

Annual Audit and Inspection Letter

March 2008



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Leicester City Council

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Appointed auditors act quite separately from the Commission and in meeting their statutory responsibilities are required to exercise their professional judgement independently of both the Commission and the audited body.

Status of our reports

This report provides an overall summary of the Audit Commission's assessment of the Council, drawing on audit, inspection and performance assessment work and is prepared by your Relationship Manager.

In this report, the Commission summarises findings and conclusions from the statutory audit, which have previously been reported to you by your appointed auditor. Appointed auditors act separately from the Commission and, in meeting their statutory responsibilities, are required to exercise their professional judgement independently of the Commission (and the audited body). The findings and conclusions therefore remain those of the appointed auditor and should be considered within the context of the Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission.

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Key messages

- 1 We have concluded that Leicester City Council is a three star council that is improving adequately. Strengths in the Council's performance include:
 - the Council is actively shaping its long term vision for the city;
 - the Council's contribution to outcomes has in the past been generally above average across most service areas;
 - leadership and management in Children and Young People's services is strong;
 - achievement of a level four score for cultural services;
 - a well developed approach to diversity and equality and a clear focus on improving community cohesion; and
 - financial management remains above average.
- 2 Areas for improvement include the following.
 - The Council has an extensive regeneration programme which is critical to helping address relatively high deprivation levels.
 - Progress in improving educational attainment remains slow.
 - Project management has not always been as structured or as disciplined as it could have been in the past and remains an area of focus for the Council.
 - Performance on benefits delivery has been poor in the past due to IT problems but is now showing signs of improvement.
 - There has been considerable internal restructuring within the Council but there is still work to do to support the new structure which, together with recent changes in senior management, may impact on capacity.
 - Inspections last year suggest prospects for improving in key aspects of social care declined last year.
- 3 The Council has recently been subject to Corporate Assessment which is due for publication in July 2008
- 4 In relation to the audit of accounts and value for money (VFM) the main messages are as follows.
 - The standard of the Council's accounts is good and we have issued an unqualified opinion on your 2006/07 financial statements and a conclusion that your VFM arrangements are adequate.
 - Systems of internal control are adequate overall but instances of non-compliance with internal procedure rules indicate that arrangements need to be strengthened in some areas.
 - We issued a public interest report highlighting weaknesses in the Council's procurement and contract management arrangements in respect of housing repairs and improvement contracts.

- There is a risk of significant grant claw-back arising from qualification of the housing and council tax benefit subsidy claim.
- Leicester, along with other councils, will face challenges from the introduction of Comprehensive Area Assessments and the adoption of International Financial Reporting Standards.

Action needed by the Council

- 5 Continue to improve the way in which service areas demonstrate the relative value for money they provide and ensure a sustained focus on improving services in those areas with poor outcomes such as educational attainment.
- 6 Continue investment in developing robust project management processes and structures with particular attention to larger projects which carry high risks such as Building Schools for the Future.
- 7 Ensure that a strong framework of internal control and high standards of conduct are achieved at all levels within the Council and that effective action is taken in response to the recommendations in our public interest report.
- 8 Ensure arrangements are in place to capture the necessary information to allow compliance with International Financial Reporting Standards.
- 9 Respond to the findings of the Corporate Assessment once finalised.

Purpose, responsibilities and scope

- 10 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 2006/07 and from any inspections undertaken since the last Annual Audit and Inspection Letter. (It also includes the results of the latest published corporate assessment from 2002.) The Council was also subject to a more recent corporate assessment in February 2008, the results of which are scheduled to be published in July 2008.
- 11 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.
- 12 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.
- 13 As your appointed auditor I am 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, I review and report 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.
- 14 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.
- 15 We have listed the reports issued to the Council relating to 2006/07 audit and inspection work at the end of this letter.

How is Leicester City Council performing?

- 16 The Audit Commission’s overall judgement is that Leicester City Council is improving adequately and we have classified the Council as three star in its current level of performance under the Comprehensive Performance Assessment. These assessments have been completed in all single tier and county councils with the following results.

Figure 1



Source: Audit Commission

- 17 The detailed assessment for the Council is as follows.

Our overall assessment - the CPA scorecard

Table 1 CPA scorecard

Element	Assessment
Direction of Travel judgement	Improving adequately
Overall	Three star
Corporate assessment/capacity to improve (2002)	3 out of 4
Current performance	
Children and young people*	3 out of 4
Social care (adults)*	3 out of 4
Use of resources*	3 out of 4
Housing	3 out of 4
Environment	3 out of 4
Culture	4 out of 4
Benefits	2 out of 4

(Note: * these aspects have a greater influence on the overall CPA score)
(1 = lowest, 4 = highest)

The improvement since last year - our Direction of Travel report

- 18 Our summary Direction of Travel Statement highlighting progress over the last 12 months was published on the Audit Commission website in February as below.

