

Report for Resolution

Report to Executive
8 April 2009
Report of Chief Executive
Subject Annual Audit Letter 2007/08

5

Purpose

To report to Audit Commission's Annual Audit Letter 2007/08 to Executive, and to set out how improvement plans to address the issues highlighted will be managed.

Recommendations

Executive is asked to:

- Note the contents of the Annual Audit Letter 2007/08
- Refer to the report on the "Corporate Improvement and Efficiency Board" elsewhere on the Executive agenda for proposed actions to achieve necessary improvements.

Financial Consequences

There are no direct financial consequences to this report.

Risk Assessment

The Annual Audit letter sets out a range of areas where the City Council needs to improve its performance. These will be addressed through a dedicated improvement and efficiency work programme (see separate report elsewhere on this Executive agenda). All risks will be assessed as part of that work programme.

Strategic Priority and Outcome/Service Priorities

The report helps to meet all of the City Council's strategic priorities.

Ward: All members and wards.

Contact Officers

Laura McGillivray, Chief Executive

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Background Documents

None

Report

1. Each year the Audit Commission publishes an “Annual Audit Letter”, which provides an overall summary of the Audit Commission's assessment of the Council. It draws on the most recent Comprehensive Performance Assessment (CPA), the findings and conclusions from the audit of the Council for 2007/08 and from any inspections undertaken since the last Annual Audit and Inspection Letter.
2. The letter is normally addressed to members as it is the responsibility of the Council to ensure that proper arrangements are in place for the conduct of its business and that it safeguards and properly accounts for public money. The letter makes recommendations to assist the Council in meeting its responsibilities.
3. It is important to note that the letter refers to the 2007/08 financial year, which ended around 12 months ago. Inevitably this means that the Council has undertaken some subsequent actions, although the Audit Commission have been careful to take account of developments where appropriate.

Content of the letter

4. The 2007/08 Audit Letter provides a mixed story. The City Council has made good progress in a number of areas, notably its financial management, but performance in some key service areas remains modest.
5. The main messages for the Council included in this Annual Audit and Inspection Letter are as follows.
 - Through good working with neighbouring local authorities, partners and stakeholders, the Council is improving outcomes for some local communities
 - There has been limited progress in improving service performance, and the rate of improvement as measured by the national indicators, remains slower than in other district councils
 - The Council has been slow to progress its approach to diversity and equality, but it should achieve level 2 of the equality standard by the end of March 2009
 - The approach to performance management is strengthening, but more work is needed to embed this as a part of everyday Council business. Capacity in key corporate areas is improving and external support has been sought to enhance leadership capacity
 - The future of local government in Norfolk is currently subject to a review by the Boundary Committee, and this is inevitably drawing on the capacity of officers, councillors and partners
 - The value for money conclusion was qualified due to ongoing weaknesses in internal control and financial management arrangements
 - The Council achieved a level 2 in our use of resources judgement which represents an adequate level of performance and an improvement on last year's assessment
 - We issued a qualified audit opinion on the Council's 2007-08 financial

statements. The qualification related to comparative information disclosed in respect of the previous year's accounts. Despite notable improvements, considerable issues remain with the quality of data underpinning the financial statements and with the Council's ability to deal with technical accounting matters and changes. Both processes and the knowledge base need to be strengthened in order to maintain progress in this area.

Actions needed

6. The Audit Commission recommend that the City Council should:
 - ensure that the recommendations made in the Appointed Auditor's Annual Governance Report and Addendum are implemented;
 - continue to drive forward the Council's improvement programme to address areas of poorer performance; and
 - address the issues necessary to improve the Council's use of resources assessment and the value for money conclusion.

