

Annual Audit and Inspection Letter

March 2008



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Teesdale District Council

External audit is an essential element in the process of accountability for public money and makes an important contribution to the stewardship of public resources and the corporate governance of public services.

Audit in the public sector is underpinned by three fundamental principles:

- auditors are appointed independently from the bodies being audited;
- the scope of auditors' work is extended to cover not only the audit of financial statements but also value for money and the conduct of public business; and
- auditors may report aspects of their work widely to the public and other key stakeholders.

The duties and powers of auditors appointed by the Audit Commission are set out in the Audit Commission Act 1998 and the Local Government Act 1999 and the Commission's statutory Code of Audit Practice. Under the Code of Audit Practice, appointed auditors are also required to comply with the current professional standards issued by the independent Auditing Practices Board.

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.

Reports prepared 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

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Key messages

- 1 Key messages arising from our inspection work, including reports to the Government Monitoring Board, are as follows.
 - We have not prepared a Direction of Travel report for the Council this year because a Comprehensive Performance Assessment (CPA) of the Council is taking place in March 2008. The assessment has the potential to change the Council's CPA category of 'poor'.
 - During the year we continued to prepare reports on the Council's progress for the Government Monitoring Board for the Council. All these reports showed improvement in key areas of how the Council works including community leadership and performance management.
 - Our inspection of the Council's regeneration services resulted in judgements of 'a good service' with 'uncertain prospects for improvement'. At the time of the inspection, long term plans were emerging through Barnard Castle Visioning and the Community Strategy review. However, action plans identifying actual resource, partnership contribution or clear outcomes for prioritised visioning projects were not finalised and the Council's contribution to regional and county strategies was not clear. The provision of affordable housing remains a major challenge for the Council.
 - In common with councils across Durham, the Council has implemented good regeneration projects. However, the councils are not working together well enough to close the gap between economic prosperity in Durham and the rest of the country.
- 2 Key messages arising from our audit work are as follows.
 - Our Use of Resources assessment shows that while the overall score is again at level 2 (meeting minimum requirements) the Council has for the second year running further improved arrangements.
 - We issued an unqualified opinion on the 2006/07 accounts.
 - Our value for money conclusion for 2006/07 was qualified due to the inadequate arrangements for the management of the asset base.
 - During the year we formally closed the 2004/05 and 2005/06 accounts which had been held open until matters brought to our attention by a local authority elector had been formally concluded.
- 3 Other key messages:
 - the Government has decided to take forward the option of local government reorganisation in County Durham. The Council's functions will be transferred to a new unitary council that will cover the whole of County Durham. Early indications are that the Council is making a positive contribution to making a success of the new council but this early impetus needs to be maintained over the coming months.

Action needed by the Council

- 4 The Council and the new County Durham Council should work within the framework provided by the County Durham Economic Partnership to progress our recommendations in the county-wide inspection of Regeneration. In summary, these were to take steps to strengthen the coherence of regeneration activity and collaboration amongst stakeholders by:
 - starting and maintaining a public debate on the future of Durham's economy;
 - aligning regeneration strategies and strengthen collaboration amongst partners to match the pace of external change, without regard to local government boundaries;
 - considering with partners how the importance of skills and aspirations can be embedded in the culture of County Durham;
 - ensuring that housing strategies align with economic strategies and opportunities and with transport strategy;
 - strengthening leadership on regeneration activity;
 - providing independent capacity to develop and deliver strategy; and
 - reviewing how resources are used to lever in private funding in order to maximise their impact.
- 5 The main areas for improvement arising from our audit work are:
 - regular monitoring of budgets with the frequency of returns to accountancy established on a risk basis;
 - completion of the review of the approach to asset management;
 - documenting the arrangements for formal risk assessment that will underpin the reserves and balances; and
 - ensuring the development of initiatives in performance management, procurement and asset management arrangement to secure improvements in value for money.
- 6 Apart from the recommendation from the county-wide inspection of regeneration (paragraph 4 above) we are not making recommendations on performance issues at this stage, pending the outcome of the CPA inspection.
- 7 In order to provide a smooth transition to the new unitary council for County Durham the Council should:
 - Prioritise making a positive contribution to transitional working designed to establish the new council;
 - Set aside or secure sufficient resources to make the above contribution; and
 - Ensure attention is given to maintaining key public services in the period up to transition.

