

Annual Audit and Inspection Letter

March 2006



Annual Audit and Inspection Letter

North Wiltshire District 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; 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

Introduction	5
Key messages	6
Council performance	6
The accounts	6
Financial position	6
Other accounts and governance issues	6
Action needed by the Council	7
Council performance	8
Accounts and governance	19
Audit of 2004/05 accounts	19
Financial standing	20
Governance- internal control	23
Use of resources judgements	25
Other work	27
Grant claims	27
National Fraud Initiative	27
Detailed Investigation of Housing Benefit BVPI data	27
Looking forwards	28
Future audit and inspection work	28
Revision to the Code of Audit Practice	28
A new CPA framework	28
Closing remarks	29
Availability of this letter	29
Appendix 1 – Background to this letter	30
The purpose of this letter	30
Audit objectives	30
Inspection objectives	31
Appendix 2 – Audit and Inspection reports issued	32
Appendix 3 – Audit and Inspection fee	33

Appendix 4 – Progress on key actions from our 2003/04 letter

34

Introduction

- 1 This final audit and inspection letter summarises our 2004/05 work that has been completed to date including completed inspections and our audit of the Council's accounts and governance arrangements. We provided officers within an interim audit and inspection letter in December 2005. This final letter is essentially that interim letter updated to reflect our recent work on assessing the Council's use of resources arrangements and your direction of travel in relation to your corporate performance assessment.

Key messages

Council performance

- 2 The Commission's review of the Council's performance has concentrated on its priority area of customer focus. Our review concluded that the Council provides fair, one-star, customer-focused services with promising prospects for improvement.
- 3 We have also reviewed the council's progress against its key improvement priorities. More details of this commentary on direction of travel can be found later in this report.

The accounts

- 4 The Council has adequate arrangements in place for the production of timely, complete and accurate annual financial statements. These arrangements will need to be strengthened further to achieve the earlier deadlines next year.

Financial position

- 5 We have concluded that the Council's general financial standing is sound, however action is now required to ensure debt recovery arrangements in respect of council tax and business rates are fully re-introduced following implementation of the new local taxation system.

Other accounts and governance issues

- 6 Governance would be further strengthened through the establishment of an audit committee independent of the executive and scrutiny which can oversee governance arrangements within the Council. Their remit could include responsibility for risk, internal control and the work of both internal and external audit and other inspection agencies. Other Councils have extended the remit of their final accounts committee to provide these arrangements.
- 7 The absence of any non-systems based internal audit work in the first seven months of the year means that their current arrangements are not fully compliant with the new internal audit code published in late 2003. However, we are confident that once in place the new internal audit provision will once again provide management with the assurances they require in respect to internal control.

- 8 The Council recognises that some policies and procedures need to be updated. Resultant changes now need to be put into practice, communicated to all stakeholders and effectively monitored. To facilitate this, the Council will need to implement a documents management system capable of allowing officers easy access to up-to-date guidance.

Action needed by the Council

- 9 We recommend that the Council take the following actions:
 - continue to develop the focus of its work on its customers by implementing the recommendations in the inspection report;
 - as part of the review of the constitution the Council should establish an independent audit committee;
 - consider how best the new head of internal audit can be given the required resources and support to ensure an internal audit function is established that can demonstrate full compliance with the internal audit code;
 - closely monitor the effectiveness of arrears collection arrangements in revenues and benefits;
 - introduce an internal document management system; and
 - develop an action plan to address the improvement areas identified in our recent Use of Resources report.

Council performance

Direction of travel

- 10 Since the CPA assessment, the Council has identified its priorities for improvement and the Commission has been working with the Council as it seeks to improve. Although the Council was not required to do a self-assessment for this direction of travel review, it chose to do one because it felt there might be lessons for it to learn from the exercise.
- 11 In 2004/05, 59 per cent of the Council's core service best value performance indicators (BVPIs) improved from 2002/03. However, 53 per cent of the Council's BVPIs show below average performance and most of these are not improving. They include the length of stay in bed and breakfast accommodation, the proportion of council tax collected and the number of visitors to museums.
- 12 The Council has adopted a long-term vision of what it wants to achieve by 2020. Each year the Council reviews this vision and agrees the priorities where it plans to focus its efforts in the year ahead. Set out below is a commentary on the Council's direction of travel against each of these long-term ambitions.

Sustainability - For Sustainability to be at the heart of everything we do.

- 13 The Council continues to build upon its strengths in applying the principles of sustainable development in its work. These principles are evident in the forward planning and policy documents it has adopted in the last couple of years. For example, it has a new policy on sustainable community transport, new planning policy documents and it has undertaken a carbon trust survey of its main buildings to identify areas where environmental performance can be improved. It is also in the process of developing new supplementary planning guidance on sustainable development. The Council continues to work with the Wiltshire Wildlife Trust in promoting sustainability to the local community, such as the Climate Friendly Community Programme Family Open Day in February 2006 aimed at reducing energy waste and promoting a more sustainable lifestyle.

Equalities and Diversity - To celebrate the diversity of the District and its residents and ensure everyone has access to our services and facilities.

- 14 The customer focus inspection by the Audit Commission's in 2005 concluded that the Council is failing to deliver what it promised in relation to its own targets for promoting race equality and implementing the equality standard for local government. The Council is taking action to address its low performance in this area. Progress against the duty to promote race checklist score has improved from one of the worst performing 25 per cent of councils nationally to below average in 2004/05.

Progress against the equality standard for local government has in the past been slow compared to other councils but the Council has now achieved the lowest level 1 and is working towards level 2. The Council's work in this area has been accredited by the 'see it right' RNIB standard on its website and the 'two ticks' standard for its positive approach to employing people with disabilities.

