through reassessment of the management development programme is clearly 'on the agenda' but only recently has received sufficient attention.

Capacity remains under pressure in social services because of high unit costs.

Performance management

Performance management, highlighted in the council's corporate assessment as a key area for improvement, has received considerable attention over the past year.

A revised framework for monitoring and managing performance is in an advanced stage of design, with the intention of implementation in 2004/05. This is intended to address the main recommendations in relation to performance management reported in the corporate assessment, which were to:

- develop and make more effective the role of members
- strengthen the staff appraisal and development scheme
- clarify the role of the corporate management team.

In advance of the introduction of the revised arrangements described above, improvements were already evident during 2003 to:

- financial monitoring, both by officers and by members (particularly in social services)
- performance monitoring, with a particular focus on selected key indicators.

As the revised arrangements are refined and implemented, key challenges will include:

- ensuring adequate links between the developing corporate strategy, business plans for 2004/05, and personal targets
- strengthening the links between business planning, resource allocation and budget setting and control
- ensuring the effectiveness of the respective roles of members of the corporate management team and heads of service
- enhancing the contribution to performance management made by scrutiny
- using the corporate performance management framework to ensure

consistent improvement across all services where improvement is being sought.

Achievement

The council already provides good services in most areas, with the potential to improve performance considerably once priorities for improvement have been implemented and have come to fruition. Inevitably, it will take time for the refocused priorities to be reflected in service improvements for local people.

The June 2003 best value performance plan reports good progress against the 'key promises' made by the previous administration, including

- the facilitation of 70 affordable homes
- reducing stays in 'bed & breakfast' accommodation
- further development of electronic government.

In 2002/03, overall performance as measured by BVPIs was fairly good compared with other councils, with 55 per cent of indicators better than average. Overall there was a modest net improvement, with 52 per cent of indicators improving over the year. Within this overall picture, in the council's priority services there was:

- significantly stronger, and improved, performance in education, with 80 per cent of 15 comparable indicators improved, particularly key stage 2 results, and 60 per cent (of 20 indicators) in the top quartile
- mixed performance in housing
- relatively weak performance in social services (57 per cent of 14 indicators below average).

Elsewhere, there was weak and deteriorating performance in benefits as measured by BVPIs (three out of six indicators in the lowest quartile and all four measures of claims processing below average). The Benefits Fraud Inspectorate assessed the council's benefits performance over the year as 'fair'.

Performance in environmental services in 2002/03 was better than average (56 per cent of 25 BVPIs in the top or second quartiles).

Simplistically, BVPIs show an unusual pattern of improvement being concentrated in areas where the council is already performing well, whereas

weaker performance areas tend not to show similar improvement.

A recent inspection of social services showed a very positive picture. The joint review of social services concluding that most people are served well and prospects for improvement are promising. This is confirmed by the SSI's annual performance ratings for social services, showing the council to be serving most adults well and some children, both with promising prospects for improvement.

Conclusion

The council has already made considerable progress in 2003 against the priorities it set itself following CPA. The council is directing corporate attention towards the areas most needed to address its own priorities for improvement. A number of critical changes have already been made and there is a strong sense of momentum towards further improvements.

Of the areas discussed above, issues raised under prioritisation, focus and performance management are particularly important in order to underpin and make more certain continuous service improvements in priority areas in due course. Other regulators of key services have confirmed the optimistic prospects for service improvement.

A number of imminent or likely changes at the service level may have a far-reaching impact on the council as a whole, including particularly

- establishment of an ALMO for housing
- reorganisation of social services.

The council now needs to concentrate on these and on the following aspects of corporate arrangements in particular:

- re-defining the strategic priorities established for the council to underpin the corporate strategy to be developed in 2004
- developing the corporate strategy and business plan, and the medium term financial plan in tandem with it
- refining and implementing revised performance management arrangements
- developing a more effective role for non-executive members.