Purpose, responsibilities and scope

- 8 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.
- 9 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.
- 10 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.
- 11 Your appointed auditor, Steve Nicklin is responsible for planning and carrying out an audit that meets the requirements of the Audit Commission's Code of Audit Practice (the Code). Under the Code, he reviews and reports on:
 - the Council's accounts;
 - whether the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources (value for money conclusion); and
 - whether the Council's best value performance plan has been prepared and published in line with legislation and statutory guidance.
- 12 This letter includes 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 inspections. Inspection reports are issued in accordance with the Audit Commission's duty under section 13 of the 1999 Act.
- 13 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 Teesdale District Council performing?

- 14 Teesdale District Council was assessed as Poor in the Comprehensive Performance Assessment carried out in 2003/04. These assessments have been completed in all district councils and we are now updating these assessments, through an updated corporate assessment, in councils where there is evidence of change. The following chart is the latest position across all district councils.

Figure 1



Source: Audit Commission

The improvement since last year - our Direction of Travel report

- 15 We have not prepared a Direction of Travel report for the Council this year because a Comprehensive Performance Assessment (CPA) of the Council is taking place in March 2008. The assessment has the potential to change the Council's CPA category of 'poor'.
- 16 During the year we continued to prepare reports on the Council's progress for the Government Monitoring Board for the Council. We focused on community leadership and engagement, organisational development and performance management. All these reports showed improvement in the way that the Council works.

Service inspections

Inspection of Regeneration services at Teesdale District Council

- 17 During 2007 we carried out an inspection of the Council's Regeneration services. The inspection resulted in judgements of 'a good service' with 'uncertain prospects for improvement'.
- 18 The Council had engaged effectively with business but to a lesser extent communities and residents to develop regeneration projects. It was increasing community involvement in regeneration services to improve engagement with all stakeholders. This included extensive visioning consultation for Barnard Castle and the district.
- 19 There had been improvements against the Council's key strategies and regional initiatives. The unemployment rate in the district had fallen from 1.6 per cent to 1.4 per cent in three years. Product development and increased promotion, with partners, including the development of the 'Discover Teesdale' brand, had improved the tourism offer and increased visitor numbers. The LSP learning partnership was providing needed development and training to rural communities. However, the provision of affordable housing remains a major challenge for the Council.
- 20 The Council was improving the infrastructure of the district to assist regeneration by providing facilities to accommodate the growth of local businesses. Improvements at the Harmire and Stainton Grove Enterprise Estates were providing a network of incubator units and larger premises for businesses to expand. These activities helped the Council exceed its 2006/07 targets for new jobs created, businesses created and businesses supported. The 28 businesses created and 168 supported in 2006/07 were both almost double the 2005/06 figures.
- 21 Clear long-term plans were emerging through Barnard Castle Visioning and the Community Strategy review. However, action plans identifying actual resource, partnership contribution or clear outcomes for prioritised visioning projects were not finalised and the Council's contribution to regional and county strategies was not clear.
- 22 The Council was working well with partners to deliver regeneration services. Partners acknowledged the skills and commitment of Council staff to help their organisations contribute to regeneration of the district. The Council and its partners had a track record of successfully delivering programmes for improvement. However, funds for sustainability of projects and partnerships were not in place. Funding of future regeneration activities in Teesdale depended on the success of bids for projects identified from the recent Barnard Castle visioning exercise.

County-wide inspection of Regeneration

23 During 2007 we carried out an inspection of Regeneration, covering all eight local councils in County Durham. The report was published in August 2007. The key findings were:

- Councils are providing good regeneration services individually. However, in spite of much external funding and considerable resource contributions of their own, they are not collectively closing the gap in prosperity between Durham and the rest of the country. There is also little evidence that the gaps between the most disadvantaged and rest of region are closing;
- strategic leadership on the economy in Durham has been weak. When councils and partners work together then making good progress and identify and develop some real opportunities, but there are not enough examples of this. Councils tend to work within their own boundaries rather than across geographical areas (this is in part driven by external funding arrangements);
- while there seems a general acceptance that part of the solution is to work at city region scale to widen and deepen markets, County Durham does not seem clear on its relationship to the two City Regions of Tyne and Wear and Tees Valley; and
- identification of local needs is weak: there is a lack of engagement with key stakeholders and little sharing of information about local needs. This includes insufficient engagement with, and understanding of, businesses and their needs, eg for skills development. Intelligence and data are not shared between councils.