"Outcomes are improving in priority areas but not consistently. Waste, recycling and planning are improving well. Progress in improving educational attainment and the cleanliness of the environment remain slower. Overall, improvement in performance indicators in 2006/07 is positive but below the average of other councils. Some outcomes such as reducing non decent homes are improving quickly, but others such as helping reduce health inequalities less so. Benefits delivery has improved recently and the Council's contribution to Children's and Young Peoples services is good. Leicester's approach to diversity remains strong and value for money is adequate and beginning to show results. With partners Leicester is developing a new 25 year vision which is on track. This is underpinned by existing robust plans in several areas, but with some strategies such as workforce planning in adult social care still to be developed. The impact from partnership working is variable but improving. Capacity has improved with re-structuring although compliance with procurement arrangements is not always consistent, but is now being addressed. This forms a good basis for improving outcomes further in the future"

- 19 The following sections expand on the summary.

Improving outcomes

- 20** The Council has improved outcomes for people in a number of areas and overall services to the public are sound, with most service areas scoring three or better. At the time of our assessment there was evidence of a clear focus on the two priority areas established by the previous administration; education and environment. Overall improvements are being made but are mixed and are not consistent over all areas. The Council's approach to diversity continues to improve and it is investing in partnership working and arrangements to improve value for money.
- 21** When measured by Best Value Performance Indicators (BVPIs) the Council's improvement over the last year is below most others. During 2006/07 it improved in fewer PIs than other councils (54 per cent compared to an average of 60.8 – 63.2 per cent, ranking it 284th out of 338 councils) and had fewer PIs in the top quartile (24 per cent compared to an average of 29 per cent). Over the last three years the Council's rate of improvement in BVPIs is closer to the average (57 per cent compared with 61.9 - 64.1 per cent).
- 22** Overall the City Council continues to deliver services for children and young people at a good level with a Grade three score for the overall effectiveness of children's services during 2007. Leadership of the service is strong and forward thinking and provides a clear strategic approach with a sense of clarity and purpose. An outstanding contribution is made by the Council to improving outcomes and sustained improvement is noticeable in most areas over time. Performance in the 'being healthy' agenda in schools is adequate but the score has dropped since last year due to concerns about capacity with partners to fully implement improvements. Prospects for the future though are promising.
- 23** Educational attainment is improving with seven out of ten key indicators showing improvement this year but all ten indicators still remain in the bottom quartile. Leicester City (maintained schools) have shown an improvement in attainment of GCSEs in 2007 with the number of pupils achieving five A*- C grades equalling 50.4 per cent compared to the national figure of 59.3 per cent. However, for primary school education the Council is still performing poorly and was identified as second to bottom in the recently published attainment leagues.
- 24** The Council is making positive progress with establishing the Building Schools for the Future (BSF) programme in the City aimed at improving educational outcomes in the future. As part of the early works agreement, construction work began on the four phase one schools in the latter part of August 2007 with work scheduled to progress faster after financial closure in December 2007. The Council has also successfully completed work on two new primary schools in Braunstone which were opened to pupils during 2006/07.

- 25 There have been positive outcomes in delivering the Council's strategic objective of improving the environment for residents of the city, against a background of low satisfaction. The Council has improved its waste collection and recycling performance now being in top and second quartile respectively. It has also achieved six green flag awards and been recognised nationally for the standards of its park workforce and invested in increasing litter removal and street cleansing teams. This is against a background of low user satisfaction in these areas in 2006. Other areas of service delivery against this objective reflect a mixed picture of achievement. The Council's local transport plan has been rated 'excellent' in 2007 by the Department of Transport which includes the city's air quality rating. However reducing crime in the city remains challenging and movements in crime levels have been mixed over the last year.
- 26 In other areas performance is mixed. Adult social care has retained its two star rating from inspectors this year, but capacity for improvement rating is assessed as uncertain compared to promising last year. Delivery of services remained 'good', with key strengths in utilising feedback from users to inform and improve service delivery and the council working in partnership with voluntary organisations to ensure that all people are encouraged or assisted to maximise income and take up of benefit entitlement. The Council still needs to develop a workforce strategy that is in line with modernisation and service development to strengthen capacity and leadership. The inspection also highlighted that the Council needed to strengthen its partnership working with health to progress the development of joint planning, commissioning and governance, ensuring a whole system approach to secure efficiencies. A detailed action plan has been drawn up in response to the 2006/07 judgement, including all the key areas for improvement with service directors and the corporate director leading on its implementation. For example the following.
- Increased partnership working and the alignment of strategic development is underway including establishment of a health and wellbeing partnership sub-group of the Leicester Partnership overseeing many of the previously disparate commissioning functions.
 - Development of a rolling programme of joint strategic needs analysis for the city in partnership with the PCT.
 - A project is being developed to address the requirement for a workforce that has the capacity, skills and flexibility necessary to deliver the 'Putting People First' agenda for adult social care.

