

2001/2002 AUDIT LETTER

Key Issues	PwC Comment	Council's Response
<p>1. The Council's Statement of Accounts (Para. Ref. 8)</p>	<p>We have largely completed our audit and expect to issue an unqualified opinion in early December.</p> <p>There was a significant change introduced in 2001/02 to the way in which pension costs are recognised in the revenue accounts. Until this year, the Council's employer's contributions have been fully charged to and financed from revenue as incurred. This year, the Council in response to a Government initiative treated £2.8 million of those costs as capital expenditure, which meant that the Council has avoided meeting these costs from its annual revenues by using its capital resources instead. A similar treatment is included in the budget for 2002/03. In our view, it is not a sustainable accounting practice to meet recurring revenue costs from capital resources and we recommend that the Council should cease this practice.</p>	<p>The audited Statement of Accounts for 2001/2002 was signed off with an unqualified opinion on 11th December. The Statement of Accounts for 2002/2003 have been submitted for audit to PwC after adoption by the General Purposes Committee on 4th September.</p> <p>There are no current proposals to adopt a similar policy in 2003/2004.</p>
<p>2. Financial Standing (Para. Ref. 14)</p>	<p>The Council's overall financial standing is significantly weaker than it was 12 months ago due to a range of financial pressures, including significant overspending on Social Services. The Council will need the tightest financial discipline over the next four months to avoid further erosion of the already minimal balances available. We have issued a separate report dealing with the overspending on Social Services.</p>	<p>In agreeing the 2003/2004 budget the Council received an updated forecast for 2002/2003 which took account of the worsening position which had occurred during the year. As a result balances of £4m were provided for to cover risks within the current year's budget. The last report to the Executive on both the 2003/2004 position and the provisional 2002/2003 outturn forecast this level of balances was being maintained.</p> <p>A number of improvements have been made to Financial Management in Social Services which have been reported to Members. These have included the appointment of additional staff and the upgrading of systems. Rigorous and regular monitoring is occurring under the direct responsibility of the Director of Finance.</p> <p>However, there are a number of high risks remaining within the budget. Further reports will be brought to Members on a regular basis.</p>

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<p>3. Continuing Financial Pressures (Para. Ref. 23)</p>	<p>Continuing financial pressures include:</p> <ul style="list-style-type: none"> The need to increase the provision for self financed insurance liabilities. Below target performance on council tax collection and arrears recovery, which will need to be covered by an increase in the provision. Below target performance on recovery of housing benefits overpayments. 	<p>The Council on 3rd March agreed a contribution of £1.8m per annum to the Insurance Fund from 2003/2004. This compares with a budgeted contribution of £400k in 2002/03. It is assumed in the Medium Term Financial Strategy that this level of contribution will continue in future years. This is expected to meet liabilities payable in each year and build up a reserve against future claims.</p> <p>A report to General Purposes Committee on 13th January 2003 agreed an increase in the provision of £1m.</p> <p>The new contract with Capita commenced on 1 May 2003 and hence this contract is at a very early stage.</p> <p>As at 31 July 2003, the collection rate is about 3.5% lower than at the same time last year. This is causing concern but the following actions have been taken or agreed:</p> <p>19,000 arrears (to 31st March 2003) cases passed to bailiffs covering £8m worth of arrears. 10 reminder and 10 summons runs scheduled between July and November. Bankruptcy campaign planned for later this year. Committal to prison hearings have been booked with Court starting in September. If Capita do not reach a 97% collection rate for the 2003/04 year by 31st March 2008, they are liable to pay the Council the shortfall, subject to a cap of £1m.</p> <p>A full recovery plan has been agreed and is available.</p> <p>A new dedicated recovery team has been established now the service has been brought in-house. This has additional staff and new debtors system, which is expected to bring improvements is to be introduced.</p>

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	<ul style="list-style-type: none"> The continuing need to eliminate the pension fund deficit. 	<p>There have been some delays implementing the new debtors system because of the major system migration to IWorld and the transfer of IT to Capita in May 03. The recent strike was also a contributory factor in this not being addressed as speedily as we hoped. This is shortly to go live and will greatly improve the effectiveness of overpayment recovery processes. In the interim an Overpayments strategy has been developed which sets out clear priorities and direction for the management of this function over the next 2 years. Performance is currently comparable to the same period in 2002 and has been reported to the Scrutiny Committee and Performance and Finance select committee.</p> <p>The Pension Fund is subject to a triennial actuarial review (next review 2004), which adjusts the Employers' contribution rate with the aim of ensuring that any deficit is eliminated within the average remaining life of its employees (currently 13 years). It is anticipated that the deficit will have grown substantially since the previous Valuation in 2001 as a result of falling stock markets. Employer contributions to the pension fund have increased from 3.9% of pay in 1996/97 to 18.6% in 2003/04. Although the investment performance of the fund has been relatively good, falling equity markets necessitate the three year budget anticipates that investment returns will be lower than those achieved previously, so that employer contributions will rise further. The Office of the Deputy Prime Minister is currently reviewing the Local Government Pension Scheme to ensure its long-term sustainability.</p> <p>There is pro-active management to reduce the number of early and ill health retirements. An annual report on this is presented to Members.</p>