- 15 The Council continues to be active in engaging young people in its work. It has been closely involved with young people in connection with the provision of skate parks. It participates in a youth council that meets three times a year and a youth conference in 2004 was attended by over 100 people. More recently, it held a conference aimed at hard to reach young people called 'Who gives a hoody' and this was attended by 50 young people. The council uses 'Tomorrow's Voice', a Wiltshire-wide panel, to ascertain young people's views on issues affecting them.
- 16 The best value performance indicator that measures the number of the Council's public buildings accessible to people with a disability is below average for councils. However, this is in the context of full accessibility to its main offices, where most of its services are based. Recent and imminent changes to the Council's property portfolio will mean that only one tourist information centre will still have physical barriers to access.

Waste & Recycling - To be a zero biodegradable municipal waste to landfill District

- 17 The Council's recycling rate has increased from a low base but it remains in the bottom 25 per cent of councils in its comparator group. Costs in 2004/05 show that this is a low cost service. In 2004/05, it achieved 16 per cent recycling, which is positive progress towards the government target of 18 per cent by 2005/06. The Council also remained in the worst performing 25 per cent of councils in the last three years for the per centage of the population served by kerbside collection of recyclables. The Council's own monitoring reports shows recent progress on this and it exceeded its target to offer kerbside collection to 95 per cent of households by December 2005. In addition, the quantity of waste collected continues to fall and the Council now compares with the best performing councils on this indicator.

Housing - To ensure decent housing for everyone

- 18 The Council is continuing to work with its partners in delivering affordable housing. The Council met its housing strategy target of 330 new affordable homes in the three-year period to 2004/05 with 77 new affordable homes completed in 2004-05. It is currently on target to complete more than 100 new affordable homes in 2005-06. Likewise, the council is meeting its Local Plan targets for about 600 dwellings per year. The Council has recently completed a district wide housing needs survey and further work is underway to survey the specific needs of gypsies and travellers.

- 19 Since CPA the Council has completed a private sector stock condition survey and used the results to help it to develop a co-ordinated, strategic approach to its policies for empty homes and levels of unfitness and disrepair in the private sector. In 2004/05, eight private sector dwellings were returned to occupation or demolished as a direct result of action by the Council compared with 14 in 2003/04. The Council now offers a rent deposit scheme to enable more homeless households to access private rented housing.
- 20 Although the council is reducing its use of bed and breakfast (B&B) for homeless families, its performance remained well below average compared to other councils in 2004/05. The length of stay in hostels has also increased and in 2004/05, it was in the worst 25 per cent.

Buoyant Economy - To have a diverse and flexible local economy

- 21 In 2005, the Council adopted a new economic regeneration strategy, and intends to use this to focus its work in this area. The Council has improved the speed of paying invoices but at a slower rate than other councils and in 2004/05, its performance remained well below average.

Spatial Planning - To promote the integration of leisure, housing and work

- 22 The Council is putting in place the current and proposed spatial planning framework for the district. It anticipates that its Local Plan 2011 will be adopted by July 2006. The Core Strategy Development Plan Document under the Local Development Framework is currently at the 'issues and options' stage and consultation on the Statement of Community Involvement is complete for submission in April 2006. The Council has been active in its contribution to the emerging Regional Spatial Strategy and Chippenham is now identified as one of the 'named settlements' within the policy.

Healthy Lifestyles - To provide leisure opportunities and facilities for everyone to encourage healthy lifestyles

- 23 The Council has very few measures and targets to show the progress it is making in providing leisure opportunities for all. The 2003/04 best value performance indicator survey show that its leisure facilities are generally well used and user satisfaction is high. However, it doesn't have a clear policy framework for its current leisure provision or strategy for meeting the future needs of its community. The Council recognises this and is currently developing future plans, based on the outcomes of a major visioning exercise which was undertaken in partnership with North Wiltshire Leisure Limited to review leisure provision to 2010.

Local Environment and Street scene - To enhance the safety and attractiveness of the local environment and street scene

- 24 BVPIs show that the Council's performance on the cleanliness of public land is among the worst 25 per cent of councils. In 2003/04, satisfaction with standards of cleanliness (adjusted for deprivation) was below the average compared to other councils and a survey of parish councils in 2004 also showed concerns about this. More recent figures in 2004/05 show that the per centage of land littered to a significant or heavy extent was also among the worst performing councils.
- 25 On development control, the Council has moved from being one of the worst performing councils for the speed of processing planning applications in England to being commended by the Office of the Deputy Prime Minister (ODPM) as one of the most improved. In 2003/04, the Council improved its speed of processing for all three categories of application, meeting government targets for major, minor and other applications, with performance comparable to best 25 per cent nationally and it has maintained this performance in 2004/05. The Council is taking more action on unauthorised developments.
- 26 Recorded crime figures published by the Home Office shows that the level of crime in the district is below average for all types of crime and lower than other Wiltshire districts. The rate of improvement compares well, and is getting better, except for theft of vehicle and burglary. In 2005, the Council adopted a strategy setting out how it can contribute towards further improving community safety in the district.

Customer Focus - For the Council itself:

- to be 'The Council in your living room' – a visible presence, increased communication and ability to access services from the home;
- to be used as an information resource;
- to have easily accessed services for the whole community;
- to have refocused the services provided to meet the changing population profile;
- to ensure that people of all ages have a strong voice in the community; and
- to have covered the cost of services without recourse to local Council Tax.

- 27 An inspection of the Council in 2005 concluded that it provides a 'fair' level of customer-focused services that have promising prospects for further improvement. Overall satisfaction with the Council has fallen from 61 per cent in 2000/01 to 54 per cent in 2003/04.

