

audit 2000/2001

Annual Audit Letter

South Derbyshire District Council

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DISTRICT AUDIT

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The purpose of this Letter

This Annual Audit Letter for Members summarises the more important matters arising from our audit for 2000/01 and comments on other current issues. We have produced separate reports during the year on completion of specific aspects of our work which have been discussed in detail with officers. The reports are listed at the end of this Letter for Members' information.

The Audit Commission has circulated to all audited bodies a statement which 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.

Background to the audit

The Council has been faced with a particularly demanding year, the main priority being to stabilise its financial position. This key objective has been achieved and the Council has also made progress on other major issues and challenges that include:

- taking forward its significant Best Value agenda
- implementing the new political structure in line with its constitution arrangement proposals
- undertaking preliminary work to meet the statutory requirement to implement a community strategy
- responding to the e-government agenda.

In addition, the Council has risen to the challenge of delivering efficient and effective services in a changing environment and against continuing budget pressures.

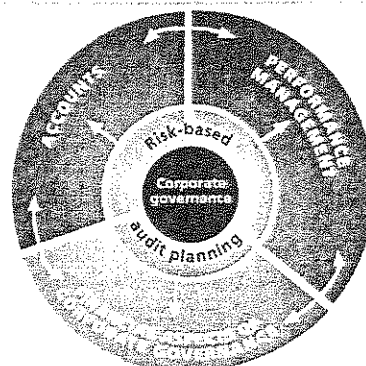
Our overall conclusion is that you have made a positive start in addressing the demanding new agenda. You face some significant challenges, particularly to raise service standards using Best Value as a tool. However, stabilising the financial position should provide the foundations to enable the Council to move forward and strengthen arrangements further.

Audit objectives

Audit work is based on the significant financial and operational risks that the Council faces and is structured around three main elements.

EXHIBIT 1

The three main elements of audit objectives



Accounts

- Opinion
- Regularity

Financial Aspects of Corporate Governance

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

Performance Management

- Use of resources
- Best Value Performance Plan
- Performance information

Our audit has addressed the requirements of the Code of Audit Practice and we have worked with the Council to maximise the benefits of the integrated audit approach. We have reviewed your arrangements for dealing with risks and we have undertaken more detailed work in selected areas of higher audit risk.

KEY MESSAGES

Accounts

The Council should ensure that all financial reporting standards are complied with next year.

Financial standing

The Council should continue to give priority to producing and keeping under review a longer term financial strategy to ensure that both capital and revenue budgets can be matched to available resources whilst maintaining adequate working balances.

The Council should monitor the performance of all its significant trading accounts.

Systems of internal financial control

The Council should ensure the current review of Standing Orders and Financial Regulations is finalised promptly and these are formally adopted.

The Council should adopt a formal risk management policy.

New political arrangements

The Council should monitor the effectiveness of the new structure as it beds in.

Best Value

The Council should ensure that:

- the actions agreed in response to our statutory report are implemented
- an integrated performance management system is introduced
- detailed guidance for each of the 4 Cs is introduced.

Countering housing benefit fraud report

The Council should continue to monitor implementation of the Action Plan and the performance and effectiveness of the Benefits Service.

Accounts

- Opinion
- Regularity

We expect to give an unqualified audit opinion in December.

Members approved the Council's financial statements on 20 September. This represents a significant improvement on the previous two financial years when the statutory deadline was missed.

The Council has, in common with many authorities, not complied with FRS 11 (impairment) and FRS 15 (depreciation). The changes resulting from these reporting standards will be taken on board in next year's accounts, in conjunction with the recently completed revaluation of the assets. There were no other significant problems encountered during the audit.

Financial aspects of corporate governance

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

Financial standing

The Council's financial standing has been stabilised by the positive outturn in 2000/01. Achievement of the three year financial plan remains a challenge.

The Council responded both positively and promptly to the financial crisis in 1999 to stabilise the financial position. A Best Value review of Financial Management and Control has contributed positively to this success.