Other performance work

In addition to work related to improvement planning, we have undertaken a number of studies to assist the council in managing the challenges it faces. These are:

- controlling costs in children's services
- delayed transfers of care
- development control
- capital programme controls
- LPSA development.

Controlling costs in children's services

All children's social services are challenged by increasing costs and rising demands. Increasing costs will lead directly to overspending or to reductions in service levels. Overspending may also impact on other council priorities. Budget reductions often result in less preventative or diversionary activity, ultimately resulting in further cost pressures.

The council is one of fifteen in the south west to have participated this year in a regional collaborative project on controlling costs in children's services. The project has been managed jointly by the Audit Commission and the Department of Health, Quality Protects, with council and inter-agency input co-ordinated through Heads of Children's Services. Based around a series of four workshops, opportunities have been provided for councils to:

- critically appraise their own practice, management and partnership arrangements
- learn from other councils
- learn from available performance data, and research.

An initial position statement, drawing on comparative performance data on costs and activity levels, indicated scope for all councils to improve their performance. This informed subsequent workshops on:

- commissioning
- intervention management
- costs, consequences and outcomes.

The potential benefits arising from involvement in this project have been heightened following publication in autumn 2003 of the Green Paper on children's services. Emerging findings from the project have already been discussed with Heads of Children's Services. A project report is being prepared for the Association of Directors of Social Services, to consider regional and national policy issues arising. This is expected to be published early in 2004, with the expectation that all councils will then develop their own action or improvement plan, involving key partners.

Review of delayed transfers of care

The issue of delayed transfers of care was reviewed in 2002/03 across the Dorset health economy. This work also provided an opportunity to make observations on the situation in local government.

The main observations pertinent to Poole are that:

- it continues to meet its delayed discharges target
- close partnership working between Poole PCT, trust and social services is clear, for example through the joint training and use of a single assessment process with health.

The main issue for Poole residents is continuing to be able to access enough services to maintain a large number of frail older people at home.

Development control

An audit, carried out in partnership with Internal Audit, of the council's procedures for receiving and processing planning applications found that a number of procedures are in line with good practice.

However, there is also a need for improvement, most importantly to ensure that procedures across the whole development control service are robust enough to ensure that all planning applications are processed consistently well. It is also important that a service plan is developed to ensure that priorities focus more clearly on corporate objectives and that there is better co-ordination with other services. We strongly recommend a more pro-active approach to enforcement.

The final report of this work will be issued shortly.

Capital programme controls

The council has struggled for a number of years to deliver the full approved annual capital programme. Consequentially it has not achieved the full benefits expected from capital projects in a timely manner.

Working closely with officers, our examination of controls and procedures showed that significant improvements are required to ensure that the capital programme is:

- properly aligned with long-term objectives
- realistic
- subject to effective project management.

Our detailed findings have been reported to management team and will be reflected in an officers' report to Cabinet on 27 January 2004.

These findings are consistent with the results of the council's own reviews. The Head of Financial Services has recently reported that the council will need to improve capital investment decision making to meet the requirements of the new prudential code. In particular he identified the need to improve:

- option appraisal (value for money/proper use of public money)
- asset management planning (stewardship)
- achievability of forward planning (practical and realistic).

LPSA development

In July 2003, we reviewed the risks faced by the council in seeking to deliver targets agreed under the terms of the LPSA with central Government. We have recently followed-up this work to assess progress made by the council. We conclude that our agreed recommendations have been followed and the Council has made good progress towards completing the agreement. Eight of the component agreements have already been agreed with the relevant government department and two are close to agreement. Of the eleven individual agreements only one has proved problematic and is having to re-assessed and is likely to be substituted.

Other inspections

Audit Commission inspections

No Audit Commission inspections for 2002/03 or 2003/04 have yet been completed and reported although some work is currently underway (summarised later in the letter). This work will be referred to in the annual letter for 2003/04.

Housing inspection

The council has been granted approval to set up an ALMO to manage housing services. To assist with preparation for the creation of the ALMO, the council requested an inspection of its estate and tenancy management services.

