

Report of the Director of Resources

Annual Audit and Inspection Letter 2005/06

1.0 Summary

- 1.1 To receive the Annual Audit and Inspection Letter (AAIL) for 2005/06 which has recently been received from the Audit Commission, a copy of which is attached to this covering report.
- 1.2 The Policy and Strategy Committee is recommended to approve the Annual Audit and Inspection Letter for 2005/06 and to authorise the Officers to publish the Letter in accordance with regulations.

2.0 Recommendation

- 2.1 The Constitutional and Audit Committee is recommended:
 - (a) to receive the Annual Audit and Inspection Letter 2005/06;
 - (b) to consider whether it wishes to take any further action on the issues raised in the Letter; and
 - (c) to agree the actions listed on Page 5 of the Annual Audit and Inspection Letter .
- 2.2 **The Policy and Strategy Committee is recommended to approve the Annual Audit and Inspection Letter for 2005/06 and to authorise the Officers to publish the Letter in accordance with regulations.**

3.0 Background

- 3.1 The Council, at its meeting on the 21st February 2006, agreed Terms of Reference and a revision to the name of the Constitutional Panel to widen its remit to include matters relating to the various audit functions required under regulation. The Terms of Reference includes the following: *"To consider the external auditor's annual letter, relevant reports, and the report to those charged with governance"*.
- 3.2 The Audit Commission's Code of Audit Practice requires auditors to prepare an annual audit letter and issue it to each audited body. The purpose of preparing and issuing annual audit letters is to communicate to the audited body and key external stakeholders, including members of the public, the key issues arising from auditors' work, which auditors consider should be brought to the attention of the audited body. The annual audit letter covers the work carried out by auditors since the previous annual audit letter was issued. Whilst the format of the letter is not prescribed it should highlight the key issues drawn from reports to those charged with governance and auditors' conclusions on relevant aspects of the audit. It

should be prepared in clear language that is concise and accessible to a wide audience.

- 3.3 Annual audit letters are addressed to all members of local government bodies and the auditor should ensure all members receive a copy. Although some audited bodies are not subject to a statutory requirement to publish their annual audit letters, auditors encourage the audited body to publicise the availability of the letter. The Commission's decision to publish annual audit letters on its website is part of its objective to make its findings easily accessible to everyone.
- 3.4 For those local government bodies where the Commission carries out inspections, auditors provide information to the Commission on the key issues arising from their audit work, in a specified format, to enable the Commission to prepare and send to the audited body an annual audit and inspection letter.
- 3.5 **Publication of annual audit letter** – The Accounts and Audit Regulations 2003, as amended by The Accounts and Audit (Amendment) (England) Regulations 2006 contains the following regulation 19 with regard to the publication of the Annual Audit and Inspection Letter:

As soon as reasonably possible after receipt of the annual letter from the auditor or the Commission, a committee of the relevant body or the members of the relevant body meeting as a whole, shall meet to consider it and following that consideration shall -

- (a) publish the annual audit letter received from the auditor; and*
- (b) make copies available for purchase by any person on payment of such sum as the relevant body may reasonably require.*

- 3.6 The Council's current newly appointed District Auditor and Relationship Manager, Helen Thompson, is hoping to be able to attend one of the meeting's to present the Letter to Members.

4.0 Proposals

- 4.1 The Annual Audit and Inspection Letter contains the following sections:

- Ø Our overall summary
- Ø Action needed by the Council
- Ø How is Adur District Council performing?
- Ø The improvement since last year - our Direction of Travel report
- Ø Financial management and value for money
- Ø Conclusion
- Ø Availability of this letter

- 4.2 The AAIL contains two new sections resulting from further work the Audit Commission has been undertaking in Local Authorities:

- (a) **Direction of Travel Judgements or Statements** - For 2005/06 the Audit Commission introduced for district councils a direction of travel statement (not a scored judgement), and this approach has continued into 2006/07. The Letter contains comments on the progress made in various areas of the Council's work, without coming to a formal judgement on "direction of travel".