The net general fund budget - of £7.4m - was underspent by £0.5m after setting aside funds for known commitments. This was used to increase the general fund balance to a far healthier figure of £1.1m.

Tighter financial management of housing repairs costs has allowed the Housing Revenue Account balance to be increased by £0.7m. This now compares reasonably favourably with other Shire Districts nationally.

EXHIBIT 2 FUND BALANCES 2000 TO 2002

Tighter financial controls have allowed healthier balances to be established

Reserve	2002 projected £000	2001 £000	2000 £000
General fund balance	1,094	1,136	796
HRA balance	914	929	205
Earmarked reserves	1,210	1,129	797
Usable capital receipts	500	146	0

Source: South Derbyshire DC financial statements

Given the improving financial position, the Council should still continue to give priority to producing and keeping under review a longer term financial strategy to ensure that both capital and revenue budgets can be matched to available resources whilst maintaining adequate working balances.

The Council's trading services (former DSOs) have, since 1 April 2000, been managed on a 'soft split' basis under which net operational costs for the year are fully recharged to the authority's services. The exception is the Housing DSO which has continued to operate under the original specifications and achieved a surplus of £82,000 (9.9% of turnover). Trading services represent a business risk in terms of potential financial deficits. We consider that the Council should monitor the performance of all its original DSOs, to ensure they remain financially viable and provide Best Value by delivering continuous service improvement.

Your approach to debt management continues to accord with good practice and your levels of arrears compare reasonably with other Shire Districts.

Legality of financial transactions

We are satisfied with the Council's arrangements for ensuring the legality of transactions with financial consequences.

We reviewed the Council's overall arrangements and there are no issues to report to Members.

Systems of internal financial control

The Council should ensure the current review of Standing Orders and Financial Regulations is finalised promptly and these are formally adopted.

The Council should formally adopt a risk management policy.

We rely as far as possible on the work of Internal Audit (IA) to provide assurance on the Council's systems of financial control. We are generally satisfied with the coverage and quality of the section's work; however its input to Best Value and performance management has been very limited to date. This is an area where IA could make a key contribution to the Council's Best Value agenda, in line with the Audit Commission Paper 'An Inside Job'.

A key area of internal financial control is the availability of periodic overall budget monitoring reports for Members and Management Team. We are pleased to note that this control is in place.

Standing Orders and Financial Regulations are currently being revised to reflect the changing political and officer structures and other arrangements - for instance SRB and partnership working. Once revised, these should be formally adopted and distributed to all Members and officers supported by appropriate training and awareness.

We also carried out an overview of the Council's risk management procedures. We concluded that current risk management procedures have a heavy bias towards routine insurable risk although the Council is taking positive action to improve its arrangements. The Council should develop detailed corporate risk management procedures which encompass all of its activities, in line with CIPFA/SOLACE guidance. These should be underpinned by a formally adopted risk management policy.

Fraud and corruption

Arrangements for preventing and detecting fraud and corruption are generally satisfactory.

Overall arrangements have been strengthened by the introduction of the Council's anti-fraud and corruption strategy and whistleblowing policy. Processes will be further enhanced by the revision of Standing Orders and Financial Regulations which is currently taking place.

Reviews by Internal Audit of specific risk areas have not identified significant issues.

The National Fraud Initiative (NFI) is a key data matching exercise operated throughout the public sector to prevent and detect misappropriation of public funds. South Derbyshire has participated in NFI-2000 but the exercise has only detected a small level of fraud. This may be an indication that proactive anti fraud work is successful. The Council should continue to monitor its arrangements for investigating the NFI matching data.

Probity in planning

We reported on this study in last year's Management Letter. We concluded that the Council had reasonable procedures in place to reduce any perceived risk to the probity of its planning function. However we also made a number of recommendations to further strengthen management arrangements including:

- adopting a planning code of conduct
- reviewing arrangements for handling interests, hospitality and lobbying for those involved in the planning function
- developing a policy framework within which planning obligations could be secured.