Actions proposed

7. Through its "Aiming for Excellence" programme, the City Council has made huge improvement strides in recent years, but this now needs to be accelerated, and particularly focussed on key service areas. Furthermore, the economic downturn has had a dramatic effect on the Council's budget, as well as seeing a significant increase in demand for certain services.
8. This means that a fundamental refresh and upgrading of the "Aiming for Excellence" programme is now needed to ensure that it can ensure that the City Council is ready to support local people as they respond to the demands of the economic downturn, deliver significant efficiency savings in order to balance the budget, and ensure performance improvements in key service areas.
9. Accordingly, we propose to establish a powerful "Corporate Improvement and Efficiency Board" with internal and external representation to drive the transformation agenda forward. This approach has been discussed with the Audit Commission as a vehicle to manage our response to the Annual Audit Letter 2007/08. The next agenda item sets out in more detail how this will be organised.
10. Executive is asked to:
 - Note the contents of the Annual Audit Letter 2007/08
 - Refer to the report on the "Corporate Improvement and Efficiency Board" elsewhere on the Executive agenda for proposed actions to achieve necessary improvements.

Annual Audit and Inspection Letter

Norwich City Council

Audit 2007/08

March 2009



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Status of our reports

The Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission explains the respective responsibilities of auditors and of the audited body. Reports prepared by appointed auditors are addressed to members or officers. They are prepared for the sole use of the audited body. Auditors accept no responsibility to:

- any member or officer in their individual capacity; or
 - any third party.
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Key messages

- 1 The main messages for the Council included in this Annual Audit and Inspection Letter (letter) are as follows.
 - Through good working with neighbouring local authorities, partners and stakeholders, the Council is improving outcomes for some local communities.
 - There has been limited progress in improving service performance, and the rate of improvement as measured by the national indicators, remains slower than in other district councils.
 - The Council has been slow to progress its approach to diversity and equality, but it should achieve level 2 of the equality standard by the end of March 2009.
 - The approach to performance management is strengthening, but more work is needed to embed this as a part of everyday Council business. Capacity in key corporate areas is improving and external support has been sought to enhance leadership capacity.
 - The future of local government in Norfolk is currently subject to a review by the Boundary Committee, and this is inevitably drawing on the capacity of officers, councillors and partners.
 - The value for money conclusion was qualified due to ongoing weaknesses in internal control and financial management arrangements.
 - The Council achieved a level 2 in our use of resources judgement which represents an adequate level of performance and an improvement on last year's assessment.
 - We issued a qualified audit opinion on the Council's 2007-08 financial statements. The qualification related to comparative information disclosed in respect of the previous year's accounts. Despite notable improvements, considerable issues remain with the quality of data underpinning the financial statements and with the Council's ability to deal with technical accounting matters and changes. Both processes and the knowledge base need to be strengthened in order to maintain progress in this area.

Action needed by the Council

- 2 The Council should:
 - ensure that the recommendations made in the Appointed Auditor's Annual Governance Report and Addendum are implemented;
 - continue to drive forward the Council's improvement programme to address areas of poorer performance; and
 - address the issues necessary to improve the Council's use of resources assessment and the value for money conclusion.

