

## Annual Audit and Inspection Letter

### Wear Valley District Council

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<b>Reference:</b>	WE243 Annual Audit Letter - FINAL
<b>Date:</b>	December 2004

## Executive summary

### The purpose of this letter

This is our audit and inspection 'annual letter' for members which incorporates the annual audit letter for 2003/04, and is presented by the council's relationship manager and district auditor. The letter summarises the conclusions and significant issues arising from our recent audit and inspections of the council.

We have issued separate reports during the year. These reports are listed at Appendix 1 for information.

Appendix 2 sets out the scope of audit and inspection.

Appendix 3 provides information about the fees charged.

## Key messages

### Council performance

The council was assessed as a fair authority in the Comprehensive Performance Assessment in 2003. It is making good progress in improving its services and the way it works, and has developed a corporate plan. It is achieving improvements in its priority services.

The council's overall approach to performance management continues to develop with the adoption of the council plan, use of the balanced scorecard technique and performance improvement teams.

The council still does not have a human resources strategy but it has accepted the need to improve its arrangements for managing people and is reviewing its human resources function.

### Accounts

The council failed to prepare a complete statement of accounts by the earlier statutory deadline of 31 August 2004. The deadline for completion had been brought forward from 30 September in previous years. Whilst members

did approve the council's accounts on 31 August, entries were missing from the statement of total movement in reserves and from the cash flow statement.

### Local government reorganisation publicity

We received a number of complaints about publicity issued by Durham councils in advance of the referendum on the proposals for local government reorganisation in Durham. The District Auditor's overall view, after reviewing the publicity, was that some of the expenditure incurred may have been unlawful as it may have contravened the publicity code.

### Other governance issues

Our overall conclusion is that there are arrangements in place at Wear Valley for aspects of corporate governance. However, we have concerns about some procedures, especially relating to the legality of housing stock options appraisal publicity and controls over capital grants.

### Action needed by the council

The council should:

- Develop user focused outcome measures for actions and priorities and report progress against them.
- Develop and implement a robust human resources strategy including workforce and member development.
- Continue to address poor and mixed performance, in particular to ensure delivery of corporate priorities on the economy and healthy living environment and the achievement of Equality Standard level 2 by the council's target date of March 2005.
- Clarify future plans for leisure in delivering the council's objectives.
- Ensure that in future it produces its statement of accounts in line with deadlines set by the Government.
- Ensure all future publicity complies with appropriate statutory requirements.
- Monitor grant funded schemes to ensure that spending is in line with approvals.

## Council Performance

### Comprehensive Performance Assessment

On behalf of the Government we undertook a classification of all local councils in England in 2002-2004. Wear Valley was assessed as a 'fair' council (out of five possible ratings: excellent, good, fair, weak, poor).

The key strengths of the council were its aspirational ambition, with priorities linked to the Local Strategic Partnership, active management of performance, significant improvements from a low base, evidence of learning from successes and failures, and potential to improve further.

Weaknesses were a lack of clarity around ambition and priorities, underdeveloped focus on priorities, weaknesses in councillor and staff capacity, weak internal challenge and future plans which were not clear.

### CPA and improvement

*The council is making good progress in improving its services and the way it works, and has developed a corporate plan. It is achieving improvements in its priorities. However, it still does not have a finalised human resources strategy.*

Whilst we have not completed a formal assessment of progress this year, in this section of the letter we comment on the progress the council has made so far.

Overall the council is making good progress in improving its services and the way it works. The new corporate plan is central to this and it is supported by a strong and improving performance management framework. A number of strategies have been developed to deliver improved performance, but the council still does not have a finalised human resources strategy in place to ensure that it has the skills and capacity it needs.

The council is making progress in delivering the actions to deliver its key objectives and priorities and address the weaknesses identified by CPA. Against the six corporate ambitions there is

evidence of progress in most. Progress on the population, environment, community safety and learning objectives is positive. There is more limited improvement with the economy and health objectives. It is introducing an advanced system of balanced scorecards to measure and monitor performance. Strengthening the links with measures of outcomes for service users will improve this system further.