While this decrease is broadly in line with the national trend, public satisfaction with the Council compares with the worst performing 25 per cent of councils nationally when levels of deprivation are considered. In addition, satisfaction in some service areas is below average or among the worst performing 25 per cent of councils for example on household waste collection (when levels of deprivation are considered) and housing benefits where public satisfaction is falling. However, as stated above there are high levels of satisfaction with the Council's sport and leisure facilities and above average satisfaction among planning applicants.

- 28 The Council is delivering more of its services electronically. In 2004/05, the Council was among the best 25 per cent of councils. The Council met 28 out of the 29 government targets for December 2005 and is confident of meeting all but one of its March 2006 targets.
- 29 The Council's collection of council tax compares with the worst 25 per cent of councils and performance on this did not improve in 2004/05. Service quality has been adversely affected by systems problems and staff shortages, which have resulted in backlogs of work. However, the Council has improved the performance of its benefits service and this year the Benefit Fraud Inspectorate rated the service as good, compared to fair in previous years.

Partnership and Community - Everything to be underpinned by partnership working and community engagement, working towards building true community spirit and a caring society.

- 30 A key weakness in the Council's corporate assessment in 2004 was the lack of progress in developing a long term vision with its local strategic partnership (LSP) and the community. The Council has now adopted a Community Strategy and five Community Area Plans have been published. The LSP is established and it has held its second annual conference in November 2005 and is currently producing action plans to deliver the Community Strategy. The Council has also recently adopted and agreed a voluntary sector compact with its partners. It is also started to review its service level agreements with other organisations against best practice guidance it adopted following a review of this area of work by the Audit Commission.

Council capacity and performance management

- 31 Following the comprehensive performance assessment (CPA) of the Council by the Audit Commission in 2004, the Council systematically listed all areas of identified weaknesses. These are encompassed within an improvement plan that shows the actions it plans to take to improve performance. Progress against these actions is regularly reported to senior management and to councillors. The Council is targeting effort at addressing these improvement areas, and progress against many of these is reviewed in the section above. In some areas, it is too early to judge whether these efforts are having an impact on the efficient and effective delivery of the Council's services to the community it serves. In other areas, there are measurable improvements such as in planning performance and staff sickness rates.

- 32 The CPA improvement plan is underpinned by a corporate business plan that sets out in more detail the work plans for the main parts of the organisation. This sits within an evolving performance management framework, which the Council is currently developing. This is key to maintaining the momentum for improvement by setting clear outcome targets so that it is clear to local people what they can expect and what has been achieved.

Customer Focus inspection

- 33 The Commission inspected the Council's approach to focussing its services on the needs of customers earlier this year. An accessible and user focused organisation places the customer at the heart of the service delivery, it knows what local people want and has organised itself to deliver this. Developing a more user-focused approach is not just a regulatory obligation. It is also part of good management and providing high-quality services.
- 34 Improving customer focus has been highlighted as a priority for improvement by all five councils in Wiltshire. As a result, an inspection of customer focus at the Council was undertaken in June and reported in October alongside similar reports for the other councils in the county.
- 35 The inspection judged that North Wiltshire District Council provided 'Fair' customer focused services with promising prospects for improvement. The inspection found that the Council has had a long-standing focus on improving customer service and has a fully accessible, family friendly main office 'fronted' by an effective customer contact team. The Council has established a major change programme, the 'Improving Access to Services and Information Programme', to deliver customer-focused improvements. There is good managerial leadership of the programme and the Council has invested in its approach to project management. However, overall satisfaction with the Council is below average and there has been poor progress in promoting race equality and implementing the Equality Standard for local government. Access for disabled people is among the worst performing 25 per cent of councils.
- 36 In addition, the Council and its partners (particularly the other councils in Wiltshire) are not yet maximising the potential for joint working to provide a more customer focussed service that meets the needs and expectations of local people for a more joined up and seamless service across the county.
- 37 Key recommendations to the Council arising from the inspection include:
- define a long-term vision and develop a strategy for delivering the customer focus priority;
 - improve access to Council services by;
 - taking positive steps to embed equality and diversity and a customer-focused culture across the Council;
 - ensuring that all information about Council services is clear, uses plain language and is widely available in appropriate alternative formats;

- developing a robust understanding of the needs of all sections of the local community through effective monitoring systems and engaging with under-represented groups;
- considering the need for and benefits of adopting more customer-focused practices such as revised opening hours, implementing plans to improve disabled access, and developing an integrated pricing policy across all services that effectively balances the need to maximise income while also promoting social inclusion;
- improve Council services to customers by;
 - ensuring consultees are given feedback on how their views were taken into account in policy and decision-making,;
 - consulting with local people in the development of corporate service standards and in identifying options from the change programme;
- support change in the Council by;
 - developing a robust plans that identify success criteria by which the programme will be measured;
 - ensuring that there are clear policies procedures and training in place to support the business process mapping work; and
 - developing a communication plan linked to the project plan to ensure the effective internal communication of the vision and benefits of the programme to key groups such as Councillors and middle managers.

38 Key findings common to all five councils were presented to a meeting of the county-wide Customer First partnership board in September 2005. Each council had strengths in different aspects of customer focus and councils were urged to learn from each other. Common areas of development were also agreed and a partnership action plan drawn-up to improve in these areas.

Review of Service Level Agreements with Partners

39 In October 2005 we reported on our review of the Council's management and practice of its Service Level Agreements (SLA) with its partners in the voluntary and community sector. This is a risk area relating to the efficient and effective use of resources, particularly as the Council spends £2.2 million each year through SLAs with other service providers.

