

Annual Audit and Inspection Letter

March 2006



Annual Audit and Inspection Letter

Torridge District Council

Audit 2004-2005

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

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

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

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

Appointed auditors act quite separately from the Commission and in meeting their statutory responsibilities are required to exercise their professional judgement independently of both the Commission and the audited body.

Status of our reports to the Council

The Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission explains the respective responsibilities of auditors and of the audited body. Reports prepared by appointed auditors are addressed to members or officers. They are prepared for the sole use of the audited body. Auditors accept no responsibility to:

- any member or officer in their individual capacity; or
- 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.

© Audit Commission 2006

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

Contents

| | |
|---|-----------|
| Key messages | 5 |
| Council performance | 5 |
| The accounts | 6 |
| Financial position | 6 |
| Action needed by the Council | 7 |
| Council performance | 8 |
| Progress assessment | 8 |
| Other Audit Commission inspections | 9 |
| Other performance work | 14 |
| Accounts and governance | 15 |
| Audit of 2004/05 accounts | 15 |
| Financial standing | 16 |
| Systems of internal financial control | 16 |
| Standards of financial conduct and the prevention and detection of fraud and corruption | 17 |
| Legality of transactions | 17 |
| Use of resources judgements | 17 |
| Other work | 23 |
| Grant claims | 23 |
| National Fraud Initiative | 23 |
| Looking forwards | 24 |
| Future audit and inspection work | 24 |
| Revision to the Code of Audit Practice | 24 |
| A new CPA framework | 24 |
| Closing remarks | 25 |
| Availability of this letter | 25 |
| Appendix 1 – Background to this letter | 26 |
| The purpose of this letter | 26 |
| Audit objectives | 26 |
| Inspection objectives | 27 |

4 Annual Audit & Inspection Letter | Contents

Appendix 2 – Audit and Inspection reports issued **28**

Appendix 3 – Audit and Inspection fee **29**

Key messages

- 1 In the nine months since the new chief executive was appointed considerable progress has been made in addressing areas such as leadership, corporate planning and management and in setting up the systems and processes that will support improvement. We recognise that progress is now being reported in a range of services across the Council, in particular Planning and Housing Benefits where targeted efforts have been made to improve customer services. The outcomes of these should feed into future performance indicators which we will review as part of our audit work over the coming year.
- 2 This Audit Letter sets out the key matters arising from our audit work relating to the 2004/05 Audit Plan. It also reports the outcomes of those reviews that we have completed during 2005/06. The outcomes reported below reflect the situation as we found it when the review was carried out and in a number of the areas the performance was judged to be poor or did not meet the minimum requirements. We recognise, however, that the foundations for improvement have now been laid and that the pace of change across the Council's services is gathering speed. Much now rests on the ability of officers and Members to implement and sustain the proposed changes.

Council performance

- 3 Comprehensive Performance Assessment (CPA) was introduced at district councils in 2003/04 as a way of supporting councils to deliver improvements in services to local people. Councils have prepared improvement plans following CPA and those councils classified as 'under performing' have received annual progress assessments by the Audit Commission. The progress assessment work has sought to measure the impact and sustainability of improvement activity.
- 4 Since our last assessment in February 2005 the Council's progress in addressing weaknesses has been slow. However, recently there has been strong improvement which provides confidence that the Council is beginning to move forward. This progress remains fragile as it is largely dependent on the work of the chief executive. The Council faces significant budget pressures.
- 5 The original CPA highlighted the Council's lack of direction and weak leadership and found few areas of strength in relation to the way the Council had set out what it wanted to achieve. Now the strategic plan provides a clearer long-term vision and leadership is stronger. In 2003, the CPA highlighted the Council's lack of capacity to improve and performance management was found to be weak. These problems largely remain although there are plans in place to address them. At the time of the CPA service performance was mixed and the subsequent progress assessment in 2005 reported that performance had declined. The Council has however made significant investments in process improvement and in some services this has begun to improve performance. In terms of future plans to improve, the CPA found that there was not a consistent acceptance of the problems the Council faced or a clear and resourced plan to address them.

Now the Council has an improvement plan in place, with resources allocated and this is consistently supported across the Council. As such, the Council is now in a stronger position to support improvement.

- 6 The Council still faces significant pressures in terms of skills, staffing levels and resources. The current levels of skills and resources within the Council are insufficient to deliver improvement. Its focus on internal matters has limited its contribution to the local strategic partnership. Sickness levels, already at a high level in 2003/04, have increased further. Finances are tight, and the Council also now has to meet the costs of the restructuring exercise. It recognises that its previous approach of using reserves is no longer sustainable.

The accounts

- 7 We issued an unqualified audit opinion on the Council's financial statements for the year ended 31 March 2004/05 on 28 October 2005. Several issues were identified during the audit which affected the financial statements for the current year. The significant matters were addressed by your officers and revised financial statements were re-adopted by the Policy and Resources Committee on 27 October 2005.
- 8 Our use of resources assessment is a new assessment which focuses on financial management but links to the strategic management of the Council. We assessed the Council's arrangements as they had operated throughout 2004/05 in five areas. We concluded that your arrangements for internal control were adequate and met minimum requirements. The Council's arrangements were, however, operating below minimum requirements in the areas of financial management, financial reporting, financial standing and value for money. Arrangements have now been put in place to strengthen financial management and financial reporting. This should enable the Council to undertake budget monitoring throughout the year and provide more reliable cost comparison data for assessing value for money.