Actions are being taken or are planned to address all the weakness identified in the CPA although it is not yet possible to make any definitive assessment of the impact they are having. BVPIs show solid improvements across the range of council services although there remain some individual low performers.

### Other Audit Commission inspections

#### Planning service

We judged the council's planning service to be good with promising prospects for improvement. The service has a good understanding of the area through consultation and research and has developed plans and strategies to improve the area. It has focused on regeneration for some time and works well with partners and agencies to provide advice and support to prospective developers, and ensures that developments are appropriate to local needs and the quality of the environment. The speed of the service has improved in the last year, and the Development Control service is efficient. The service is preparing well for the new Local Development Framework. However, the service lacks links to the council's strategic objectives, does not know whether it meets the needs of all sectors of the community, there is no formal quality assurance process and protocols for councillors are not applied consistently.

#### E-government

All dealings with the public should be capable of being conducted electronically by December 2005. Wear Valley is part of the Durham E-government Partnership, which consists of the county and district councils. We undertook a staged inspection of this partnership in spring 2004.

This inspection found that the building of a working partnership had been largely achieved, but the partnership now needs to focus on realising the benefits of e-government for the people of County Durham. It is in the process of developing an e-government strategy which should include an improvement plan, targets and monitoring processes.

When the improvement plan is available, we will complete our inspection work in this area.

## Performance management

*The council's overall approach to performance management continues to develop with the adoption of the council plan, use of the balanced scorecard technique and performance improvement teams.*

The council's approach to performance management continues to develop and there is evidence that the framework is being applied across the council.

The council adopted a new council plan in May 2004 which contains clearer priorities and is more closely aligned with the draft community strategy. The balanced scorecard technique has been used to identify critical success factors at corporate and service level and service plans are in place. Performance improvement teams are proving effective in addressing areas of service delivery previously identified as poorly performing.

To further strengthen the links to corporate objectives, the council should ensure that service plans:

- contain clear links to the delivery of corporate priorities set out within the new council plan;
- set out clear priorities and non-priorities for each service area;
- contain measurable targets linked to identified critical success factors;
- be informed by consultation with users and local residents; and
- incorporate the council's approach to procurement and risk management.

The development of service planning within the council will provide the opportunity to strengthen the link between service and financial planning.

## People management

*The council has accepted the need to improve its arrangements for managing people and accordingly it has engaged external consultants to review its people management arrangements.*

The council has a draft human resources strategy to set out the principles of its approach to people management and the actions needed to implement the approach and this is being developed to link to the new corporate plan. Officers are concerned that the council may not have the necessary skills and capacity to translate its aspirations into reality so a review of the human resources function is being carried out.

The council's approach to workforce planning is under developed. There has been no analysis of future workloads and skills requirements. The council has set a target date of March 2005 for the development of a workforce plan and has started this task by gathering and collating data.

Staff are unclear about their individual contribution to the delivery of corporate priorities. The council's existing personal development plan scheme does incorporate individual targets but these need to be more clearly linked to the delivery of service and corporate priorities. As part of the development of the performance management framework, and in order to utilise staff capacity more effectively, the council should set staff individual targets linked to service and corporate priorities.

## Community planning

*The local strategic partnership (LSP) has a number of key measures in place to assist with effective partnership working. Recently introduced performance management arrangements should be strengthened to provide an increased focus on outcomes.*

The draft community strategy was developed early in 2004 and the LSP has recently adopted a performance management framework. To strengthen the focus on outcomes the council should encourage the LSP to:

- review and revise the community strategy for adoption by the LSP;

- develop a detailed action plan to support the community strategy and assist in monitoring and implementation;
- provide training for partners on using the new performance management framework;
- develop formal work programmes for the LSP policy groups to ensure focus on the priorities set out in the community strategy; and
- conduct a review of effectiveness of the partnership to identify areas with scope for improvement.

