

Annual Audit and Inspection Letter

Salisbury District Council

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Reference:	SA006 Annual Audit and Inspection Letter
Date:	December 2004

Executive summary

The purpose of this Letter

This is our audit and inspection 'Annual Letter' for Members which incorporates the Annual Audit Letter for 2003/04, and 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.

We have issued separate reports during the year. These reports are listed at Appendix 1 for information.

Appendix 2 sets out the scope of audit and inspection.

Appendix 3 provides information about the fees charged.

Key messages

Council performance

The Comprehensive Performance Assessment (CPA) inspection in January 2004 rated the council as good. Since then the council has identified its improvement priorities in the light of the CPA findings and incorporated them into its corporate improvement plan adopted in May 2004. It is too early to comment on the overall progress the council has made against these priorities but the improvement plan should provide a solid framework to support the council in making improvements to services and the way it manages itself in the future.

Overall governance arrangements are sound but need to be strengthened with the adoption and implementation of the local code of governance.

The council did not meet all the best value development control performance standards set for 2003/04. However, as highlighted in the ODPM report, improvements over the last 18 months have been substantial in terms of customer care and the quality of service. In addition performance management processes have been enhanced. Early indications are that the council is on track to meet the targets set for 2004/05.

We gave an unqualified opinion on the council's 2004/05 Best Value Performance Plan (BVPP). Reservations were expressed on two indicators relating to user satisfaction.

Accounts and governance

The council is well placed to meet the earlier deadlines for producing its accounts in future years.

The council's financial position remains satisfactory and balances have been maintained in line with the medium-term financial strategy.

Concern remains around compliance with the council's ordering and payment regulations, particularly around the adequacy of market testing.

Action needed by the council

- Continue to monitor and update your improvement priorities.
- Implement the local code of corporate governance and monitor compliance with it.
- Implement the governance action plan to embed good governance arrangements throughout the council.
- Continue to monitor the delivery of the improvement plan for development control.
- Strengthen the co-ordination arrangements for best value performance indicators.
- Continue action to improve compliance with ordering and payments regulations.

Council performance

CPA and improvement

In January 2004 the council was assessed as good under the Comprehensive Performance Assessment (CPA) framework. The inspection found that the council provides some good quality services such as housing, waste collection and recycling, and is working well with partners to improve other services, including public transport and community safety. Council homes are in good order and tenants are satisfied with the services they receive. The council has a good record of sound financial management and it has clearly communicated its ambitions and priorities to local people.

However, some weaknesses were identified. For example rates for processing planning applications are poor compared to other councils and the council is not always clear to residents what standard of service they should expect. In addition the council is not effectively identifying resources to meet all its plans.

The council has identified its improvement priorities in the light of the CPA findings and incorporated them into a corporate improvement plan, which was published in May 2004. It is too early to comment on the overall progress made against these priorities.

The council has been keen to learn from good practice. We have provided the council with information and case studies from district councils across the country that are performing particularly well at developing organisational capacity and at planning for the future – two areas the council recognises that it needs to develop. We have also participated in a briefing for councillors on improving the council's performance.

In addition we have worked with the council to assist it in achieving some of its other key priorities. For example, we have undertaken work at the council to support the priority of meeting the financial challenge, and in particular sharpening its governance arrangements. This is referred to as follows.

Governance

Last year we recommended that the council should review its corporate governance arrangements against the CIPFA/SOLACE 'best practice' framework. As part of the council's commitment to continuous improvement, a working group has been established to review corporate governance arrangements. Working alongside this group, we have contributed to the review by delivering three facilitated workshops designed to provide a self-assessment of the council's current arrangements.

The workshops involved Cabinet, management team and senior officers and used the Audit Commission's 'Governance into Practice' assessment tool to capture opinions via electronic voting technology. Overall the self-assessment was encouragingly reassuring, but participants did identify some opportunities for strengthening particular arrangements and for raising awareness of the requirement for good corporate governance. Key themes were a perceived need for:

- more reliable mechanisms for monitoring the effectiveness of communications with the public;
- consistent performance monitoring information;
- improved awareness of processes governing the conduct of business;
- enhancing officers' understanding of their role in risk management; and
- training for officers on codes of conduct.