Financial position

- 9 The focus on the medium-term financial strategy (MTFS) as a tool to link strategic objectives to available resources has intensified in recent years. The Council's MTFS has been improved in the last 12 months although stronger links to corporate objectives still need to be developed. It has allowed the Council to make projections that indicate that, given prudent increases in council tax and government support, annual reductions in costs of around £1 million will be required each year to balance the budget.
- 10 In order to close a gap of this magnitude it is recognised that difficult decisions have and will need to be made. A number of factors need to be considered and drawn together to make informed decisions whilst at the same time balancing the aspirations of the Council with the costs of achieving them.

Balanced budgets have been achieved for both 2005/06 and 2006/07 against a background of change.

- 11 The use of £0.5 million of balances for the year ending 31 March 2006 is acknowledged as the end of large scale use of balances to support budgets. To manage risk and uncertainty the Council has set a lower limit on General Fund balances of £0.5 million. To signal the end of this flexibility on the use of balances the recently approved management realignment, which in total will cost £0.9 million, will reduce balances by £0.2 million to this minimum level. The residual financing will come from a combination of earmarked reserves and the housing revenue account balance. Careful scrutiny of the costs charged to the last of these sources will be needed.
- 12 The realignment is understood to be self-financing in the medium-term. The business benefits should be built into and monitored through the MTFS and the position reported to Members on a regular basis. Robust budget monitoring across all activities will be needed to underpin this. Where variances are significant Members should approve action plans to address them. Vigilance is required to ensure that the minimum position now established for balances is not eroded further.

Action needed by the Council

- 13 The Council needs to continue:
 - focusing efforts on addressing its poor financial position;
 - seeking improvements in service management and delivery; and
 - ensuring that sustainability is maintained within the Council.

Council performance

Progress assessment

- 14 Progress in addressing weaknesses has been slow. However recently there has been strong improvement which provides confidence that the Council is beginning to move forward. This progress remains fragile as it is largely dependent on the work of the chief executive. The Council faces significant budget pressures.
- 15 The original CPA highlighted the Council's lack of direction and weak leadership and found few areas of strength in relation to the way the Council had set out what it wanted to achieve. Now the strategic plan provides a clearer long-term vision and leadership is stronger. In 2003, the CPA highlighted the Council's lack of capacity to improve and performance management was found to be weak. These problems largely remain although there are plans in place to address them. At the time of the CPA service performance was mixed and the subsequent progress assessment in 2005 reported that performance had declined. The Council has however made significant investments in process improvement and in a few services this has begun to improve performance. In terms of future plans to improve, the CPA found that there was not a consistent acceptance of the problems the Council faced or a clear and resourced plan to address them. Now the Council has an improvement plan in place, with resources allocated and this is consistently supported across the Council. As such, the Council is now in a stronger position to support improvement.
- 16 The Council's progress had been uneven until the appointment of the new chief executive. Although the previous progress assessment recognised developments in a number of areas including leadership, this was not sustained and there continued to be significant problems. However in the nine months since the new chief executive was appointed considerable progress has been made in addressing areas such as leadership, corporate planning and management and in setting up the systems and processes that will support improvement.
- 17 The new strategic plan provides a clearer direction which reflects the views of the community and partners and has been endorsed by the Council. The developing business plans for 2006/07 support it as they have a clearer focus on corporate priorities. They also contain an outline of the risks and pressures that services face and begin to set out how progress against objectives will be measured. The budget for 2006/07 and medium-term financial plan are aligned to priority areas and therefore provide a stronger means of ensuring resources are allocated to delivering objectives.

- 18 The Council still faces significant pressures in terms of skills, staffing levels and resources. The current levels of skills and resources within the Council are insufficient to deliver improvement. Its focus on internal matters has limited its contribution to the local strategic partnership. Sickness levels, already at a high level in 2003/04 have increased further. Finances are tight, and the Council also now has to meet the costs of the restructuring exercise. It recognises that its previous approach of using reserves is no longer sustainable.
- 19 Performance indicators show performance as weak. In 2004/05, 59 per cent of indicators were below average when compared nationally with 45 per cent among the lowest 25 per cent of Councils' performance. There are signs of improvement though, as between 2002/03 and 2004/05, 49 per cent of indicators improved.
- 20 The Council was previously criticised in relation to human resources practices; financial management information and financial planning; communications; partnership working; and an integrated approach to corporate plans. It has worked to address these areas and is making significant investment in processes and systems that should support improvement in the majority of these areas and these are beginning to have an impact. In some services, for example the planning and benefits services, recent figures show a considerable increase in performance. The Council still needs to address partnership working arrangements in some areas, notably the local strategic partnership.
- 21 The Council's new and radical approach to improvement offers promise. Much rests on the ability of the chief executive and councillors to deliver on these green shoots. However, risks exist, for example the need to be able to attract or maintain staff with the right skills and experience and the lack of a strong track record of successful restructuring. The Council's ability to meet its new ambitions and sustain progress remains uncertain.

