2004

audit commission

Annual Audit and Inspection Letter

Borough of Poole

INSIDE THIS LETTER

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Executive summary

The purpose of this letter

This is our audit and inspection 'Annual Letter' for members, incorporating the Annual Audit Letter for 2003/04. It 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 inspection work at Poole.

We have issued separate reports during the year. 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

CPA improvement report

Over the past year, the council has made clear progress against a number of key corporate improvement priorities and is clear where further progress is needed. It has achieved an improved external assessment of the benefits service while maintaining often high levels of performance in other services.

There is now considerably greater clarity about the council's strategic priorities, expressed at the highest level through the corporate plan of June 2004. Corporate capacity has been enhanced through, for example, strengthening of performance management, improved budgetary control and the formation of Poole Housing Partnership to manage the housing stock.

Further work continues in key areas. These include performance and financial planning and management, strengthening some support services, extending joint working both internally and with other organisations and working to ensure achievement over time of the twelve target areas in the council's local public sector agreement.

Council performance - other aspects

The effectiveness of corporate and performance management arrangements has improved considerably since the CPA inspection and they continue to develop and evolve. The council is clear where further improvement is most needed, such as making performance targets for services more challenging, ensuring greater compliance across the council with agreed corporate standards and member Scrutiny.

Procedures followed in the processing of planning applications and in taking planning enforcement action are often consistent with good practice. Further improvements can be made, particularly in relation to documentation and management of development control procedures and section 106 agreements.

Arrangements for the management of school buildings have been a cause for concern for some time, with low levels of satisfaction from schools with the council's technical property support service. Strategic management of council assets is better.

The council's information systems and information technology service at the time of our inspection in February was weak. Despite well-regarded technical abilities within the service, it had little strategic direction and satisfaction levels from internal users were low. Substantial efforts to address weaknesses in the service have since been made, including the agreement of an IT improvement plan and plans to appoint a new head of service.

'Light-touch' inspections of environmental and cultural services confirmed that a full inspection of either service would not be appropriate for 2004/05. The council is clear about areas for further improvement of these services and progress is expected to have been made over the past year.

A full inspection of the council's recently established arms-length housing management organisation took place in November 2004 and reported in January 2005. This concluded that the housing management service provided by Poole Housing Partnership, has been rated as providing 'excellent' housing services with 'promising prospects' for improvement.

Financial position

The council's financial position is much improved on previous years with a satisfactory level of balances and an under-spend against budget forecast for 2004/05.

Other accounts and governance issues

Corporate governance arrangements are satisfactory in most key areas. Some need to be strengthened, most notably corporate risk management arrangements. A plan has been prepared by the council to ensure that a risk strategy will be in place by March 2005.

Action needed by the council

Specific action needs to continue to be taken by the council in the following areas in particular:

- build on and further develop the performance management framework;
- developing the medium-term financial planning process;
- strengthening weaker support services, most notably the IS and IT service and management of school buildings;
- extending joint working recognising the important role of the LSP;
- improving aspects of documentation in development control; and
- improving risk management arrangements.

Council Performance - CPA improvement report

Over the past year, the council has made clear progress against a number of key corporate improvement priorities and is clear where further progress is needed. It has achieved an improved external assessment of the benefits service while maintaining often high levels of performance in other services.

There is now considerably greater clarity about the council's strategic priorities, expressed at the highest level through the corporate plan of June 2004. Corporate capacity has been enhanced through, for example, strengthening of performance management, improved budgetary control and the formation of Poole Housing Partnership to manage the housing stock.

Further work continues in key areas. These include performance and financial planning and management, strengthening weaker support services, extending joint working both internally and with other organisations and working to ensure achievement over time of the twelve target areas in the council's local public sector agreement.

Overview - CPA scorecard

The following text, agreed with the council in December 2004, can also be found on the Audit Commission's public website.

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

'Borough of Poole continues to be a good council.

It has made improvements in some important services in the past year, including housing and housing benefits. Performance in education remains strong. The amount of waste collected has significantly reduced, although the council did not meet its recycling target.

Some measures of community safety have improved, with burglaries and vehicle crimes lower, although violent offences have increased.

Use of bed and breakfast accommodation for homeless people has reduced significantly. Performance in adults and children's social services has been maintained. There is still some way to go to meet obligations under the Disability Discrimination Act, with only 23 per cent of public buildings accessible to disabled people.

The council has set a clear and challenging agenda for the borough through the 'Striving for Excellence' strategy. This includes five key projects critical to the future of the town and those associated with it.