We have presented the results of the workshops to the corporate governance group, who are considering them along with the results of other research. We support the group's measured approach, which involves ensuring that improvement opportunities are prioritised and followed up systematically in a way which takes full advantage of existing improvement plans rather than implementing them as new initiatives.

A report was being considered by Cabinet on 15 December 2004, which recommends the approval of a local code of corporate governance. An action plan has also been drawn up to take forward the issues arising from the review.

Development control

Progress has been made on improving the speed of processing planning applications since last year. However, the council has not met all the best value development control performance standards set for 2003/04 (Exhibit 1).

EXHIBIT 1 GOVERNMENT TARGETS FOR DEVELOPMENT CONTROL

	2002/ 03 actual	2003/ 04 target	2003/ 04 actual
Percentage of major applications processed within 13 weeks	20.6	60	57.4
Percentage of minor applications processed in 8 weeks	41.9	65	44.2
Percentage other applications processed in 8 weeks	69.7	80	70.6

Early indications are that the council should meet the national target for major applications in 2004/05 and performance on minor and other applications continues to show signs of improvement. We provided the council with comments on its draft improvement plan for the development control service as a follow-up to work we did with the service in 2002/03. The plan needed to be more explicit and clear with targets that had clear outputs.

A report from the Office of the Deputy Prime Minister (ODPM) about performance in the planning service acknowledges that improvements over the last 18 months have been substantial in terms of customer care and the quality of service. In addition performance management processes have been enhanced. The culture of the service has substantially changed following the appointment of a new head of service and it is now considerably more proactive in improving performance. The details of further proposals and actions are now explicit in the council's new development services integrated performance improvement plan.

The ODPM considers that the council is highly likely to be able to sustain their current improvements and improve further. However, this will only be achievable if the council perseveres with the revised arrangements which were introduced in May 2004. The council's progress in this key area will continue to be monitored and may be the focus of a future inspection.

Other performance work

In line with the government's requirements, the council is considering the long-term options for the delivery of its housing services. As part of our current work we are reviewing the effectiveness of the council's arrangements for investigating the future options.

The council is clear about what its drivers are for housing options and the current pressures on housing services. It also has adequate resources to achieve the government's decent homes standard by 2010. The options appraisal document is still in draft and requires further development. The council needs to ensure that the appraisal covers all the key financial and non-financial aspects. This includes the effect on key housing strategic objectives, the provision of housing for those in need, the ability to maintain and improve service standards and the overall impact on the general fund.

We have made a number of recommendations which are currently being considered by officers.

Performance information

The council's 2004/05 Best Value Performance Plan (BVPP), which is incorporated within the corporate plan, complies with the statutory requirements.

We carried out an interim audit of the council's performance indicators, focussing on those areas that caused problems last year. There were a small number of amendments which were incorporated in the BVPP before its publication on 30 June 2004.

There were no omissions this year and the two indicators where we expressed reservations last year were satisfactory this year. However, reservations were made for two indicators, BVPI 80 (benefits) and BVPI 111 (planning), which were new indicators for 2004/05. These indicators related to user satisfaction surveys and the requirements for collecting the indicators specified by the Audit Commission were not fully met.

Overall, whilst there had been some improvement in the level of omissions, reservations and errors, we found that there was still room to improve the co-ordination arrangements for the production of the performance indicators. The wider use of the standard proforma, which was used for those indicators that caused a problem last year, for most indicators would help to strengthen current arrangements and facilitate clearer audit trails.

We issued an unqualified opinion on the BVPP on 10 December 2004.

Accounts and governance

Audit of 2003/04 accounts

The council is well placed to meet the earlier deadlines for producing its accounts in future years.