40 The review found many positive aspects to the Council's arrangements for SLAs, as follows:

- partnership working and the role of SLAs in helping the Council to deliver against its corporate priorities is a key ambition for the Council;
- it is making positive progress on working with partners to develop a SLA framework (The Wiltshire Compact), which will provide a sound basis for managing its joint working with the voluntary and community sectors;
- it has robust and easy to use arrangements for managing and evaluating grant applications;

- it uses a written form of agreement when it provides financial support to partners and this provides for most eventualities;
 - relations with its partners are good;
 - it has a good awareness of its level of performance in managing the delivery of SLAs; and
 - it seeks opportunities to learn best practice from other organisations to help it get the most from its SLAs.
- 41 However, some aspects of the Council's arrangements are in need of development. It does not:
- making sure your SLAs tie in with your corporate aims;
 - keep up-to-date records of all of its SLAs;
 - ensure that the delivery of SLAs across the organisation is co-ordinated;
 - promote the availability of its grants to all sectors of the local community;
 - show clearly what it expects in return for its investment in SLAs or how it will measure what has been delivered;
 - use SLAs to influence the service provider to deliver wider corporate ambitions;
 - know what the end users of SLA services think of the service being delivered;
 - demonstrate whether its investment in SLAs is delivering the original project objectives and delivering value for money; and
 - learn from its own experience on delivering SLA.
- 42 The report makes several recommendations to the Council to improve its arrangements in these areas of weakness. The Council has agreed to present the report to the relevant Council committee. It has also undertaken to complete an action plan to show how it plans to implement the recommendations and to discuss this plan with the Commission.

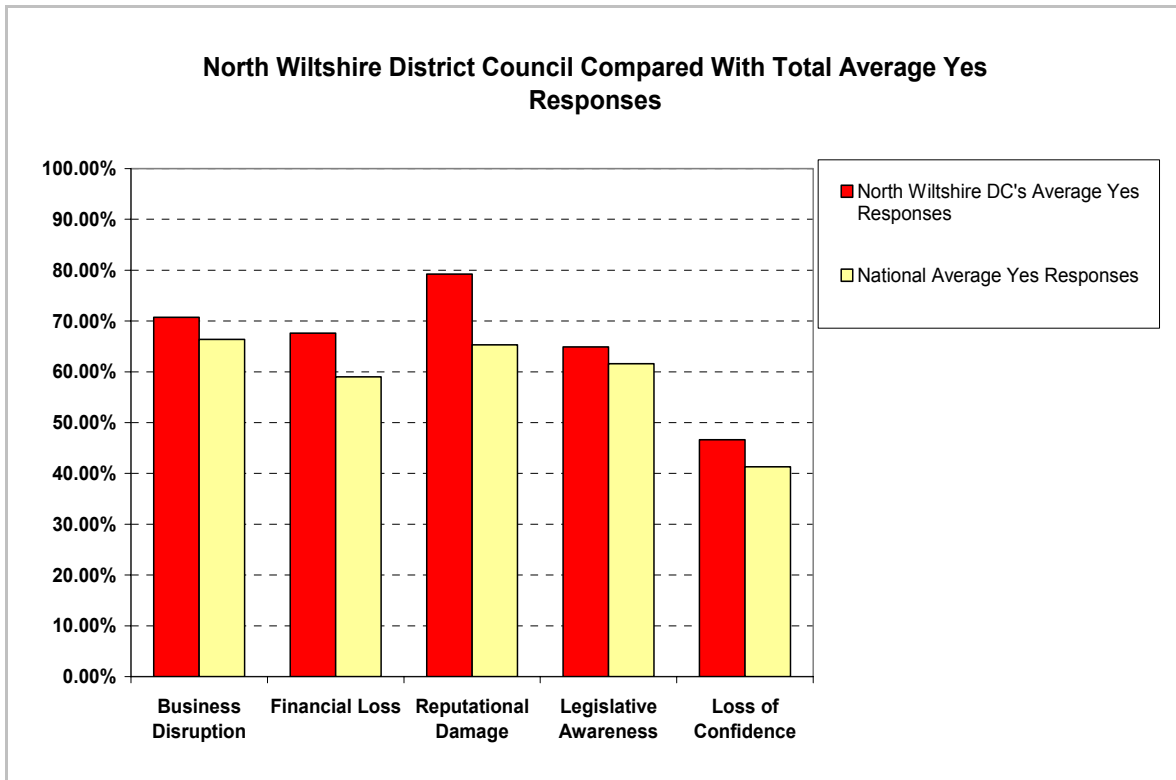
Your business at risk

- 43 As part of our 2004/05 plan and building on our work last year looking at information security management, we agreed to undertake a review of the effectiveness of the Council's IT systems which protect its business and reputation.
- 44 This review was based on an online survey, available on the Audit Commission's website. The survey sought the views of IT users throughout the Council and focused on business risks, highlighting areas where governance could be improved.
- 45 The survey ran from the 5 to the 16 September 2005, with a total of 109 users completing the survey from a total population of 305 identified users.

- 46 Overall, the survey demonstrates that IT users and ICT staff have a good awareness of information security issues, in both cases better than the national average (Figure 1).