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

How do Borough of Poole's main services perform?

As last year, core service performance in eight service areas has been scored on a scale from one to four, one being lowest and four highest.

Over 2004, the score for benefits increased from three to four. Other scores remained the same as previously, giving an overall score of three out of four for service performance.

CPA improvement report

Priorities

Over the past year, the council has continued to address the need, highlighted in the 2002 CPA corporate assessment, for greater clarity about its longer-term strategic and service priorities and also about what are not priorities.

In June 2004 the council published its corporate strategy for Poole, developed from the priorities agreed after the May 2003 local elections. The new corporate strategy and business plan 'Striving for Excellence' sets out the council's ambitions and priorities for the period 2004 to 2007.

This gives the council a clear statement of its strategic priorities. Key challenges now being addressed by the council are to:

- develop its leadership of the five key priority areas set out in 'Striving for Excellence' to ensure delivery of the 20 outcomes sought within it;
- continue to work in accordance with the medium-term financial plan to ensure closer alignment of resources and priorities;
- complete the review of the capital programme to ensure it remains focused on agreed priority areas; and
- work to achieve improvements over time in the twelve target areas set out in the Local Public Service Agreement with central government.

Ambition

The council shares its overall vision for Poole, initially expressed in 1997, with the Poole Partnership. The council's means of achieving this vision have been clarified and strengthened by 'Striving for Excellence', and by the development of five 'XL' projects seen as key within this:

- Customers First;
- Full Sail Ahead;
- Schools for the Future;
- Poole Connects; and
- Pride in Poole.

Over the past year, the council has continued to strengthen and make more visible its leadership, both of the community and internally, to help turn its vision into reality. This has included allocation of lead responsibility for council priority areas (including the five XL projects) to individual portfolio holders in the Cabinet and to policy directors working with them.

Future plans

The council has demonstrated clear and comprehensive awareness of the main areas it needs to focus on to ensure it has the capacity to achieve its ambitions over the medium to longer-term. Most are described in 'Striving for Excellence'. Areas recognised as being in need of strengthening or refining include:

- clarifying specific objectives to support the council's overall strategic direction;
- securing additional funding, particularly capital;
- refining revenue budget planning and linking it more closely to priorities;
- strengthening support services previously known to be weak, such as property and ICT (with the development of new ICT improvement and investment plans);
- more fully embedding performance monitoring and management;
- improving capital programming and project management;
- developing joint working, both internally and with other organisations;
- implementing corporate risk management; and
- enhancing democratic arrangements, including Scrutiny.

Specific proposals in relation to the above are either in place or at an advanced stage of development. This is the case also for the five key priority 'XL project' areas where step changes in performance are being sought:

- 'Customers First' aims to improve services to all through the use of new technology;
- major plans for development and organisation of the council's schools are brought together by the 'Schools for the Future' project;
- longer-term plans for regeneration of Poole and the new Twin Sails bridge are now both incorporated within the 'full Sail Ahead' project;
- 'Poole Connects' aims to facilitate community engagement; and
- 'Pride in Poole' to improve the general appearance and cleanliness of the Town.

Focus

The council has until recent months maintained a clear focus on implementing the priorities highlighted within the first CPA action plan. These included:

- improved articulation of corporate direction and performance management;
- improved budgetary control;
- developing a new corporate planning framework;
- the introduction of programme leadership by portfolio holders;
- common summary business plans;
- improved management training; and
- online performance reporting.

Following the development 'Striving for Excellence' corporate priorities have, appropriately, become more externally focused than previously, as described above.

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

The council responded well to the budgetary challenges within social services. The past tendency of service units to exceed their annual budgets has been addressed by the introduction of robust budgetary control, and it is now working within budget.

Key challenges in 2005 and beyond at the service level will be to:

- maintain focus on the council's new corporate priorities while continuing to improve services that are not performing to expectations or potential; and
- ensure that the corporate priorities and milestones are over time reflected in the council's other plans and strategies as they are revised.

Capacity

Over the past year, corporate capacity has been enhanced through:

- strengthening of the performance management team;
- funding a specialist project or programme management capability for three of the five 'XL' projects;
- development of the medium-term financial plan;
- improved budgetary control, generally and particularly in social services;
- the gradual re-allocation of resources towards priority services;
- development of partnership arrangements for example for the provision of sports centres and care facilities;
- market testing of dementia services;
- entering into a partnership arrangement with Bournemouth Borough council for major procurement decisions; and
- formation of the Poole Housing Partnership with the potential to secure substantial additional funding to improve the quality of the housing stock.

