

Annual Audit and Inspection Letter

March 2006



Annual Audit and Inspection Letter

Gedling Borough Council

Audit 2004-2005

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

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

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

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

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Key messages

- 1 This is our audit and inspection 'Annual Letter' for members which summarises the conclusions and significant issues arising from our recent audit and inspections of the Council.

Council performance

- 2 Since the comprehensive performance assessment (CPA) in late 2003, the Council has identified its priorities for improvement around 12 themes and made progress in a number of areas. In terms of key performance indicators (PIs) the Council has improved over half since 2002/03 and six out of every ten PIs are above average. Services are improving in priority areas such as community safety, recycling, housing repairs and planning. Promoting better access to services remains a challenge but the Council has agreed with partners a new community strategy and completed a community profile to assist needs assessment.

The accounts and governance

- 3 We have given your accounts an unqualified audit opinion.
- 4 Your overall corporate governance arrangements are satisfactory in most key areas. You are already taking corrective action where necessary - for example, on improving control of and reducing slippage in the capital programme and strengthening risk management. Internal Audit is currently under strength which you also aim to address soon.
- 5 The Council's financial position is generally good. Balances are reasonable and debt collection is good compared with similar authorities, except in the case of non domestic rates where your collection rate is average.
- 6 The Council performed well on the new use of resources scored judgement.

Action needed by the Council

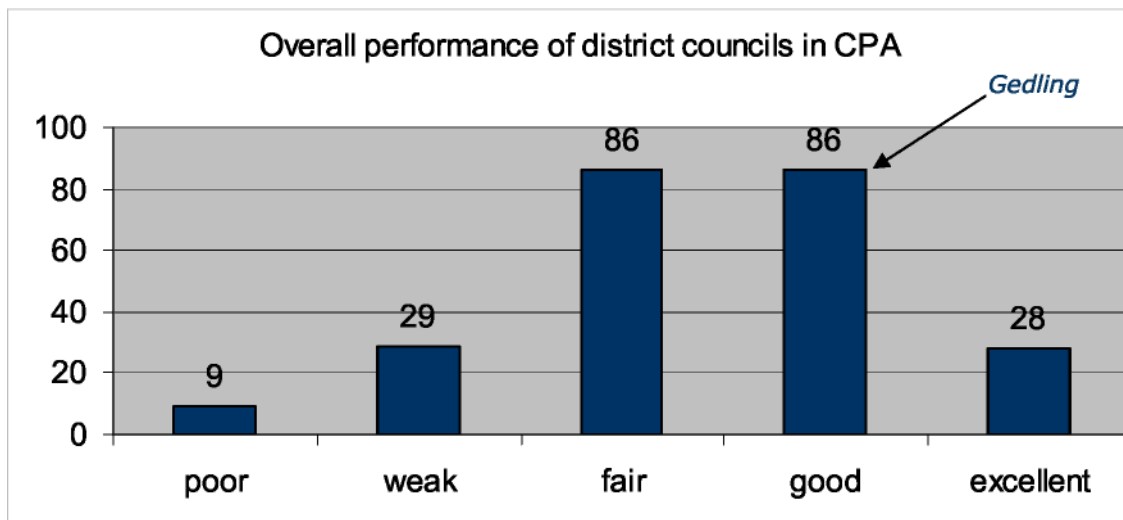
- 7 The Council is already acting on the issues raised in this letter.

Council performance

Direction of travel report

8 Gedling Borough Council was assessed as 'good' in the comprehensive performance assessment (CPA) carried out in November 2003. The Audit Commission has now completed CPAs in all district councils (Figure 1).