The audit of the accounts and value for money

- 24 Your appointed auditor has reported separately to the Council on the issues arising from our 2006/07 audit and has issued:
- an audit report, providing an unqualified opinion on the accounts;
 - a conclusion on your VfM arrangements to say that these arrangements are adequate except for failure to put in place arrangements for the management of the Council's asset base; and
 - a report on the Best Value Performance Plan confirming that the Plan has been audited and published in accordance with the statutory requirements.

Accounts

Prior years

- 25 During the year we formally closed the 2004/05 and 2005/06 accounts. We explained that these audits could not be concluded until investigations into matters brought to our attention by a local authority elector had been formally completed. These matters have now been dealt with and we have closed the audits.

Current year

- 26 The Council complied with the new accounting requirements and produced a comprehensive set of financial statements for 2006/07.
- 27 We reported the matters arising from the audit in September 2007 and recommended that the Council should:
- review the system of quality control for the production of the statement of accounts;
 - ensure that the approach to capital accounting is in accordance with the CIPFA code of practice.
- 28 We are having ongoing discussions with officers about the production of the accounts to ensure improvements are secured.

Use of Resources

- 29** 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).
- 30** We have assessed the Council's arrangements for use of resources in these five areas as follows.

Table 1

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

(Note: 1 = lowest and 4 = highest)

The key issues arising from the audit

- 31** The key issues arising from the audit reflected above, where appropriate, are as follows:
- although the Council has scored two (meeting minimum requirements) across the board it has continued to consolidate improvements in arrangements; and
 - The Council is in the process of reviewing its approach to asset management but this will not be completed until 2007/08.

32 The main areas of improvement are:

- project management to ensure that the statement of accounts are produced in a timely manner continued to improve and there were some good examples of working papers to support the entries in the accounts;
- further development of the medium term financial strategy along with better alignment of corporate plan priorities with financial strategies;
- identification of officer and member champions responsible for embedding risk management within the authority, with the Audit Committee having corporate responsibility of risk management; and
- establishing an assurance framework reported through the Statement of Internal Control to provide good evidence that arrangements are in place.

33 Further opportunities for improvement have been discussed including:

- regular monitoring of budgets with the frequency of returns to accountancy established on a risk basis;
- completion of the review of the approach to asset management;
- documenting the arrangements for formal risk assessment that will underpin the reserves and balances; and
- ensuring the development of initiatives in performance management, procurement and asset management arrangement to secure improvements in value for money.

Data Quality

- 34** Overall management arrangements for ensuring data quality demonstrate an adequate performance. The Council's commitment to data quality is outlined in the Corporate Plan and clear data quality actions are identified in the plan to ensure the accuracy of data. The approach was less developed for data from partnerships.
- 35** While our spot checks of specific indicators found they were all fairly stated but there is tendency to rely on corporate review rather than departments undertaking their own validation checks. Good data management should be reinforced through training.
- 36** During the year we also held a one day workshop for managers to assist the Council improve performance management and decision making through good data quality and effective target-setting.

National Fraud Initiative

- 37** The National Fraud Initiative is a computerised data matching exercise designed to identify overpayments to suppliers and benefit claimants and to detect fraud perpetrated on public bodies. The referrals from the current exercise were released to participating bodies in 2007, and the data matches are being investigated and followed up by Internal Audit. Considerable efforts have been made within the Council, especially by the Internal Audit Manager to address the key areas arising from the exercise.

Local risk work

- 38** A key component of the Audit Commission's national strategy for improving the impact of local audit and performance work, and delivering strategic regulation, is to carry out integrated reviews which cut across a number of public bodies and help improve the quality of life for local people. Work has been included in audit and inspection programmes across the North East for 2006/07 on two key cross-cutting themes, health inequalities and regeneration.

Health inequalities

- 39** Partnership working is helping to improve the North East's health outcomes but more needs to be done to close the gap between the North East and the rest of England. Life expectancy is lower, rates for sickness and disability are twice the national average, and smoking mortality rates are among the highest in England. There is also a high prevalence of obesity, increasing sexual health infection rates and serious alcohol and substance misuse issues.
- 40** Tackling health inequalities is a high priority for the Government, which has been increasingly encouraging health trusts to work in partnership with local public bodies and the voluntary sector to improve health and reduce inequalities through a number of initiatives, targets and legislation. The factors causing health inequalities are complex and can best be addressed through agencies working together.
- 41** The Audit Commission, Deloitte and PricewaterhouseCoopers have reviewed how organisations across the North East are working together to address health inequalities, culminating in a workshop in October 2007 for 200 representatives from the NHS, local government and the many voluntary sector agencies involved in tackling health inequalities, where we identified seven key challenges.
- Challenge 1: Develop arrangements to evaluate projects and ensure continued funding of those that deliver tangible outcomes, and to embed this learning in project planning and performance management systems.
 - Challenge 2: Gather intelligence on where gaps in services exist and a profile of those accessing services. Target services at those areas and individuals where there is unmet need and develop strategies to target hard to reach groups.