## Housing

*The council has carried out a housing stock options appraisal and has decided that its preferred option is an arms length management organisation.*

The council has carried out a housing stock options appraisal as required by the government to determine the levels of investment needed to achieve the decent homes standard and to establish the preferred option of housing customers for the future of the housing stock.

Housing committee decided in September 2004 that its preferred option for the future of the housing stock is an arms length management organisation (ALMO). This option is now being pursued by officers.

In progressing towards an ALMO the council need to ensure they apply effective project management by regularly updating the project plan and establishing monitoring arrangements. The council should also consider:

- an assessment of the risks including an objective assessment of tenants views;
- the likely impact of stock transfer on the council as a whole and its workforce; and
- developing a protocol for the publication of information to ensure balance and factual accuracy in all communications.

## Performance information

*The council has systems in place to collect performance information. Performance against targets is regularly monitored by members.*

We reviewed the best value performance indicators as part of our best value performance plan work.

The council has systems in place to collect performance indicators and collate them centrally for audit. Performance information is regularly reported to members and performance against targets is monitored.

## LSP Performance Management Validation

Wear Valley District Council is the accountable body for Wear Valley Local Strategic Partnership (LSP). On behalf of Government Office, the Audit Commission assessed the performance management arrangements of LSPs in receipt of more than £10 million neighbourhood renewal funding.

We found that the LSP had an agreed performance management framework and that key members of the LSP understood how the framework is used to drive improved delivery. However, the framework did not meet Government requirements and was not yet embedded in the day to day operation of the LSP and its themed groups.

## Accounts and governance

*The council failed to produce a complete set of financial statements by the statutory deadline of 31 August 2004. The statements had to be resubmitted to members in December before the District Auditor could give an unqualified opinion on them.*

*Overall corporate governance arrangements are satisfactory in most key areas. Last year we suggested that the council should formalise its arrangements for ensuring the legality of financial transactions. The need for this change remains undiminished. The District Auditor took the view that some of the council's recent expenditure on publicity may have been unlawful and given that the council is deciding the future of its housing stock members need an assurance that any publicity is in line with statutory requirements.*

*Arrangements for monitoring and funding capital schemes also need to be improved, especially in relation to externally funded schemes.*

## Audit of 2003/04 accounts

*We gave an unqualified opinion on the council's accounts on the 17 December 2004.*

### **Matters arising from the final accounts audit**

The published accounts are an essential means by which the council reports its stewardship of the public funds at its disposal and its financial performance in the use of those resources. Members approved the council's annual accounts on 31 August 2004. However, the statement of accounts was not complete with zero entries in the cash flow statement and the statement of total movements in reserves.

We have been unable to issue a certificate on the accounts as we received a notice of objection to the accounts in November 2004.

In last year's annual audit and inspection letter we emphasised that timeliness in producing the accounts will become increasingly important over the next few years as the deadline for completion of the accounts is brought forward in line with the Government's requirement. Given the difficulties encountered in producing a complete set of accounts for 2003/04 by the deadline of 31 August, the earlier deadline of 31 July 2005 for 2004/05 will be difficult to achieve and will require better planning and scheduling of key meetings next year.

Members should ensure the council has the necessary arrangements to allow it to produce the accounts in a timely manner as required by the Government.

### **Report to those with responsibility for governance in the council**

We are required to report to those charged with governance (in this case Overview and Scrutiny Committee) any issues of concern before we give an opinion on the financial statements.

Following amendments made by officers to the statement of accounts there were no significant issues that we needed to discuss with members this year before issuing our opinion and this was confirmed in a letter sent to the members of the

Overview and Scrutiny Committee on 15 December 2004.

## Financial standing

*Whilst the general fund balance is comparable with other similar councils the housing revenue account is in deficit for the second year, the council has budgeted to restore balances in 2004/05.*

*There are weaknesses in the arrangements for monitoring capital schemes and this has resulted in the council claiming funding for the same schemes from two capital grant sources. Repayment of part of the grant may be required by the grant paying body.*

### **General fund spending and balances**

The general fund balance stood at £2.0 million at 31 March 2004 which represents 17 per cent of net operating expenditure. In addition the council hold £3.8 million of usable receipts (£1.1 million earmarked reserves and £2.7 million useable capital receipts) which represents 33 per cent of net operating expenditure. This is comparable with other districts nationally.

