

REPORT TO EXECUTIVE

PORTFOLIO AREA: FINANCE AND PERFORMANCE MANAGEMENT

Date of Meeting: 21 April 2008

Public

Key Decision: No

Recorded in Forward Plan:

No

Inside/Outside Policy Framework

Title: ANNUAL AUDIT AND INSPECTION LETTER 2007/08

Report of: The Director of Corporate Services

Report reference: CORP11/08

Summary:

The final Annual Audit and Inspection Letter for 2007/08 was received on 18 March, considered by the Audit Committee on 15 April and is now attached for member consideration together with the Senior Management Team response.

Recommendations:

Members are asked to note the Annual Audit and Inspection Letter (Appendix 1) and the action being taken to address improvements required and comment as appropriate.

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Note: in compliance with section 100d of the Local Government (Access to Information) Act 1985 the report has been prepared in part from the following papers: None

CITY OF CARLISLE

To: The Executive
21 April 2008

CORP11/08

ANNUAL AUDIT AND INSPECTION LETTER 2007/08

1. Introduction

- 1.1 The final Annual Audit and Inspection Letter for 2007/08 was received on 18 March and is attached for member consideration together with the Senior Management Team response.

2. Progress

- 2.1 Generally the report shows positive progress but with some improvements still being required. There are five key actions as being required by the Council as set out below:

- (i) *Ensuring that the 2007/08 accounts submitted for audit are 'presented fairly' and contain only minimal errors.*

Response – The Annual Audit and Inspection Letter made reference to the significant improvements which were made which included the timely completion of the Audit by the Statutory deadline. Further improvements however are required. The main issues relating to the 2006/07 accounts were due to:- the material errors contained within the accounts submitted at the 30 June; the quality of the analytical review working papers; and the compliance with the Best Value Accounting Code of Practice. These issues have been considered and actions which aim to provide the required improvements have been included in the Authority's 2007/08 Final Accounts timetable and procedures.

- (ii) *Strengthen risk management, governance and data quality arrangements within partnerships to ensure effective management and monitoring of Carlisle Renaissance.*

Response - A Collaboration Agreement between the City Council, County Council and the Northwest Development Agency will formalise partnership arrangements. An Action Plan agreed by the same partners will address programme and project risk management issues. A Service Level Agreement

between the City Council and County Council will define support service arrangements including information systems, financial reporting, monitoring and evaluation. The Council is currently reviewing its own internal support service arrangements with a view to maximising capacity to deliver the project.

- (iii) *Finalise the job evaluation and appeal process and set a date to implement a new fair and equitable pay structure.*

Response – Work is underway to complete the appeals process by 31 July 2008. Progress can then be made on the delivery of a new fair and equitable pay structure. Subject to satisfactory progress being made with the consultation process with the Trade Unions and relevant parties affected, the aim is to have this new pay structure implemented by the 31 December 2008.

- (iv) *Work in partnership with others to improve services by ensuring better and equal access for users.*

Response – A Customer Services review is currently underway that will inform and be informed by further phases of development of the Customer Contact Centre. The City Council is continuously striving to improve equality of access to services and its performance in the wider equality and diversity area. The target to reach Level 2 of the Equality Standard for Local Government by March 2008 has been achieved and reviews of the Race and Disability Equality Schemes are underway, in adherence to the legislation. A target to reach Level 3 of the Standard has been set for March 2009.

- (v) *Develop joint working arrangements to help improve value for money.*

Response -The Council now has a robust Partnership Policy in place providing guidance on the nature and risks of partnerships and the new procedures were launched at the Management Briefing in March 2007. The Executive on the 17 March recommended that Council adopt the Policy. This will then be placed on the Corporate Intranet.

The Use of Resources judgement has highlighted that the Council needs to improve its financial performance of partnerships including a link to outputs and ensure the results are shared with partners and acted upon. It has also highlighted that appropriate governance arrangements should be in place for all significant partnerships.