Other Audit Commission inspections

Planning services inspection

- 22 The Council received an inspection of its planning service in October 2005. This found that the service was providing a 'fair' service with 'promising' prospects of improvement.
- 23 The inspection found that the service was failing to meet national targets for 2004/05 and had been identified as a 'planning standards authority' which meant it was subject to closer government monitoring due to its low-level of performance. Some progress had been made in increasing levels of performance for some types of planning applications but this was less pronounced for applications for major developments. The inspectors also found that there was an inconsistent level of customer care although the Council was beginning to address this through training and the appointment of a customer services officer. Good progress has been made in preparing a new planning development approach.

- 24 The service had delivered work successfully to support sustainability and an improved natural and built environment. However, it lacked resources in relation to conservation work.
- 25 The inspectors found that the Council was beginning to address the serious weaknesses in relation to processing planning applications. Although progress by October had been slow, there was a full complement of staff and investments were in place to provide confidence that improvement would be sustained. A number of recommendations designed to sustain and deliver continuous improvement in performance were agreed with officers and an action plan was drawn up. We will follow up progress in implementing these recommendations as part of next year's audit.

Landlord services inspection

- 26 The Council received an inspection of its landlord services in November 2005. This found that the service provided was 'poor' and had 'poor' prospects of improvement.
- 27 There was a limited focus on delivering services for the benefits of tenants, the service lacked service standards, office opening hours were limited and information is not clear or comprehensive. There was little awareness of tenants' special needs and no profile of tenants; as a result no allowance is made for vulnerable or disabled tenants to ensure they receive a service to reflect their greater need.
- 28 The approach towards diversity and equalities was weak, and the service was not compliant with the Council for Racial Equality Code of Practice in Rented Housing and some buildings were not compliant with the Disability Discrimination Act. Problems were found with the responsive repairs service, in re-letting empty properties, there was poor monitoring of gas servicing and the Council can not demonstrate it is delivering value for money through its landlord services.
- 29 The inspection did find that generally properties were in good condition. The stock options appraisal has provided a short-term direction for the service, but longer-term aims are lacking. The Council has also successfully reduced rent arrears.
- 30 In relation to prospects for the future, the inspectors found that some previous inspections recommendations have not been implemented and the progress made was slow. The aims and priorities of the service had not been clearly established and plans are not specific, measurable, achievable, resourced and with clear deadlines. Value for money was not embedded into the culture of the Council and the performance management framework was ineffective. Information technology was limiting the provision of information to enable effective management of services. It found that organisation capacity was limited and leadership was not being effectively demonstrated.
- 31 Some elements which could drive improvement were in place, for example the options appraisal providing a short-term direction, there were proposals for meeting efficiency targets and some improvement have been achieved for example in relation to introducing appointments for responsive repairs.

The appointment of a new chief executive was a further driver for improvement and the inspectors found that there was strong commitment towards becoming an excellent Council.

- 32 A number of recommendations designed to improve performance were agreed with officers and an action plan was drawn up. We will follow up progress in implementing these recommendations as part of our ongoing monitoring of the Council's review of its housing stock.

Overview strategic housing services

- 33 During November 2005, we carried out a review of the Council's approach to the provision of housing services and meeting housing needs in the district. This was additional voluntary improvement work commissioned by the Council. The scope of the work focused on three broad areas.
- The Council's understanding of the housing market and whether a balance exists between supply and demand to meet different housing needs.
 - Existing housing including private sector housing, homelessness and housing advice.
 - New affordable housing including procurement, partnerships and elements of the planning service.
- 34 Our findings, which were reported to the Council in early 2006, are set out below.
- 35 The Council's strategic plan (Towards the Future 2005 to 2010) sets out, under 13 thematic subheadings, 59 separate action points but fails to identify those which are critical to its success in addressing the key local priorities. This introduces the risk that resources and impact monitoring may be ineffectively focused.
- 36 Having identified affordable housing as one of the corporate priorities, there is a mixed picture in terms of the resources (such as land, personnel or budgets) available to support this area of work. While there are examples of how the Council is providing support, these are limited and not entirely reflective of a high priority service. There is limited impact emerging from the Affordable Housing Working Group and member engagement with the key housing issues, although improving, is relatively passive.
- 37 The Housing Strategy 2005 identifies five strategic housing priorities and confirms affordable housing as its highest priority. However, despite being 'fit for purpose', the strategy demonstrates weakness in a number of ways.
- It does not describe a co-ordinated and integrated approach to the creation of a more balanced housing market. Instead, the strategy reads more like an unconnected set of housing activities which have not been prioritised.
 - The strategy identifies some key problems and challenges but fails, through the action plan, to state clearly and in detail how they will be overcome.
 - The strategy fails to describe how housing services benefit from engagement with a wide range of stakeholders who can support solutions.