- 27** An inspection of the Council's services for people with learning disabilities in February 2007 showed that overall some people were served well by the Council, and that capacity for improvement in this service area was promising. The inspection identified that the Council and its partners had made positive progress in implementing the vision and principles of Valuing People but that there was a lack of an overarching strategy across adult social care and that no joint service strategy was in place for learning disability services. The Council has continued to invest in learning disability services with some additional investment planned for 2007/08, but it is not always able to demonstrate value for money for its users. In response to the inspection the Council is in the process of developing an overarching commissioning strategy for adult social care and working with partners to develop a joint strategy for learning disability services. It continues to develop ways of ensuring value for money and is piloting an outcomes based care plan as part of the community care assessment and review process. The Council has also been one of the national pilot sites for individual budgets (with learning disability as a main service area).
- 28** Results from the CPA assessment of the Council's benefits provision shows an improving trend in performance levels and retention of an overall score of two. The Council increased the number of performance measures assessed as excellent and the number of enablers met. Claims administration and user focus are improving but there are still aspects of these areas which fail to meet minimum requirements. Continued investment in both capacity and new IT provision have reduced the claims backlog and improved processing speed. Claims outstanding over 50 days had reduced to 6 per cent by the end of 2007 and subsequent unaudited data supplied by the Council indicates that performance in benefits provision is now much improved and achieving top quartile performance.
- 29** The Council's performance for community housing and housing management scored an overall level three for 2007. There are positive outcomes relating to the SAP rating, percentage change in proportion of non decent homes, percentage of urgent repairs completed on time and number of homeless people requiring second re-homing is reducing. The main area for improvement relates to the percentage total of private sector homes vacant for six months, which is below the lower threshold.
- 30** An inspection of the approach of the Council and partners to the national 'Supporting People' programme aimed at helping vulnerable people live independently showed a 'fair' service with uncertain prospects for improvement compared to a 'good' service with promising prospects in 2004.
- 31** Cultural services have improved with increased performance in a range of areas including participation in sport by children, visits to museums and galleries and promotion of conservation areas. These together with already strong performance indicators on library provision, usage and access and average or higher satisfaction of cultural and leisure facilities have increased the overall service score from 3 to 4 in this area.

- 32 The City continues to reflect vibrancy from its extensive regeneration programme. Developments completed over the past 12 months include St Peter's Health Centre – an integrated service centre in Highfields delivered in partnership through health and the City Council. The Gallowtree Gate refurbishment is progressing as is work with the city's new performing arts centre. The Council continues to improve its planning service with planning BVPIs on both minor and major planning applications processed being in top quartile.
- 33 The Council continues to make positive progress with its community cohesion agenda. It has received both local and national recognition with its approach to engagement with and service delivery to the different communities that make up the city. The Council is working in partnership with Derby and Nottingham as part of an innovative mainstreaming moderation programme. This works on key priorities such as tension monitoring in neighbourhoods and promoting tolerance among young people. Internally, it has achieved level three of the equality standard, which is above average, and has robust plans in place to achieve level four of the standard by the end of March 2008.
- 34 The Council's delivery of value for money has remained constant this year, scoring an overall level two in its VFM assessment in October 2007. Costs of services within the city remain high (partly reflecting the Council's complex deprivation and diversity issues) and quality of performance is mixed. The Council continues to move forward with a detailed efficiency review programme which is beginning to deliver savings and improvements that people will see.

Plans to sustain future improvement

- 35 The Council is actively shaping its long term sustainable vision for the city. The 25 year vision has identified key priority areas for focus including continuing the improvement journey of educational attainment, addressing health inequalities, continuing to develop innovative approaches to deliver community cohesion, improving the environment and addressing climate change issues. All key strategic documents, including the corporate plan, will be aligned to and driven by the content of the vision. The Council has successfully aligned its budget approach and performance management framework to its revised corporate plan. The key priorities are currently out for consultation with partners and users and once this work is completed the findings will be used to inform aims, objectives and delivery plans.
- 36 The Council is investing significantly in improving its partnership working in order to be well positioned to deliver on the new local area agreement post 2008. Working with key strategic partners it has restructured the strategic partnership and improved the level of support to ensure the public, private, voluntary and community sectors are all pulling together against a shared agenda and producing outcomes for local people. The emerging approach to neighbourhoods through the extended use of community meetings led by Members will ensure that the local strategic agenda is informed by community priorities. The Leicester City Partnership is continuing to improve outcomes for local people and the Government Office for East Midlands (GOEM) recognised this in its review report in July 2007.