Progress has been reasonable in many respects, and particularly good with regard to the framework for planning obligations. Significant progress with regard to developing a meaningful code of conduct has been hampered by DTLR delays in the publication of the national code of conduct for Members. Only when it is published will the Council be in position to respond in detail to the outstanding recommendations. This is likely to be some time between January 2002 and July 2002.

Performance management

- Use of resources
- Best Value Performance Plan
- Performance information

Use of resources

Significant progress has been made in terms of putting in place the necessary 'building blocks' for improving performance management arrangements. However, there is still work to be done.

New political arrangements

The Council responded to the democratic renewal agenda included in the Local Government Act 2000 and introduced a new structure based on the 4th option (for Council's with populations below 85,000) in July 2001.

The constitution proposals meet the requirements of the Act in all key respects. Scrutiny Committees have completed significant reviews such as Sheltered Housing with positive results in shaping service delivery. The Standards Committee has met and the Remuneration Panel has reported in relation to their review of Members' allowances. We will continue to monitor your arrangements as they develop.

New officer structure

All local authorities need a clear, consistent and robust system of management. This is vital for many reasons, including the need to deliver corporate objectives, to ensure key risks are identified and properly managed and to provide sufficient flexibility for the Council to respond to developing circumstances. Local authorities also need to respond to a variety of key challenges, including the requirements to demonstrate Best Value and to modernise political management arrangements.

Following the financial crisis during 1999/2000, the Council took steps to reorganise its management arrangements. The reorganisation has necessarily involved a reduction in management levels, coupled with greater delegation, and it is important that the Council is confident that the new structures are working.

The risk based audit plan for 2000/01 included a review of the new officer structure's effectiveness in delivering your objectives and minimising the Council's exposure to risk.

Our study is continuing but initial findings are positive.

- The Council's has just produced its first Corporate Plan. It sets out the Council's vision of providing high quality, responsive, value for money services. Considerable effort has been devoted to producing a Corporate Plan that is coherent, and your corporate management team have given a clear and supportive lead to staff in developing all the underpinning service plans. Managers have accepted ownership of service plans and individual staff now have aims, targets and objectives as part of performance development reviews. The Best Value review of Financial Management and Control is aligning service and financial planning more closely.
- Your management team clearly work well together - they have a strong corporate focus and their deliberations are constructive, open and focused on solutions. There has been clear and direct Member involvement in the corporate management process. This approach will be an important factor in achieving your objectives and we commend it.

Management arrangements in housing

We carried out a strategic review to assist the Council with its consideration of how its housing service is managed and delivered. One of the key drivers for the review was how the Council could become a better performing housing authority. We have presented our findings to officers and Members via two seminars to assist decision making in this complex area.

Our early work showed that there was an impetus for change but there had been little practical action. We went on to work with officers in a collaborative way to identify the main strategic options available to the Council in improving performance. We examined the way the housing service is currently delivered and the main drivers for change. We considered the needs, aspirations and concerns of tenants and the relationship between the housing service and the Council corporately. We used the DTLR's model for Resource Accounting for the HRA to assess the need for investment in the Council's housing stock. The work has been used to drive the Council's work with tenants' representative groups and staff on the HRA Business Plan.

Our review concluded that the housing stock's investment needs alone do not provide an imperative for change (in improving performance) and that consideration of alternative options should be based on wider criteria. The Council now has a more robust body of knowledge on which to base further decisions about the future of its housing service.

The Council has now set up a group of leading Members and tenants to develop objectives for its housing service and to examine and appraise the options available to the Council to meet these objectives. It is intended that this work will result in a formal report to Committee by July 2002 on option appraisal.

Community strategy

The Local Government Act 2000 introduced a new duty on local authorities to prepare a community strategy which promotes the economic, social and environmental wellbeing of their areas. We completed a diagnostic to assess the strengths and weaknesses of your current approach and identify key priorities for action. The diagnostic indicates that the authority's preparations are progressing well in a number of areas:

- discussions have been held with some key public sector partners through the Derbyshire Partnership Forum in preparation for the establishment of the Local Strategic Partnership (LSP), and there is commitment to an integrated and collaborative regional approach
- the Council has developed a good body of information about community needs through the effective use of a range of consultation techniques and statistical resources, and this will support the LSP in developing a well-targeted strategy
- good progress has been made in identifying lead responsibility at officer level for developing the strategy.

