

Annual Audit and Inspection Letter

May 2007



# Annual Audit and Inspection Letter

**Northampton Borough Council**

The Audit Commission is an independent body responsible for ensuring that public money is spent economically, efficiently and effectively, to achieve high-quality local services for the public. Our remit covers around 11,000 bodies in England, which between them spend more than £180 billion of public money each year. Our work covers local government, health, housing, community safety and fire and rescue services.

As an independent watchdog, we provide important information on the quality of public services. As a driving force for improvement in those services, we provide practical recommendations and spread best practice. As an independent auditor, we ensure that public services are good value for money and that public money is properly spent.

### **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, KPMG LLP (KPMG). 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.

Reports produced by appointed auditors are:

- prepared in the context of the Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission; and
- addressed to members or officers and prepared for the sole use of the audited body; no responsibility is taken by auditors to any member or officer in their individual capacity, or to any third party.

### **Copies of this report**

If you require further copies of this report, or a copy in large print, in Braille, on tape, or in a language other than English, please call 0845 056 0566.

© Audit Commission 2007

For further information on the work of the Commission please contact:

Audit Commission, 1st Floor, Millbank Tower, Millbank, London SW1P 4HQ

Tel: 020 7828 1212 Fax: 020 7976 6187 Textphone (minicom): 020 7630 0421

[www.audit-commission.gov.uk](http://www.audit-commission.gov.uk)

## Contents

|  |           |
|--|-----------|
| <b>Our overall summary</b>                                       | <b>4</b>  |
| Action needed by the Council                                     | 5         |
| <b>How is Northampton Council performing?</b>                    | <b>6</b>  |
| The improvement since last year - our Direction of Travel report | 7         |
| Service inspections  | 9         |
| <b>Financial management and value for money</b>                  | <b>15</b> |
| Use of Resources assessment                                      | 17        |
| <b>Conclusion</b>  | <b>21</b> |
| Availability of this letter                                      | 21        |

## Our overall summary

- 1 This report provides an overall summary of the Audit Commission's assessment of the Council. It draws on the findings and conclusions from the audit of the Council and from any inspections that have been undertaken in the last year. The letter includes our review of how well the Council has progressed (our Direction of Travel report) and the auditor's assessment of how well the Council has managed its finances (the Use of Resources scores). These latter components will be an important factor in any future decision regarding the potential for a rescoring of the Council's Comprehensive Performance Assessment (CPA) category.
- 2 The report is addressed to the Council. In particular it has been written for councillors, but is available as a public document for stakeholders, including members of the community served by the Council.
- 3 The main messages for the Council included in this report are as follows.
  - Overall, the Council is not consistently and sustainably improving its most poorly performing priority services, and some have deteriorated. The pace of change is slow in some areas that have a direct impact on quality of life for some of the most vulnerable people, and the Council's weakest services remain among the worst in the country.
  - KPMG LLP (KPMG) issued an unqualified audit opinion on the Council's accounts for 2005/06 on 28 September 2006.
  - KPMG issued a qualified conclusion on the Council's Use of Resources on 21 September 2006. The Council achieved an overall score of 1 ('below minimum requirements - inadequate performance'). There is no improvement against last year's score.
  - The Council achieved an overall score of 1 ('below minimum requirements - inadequate performance') in relation to Data Quality.
  - The Council's Best Value Performance Plan 2007/08 complied with statutory requirements.
  - The Council has experienced budget pressures in 2006/07 although the overspending is now expected to be less than the £1.9 million. that was forecast in January 2007. Further measures were necessary to achieve a balanced budget for 2007/08 (savings of £4 million.) which have been well publicised and debated. The Council must ensure that it has arrangements in place to monitor that these measures are delivered in full and that the remainder of the budget is achieved, throughout the year.

- In the past two years it has been necessary to question some of the Council's decision-making processes including:
  - DSO Trading with WS Atkins on highways work – which counsel has deemed to be unlawful;
  - Far Cotton Community Centre - making an advance payment of £1.379 million to the contractor, without any work having been undertaken, in the form of a bond and without completing the legal documentation until several months later; and
  - Ecton Lane refurbishment - allowing the contractor to commence work without the contract being signed and having an inadequate specification of the work to be done.