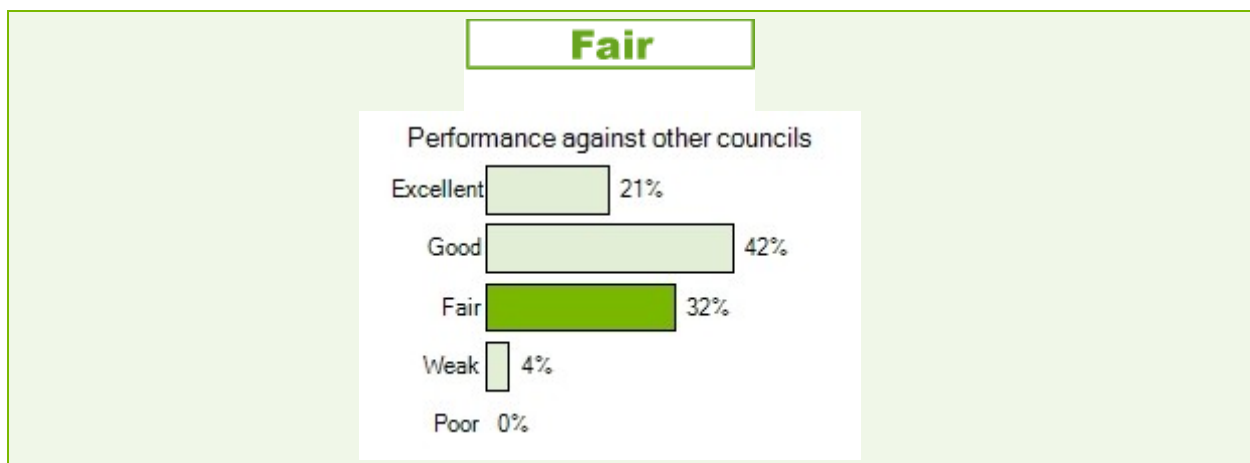
Purpose, responsibilities and scope

- 3 This report provides an overall summary of the Audit Commission's assessment of the Council. It draws on the most recent Comprehensive Performance Assessment (CPA), the findings and conclusions from the audit of the Council for 2007/08 and from any inspections undertaken since the last Annual Audit and Inspection Letter.
- 4 We have addressed this letter to members as it is the responsibility of the Council to ensure that proper arrangements are in place for the conduct of its business and that it safeguards and properly accounts for public money. We have made recommendations to assist the Council in meeting its responsibilities.
- 5 This letter also communicates the significant issues to key external stakeholders, including members of the public. We will publish this letter on the Audit Commission website at www.audit-commission.gov.uk. (In addition the Council is planning to publish it on its website).
- 6 Your appointed auditor is responsible for planning and carrying out an audit that meets the requirements of the Audit Commission's Code of Audit Practice (the Code). Under the Code, your appointed auditor reviews and reports on:
 - the Council's accounts;
 - whether the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources (value for money conclusion); and
 - whether the Council's best value performance plan has been prepared and published in line with legislation and statutory guidance.
- 7 This letter includes the latest assessment on the Council's performance under the CPA framework, including our Direction of Travel report, and the results of any inspections carried out by the Audit Commission under section 10 of the Local Government Act 1999. It summarises the key issues arising from the CPA and any such inspections. Inspection reports are issued in accordance with the Audit Commission's duty under section 13 of the 1999 Act.
- 8 We have listed the reports issued to the Council relating to 2007/08 audit and inspection work at the end of this letter.

How is Norwich City Council performing?

- 9 Norwich City Council was assessed as 'Fair' in the Comprehensive Performance Assessment carried out in 2003. These assessments have been completed in all district councils and we are now updating these assessments, through an updated corporate assessment, in councils where there is evidence of change. The following chart is the latest position across all district councils.

Figure 1 Overall performance of councils in CPA



Source: Audit Commission

The improvement since last year - our Direction of Travel report

Summary

- 10 Norwich City Council has made limited progress in improving services, and the rate of improvement remains slower than in other district councils. A new corporate plan clearly sets out the City's priorities for the next three years. Good working with neighbouring local authorities, partners and stakeholders is improving outcomes for some local communities. The Council's slow progress in diversity and equality has reduced its ability to assess the impact of its actions, especially for people who are most vulnerable. However, it should achieve level 2 of the equality standard by the end of March 2009.
- 11 The approach to performance management is strengthening, but more work is needed to embed this as a part of everyday Council business. Capacity in key corporate areas is improving and external support has been sought to enhance leadership capacity.

- 12 The future of local government in Norfolk is currently subject to a review by the Boundary Committee, and this is inevitably drawing on the capacity of officers, councillors and partners.

What evidence is there of the Council improving outcomes?

- 13 There has been limited improvement in the performance of Council services. Compared with the previous year, 54 per cent of the Council's performance indicators (PIs) for 2007/08 improved. This was again below the average rate for district councils in England. The Council was amongst the top performers in only 17 per cent of the PIs, compared to a national average of 33 per cent. Performance in over 60 per cent of PIs was below average. Local people are receiving some improved services, but overall performance and total expenditure on services in Norwich compares poorly with other district councils.
- 14 The Council has reviewed the 2007/08 corporate plan and revised its priorities in a new corporate plan covering the period 2008-2010. This has simplified its vision and places a much stronger focus on five key priorities. These are:
- Strong and prosperous city;
 - Safe and healthy neighbourhoods;
 - Opportunity for all;
 - The Aiming for Excellence programme; and
 - Unitary status.
- 15 Progress in delivering the key performance measures associated with the priority of a strong and prosperous city has been mixed. Progress on delivering key short-term priorities is largely on target and has delivered positive outcomes, such as the improvements to the St. George's Street area and the use of developer contributions for new play areas. Local Enterprise Growth Initiative funding has been used to open a new enterprise centre and has created 187 jobs, safeguarded a further 57 and provided support to 362 businesses. However, the current economic climate which has contributed to a reduction in funding for capital projects has meant that assessment of the development opportunities of City Hall and the restoration of Memorial Gardens are behind schedule, but remain a priority.
- 16 Planning services showed some improvement in 2008/09 but still remained significantly below the average for other district councils. The 2007/08 target for delivering affordable homes was narrowly missed and by December 2008 only 168 had been completed against a full-year target of 300. This target has now been revised to 264 because of the economic downturn, but will still be challenging to achieve.