'Striving for Excellence' describes building blocks that require further improvement or development if the strategy is to be achieved, including:

- workforce planning;
- procurement arrangements;
- access to services;
- customer service standards;
- race equality scheme (to achieve level 2 of the equality standard); and
- improved project and programme management.

Performance management

An enhanced corporate performance monitoring and management framework was approved by Cabinet in June 2004. This requires service units to:

- produce an annual rolling three-year business plan to an agreed standard and linked to corporate strategies;
- undertake a risk based approach to business planning;
- improve arrangements for quarterly collecting and reporting of performance data; and
- quarterly monitoring of key performance indicators for corporate and service areas where performance is amongst the lowest 25 per cent in terms of national indicators.

As the arrangements are refined and implemented, key challenges will be to:

- ensure that the new performance framework is increasingly embedded across the whole organisation;
- ensure strengthened links between the developing corporate strategy, business plans for 2005/06, and personal targets;
- strengthen links between business planning, resource allocation and budget setting and control;
- ensure and where necessary enhance the effectiveness of the respective roles of members (including Scrutiny), policy directors and heads of service; and
- ensure a more consistent and robust approach to performance management of the council's partnership arrangements.

Achievement

The council provides good services in most areas, with an overall net improvement in performance in the past year.

In 2003/04, overall performance as measured by BVPIs was good compared with other councils, with 70 per cent of indicators better than average. Overall there was a net improvement, with 55 per cent of comparable indicators improving over the year. In the council's priority services, there was:

- generally strong performance in education, with 56 per cent of 16 comparable indicators improved and 45 per cent (of 22 indicators) in the top quartile;
- improved performance in housing, with 63 per cent of eight comparable indicators improved;
- improving performance in social services, with five out of six comparable indicators improved;
- the Benefits Fraud Inspectorate concluded that the council's benefits performance had improved over the past year and assessed the council as 'fair towards good'.

Performance in environmental services in 2003/04 was better than average (65 per cent of 29 BVPIs were in the top or second quartiles and 58 per cent of 24 comparable indicators had improved).

Although performance as measured by comparable BVPIs is on balance improving, the council has acknowledged that it needs to review its service targets to ensure that they are sufficiently challenging. It has also established new procedures to ensure that members and policy directors closely monitor any PIs that are within the lowest quartile.

Recent inspections

Housing management was assessed (December 2003) as good with promising prospects for improvement.

Information systems and information technology services was assessed as poor with uncertain prospects for improvement. The council was however quick to take action on the adverse report and a new ICT improvement plan, strategy group and investment plan have been established.

Similarly, action has been taken to address previous shortcomings within social services. Budget overruns have been addressed and the CSCI's annual performance ratings for social services show the council to be serving most adults well and some children, both with promising prospects for improvement.

CPA improvement report - overall conclusion

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

The council has made further progress in 2004 against the often internally-focused priorities it set itself following CPA. Frontline services overall have also improved. It has formulated a challenging programme of development and improvement for the next three years under the 'Striving for Excellence' banner.

The council will need to ensure that it has the capacity to take these challenges forward and to achieve the outcomes that it desires. At the same time it has recognised that it needs to improve those services that are currently performing below desired levels or below potential.

Council performance - other performance and inspection work

This section summarises the outcomes from all other Audit Commission performance and inspection work over the past year.

Performance audit

The effectiveness of corporate and performance management arrangements has improved considerably since the CPA inspection and they continue to develop and evolve. The council is clear where further improvement is most needed, such as performance management, member Scrutiny and ensuring greater compliance with agreed corporate standards.

Procedures followed in the processing of planning applications and in taking planning enforcement action are often consistent with good practice. Further improvements can be made, particularly in relation to file recording and management of section 106 agreements.

Arrangements for the management of school buildings have been a cause for concern for some time, with low levels of satisfaction from schools with the council's technical property support service. Strategic management of council assets is better.

Corporate and performance management arrangements

As a key element of the programme of performance audit work, the remit of this project was to assess the effectiveness of the developing corporate and performance management arrangements in their widest sense.

Considerable progress has been made since the CPA assessment in 2002, such as

- development of high-level strategic priorities, brought together in the corporate strategy and business plan '*Striving for Excellence 2004/07*';
- revised political management arrangements including a single-party Cabinet;
- introduction of a revised framework for monitoring and managing performance; and
- an increasing corporate focus on the major challenges facing the council such as the organisation of its schools.

Our review has not brought any unexpected areas for development to light; it has instead provided an external 'snap-shot' perspective on these issues as they continue to develop and evolve.