- 38 There has been no development of a coherent affordable housing strategy (the community action plan (Working Together 2004/05) clearly describes the need for an affordable housing strategy and, by 2007, the development of a co-ordinated action plan for meeting local needs). This is a major weakness and is contributing to uncoordinated working with internal and external stakeholders and a failure to produce robust integrated future plans.
- 39 The Council is beginning to put in place the key building blocks it needs to understand its housing markets and prepare a detailed strategy to ensure they meet local needs. However, this information is not yet comprehensively informing strategic decision-making.
- A housing needs survey was completed towards the end of 2004 and is forming the basis of the Council's approach to affordable housing delivery through section 106 agreements. However, there is little evidence that the survey is informing other aspects of the housing service to the same degree (for example, through the housing renewal policy). It is also recognised that the survey does not provide sufficient detail on needs at a parish level and there is no evidence that the Council is addressing this.
 - Stock condition surveys of both the private sector and the Council's own stock have been completed in 2004. Again, there is little evidence that the information has had any impact on the services which are delivered and does not seem to have resulted in any changes in resources. This is particularly important for the private sector so the Council can be sure it is using its powers to best achieve objectives and target resources to those in greatest need.
 - The South West Housing Body has completed a regional housing market assessment. Individual assessment studies need to be carried out in each of the sub-market areas. Although the Council is intending to begin dialogue with its neighbouring district councils in respect of its sub-market area (identified as polycentric North Devon/North Cornwall), this work has not commenced.
- 40 Action plans are generally not specific and outcomes (where they can be identified) are not capable of being measured. The majority of the action points deal with procedural and internal matters and so it is frequently difficult to understand what impact they will have for service users. However, the housing strategy action plan sets out clear and precise targets for the five identified key priorities. For the most part the targets set out in this strategy are challenging and relevant. The housing service improvement plan sets out three priorities for the housing service - none of which clearly states an intention to increase the supply of affordable housing or to help people remain in their current homes. There are no targets (other than a completion date) and so it is difficult to see how they will be effectively monitored (and what success will look like). Examples of appropriate targets are set out in the recommendations section of this report.

- 41 The Council is not performing well in many of the key areas that will contribute to the provision of affordable housing and it is difficult to see how this will improve. The community action plan sets out a proposal to establish a housing forum to address and monitor the key housing issues; this has not been achieved (although a first meeting was planned in December). The total number of new affordable homes that were completed in 2004/05 increased to 55 from a previous annual average of only 15 (which falls some way short of the annual requirement for 517 affordable housing units identified in the District-wide Housing Needs Survey completed towards the end of 2004). There are a number of areas of underperformance at 'service' level.
- 42 There are inadequate resources available to address housing priorities and the Council has not maximised the use of existing resources and initiatives. The homelessness service is unable to effectively address prevention work and the private sector renewal team is not proactively and effectively regulating conditions in the private rented sector (further details are provided in the following section). While there are nomination rights attached to empty property grants, there are no similar nomination arrangements for grants to landlords. Demand for disabled facilities grants exceeds the budget by 50 per cent and the improvement grants budget is fully committed. Costs of temporary accommodation are relatively high as a result of the restricted impact of prevention work. There has been no exploration of alternative methods of service delivery (for example, outsourcing some aspects of the service or developing working partnerships with other service providers) which could provide some solutions to the resource shortfall.
- 43 The Council is involved in some potentially useful regional partnerships and these have generally had a positive impact on housing services in Torridge. This includes membership of the Devon Strategic Housing Group, the Rural Housing Partnership and the county-wide Supporting People partnerships (it is an active member of both its commissioning body and core strategy development group). There is also good partnership working with the Council's development partners - a registered social landlord liaison group meets (but not on a regular cycle) to discuss bidding and planning issues and ways of maximising opportunities to develop affordable housing. However, the Council has not developed effective partnerships with private sector landlords and property owners in relation to the existing housing stock.
- 44 Through its partnership working, the Council enjoys the benefits of the county-wide and jointly funded Affordable Housing Officer and Rural Housing Enabler. These benefits have included drawing in additional funding and dissemination of good practice.
- 45 We have made a number of recommendations with suggested timescales for implementation to help the Council in its improvement of its strategic housing services. We shall keep a watching brief on the Council's progress in this area over the coming year as it moves forward with its corporate realignment.

Other performance work

ICT arrangements

- 46 We undertook a review of e-government in 2003 and found that the Council was behind other authorities in the implementation of e-government. We followed up this review in early 2004 and carried out a brief update on progress again in 2005.
- 47 Whilst recognising that the Council is embarking on a further realignment of its organisational structure our review identified a number of recommendations that will need to be actioned. Recommendations to strengthen arrangements were identified in project management, the IT control environment, compliance with legislation and progress on implementing e-government. These recommendations and an agreed action plan have been recorded on the Council's corporate database to ensure that they are captured and monitored for progress.