How is Norwich City Council performing?

- 17 The safe and healthy neighbourhood priority is showing good progress in some areas. Recycling levels in 2008/09 are continuing to improve; with a September 2008 figure of 35.2 per cent, which is close to the national average. The programme for upgrading the 12 per cent of the Council's housing stock in 2008/09 to meet the decent homes standard is being robustly managed and is on target. Crime is generally below the national average and is continuing to fall. However, recent improvement in the management of empty properties has not been sustained. This is resulting in delay for households in housing need and loss of rental income to the Council.
- 18 Under the 'Opportunities for All' priority, the Council although currently assessed at level 1, should achieve level 2 of the equality standard for local government by the end of March 2009. . It has published a draft disability equality scheme that is being consulted on, put in place race and gender equality schemes and is about to introduce a community engagement strategy supported by a new team. Councillors and officers are undergoing diversity awareness training and diversity champions have been appointed. Equality impact assessments are being drafted across the organisation and will be submitted for internal and external review. Diversity information is now being collected from all customers. However, positive outcomes for local people, especially those in the most vulnerable groups, are not currently evident.
- 19 The Council has improved customer access to its telephone services as part of the aiming for excellence programme. A customer contact strategy has been adopted which sets out to raise the profile of customer contact throughout the organisation and to ensure a consistent level of customer service across the Council. A single telephone number for access to council services has been launched that has helped improve the percentage of calls answered in a timely fashion and those successfully answered. However, the recent improvement in performance of the housing benefit service has not been sustained as pressure on the service increases and the most vulnerable are now waiting a long time for assistance. Steps are being taken to improve this situation.
- 20 The Council is taking a positive approach to partnership working in developing wider community outcomes. The Council has led the development by the local strategic partnership, the City of Norwich Partnership (CoNP), of a sustainable community strategy. This sets out a vision 'to make Norwich a world class city in which to live, work, learn and visit' and is underpinned by a range of partnership targets and joint working arrangements. The Greater Norwich Housing Partnership between the City Council, the district councils for Broadland and South Norfolk and local registered social landlords, co-ordinates choice-based lettings of social housing. Sub-regional partnership working through the Greater Norwich Development Partnership (GNDP) involves representatives of the four councils that most impact on the city, the Broads Authority, the East of England Development Agency and the Government Office for the East of England. The GNDP is coordinating the joint core strategy to deliver ambitious regional growth targets for Greater Norwich of around 26000 new homes with the associated jobs, services and public facilities
- 21 The Council is a key member of the 2008-11 Norfolk local area agreement (LAA) and is playing an important role in supporting the delivery of many of the local priorities. Despite this involvement, the Council has not always been sufficiently visible within the County wide strategic partnership or in providing clear leadership for the key targets within the LAA. However, the Council now plans to address this.

- 22** A financial improvement plan, medium term financial strategy and service restructure have together delivered some improvements in financial management and an improved score in use of resources. Service plans now include a requirement to deliver efficiency savings on an annual basis. This is improving value for money. Financial reporting capacity remains underdeveloped. The Council recognises this and has recently secured additional funding to enable it to strengthen its arrangements. In the current economic climate the Council faces a challenging financial situation over the next two years and will need to make difficult decisions around current priorities for investment if it is to maintain an adequate level of reserves.