These issues concern the quality of legal and financial advice available and the rigour of the associated when the key decisions were made and the rigour of the associated contract letting and management processes. The standard of advice available has on occasions been below that expected for the good stewardship of public funds.

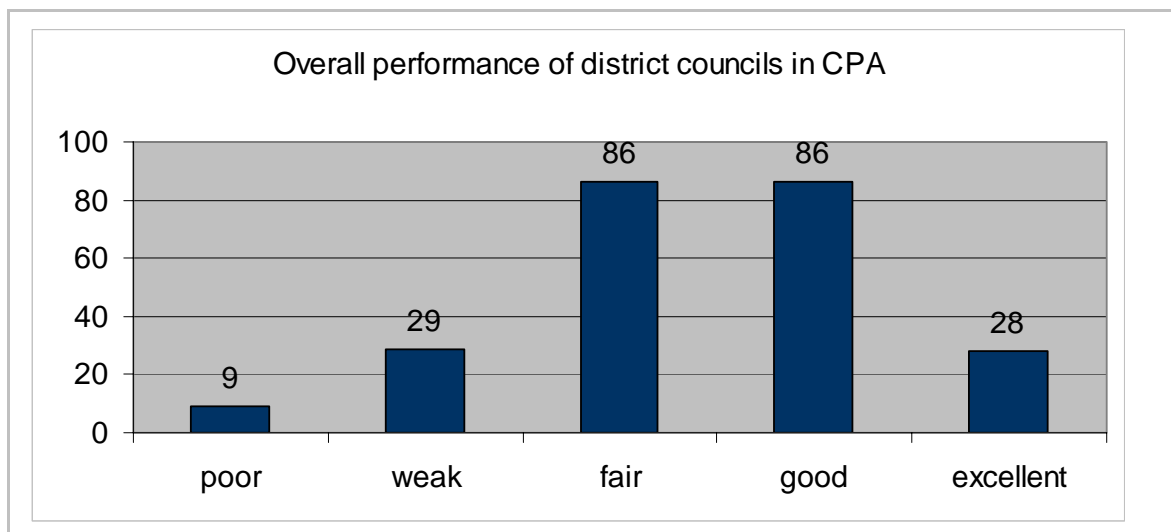
## **Action needed by the Council**

- Demonstrate improved leadership to tackle to substantial weaknesses outlined in this Letter and accelerate the rate of improvement.
- Ensure its plans comprehensively address the issues raised by the findings of the various assessments reported below.
- Review as a matter of urgency the Council's capacity and capabilities in relation to:
  - the quality of legal and financial advice available and the rigour of these when the key decisions were made; and
  - the rigour of the associated contract letting and management processes.

## How is Northampton Council performing?

- 4 Northampton Borough Council was assessed as **Poor** in the Comprehensive Performance Assessment carried out in 2004. These assessments have been completed in all district councils and we are now starting to update 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 district councils in CPA**



*Source: Audit Commission*

- 5 Following concerns about the progress being made by the Council, in October 2006 the Audit Commission undertook an assessment of the Council's progress since CPA. The full report of the Progress Assessment is published separately. The Direction of Travel report in this Letter summarises the findings and takes account of additional data available since that assessment.

## The improvement since last year - our Direction of Travel report

### Improving outcomes

- 6 Overall, the Council is not consistently and sustainably improving its most poorly performing priority services, and some have deteriorated. The pace of change is slow in some areas that have a direct impact on quality of life for some of the most vulnerable people, and the Council's weakest services remain among the worst in the country.
- 7 Although the Council has improved in above the average proportion of a basket of performance indicators (PIs) selected by the Audit Commission, this improvement is from a very low base. A below the average proportion of these PIs is amongst the top 25 per cent. This 2005/06 data shows that performance of some key services such as housing repairs and benefit claims are still in the worst 25 per cent of councils nationally and have either deteriorated or not improved sufficiently to change the quartile position. In other areas Northampton has improved at a faster rate than the average for district councils. This reflects its low base line position. Where the Council does achieve comparatively good performance there are few links between these PIs and the Council's priorities.
- 8 External assessment of the quality of some of the Council's key services during 2006 has found that they are comparatively weak, and some have deteriorated.
- 9 Housing is a poor service, with some areas improving but others not. A recent check on progress since autumn 2005 judged the service still to be poor, with uncertain prospects of improvement. While the Council has succeeded in eliminating its gas servicing backlog, the Direct Services Organisation has not evolved and in many aspects of the service such as repair target times and appointments, performance is poor and not improving sufficiently to alter the comparative position. Homelessness services have improved, with more focus on prevention. This has resulted in less use of bed and breakfast, although the number of homeless people remains comparatively high. Where improvement has been made it is inconsistent and it is not clear that it is sustainable.
- 10 The planning service is poor. A recent inspection judged the service to be poor with uncertain prospects for improvement. Since the inspection the Council has been implementing an improvement plan but key measures of the service's performance, such as how quickly it processes planning applications, have deteriorated during 2006/07, although delegation and appeals outcomes are improving.
- 11 The benefits service is currently assessed by the Benefits Fraud Inspectorate (BFI) as fair overall on the basis of improvements in the speed of claims processing and fraud measures. However, the Council is still among the worst in the country for how quickly it deals with claims, and quality remains poor with a high error rate. There is a high level of overpayments and outstanding debt, all of which have a high impact for the most vulnerable citizens.