Matters arising from the final accounts audit

The preparation of the accounts is an important process in the stewardship of the council and should be undertaken on a timely basis. The Accounts and Audit Regulations require councils to work to a strict timetable as shown in Exhibit 2.

EXHIBIT 2 ACCOUNTS AND AUDIT REGULATIONS REQUIREMENTS

Year	Approval	Publication
2003/04	31 August 2004	30 November 2004
2004/05	31 July 2005	31 October 2005
2005/06	30 June 2006	30 September 2006
Subsequent	30 June	30 September

The 2003/04 accounts were approved by the council on 28 June 2004, which was well ahead of the statutory requirement. The council is well placed to meet the statutory deadline of 30 June for future years.

A number of adjustments were made to the statements to more accurately reflect the presentation and disclosure requirements of the 2003 Statement of Recommended Practice (SORP). These were discussed and agreed with the Head of Financial Services.

We completed our audit and issued an unqualified opinion on the accounts on 30 November 2004.

Report to those with responsibility for governance in the council

We are required by professional standards to report to those charged with governance (in this case the council, through the Leader and Deputy Leader of the Resources portfolio) certain matters before we give an opinion on the accounts. The following matters were discussed with members on 23 November 2004:

- concerns remain around compliance with the council's ordering and payment regulations, particularly around the adequacy of market testing; and
- the need for a policy setting out when expenditure should be capitalised, to ensure consistent and appropriate treatment of expenditure in relation to accounting standards.

Action is currently underway by officers to address these issues.

Financial standing

The council's financial position is satisfactory, although there remain considerable pressures on the budget for future years.

2003/04 spending and balances

The council's actual net expenditure was around £11.7 million in 2003/04 compared with a budget of £11.5 million. The overspend of around £148,778, represented only 1.3 per cent of the budget.

The general fund balance at 31 March 2004 amounted to some £1.7 million, which is in line with the council's medium-term financial strategy.

The balance on the housing revenue account of around £2.2 million represents a satisfactory position at 31 March 2004 .

2004/05 and future years

The council's budget for 2004/05 was set at around £11.5 million and early indications are that expenditure will be in line with the budget.

The council has reviewed its medium-term financial strategy in the light of the CPA and proposals for change are being considered as part of the corporate planning process for 2005/06.

Capital programme

Last year we referred to the considerable slippage in the council's capital programme. The position for 2003/04 had improved. The council's capital spending for 2003/04 was around £8.2 million against a revised estimate of some £9.6 million.

As part of our current audit work we are reviewing the effectiveness of the council's arrangements for managing and monitoring its capital programme. The purpose of the review is to identify areas where improvements can be made.

Income collection and arrears

Local tax collection rates remain at a high level and are in the top quartile of all district councils.

Improvements in rent collection levels have continued and for 2003/04 the proportion of rent collected of 98.65 per cent exceeded the council's target.

Pensions fund deficit

The council is expecting the pension fund actuary to report the need for a significant increase in its employer contribution rate from 2005. This is necessary to address the current deficit on the council's share of the fund and is being taken into account as part of the review of the council's medium-term financial strategy.

Systems of internal financial control

Overall governance arrangements are sound but need to be strengthened with the adoption and implementation of the local code of corporate governance.

Internal Audit

We have assessed Internal Audit as meeting the CIPFA standards and found that they provide a good service. The risk-based approach adopted provides effective support to the council's annual assessment of internal controls.

Systems of internal control

The council is responsible for carrying out an annual review of the effectiveness of the system of internal control. The review for 2003/04 identified the following areas where there were significant control issues:

- controls over purchasing;
- stock control; and
- business continuity and disaster recovery arrangements.

These were reported in the statement of internal control, which supports the council's accounts.

Last year we reported the results of a joint audit, between Internal Audit and the Audit Commission, of the council's purchasing arrangements. This identified a high level of non-compliance with standing orders and financial regulations and corporate management team drew up an action plan to address the issues raised. Implementation of the action plan is ongoing and progress is being monitored by management team.