The review highlighted the need in particular to:

- make more explicit the relationships between corporate priorities, councillor portfolios and strategic projects;
- develop performance measures to allow progress towards strategic outcomes to be monitored over time;
- co-ordinate the development of a community plan for Poole;
- ensure performance targets for services are appropriately challenging;
- strengthen the relationship between the corporate strategy and the medium-term financial plan;
- enhance management of the performance of partnerships with which the council is involved;
- develop the role of member Scrutiny; and
- ensure corporate standards in key areas such as risk management and procurement and understood by and complied with across the whole council.

An action plan in response to the report is being finalised.

Development control

The 2003/04 audit and inspection plan included a review of development control procedures, carried out jointly with Internal Audit.

The main report considered two main areas: the processing of planning applications and the procedures in place for taking enforcement action.

Areas where the council has procedures that are in line with good practice include:

- a clear scheme of delegation, reviewed regularly by members;
- a code of conduct for officers and members;
- compulsory member training prior to sitting on the planning committee;
- compliance with consultation protocols and good response rates to it;
- clear guidance for developers in relation to the requirements of section 106 (s106) agreements;
- a management system for the control of income collection of s106 agreements; and
- clear protocols for enforcement issues raised by the public and a high number of enforcement notices.

However, there are a number of areas that the council needs to consider developing to ensure that a high quality service is delivered, including:

- establishing a Development Control Charter;
- enhancing the service plan to relate more closely to relevant corporate objectives;
- revision and adoption of appropriate procedures for the Development Control process including effective procedures for enforcement activity; and
- improving overall recording procedures within enforcement files.

Further, for section 106 agreements the following recommendations were also made.

- For each future significant section 106 agreement a project strategy should be established setting out:
    - the full range of possible obligations;
    - a list of aims and objectives; and
    - an internal ‘capacity’ assessment should be completed, showing when/if external consultants should be approached for specialised advice/skills.
- Documentation showing calculations and negotiations of obligations should be fully retained to provide a clear ‘evidence trail’.

The second report specifically considered the procedures on a major site where encroachment took place. It concluded that for future major developments the council should review its procedures and be more proactive to identify problems at an earlier stage.

Education

A review of the council’s arrangements for managing its school buildings was reported in February 2004. The main conclusion was that technical property support provided to schools is generally weak. Poor communication between the property services unit and the schools advice and support unit means that there is a lack of coordination on resource and project planning. Schools reported low levels of satisfaction with support they receive on maintaining their buildings and managing building projects.

However, performance on strategic management of the assets is better. The council has made a good start on setting up the systems and processes needed to support effective asset management. Its knowledge of the needs and priorities in order to improve school buildings is growing rapidly although it has yet to use this information to provide a strategic direction for its investment in school buildings.

Poole Bridge and central area / Hamworthy regeneration

The second opening bridge and related development opportunities, now known as ‘Full Sail Ahead’, is one of the five key ‘XL’ projects in the council’s corporate strategy.

‘Full Sail Ahead’ is intended to be much more than just a bridge. It is designed to regenerate the lower Hamworthy and town centre areas, bringing more housing, including affordable housing, jobs, business premises, new facilities and public areas, self evidently a major undertaking.

The scheme has attracted a government grant of approximately £14 million for the bridge, but is mainly dependant on private finance from the developers and landowners to progress the scheme.

We will continue to exercise a ‘watching brief’ role as appropriate as the project progresses.

Performance information

The council did not publish a stand-alone BVPP this year, as it is entitled to do following achievement of 'good' CPA status. In common with all authorities, however, it remains necessary to publish statutory BVPIs and these continue to be subject to audit.

Following completion of this audit, one indicator has been 'reserved' as no data was available and sixteen indicators were amended following audit and re-published on the council's website. We gave an unqualified opinion on the 2004/05 BVPI indicators on 8 December 2004.

Audit Commission inspections

The council's information systems and information technology service at the time of our inspection in February was weak. Despite well-regarded technical abilities within the service, it had little strategic direction and satisfaction with it from internal users was low. Substantial efforts to address weaknesses in the service have been made, including the agreement of an IT improvement plan and the planned appointment of a new head of service.

'Light-touch' inspections of environmental and of cultural services confirmed that a full inspection of either service would not be appropriate for 2004/05. The council is clear about areas for further improvement of these services and progress is expected to have been made over the past year.

A full inspection of the council's recently established arms-length housing management organisation took place in November 2004.

