Annual Audit and Inspection Letter

Canterbury City Council

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Executive summary

The purpose of this Letter
This is our audit and inspection ‘Annual Letter’ for Members 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, listed at Appendix 1 for information. Appendix 2 sets out the scope of audit and inspection and Appendix 3 provides information about the fees charged. Appendix 4 is the statutory report on the 2004/05 Best Value Performance Plan (BVPP).

Key messages

Council performance
The council received an excellent rating under the CPA assessment framework. It is tackling the few areas of weaknesses through an improvement plan. Service performance continues to improve in most areas although more work is needed to improve the processing of claims for housing benefits and the collection of rent arrears.

Financial position
We are satisfied that the council has appropriate arrangements to maintain its financial standing. The council is well placed to achieve its general fund expenditure budget in 2004/05. However, the management team should consider more formal monitoring of HRA revenue and capital expenditure.

Action needed by the council
- Continue to monitor services where performance needs to improve.
- Continue to monitor the delivery of the improvement plan.

Council performance

The council received an excellent rating under the CPA assessment framework. It is tackling the few areas of weaknesses through an improvement plan. Service performance continues to improve in most areas although more work is needed to improve the processing of claims for housing benefits and the collection of rent arrears.

CPA and improvement
In January, 2004 the council was assessed as Excellent under the Comprehensive Performance Assessment (CPA) framework. The council has identified its improvement priorities in the light of the CPA findings and regularly reports progress made. We have not completed a formal assessment of progress this year, but note the council’s own latest assessment that investment is being made to secure future outcomes.

- Adoption of the communications and consultation strategy in April 2004.
- The importance of partnership working has been recognised as a key component of the council’s efficiency reviews taking place over the next 12 months. In January 2004 an officer working group was formed to take forward the recommendations of the exit strategies scrutiny review. The path towards an agreed action plan has proved difficult; currently an action plan has still not been adopted by the executive, although Management Team has recently agreed a Project Management Toolkit to deal with new partnerships. The council is therefore still exposed to risk in relation to partnership, including not being confident that it has mapped all existing partnerships and therefore being unable to resolve overlaps and over-exposure. The lack of exit strategies in some partnerships has not been resolved and there is no corporate coordination. We will continue to monitor whether the council makes tangible progress in this area.
• The scrutiny programme has been strengthened. It is now managed on a rolling basis with reviews and one-off reports on items of interest selected from an agreed topic list.

• Sickness absence has been reduced, increasing staff productivity. The number of days lost in 2004/05 so far is 7.88 per employee which is amongst the best in the country.

• The council has recently purchased a risk management module as an integrated part of the new Corporate Performance System. This will provide an authority-wide risk register and risk monitoring system from April 2005.

• The council is currently tackling identified areas of poor performance in areas such as the speed of processing, land searches, and the speed and accuracy of processing housing benefit claims. Success has, however, been mixed.

Other performance work

Corporate Plan and medium-term financial strategy

We have been maintaining a watching brief over the links between the new corporate plan and medium-term financial strategy following their adoption by the council in February 2004. The corporate plan uses the same six themes as the community strategy and adds a seventh theme of service excellence. Each theme is supported by several objectives with corresponding actions and targets. The objectives are prioritised in three categories, very high, high and priority.

The plan states the council’s vision ‘to improve the quality of life of those people who live, work and visit within our boundaries by Putting People First’.

The council has established clear links between public consultation and financial planning. Clear choices were put to councillors on how to fund their ambitions and the implications of various scenarios, with reference to the results of consultation exercises.

However we have identified some areas where the corporate plan can be improved in subsequent revisions, mainly around improving the clarity of targets and ensuring that all the council’s long-term high level aims are translated into actions.

Performance information

We issued an unqualified opinion on your 2004/05 Best Value Performance Plan (BVPP), (see Appendix 4). The audit of the performance information contained within the BVPP identified errors in 15 (28 per cent) of the 54 indicators submitted for audit. These were corrected before publication of the BVPP. Monitoring performance information is, however, a key element of the council’s performance management system and care must be taken to ensure performance data is accurate and complete.

Exhibit 1 compares the 2003/04 outturn data of the council, for certain indicators, to performance in 2002/03. Using indicators that are directly comparable provides a valuable picture of the council’s performance over the last year.

Some areas showing an improvement in reported performance are:

• accuracy of processing new housing benefit claims;
• invoices paid in 30 days;
• percentage of council tax collected;
• sickness absence;
• electronic interactions with the public;
• recycling; and
• percentage of standard searches carried out in ten days.