- 37 There has been considerable internal restructure of Council departments over the past year to secure better performance and service delivery, for example the merging of adult social care and housing. However, there is still work to be done on ensuring that revised procedures, guidance and staff training are provided to support the new structures. Some key back-office improvement projects are still in progress and as a consequence delivering limited outcomes, whilst there has been some slippage on delivery of recommendations from last year's peer IDeA review relating to improving communications, marketing and project management which remain areas of focus for the Council. There is uncertainty about completion schedules for the single status project and difficult decisions have been made with regard to resource requirements which have impacted on staff morale, finance and change management.
- 38 Compliance with the Council's established management arrangements is not consistent. A recent public interest report found significant weaknesses in the procurement and governance arrangements relating to a number of significant housing contracts. The shortcomings identified in the report hindered capacity for improvement at the Council. The Council reacted to the emerging findings and in May 2007 put in place an improvement plan to embed strengthened procurement arrangements over the whole Council over the next two years, and is actively implementing improvements to arrangements where necessary.
- 39 Prospects for improvement following a number of inspections are mixed. The Council was assessed as having promising prospects for children's and young people's services and adults with learning disabilities but uncertain prospects for adults' services generally and in respect of the Supporting People programme.

Service inspections

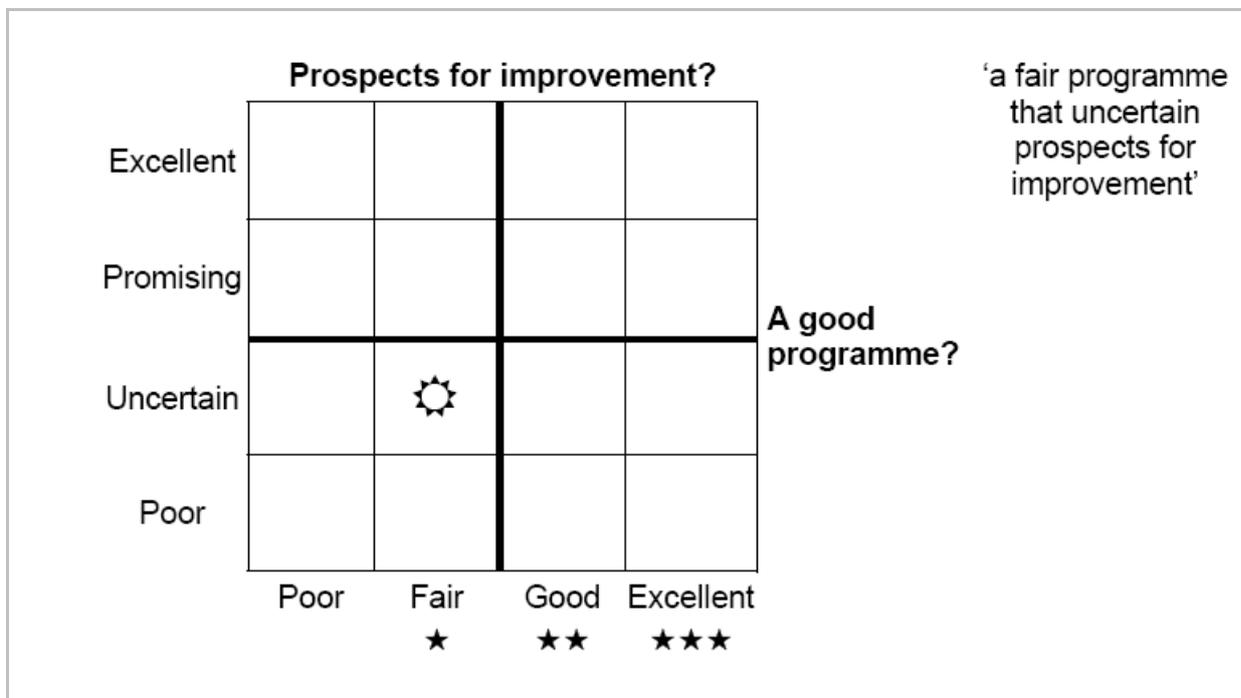
Corporate assessment/joint area review

- 40 The Council is currently undergoing a corporate assessment and joint area review of children's services. The outcome of the inspection will be reported to officers and members in due course.