Figure 1 Overall performance of district councils in CPA
Gedling is in the top half



Source: Audit Commission

CPA and improvement planning

- 9 Since its assessment, the Audit Commission has worked with the Council to identify its priorities for improvement and has agreed an improvement plan around 12 themes. During 2005 the Council has continued to implement its improvement plan and has made progress in a number of areas.
- 10 The Council has updated its corporate plan and produced, with partners, a new community strategy. Clear links between the Council's vision, priorities and plans are now in place.
- 11 It has completed the first Community Profile of the Council. Its aim is to help the Council better identify community needs and target its resources. This data has already helped the Council to identify priority neighbourhoods and it has begun to develop a range of area based initiatives in two areas: Bonington and Valley. The Council has been encouraged by the numbers of local people taking part in consultation events and action planning and one of the early outcomes is the establishment of a new youth Council. This means that young people will play an active part in identifying priorities and projects for their communities. Satisfaction with the local area is good. In a recent survey carried out by the Council more than half of Gedling's residents rate their neighbourhood as excellent or good.

12 For the year 2004/05 audited key performance indicator (KPI) comparisons show that the Council has 61 per cent of its KPIs above the median for all district councils, compared with 63 per cent in 2003/04 and 68 per cent in 2002/03. This shows the Council is declining slightly relative to other councils. However, the Council has improved 53 per cent of its KPIs since 2002/03.

Service improvement

13 Services are improving in priority areas. In community safety, where the Council has a shared responsibility, key improvements include a reduction in overall crime rates, particularly robbery and burglary. For example, domestic burglaries have reduced from 28.7 per 1,000 population to 18.5 between 2001/02 and 2003/04, a drop of almost 35 per cent. The Council has invested in a more visible presence on the streets of Gedling through Police Community Support Officers and Neighbourhood Wardens. However, crime rates are still much higher than in similar areas.

14 Performance in recycling is strong. The Council has met its government-set target to recycle 21 per cent of household waste by 2005/06 but it is not yet matching the performance of the best performing councils. The 2003/04 data shows a slight drop in satisfaction with recycling from 74 per cent in 2000/01 to 72 per cent in 2003/04, but this is still good compared with other councils. The Council's own survey in 2005 shows that satisfaction with recycling now stands at 79 per cent.

15 The Council has also significantly improved its performance in planning services by investing in additional staff. The Council has moved its performance from being amongst the worst performing councils in 2003/04 to now being amongst the best for major applications and above average for minor applications. The quality of the Council's planning service is also evidenced by high satisfaction rates for users of the service and low numbers of appeals allowed. All standard searches are carried out within ten days which places it amongst the top performers.

16 The Council has begun the process of shifting resources towards providing facilities for young people. Young people have benefited from the Council's investment in additional sports facilities and opportunities to take part in sports and arts activities. It may be too early to see the impact of this investment but the Council's antisocial behaviour data shows a reduction in the amount of local people saying that teenagers hanging around on the streets and vandalism and graffiti are a problem. The majority of residents (96 per cent) agree that the Council should continue to prioritise young people.

17 The Council has made little progress in improving access to services for all its citizens. It has taken some steps such as the development of a social inclusion strategy but it is not clear how the Council plans to make sure that citizens who have been previously excluded or 'hard to reach' can access its services in an equitable way. Just over half of council buildings are not accessible to disabled people. Performance is relatively weak in Housing Benefits where a new system has been recently implemented but most areas are improving except for accuracy where there has been a slight drop in the number of cases processed correctly and performance is now ranked amongst the worst performing councils.

18 The Council has improved its performance in housing repairs and all aspects of the service are amongst the best performers having moved from a position of being amongst the worst. However, tenant satisfaction is still low and not improving. The quality of the Council's housing stock is improving with just 15 per cent of homes not meeting the government's decent homes standard placing the Council amongst the top performers. The Council's Housing Strategy has been submitted for approval by the Government Office for the East Midlands.

Inspection of planning services

19 The Audit Commission reported on its inspection of planning services on 24 March 2005. It concluded that the Council provided a fair service that has uncertain prospects for improvement. We have commented above on progress since the inspection.

Performance information and the best value performance plan (BVPP)

20 We completed our audit of Council's 2005/06 BVPP and issued our report in December 2005. The report did not identify any specific matters to report to the Council and contained no recommendations on procedures in relation to the plan.

21 We carried out a review of the performance indicator (PI) information included in the BVPP in accordance with guidance issued by the Commission. We did not qualify any indicators but, as in previous years, we amended several PIs. Stronger internal checking arrangements and continued service ownership are essential to secure further improvement.