Figure 1 IT user awareness

Comparison with national average for IT users



Audit Commission 2005

- 47 The high per centage of positive responses to each of the five key business risks demonstrates a good level of general awareness and that the Council has systems in place to manage the risks.
- 48 However, there are a number of responses from IT users indicating a lack of awareness of the following issues:
- 36 per cent of users did not know if there was regular updating of virus protection software on their machine;
 - only 8 per cent of users reported suffering a virus infection on their machine although 12 per cent reported that their machine was cleansed and restored quickly after suffering a virus;
 - 31 per cent of users have written down their passwords, which is contrary to good practice;
 - 43 per cent of users did not know if the Council had an anti-fraud strategy and only 30 per cent of those who were aware of its existence knew what was included;

- 41 per cent of users did not know if the Council had appointed a Data Protection Officer;
 - almost half of the users responding to the survey had not been required to sign a confidentiality agreement as part of their conditions of service;
 - there was a high-level of awareness of the Freedom of Information and Data Protection Acts but lower appreciation of Human Rights (61 per cent), Computer Misuse (45 per cent) and Public Interest Disclosure (29 per cent) legislation;
 - 43 per cent of users were not aware that the Council had an information security policy and only 35 per cent had a copy of it. Only 40 per cent of users were aware of their obligations under the policy;
 - only a minority of users (44 per cent) felt that senior management was committed to the information security policy; and
 - many users (65 per cent) did not know where to find the written procedures for reporting a security incident and 30 per cent of users did not know if there was anyone with specific responsibility for IT security in the Council.
- 49 We recommend the Council uses the detailed results of the survey to help identify where it can improve the level of awareness around information security management and the associated controls. The Council should cross-reference the issues arising from the survey against the draft 'Information Management and Data Security Policy 2005' and ensure that it covers all issues before approval and publication.

Information Security follow-up

- 50 Last year we completed a review of your arrangements for information security (reported December 2004). This review resulted in a number of recommendations to the Council that we followed up as part of our 2004/05 'Your Business at Risk' work. The follow-up concluded that significant progress had been made on implementing the key recommendations in the report. In particular, the Council has now produced a draft ISO 17799 compliant information and security policy covering the use of information systems.

Best Value Performance Plan

- 51 The Council's Best Value Performance Plan (BVPP) for 2005 complies with the statutory guidance and as a result we were able to issue a clean report on its content on 31 October 2005.

- 52 The Council is required to prepare and publish its BVPP summarising assessments of its performance describing how it is making continuous improvement with regard to value for money. The BVPP includes a range of Best Value Performance Indicators (BVPIs) and associated targets, providing stakeholders with a view on past performance and future aspirations.
- 53 This Council's BVPP for 2005 included a small number of omissions as a result of no accurate data being available. In addition, four indicators were amended and one reservation issued following our detailed testing. The errors were not considered significant and we have therefore not made any statutory recommendations on this year's BVPP. We have agreed an action plan with your officers to address the issues identified this year.

Accounts and governance

Audit of 2004/05 accounts

- 54 Our final accounts audit concluded that the Council has adequate arrangements in place for the production of the financial statements. We issued an unqualified audit opinion on the Council's 2004/05 financial statements on 31 October 2005.

Core processes

- 55 Our opinion audit work began in March with a review of your core processes (your main accounting system, budgetary control and closedown arrangements). Our work concluded that overall these processes are sound and provided a good basis for your 2004/05 statement of accounts.
- 56 Our review did however identify scope to improve your arrangements for reconciling feeder systems to the main accounting system. This control took on particular importance in 2004/05 as a result of the implementation of your new SX3 housing and council tax system during the year.

Final accounts audit

- 57 We received a draft copy of your 2004/05 financial statements on the 11 August 2005 in accordance with the agreed timetable. Our detailed work commenced on 15 August 2005.
- 58 We found that the working papers provided to support the 2004/05 accounts had been completed to a satisfactory standard but that scope existed to further improve them next year.
- 59 The section 15/16 date, where members of the public can question the auditor about the accounts, took place on the 30 August 2005. As with previous years nobody sought to exercise these rights this year.
- 60 As a result of our testing we identified a number of material and non-material errors in the draft 2004/05 statement of accounts. Officers agreed to make changes to the adopted accounts to correct all the material and a number of non-material errors. As a result we are happy that the revised accounts were free from material error and present fairly the financial position of the Council at 31 March 2005. We issued an unqualified audit opinion on the Council's 2004/05 financial statements on 31 October 2005.

Report to those with responsibility for governance

- 61 We discharged our responsibilities requiring us as your external auditors to report certain matters arising from the audit of the financial statements to 'those charged with governance' (in this case the Final Accounts Committee) on the 27 October 2005. Our report included details on the main errors and uncertainties identified in the draft accounts and what action, if any, had been taken by your officers to address our concerns.
- 62 We believe that scope exists to improve the effectiveness of our relationship with your finance staff during the final accounts process. To this end we intend to work more closely with your finance staff over the next 12 month to ensure the 2005/06 accounts process is completed in a streamlined manner and the earlier adoption and opinion deadlines are achieved.

Financial standing

General fund spending and balances

- 63 We have concluded that the Council's revenue position is healthy, although continued effort is required in 2005/06 to minimise in year over spends.
- 64 The Council originally budgeted to spend £15.782 million in 2004/05. Actual expenditure in year totalled £14.922 million resulting in an under spend against original budget of £0.860 million for the year.
- 65 The under spend in 2004/05 was attributable primarily to:
- Corporate Finance – under spend of £0.204 million as increased interest received on investments and capital receipts, and
 - Community and Environment – under spend of £0.208 million as lower property maintenance expenditure incurred on town centre properties.
- 66 The under spends were offset by an over spend of £0.207 million on cleansing and amenities attributable to increased vehicle and agency staff costs following the roll out of wheeled bins during 2004/05.
- 67 The under spend in 2004/05 against the original budget enabled the Council to increase its general fund balance at 31 March 2005 to £5.267 million. This balance is now considerably higher than the recommended minimum level of £1.5 million proposed by the section 151 officer based on a balance of 3.5 per cent of gross spending.
- 68 The Council's revenue budget for 2005/06 was set at £16.459 million. As at July 2005 the Council were forecasting a projected outturn of £17.296 million, £0.837 million over the original budget. The predicted over spend is attributable to exceptional early retirement costs and additional costs resulting from the implementation of a new housing benefits and council tax system.

- 69 The variances against original budget over the last two years highlight the importance of budget setting based on complete and accurate information. We are now entering the budget setting process for 2006/2007, so it is important that overspends in previous years are considered and incorporated when appropriate into future budgets.