Information systems and Information Technology

The council's IT budget for 2003/04 was £3.6 million. The council provides the majority of the service itself, with outside contractors providing telecommunications and also support on specific projects.

The council was assessed at the time of the inspection (February 2004) as providing a poor service with uncertain prospects for improvement.

Weaknesses included:

- links to corporate aims were not clear and IT strategies did not support council priorities;
- service aims lacked clarity and were not driven by a customer-focused approach to service provision;
- satisfaction with the overall IT provision in the council was low;
- service level agreements were not used effectively;
- IT does not play a clear role in planning service improvements across the council;
- partnership working with other organisations is not well developed, so the council is missing opportunities both to increase capacity and access to expertise, and to reduce costs, through this means; and
- the council does not know the full costs of its IT service and there are many inefficiencies because of the number and age of different computer systems.

However, the service had some strengths:

- the technical ability of staff is well regarded;
- project managers and the help desk provide good standards of customer care;
- ICT resources have been used to support improvements in services to the public, such as the council's external website; and
- computer systems that support front line services have a generally good record of availability.

Positive evidence that the council is already working to improve IS and IT include:

- recognition of the need to change culture of the service and for it to be more customer-focussed; and
- recent progress on identifying future IT needs and incorporating this into medium-term financial and business plans.

An IT improvement plan was agreed by Cabinet in June 2004.

Regular performance assessments - introduction

As part of it's commitment to strategic regulation, the Commission used a risk-based approach in 2004 to determine whether a full re-inspection of a service area would be warranted. Two 'Regular Performance Assessments' (RPAs) were carried out in Poole in 2004. Both confirmed that a re-inspection of the service areas considered would not be appropriate as part of the 2004/05 programme of work.

Regular performance assessment - cultural services

Cultural services (principally libraries and leisure) were found to merit scores of three out of four for quality of service and for capacity to improve. On this basis, a re-inspection of this service area in 2004/05 was considered not to be appropriate.

The council provides high quality cultural services:

- the new central library, Rossmore Learning Centre and Local Studies Centre are considered regional exemplars;
- the council is effectively supporting tourism in the area;
- beaches have Blue Flag awards, and several parks have Green Flag awards; and
- arts development is clearly focused on delivering high quality work with communities.

However, to offset this:

- the approach to promoting cultural diversity is underdeveloped;
- evaluation of the outcomes and impacts of cultural services activity is in its infancy;
- several built assets have suffered from a lack of investment; and
- sports and leisure facilities are generally in poor condition and some libraries are in need of 'backlog' repair and maintenance.

The council is clear about what it needs to do to address some of these issues, such as the procurement exercise for leisure centres and securing additional resources for maintenance work. These areas have been identified as priorities for improvement. Particular issues the council could usefully address are to:

- identify clear improvement priorities for cultural services;
- develop mechanisms to evaluate the outcomes and impact of cultural services in contributing to shared priorities; and
- develop an approach with partners to promote cultural diversity.

Regular performance assessment: Environment

A re-inspection of environmental services (planning, waste and transport) in 2004/05 was found not to be appropriate, based on the individual scores for each service area.

Planning services: The council has produced an up-to-date local plan and supported this as appropriate with supplementary planning guidance. There are effective planning policies to protect the rural and marine environment, and the success rate at appeal demonstrates its ability to reach sound planning decisions. The council has put in place measures to ensure that it reaches planning decisions in a fair and transparent way.

The council has delivered 502 new dwellings compared to its annual structure plan requirement of 559 dwellings. It takes over-long to deal with minor and major planning applications, although there was some improvement in dealing with major planning applications in 2003/04.

Waste management: In past years the council has performed very well in recycling, achieving an 18 per cent rate in 2002/03. As a result of strong past performance the council has extremely challenging recycling targets of 33 per cent in 2003/04 and 40 per cent in 2005/06. The council has recently issued additional blue recycling bins to help meet recycling targets.

In contrast to recycling, the waste tonnage collected per head of population is among the highest in the country. Although this reduced in 2003/04, it is likely to remain in the bottom quartile.

The council has met DEFRA's target of 70 per cent against the cleanliness BVPI. It is seeking to educate and modify behaviours, for example the 'Pride in Poole' initiative seeks to tackle the relationship between attitudes and antisocial behaviour such as dropping litter and graffiti.