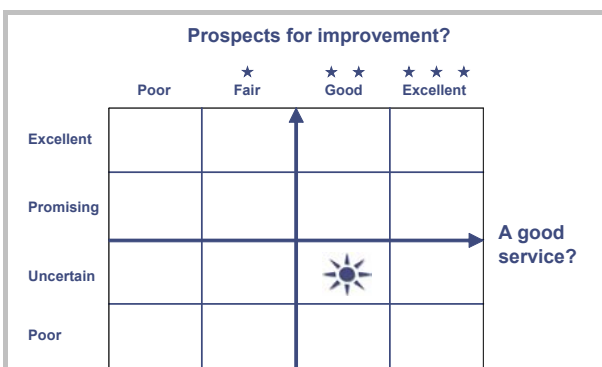
The inspection was carried out at an additional fee to the council, but is reported here because of the importance of the issue to the council's future strategic direction.

The inspection, carried out in September 2003, covered the council's housing management services, including estate and tenancy management, tenant participation, sheltered housing, letting of homes, income management and debt counselling.

We have assessed the council as providing a 'good' two-star service that has uncertain prospects for improvement from its present position:

EXHIBIT 2

Housing management: a good service with uncertain prospects



The service was found to be good for a number of reasons, including principally that:

- the council is clear about what it wants to achieve in housing and its priorities for the service
- the service is, in the main, accessible and customer focused
- very high levels of rent are collected with low levels of rent arrears
- anti-social behaviour and breaches of tenancy conditions are dealt with effectively
- sheltered housing services and communal facilities are provided to a high quality
- estates are well maintained and the cleaning service has improved and is of good quality
- performance in delivery of services, as measured by BVPIs, shows the council to be among the best performing councils nationally.

However, there are some areas where improvement is needed, for example:

- the lack of customer focus in some service areas, notably rent management
- the need for service standards, so tenants can know what service to expect
- ascertaining the ethnicity of all tenants
- having a clear tenant participation strategy
- promoting welfare benefits and providing advice to tenants in rent arrears
- addressing inconsistently provided services, such as dealing with anti-social behaviour and breaches of tenancy conditions
- issuing secure tenancies to tenants who have received licences
- mixed performance for grounds maintenance.

The housing management service has uncertain prospects for improvement from its current good position, principally because:

- service planning is under-developed
- the council is not aware of weaker areas of performance in services that have not been subject to a best value review
- little assessment has been made of what is done well and what is not
- the council has not assessed what capacity and systems it needs to deliver its plans and ambitions, without which there is a risk that it may not be able to achieve what it wants.

However, the council is clearly committed to the successful creation of an ALMO and understands the difficulties this presents. It has sustained focus in some service areas and has a track record of improvement. Resources have been redirected to help deliver services and to increase capacity to improve services. There is a culture of continuous improvement among officers and a willingness to find ways to provide better services.

Financial aspects of corporate governance

CPA auditor judgements

Improvement in three of the five areas covered by auditor scored judgements in October 2003 is commended. This led directly to an increase from 3 to 4 in the 2003 CPA score for use of resources.

For purposes of the 'use of resources' element of the CPA scores, we have provided updated scored judgements on the council's governance arrangements this year, as summarised below.

The assessment is on a scale of one to four, where:

- 1 = inadequate
- 2 = adequate but with some weaknesses
- 3 = adequate
- 4 = better than adequate.

EXHIBIT 3

CPA Auditor scored judgements

Area of governance	Scores	
	2001/02	2002/03
Financial standing	3	3
Systems of internal financial control	2	3
Standards of financial conduct; prevention and detection of fraud	3	4
Financial statements	3	4
Legality of significant financial transactions	3	3

Financial standing

The council has made some significant improvements to its financial management. It is currently managing spending within budget and is making some progress in replenishing reserves and balances to an appropriate level.