- Challenge 3: Ensure local area agreements contain a breadth of targets to reduce health inequalities, across all sectors and ensure health and wellbeing strategies are translated into local delivery plans that contain sufficient detail and local targets to monitor progress.
 - Challenge 4: Spread awareness of priorities and services on offer and provide networking opportunities and information sharing systems to improve the links between service planners and service providers. Cascade messages and targets to front line workers such as teachers, health professionals and social workers.
 - Challenge 5: Use the Regional Health and Wellbeing Strategy to provide direction for the North East and link national, regional and local policies. Develop networking opportunities and support to share good practice to achieve the aim of transforming the North East into the healthiest region in the country within a generation.
 - Challenge 6: Give community and voluntary sector organisations increased certainty over funding with agreed delivery targets and simplify commissioning arrangements to make it easier for them to bid for the provision of services.
 - Challenge 7: systematically seek community views to influence how and where services are provided.
- 42 A report summarising the work to date was distributed widely to inform future development and improvement. We will be building on this work in the coming year, focussing in on specific areas, identifying good practice and helping to identify and overcome barriers to improving health outcomes in the North East.

Your Business at Risk

- 43 The growth in the use of newer technologies to give greater public access has resulted in increased risks for public sector bodies. Computer viruses, IT fraud, hacking, invasion of privacy and downloading of unsuitable material from the internet remain real threats to many organisations. The Your Business at Risk review through the use of an online survey considered the awareness by staff of the risks associated with their increasing use of technology and the action required to reduce such risks.
- 44 Overall, the results are positive and any concerns are mostly around lack of awareness and guidance. In quite a few areas the Council's users score highly and better than the national average - as indicated by the Commission's national database which currently contains almost 15,000 responses from around 80 public sector organisations.
- 45 The Council's ICT department is relatively small in size and has to meet many of the same modern day demands experienced by larger councils. It therefore needs to be more flexible and adaptable due to limited capacity and skills. The survey highlighted some IT risks and gaps in the knowledge and there are areas where further improvements can be made.

- 46** As the survey is based on the perceptions of users and ICT staff, the issues that arise often relate to the need to improve communication, provide more information and training, especially on business continuity arrangements and procedures for reporting security incidents. In addition the Council needs to improve procedures to minimise risk of use of unlicensed software or downloading of inappropriate material.
- 47** Our recommendations aimed at improving the use of IT securely in Teesdale include:
- ensuring that the role and function of the responsible IT security officer is clearly understood and awareness improved for all staff on the reporting of virus incidents;
 - raising the profile of business continuity plans and anti-fraud strategies to ensure staff understand the risks and action required to reduce the Council's exposure to such risks; and
 - ensuring that the all ICT assets are accurately recorded and inventory lists are maintained along with having annually vulnerability testing to minimise risk of use of unlicensed software.

Looking ahead

- 48 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.
- 49 Even though the Council will demise from 31 March 2009 it still has a key role in establishing the foundations of the new council and enabling it to respond to the future challenges of both new local area agreements and public expectations of service improvements leading to a better quality of life that will be assessed under CAA.

Closing remarks

- 50 This letter has been discussed and agreed with the Chief Executive and Head of Financial Services. A copy of the letter will be presented at the full council in April 2008. Copies need to be provided to all Council members.
- 51 Further detailed findings, conclusions and recommendations on the areas covered by audit and inspection work are included in the reports issued to the Council during the year.

Table 2 Reports issued

Report	Date of issue
Audit and inspection plan	March 2006
Your Business at Risk	June 2007
Annual Governance Report	September 2007
Opinion on financial statements	September 2007
Value for money conclusion	September 2007
Final accounts memorandum	October 2007
Reports to Government Monitoring Board	June and September 2007
Regeneration inspection of Teesdale District Council	August 2007
County-wide regeneration inspection	August 2007
Annual Audit and Inspection Letter	March 2008

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

Availability of this letter

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

Sarah Diggle
Relationship Manager
 March 2008

Steve Nicklin
District Auditor