- 12 The Council is achieving mixed improvement in other priority service areas. For example, in environmental services recycling rates and the removal of flytipping are improving, but other aspects such as removing abandoned vehicles are not. However, the Council's own survey undertaken in October 2006 shows that satisfaction with Streetscene services is improving. Together with its partners the Council is helping reduce some crime rates, although they remain comparatively high. Paying invoices and collecting council tax have been prioritised because performance has been poor, but improvement is inconsistent.
- 13 Customer service and access is improving. The customer contact centre has improved people's experience of contacting the Council, shown by high satisfaction levels with waiting times and the help given. Call handling has improved, and people are more likely to have their call answered than they were last year.
- 14 The Council's approach to diversity and equalities is developing and is sufficient to meet minimum standards. It is meeting its statutory requirements under equalities legislation at a basic level and is beginning to develop its approach and an understanding of the needs of its diverse communities. For example the number of staff with disabilities and the number of staff from minority ethnic communities has increased relative to the community. However, the Council has achieved only Level One of the Equalities Standard, and broader aspects of diversity in relation to issues such as gender, age or sexual orientation are not fully understood or embraced. It does not currently have systems in place to understand barriers which may be preventing people from accessing services.
- 15 Value for Money (VfM) is not improving. Although some performance is improving, it remains comparatively poor, and the Council does not understand its costs so cannot manage VfM effectively.

### **Progress in implementing improvement plans**

- 16 Strategic planning remains weak, and plans for improvement remain insufficiently robust or long-term. The Corporate Plan for 2007/08 and beyond is not yet drafted. In the meantime, the Council's 2006/07 corporate plan is for one year only and does not enable councillors, staff and residents to know whether the Council is meeting their needs, how it will deliver its priorities or how it will measure improvement. Plans such as the Strategic Improvement Plan and the Delivery Plan continue to lack enough detail, and have too limited a horizon. They focus on action rather than outcomes. Action plans for poorly performing services do not provide a clear, longer-term framework for improving outcomes for local people. Service plans are of inconsistent quality.



- 17 The Council does not have the capacity it needs to deliver its plans. Financial management and capacity is poor and has weakened in the last six months. New systems have been put in place to more accurately monitor spending but there is likely to be a significant financial shortfall caused by inaccurate budget setting in the past. The Council does not yet have a robust medium-term financial strategy. There are vacancies in Finance and in Planning which are having an impact on the Council's ability to improve. The Council has invested in new management and new structures and processes to deliver improvement but there has been little noticeable impact on services. Improvements in human resources have reduced sickness absence.
- 18 The Council is not generally maximising capacity to improve through partnership. It does not have a sound approach to procurement, and does not specify and manage contracts effectively. There has been little progress in engagement with strategic partnerships at a county-wide and sub-regional level, and partners lack confidence in the Council's community leadership, particularly on important issues such as the planned growth of the area's population to almost one and a half times its current size.
- 19 There are weaknesses in corporate governance. Political and managerial leadership is weak and Council leaders are having insufficient impact on the pace of change. Financial monitoring and management has been weak with few reports to councillors on the budget situation in 2006/07. Performance management systems are improving but there is a poor track record of identifying poor performance and leading to remedial action, and mechanisms for securing continuous improvement in services are inadequate.