Some of the areas where performance has deteriorated are outside of the council’s direct control, such as the level of domestic burglaries. Of the areas within the council’s control there has been deterioration in reported performance in the percentage of rent collected, the percentage of NNDR collected and the speed of processing new and renewal claims for housing benefits.
EXHIBIT 1: PERFORMANCE INDICATORS – MOVEMENTS BETWEEN 2002/03 AND 2003/04

Performance has improved

<table>
<thead>
<tr>
<th>Status of indicators</th>
<th>Number of indicators</th>
</tr>
</thead>
<tbody>
<tr>
<td>Improved</td>
<td>11</td>
</tr>
<tr>
<td>No change</td>
<td>3</td>
</tr>
<tr>
<td>Worsened</td>
<td>8</td>
</tr>
</tbody>
</table>

Source: BVPI data.

It is clear that the Authority uses the PI data to focus attention on the key areas for service improvement.

Accounts and governance

We have given your accounts an unqualified audit opinion.

Your overall corporate governance arrangements are satisfactory.

Audit of 2003/04 accounts

We gave an unqualified opinion on the council’s accounts on the 26 November 2004.

Matters arising from the final accounts audit

The published accounts 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.

Members approved the annual accounts on 16 August 2004, in advance of the 31 August deadline.

The deadlines for approving the accounts will, however, become increasingly more difficult to achieve and will require early planning to achieve a deadline of the end of June by the end of 2005/06.

As required by professional standards, we reported to the General Purposes Committee (charged with governance by the council) before we gave our opinion on the accounts. We confirmed at its meeting on 25 November that the high standard of production of the financial statements had been maintained.

Financial standing

We are satisfied that the council has appropriate arrangements to maintain its financial standing. The council is well placed to achieve its general fund expenditure budget in 2004/05. However, the management team should consider more formal monitoring of HRA revenue and capital expenditure.

General fund spending and balances

General fund balances stood at £2.08 million at 31 March 2004 with a further £6.60 million of earmarked revenue reserves. Net expenditure in 2003/04 was £17.7 million, some £144k less than the approved budget.

Revenue monitoring to the end of September 2004 indicates a projected over-spend of £182k in the year to 31 March 2005. Officers anticipate that corrective action will be taken and net expenditure will be back in line with the budget by the end of the financial year.

Housing Revenue Account

HRA balances stood at £3.15 million at 31 March 2004. Net expenditure in 2003/04 was £393k higher than the revised estimate, although in line with the planned reduction in HRA balances.

The HRA is considered to be low risk by officers, given the level of HRA balances, and detailed monitoring of income and expenditure is not undertaken by the Management Team. Figures produced for the Head of Housing show expenditure to be 5 per cent (£260k) less than budget at the end of October 2004. Revised estimates for the financial year will soon be prepared as part of next year’s budget process, but the council may wish to consider more frequent monitoring of income and expenditure by the Management Team, on a quarterly basis for example.
Capital programme

The council spent £12.79 million on capital schemes in 2003/04, very close to the revised estimate of £13.14 million. Monitoring information to the end of September for the general fund indicates some slippage in the capital programme for 2004/05, mainly in works at the Whitstable Harbour and in the provision of affordable housing.

Figures for the HRA indicate a slippage of £520k at the end of October, although as with HRA revenue, annual forecasts are not part of the management information.

Pensions fund deficit

Canterbury is part of the pension scheme administered by Kent County Council. Under FRS17 the council’s share of the pension liability has been reported in the balance sheet for the first time this year. At 31 March 2004 the scheme’s actuary estimated Canterbury’s liability to be £29.3 million based on the last full valuation in March 2001. The scheme is re-valued every three years and an early indication from the valuation in March 2004 suggests the liability has increased. Contributions to the scheme will have to increase to address the pensions funding gap.

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 have not been subject to audit or have received a lighter touch. The approach to larger claims has been determined by risk and the adequacy of the council’s control environment.

In general, the council’s arrangements for managing and quality assuring grant claims submitted for audit are satisfactory and deadlines for submitting claims to grant paying bodies are being met.

Systems of internal financial control

We have not identified any significant weaknesses in the overall control framework. However, we note that it is taking officers a long time to respond to our draft regularity and performance reports (in one case nearly 12 months) and there is a risk that improvement opportunities and weaknesses in the internal control system are not being addressed quickly.

National Fraud Initiative

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. Total savings from the 2002/03 exercise exceeded £83 million, of which £9,000 savings were identified at this Authority.

The Commission are 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.

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

We have not identified any significant weaknesses in your arrangements to prevent and detect fraud and corruption.
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. 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 senior officers and leading Members. A copy of the Letter will be presented at the Overview and Scrutiny committee on 2 February 2005 and the Executive on 10 February 2005.

The council has taken a positive and constructive approach to our audit and inspection and 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](http://www.audit-commission.gov.uk), and also on the council’s website.