How much progress is being made to implement plans to sustain improvement?

- 23** The publication of the revised corporate plan has provided a stronger focus for the Council's priorities and future planning. As a result the Council has developed a range of initiatives and strategies that are designed to deliver and sustain improvement in its priority services, but many of these have yet to become embedded or to deliver significant improvements in outcomes.
- 24** The approach to performance management is improving. The remodelled Performance Management and Improvement Board (PMIB) is taking a central role in ensuring that the recently launched 'four step' programme designed to deliver excellent National Performance indicators becomes embedded in the everyday processes of the Council. The Council is also participating in a Building Capacity East programme designed to improve performance management in local authorities. The Council and CoNP have agreed a corporate governance framework for working in partnerships. This is intended to provide stronger financial and risk management, and greater accountability. The framework will also be used to shape the Council's other significant partnerships and to review all partnership activity.
- 25** Capacity in key corporate areas is strengthening. It has been enhanced in areas such as human resources, communications and procurement and by the creation of a service improvement team that plans to re-engineer services and utilise corporate IT to improve performance. External support has been sought from the National Leadership Centre for Local Government to enhance leadership capacity in senior management. Capacity in service areas is also being strengthened through effective joint working. The housing options service is combining the provision of move-on accommodation to young single homeless people with vocational and educational training referrals to training provider partners such as 'Business in the Community'. The provision of this supported accommodation to hostel residents is planned to help them to engage in employment or training and address their low educational and skills levels.
- 26** The Council has improved its approach to HR through the introduction of an appraisal system in 2007 and a People Strategy in 2008 linked to the corporate plan and medium term financial plan. A change toolkit was developed in 2008 in response to the staff survey to ensure that change is consulted on and introduced consistently. The staff survey undertaken in 2008 shows that in almost all areas, staff are more positive about the Council and about their jobs than in 2007. However although staff morale is improving, there are still some areas where the gap between the Council and the national benchmark needs closing.

How is Norwich City Council performing?

- 27 The economic climate has already significantly impacted on the Council's income and thus on its ability to deliver some of its growth and capital programmes in the short term. The Council has begun work on developing a financial inclusion strategy to bolster services for the most vulnerable citizens. For example, to meet increased demand and falling performance in the housing benefit service, four customer contact staff are being cross-trained in benefit assessment and the council has successfully gained further funding from the DWP to recruit four further staff in 2009/10.
- 28 The Council is facing a further risk that may continue to prevent it from sustaining a focus on improvement in the coming year. Norfolk is currently subject to a review by the Boundary Committee into the future of local government across the county. Creating a unitary council to deliver the vision for the City of Norwich is a top priority for the Council and since the outcome of this review may not be known for some time, it is inevitably drawing on the capacity of officers, councillors and partners.

Service inspections

Inspection of Planning Services

- 29 An inspection of the Council's planning services was carried out earlier this year and an inspection report published in July 2008. Our judgement was that the planning service offers a 'fair' one-star service with 'uncertain' prospects for improvement.
- 30 The service is delivering many of its key objectives such as very high levels of affordable housing, protection and enhancement of the city's heritage, investing in regeneration initiatives and developing future planning policy in conjunction with neighbouring authorities. The service is having a positive impact on the quality of Norwich as a city.
- 31 The service is contributing well to many wider environmental and other objectives. It is improving energy efficiency, helping through provision of sustainable development measures to reduce the number of vehicles crossing the inner ring road by 24,000 between 1998 and 2007 and seeking to improve the deprived areas of the city. The service is improving accessibility to services and facilities for all residents, for example as at Cinema City.
- 32 The Council is taking a lead in reducing its own carbon footprint. For example, the Council's green travel plan has resulted in the proportion of Council employees walking or cycling to work has increased from 33 per cent in 2006/07 to 46 per cent in 2007/08. Energy efficiency of the Council's council house stock is above the national average. Norwich also has the second highest proportion of residents travelling to work by walking or cycling in England in 2007: 32 per cent in comparison with 40 per cent in Cambridge.
- 33 However, the service has been less successful in other areas. For example, it has had less impact on increasing the availability of employment land for small businesses, a key economic objective for the city. It is also not yet effective at dealing with people who breach planning regulations and monitoring compliance with planning permissions.