This should provide a good basis for developing your Community Strategy. Our work also highlighted some key priorities for action.

- There is as yet no firm project plan which systematically defines stages, tasks and responsibilities in the process of developing and delivering a Community Strategy, and analysis of the resource implications has therefore been limited.
- There is a lack of clarity concerning Member involvement in preparing the strategy. Statutory guidance emphasises the importance of active member involvement and ownership, and full Council must ultimately adopt the strategy.
- Limited consideration has been given so far to the definition of local communities, or to assessing the success and inclusivity of current processes for community involvement.

By tackling these and the other actions identified in the diagnostic summary we provided, you will continue to make progress towards meeting the statutory requirements.

E-Government

We reviewed the Council's approach to the delivery of e government and compared it - where possible - with good practice.

A number of initiatives - past, current and planned - are seen as addressing the e-government agenda. In this respect, the Council has, in our view, already made progress with the drafting of the **Implementing Electronic Government (IEG)** statement. The IEG statement sets out the Council's plans in order to comply with the governments objectives for electronic service delivery by 2005.

The Council has linked its IEG statement to its key objectives. The Council is part of the joint Derbyshire IEG wide approach to e-government. The councils and other agencies have established an e-government group which has been joined by the health authority and employment agency representatives. As a demonstration of the partner's commitment to 'joined up' government this group has produced a joint submission including a core IEG statement covering the development of services across Derbyshire. In future the Council will work closely with other Derbyshire Authorities and also neighbouring Authorities including East Staffordshire Borough Council.

However, these initiatives are not currently managed as part of an overall, council-wide programme. As with many local authorities, the Council will need to:

- develop an e-government strategy
- specify the role and responsibilities of the corporate e-government champion and the departmental e-government champions
- adopt a recognised project management methodology throughout the council to ensure the success of the e-government programme
- undertake a thorough baseline review of existing systems
- distribute the IEG statement to all departments and the key messages to all staff
- ensure that key strategic plans such as the BVPP and community plan are key inputs to the strategy process

- carry out a detailed assessment of the likely levels of funding, skills, and training requirements of the planned e-government programme
- update its security policies based on best practice and BS7799 Information Security.

There is a recognition throughout local government that successful implementation will mean huge changes in the way services are delivered. Equipping staff with the right skills is also recognised as being a critical task.

Other service reviews

We carried out follow-up work this year on four previous reviews. The key findings are summarised in Exhibit 3.

Key issues arising from our follow up of previous years use of resources reviews

Service reviewed	Progress to date/further action
Asset management	<p>The Council is making progress in implementing the Action Plan, although there is still work to be done. Much of this will link in with the Best Value review of Asset Management in 2001/02. Members should ensure commitment for full implementation.</p> <p>The Asset Management Plan was submitted to the Government Office by the July deadline.</p>
Housing repairs	<p>The Council responded positively to many of the key issues arising last year. The main area outstanding required further staff training in respect of emergency repair requests and logging repair requests from tenants which has now been addressed.</p>
Telecommunications	<p>The Council is making progress in addressing the main priority areas highlighted in our report. There is still work to be done on developing a detailed telecommunications strategy.</p>
Countering housing benefit fraud	<p>The Council is making progress in key improvement areas by implementing the Action Plan. The introduction of the Verification Framework would enhance arrangements further.</p> <p>Members should continue to monitor progress.</p>

Best Value

The Council's 2001/02 Best Value Performance Plan (BVPP) complied in all significant respects with statutory requirements. We made a number of formal recommendations to which the Council has responded.

The outcomes of Best Value Inspections have been mixed although more recent Inspections are showing better prospects for improvement.