Supporting people

- 41 The Council acts as the administering local authority for the *supporting people* programme in Leicester and receives an annual grant of around £15.5 million. The programme is designed to provide housing-related services that give vulnerable people the opportunity to improve their quality of life and maintain their independence. In Leicester the programme funds 2,312 units of supported accommodation (excluding community alarm services) and 1,323 units of floating support (excluding community alarm services and home improvement agencies).
- 42 Following an inspection the Council was assessed as providing a fair, one star service with uncertain prospects for improvement (figure 2). The full inspection report was published in November 2007.

Figure 2 Scoring chart



Source: Audit Commission Inspection Report

- 43 Our inspection found there are strong links in place with relevant partners to support delivery of the programme. An accessible five year strategy and subsequent annual plans are in place providing a clear focus for delivery of the programme. The team is skilled, competent and committed to delivering work of a high standard. There is a clear approach to value for money which has resulted in £1.9 million of savings annually and £1.6 million one off savings following service reviews. There is evidence of some strong outcomes from service user involvement including involvement in procurement and strategy development. There is some evidence of improvements to services and an increased range of provision which is in line with the priorities identified in the five year strategy.
- 44 However, there were a significant number of areas which required further development. At the time of the inspection governing bodies were not effectively managing and monitoring performance or working to remove the barriers that impact on programme delivery. The programme lacked a strategic approach to the collection of needs data and there was limited ongoing systematic collection of needs information. There were very limited formal contract monitoring arrangements in place and arrangements for the management of complaints were weak. There were no arrangements in place to actively monitor and drive forward service improvement and delays in completing initial Quality Assessment Framework (QAF) validations. The definition of value for money did not consider outcomes for service users and many of the value for money judgements lacked a full consideration of quality. There were significant delays in identifying areas for further savings and the reconfiguration of services due to delays in the completion of strategic reviews.

- 45 Progress in improving the delivery of the programme was hindered by a lack of capacity with a number of planned improvements delayed, or not delivered, within the target times. This resulted in gaps in the programme and was acting as a barrier to future improvements. Corporate leadership for the programme was weak. However, the Council had a clear vision for the Supporting People programme, and action plans had been prioritised to take account of the resources available.
- 46 In response to the inspection the Council has drawn up an improvement plan and is making progress against this. This includes:
- establishing themed groups to examine areas of the programme development in more detail;
 - arrangements to increase capacity to deliver the programme including mainstreaming the supporting people team into the strategic planning and commissioning function and reducing the number of contracts managed by the team;
 - development of a range of regional and local outcome measures to assess the impact of supporting people services and regular reporting to overview and scrutiny;
 - implementation of a new contract management framework and complaints procedure;
 - undertaking a joint strategic needs assessment and making better use of existing needs data; and
 - production of a new directory of services.

Other inspectorates

- 47 An important aspect of the role of the Relationship Manager is to work with other inspectorates and regulators who also review and report on the Council's performance. Relationship Managers share information and seek to provide 'joined up' regulation to the Council. During the last year the Council has received the following assessments from other inspectorates which are considered in forming our Direction of Travel report.

Children and young people

- 48 Achieving improvement in education attainment levels is a key priority for the Council. The annual assessment by Ofsted concluded the following.
- The Council is aware of the need to improve health and educational attainment in all phases and thus the life chances of children and young people. To this end, there is an increasing emphasis on prevention and early intervention. The commitment to collaborative working and the quality of forward planning to achieve this is a significant strength.
 - Leicester City Council continues to deliver services for children and young people at a good level. Leadership of the service is strong and forward thinking. It provides a clear strategic approach with a sense of clarity and purpose. A good contribution is made by services to improving outcomes and they show sustained improvement in most areas over time. Many solutions are becoming increasingly innovative.
 - Leicester receives a high number of residents from a number of countries around the world. The number of new arrivals and the associated language and cultural barriers bring many challenges. Some parts of the city face significant economic and social obstacles and the council shows increasing ambition to challenge these. It has a good understanding of the inequality in outcomes for young people and their families and a clear view of the necessary action to improve services and make a discernible difference.

- 49 The annual scored assessments for each service element assessed are shown below

Table 2 Service scores

Service area	Grade
Being healthy	2 out of 4
Staying safe	3 out of 4
Enjoying & achieving	2 out of 4
Making a positive contribution	4 out of 4
Achieving economic wellbeing	3 out of 4
Capacity to improve	3 out of 4
Overall performance	3 out of 4

Source: Ofsted letter 26 November 2007

Adult social care services

- 50 The Commission for Social Care Inspection's (CSCI) latest annual performance assessment concluded that overall outcomes for adult social care are good with uncertain capacity for improvement leading to an overall two star service. Performance judgements for key areas are summarised in table 3 below.