## Service inspections

- 20 The Commission inspected the Council's **planning services** and assessed the service as **poor with uncertain prospects for improvement**.
- 21 The service was a poor, zero-star service because:
- the quality of services that make up planning services was variable. Some parts were fair, such as enforcement, while others were poor such as building control and development control;
  - the service did not focus on the needs of service users. There was little opportunity for customers to influence how services are provided and the availability of advice to the public was limited;
  - the planning committee was not fully effective. It was inefficient and lacks transparency;
  - the Council has a dated local plan and had made limited progress replacing it;
  - planning decisions were made quickly but speed was at the expense of a quality service to customers;

## 10 Annual Audit and Inspection Letter | How is Northampton Council performing?

- the service was delivering some important outcomes that meet national priorities such as housing and infrastructure, but it had made limited progress in delivering local priorities such as improving customer satisfaction, and planning for further growth within the borough; and
- the service did not provide good value for money.

### 22 The service has uncertain prospects for improvement because:

- there was no consistent track record of improvements instigated by the service;
- where improvements had taken place these had been in response to external influences rather than as the result of the Council's own improvement planning;
- political and strategic leadership for the service continued to be weak; and
- management of the service was reactive and too operationally focused, and there were gaps at management level of sufficiently experienced staff to provide the required level of professional and technical leadership.

### 23 However:

- recent developments showed some early tangible signs of improvement for the public, such as better response to telephone enquiries and signs of town centre regeneration;
- increased resources had been invested in the service;
- the Council had made a commitment to providing the necessary professional and technical leadership in the service as a matter of urgency and some areas of the service such as planning policy had begun building capacity; and
- the Council had begun to take important steps to improve customer focus which should positively impact on planning services.

### 24 The inspectors made **recommendations** for improvement. These were as follows.

- To improve political and community leadership by councillors.
- To establish the strategic direction for the service and take key decisions about:
  - the improvement agenda for planning services;
  - the strategic direction of building control; and
  - the delivery of the service level agreement with WNDC.
- To improve the professional and managerial capacity of the service.
- To develop the service's customer focus.

### 25 The Commission also undertook a short assessment of the Council's progress in improving its **housing services**.

- 26 The inspectors concluded that if a full inspection were to be undertaken the service would be **poor with uncertain prospects for improvement**. This was because of the following weaknesses.
- There was a lack of comprehensive service standards in place that had been agreed with tenants.
  - The service had stopped sending receipts to tenants reporting repairs.
  - The content and availability of written information for service users had not improved, and leaflets did not all contain straplines showing their availability in other languages and formats.
  - There was a lack of strategic plans across the service.
  - Services did not have a comprehensive profile of customers and there was a lack of performance monitoring to ensure that services were being delivered equitably to all groups.
  - The Council had not made significant progress in diversity and equalities issues and remained at level one of the local government equalities standard.
  - Performance on re-letting empty homes remained weak, and the Council used steel cladding on properties too frequently.
  - There were backlogs of kitchen replacement works.
  - Arrangements to deal with asbestos were flawed.
  - Communal areas and door entry systems were not in good condition and maintenance and cleaning arrangements were not clear.
  - Poor housing benefit processing performance was impacting on rent collection rates, leading to performance on collection being in the poorest performing 25 per cent of local authorities.
  - Too many people were being evicted for rent arrears, without their being sufficient focus on debt advice and prevention. The emphasis of housing management work was on enforcement rather than sustaining tenancies.
  - Tenants cannot pay rent by direct debit and there was an absence of incentives to encourage tenants to pay rent promptly.
  - Tenant involvement arrangements were weak with a lack of support for the formal tenants groups, and a lack of wider mechanisms to engage with all tenants.
  - Cost comparison information was absent, leaving the Council unable to demonstrate that services are delivering value for money and performance management in this area was weak.
- 27 However, there were some strengths. These included:
- gas servicing performance and procedures had improved and the Council was now meeting its statutory responsibilities;
  - more repairs appointments were being provided to tenants;
  - the customer contact centre was working well;

## 12 Annual Audit and Inspection Letter | How is Northampton Council performing?

- disabled access to public buildings was good and translation services were available and being used;
- clear rent statements were sent to tenants quarterly;
- the importance of paying rent promptly was being advertised on buses and on operatives vans;
- anti-social behaviour arrangements were working well, with a multi-agency approach and a dedicated specialist team; and
- homelessness services had improved and there was a greater emphasis on prevention and therefore bed and breakfast use had reduced.