22 We give a general interpretation of BVPIs in the section above on 'direction of travel', and comment on specific BVPIs concerned with debt collection later.

Accounts and governance

Audit of 2004/05 accounts

We gave an unqualified opinion on the Council's accounts on 17 October 2005.

Matters arising from the final accounts audit

- 23 The draft accounts presented for audit were generally of a good quality. Whilst we identified the need for some changes these were presentational. For example, money owed to and from other local authorities is now separately disclosed.
- 24 We found some gaps in working papers which needed extra audit work at a departmental level. Officers were able to answer our queries and have plans in hand to improve working papers for next year. This is particularly important as the audit deadline for 2005/06 is 30 September and so we will have less time than in previous years to chase working papers.
- 25 More generally in terms of improving its public financial reporting arrangements, the Council should undertake and report on a consultation exercise with stakeholders regarding publication of summary accounts or an annual report.

Report to those with responsibility for governance in the Council

- 26 We are required by professional standards, Statement of Auditing Standard 610, to consider the need to report to those charged with governance (in this case the Council) any matters before we give an opinion on the financial statements. As we reported separately in our SAS 610 letter, issued in October 2005, there were no significant issues arising from our audit of the accounts which needed to be reported to councillors in advance of our giving the audit opinion.

Financial standing

The Council's financial position is generally good. Balances are reasonable; debt collection is good compared with similar authorities, except in the case of NNDR where your performance is below average.

General fund spending and balances

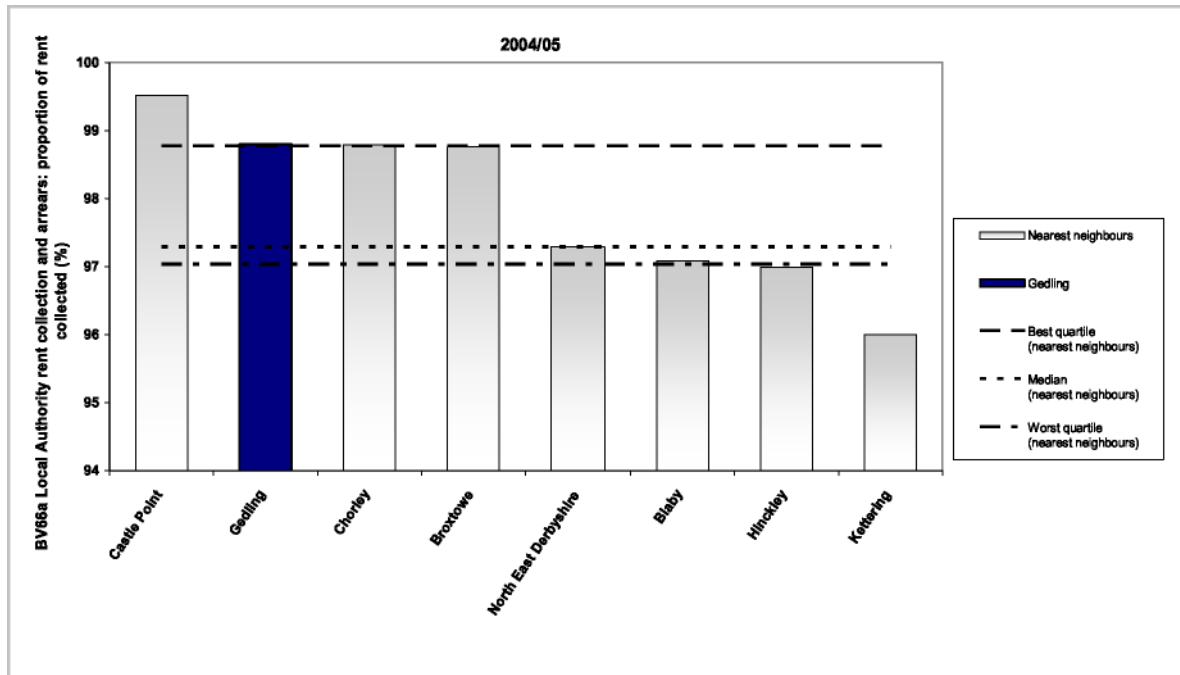
- 27 The Council monitors its spending and identifies prospective overspends so that it can take corrective action. It has a policy level for its general fund balance of £1 million, and its actual level at 31 March 2005 was double this - at around £2 million. As at 30 September 2005, the Council was on target to hit its budget for 2005/06.