- 34 Councillor training and workforce planning are not fully effective. The speed in which planning applications are determined is improving but is below government expected standards for major applications.
- 35 The service does not maximise its learning from customers and response to customer needs is mainly reactive. For example, customer standards are not in place across the service.
- 36 The planning applications committee meets during the working day and the public and service users have not been consulted on the timing.
- 37 Training on human rights, diversity and equality is limited and the service does not actively monitor compliance. There is a lack of systematic service analysis to ensure that the needs of hard to reach groups are being met and learning from customer complaints and comments has been reactive not systematic and proactive.
- 38 The planning service has a mixed track record in delivering improvements. Local Development Framework (LDF) milestones are being broadly met; the service has been successful in achieving a growth point bid for the greater Norwich area with partners and is having a positive impact on the environment and local heritage.
- 39 However, the Council has been a Planning Standards authority for the last three years and customer satisfaction with the Planning Service fell from 73 per cent in 2003/04 (below average against other district councils) to 52 per cent in 2006/07 (at the level of the worst districts).
- 40 Earlier attempts to improve development control have not been fully effective. The Council was unable to deliver its first Planning Improvement Plan (PIP) 2004/07 because of a historical lack of corporate commitment to improving development control. In addition, recruitment difficulties led to a persistently high number of vacancies in the development management team and problems associated with the introduction of an electronic document management system for development management. The performance management framework has not driven consistent improvement and Scrutiny has been ineffective. The council has not previously recognised the importance of development control in delivering wider objectives.
- 41 The Council has been unable to deliver improvements to increase its effectiveness. Electronic systems do not meet the business needs of the service. Staff regard existing systems as a barrier to improvement, in particular the cost of system improvements and the time it takes to achieve them.
- 42 The planning service cannot demonstrate steady improvement in value for money. In 2004/05 net expenditure was £1.26 million and this rose to £1.79 million in 2007/08 (a 42 per cent increase), even though there were a considerable number of vacant posts during that period. The service has not made effective use of Planning Delivery Grant (PDG).
- 43 Capabilities are not consistent across the planning service. Customers report inconsistent advice on the same subject provided by different officers, particularly in relation to development control matters. Inconsistent advice has also been provided to councillors at planning applications committee. Councillor capabilities are also inconsistent and training is not well developed.

How is Norwich City Council performing?

- 44 However, the service is self aware of its weaknesses and what it needs to focus on to improve and corporate commitment at both senior officer and politically has now made service improvement a priority. Planning is central to the Council's growth objectives and corporate support for the service has increased. Priority objectives in the second Planning Improvement Plan have been achieved and most staff vacancies filled. Senior management capacity has been increased with an eye to the development of a performance management culture.
- 45 The planning service has a clear vision for what it wants to achieve and this sits well with corporate objectives. Work is underway to make service plans better fit for purpose. Targets have been made more meaningful and will inform the developing team plans and personal appraisals. Appraisals are happening and staff value the opportunity for dialogue and the setting of personal targets. Staff understand the contribution they can make to corporate objectives. Morale is good and there is an expressed commitment to service improvement.

Inspection of Landlord Services

- 46 An inspection of Landlord Services was carried out in January 2009 and is expected to publicly report its findings in April 2009.

The audit of the accounts and value for money

47 Your appointed auditor reported separately to the Audit Committee on the issues arising from our 2007/08 audit and issued:

- an audit report, on 9 February 2009, providing a qualified (limitation of scope) opinion on your accounts and a conclusion on your value for money arrangements to say that these arrangements were adequate except for the elements referred to in paragraph 50 below; and
- a report on the Best Value Performance Plan confirming that the Plan has been audited.

Use of Resources

48 The findings of the auditor are an important component of the CPA framework described above. In particular the use of resources score is derived from the assessments made by the auditor in the following areas.

- Financial reporting (including the preparation of the accounts of the Council and the way these are presented to the public).
- Financial management (including how the financial management is integrated with strategy to support council priorities).
- Financial standing (including the strength of the Council's financial position).
- Internal control (including how effectively the Council maintains proper stewardship and control of its finances).
- Value for money (including an assessment of how well the Council balances the costs and quality of its services).