Local transport: The council has not clearly assessed travel needs in the borough or used this to establish an effective Local Transport Plan (LTP). The LTP covers the principal urban areas of Bournemouth, Poole and Christchurch and is assessed as 'average' by GOSW. The council recognise that the plan presents mixed messages and a different set of priorities have since emerged for Poole and Bournemouth. This is partly the result of historic planning decisions relating to out of centre shopping development. The council believes that the joint nature of the plan has resulted in lower funding for both Poole and Bournemouth. The council's lack of a coherent transport strategy is further demonstrated by the current over-provision of town centre car parking and the closure of Poole's park and ride scheme shortly after it opened.

Public satisfaction with public transport in Poole is low.

The condition of minor roads and footways in the borough is below average although the condition of main roads is above average.

The council needs to:

- develop clear transport priorities;
- establish a common consensus around the LTP; and
- develop a coherent and integrated strategy for reducing congestion.

Housing ALMO inspection

A full inspection of the council's recently established arms-length housing management organisation took place in November 2004 and reported in January 2005. This concluded that the housing management service provided by Poole Housing Partnership (PHP), has been rated as providing 'excellent' housing services with 'promising prospects' for improvement.

The 'excellent' three star rating means that the council will receive £8.75 million additional capital funding to 31 March 2006, to improve the quality of its homes. This could potentially lead to a further £26.65 million over the next five years.

Services have been improved, they are customer focused and reflect the diverse community serviced by both organisations. PHP is working closely with its partners to continually improve services. It has effective approaches to tackling anti-social behaviour, well maintained estates, an effective approach to gas servicing arrangements, a wide range of rent paying options and high quality supported housing services.

Areas requiring further attention include increasing the number and range of tenants involved in managing and monitoring services and speeding up the time taken to carry out major adaptations to tenants' homes.

Accounts and governance

We gave an unqualified audit opinion on your accounts on 5 November 2004.

Your overall corporate governance arrangements are satisfactory in most key areas, although the council's approach to risk management and also the documentation of certain decisions needs to be improved.

Audit of 2003/04 accounts

We gave an unqualified opinion on the council's accounts on 5 November 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 annual accounts on 27 July 2004, a commendably early achievement.

Last year we emphasised that timeliness in producing the accounts will become increasingly important over the next few years as the deadline for completion of the accounts is brought forward nationally. The council actually met the more difficult 2005 deadline, a commendable achievement and one which leaves the council well placed to achieve the more challenging 2006 deadline of 30 June.

Report to those with responsibility for governance in the council

We are required by professional standards to report to those charged with governance (in this case the Service Provision, Scrutiny and Audit Committee) certain matters before we give an opinion on the financial statements.

There were no significant matters that we were required to raise with members and we issued our SAS 610 report on 5 November confirming this. During our audit of accounts a number of matters were raised with your accountants and the draft accounts were revised wherever necessary.

We issued a standard unqualified opinion on the council's financial statements for 2003/04 on 5 November 2004.

CPA Auditor judgements

We carried out an updated assessment of audited score judgements for the Audit Commission. The overall category scores remain unchanged from last year, although two of the subcategory scores in respect of financial standing were improved. These were meeting financial targets and the level of financial reserves. One relating to the financial statements decreased.

EXHIBIT 1 CPA AUDITOR SCORED JUDGEMENTS

Area of governance	Category scores	
	2002/03	2003/04
Financial standing	3	3
Systems of internal financial control	3	3
Standards of financial conduct, prevention and detection of fraud	4	4
Financial statements	4	4
Legality of significant financial transactions	3	3

Scale: 1 to 4, 4 being the best score.

Financial standing

The council's financial position is much improved on previous years with a satisfactory level of balances and an under-spend against budget forecast for 2004/05.

General fund spending and balances

The council's financial standing has improved significantly since 2003. In 2003/04 the council under-spent by £3.27 million, against a gross revenue budget of £126.2 million. This contrasts greatly with 2002/03 when the council exceeded its budget by £0.32 million after planned use of £2.66 million of reserves. Contributory under-spends occurred across a number of services, the largest being education.

Reserves as at 31 March 2004 stood at £6.02 million, equivalent to 7.5 per cent of net operating expenditure compared to the council target of 5 per cent set in February 2004. Since then the council has produced its corporate strategy set out in 'Striving for Excellence'. The council is developing its medium-term financial plan to bring this more in line with its strategic priorities. The council is shortly due to review the minimum level of balances for next year.

The forecast outturn for 2004/05 reported on 2 November 2004 indicates an overall under-spend against approved resources on the general fund revenue budget of £1.7 million (2 per cent of net budget excluding schools).