The Council's key priority in 2000/01 was to stabilise its financial position. Given this demanding task, we commend the Council for continuing to develop its Best Value approach.

We noted a number of positive aspects to your Best Value Framework:

- the BVPP and summary provide a good example of honest performance reporting
- there has been progress on improving data handling systems and accuracy of performance information
- the introduction of new corporate planning and development systems.

We also noted a number of areas where there is scope for improvement:

- the review programme slipped but this is being addressed through stronger project management
- the Council's performance management system was under-developed but progress is being made in this area
- internal challenge is not yet well developed
- work on producing detailed guidance on Best Value approaches to the 4 Cs has been delayed.

We also compared the Council's performance with that of other District Councils. Housing and Environment were two of the weaker performing services. Our risk based audit plan for 2000/01 included a review of your housing management arrangements and the findings are reported earlier in this Letter. The Council already had plans in place to concentrate on environmental activities as part of its Best Value processes (Cleansing the Environment has been the subject of a recent BVIS Inspection).

The Council needs to:

- ensure that the actions agreed in response to our statutory report are implemented
- introduce an integrated performance management system
- continue to project manage the review programme to prevent further slippage
- introduce detailed guidance for each of the 4 Cs.

The Best Value Inspection Service (BVIS) has carried out three full inspections of reviews.

The inspection of Sheltered Housing concluded that this was a poor (no star) service unlikely to deliver significant improvement as a result of the Best Value review. The Inspection revealed that:

- the review team failed to identify or challenge weaknesses in operational practices
- the review process itself did not manage to identify these weaknesses.

The Council responded positively to the findings and produced a further improvement plan covering the major weaknesses in the service. The Council also reviewed its Best Value methodology and approach to future reviews.

The inspection of Development Control concluded that this was a one star, fair service, but one that is not going to improve. BVIS considered it to be a cost effective, timely and accessible service from skilled, experienced and committed staff and councillors. However, the service is at risk from lack of forward planning and weak performance management. The planned ingredients for change were not in place and the service does not have the capacity to make the scale of change required.

The inspection of Cleansing the Environment is in progress.

Performance information

Overall, there was an improvement in the standard of documentary evidence supporting the systems for recording producing and monitoring performance indicators.

There was an improvement in the standard of supporting documentation this year, and there were only a minor number of omissions and inaccuracies (in respect of BVPIs and targets and ACPIs). The Council should continue to refine its systems based approach to the collection of performance information. The adoption of a self assessment pro-forma to record data has improved the audit trail and is an example of good practice.

Members need to determine the frequency of interim reports they require as part of the overall performance management framework.

Future audit work

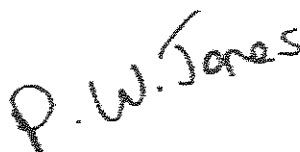
We are currently considering the significant operational and financial risks that face the Council that will need to be addressed in next year's audit.

We will discuss our risk assessment with your officers before producing an Audit Plan.

Closing remarks

A summary of the issues raised in this Letter, and the audit work undertaken during 2000/01, will be presented to Members.

Finally, I would like to take this opportunity to express my appreciation for the assistance received from Members and officers during the course of our work. Our aim is to provide a high standard of audit service which makes a practical and positive contribution to the work of the Council. We recognise the value of your co-operation and support.



Phil Jones
District Auditor
November 2001

Reports issued during the audit

- District Audit and Internal Audit Joint Working Arrangements (May 2001)
- Joint Protocol (June 2001)
- Best Value Report (June 2001)
- Risk Management Procedures (July 2001)
- Management Arrangements in Housing - Workshop
- Implementing E Government (September 2001)
- Interim Audit Memorandum (September 2001)
- Financial Standing Memorandum (November 2001)
- Community Strategy Preparation Issues (November 2001)
- Performance Indicator Issues (November 2001)
- Final Accounts Memorandum (to come).