Corporate Services Efficiency and Procurement team is responsible for the monitoring arrangements, this includes the update of the central register,

completion of annual reviews of all significant partnerships, annual reports to members and quarterly progress reports to SMT. One to one assistance is given to officers when setting up new partnerships.

Senior Management Team will ensure that their individual risks from partnership working arrangements are included in the operational risk registers.

The Council is also very proactive in progressing the Shared Services agenda. An officer/member Shared Services and Efficiencies Working Group now progresses shared services strategy for delivery of shared services initiative to the terms of the Shared Services Policy.

Current initiatives being:

- (i) A business architecture project analysis service activity across Cumbrian authorities to identify areas of duplication re-engineering and shared service opportunities and potential savings.
- (ii) Detailed business cases are being produced on shared service opportunities with Copeland (Revenues) and Allerdale (ICT) with a view of deciding Benefits on a way forward by the summer of 2008.

3. Recommendations

- 3.1 Members are asked to note the Annual Audit and Inspection Letter (Appendix 1) and the actions being taken to address improvements required and comment as appropriate.

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Director of Corporate Services

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Annual Audit and Inspection Letter

Carlisle City 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.
- 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, 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.

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Key messages

- 1 The Council has achieved a good range of improvement across its services; a number of service performance measures have moved to high performance levels. A comparison of a selected set of national performance measures shows that the Council has made good overall progress over the last year and achieved above the average improvement for district councils. The Council's performance over the last year is showing a faster rate of progress than the trend over the last three years although performance improvement in some services had been affected during flood recovery.
- 2 Overall, the Council's arrangements for use of resources were scored at level 2 (operating at minimum requirements). However, the score for financial reporting remains as a 1 (below minimum requirements) because the 2006/07 accounts submitted for audit contained material errors and several other errors.
- 3 Our unqualified opinion on the Council's 2006/07 accounts was issued before the statutory deadline - the first time for five years that this has been achieved. The Council has also addressed other issues since last year which allowed us to give an unqualified value for money conclusion for 2006/07.
- 4 Risk management, governance and data quality arrangements within partnerships will need to be strengthened to high standards to effectively manage and monitor the progress of the Carlisle Renaissance plans.
- 5 The Council does not have a revised pay and grading structure, based upon equality principles. Job evaluation and appeal processes are progressing, but the full completion date for this exercise and the establishment of a new pay structure is unclear. At present the Council cannot be assured that it has fair and equitable pay structures in place that meet its needs for the future.
- 6 Councils across Cumbria have made little progress in recent years in improving access to their services. They have failed to implement many of the recommendations made following the previous inspections in 2004. In particular the opportunities for joint working and the potential for efficiency and quality improvements have not been fully explored. All authorities need to do more to ensure that services are accessible and focused on the needs of users.

Action needed by the Council

- 7 The continuing actions for the Council which relate to members' responsibilities include the need to:
 - ensure that the 2007/08 accounts submitted for audit are 'presented fairly' and contain only minimal errors;
 - strengthen risk management, governance and data quality arrangements within partnerships to ensure effective management and monitoring of Carlisle Renaissance;

- finalise the job evaluation and appeal process and set a date to implement a new fair and equitable pay structure;
- work in partnership with others to improve services by ensuring better and equal access for users; and
- develop joint working arrangements to help improve value for money.

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 As your appointed auditor I am 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, I review and report 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 latest assessment on the Council's performance under the CPA framework, including our Direction of Travel report, and 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 the CPA and any such 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 Carlisle City Council performing?

- 14 Carlisle City Council was assessed as Good in the Comprehensive Performance Assessment carried out in 2003. 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 Overall performance of district councils in CPA



Source: Audit Commission

The improvement since last year - our Direction of Travel report

What evidence is there of the council improving outcomes?