Budget setting and monitoring arrangements

Revenue and capital budget assumptions are based on projections about pay, inflation and the financial impact over time of implementing corporate priorities. Cost savings are identified, assessed for achievability and planned in advance. Known developments are anticipated and fully costed.

New budgeting and financial reporting procedures have been introduced over the past year and more frequent monitoring reports for members are now made available. These set out for Cabinet both financial and service performance, together with explanations of significant variances, on a monthly basis.

Housing Revenue Account (HRA)

The HRA balance at 31 March 2004 amounts to £937,000, equivalent to approximately £196 per property compared to the council's benchmark target of £150 per property.

The council set up an Arms Length Management Organisation for the management of its council housing with effect from 1 April 2004. The HRA will, never the less, continue to be required in the council's accounts.

Capital programme

The council adopted the CIPFA Prudential Code in February 2004. The financing of the capital programme is agreed and monitored by members and is in their judgement prudent, affordable and sustainable in accordance with the Code. Prudential indicators have been set for the next four years.

The capital programme is based on the needs across all services as set out in the authority's capital strategy which is consistent with its medium-term financial strategy.

We have in the past reported substantial slippage against capital programmes. Our report made recommendations to improve the monitoring and control of capital projects and progress is being made in implementing these. A high level strategy group has been set up to develop the council's capital programme in line with corporate strategy and to develop controls for the development and appraisal of new projects.

While in 2003/04 the council under-spent by £6.4 million against its capital budget of £29.7 million, it believes it is broadly on target to deliver the planned capital programme of £24.6 million for 2004/05.

Pensions fund deficit

In accordance with the Financial Reporting Standard 17, the council is now required to show its share of assets and liabilities related to pension schemes for its employees in its annual accounts.

As at 31 March 2004, the net pension deficit of the local government scheme amounted to £60.7 million. Assets amounted to 66 per cent of accrued liabilities. These figures were based on an interim valuation of the fund in September 2002.

The council paid employers' contributions of £6.39 million (equivalent to 15.4 per cent of payroll costs) in 2003/04. In line with recommendations of the actuary, contributions were increased in 2004/05 by 1.68 per cent

A full valuation of the fund was carried out in September 2004. The draft valuation showed the scheme to be 73 per cent funded and contributions are now in line with the level recommended by the actuary to achieve 100 per cent funding over a 20 year period.

Systems of internal financial control

With the exception of the lack of effective risk management arrangements, we have not identified any significant weaknesses in the overall control framework.

Internal Audit

Internal Audit provides an effective service. The section complies with relevant professional standards, maintains a risk based annual audit plan and reports formally to members. We are able to rely on their work and this year we have increased joint working on BVPIs and housing benefits.

Steps are being taken to address two areas where performance at the time of our audit could be further improved were:

- improving reporting to members, currently fragmented. It is hoped that the new arrangements for Internal Audit to report to the Service Provision Scrutiny and Audit Committee will improve this; and
- developing Internal Audit's role in risk management as this is implemented across the authority.

Risk management

The council does not yet have a council-wide risk register and a corporate approach to risk management has not yet been implemented.

The council is now working towards the implementation of a risk management framework and a timetable has been drawn up for the development of a risk strategy. A progress update on the development of this was presented to Resources Overview Group on 13 May 2004, proposing the establishment of a risk management framework within the next 12 months.

Risk management is an important element of the Statement of Internal Control (SIC). The SIC action plan within the financial statements states that a risk strategy will be in place by March 2005.

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.

Processes are in place to promote awareness of anti fraud and corruption issues in the governance framework. Heads of service have recently been reminded to increase awareness among their staff of this issue.

All allegations of fraud and corruption are pursued, and decisions recorded at key stages until the investigation is complete.

National Fraud Initiative (NFI)

The council took part in the Audit Commission's National Fraud Initiative (NFI) 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, of which £11,200 savings were identified at Poole.

Processes are in place for the systematic investigation of data from a range of sources including NFI matches.

The Commission are repeating the exercise this year and will again collect payroll, pensions, housing benefits, student loan and housing rents data from local 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 local 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.

Legality of transactions

We have not identified any significant weaknesses in the council's framework for ensuring the legality of its significant financial transactions, other than the need for some improvements to the documentation of decisions. A long-standing objection in relation to Poole Quay has been resolved.

The council's overall arrangements for ensuring the legality of its financial transactions are adequate. Local government electors have certain statutory rights and we have considered questions and objections received as appropriate. There are some specific matters arising that we need to report to members.

Poole Quay

In March 2000, a revised long-term lease was entered into with Orb Developments Ltd for land at Poole Quay (the former Poole Pottery site). We received an objection to the council's 2000/01 accounts from the Alliance of Residents Associations in Poole (the Alliance).