Accounts

<p>The Council should ensure that all financial reporting arrangements are complied with next year.</p>	<p>The accounting arrangements for reporting on the cost of using assets changed in the financial year 2000/2001.</p> <p>Many authorities, including South Derbyshire were unable to implement these changes fully for the financial year 2000/2001. In part this was due to the uncertainty as to the extend of assets that needed to be depreciated e.g. Council Dwellings.</p> <p>South Derbyshire has already taken positive steps in 2000/2001 to implementing these changes by revalueing its General Fund assets. It is committed to implementing the new reporting arrangements (FRS 11 and FRS15) in the 2001/2 accounts</p>
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Financial Standing

<p>The Council should give priority to producing and keeping under review a longer term financial strategy to ensure that both capital and revenue budgets can be matched to available resources whilst maintaining adequate working balances.</p>	<p>The Council has already taken positive steps in this direction with an agreed medium term financial strategy sets out within the Council's corporate plan.</p> <p>As a result of the Best Value Review of Financial Management and Control, a new Service and Financial Planning cycle has been introduced. Service plans are in place for all divisions and have informed the budget setting process.</p> <p>The Council's capital strategy has been judged "good" by the Government Office for the East Midlands and will provide a sound basis for directing future capital investment.</p>
<p>The Council should monitor the performance of all its significant trading accounts.</p>	<p>Steps have already been taken to identify more clearly the costs for the Council's former D.S.O. trading activities.</p> <p>We will build on this work to provide improved monitoring of these services, which have presented a financial risk to the Council in the past.</p> <p>Officers will also clarify with the District Auditor the precise range of services that will be covered by trading accounts.</p>

Systems of Internal Financial Control

<p>The Council should ensure that the current review of standing orders and financial regulations is finalised promptly and these are formally adopted.</p>	<p>The review of financial regulations is nearing completion and has been based on the CIPFA best practice guide, which will help to ensure a consistent approach with other authorities.</p> <p>The revised regulations will be submitted to members for approval before the end of the Financial Year.</p>
<p>The Council should adopt a formal risk management policy.</p>	<p>Managing risks is part of the overall Corporate Governance Arrangements in place across the Council. Officers will undertake an initial assessment of the Council's Corporate Governance Arrangements by the end of March.</p> <p>The Finance Services Manager has been allocated the task of preparing a risk management policy based on Guidance within the District Audit review of risk management. Our insurers are also being used to provide advice on this area.</p>

New Political Arrangements

<p>The Council should monitor the effectiveness of the new structure as it beds in.</p>	<p>Trial period ends on 31 March 2002. Council will review any changes prior to adopting the revised arrangements</p>
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Best Value

<p>The Council should ensure that:-</p> <ul style="list-style-type: none"> □ The actions agreed in response to our statutory report are implemented 	<p>The Action Plan to the Statutory report was agreed by the Council. It is anticipated that the actions specified will be achieved within the required timescales with the exception of the 4Cs guidance which is detailed below.</p>
<ul style="list-style-type: none"> □ An integrated performance management system is introduced 	<p>The Corporate Plan and Service Plans, which are now approved Council documents, are building blocks which start to develop the Best Value Performance Plan into an integrated performance management framework. The Personal Development Review programme is completing its first annual cycle and the second round will now give an opportunity to link personal performance to corporate objectives. The Council's Scrutiny function is now in place and the role is well developed.</p>
<ul style="list-style-type: none"> □ Detailed guidance for each of the 4 Cs is introduced 	<p>Detailed guidance for each of the 4 Cs will be issued or revised by July 2002</p>

Countering Housing Benefit Fraud Report

The Council should continue to monitor implementation of the Action Plan and the performance of the effectiveness of the Benefits Service

The Council monitors on a regular basis the performance of its benefits service. It has been gratifying to note that the Council has made significant improvement in addressing backlogs and delivering quick and effective benefits processing.

The Council has put in place the necessary arrangements that will enable it to participate fully in the National Fraud Initiative, although there is some doubt over the benefits of this exercise in view of the proactive data matching work the Council already undertakes with the DSS.

Arrangements are in place to provide half yearly reports to members on the performance of the Benefit Fraud Investigation Team.