- 15 The Council has achieved a good range of improvement across its services; a number of service performance measures have moved to high performance levels. A comparison of a selected set of national performance measures shows that the Council has made good overall progress over the last year and achieved above the average improvement for district councils. The Council's performance over the last year is showing a faster rate of progress than the trend over the last three years although performance improvement in some services had been affected during flood recovery.
- 16 There has been some good progress in the management of waste for the city area, but the amount of household waste generated remains comparatively high. The standard of cleanliness in neighbourhoods has been maintained at very good levels in 2006/07, performing in the best 25 per cent of all councils. The use of flexible neighbourhood teams has had real impact through tailoring services to local circumstances and responding to community concerns.

- 17 The Council has committed itself to tackling environmental improvement and responding to climate change through the 'Nottingham Declaration', but the development of a full range of clear objectives, baseline information on CO2 emissions and improvement targets in support of the environment policy are not yet in place.
- 18 Carlisle is not a high crime area overall and there have been significant reductions in the total number of crimes committed during 2006 and 2007. However, comparatively high levels of violent crime have been a feature for a number of years, early improvement has not been sustained and throughout 2007 the levels of common assault have been increasing. Considerable effort is being applied to prevent violence, particularly associated with the town centre at night time, but this has not been successful overall. Progress in preventing and protecting citizens from domestic violence has also been limited.
- 19 The Council has shown vision and community leadership in directly promoting knowledge and skills development to support community aims. It recognised the local education and skill gaps and is contributing well to the vision for a 'learning city'. This commitment to the learning and development of its own employees, and through that the skill levels within the city generally, have been recognised in the 'Go Award North West'. This was the first award to a council in the north west of England.
- 20 The housing benefit service remains high performing overall, but the areas of accuracy and overpayment recovery are lower performing. The Council is reporting improved performance on overpayment recovery in 2007/08. There is a significant contribution of the planning function towards the plans to develop the city through strategic land use and transport development plans. Cultural and tourism services continue to make a positive contribution to the city. Sport and leisure facilities support relatively good participation rates and high levels of satisfaction.
- 21 Housing policies have had a good impact in reducing the amount of local housing that was not appropriate for the needs of local people. The focus on regenerating one of the largest and most deprived estates through a series of phases has been successful in reducing the proportion of low demand houses, although this remains relatively high overall for the city. The capacity to appropriately re-house people that lose their homes is still limited and waiting times in temporary accommodation can become extended. A multi agency forum to review housing for young people was successful in removing some of the barriers to accessing housing but other groups such as ex-offenders and recovering drug users still face difficulties in obtaining appropriate housing.
- 22 The Council is making progress in developing its understanding of communities through context information on ward and city profiles. This has yet to become a consistent and comprehensive approach across all services areas, directing the development and implementation of policy. Progress in promoting equality and diversity within the Council and its services has been slow and is behind the progress made in most other councils.

How much progress is being made to implement improvement plans to sustain future improvement?

- 23** The aims for the local area are expressed through the community plan and the Council's particular contribution over the medium term is set out in the Corporate Improvement Plan 2007/10. The Council has a complex balance of strategic and front line service delivery issues to manage over the medium term. The progress on both levels has been good in overall terms but there are some areas where plans are not being updated promptly enough to reflect changing circumstances or priorities and action plans have not been delivered.
- 24** The timely updating of plans and expenditure profiles to reflect current circumstances will be an important contribution to the best use of resources as complex strategic plans develop. Risk management, governance and data quality arrangements within partnerships will need to be strengthened to high standards to effectively manage and monitor the progress of the Carlisle Renaissance plans.
- 25** The Council does not have a revised pay and grading structure, based upon equality principles. Job evaluation and appeal processes are progressing, but the full completion date for this exercise and the establishment of a new pay structure is unclear. At present the Council cannot be assured that it has fair and equitable pay structures in place that meet its needs for the future.