The Alliance was seeking the issue of a report in the public interest on the basis that inadequate compensation had been received by the council under the lease and the related section 106 planning agreement. The letter of objection was supplemented by a series of correspondence, telephone calls and meetings.

Following detailed consideration of the information supplied by the Alliance, review of council documentation and discussions with officers and others it was decided that it was not appropriate to issue a formal report in the public interest. However, there were some issues that needed to be considered by the council. Details have been set out in an audit report, presented to the Cabinet in October 2004 together with an action plan. In summary the council should:

- consider and formalise its policies regarding the retention of the freehold when disposing of land; and
- strengthen the level of documentation available to support actions taken. For example, where discussions take place outside of formal meetings between members and/or officers which might lead to key decisions or actions.

We will be considering progress against the action plan at future audits.

The council continues to deal with various issues relating to this site, not least those arising from the liquidation of the development companies. A settlement has recently been agreed in relation to the encroachment of the development on to council land.

Other issues

Recent correspondence with two local government electors is currently being considered. As soon as these matters have been resolved satisfactorily a formal certificate of completion of the 2003/04 audit will be presented.

Other work

Grant claims

Over recent years the number of claims requiring audit certification has grown and audit fees have risen in line with this growth. In accordance with its commitment to strategic regulation, the Audit Commission has adopted a more risk-based approach to the certification of grant claims. With effect from 2003/04, smaller claims will be subject to audit or will receive a lighter touch audit. The approach to larger claims will be determined by risk and by the adequacy of the council's control environment.

The council's arrangements for managing and quality assuring grant claims submitted for audit has improved in recent years and there are no issues currently of significant concern.

Looking ahead

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.

We will seek to ensure, wherever possible, that our work relates to the improvement priorities of the council when planning our programme of work for 2005/06. We will seek to reconsider, with you, your improvement priorities in the light of the CPA assessment and your own analysis, and develop an agreed programme by 31 March 2005.

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 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 2005/06.

Closing remarks

This letter was discussed and agreed with the Leader of the council, the Chief Executive and the Head of Finance on 6 January. A final draft of the letter will be presented to Cabinet on 25 January 2005.

The council has taken a positive and constructive approach to our audit and inspection. I would like to take this opportunity to express my appreciation for the council's continuing assistance and co-operation.

Availability of this letter

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

Martin Robinson
District Auditor and Relationship Manager
January 2005

Status of our letter 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.

APPENDIX 1

Reports issued during 2004

Report		Date issued
IT and IS Services	Inspection	January 2004
Audit Plan 2004/05	Plan	March 2004
Regular Performance Assessment: Culture	Inspection	March 2004
Regular Performance Assessment: Environment	Inspection	June 2004
Interim Audit Memorandum	Regularity Audit	July 2004
Development Control	Performance Audit	Draft October 2004
Corporate and Performance Management Arrangements	Performance Audit	October 2004
Final Accounts Memorandum 2003/04	Regularity Audit	Draft November 2004
Housing - ALMO	Inspection	Draft November 2004

APPENDIX 2

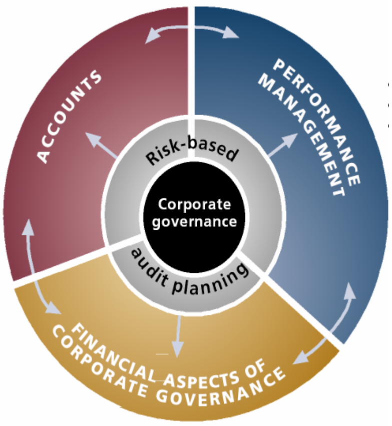
Scope of audit and inspection

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 2.

EXHIBIT 2 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 (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; 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.

APPENDIX 3

Audit and Inspection fee

Audit fee update

The audit fee is expected to conform to that shown in the plan as shown below. However the audit has not been fully concluded and should this change we will advise the authority of any changes. A number of grant claims remain to be examined and we will advise the authority of the total on conclusion of this work.

Audit area	Plan 2003/04 (£)	Actual 2003/04 (£)
Accounts	37,608	37,608
Financial aspects of corporate governance	35,236	35,236
Performance	66,436	66,436
TOTAL CODE OF AUDIT PRACTICE FEE	**139,300**	**139,300**
Grant claim certification	52,500	Information to follow.
Additional voluntary work (under section 35)		

Inspection fee update

The full year inspection fee is £66,800. 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.