The audit of the accounts and value for money

- 49 For the purposes of the CPA we have assessed the Council's arrangements for use of resources in these five areas as follows.

Table 1

Element	Assessment
Financial reporting	1 out of 4
Financial management	1 out of 4
Financial standing	2 out of 4
Internal control	2 out of 4
Value for money	2 out of 4
Overall assessment of the Audit Commission	2 out of 4

Note: 1 – lowest, 4 = highest

- 50 The use of resources judgements help inform the value for money opinion and on the basis of this work a qualified value for money opinion was issued in February 2009, in respect of the year ended 31 March 2008, on the grounds that the Council failed to put in place:

- arrangements to maintain a sound system of internal control;
- a medium term financial strategy, budgets and a capital programme that were soundly based and designed to deliver its strategic priorities; and
- arrangements to manage performance against budgets.

- 51 The main issues leading to this conclusion are set out below.

Internal control

- 52 Whilst some progress was made by the Council during 2007/08, the following weaknesses contributed to our conclusion that the overall criterion was not met:
- the sources of assurance to support the governance statement were not reviewed by members when approving the Annual Governance Statement (AGS);
 - whilst the Council developed a draft Business Continuity plan during 2007/08, it had not been reviewed or approved by members by 31 March 2008. No monitoring or testing of the plan occurred during 2007/08;

- pre and post statements audit work identified some control weaknesses. Reconciliations of some major feeder systems were only performed at year end and some were not performed at all or were incorrect (e.g. rents, housing benefits and debtors reconciliations); and
- the Council had not implemented governance arrangements for all of its significant partnerships during 2007/08, nor finalised a partnership policy. This was identified by the Council as an issue in its AGS. Our work on the New Deal for Communities grant claim supported the conclusion that arrangements were not yet adequate.

Medium term financial strategy, budgets and capital programme

53 Progress was made by the Council during 2007/08, including the development of the medium term financial strategy (MTFS). However, the following weaknesses remained and contributed to our conclusion that the overall criterion was not met:

- the MTFS was introduced in July 2007 but by the end of September 2008 it had still not been formally revisited by members; and
- there was insufficient progress in the year to 31 March 2008 in undertaking equalities impact assessments of the Council's strategies and understanding the effect and impact these will have on its diverse population. The implications for medium term financial planning are yet to be fully understood.

Managing performance against budgets

54 Weaknesses remain in the following areas:

- budget performance reporting to members during 2007/08 was not sufficient, with only two reports being issued during the year;
- financial systems are not being regularly tested - Internal Audit did not complete all of its 2006/07 work or complete any financial system reviews in 2007/08;
- arrangements to consider departmental overspends were not considered robust enough to determine if they have been managed with no adverse impact on service delivery; and
- the financial performance of all significant partnerships is not regularly reviewed, the results shared with partners and acted upon. We raised particular concerns about the arrangements for New Deal with the NELM Development Trust.

The key issues arising from the audit

55 We issued a qualified (limitation of scope) opinion on the Council's 2007-08 financial statements on 9 February 2009, some four months after the 30 September deadline. Our audit was protracted due to a lack of adequate audit evidence and working papers, and the need for a significant number of material amendments to the financial statements.

The audit of the accounts and value for money

- 56 We welcome the fact that many of the prior year issues that contributed to our disclaimer audit opinion were resolved. Whilst we do not wish to detract from the significant achievement that this represents for the Council, getting to this stage involved significant additional work, and cost, for both the Council and ourselves. The level of adjustments required indicates that the Council's arrangements for the production of the financial statements were still inadequate in 2007/08, although we acknowledge progress made in certain areas, such as control of the closedown process. A significant improvement is still required if the production and audit of the 2008/09 financial statements is to be a much less onerous and resource intensive process.
- 57 Despite the level of adjustments required we are pleased to report that officers reacted positively to the audit issues raised with them. Our audit findings demonstrate that there are still issues with the quality of some of the underlying data underpinning the financial statements and, in some respects, with the Council's ability to adequately deal with technical accounting matters and changes. Further work to strengthen both processes and the knowledge base is still required.
- 58 The auditor gave consideration to whether he should again make statutory recommendations under section 11 of the Audit Commission Act 1998 or issue a public interest report under section 8 of the Act. He concluded that, given the progress achieved by the Council in respect of financial reporting in 2007/08 he did not need to exercise his formal audit powers at this stage. However, as noted above there remains significant scope for further improvement and he shall keep this situation under review as part of his 2008/09 audit.
- 59 Our Annual Governance Report and subsequent Addendum, which were both issued to the Audit Committee in January 2009, set out the most significant issues arising from the audit. The Addendum includes a comprehensive action plan that must be delivered if the Council is to make the necessary improvements to its financial reporting.