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	<p>The Council's financial position is finely balanced. The Director of Finance's reports to Council in November 2002 on the 2002/03 revenue budget and the first reading of the 2003/04 budget set out in clear terms the challenge facing the Council to align its spending plans and budget requirements. It is vital that the Council goes into 2003/04 with a clear medium term financial strategy matched to a plan for sustainable service delivery and implementing corporate strategy priorities.</p>	<p>Full Council endorsed the Executive's 4 year budget proposals on 3rd March including a detailed Medium Term Financial Strategy.</p> <p>Currently work is being undertaken developing the 2004/2005 (and the next 3 years) budgets within the Medium Term Financial Strategy developed. This continues to incorporate service priorities linked to the Corporate Strategy.</p>
<p>4. New Constitutional Arrangements (Para. Ref. 37)</p>	<p>In our view, the Council's executive arrangements under the new constitution have bedded down successfully. Inevitably, the scrutiny and overview committee system is new to local government and will require further development. Although it is too early to assess the effectiveness of the existing structure, a single scrutiny committee may find it difficult to add value due to complexity and breadth of services provided by local government. A more sophisticated structure for scrutiny should be considered to allow it to function more effectively.</p>	<p>During the 2002/03 municipal year elements of the Council's new constitution were reviewed by a Member/officer working group. The recommendations of the group were adopted at the meeting of Full Council in May 2003. As well as Scrutiny changes have been made to meetings of Full Council and a protocol developed on Access to information. The changes broadly reflect a need to redress the balance between the non-executive and Executive both in terms of time at Full Council and improved access to information/contact with officers.</p> <p>In May 2003 a new structure for the Council's Scrutiny function was agreed and implemented. This structure includes the creation of a Performance and Finance Select Committee, three thematic Scrutiny Panels looking at Quality of Life, Health and Social Care and Life Long Learning. A Forward Plan Committee has also been set up to focus on the scrutiny of Executive decision-making. In addition the management of the Scrutiny function has been relocated to the Policy and Regeneration Unit with officers now in place to support Members work on Scrutiny.</p> <p>Elements specific to Scrutiny have been included in the Member Development Programme to help build Members' capacity in this area.</p>

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<p>5. Corporate Governance (Para. Ref. 39)</p>	<p>A further development on corporate governance is the new guidance on best practice issued jointly by the Chartered Institute of Public Finance and Accountancy (CIPFA) and the Society of Local Authority Chief Executives (SOLACE). The guidance largely reflects commonly accepted good practice and a self-assessment by officers indicates that most aspects of the guidance are already incorporated within the Council's existing arrangements. However, there are two main areas which require further consideration and development:</p> <ul style="list-style-type: none"> • Part of the guidance focuses on implementing risk management procedures. The Council already has processes, which meet many of the objectives of a risk management system. However, further development is needed to ensure that these high level monitoring systems can be applied at all levels throughout the Council. In our view, this should be integrated into existing service planning processes rather than carried out as a stand-alone processes. • The guidance also advocates the adoption of a local code of corporate governance, an annual review of compliance and a published statement summarising the results of the review and further planned action. As many aspects of the guidance are already covered by the Council's Constitution, there are grounds for dealing with any remaining aspects in the same way rather than maintaining a separate code. However, there would still be a need for some mechanism and process to demonstrate and report compliance and the Council should consider how it intends to respond to this aspect of the guidance. 	<p>A new risk management group chaired by the Director of Housing with representatives from each Service Area is tasked with addressing these issues.</p> <p>A risk assessment template and accompanying notes on its usage have been circulated with the guidance notes for the preparation of the 2004/2005 service development plans. Additional training will be provided together with a comprehensive risk management manual.</p> <p>Proposals for a draft code of Corporate Governance were presented to the Corporate Management Team in May 2003. Further discussions are required with regard to the monitoring arrangements and the potential for an Annual Report which may incorporate a number of published documents. A report is to be submitted to the Executive in the Autumn which will recommend the adoption of a Local Code and make recommendations as to compliance with the CIPFA/SOLACE guidance.</p>