In our Annual Letter a year ago, we expressed our concerns about the council's financial position. These arose particularly from continued overspends on the care theme budget, at that time running at £0.5 million over budget for 2002/03, following an overspend in 2001/02 of over £2 million. We were further concerned that the short term expediency of using reserves and making cuts in the annual capital programme were not sustainable.

The council has over the past year taken determined action in a number of areas to re-establish financial stability, in particular by:

- vigorously reviewing financial control procedures over the Care Theme budget and introducing revised procedures
- establishing more effective member procedures with Cabinet portfolio holders taking a lead role in financial accountability
- introducing more effective and clearer financial reporting monitoring procedures

The financial position, as identified in a recent corporate monitoring report, is as follows:

EXHIBIT 4

Reserves and balances 2001/02 to 2003/04

	31.3.02 actual £k	31.3.03 actual £k	31.3.04 Predicted £k
General fund balance	2,213	1,688	3,429
Cost centre balances	980	71	0*
Earmarked reserves	1,268	699	544
Total GF reserves	4,461	2,458	3,973
Net op. exp. (NOE) (ex. schools)	67,674	73,135	79,336
Benchmark GF balance	2,000	2,000	2,250
Minimum GF balance as % NOE (ex schools)	5%	5%	5%
Actual GF balance as % NOE	6.6%	3.4%	5.0%

*: Included within the GF balance

While the improvement evident in 2003/04 is encouraging, the financial environment for the council remains challenging and necessitates continuing close scrutiny and management of its financial performance as a high priority.

Systems of internal financial control

Our review of the council's systems of internal financial control has identified no areas of significant weakness.

Our review comprised an examination of the main accounting system and budgetary control, together with a review of internal audit and general IT arrangements. We conclude overall that arrangements are adequate with no significant areas of weakness, and have made a number of detailed recommendations designed to further improve controls.

The only recommendation warranting consideration by members is that reports on the findings of Internal Audit, including the results of major systems reviews, should be submitted to the Service Provision Scrutiny Committee acting in the capacity of an audit committee for this purpose.

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

The council has generally adequate arrangements in place to prevent and detect fraud and corruption, although we have made some recommendations to improve these arrangements.

The council's arrangements include an anti-fraud and corruption policy and codes of conduct for staff and members. Anti-fraud and corruption controls would be strengthened further by:

- drawing up a comprehensive anti-fraud and corruption strategy, approved by members, as this is currently fragmented and extensively cross-referred to other documents
- raising awareness by staff of the existence of the anti-fraud and corruption strategy
- increasing staff awareness of the requirements to record gifts and hospitality

received and pecuniary interests (our review of three service units' registers of interest showed no entries to have been made for the financial year).

National Fraud Initiative

The National Fraud Initiative (NFI) is the Audit Commission's data matching exercise. Its main aim is to help identify and reduce housing benefit fraud, occupational pension fraud, tenancy fraud and payroll fraud. The NFI is carried out every two years and both runs of the data matches were provided to you by April 2003.

Departments within the council have now reviewed all of the 1,037 data matches from both runs of the data and are now in the process of following up the cases that warrant further investigation. Internal Audit have co-ordinated the exercise and have reviewed approximately 10 per cent of the investigations into data matches made by departments. An interim NFI return made in April 2003 reported no data matches resulting in the identification of fraud. The council has now completed its investigations and made the final return to the Audit Commission. Savings of £11,500 have resulted.

Legality of transactions

We understand that, in response to recommendations made in our report on the role of the section 151 officer, an officer report is to be submitted to the council. We will continue to monitor progress made in this area.

Electors rights

An objection made in respect of the 2001/02 accounts has not yet been resolved.

As well as reviewing the role of the section 151 officer, we reviewed arrangements for implementation of new legislation, including a detailed review of the council's race equality scheme. While the scheme includes most of the key elements required by the Commission for Racial Equality, we have noted that it does not set out corporate wide arrangements for informing the public of how the council identifies peoples' information needs and how it monitors public access to that information.