Service inspections

Access to services – follow up inspection

- 26** In 2004 the Audit Commission inspected the arrangements at Cumbria County Council and the six district councils within Cumbria for ensuring that services are accessible and focused on the needs of users.
- 27** This year we assessed the progress made by the councils since that programme of inspections. In particular we have considered how services are meeting the needs of the community and users and the prospects for further improvement. As well as considering the cross-cutting issues that affect access to local government services in Cumbria, the report identified areas of progress and for further improvement specific to each individual council.
- 28** The main conclusion was that the councils have made limited progress since 2004. They have failed to implement many of the recommendations made following the previous inspections. In particular the opportunities for joint working and the potential for efficiency and quality improvements have not been fully explored.
- 29** Progress has been made in a number of areas, including:
- a more strategic approach to planning access to services;
 - greater understanding of the needs of specific communities and users and the development of initiatives for involving them in the design of local facilities;

- improving the range of channels through which users can access services;
- the wider use of e-government and websites to improve access (such as contact centres and the Cumbria Information Hub); and
- council and service-specific access improvements, such as advice and assistance for users in making council tax and housing benefit claims.

30 However, progress has been slow to address key issues that were highlighted in 2004. Areas for further improvement include the need to:

- base decisions about access to services on a comprehensive understanding of the needs of all elements of the community;
- strengthen partnership working to enable better use of combined capacity and resources, share information and expand effective practices;
- publicise clear and comprehensive standards, which include targets for responding to service requests, so that users can judge the actual quality of services;
- implement diversity and equalities policies and related strategies - such as procurement - to ensure fair access to services for users;
- make better use of public buildings to provide seamless local government services and improve access for users, particularly those with disabilities; and
- strengthen detailed performance management arrangements.

The audit of the accounts and value for money

- 31** As your appointed auditor I have reported separately to the Audit Committee on the issues arising from our 2006/07 audit and have issued:
- my audit report, providing an unqualified opinion on your accounts and a conclusion on your value for money arrangements to say that these arrangements are adequate on 28 September 2007; and
 - my report on the Best Value Performance Plan confirming that the Plan has been audited.

Use of Resources

- 32** 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).

- 33 For the purposes of the CPA we have assessed the Council's arrangements for use of resources in these five areas as follows.

Table 1

Element		Assessment
Financial reporting		1 out of 4
Financial management		2 out of 4
Financial standing		3 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
1	Below minimum requirements – inadequate performance	
2	Only at minimum requirements – adequate performance	
3	Consistently above minimum requirements – performing well	
4	Well above minimum requirements – performing strongly	

- 34 Table 1 shows that our overall score for the Council's arrangements is 2 (operating at minimum requirements). Although this is the same score as the last assessment there have been several areas where significant progress has been made including:
- the audit opinion was given on the Council's financial statements before the 30 September statutory deadline. This is the first time in five years that the statutory deadline has been met;
 - an unqualified value for money conclusion was issued this year. This compares favourably with the 2005/06 position where the value for money conclusion was qualified; and
 - previous problems with an unbalanced bank reconciliation have been addressed and the matter is now resolved.
- 35 The score for financial reporting has remained at 1 (below minimum requirements). This is because the 2006/07 accounts submitted for audit contained material errors and several other errors.

36 In addition to the need to improve the financial reporting arrangements there are other areas where the Council needs to develop its procedures further to consolidate current scores and also move to the next level. In particular, there is a need to:

- improve the links between the Medium Term Financial Strategy and key strategies such as those covering human resources;
- develop and implement a set of local performance measures in relation to assets that evaluate asset use in relation to corporate objectives;
- improve the process to ensure that underspending and overspending against budgets is acted upon to maximise the best use of available resources;
- ensure, particularly around significant or complex partnerships, that risks are being actively managed;
- ensure that the Council's overall counter fraud policy and associated action plan are approved, resourced and fully implemented; and
- improve the evaluation of service quality and cost factors to target relative improvement in value for money, including the effectiveness of increased investment.