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<p>8. Financial Systems (Para. Ref. 44)</p>	<p>Significant progress has been made in integrating The Council's financial systems. The next phases of the improvement plan include the acquisition of an Executive Information System to improve efficiency and provide a much needed basis for analysis and reporting of financial performance. Work has begun on planning these phases but progress is slower than intended. Progress should be reviewed and an updated action plan should be produced, incorporating an analysis of the costs and resources required.</p>	<p>Migration of the financial accounting systems onto 3 core packages: Oracle, Unity, and Epicor was delayed for some units. The most significant reasons being compatibility of current operating systems and the Epicor system. However, this has now been resolved and Stage 1 was virtually completed by 31st March 2003.</p> <p>Resources of £130k have been agreed by Members as part of the E-Government programme to procure the Executive Information System and to fund further improvements to systems particularly in Social Services.</p>
<p>8. Internal Audit (Para. Ref. 46)</p>	<p>Reporting processes on the results of Internal Audit work have yet to be fully implemented and we have some concerns about the most effective arrangements for Member level reporting and the role of the Standards Committee. We understand that there were initial proposals to form a standing committee with responsibility for scrutiny of finance and audit matters and we recommend that these proposals should be explored further.</p>	<p>The Finance and Performance Select Committee have been given responsibility for Scrutiny of Finance. The findings and recommendations of all internal audit reports are being sent to relevant Chief Officers. A summary of these reports together with the key findings is provided to the Chief Financial Officer. The Audit Plan and Key Findings reports are submitted to the Finance and Performance Select Committee. This includes a statement on the monitoring of implementation of recommendations.</p>
<p>8. Probity and Legality (Para. Ref. 55)</p>	<p>We received a challenge on the disposal of the Kinnor Community Centre in 1999. We concluded that there was no reason for us to take formal action. The issues concerned were mainly specific to very individual circumstances of the disposal. However it did highlight that the value of subsidised lettings is not always sufficiently recognised in evaluating decisions on support to community groups. The 'hidden value' of the Council's support of community groups through subsidised property agreements is a continuing issue, which needs to be addressed to assist proper evaluation of such support. In our view, the Council should always charge full market rent for properties it provides to community groups and should factor this into the level of support it decides to provide to such groups through grant assistance.</p>	<p>The Borough Solicitor has advised the Executive further on this issue and has reinforced the comments made by PwC on this.</p> <p>A report has recently been considered by the Executive concerning the review of the properties occupied by youth and community centres. Clear advice was given to members that rents should be at market value. The amount of the rent recommended for each property took into account the condition of the properties and the use for community purposes. Further advice was given in relation to the type of arrangements that should be put in place with the organisations to ensure the Council's interest in the property is protected.</p>

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<p>9. Comprehensive Performance Assessment (Para. Ref. 60)</p>	<p>The Audit Commission's Comprehensive Performance Assessment (CPA) is part of a wider improvement agenda set out in the Local Government White Paper. CPA has been a significant issue across local government over the last 12 months. The Council will receive its formal CPA rating in due course in line with the Audit Commission timetable.</p> <p>This is due to be published on 12th December. The CPA process has been well handled by the Council and has been used constructively to take stock and re-assess management arrangements and the improvement agenda. There are inevitably a number of overlapping processes, which are aimed at service improvement and the challenge for the Council is to integrate these processes by reviewing, rationalising and prioritising its improvement agenda, whilst recognising that an equal focus needs to be retained on the quality of existing services across the Council.</p>	<p>The Council achieved an overall rating of 'fair' from the CPA. This was composed of a score of 36 or 'Good' for the Corporate Assessment and 37 or 'fair' for the service performance block. This was one point below a 'good' rating overall.</p> <p>The Council has continued to make progress implementing the six priorities agreed in the CPA improvement plan. This has included:</p> <ul style="list-style-type: none"> ▪ Addressing concerns about the capacity of the organisation through an increased focus on council-wide training for all staff levels, attention to management competencies, a recruitment and retention strategy and a base-line review of HR in collaboration with the Audit Commission. A new Director of HR and Diversity will be in post from September 2003. ▪ A corporate approach to Performance Management has been agreed by the Executive and CMT. Quarterly monitoring information is taken to the Executive, along with up-dates on implementation of the Corporate Strategy 2002-06 objectives. The Performance and Finance Select Committee will be undertaking detailed scrutiny of the Council's performance. Work is continuing on better integration of performance monitoring information with service planning and staff development activities. ▪ Implementation of the Children's Social Services action plan has continued. The recent SSI inspection found that the service was continuing to improve.