For 2004/05, based on figures to the end of October 2004, there is a projected underspend for the general fund of £348,000. Any underspends in year will be considered in the light of the medium term financial plan as part of the budget setting process.

### **Housing revenue account**

The housing revenue account (HRA) had a deficit balance of £209,000 at 31 March 2004.

For 2004/05 the overall HRA budget is a contribution to reserves of £835,000 which would leave balances of £626,000 at 31 March 2005. To the end of October there is a projected underspend of £157,000 which would further increase the level of balances in the HRA.

### **Capital monitoring and budgeting**

Grant aided schemes are not currently monitored effectively and this has led to some capital expenditure being funded from two different capital grants.

The council are currently waiting for the grant funding department to decide if repayment of capital grant will be required.

## Systems of internal financial control

*We have not identified any significant weaknesses in the overall control framework. However, the introduction of the new financial management system on 1 November 2003 caused delays in reconciling the bank accounts and other control accounts.*

*The council is not fully aware at a corporate level of all the partnerships that it has entered into either formally or informally and has agreed to identify the extent of joint working.*

### Internal audit

Our assessment is that internal audit provides an effective service overall and met CIPFA standards. However the new CIPFA code of practice for internal audit, in place for 2004/05, expands the role of internal audit, placing particular focus on reporting to members and providing an opinion on the council's internal control framework.

The new code is an important development for internal audit and arrangements will need to be reviewed to ensure compliance with all of the standards. The new code will form the basis for our review of internal audit in the 2004/05 audit.

### Bank and control account reconciliation

The introduction of a new financial management system on 1 November 2003 caused delays in reconciling the bank account and other control accounts during 2003/04.

The council responded by deploying additional officer time to resolve the problems and full reconciliation of the bank and control accounts was achieved for the year end. The lack of in year reconciliation was disclosed in the financial statements in the statement of internal financial control. The bank reconciliation is up to date for the current year.

### Partnership control arrangements

The council is not fully aware of all the partnerships that it has entered into either

formally or informally. Consequently no comprehensive record exists of all partnerships entered into by the council.

The council has agreed to identify the extent of its joint working with other bodies. Members should ensure that any future commitments arising out of these arrangements are quantified and that appropriate controls are in place to assess risk and to monitor service delivery and the use of resources.

## Standards of financial conduct and the prevention and detection of fraud and corruption

*We have not identified any significant weaknesses in your arrangements to prevent and detect fraud and corruption.*

Our review of the council's arrangements showed no major changes from the arrangements in place for 2002/03.

### National fraud initiative

The council took part in the Audit Commission's national fraud initiative (NFI) 2002/03. The NFI, which is undertaken every two years, brings together data from local authorities, NHS bodies, government departments and other agencies, to detect a wide range of frauds against the public sector. Total savings from the 2002/03 exercise exceeded £83m of which £16,500 savings were identified in Wear Valley.

The Commission are repeating the exercise this year and will again collect payroll, pensions, housing benefits, student loan and housing rents data from authorities. Alongside the core exercise a number of pilot initiatives are being undertaken at selected sites. These are focused on risk areas that were highlighted by Authorities and include payments made to privately run care homes, abuse of blue badge parking permits, serial insurance claimants and duplicate payments to suppliers. These pilot areas, if they prove effective, will be incorporated into future NFI exercises.

## Legality of transactions

*Last year we suggested that the council should formalise its arrangements for ensuring the legality of financial transactions. The need for this change remains undiminished.*

### Local government reorganisation publicity

We received a number of complaints about publicity issued by Durham councils (including Wear Valley) in connection with the options for local government in Durham. The complaints alleged that there had been unlawful spending on publicity which did not comply with the guidance set out in the code of recommended practice on local authority publicity.