### 28 The service had uncertain prospects for improvement because:

- the track record in delivering service improvements in housing was weak;
- repairs and maintenance issues raised in the progress report of October 2005 had yet to be addressed;
- the service could not demonstrate that value for money was being provided to tenants;
- IT systems were a barrier to service improvements occurring;
- the Council's overall approach to diversity was weak;
- staff did not believe that they will be supported in taking difficult decisions in making changes to the DSO that seek to deliver service improvements;
- there was an absence of strategic plans covering all parts of the housing service; and
- those service plans that were in place were not SMART<sup>1</sup>.

### 29 However, there were a number of positive drivers for improvement. These included:

- performance management monitoring and measurement had improved;
- management capacity had been strengthened;
- a new integrated housing management IT system had been procured which would be implemented by April 2007;
- more plans were now in place to provide a framework for improvements to be delivered; and
- there was improved leadership being demonstrated at Corporate head level.

---

<sup>1</sup> Specific, measurable, achievable, resources and time bound.

- 30 The inspector made a number of **recommendations** for improvement. These were to:
- establish and finalise strategic plans for the service to ensure greater co-ordination of improvement actions;
  - ensure that urgent action is taken to improve average re-let times for council dwellings;
  - refocus the housing management service to provide a greater emphasis on sustaining tenancies;
  - improve the knowledge about value for money in the repairs and maintenance service; and
  - develop a SMART action plan to address all weaknesses identified and ensure that progress is regularly monitored and reported corporately.
- 31 The Benefits Fraud Inspectorate (BFI) undertook a focused inspection of the Council's **Housing Benefit Service**. The service was assessed as **fair**.
- 32 The findings included:
- the Council met 3 of the 12 performance measures where the Department for Work and Pensions had set a standard, and 41 of the 65 enablers;
  - comprehensive systems were in place to record and monitor the results of quality checks but there was a concern about the volume of user errors that had been identified;
  - a reduction in outstanding work from approximately 12,600 items in January 2006 to approximately 4,000 items in October 2006 had been achieved and processing times had improved to 39 days between July and November 2006;
  - a fraud business plan had been developed for 2006/07 that set out criteria for undertaking investigations and a commitment to work jointly with the Department's Fraud Investigation Service;
  - reliable management information to enable targeting of the level and age of HB overpayment debt was not collected. However the overall time taken from an initial invoice to the issue of a final invoice had reduced from 80 days to 35 days since May 2006; and
  - since the last BFI inspection in 2004 18 out of 79 recommendations had been implemented between July 2004 and March 2006. A total of 45 recommendations had been fully or partly implemented since April 2006.

- 33 The BFI inspectors assessed the service's **direction of travel**.
- Progress in claims administration since BFI's first inspection in March 2000 had been slow up until March 2006. Over £2 million had been provided by the Department between April 2004 and October 2006 to support improvements but where third parties had been contracted to deliver improvements they were not always realised.
  - Procurement arrangements were ineffective. This was caused by poor specification of contracts and a failure to adequately manage the contracts and other projects.
  - Substantial progress had been made between April and October 2006 when an external partner had been engaged to manage the Benefits service. Priorities for improvement had been identified and local improvement plans were developed.
  - Performance management was now an integral part of the council's planning process.
- 34 The inspectors concluded that under the current interim management arrangements the Council had the capacity and systems to deliver sustained improvements over all aspects of HB administration. However, it needs to increase its own leadership capacity in order to continue this work beyond 2009.
- 35 The inspectors made a number of **recommendations** for improvement including:
- implementing all relevant outstanding BFI recommendations;
  - developing effective procurement, project and contract management arrangements;
  - effectively monitoring the individual throughput of claims; and
  - setting and monitoring targets to reduce the level and age of debt, and reporting performance to councillors and senior officers.