Best value performance plan and performance information

- 48 We reported in December 2005 that the audit of the best value performance plan (BVPP) was complete and that there were no matters that needed to be reported to members.
- 49 Our approach to the audit of performance indicators changed in 2005 with only a sample of indicators being checked. The findings from the testing of this sample were then used to inform our judgement over the quality of performance indicators within the BVPP.
- 50 A number of quality assurance arrangements were found to be in place. However, the level of supporting documentation produced and retained by responsible officers is not consistently of an acceptable standard. We found that in many cases obtaining working papers to support the indicators published was difficult and this required substantial additional audit resource. Our recommendations were agreed by officers and appropriate action has been taken to strengthen the Council's arrangements.
- 51 Progress by the Council on these recommendations will be incorporated into the planning and risk assessment for next year's Audit Plan.

Accounts and governance

We issued an unqualified audit opinion on the Council's financial statements for the year ended 31 March 2004/05 on 28 October 2005. Several issues were identified during the audit which affected the financial statements for the current year. The significant matters were addressed by your officers and revised financial statements were re-adopted by the Policy and Resources Committee on 27 October 2005.

Our use of resources assessment confirmed that during 2004/05 the Council was operating below minimum requirements in the areas of financial management, financial reporting and financial standing. The Council's arrangements for internal control met the minimum requirements.

Audit of 2004/05 accounts

- 52 The published financial statements are an essential means by which the Council reports its stewardship of the public funds at its disposal and its financial performance in the use of those resources.
- 53 The audit of your financial statements was again facilitated by the co-operation extended by your staff. The draft statements were available on 1 August which allowed us to begin our review as planned.
- 54 Our opinion was that the statements as presented for audit contained material errors in relation to fixed assets and related capital reserves. Following discussion with the Head of Finance and IT these were amended together with a number of non-material omissions and misstatements. We were able to issue an unqualified audit opinion.
- 55 The most significant matters that arose related to fixed assets classification and Statement of Recommended Practice (SORP) disclosure compliance. Several of these issues will have an impact on the accounts for 2005/06. These will be addressed by your officers in the compilation of the 2005/06 financial statements.
- 56 The financial statements were amended and the nature and size of the amendments were sufficient to require their re-adoption by the Council. We are required by professional standards to report to those charged with governance certain matters before we give an opinion on the financial statements. The qualitative issues that gave rise to the changes were considered by the Policy and Resources Committee on 27 October 2005.

Financial standing

- 57 The focus on the medium-term financial strategy (MTFS) as a tool to link strategic objectives to available resources has intensified in recent years. The Council's MTFS has been improved in the last 12 months although stronger links to corporate objectives still need to be developed. It has allowed the Council to make projections that indicate that given prudent increases in council tax and government support annual reductions in costs of around £1 million will be required each year to balance the budget.
- 58 In order to close a gap of this magnitude it is recognised that difficult decisions have and will need to be made. A number of factors need to be considered and drawn together to make informed decisions whilst at the same time balancing the aspirations of the Council with the costs of achieving them. Balanced budgets have been achieved for both 2005/06 and 2006/07 against a background of change.
- 59 The use of £0.5 million of balances for the year ending 31 March 2006 is acknowledged as the end of large scale use of balances to support budgets. To manage risk and uncertainty the Council has set a lower limit on balances of £0.5 million. To signal the end of this flexibility on the use of balances the recently approved management realignment, which in total will cost £0.9 million, will reduce balances by £0.2 million to this minimum level. The residual financing will come from a combination of earmarked reserves and the housing revenue account balance. Careful scrutiny of the costs charged to the last of these sources will be needed.
- 60 The realignment is understood to be self-financing in the medium-term. The business benefits should be built into and monitored through the MTFS and the position reported to Members on a regular basis. Robust budget monitoring across all activities will be needed to underpin this. Where variances are significant Members should approve action plans to address them. Vigilance is required to ensure that the minimum position now established for balances is not eroded further.

Systems of internal financial control

- 61 The accounting and financial reporting for 2004/05 was dominated by the implementation of new financial systems provided by CedAr which began in April 2004. The implementation did not run smoothly resulting in a failure of key financial controls during the year, in particular the failure to carry out bank and control account reconciliations and the lack of any meaningful budget management information.
- 62 Our review of your arrangements for producing the financial statements and the adequacy of the Council's internal financial controls highlighted some serious concerns which we reported to officers and members. An action plan was drawn up to address these issues.

- 63 The work of Internal Audit has been tested on a sample basis and meets professional standards. This enables reliance to be placed on its work when considering our Code of Audit responsibilities. This judgement, however, must be considered in the context of the overall audit planning and approval of those plans by members. Due to previous restructuring of the Council planned for June 2004, but not completed until November 2004, an Audit Plan was not agreed by members for 2004/05. As a result, whilst key financial systems controls were tested, including any anti-fraud and corruption controls, it was not possible to measure overall performance.
- 64 Progress in developing risk management processes continues. The Statement on Internal Control for 2004/05 set out an action plan to embed risk management in day to day management. Risk management and other key corporate governance arrangements were considered by the Council's Corporate Governance Working Group which has been established to monitor the local code of corporate governance.

Standards of financial conduct and the prevention and detection of fraud and corruption

- 65 We have not identified any significant weaknesses in your arrangements to prevent and detect fraud and corruption that are not reflected in our use of resources assessment.
- 66 There is an established framework in place for preventing fraud and corruption. Detailed testing of these arrangements is undertaken annually by Internal Audit.