- (b) **Use of Resources assessments** - Use of Resources assessments are based on the work of auditors under the new Code of Audit Practice. The new methodology for these assessments has been implemented at all councils, and a reassessment has taken place recently which is reported in the Letter.

The framework comprises five themes:

- Ø financial reporting;
- Ø financial management;
- Ø financial standing;
- Ø internal control; and
- Ø value for money.

The Council has been awarded an overall score of 2, (Maximum 4, Minimum 1) which means that its performance in this area is adequate and meeting minimum requirements. A reference in the letter from the Audit Commission states that: *“The Council has improved its scores in our use of resources assessment, but a number of arrangements need to be reviewed.”*

- 4.3 The AAIL contains various important messages on various aspects of the Council's performance, and the letter from the Audit Commission states that: *“Adur's performance overall remains fairly strong but has improved at a slightly slower rate since 2004/05 than at other district councils.”*

Local Government Act 1972

Background Papers:

Annual Audit and Inspection Letter 2005/06

Contact Officer:

Andrew D. Gardiner
Director of Resources,
Extension no: 63401
andrew.gardiner@adur.gov.uk

Appendix

1.0 Council Priority

1.1 The proposals do not specifically address any of the Council's priorities.

2.0 Specific Targets

2.1 This report does not seek to achieve any particular Council target.

3.0 Sustainability Issues

3.1 There are no particular sustainability issues raised by the report.

4.0 Equality Issues

4.1 There are no particular equality issues raised by the report.

5.0 Community Safety issues (Section 17)

5.1 This report should not impact upon crime levels within the district, although some reference is made to specific performance levels relating to Community Safety.

6.0 Human Rights Issues

6.1 This report does not raise any particular human rights issues.

7.0 Financial Implications

7.1 There are no direct financial implications arising from this report.

8.0 Legal Implications

8.1 There are no direct legal implications arising from this report.

9.0 Consultations

9.1 There has been no external consultation in the preparation of this report, although discussions have taken place with senior officers and members.

10.0 Risk assessment

10.1 This report is a review of previous years work and investigations which has been prepared in accordance with statutory requirements and is unlikely to put the Council at risk of legal challenge.

11.0 Health & Safety Issues

11.1 There are no particular health & safety issues raised by this report.

12.0 Procurement Strategy

12.1 This report details the review of previous years work and investigations which has been prepared in accordance with statutory requirements by the Audit Commission who appoint Approved Auditors to each Council and therefore there is no requirement to go through a procurement process.

13.0 Partnership working

13.1 Matter considered and no issues identified.

Annual Audit and Inspection Letter

March 2007



Annual Audit and Inspection Letter

Adur District 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. 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

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.

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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

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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 feed into any future decision regarding the potential for rescoring 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 Council is currently working closely with Worthing Borough Council to develop proposals for an innovative partnership between the two councils. The proposed partnership builds on the experience of both Councils, and is driven by the need to maintain and improve services within a challenging financial environment and increasing expectations from central government. The proposals include a shared officer structure and delivering joint services to residents. We have responded to the Council's consultation document on these proposals. We recognised the commitment of both Councils to developing the way they work in partnership and highlighted the challenges that will need to be addressed if the anticipated benefits are to be realised
- 4 The main messages for the Council included in this report are as follows.
 - The Council has improved its scores in our use of resources assessment, but a number of arrangements need to be reviewed.
 - The decision on joint working with Worthing BC will have a fundamental impact on the organisation of the Council and the arrangements it has in place for managing how it uses its resources.
 - Progress is being made against all the Council's key priorities. However, progress is hard to measure objectively because targets are not SMART (specific, measurable, achievable, realistic and time bound). These should be set when the key priorities are reviewed in 2007/08.
 - Whilst the Council's arrangements for data quality meet minimum standards, auditing of performance indicators by ourselves and internal audit highlighted a number of errors and discrepancies.