37 The Key Lines of Enquiry (KLoE) against which the Council is assessed will include new and challenging requirements for the coming year. We have reported separately to the Council on areas where further development is required.

Cumbria safer communities – stage 2 review

38 In September 2004 the Audit Commission carried out a staged review of the effectiveness of the public sector organisations in Cumbria in tackling the impact of illegal drug use in their communities.

39 The first stage review focused on arrangements and systems that partners had put in place and the results were reported in 2005. The second stage of the review was carried out this year and focused on outcomes and impact for drug treatment service users and carers. It reached the conclusions set out below and made a number of recommendations for improvement to all partners. One area where Carlisle City Council is expected to make a particular contribution relates to support for recovering drug users in terms of housing, training and employment opportunities.

40 There has been continued progress in integrating policy issues around the impact of illegal drug use in communities. The strategic plans of partners are now interlinked and provide mutual benefit in a number of areas. The Drug and Alcohol Action Team has developed to be an important and respected partner within community planning for Cumbria.

41 The strategic plans for treatment services have set out new and improved arrangements, commissioning better services for those seeking treatment. The treatment plans are supported by recently improved management information on finance and activity.

- 42** Partners have very limited ability to evaluate the effectiveness and value for money of initiatives and treatment services. Historical activity and resource information is considered unreliable and prevents detailed benchmarking of costs and performance from informing decision making.
- 43** Partners have been successful in engaging more people in drug treatment services and the proportion of problem drug users in treatment is now at a good level. There are a number of treatment interventions where performance is improving and the range and quality of provision is being strengthened by new and re-commissioned services.
- 44** There remain key weaknesses in the treatment services offered. The waiting times to access services are too long and vary considerably across the county area. The objective of providing accessible and equitable services for all still presents significant challenges.
- 45** The ability of services to retain people within programmes for significant periods is improving and now compares to the average for the north west of England. However, the planned completion of programmes or transition to other support remains very low and is not improving. The wider community support to recovering drug users, such as relapse prevention, suitable housing, training and employment support is underdeveloped and is a barrier to their recovery within communities.

Health inequalities

- 46** Health and well-being is a key national focus for improvement. The promotion of healthier communities has an effect on the well-being and prosperity of the population and investment is likely to yield significant long term benefit. Healthier Communities is one of the shared priorities across government departments and as such a key feature of Local Area Agreements.
- 47** Within our work programme for 2007/08 we are carrying out a county-wide review of the effectiveness of partnership arrangements to address health inequalities needs within Cumbria. This work is still progressing with the first element completed in March 2008. The findings were discussed with partners at a workshop led by the Director of Public Health on 10 March 2008.

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** CAA will result in reduced levels of inspection and better coordination of inspection activity. The key components of CAA will be a joint inspectorate annual area risk assessment and reporting performance on the new national indicator set, together with a joint inspectorate annual direction of travel assessment and an annual use of resources assessment. The auditors' use of resources judgements will therefore continue, but their scope will be widened to cover issues such as commissioning and the sustainable use of resources.
- 50** The first results of our work on CAA will be published in the autumn of 2009. This will include the performance data from 2008/09, the first year of the new Local Area Agreements.

Closing remarks

- 51 This letter has been discussed and agreed with senior officers. A copy of the letter will be presented to the Audit Committee and full Council in April 2008. Copies need to be provided to all Council members.
- 52 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	September 2006
Your business at risk report	May 2007
Annual Governance Report	September 2007
Opinion on financial statements	September 2007
Value for money conclusion	September 2007
Safer communities follow up report	September 2007
Access to service follow up inspection	November 2007
Report on the Best Value Performance Plan	December 2007
Use of Resources Auditor Judgements 2007	January 2008
Annual audit and inspection letter	March 2008

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

Availability of this letter

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

Mark Heap
District Auditor and Relationship Manager

March 2008