Capital programme

- 70 The Council has a history of slippage on its capital programme where money allocated for a scheme is not spent as planned. Slippage is an indicator of inadequate financial management and/or project management.
- 71 The Council spent £2.922 million on the capital programme in 2004/05, £1.975 million below the original approved budget of £4.897 million. The slippage in spend was predominantly in housing, due to unexpected Government funding paid direct to housing associations in March 2005.
- 72 The 2005/06 approved capital budget totals £5.083 million and after taking into account the previous year's slippage of £3.942 million increases to £9.025 million for the year.
- 73 Whilst some of this slippage is beyond the Council's control, it highlights the importance of both effective financial control and following disciplined project management processes on projects.

Income collection and arrears

- 74 The introduction of the new housing benefit and council tax system has diverted management resources away from income collection. As a result, arrears are increasing and there is a risk that bad debts may increase.
- 75 Council tax arrears increased from £2.231 million to £2.360 million from 1 April 2004 to 31 March 2005 (5.8 per cent), although the level of increase is at a lower rate than the respective increase in annual council tax due of 7.5 per cent.
- 76 The Council collected 97.9 per cent of the collectable council tax debit for 2004/05, comparing favourably with national collection average of 96.6 per cent and consistent with the shire district average of 97.8 per cent.
- 77 The business rate arrears have increased in 2004/05 to total £0.639 million at the end of the year. This was a 20 per cent increase on the previous years level of £0.532 million.
- 78 The Council's collection rate for business rates for 2004/05 of 98.4 per cent is consistent with the national average of 98.3 per cent but is slightly lower than the shire district average of 98.7 per cent.
- 79 The implementation of a new housing benefit and council tax system in March 2005 has resulted in a significant backlog in council tax and benefits correspondence. As at October 2005, the backlog had been reduced from three months to one month. This backlog has had a major impact on the Council's ability to pursue both council tax and business rate arrears.

- 80 In particular, the attention given to collecting previous years' council tax arrears totalling £1.9 million has been reduced. At the end of October 2005, the collection rate for 2005/06 council tax arrears totalled only 66.6 per cent of the total amount due compared to 68.7 per cent in October of the previous year. The 2005/06 year end forecast is a drop of 1 per cent in council tax collection, equating to a further £0.5 million of non-collected arrears.
- 81 Similarly the collection rate for 2005/06 business rate arrears was 69.8 per cent, compared to 72.7 per cent in October 2004. The result is a likely significant reduction in the 2005/06 collection rate.
- 82 Although action is being taken to improve the current position, continued close scrutiny is now required by senior management and Members to ensure debt recovery arrangements in respect of council tax and business rates are fully effective and that the total levels of arrears are brought back to historic levels.

Pensions fund deficit

- 83 The estimated assets of the Council's element of the Wiltshire Pension Fund at 31 March 2005 totalled £31.34 million compared with estimated liabilities of £52.02 million at year end. This equates to a funding level of 60 per cent and an overall deficit on the Council's element of the Pension Fund of £20.68 million, an increase of £5.986 million on the previous year. This level of deficit is not inconsistent with the majority of other district councils.
- 84 This significant increase in the deficit is entirely due to a change in accounting practice adopted by the Pension Fund's actuaries (ie an increase in the discount rate from 3.5 per cent to 5.5 per cent). This change is in accordance with national guidelines.
- 85 Following the recent actuarial revaluation of the Pension Fund, the Council has increased its employer contribution by 2 per cent in 2005/06 and a further 1.9 per cent in 2006/07. This increased contribution is aimed at ensuring the Council's portion of the Pension fund is fully funded in the long term.

Governance- internal control

Internal Audit (IA)

- 86 We review internal audit every year but undertake a more detailed review every third year. We completed our detailed internal audit review in early 2005 and reported our conclusions in last year's letter. This was supplemented with a detailed report 'Internal Audit - Changing Focus in pursuit of Excellence' issued in April 2005.
- 87 This letter and subsequent report raised concerns about the effectiveness of the IA provision within the Council. In response to these concerns, the Council decided to terminate the contract with the existing IA provider and seek to appoint an internal IA team reporting to the section 151 officer.
- 88 Since then the Council has experienced difficulties in recruiting a Head of IA, eventually appointing in September 2005 with the new officer due to start in January 2006. One of the concerns raised about the old IA provision was the lack of a risk based audit plan that targeted resources not only at financial risk but the wider business risks facing the organisation. In response to this the Council, on realising no internal IA provision would be in place until January 2006, have utilised JB consulting to develop a risk based IA plan for 2005/06 to 2007/08.
- 89 This now provides the Council with a clear, risk based audit plan for the next three years. The challenge now is to ensure it is delivered and findings effectively communicated to those charged with governance.
- 90 The delay in appointing the new head of IA will result in some slippage against the 2005/06 plan. However, the Council have procured 70 days of audit work from Deloitte & Touche that should ensure all significant financial systems based audit work is covered by the end of the financial year.
- 91 The absence of any non-systems based IA work in the first seven months of the year means that for 2005/06 arrangements are not currently fully compliant with the new IA code published in late 2003. However, we are confident that once in place the new IA provision will once again provide management with the assurances they require in respect to internal control.
- 92 Currently Internal Audit findings are reported to the Finance and Performance Monitoring Sub-committee. We understand that as a sub-committee of the overview and scrutiny committee this is a temporary committee and as such does not form part of the Council's constitution.
- 93 We believe that the Council should consider if this is the most appropriate forum for receiving such internal audit assurance. As part of the current review of the constitution the Council should consider establishing an independent audit committee with responsibility for general governance issues including internal control, internal audit and risk management. This should form part of the constitution and provide a clear indication of which Member forum within the Council has been charged with governance.