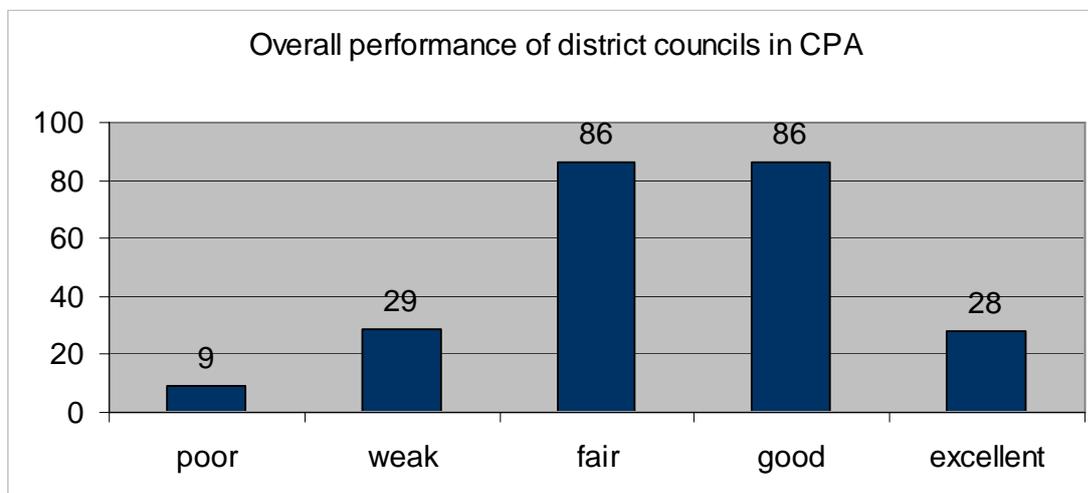
Action needed by the Council

- 5** Improve the standards of budget monitoring reports for committees and ensure that reports are received on a timely basis throughout the year.
- 6** Should the Council decide to extend the joint working with Worthing BC, it will be essential to work through and update all of the Council's key corporate documents and strategies, in particular key documents including the Council's Asset management Plan and Capital Strategy are already in need of major review and update.
- 7** Ensure that officers commit to providing high quality data as a means of measuring outcomes and underpinning value for money.

How is Adur District Council performing?

- 8 Adur District Council was assessed as 'Fair' in the Comprehensive Performance Assessment (CPA) carried out in 2003 and it scored two out of a possible four in its Use of Resources assessment carried out in early 2007. CPA assessments have been completed in all district councils and we are now starting to update these in councils where there is evidence of change. We have not considered it necessary to update Adur's score at this stage, based on our current assessment of direction of travel. The following chart is the latest position across all district councils.

Figure 1 Overall performance of district councils in CPA



Source: Audit Commission

The improvement since last year - our Direction of Travel report

Improving outcomes

- 9 The Council's corporate plan 2005 to 2008 sets out five priority areas
- protecting and enhancing core services;
 - make Adur a clean, green, safe place;
 - revitalise Adur;
 - keep council tax increase to the minimum practicable level; and
 - contribute to partnership working including the Community strategy where it is in the best interests of the council to do so.

- 10 Over the last year, the Council has made progress in addressing all priority areas. In particular:
- in conjunction with Worthing BC, the Council is actively pursuing an innovative project moving towards shared services with joint management across both councils;
 - work is on schedule to procure a new refuse and recycling fleet with Worthing BC and re-brand AWS (Adur and Worthing Services) linking the two Councils closer together;
 - phase two of the Council's officer restructuring came into effect in April 2006;
 - the transfer of leisure centres to Impulse leisure has become more embedded and we understand that user satisfaction data is good;
 - the successful regeneration of a former derelict land site to provide a combined arts, community, education and business centre (Ropetackle). This has also made a significant contribution to achieving more affordable housing in the district; and
 - new ICT systems have been procured through the CENSUS partnership - revenues and benefits, development control and the financial ledger system.