Legality of transactions

- 67 We have not identified any significant weaknesses in the framework established by the Council for ensuring the legality of its significant financial transactions.
- 68 Arrangements for capturing legislative and regulatory changes that affect the Council, together with the preparation of action plans to ensure compliance, need to be strengthened. The Council had not met the deadline of 31 May 2002 for publishing a Race Equality Scheme and this was still outstanding when we undertook our review in 2005.

Use of resources judgements

- 69 The use of resources assessment is a new assessment which focuses on financial management but links to the strategic management of the Council. It looks at how the financial management is integrated with strategy and corporate management, supports council priorities and delivers value for money. It will be carried out annually, as part of each council's external audit. We expect that, in future, the use of resources judgements will form part of the CPA framework.
- 70 We have assessed the Council's arrangements in five areas.

Table 1 Council's arrangements

| Element | Assessment |
|----------------------|-------------------|
| Financial reporting | 1 out of 4 |
| Financial management | 1 out of 4 |
| Financial standing | 1 out of 4 |
| Internal control | 2 out of 4 |
| Value for money | 1 out of 4 |
| Overall | 1 out of 4 |

(Note: 1 = lowest - inadequate performance, 4 = highest - performing strongly.)

- 71 In reaching these judgements we have drawn on our regularity work and supplemented this with a review against specified key lines of enquiry for each of the five elements covered by the assessment.
- 72 Overall the Council has been rated at level 1 which means that its performance is inadequate and below minimum requirements. The overall score for use of resources was reported to the Council by the Audit Commission on 13 March 2006. Our detailed findings are summarised below.

Table 2 Use of resources main headings

Torrige performs below minimum requirements

| Assessment criteria | Findings |
|---|---|
| Financial reporting | 1 out of 4 - inadequate performance |
| 1.1 The Council produces annual accounts in accordance with relevant standards and timetables, supported by comprehensive working papers. | <p>The 2004/05 accounts were produced within the deadlines. The Council is aware of the earlier deadlines for producing the 2005/06 accounts. Guidance was made available to staff on final accounts closedown procedures, including relevant timetables. However, there was significant slippage on preparing bank reconciliations and hence follow up work planned by Internal Audit was delayed. Bank reconciliations were finally delivered in mid-October 2005.</p> <p>The Council ensured that appropriate, knowledgeable and skilled staff were available to deal with our audit queries, to substantiate assertions, and to explain items of account.</p> |

| Assessment criteria | Findings |
|---|---|
| 1.2 The Council promotes external accountability. | <p>Our audit identified that the accounts presented for audit failed to meet key requirements of the Statement of Recommended Practice (SORP) in relation to fixed asset identification and measurement. The working papers supporting the accounts were incomplete at the start of the audit as work was still ongoing on the bank and control account reconciliations. The material error identified during the audit in relation to fixed assets was corrected and we were able to give an unqualified audit opinion.</p> <p>The Council uses its website to publish its most recent accounts, Annual Audit and Inspection Letter and details of its committees. It also publicises how local electors can exercise their rights in accordance with the Accounts and Audit regulations 2003.</p> |
| Financial management | 1 out of 4 - inadequate performance |
| <p>2.1 The Council's medium-term financial strategy, budgets and capital programme are soundly based and designed to deliver its strategic priorities.</p> <p>2.2 The Council manages performance against budgets.</p> <p>2.3 The Council manages its asset base.</p> | <p>During 2004/05, the MTFs was not fully developed and integrated with the Council's strategic objectives. The capital strategy was still in draft and the scoring mechanism for capital projects was not embedded (had not completed a budget cycle). We were not able to confirm that each capital budget was assigned to an individual manager best able to use and control it as the list of budget holders was incomplete at the time of the review.</p> <p>Up-to-date budget monitoring information was not available to be presented to members throughout the year. Profiled budgets were not input to the main accounting system on a timely basis.</p> <p>The Council did not maintain an accurate asset register. The Council did not have adequate arrangements in place to manage its property portfolio. The Asset Management Plan was in place but there was only a draft capital strategy. Prudential indicators were not monitored during the year in a structured way. The Council's process for prioritising capital projects is still under development.</p> |

| Assessment criteria | Findings |
|--|--|
| Financial management | 1 out of 4 - inadequate performance |
| | <p>The Council has recently begun to take effective action to ensure that its medium-term financial strategy (MTFS), budgets and capital programme are soundly based and designed to deliver its strategic priorities.</p> <p>The Council is able to demonstrate minimum requirements in a number of areas. The MTFS models income and expenditure over a minimum of three years and is updated at least annually. A balanced budget was set for 2004/05 based on realistic projections about pay, inflation and known service and capital development plans. Budgets were revised annually in light of the previous year's outturn and were linked to the MTFS. Budget holders were involved in the budget setting process with budgets subject to review by senior officers and members.</p> |
| Financial standing | 1 out of 4 - inadequate performance |
| 3.1 The Council manages its spending within the available resources. | <p>The Council set a balanced budget that took account of cost pressures and the impact on council tax and housing rents. It maintained its overall spending within budget.</p> <p>Treasury management arrangements are in line with the CIPFA Code.</p> <p>The Council was, however, unable to monitor the budget and underlying assumptions throughout the year as there was no regular budget monitoring in 2004/05.</p> |