Policies and procedures

- 94 The Council's standing orders, financial regulations and scheme of delegation are contained within the constitution. However, there are no comprehensive arrangements in place for ensuring that these and other key documents such as Council policies and procedures are readily available to officers. Although some of the policies are available through the 'employee handbook' element of Lotus notes, there is currently no single source for this information. Only by ensuring that these and other key documents are accessible, in a structured manner can the Council ensure compliance with policies and procedures.

The Council recognises that it needs to develop a comprehensive management information system that provides officers, Members and the public with all the key documents they require access to in order to effectively discharge their relative roles. A new committee minutes system is to be introduced early in 2006 enabling the public to have electronic access to Council meetings and reports. The Council now needs to ensure an internal information system is developed capable of ensuring all documents are readily available to staff.

Governance in practice

- 95 As part of our review of corporate governance arrangements, we have worked with officers to design and facilitate self assessment workshops for members and officers.
- 96 The workshops used electronic voting technology and were based on the Commission's 'Governance into Practice' methodology. The objectives were to contribute to work already in progress on developing the Council's corporate governance framework by:
- raising awareness of what corporate governance is and why good corporate governance is an essential pre-requisite for effective service delivery; and
 - identifying where the Council's arrangements could be strengthened and generating ideas for achieving improvement.
- 97 We have provided the Council with detailed workshop outputs. Key improvement opportunities involve:
- reviewing arrangements for monitoring the effectiveness of communication and community engagement efforts, with a view to more effective targeting;
 - developing performance management information. Encouragingly officers have already identified the scope for improvement in this area and are undertaking a review of arrangements;
 - providing training and clearer guidance on the requirements of Codes of Conduct; Standing Orders ; and Financial Regulations;
 - involving members more actively in risk management activities and monitoring the effectiveness of processes for identifying and managing risk; and
 - developing a Code of Conduct for agents of the Council.

Use of resources judgements

- 98 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 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 anticipate in future the Use of Resources judgements will form part of the CPA framework.
- 99 We have assessed the council's arrangements in five areas.

Table 1 Councils arrangements

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

(Note: 1=lowest, 4=highest)

- 100 In reaching these judgements we have drawn on the above work and supplemented this with a review against specified Key Lines of Enquiry.
- 101 The most significant areas where further development is needed are:
- Financial reporting;
 - ensuring the draft accounts are materially correct and fully supported by comprehensive working papers;
 - Financial management;
 - improving the links between service and financial planning;
 - ensuring all budgets are loaded onto the ledger in a timely manner;
 - improving budget monitoring to members;
 - providing training to members and budget holders on financial management;
 - introducing arrangements to effectively manage your assets;

- Financial standing;
 - improving monitoring information that evaluates the effectiveness of recovery actions, associated costs, and the cost of not recovering debt promptly;
- Internal control;
 - ensuring the new Internal Audit function is fully compliant with the CIPFA code on Internal Audit;
- Value for money;
 - raise levels of service performance and user satisfaction;
 - continue to work on the baseline assessments to measure cost vs. quality comparisons for all key services and track performance over time;
 - make more use of the processes of scrutiny, review, competition and audit to challenge VFM;
 - setting specific tailored targets and incentives for each service to achieve VFM and track progress against these; and
 - measure the VFM at the end of projects and apply learning to future investment.

Other work

Grant claims

- 102** In accordance with Strategic Regulation, the Audit Commission has continued with a more risk-based approach to the certification of grant claims. Our main focus with regard to the audit of grant claims at North Wiltshire is the work we complete to certify the housing benefit grant claim. We are working currently on this claim and are implementing recent guidance issued by the Audit Commission aimed at reducing our input. Importantly, our ability to reduce our work depends on the adequacy of the Council's control environment which we are assessing.

National Fraud Initiative

- 103** In 2004/05 the Council took part in the Audit Commission's national fraud initiative (NFI). The initiative, which is undertaken every two years, aims to help identify and reduce fraud by bringing together data from local authorities, NHS bodies, government departments and other agencies, to detect a wide range of frauds against the public sector. These include frauds involving benefits, pensions, tenancy, payroll and the right to buy scheme. Additional pilot work is being undertaken to further extend the scope of the initiative.
- 104** The Council submitted the required data to the Audit Commission. Almost all the key matches reported by the Commission were housing benefits related and the Council addressed all of these with good results. The appropriate data protection disclosures were made and returns to the Commission have been submitted to the Commission confirming the results of the exercise. The initiative provides the Council with helpful assurance about aspects of the internal arrangements for preventing and detecting fraud.

Detailed Investigation of Housing Benefit BVPI data

- 105** We undertook a detailed investigation into the accuracy of the housing benefit BVPI data in 2004.
- 106** The report identified a number of weaknesses in current arrangements and the need to strengthen some system controls.
- 107** Our report made a number of recommendations and we reported our findings of the investigation to the Finance and Performance Monitoring Sub-committee on 12 September 2005.

Looking forwards

Future audit and inspection work

- 108 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.
- 109 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. We will seek to reconsider, with you, your improvement priorities and develop an agreed programme by 31 March 2006.

Revision to the Code of Audit Practice

- 110 The statutory requirements governing our audit work, are contained in:
- the Audit Commission Act 1998; and
 - the Code of Audit Practice (the Code).
- 111 The Code has been revised with effect from 1 April 2005. Further details are included in our Audit and Inspection Plan which has been agreed with officers on 24 June 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

- 112 The Audit Commission is currently considering the results of the consultation on the proposals for revising the CPA framework for District Councils. The revised framework will be published in the early part of 2006 with implementation from April 2006.