A further internal audit of these arrangements during 2004 showed that whilst there was some improvement there remained areas of concern, particularly around the effectiveness of tendering arrangements. The proposed appointment of a procurement and sustainability officer and a review of the council's procurement strategy will be key to securing the required further improvements in this area. We are planning to do a follow up on procurement against previous recommendations and will continue to liaise with internal audit in this area.

Action plans have also been drawn up to address the issues relating to stock control and business continuity and disaster recovery arrangements.

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

Action being taken to improve the council's corporate governance arrangements has been reported earlier in this Letter.

Legality of transactions

We have not identified any significant weaknesses in the council's framework for ensuring the legality of its significant financial transactions.

Other work

Grant claims

Over recent years the number of claims requiring audit certification has grown and audit fees have risen in line with this growth. In accordance with strategic regulation, the Audit Commission has adopted a more risk-based approach to the certification of grant claims. With effect from 2003/04 the smaller claims, those below £50,000, have not been subject to audit and those below £100,000 have received a lighter touch. The approach to larger claims has been determined by risk and the adequacy of the council's control environment, which at Salisbury remains satisfactory.

National Fraud Initiative (NFI)

The council took part in the Audit Commission's National Fraud Initiative (NFI) 2002/03. The NFI, which is undertaken every two years, brings together data from local authorities, NHS bodies, government departments and other agencies, to detect a wide range of frauds against the public sector. Whilst there were no frauds identified at the council from the NFI, your participation provided assurance about the controls in operation at the council and contributed to the national exercise which identified total savings of around £83 million.

The Commission is repeating the exercise this year and will again collect payroll, pensions, housing benefits, student loan and housing rents data from authorities. Alongside the core exercise a number of pilot initiatives are being undertaken at selected sites. These are focused on risk areas that were highlighted by authorities and include payments made to privately run care homes, abuse of blue badge parking permits, serial insurance claimants and duplicate payments to suppliers. These pilot areas, if they prove effective, will be incorporated into future NFI exercises.

Looking forwards

Future audit and inspection work

We have an agreed plan for 2004/05 and we have reported in this Letter those aspects that have already been completed or are underway. The remaining elements of that plan, including our audit of the 2004/05 accounts, will be reported in next year's Annual Letter.

In line with the council's priority to improve customer service we will undertake an inspection of the council's customer focus in April 2005. Similar inspections will be undertaken at the same time at each of the other district councils in Wiltshire.

We will seek to ensure, wherever possible, that our work relates to the improvement priorities of the council when planning our programme of work for 2005/06. We will seek to reconsider, with you, your improvement priorities in the light of the CPA assessment and your own analysis, and develop an agreed programme by 31 March 2005.

Revision to the Code of Audit Practice

The audit commission has consulted on a revised Code of Audit Practice for application to the audit of the 2005/06 accounts. The new Code, which will be laid before parliament in January 2005, is designed to secure:

- a more streamlined audit, which is proportionate to risk and targeted on areas where auditors have most to contribute to improvement;
- a stronger emphasis on value for money, focussing on corporate performance and financial management arrangements (rather than individual services and functions); and
- better and clearer reporting of the results of audits.

Further details will be provided in the audit and inspection plan 2005/06.

Closing remarks

This Letter has been discussed and agreed with Corporate Management Team on 9 December 2004. A copy of the Letter will be presented to Cabinet on 19 January 2005.

The council has taken a positive and constructive approach to our audit and inspection we would like to take this opportunity to express our appreciation for the council's assistance and co-operation.

Availability of this Letter

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



Richard Lott
District Auditor



Melanie Watson
Relationship Manager

December 2004

Status of our reports to the council

Our Annual Audit and Inspection Letter is prepared in the context of the Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission. Annual Audit and Inspection Letters are prepared by relationship managers and appointed auditors and addressed to members and officers. They are prepared for the sole use of the audited and inspected body, and no responsibility is taken by the Audit Commission or its appointed auditors to any member or officer in their individual capacity, or to any third party.