## Financial management and value for money

- 36** KPMG has issued separate reports to the Authority setting out the findings of the 2005/06 audit work. These reports comprised:
- a Report to Those Charged with Governance, issued on 21 September 2006, summarising the findings of the accounts audit, prior to issuing the audit opinion on 28 September 2006; and
  - an Annual External Audit Report (issued in December 2006), giving an overview of all accounts and Use of Resources work for the year.
- 37** These documents detailed issues arising from work in the following areas:
- 2005/06 audit of the accounts;
  - 2005/06 work on the Authority's Use of Resources Conclusion;
  - 2006/07 audit of the Authority's Best Value Performance Plan; and
  - 2006/07 audit of data quality.
- 38** The detailed findings are not repeated here, but the 'headlines' are as follows.
- KPMG LLP (KPMG) issued an unqualified audit opinion on the Council's accounts for 2005/06 on 28 September 2006.
  - KPMG issued a qualified conclusion on the Council's Use of Resources on 21 September 2006. The Council achieved an overall score of 1 ('below minimum requirements - inadequate performance'). There is no improvement against last year's score.
  - The Council achieved an overall score of 1 ('below minimum requirements - inadequate performance') in relation to Data Quality. The Authority needs to develop its data quality arrangements further.
  - The Council's Best Value Performance Plan 2007/8 complied with statutory requirements.

- The Council has experienced severe budget problems in 2006/07 although the overspending is now expected to be less than the £1.9 million. that was forecast in January 2007. This position has been achieved in part through measures to contain expenditure in 2006/07. Further measures were necessary to achieve a balanced budget for 2007/08 (savings of £4 million.) which have been well publicised and debated. The effect of the overspending in 2006/07 is that the working balance will fall below the Council's agreed limit and given the balanced budget for 2007/08 is also likely remain below that level at 31 March 2008. Maintaining the working balance at this level will be a significant challenge to the Council. The Council must ensure that it has arrangements in place to monitor that these measures are delivered in full and that the remainder of the budget is achieved, throughout the year. The measures taken include reductions in some areas of service provision compounding the difficulties the Council faces in making the significant service improvements that have still to be achieved in many areas.
- KPMG were made aware of three instances where the legal and financial arrangements of the Council's activities have been questioned. These issues highlight deficiencies in the application of robust legal and financial procedures to protect the Council's assets and provide the high level of stewardship of public funds expected from a public body.
  - Highways Agency trading arrangements - In January 2004 the Council entered into an arrangement with W S Atkins plc (WSA) as a the company's sub-contractor in undertaking highways work which WSA provide for the County Council. In September 2005 the Council highlighted that this work was potentially unlawful. The Council subsequently obtained counsel's opinion in June 2006 that indeed this work was beyond its powers. The income and expenditure, amounting to around £3 million per annum, relating to this activity in the 2005/06 accounts is therefore unlawful. A disclosure note was included in the financial statements to reflect this. The Council has considered in July 2006 the implications of how and when to withdraw from the arrangement with WSA and is relying on its wellbeing powers to follow a phased withdrawal concluding in June 2007. The Council has also been unable to demonstrate that it has a formal contract with WSA.



- Far Cotton Resource Centre - The Council is acting as the accountable body on behalf of the Northamptonshire Partnership for the construction of the Far Cotton Resource Centre which has a total cost of some £2.3 million of which a significant amount, £1.37 million, is being funded by the East Midland Development Agency (EMDA). The EMDA contract with the Council provides for the money to be spent before 1 April 2006 or for EMDA to be advised in writing beforehand. In the event of not spending any part of the money and not informing EMDA the whole £1.37 million is potentially repayable at any time to EMDA. The contract for the works was awarded in February 2006 but no work was carried out by 1 April 2006. In late March a 'bond' arrangement was entered into by the Authority with the contractor whereby the Council paid the full amount of the EMDA money over to the contractor. The whole of the £1.37 million was paid over to contractor without the bond actually having been executed. In fact this has only occurred in November 2006. The bond has no provision for the Council to be paid interest.
- Ecton Lane refurbishment - work commenced in the autumn of 2005 despite no contract having been signed by the contractor. Questions have arisen regarding the quality of the work undertaken which has been difficult to determine owing to the absence of a detailed specification.

The Council has commissioned an internal review to examine its contracting procedures. This should be completed as soon as possible with a view to strengthening its processes and controls over its contract letting and management procedures.

#### ***Recommendation***

*R1 The Council should ensure its review is completed as soon as possible and that it strengthens its processes and controls over its contract letting and management processes.*

## **Use of Resources assessment**

- 39 The annual Use of Resources assessment evaluates how well authorities manage and use their financial resources. This is the second year of carrying out the assessment and KPMG's work has focused on updating for any changes and improvements to arrangements. The Council was assessed as Level '1' (below minimum requirements - inadequate performance) in 2005. In the revised assessment the Authority has showed no improvement and its score remains at Level '1'.