Table 3 CSCI Performance Judgements

Area for judgement	Grade awarded.
Improved health and emotional well-being	Adequate
Improved quality of life	Good
Making a positive contribution	Good
Increased choice and control	Adequate
Freedom from discrimination or harassment	Adequate
Economic well-being	Good
Maintaining personal dignity and respect	Good
Delivering outcomes	Good
Capacity to improve (leadership, commissioning and use of resources)	Uncertain
Star rating	Two Star

Source: CSCI letter 27 November 2007

Housing benefits

- 51 The Benefit Fraud Inspectorate (BFI) undertook an assessment as part of the 2007 Comprehensive Performance Assessment (CPA) programme. The report concluded that:
- the Council has increased the number of performance measures assessed as excellent and the number of enablers met. It also increased its score for the claims administration and user focus themes. But it still needs to improve its performance in these two areas, particularly for those performance measures that failed to meet minimum requirements;
 - the Council experienced major IT problems during the latter part of 2005/06, which culminated in its software supplier withdrawing its support for the document imaging processing system from the end of June 2006. This situation resulted in a backlog of outstanding claims and severely affected the performance measures for claims administration;
 - the Council introduced a replacement document management and workflow product in October 2006. The Council invoked its business continuity plan and engaged two off-site processing services to assist with clearing the backlog. This resulted in only 6 per cent of new claims outstanding over 50 days by 31 March 2007 and raised the score for the claims administration theme from one to two. Performance in the final quarter of 2006/07 also showed marked improvements in the new claims and changes of circumstances performance measures; and
 - performance for the security theme remained excellent.

Table 4 Performance standards theme scores

Theme	2006	2007	Change
Claims administrations	1 out of 4	2 out of 4	↑
Security	4 out of 4	4 out of 4	=
User focus	1 out of 4	2 out of 4	↑
Resource management	4 out of 4	4 out of 4	=
Overall score	2 out of 4	2 out of 4	=

Source: BFI Annual Assessment 2007

The audit of the accounts and value for money

- 52** As your appointed auditor, I have reported separately to the Audit Committee on the issues arising from our 2006/07 audit and have issued:
- my audit report, providing an unqualified opinion on your accounts and a conclusion on your vfm arrangements to say that these arrangements are adequate on 27 September 2007; and
 - my report on the Best Value Performance Plan confirming that the Plan has been audited.
- 53** My predecessor also issued a public interest report under section eight of the Audit Commission Act 1998 concerning housing repair and improvement contracts.

Use of Resources

- 54** 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).

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

Table 5

Element	Assessment
Financial reporting	3 out of 4
Financial management	3 out of 4
Financial standing	3 out of 4
Internal control	2 out of 4
Value for money	2 out of 4
Overall assessment of the Audit Commission	3 out of 4

(Note: 1 = lowest, 4 = highest)

The key issues arising from the audit

- 56 The review assesses the arrangements in place at the Council at March 2007.
- 57 Our assessment of the Council's overall arrangements for use of resources remained at 'performing well' (level three) although there have been changes to some of the sub-theme scores.
- 58 The key issues arising from the audit, as reflected in the above judgements where appropriate, are as follows:
- financial reporting continues to be sound. The Council has a good track record for producing and approving the statement of accounts within statutory deadlines and this was evident again for the 2006/07 accounts despite significant changes in local authority accounting practices. Working papers complied with the agreed joint working protocol and most were of a good standard;
 - the Council has effective arrangements to ensure that its medium-term financial strategy, budgets and capital programme are soundly based and are designed to deliver its strategic priorities. Performance is effectively managed against budgets and the Council manages its asset base well;
 - systems of internal control are adequate overall but instances of non-compliance with internal procedure rules indicate that arrangements need to be strengthened in some areas. More could be done to proactively review standards of conduct and promote a strong anti-fraud culture throughout the Council; and

- the Council's corporate approach to value for money continues to develop and become more embedded. It continues to demonstrate a realistic appraisal of its costs and recognition that it is a high spending authority when compared to its nearest neighbour group. This partly reflects the complex diversity and deprivation issues facing the Council. Where costs have risen, this is in line with the Council's corporate priorities. Efficiency targets for 2006/07 have been exceeded. However, overall performance levels are lower than comparable council's as is the proportion of performance indicators showing improvement. There is still some work to be done on targeting poorer performing services such as raising educational attainment levels.