Data quality arrangements

- 60 We concluded that the Council's overall management arrangements for ensuring data quality are adequate. However there remains scope for further improvement with regard to:
- governance and leadership on data quality;
 - data quality policies;
 - the systems and processes in place to secure the quality of data;
 - the skills that the Council's people have in ensuring quality of data; and
 - the use of data and its reporting.
- 61 We reviewed three Performance Indicators: BV199 (cleanliness of public spaces); BV78a (processing new benefit claims); and BV78b (processing change of circumstances). We found BV78a and BV78b to be fairly stated and in accordance with the definitions. However, we placed a reservation on BV199 for the second year running due to concerns over the survey timings during leaf fall.

- 62 Our detailed report (draft) includes a number of recommendations for improvement in data quality arrangements.

Grant claims

- 63 The Council's arrangements for managing and quality assuring grant claims submitted for certification remains variable. This is reflected by the fact that a number of claims have been subject to amendment and/or qualification. Effective quality assurance arrangements would allow us to reduce our level of audit work on these claims, reducing the burden on finance officers and the cost of certification.
- 64 We have yet to complete our audit of the New Deal for Communities claims in respect of 2004/05 to 2007/08 where there have been particular issues. Work is ongoing but has been protracted due to incorrectly completed claims and inadequate evidence to support the claims.

Looking ahead

- 65 The public service inspectorates have developed a new performance assessment framework, the Comprehensive Area Assessment (CAA). CAA will provide the first holistic independent assessment of the prospects for local areas and the quality of life for people living there. It will put the experience of citizens, people who use services and local tax payers at the centre of the new local assessment framework, with a particular focus on the needs of those whose circumstances make them vulnerable. It will recognise the importance of effective local partnership working, the enhanced role of Sustainable Communities Strategies and Local Area Agreements and the importance of councils in leading and shaping the communities they serve.
- 66 CAA will result in reduced levels of inspection and better coordination of inspection activity. The key components of CAA will be a joint inspectorate area assessment and reporting performance on the new national indicator set, together with an organisational assessment which will combine the external auditor's assessment of value for money in the use of resources with a joint inspectorate assessment of service performance.
- 67 The first results of our work on CAA will be published in the autumn of 2009. This will include the performance data from 2008/09, the first year of the new National Indicator Set and key aspects of each area's Local Area Agreement.

Closing remarks

- 68 This letter has been discussed and agreed with the Chief Executive and the Head of Finance. A copy of the letter will be presented at the Executive at the next available date. Copies need to be provided to all Council members.
- 69 Further detailed findings, conclusions and recommendations on the areas covered by audit and inspection work are included in the reports issued to the Council during the year.

Table 2 Reports issued

Report	Date of issue
Audit and inspection plan	May 2007
Opinion on 2007/08 Best Value Performance Plan	December 2008
Annual Governance Report and Addendum	January 2009
Opinion on financial statements	February 2009
Value for money conclusion	February 2009
Regularity Report (including interim and final accounts audit memoranda)	March 2009 (draft)
Planning Inspection Report	July 2008
Data Quality Report	March 2009 (draft)
Annual audit and inspection letter	March 2009

- 70 The Council has taken a positive and constructive approach to audit and inspection work, and I wish to thank the Council's staff for their support and cooperation during the audit.

Availability of this letter

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

Susan Jewkes

Comprehensive Area Assessment Lead

March 2009

The Audit Commission

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