Performance Overview

- 11 Adur's performance overall remains fairly strong but has improved at a slightly slower rate since 2004/05 than at other district councils. The Audit Commission has selected a basket of 36 key 2005/06 performance indicators drawn from Best Value Performance Indicators (BVPIs) and other comparable performance information. Of these indicators, 56 per cent have improved between 2004/05 and 2005/06. This places Adur just below the national average of 58 per cent for district councils.
- 12 The percentage of PIs in the best quartile is above the national average for a district council and reflects well given Adur's small size and limited resources. 33 per cent of the 2005/06 basket of PIs are in the best quartile compared to a district council average of 31 per cent. Although not directly comparable, this is a slight reduction on the 36 per cent of PIs in the best quartile that we reported last year.
- 13 The following paragraphs highlight the rate of progress made by the Council relative to other authorities, against each of its service priority areas.

Protecting and enhancing core services

- 14 Based on relevant national indicators, progress against this priority gives a mixed picture. Performance dipped in 2005/06 in a number of areas where new IT systems were being introduced to secure longer term improvements.

- 15 In council tax and NNDR collection, performance has historically been at very high levels, 98 per cent and 99 per cent respectively. Collections fell to 96 per cent and 98 per cent in 2005/06. NNDR collection has recovered and is now back at 99 per cent, but council tax collection has not picked up and currently remains at 96 per cent.
- 16 The Council performs well for the amount of Housing Benefit overpayments reclaimed but was amongst the worst 25 per cent of councils in the time taken to process new claims and changes in circumstances in 2005/06. In addition to implementing a new system, the processing of claims was affected by staff sickness. The average time to process a new claim increased from 42 days in 2004/05 to 46 days in 2005/06. The average time is currently improving and now stands at 44 days as the new system is bedding down. The average time for processing changes in circumstances has recovered back to the 2004/05 level of 19 days.
- 17 Planning performance is also mixed. The percentage of minor applications determined within eight weeks is above average and processing of other applications was in the best 25 per cent of councils nationally. However, processing of major applications was in the worst 25 per cent of councils nationally. The number of significant major applications can lead to variations in reported performance from year to year in 2005/06 there were 12 major applications half of which were dealt with in 13 weeks. In 2006/07 all major applications were dealt with in 13 weeks in the first half of the year, but in the third quarter only one major application has been received, and that could not be dealt with in 13 weeks.

Making Adur a clean, green, safe place

- 18 Crime statistics are very good. Domestic burglaries, robberies, theft from a motor vehicle, sexual offences, thefts of a motor vehicle and violence against the person are all in the lowest 25 per cent of councils nationally. The Council works with the local Crime and Disorder Reduction Partnership and has taken direct action in cracking down on abandoned vehicles, removal of graffiti and litter.
- 19 There are some improving messages about household waste collection. The volume of waste collected is low (in the best 25 per cent of councils nationally) but the Council fell short of central government targets for the proportion of waste recycled or composted in 2005/06. It recycled or composted 24 per cent of waste against a statutory target set by DEFRA of 30 per cent. The Council has promoted home composting as a sustainable method to reduce waste, but that is not measured by the DEFRA target. A new combined refuse and recycling service is due to be rolled out in phases between September 2007 and 2009 across both Adur and Worthing. One of the aims of this modernised (wheel bin) service is to improve recycling performance.

Revitalise Adur

- 20** The percentage of invoices paid on time was below average in 2005/06 at 92 per cent. The fall from a top quartile performance in 2004/05 of 97 per cent coincided with the introduction of a new financial ledger system. Performance has now recovered to 98 per cent.

Sustaining future improvement

- 21** The Council's improvement plan 2003 to 2006 agreed in response to CPA has been addressed and completed. Over recent months, the improvement agenda has been dominated by the proposal to jointly manage services with Worthing BC. In addition, the Corporate Performance Team has driven improvement through regular reporting against a priorities table with individual Directors leading on key projects, risks or issues. For other areas, the Council relies on officers monitoring corporate plan actions through divisional plans with a summary update in the annual Best Value Performance Plan.
- 22** However, it is not easy to assess progress against each of the Council priorities because most of the aims are not SMART (specific, measurable, achievable, realistic and time bound) and have no definable outcomes. We also note that divisional plans were not produced in the autumn of 2006 as usual, because of work pressures and capacity issues. Progress is therefore hard to measure.
- 23** The Council's plans to upload priorities onto performance management software from April 2007 should provide a more effective focus for monitoring, particularly if SMART targets are set when the Council's key priorities are reviewed in 2007/08.