| Assessment criteria | Findings |
|---|--|
| Internal control | 2 out of 4 - adequate performance |
| <p>4.1 The Council manages its significant business risks.</p> <p>4.2 The Council has arrangements in place to maintain a sound system of internal control.</p> <p>4.3 The Council has arrangements in place designed to promote and ensure probity and propriety in the conduct of its business.</p> | <p>The Council has adopted a risk management strategy that has been approved by members.</p> <p>The Council's risk management arrangements and registers are now in place but have not been operating for long enough for a review to be undertaken. Risks have not been reported to members.</p> <p>There is no risk assessment of partnerships, although this was due to start in early 2006.</p> <p>Approval of the Statement on Internal Control (SIC) was not considered separately from the financial statements. Not all the assurances were in place before the SIC was approved.</p> <p>Procedure notes are not in place for all systems identified by the Council as business critical.</p> <p>Appropriate codes of conduct have been implemented and the Council monitors compliance with these standards.</p> |
| Value for money | 1 out of 4 - inadequate performance |
| <p>5.1 The Council currently achieves good value for money.</p> <p>5.2 The Council manages and improves value for money.</p> | <p>The Council lacks clear and reliable information on full costs that allows effective comparison or regular evaluation of value for money.</p> <p>Service standards are not well-developed and therefore comparison of quality of services is difficult.</p> <p>From the limited information available, there appears to be a mixed picture of how far Council services are delivering value for money.</p> <p>The lack of cost comparison data restricts the Council to challenging spend against budget only. As a result areas of comparative high spending are not consistently identified, challenged or addressed.</p> <p>The Council manages its limited capital programme effectively.</p> <p>The Council has adopted a project appraisal process to ensure that full revenue and capital implications of projects are considered.</p> |

| | |
|--|--|
| | <p>The lack of reliable cost and performance information means that councillors can not consistently identify and pursue areas where efficiency savings could be made.</p> <p>There are no formal processes in place for reviewing and improving value for money.</p> <p>Financial and performance reporting information to date has been limited.</p> <p>The recently introduced procurement unit is securing savings but no baseline data exists against which progress can be monitored.</p> <p>The council works in partnership with other Devon Councils to secure efficiencies in some areas.</p> <p>The corporate approach to procurement is under developed.</p> <p>Internal reviews are securing significant service related improvements in performance but the cost of these improvements can not yet be determined due to the shortcomings of the available financial information.</p> |
|--|--|

73 Our detailed findings together with the key improvements needed to perform adequately overall and meet the minimum requirements on use of resources are set out in a separate report to the Council.

Other work

Grant claims

- 74 In accordance with Strategic Regulation, the Audit Commission has continued with a more risk-based approach to the certification of grant claims. We have reduced our audit of these claims but our ability to reduce further depends on the adequacy of the Council's control environment.

National Fraud Initiative

- 75 In 2004/05, the local authority took part in the Audit Commission's National Fraud Initiative (NFI). The NFI, which is undertaken every two years, aims to help identify and reduce fraud by bringing together data from NHS bodies, local authorities and government departments and other agencies, to detect a wide range of frauds against the public sector. These include housing benefit fraud, occupational pension fraud, tenancy fraud and payroll fraud as well as, new for 2004/05, right to buy scheme fraud and providing new contact details for former tenants with arrears in excess of £1,000.
- 76 Where little or no such fraud is identified then the Council can gain assurance about internal arrangements for preventing and detecting fraud. In addition to this, an organisation's participation in NFI publicly demonstrates its commitment to tackling this issue.
- 77 The Council completed this exercise and submitted the required returns to the Audit Commission. At Torridge £8000 of savings were identified from the 2004/05 NFI. As only minor issues were identified as a result of the exercise, the findings from the NFI work confirm that the Council has adequate controls in place. This was also confirmed more recently by the use of resources review of internal control where the Council's arrangements met the minimum requirements.

Looking forwards

Future audit and inspection work

- 78 We have an agreed plan for 2005/06 and we have reported in this letter those aspects that have already been completed. The remaining elements of that plan, including our audit of the 2005/06 accounts, will be reported in next year's Annual Letter.
- 79 We have sought to ensure, wherever possible, that our work relates to the improvement priorities of the Council. We will continue with this approach when planning our programme of work for 2006/07.

Revision to the Code of Audit Practice

- 80 The statutory requirements governing our audit work, are contained in:
- the Audit Commission Act 1998; and
 - the Code of Audit Practice (the Code).
- 81 The Code has been revised with effect from 1 April 2005. The key changes include:
- the requirement to draw a positive conclusion regarding the Council's arrangements for ensuring value for money in its use of resources; and
 - a clearer focus on overall financial and performance management arrangements.

A new CPA framework

- 82 The Audit Commission is currently consulting on proposals for the overall CPA framework for district councils. The final framework for 2006 is expected to be published in July 2006.