Closing remarks

- 113 This letter will be discussed and agreed with the corporate management team on the 30 March 2006. A copy of the letter will be presented to Executive on 20 April 2006.
- 114 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

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

Brian Bethell
District Auditor

Melanie Watson
Relationship Manager
13 March 2006

Appendix 1 – Background to this letter

The purpose of this letter

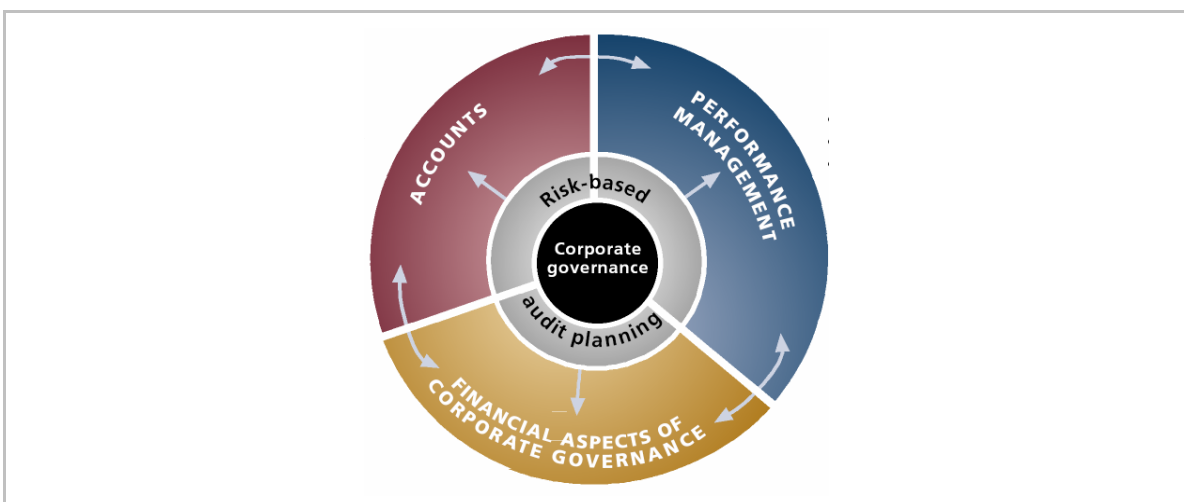
- 1 This is our audit and inspection 'Annual Letter' for members which incorporates the Annual Audit Letter for 2004/05, which is presented by the Council's Relationship Manager and District Auditor. The letter summarises the conclusions and significant issues arising from our recent audit and inspections 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.
- 5 Appendix 4 provides information on Council progress against the actions highlighted in the 2002/03 letter.

Audit objectives

- 6 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.
- 7 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 2.

Figure 2 Code of Audit Practice

Code of practice responsibilities



Accounts

- Opinion

Financial aspects of corporate governance

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 2

Report title - 2004/05	Target issue date	Date issued
Audit and Inspection Plan	August 2004	September 2004
Internal Audit: 'Changing Focus In Pursuit of Excellence'	November 2004	15 April 2005
Interim Audit Report	April 2005	26 September 2005
Governance in Practice	February 2005	8 August 2005
Your Business @ Risk	April 2005	2 December 2005
BVPP -Statutory Report	October 2004	10 December 2004
Effective Partnerships	March 2005	11 October 2005
Report on the financial statements to those charged with governance (SAS 610)	October 2005	17 October 2005
Customer Focus Inspection	May 2005	18 October 2005
Detailed Investigation of HB BVPI data	n/a	8 July 2005
Annual Audit and Inspection Letter	October 2005	18 January 2006
Report title - 2005/06		
Audit and Inspection Plan	April 2005	24 June 2005
BVPP -Statutory and Audit Report	September 2005	3 October 2005
Use of Resources Report	March 2006	13 March 2006

Appendix 3 – Audit and Inspection fee

Table 3 Audit fee update

Audit area	Plan 2004/05	Actual 2004/05
Improvement	18,515	18,515
Assessment	13,320	13,320
Assurance - Accounts	25,895	26,443
Assurance - Governance	19,027	19,027
Assurance - Use of Resources	20,143	20,143
Total	96,900	97,448
Detailed Investigation into the accuracy of HB BVPI data	0	29,596
Total	96,900	127,044

Appendix 4 – Progress on key actions from our 2003/04 letter

- 9 The key actions raised in 2003/04 Annual Audit and Inspection Letter, and the action taken by the Council, is summarised in Table 4 below.

Table 4 Follow up to issues reported

Key actions reported in the 2003/04 annual Audit Letter	Action taken
Continue to monitor and update your improvement priorities.	We are currently reviewing progress on your improvement plan as part of our 2005/06 work. This will be reported in our final Annual Audit and Inspection Letter in March 2006.
Maintain resources to complete e-government and ICT work programmes and create a security conscious culture throughout the Council.	Progress has been made as outlined in the findings of the 'Your Business @ Risk' review in 2004/05.
Implement a local code of corporate governance and firmly establish good governance throughout the Council.	The code was approved by Council on 25 January 2005. The Code was updated alongside this year's Statement of Internal Control.
Ensure the change control documentation is adequate when amending computer programmes.	To be addressed in 2005/06 as outlined in the detailed investigation of HB BVPI data report.
Further develop the accounts closedown processes to ensure that the statutory targets for earlier closedown are met.	The earlier closedown timetable for 2004/05 was met.
Ensure alternative arrangements for funding and building maintenance and security are put in place should Jarvis cease to be able to continue to trade.	This area has been looked at and the cost of breaking the contract with Jarvis is considered excessive. The ongoing position with Jarvis is being monitored.
Review the current arrangements for the provision of internal audit services.	New internal audit provision being established.
Ensure successful implementation of the new benefits system.	New benefits system now up and running.