Financial management and value for money

- 24 My predecessor as appointed auditor reported separately to the Constitution and Audit Panel on the issues arising from our 2005/06 audit and has provided:
- an unqualified opinion on your accounts;
 - a conclusion on your value for money arrangements to say that these arrangements were adequate except for putting in place arrangements to manage significant business risks and arrangements to manage performance against budgets; and
 - a report on the Best Value Performance Plan confirming that the Plan has been audited.
- 25 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).
- 26 For the purposes of the CPA we have assessed the Council's arrangements for use of resources in these five areas. For each area the Council was scored from 1 to 4:
- 1 = below minimum requirements – inadequate performance;
 - 2 = only at minimum requirements – adequate performance;
 - 3 = consistently above minimum requirements – performing well; and
 - 4 = well above minimum requirements – performing strongly.

Table 1

Element	2005 Assessment	2006 Assessment
Financial reporting	1	2
Financial management	2	2
Financial standing	1	2
Internal control	2	2
Value for money	2	2
Overall assessment of the Audit Commission	2	2

(Note: 1 = lowest and 4 = highest)

- 27** The key issues arising from the 2006 audit, as reflected in the above judgements where appropriate, are set out below. We recognise that the Council's arrangements for use of resources may need to change following a final decision on how joint working with Worthing BC is to be taken forward.
- 28** The Council's 2005/06 statement of accounts were significantly improved on the previous year and required less amendment before an audit opinion could be issued.
- 29** Financial management comprises three areas.
- The council's medium-term financial strategy, budgets and capital programme are soundly based and designed to deliver its strategic priorities?
 - The council manages performance against budgets?
 - The council manages its asset base?
- The three areas score at level 2 overall, but individual scores range from 1 to 3.
- 30** Our assessment of the Council's financial strategies, budgets and capital programme was that these score at level 3. However, these strategies will need to be fundamentally revised in light of whatever decision is taken around joint working with Worthing BC.

- 31 We were concerned that the Council's approach to budget monitoring during 2005/06 was weak and our assessment in this area was a score of 1. The reports to committee were largely in a narrative format without control totals, and as such they were difficult to agree to the underlying financial ledger. The timing of the committee cycle was such that reports were often many weeks old by the time they are presented to committee. At the committee it was not uncommon for members to decide to not receive any further budget monitoring reports for the remainder of the year. These weaknesses are being addressed in current budget monitoring reports.
- 32 We scored the Council's approach to managing its asset base as achieving level 2. However, key documents such as the asset management plan and capital strategy will need to be fundamentally reviewed.
- 33 The Council's arrangements for financial standing have improved. Previous weaknesses in the area of Treasury management have been addressed.
- 34 Internal control arrangements were assessed as meeting the minimum adequate requirements, following Council approval of the risk register and establishment of audit committee arrangements. However, we noted that the Council had not been pro-active in its role to raise standards of ethical behaviour. The Standards Committee considered undertaking an ethical governance audit in June 2006, but decided not to do so as it was a resource intensive exercise.
- 35 Over the last year, the Council has worked hard to improve value for money through partnership working and by implementing phase two of the officer restructure. However, achieving value for money remains a challenge in a small authority and the Council's expenditure on services is still relatively high compared to other similar district councils. Whilst performance overall remains fairly strong, further improvements in key areas such as recycling, planning and housing benefit will be important.
- 36 The Council's management arrangements for data quality meet minimum standards and should help to underpin a clear understanding of value for money issues. There are adequate arrangements for the governance, monitoring and review of data quality although these are not formalised and there is no overarching data quality strategy. However, work carried out by internal audit, together with our own review of performance indicators, identified problems with the completeness and accuracy of reported data. The introduction of a data quality strategy in January 2007 should raise awareness and reinforce messages about the importance of data quality.

Conclusion

- 37 This letter has been discussed and agreed with senior managers. A copy of the letter will be presented at the Constitution and Audit Panel in June 2007.
- 38 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

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

Helen Thompson
Relationship Manager