![Signature]

Darren Wells
District Auditor

**Relationship Manager**

December 2004

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**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

<table>
<thead>
<tr>
<th>Reports issued</th>
<th>Date</th>
</tr>
</thead>
<tbody>
<tr>
<td>Audit Plan (covered 2002/04)</td>
<td>March 2003</td>
</tr>
<tr>
<td>Interim Memorandum</td>
<td>March 2004</td>
</tr>
<tr>
<td>SAS 610 Report</td>
<td>November 2004</td>
</tr>
<tr>
<td>Final Accounts Memorandum</td>
<td>November 2004</td>
</tr>
<tr>
<td>Review of Corporate Plan/MTFP</td>
<td>November 2004</td>
</tr>
<tr>
<td>Statutory BVPP Opinion</td>
<td>Attached as Appendix 4.</td>
</tr>
<tr>
<td>BVPP Audit Memorandum</td>
<td>December 2004</td>
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</tbody>
</table>
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 2.

EXHIBIT 2: 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.
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

<table>
<thead>
<tr>
<th>Audit area</th>
<th>Plan 2003/04</th>
<th>Actual 2003/04</th>
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<tr>
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<td>0</td>
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<tr>
<td>Assessment</td>
<td>£15,800</td>
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<td>Assurance:</td>
<td></td>
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<tr>
<td>• Accounts</td>
<td>£41,420</td>
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<tr>
<td>• Governance</td>
<td>£24,241</td>
<td>£24,241</td>
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<tr>
<td>• Use of resources</td>
<td>£49,923</td>
<td>£49,923</td>
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<tr>
<td><strong>TOTAL CODE OF PRACTICE FEE</strong></td>
<td><strong>£131,384</strong></td>
<td><strong>£131,384</strong></td>
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<tr>
<td>Grant claim certification</td>
<td>£38,700</td>
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<tr>
<td>Additional voluntary work (under section 35)</td>
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</tr>
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</table>
Auditor’s statutory report on the Best Value Performance Plan

Auditor’s report to Canterbury City Council on its Best Value Performance Plan for 2004/05

Certificate

I certify that I have audited Canterbury City Council’s Best Value Performance Plan in accordance with section 7 of the Local Government Act 1999 (the Act) and the Audit Commission’s Code of Audit Practice. I also had regard to supplementary guidance issued by the Audit Commission.

Respective responsibilities of the council and the auditor

Under the Act the council is required to prepare and publish a Best Value Performance Plan summarising the council’s assessments of its performance and position in relation to its statutory duty to make arrangements to secure continuous improvement to the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness.

The council is responsible for the preparation of the plan and for the information and assessments set out within it. The council is also responsible for establishing appropriate performance management and internal control systems from which the information and assessments in its plan are derived. The form and content of the Best Value Performance Plan are prescribed in section 6 of the Act and statutory guidance issued by the Government.

As the council’s auditor, I am required under section 7 of the Act to carry out an audit of the Best Value Performance Plan, to certify that I have done so, and:

- to report whether I believe that the plan has been prepared and published in accordance with statutory requirements set out in section 6 of the Act and statutory guidance and, where appropriate, recommending how the plan should be amended so as to accord with statutory requirements;
- to recommend:
  - where appropriate, procedures to be followed in relation to the plan
  - whether the Audit Commission should carry out a best value inspection of the council under section 10 of the Act
  - whether the Secretary of State should give a direction under section 15 of the Act.

Opinion

Basis of this opinion

For the purpose of forming my opinion whether the plan was prepared and published in accordance with the legislation and with regard to statutory guidance, I conducted my audit in accordance with the Audit Commission’s Code of Audit Practice. In carrying out my audit work, I also had regard to supplementary guidance issued by the Audit Commission.

I planned and performed my work so as to obtain all the information and explanations, which I considered necessary in order to provide an opinion on whether the plan has been prepared and published in accordance with statutory requirements.
In giving my opinion I am not required to form a view on the completeness or accuracy of
the information or the realism and achievability of the assessments published by the council.
My work therefore comprised a review and assessment of the plan and, where appropriate,
examination on a test basis of relevant evidence, sufficient to satisfy me that the plan
includes those matters prescribed in legislation and statutory guidance and that the
arrangements for publishing the plan complied with the requirements of the legislation and
statutory guidance.
Where I have qualified my audit opinion on the plan I am required to recommend how the
plan should be amended so as to comply in all significant respects with the legislation and
statutory guidance.

Opinion

In my opinion, Canterbury City Council has prepared and published its Best Value
Performance Plan in all significant respects in accordance with section 6 of the Local
Government Act 1999 and statutory guidance issued by the Government.

Recommendations on referral to the Audit Commission/Secretary of State

I am required each year to recommend whether, on the basis of my audit work, the Audit
Commission should carry out a best value inspection of the council or whether the Secretary
of State should give a direction.

On the basis of my work:

- I do not recommend that the Audit Commission should carry out a best value inspection
  of Canterbury City Council under section 10 of the Act
- I do not recommend that the Secretary of State should give a direction under section 15
  of the Act.

Darren Wells
District Auditor
December 2004