Building schools for the future

- 59** The Council plans to refurbish or rebuild each of its 16 secondary schools and create a new 11 to 16 pupil referral unit. The programme involves both traditional and Private Finance Initiative (PFI) procurement routes and has BSF funding totalling around £230 million. It is divided into four phases, the first of which reached financial close in December 2007.
- 60** BSF is a long term project with significant operational and financial risks. Furthermore, the Council faces the additional challenge of being a "wave 1" authority meaning it is operating within a very dynamic environment and evolving national frameworks. As a result, we are undertaking ongoing audit work to review the overall financial management and governance aspects of the project. This involves regular discussions with officers and audit input at key stages such as affordability assessments and review of the proposed accounting treatment for the PFI. We will also be reviewing the strategic educational aspect of the project in the forthcoming year.

ICT service management

- 61** An efficient, fit for purpose ICT service is vital to deliver national and local targets for improved service delivery, better access to services and efficiency savings. The Council has undergone a major programme of ICT reorganisation to support the delivery of these objectives.
- 62** Our audit was designed contribute to the ongoing improvement and development of the ICT service by comparing existing arrangements to recognised professional standards and identifying strengths and areas for further improvement. Our approach included:
- a review of key documentation;
 - a web-based survey of users and ICT staff; and
 - structured interviews with key staff.
- 63** We concluded that the Council has adopted a positive approach to the development of its ICT services, treating it as a core strategic activity rather than simply a technical issue. There is a robust performance management framework in place and good arrangements for measuring user satisfaction. We found relatively high levels of user satisfaction with the ICT service desk. Disaster recovery arrangements and back-up policies are in place and business continuity plans are being further developed.

64 Areas requiring further improvement include:

- an absence of service level agreements and minimal engagement with the user departments to ensure that service levels are in line with business needs;
- arrangements for managing new software releases and changes to existing systems are not yet fully effective; and
- a need to develop a more proactive approach to the identification and management of service desk problems.

65 Our report has been discussed and agreed with officers, including an action plan for improvement. We have agreed to undertake a follow-up to compare progress against the baseline position as part our 2008/09 audit.

Follow up of previous recommendations

66 As part of our work each year we follow up recommendations made in previous value for money (VFM) and management arrangements studies. This ensures that benefits gained from the recommendations are being achieved or, if not, that the matter can be drawn to the attention of the Council.

67 Our audit and inspection plan for 2006/07 included a follow-up of the following areas:

- integrated children's services;
- early retirement;
- payroll; and
- internal audit.

68 Our follow-up of integrated children's services concluded that the Council has made progress against the recommendation in the original report. In particular it has produced a formal strategy for integrating services and undertaken internal re-structuring placing it in a stronger position to deliver the Every Child Matters agenda.

69 In respect of early retirement we found that much of the risk identified in our original report had been mitigated following withdrawal of the policy of awarding discretionary enhancements. At the time of our audit there remained potential for inconsistency in respect of teaching staff although we understand that this position has now been regularised. The remaining concerns related mainly to poor record keeping in Children and Young People's Services and a lack of evidence of independent checking of calculations.

70 Our follow-up of the payroll audit found that all key recommendations had been implemented or were progressing satisfactorily.

71 We concluded that Internal Audit continued to progress towards full compliance with CIPFA standards and now meets eight of the ten standards. Management and supervision continue to be the main areas in need of improvement.

Best value performance plan

- 72** We have audited the Council's best value performance plan in accordance with section 7 of the Local Government Act 1999 and the Audit Commission's Code of Audit Practice. There were no matters to report to the Council and no recommendations on procedures in relation to the plan.

Data quality

- 73** The Council's overall management arrangements for ensuring data quality are effective and the Council is performing well with some improvement on last year. Effective protocols, systems and procedures are in place although there is no overarching data quality policy. Roles and responsibilities are clear but would benefit from a more corporate approach to data quality training. Data is routinely and effectively used to assess performance and manage services.
- 74** We examined seven performance indicators in detail and found that six were fairly stated. Performance indicator BV79a (accuracy of processing housing benefit claims) was qualified due to incorrect treatment of suspended claims.