Audit assurance work

Accounts

We issued an unqualified audit opinion on the council's financial statements for 2002/2003 on 15 December.

The quality of the council's working papers to support the financial statements was good, and no major issues were raised following the audit. There are no issues that need to be brought to the attention of members.

We noted some minor departures from CIPFA's Statement of Recommended Practice in terms of disclosure within the accounts. The financial statements were amended to more closely follow the requirements of the SORP.

We are not yet in a position to close the audit for 2002/03 pending resolution of an outstanding objection from an earlier year.

Reporting to the council

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

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

There are no issues arising from our audit of the accounts for 2002/03 that need to be brought to the attention of members.

Best value performance plan audit

We issued an unqualified opinion on your BVPP on 18 December.

The format of the 2003 BVPP has been revised to reflect changing operational need. The BVPP remains compliant with all significant statutory requirements, although we suggest it could be improved by:

- including better information about the longer-term vision and objectives of the council
- providing better information about how spending plans are being adjusted to ensure that the pursuit of the longer-term objectives is adequately resourced.

The council continues to maintain sound arrangements for collecting, evidencing and publishing national performance indicators.

Audit and inspection fees

The proposed fee for 2002/03 was set out in our audit and inspection plan at the start of the year. Exhibit 5 below shows the actual fees for 2002/03 compared with that initial plan:

EXHIBIT 5

Audit fees: planned and actual

Audit area	Plan 2002/03 £	Actual 2002/03 £
Accounts	40,152	42,500
Financial aspects of corporate governance	53,920	49,400
Performance	30,828	33,000
Total code of audit practice audit fee	124,900	124,900
Inspection (1)	102,000	102,000
Additional s35 work	0	0
Indicative pre-ALMO housing inspection	0	25,000
Objections	0	2,414
Certification of grant claims (2)	52,000	57,050
Total audit and inspection fee	278,900	311,364

(1) Inspection fees are net of ODPM grant received.

(2) The grant claim audit fee is for 2002/03 only. This work has not yet been completed and the actual fee reported is our best estimate.

The principal variance between planned and actual fees are due to additional grant claim work generated by new claims in 2003 and additional work on housing benefits.

Strategic regulation: future audit and inspection work

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

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

The 2003/04 programme of work

Our audit and inspection plan for 2003/04 was agreed with management team on 25 March 2003. We have developed a programme of work that is proportionate both to the council's risks and to its performance as assessed through CPA. We have structured our work programme across the following themes that help to clarify the purpose of our work:

- assessment
- improvement
- assurance.

Areas of work programmed for 2003/04 which have yet to be completed include:

- inspection of education asset management
- inspection of the management of IS/IT
- assisting the council to review critically the school organisation within the borough
- assessing the adequacy of developing arrangements for managing risks
- assisting in the evaluation of the effectiveness of the Executive (now termed 'Cabinet') and scrutiny functions.

Audit and inspection planning for 2004/05

Audit and Inspection planning for 2004/05, linked to your developing improvement plan, will be carried out by March 2004.

Status of our audit and inspection annual letter

Our audit and inspection annual letter is prepared in the context of the statement of responsibilities of auditors and audited bodies issued by the Audit Commission. The letter is prepared by the Relationship Manager and District Auditor and is addressed to members and officers. It is prepared for the sole use of the audited body, and no responsibility is taken by auditors to any member or officer in their individual capacity, or to any third party.

Closing remarks

This letter will be discussed and agreed with the Leader of the council and members of the management team on 15 January 2004 and will be presented to Cabinet on 27 January 2004. A copy of the letter will then be provided to all members individually.

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



Martin Robinson
District Auditor and Relationship Manager

30 January 2004

Audit and inspection reports issued during 2002/03

Audit Plan	January 2003
Interim Regularity Report	June 2003
Report on Capital Programme Controls	August 2003
Report on Development Control	August 2003
Final Accounts Report	November 2003
Housing Management Services Inspection (final report)	December 2003
Qualitative Assessment	December 2003