After reviewing the publicity issued by the Durham councils the District Auditor's view was that some of the expenditure incurred may have been unlawful. However, the District Auditor decided not to take formal audit action because:

- the amount of expenditure involved was relatively minor and he did not wish to add expenditure to the public purse by taking formal audit action;
- the supporters of both options for the future configuration of councils in Durham may have, in some respects, acted outside the publicity code so some balance was achieved overall; and
- the restricted period (for publicity) was about to start and he did not wish to reopen the debate during that period.

### Housing stock options publicity

We received a series of complaints about publicity issued in relation to the council's consideration of the future of housing stock. The complaints alleged that there had been unlawful spending on publicity which did not comply with the guidance set out in the code of recommended practice on local authority publicity.

After reviewing the publicity issued, officers agreed to issue additional information more clearly setting out the available options and took a comprehensive report to members in September 2004.

## Other work

### Grant claims

Over recent years the number of claims requiring audit certification has grown and audit fees have risen in line with this growth. In accordance with strategic regulation, the Audit Commission has adopted a more risk-based approach to the certification of grant claims. With effect from 2003/04 the smaller claims have not been subject to audit or have received a lighter touch. The approach to larger claims has been determined by risk and the adequacy of the council's control environment.

The council has arrangements in place for managing and quality assuring grant claims submitted for audit and has agreed to strengthen these in 2004/05 by:

- allocating the role of grants co-ordinator to supervise the preparation of grant claims to promote consistency in standards;
- introducing a central grants register to allow monitoring of the progress and timeliness of grant claim preparation;
- adopting standard working papers for grants to ensure consistency of supporting documentation; and
- introducing a grants protocol to ensure arrangements for the preparation and audit of grant claims and returns are understood by all parties.

Reliance on the control environment has been limited in the first year of the new grant arrangements as we sought to establish the controls in place for each specific grant.

Grant fees charged to the end of October totalled £17,700 and a further £10,000 is expected by the end of December 2004.



## Looking Forward

### Future audit and inspection work

We have an agreed plan for 2004/05 and we have reported in this letter those aspects that have already been completed. The remaining elements of that plan, including our audit of the 2004/05 accounts, will be reported in next year's annual letter.

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

### Revision to the code of audit practice

The Audit Commission has consulted on a revised code of audit practice for application to the audit of the 2005/06 accounts. The new code, which will be laid before Parliament in January 2005, is designed to secure:

- a more streamlined audit, which is proportionate to risk and targeted on areas where auditors have most to contribute to improvement;
- a stronger emphasis on value for money, focussing on corporate performance and financial management arrangements (rather than individual services and functions); and
- better and clearer reporting of the results of audits.

Further details will be provided in the audit and inspection plan 2005/06.

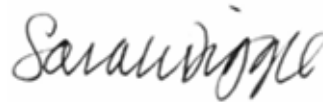
## Closing remarks

This letter has been discussed and agreed with the chief executive and the director of central resources. A copy of the letter will be presented at the central resources committee on 26 January 2005 and full council on 16 February 2005.

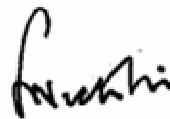
The council has taken a positive and constructive approach to our audit and inspection we would like to take this opportunity to express our appreciation for the council's assistance and co-operation.

### Availability of this letter

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



**Sarah Diggle**  
Relationship Manager



**Steve Nicklin**  
District Auditor  
December 2004

## Status of our reports to the council

Our annual audit and inspection letter is prepared in the context of the statement of responsibilities of auditors and audited bodies issued by the Audit Commission. Annual audit and inspection letters are prepared by relationship managers and appointed auditors and addressed to members and officers. They are prepared for the sole use of the audited and inspected body, and no responsibility is taken by the Audit Commission or its appointed auditors to any member or officer in their individual capacity, or to any third party.