Certification of grant claims & returns

- 75** As part of the drive to reduce the burden of audit and regulation the number of grant claims and returns that we have been required to certify has reduced steadily over recent years. During 2005/06 we certified 39 claims and returns. In 2006/07 the number of claims and returns certified reduced to 17 of which 12 required amendment and/or qualification.
- 76** With the exception of the housing and council tax benefit subsidy claim, most of the errors and qualifications were relatively minor. Nevertheless, there remains scope to improve overall arrangements for the preparation and submission of grant claims including provision of comprehensive supporting working papers.
- 77** Qualification of the housing and council tax benefit subsidy claim for 2005/06 has resulted in potential claw-back of £2.6 million, although the Council is currently challenging the secretary of state's decision. Testing of the 2006/07 claim has resulted in a similar qualification which increases the risk of further claw-back. Financial provision has been set-aside but there remains a risk that the provision may not be adequate.
- 78** The Department for Work and Pensions (DWP) and Audit Commission have agreed to change the testing methodology in respect of the housing and council tax benefit subsidy claim for 2007/08 so that initially fewer cases are tested but in greater depth than previously. This testing will be combined with the testing of the speed of processing to provide a level of assurance on the speed of processing performance indicators. The details of this process have not yet been finalised so it is not possible to estimate the effect that this change will have on the fee for certification.

Public interest report - housing repair and improvement contracts

- 79 In summer 2006 a disclosure was made to the Audit Commission under the Public Interest Disclosure Act 1998 concerning housing repairs and improvements contracts.
- 80 Our subsequent audit reviewed a number of contracts arranged between 2001 and 2006 and identified significant weaknesses in the Council's procurement and contract management arrangements for some of these contracts. For example:
- lack of transparency in contractor selection and tender evaluation procedures,
 - non-compliance with European Union public procurement rules;
 - payments significantly exceeding initial contract values without further competition;
 - failure to take proper account of contractor financial evaluations;
 - lack of segregation of duties; and
 - poor scrutiny and lack of management and member oversight in respect of major contracts.
- 81 We also noted that the Council had been improving its corporate procurement arrangements over this period. A number of recommendations have been made to strengthen existing arrangements and address the problems above which have been accepted by the Council. Members have approved a council-wide improvement plan to deal with the gaps in its arrangements and this is currently being implemented by a corporate group, led by the Service Director (Legal Services). The housing repairs service is also taking direct action to address the findings of the report. We will monitor closely implementation of the action plan as part of our forthcoming audit, and report back to members in due course.

Looking ahead

Comprehensive Area Assessment

- 82 The public service inspectorates are currently developing 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.
- 83 CAA will result in reduced levels of inspection and better coordination of inspection activity. The key components of CAA will be a joint inspectorate annual area risk assessment and reporting performance on the new national indicator set, together with a joint inspectorate annual direction of travel assessment and an annual use of resources assessment. The auditors' use of resources judgements will therefore continue, but their scope will be widened to cover issues such as commissioning and the sustainable use of resources.
- 84 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 Local Area Agreements.

International Financial Reporting Standards (IFRS)

- 85 The Council will also face further challenges in financial reporting in the coming years. In March 2007 the Chancellor announced that accounts in the public sector will need to be compiled using International Financial Reporting Standards (IFRS). IFRSs will be applied to local government for the 2010/11 published accounts which will include comparative figures for 2009/10. This means that the Council needs to be in a position to provide the necessary financial and operational information from 1 April 2009. It may also be the case that the government will require some financial information for 2008/09 based on IFRSs.
- 86 While much of the current reporting framework is in line with IFRS there will be significant additional disclosure requirements and a number of areas where the Council will potentially need to change its accounting methods to ensure it is able to capture the relevant data at the correct point in time to comply with IFRS.
- 87 Your officers are aware of the need to prepare for this change, but it is essential that the Council puts in place the sufficient resources and project plan at an early enough stage to ensure the relevant information can be collated. It is likely that preparation for this change will form part of future Use of Resources assessments.

- 88 We have provided officers with an initial risk assessment for completion to help highlight those areas where the Council may have more to do. We will continue to liaise with officers on this issue over the coming year. The Council may also wish to consider including this in the risk register as a corporate risk to ensure that it is managed appropriately.

Closing remarks

- 89 This letter has been discussed and agreed with the Acting Chief Executive. A copy of the letter will be presented to members of the Audit Committee. Copies need to be provided to all Council members.
- 90 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 6 Reports issued

Report	Date of issue
Audit and inspection plan	March 2006
Joint working arrangements & protocols	February 2007
Early retirement follow-up	July 2007
Annual Governance Report	September 2007
Opinion on financial statements	September 2007
Value for money conclusion	September 2007
Accounts and interim audit report	October 2007
Internal Audit follow-up	November 2007
Integrated children's services follow-up	November 2007
Supporting People Inspection	November 2007
Use of Resources Auditor Scored Judgements	December 2007
ICT Service Management	February 2008
Annual audit and inspection letter	March 2008

- 91 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

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

Neil Bellamy
Relationship Manager and District Auditor

March 2008