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		<ul style="list-style-type: none"> ▪ A strategic framework for the future development of the sports service has been agreed and the management of the service is now the responsibility of Environmental services. A new Director of Sports is in post and the recent report from the Audit Commission found that the building blocks were now in place to secure future improvements in the quality of sports provision within the borough. ▪ A range of pilot schemes to extend recycling services and include green waste collection have been put in place. These have shown promising initial results although it still remains a challenge for the Council to achieve government targets for waste recycling levels. ▪ The Revenues service and IT support is now delivered under a new contract with Capita, which has powerful incentives to deliver improved performance and a guarantee to underwrite 97% collection. The benefits service has been brought back in-house and is being restructured to make it more customer focused. We have carried out a skills analysis of staff and are taking active steps to fill skill gaps. There has already been a significant improvement in the time taken to process claims. <p>Also we have established a performance monitoring group within the Executive specifically for this purpose and to address performance monitoring issues.</p>

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<p>10. Best Value Performance Indicators (BVPI) (Para. Ref. 67)</p>	<p>Overall, the Council complied with the requirement to collect and report on specified performance information. Processes and systems supporting BVPIs are improving but there are still weaker areas. There were reservations on 12 indicators published. We have discussed the results of the audit of BVPIs with officers and have agreed action on improvements to reduce the number of reservations in subsequent years. Officers will draw up a specific action plan to provide the required information on indicators with reservations, which we will review and comment upon prior to next year's audit.</p> <p>Five of the 12 reservations were due to the lack of an agreed protocol for schools to provide information required to meet the requirement. In our view, the Council should seek to develop and negotiate a more comprehensive protocol setting out and agreeing information requirements in advance, which explains the purpose and benefits for the information.</p>	<p>Officers have continued to improve the robustness of the performance monitoring systems in place within the Council. Initial figures suggest there will be 8 indicators with reservations for the year 2002/03. Unfortunately this again includes the HR indicators which do not cover employment data from schools. The Council is currently in the process of implementing an HR data base which will provide information on all staff, training and employment issues including teaching staff.</p> <p>Considerable work has also been undertaken on producing performance information in a more accessible format for Members, as well as developing the roles and responsibilities of managers to produce accurate performance data.</p>
<p>11. Procurement Arrangements (Para. Ref. 70)</p>	<p>We undertook a high level review to assess and evaluate the Council's approach to reviewing its procurement and purchasing strategy to ensure that best practice is adopted throughout the Council. We found plenty of evidence of good practice and expertise and good procurement outcomes. However, there are also indications of significant poor practice, which are likely to result in poor value for money and lost opportunities to secure savings.</p> <p>The Council has acknowledged many of the issues identified in our report as areas that need to be addressed. The difficulty in actioning these issues, hitherto, appears to stem from the lack of a corporate approach, the patchy response from service units to procurement projects and the absence of targeted resources.</p>	<p>CMT considered the arrangements on 28th November 2002. It recognised the need to create a strengthened function both in terms of staff, but also Corporate commitment.</p> <p>A redesigned post for the head of the function was advertised and a Head of Procurement Strategy and Risk Management role filled in June. A new procurement strategy will be in place by the end of the calendar year.</p> <p>Currently the procurement unit is addressing a number of important projects including agency staff and utilities.</p>

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	<p>We have issued a report with our findings and recommendations. We were pleased with positive and constructive response and the degree of commitment expressed to target this as a key corporate issue. CMT and the Executive will need to closely monitor progress over the coming year to ensure that this commitment is converted into action.</p>	
<p>12. Best Value (Para. Ref. 80)</p>	<p>There has been a significant improvement in handling best value reviews and the new challenge panel process and Best Value Strategic Group have proved more effective in achieving ownership of the review in services and ensuring rigour. However, the review process still appears to be too much of a stand-alone process, which is absorbing a disproportionate amount of resources in relation to the return.</p> <p>Our view remains that the programme of Best Value Reviews needs to be an integral part of the corporate strategy/medium term service and financial plan, alongside the programme of base budget reviews with clearer and more targeted scopes to reviews leading to clear and deliverable action plans. We recommend that the programme for the next phase of reviews should be reviewed to achieve this aim.</p>	<p>The majority of the 2002/03 programme of reviews reported during the year and initial research with the panel members and participating services suggest that the changes are providing effective investigation. Inspection of the Transportation review supported this assessment of the panel process.</p> <p>Further modifications are currently planned taking into account the difficulties of cross-cutting reviews and an interim challenge is being considered to help guide the work undertaken by service areas.</p>