## Audit & inspection reports issued

Reports	Date
Audit plan	May 2003 *
Internal audit letter	May 2004
Core process review	June 2004
Partnership control arrangements	June 2004
Grants report	June 2004
Review of capital monitoring and budgeting procedures	July 2004
Financial aspects of corporate governance	September 2004
Best value letter (2004/05 audit)	October 2004
SAS610 letter	December 2004
Final accounts memo	December 2004
Audit opinion and certificate	December 2004
E-government stage 2 inspection interim report	April 2004
Inspection of Planning Service	November 2004
Annual Audit and Inspection Letter	December 2004

\* covers two years 2002/03 and 2003/04

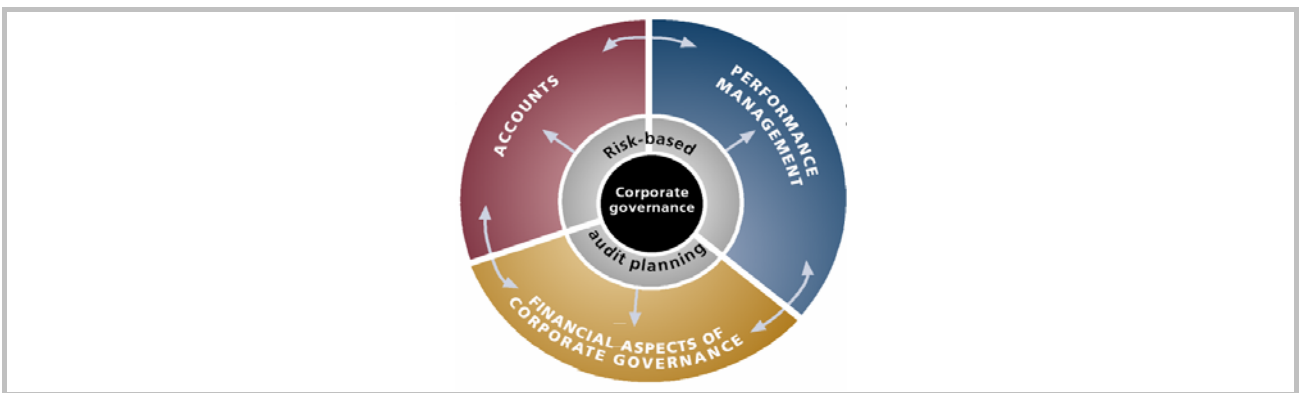
## Scope of audit and inspection

### Audit

Our main objective as your appointed auditor is to plan and carry out an audit that meets the requirements of the code of audit practice. We adopt a risk-based approach to planning our audit, and our audit work has focused on your significant financial and operational risks that are relevant to our audit responsibilities.

Central to our audit are your corporate governance arrangements. Our audit is then structured around the three elements of our responsibilities as set out in the code and shown in Exhibit 1.

#### The three main elements of our audit objectives



#### Accounts

- Opinion.

#### Financial aspects of corporate governance

- Financial standing.
- Systems of internal financial control.
- Standards of financial conduct & the prevention and detection of fraud and corruption.
- Legality of transactions.

#### Performance management

- Use of resources.
- Performance information.
- Best value performance plan.

## Inspection

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

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

The Audit Commission has circulated to all audited bodies a statement that summarises the key responsibilities of auditors. Our audit has been conducted in accordance with the principles set out in that statement. What we say about the results of our audit should be viewed in the context of that more formal background.

## Audit and inspection fee

### Audit fee update

Audit area	Plan 2003/04	Actual 2003/04
Accounts	23,200	23,200
Financial aspects of corporate governance	33,000	33,000
Performance	25,800	25,800
TOTAL CODE OF AUDIT PRACTICE FEE	82,000	82,000
Grant claim certification	32,000	27,700
Additional voluntary work (under Section 35)	0	0

### Inspection fee update

The full year inspection fee is £17,946. The work reported in this audit and inspection letter has been funded by an element of the fee covering 2003/04 and by an element of the fee covering 2004/05. In both years the actual fee will be in line with that planned.