- 40 KPMG's findings 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 Council's accounts and the way these are presented to the public).
  - Financial management (including how 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).
- 41 The Council's arrangements for use of resources in these five areas have been assessed as follows.

---

**Table 1**

| <b>Element</b>                             | <b>Assessment</b> |
|--|-------------------|
| Financial reporting                        | 1 out of 4        |
| Financial management                       | 1 out of 4        |
| Financial standing                         | 1 out of 4        |
| Internal control                           | 1 out of 4        |
| Value for money                            | 1 out of 4        |
| Overall assessment of the Audit Commission | 1 out of 4        |

*(Note:*

*1 = below minimum requirement - inadequate performance*

*2 = at only minimum requirements - adequate performance*

*3 = consistently above minimum performance - performing well*

*4 = well above minimum performance - performing strongly)*

- 42 The key issues arising from the audit, as reflected in the above judgements, where appropriate, are set out overleaf.

### **Financial reporting**

43 To achieve improvements, the Council needs to ensure that:

- financial statements:
  - contain no significant errors; and
  - are complete with the necessary disclosures and notes.;
- comprehensive working papers:
  - are available at the start of the audit visit;
  - have been reviewed and agreed by a responsible senior financial officer; and
  - fully support and are referenced to the item(s) of account.

### **Financial management**

44 To achieve improvements, the Council needs to ensure that:

- its priorities for the current and subsequent years are clearly stated and linked to service and corporate plans as well as the medium term financial plan;
- the medium term financial plan is reviewed annually and takes account of the prior year's outturn;
- the capital programme is aligned to the Council's priorities and is affordable;
- it has robust and frequent budget monitoring arrangements at both officer and member level;
- the financial information in reports is clear, concise and enables decisions to be taken with full knowledge of the financial consequences of those decisions;
- internal audit recommendations for financial systems regarded as 'inadequate' should be implemented as a matter of urgency; and
- it continues to develop its arrangements to manage its assets, linking requirements to the Council's priorities and has programmes of planned maintenance and undertakes a rolling survey programme.

### **Financial standing**

45 To achieve improvements, the Council needs to:

- ensure that it has arrangements in place to monitor and take any necessary action to achieve its budget, throughout the year;
- recognise that its working balance is below that which it considers to be its minimum requirement and determine how the minimum level can be restored; and
- identify all its material sources of income, profile its receipts and monitor actual collection accordingly.

### **Internal control**

46 To achieve improvements, the Council needs to ensure that:

- its risk register:
  - properly reflects its corporate business risks at all levels through out the Council; and
  - is regularly reviewed and updated.
- it takes the action(s) necessary to mitigate against the identified risks;
- risk assessments are reflected in all strategic policy decisions and projects;
- its system of internal control is sound by:
  - identifying its sources of assurance;
  - senior officers and members confirming the level of assurance obtained;
  - developing its business continuity plan;
  - developing procedure notes/manuals for key financial systems;
  - responding promptly and positively to reports which identify systems controls as inadequate or weak;
  - developing and communicating widely a counter fraud and corruption policy; and
  - developing and communicating widely a whistleblowing policy.

### **Value for money**

47 To achieve improvements, the Council needs to:

- determine what its priorities are and that they are aligned to both its revenue and capital budgets;
- define its priorities in terms of the performance it expects to achieve and over what timescale;
- determine the relationship between service cost and level of provision. At present a number of services are high cost and poor performance. A balanced scorecard approach based on prompt, reliable financial and performance data, should be developed and be seen to influence improved performance;
- develop benchmarking all its services to help understand how others achieve better performance and/or lower costs and use it consistently across the Council when reviewing services;
- link additional investment in services to defined increases in service performance with stated timescales; and
- develop a programme of service reviews.

## Conclusion

- 48 This letter has been discussed and agreed the Interim Chief Executive. A copy of the letter will be presented at the cabinet on 11 June 2007.
- 49 The Council has taken a positive and constructive approach to our audit and inspection I would like to take this opportunity to express my appreciation for the council's assistance and co-operation.

## Availability of this letter

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

Mary Perry  
Relationship Manager

March 2007