Closing remarks

- 83 This letter has been discussed and agreed with Officers. The letter will be presented at the Policy and Resources Committee on 6 April 2006.
- 84 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

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

Peter Lawrence
District Auditor and Relationship Manager
March 2006

Appendix 1 – Background to this letter

The purpose of this letter

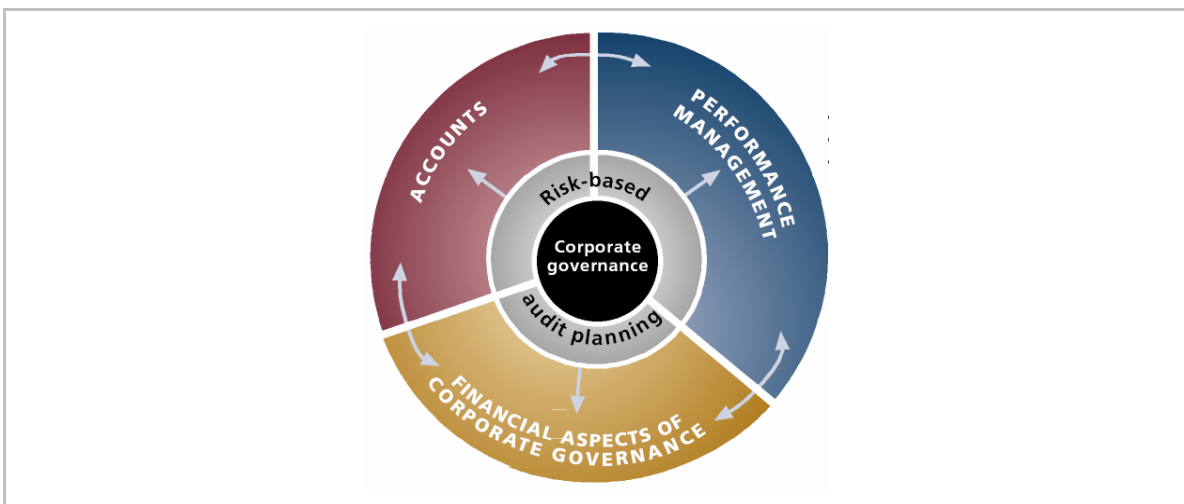
- 1 This is our audit and inspection 'Annual Letter' for members which incorporates the Annual Audit Letter for 2004/05, which is presented by the Council's Relationship Manager and District Auditor. The letter summarises the conclusions and significant issues arising from our recent audit and inspections of the Council.
- 2 We have issued separate reports during the year setting out the findings and conclusions from the specific elements of our programme. These reports are listed at Appendix 2 for information.
- 3 The Audit Commission has circulated to all audited bodies a statement that 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.
- 4 Appendix 3 provides information about the fee charged for our audit and inspections.

Audit objectives

- 5 Our main objective as your appointed auditor is to plan and carry out an audit that meets the requirements of the Code of Audit Practice. We adopt a risk-based approach to planning our audit, and our audit work has focused on your significant financial and operational risks that are relevant to our audit responsibilities.
- 6 Central to our audit are your corporate governance arrangements. Our audit is then structured around the three elements of our responsibilities as set out in the Code and shown in Figure 1.

Figure 1 Code of Audit Practice

Code of practice responsibilities



Accounts

- Opinion.

Financial aspects of corporate governance

7 Reviewing how effectively the Council ensures:

- financial standing;
- systems of internal financial control;
- standards of financial conduct and the prevention and detection of fraud and corruption; and
- legality of transactions with significant financial consequences.

Performance management

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

Inspection objectives

8 Inspection work is based around section 10 of the Local Government Act 1999, which requires us to carry out inspections and deliver reports that will:

- enable the Council and the public to judge whether best value is being delivered;
- enable the Council to assess how well it is doing;
- enable the Government to assess how well its policies are being implemented; and
- identify failing services where remedial action may be necessary.

Appendix 2 – Audit and Inspection reports issued

Table 3

| Report title | Date issued |
|---|--------------------|
| Audit Plan | May 2004 |
| Governance, Internal Audit and Core Processes | May 2005 |
| ICT Arrangements | August 2005 |
| Planning Services | October 2005 |
| Landlord Services | November 2005 |
| Audit of the Financial Statements | November 2005 |
| Auditor's Report on the Best Value Performance Plan | December 2005 |
| Audit of the Best Value Performance Plan and Performance Indicators | December 2005 |
| Overview Strategic Housing Services | February 2006 |
| Progress Assessment | March 2006 |
| Use of Resources | March 2006 |

Appendix 3 – Audit and Inspection fee

Table 4 Audit fee update

| Audit area | Plan 2004/05 (£) | Actual 2004/05 (£) |
|--|-------------------------|---------------------------|
| Improvement | 25,000 | 25,000 |
| Assessment | 11,000 | 11,000 |
| Assurance (Accounts, Governance, Use of Resources) | 64,000 | 64,000 |
| Total Code of Audit Practice fee | 100,000 | 100,000 |

- 1 The planned fee for the 2004/05 audit was £100,000. This was set out in the audit plan that was agreed at the start of the audit and there were no circumstances that required any variations to this fee during the year.