Audit and inspection reports issued

Report	Date issued
Audit Plan	July 2004
Comprehensive Performance Assessment (CPA)	May 2004
Learning from CPA – Capacity and Future Plans	August 2004
Governance in Practice	October 2004
Housing Options	November 2004 (draft)
SAS 610 Report	November 2004
Regularity Memorandum	December 2004
Best Value Performance Plan (BVPP) Audit	December 2004
Best Value Statutory Report	December 2004
Annual Audit and Inspection Letter	December 2004

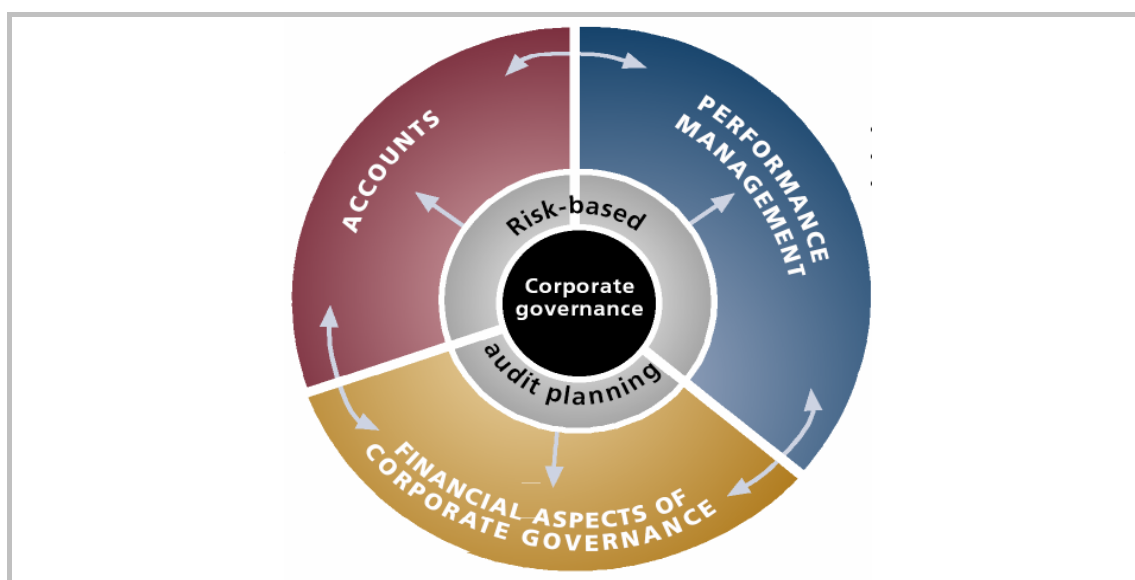
Scope of audit and inspection

Audit

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.

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 Exhibit 3.

EXHIBIT 3 THE THREE MAIN ELEMENTS OF OUR AUDIT OBJECTIVES



Accounts

- Opinion.

Financial aspects of corporate governance

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

Performance management

- Use of resources.
- Performance information.
- Best Value Performance Plan (BVPP).

Inspection

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.

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.

Audit and inspection fee

Audit fee update

Audit area	Plan 2003/04	Actual 2003/04
Accounts	£19,898	£19,898
Financial aspects of corporate governance	£18,349	£18,349
Performance	£24,190	£24,190
TOTAL CODE OF AUDIT PRACTICE FEE	£62,437	£62,437*
Grant claim certification	£25,000	£25,000**
Additional voluntary work (under section 35)	Nil	Nil

* Note the 2003/04 audit was done as part of a seventeen month audit therefore the fee does not represent a full year

** This work is currently on-going

Inspection fee update

The full year inspection fee for 2003/04 was £15,800. The work reported in this Audit and Inspection Letter has been funded by an element of the fee covering 2003/04 and by an element of the fee covering 2004/05. In both years the actual fee will be in line with that planned.