Housing Revenue Account (HRA)

- 28 The Council has a good performance when collecting rents (Figure 2).

Figure 2 Rent collection - comparison with nearest neighbours 2004/05

Gedling's performance compares well with its nearest neighbours



Source: Indicate - AC database of B VPIs

- 29 The Council has set a policy level of £0.5 million for its HRA balance. Its actual level exceeded this as it was £0.8 million at 31 March 2005. As at 30 September the Council was expecting to meet its 2005/06 budget on the HRA.

Capital programme

- 30 In our last letter, we commented that slippage in the capital programme was significant. This continued to be the case in 2004/05 (see Figure 3).

Figure 3 Slippage on capital programme

The Council continued to slip significantly on its capital programme in 2004/05

Year	Budget (£m)	Actual (£m)	Slippage (%)
2002/03	7.4	4.6	38
2003/04	7.4	5.5	26
2004/05	9.0	5.8	35

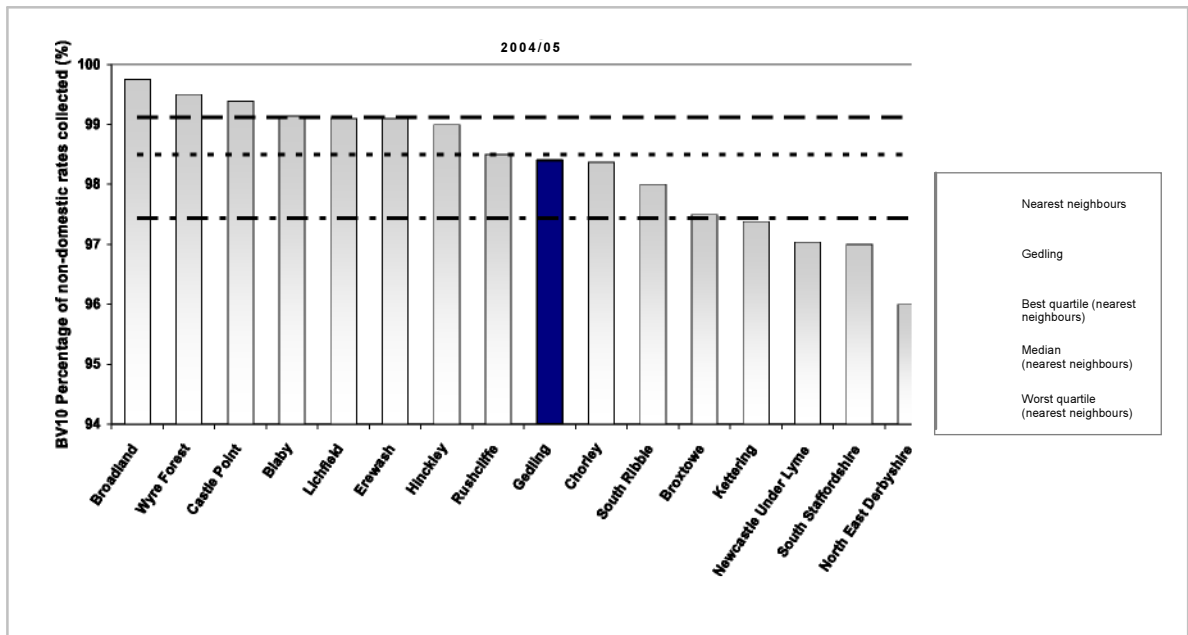
Source: Gedling Borough Council outturn reports

- 31 We considered this as part of our work on 'use of resources', on which we report more generally later. The underlying reason for the slippage appears to be over-optimistic bidding and expenditure forecasting by operational service managers, who under-estimated staff capacity to deliver finished schemes. Another factor was protracted consultation processes, especially on leisure projects.
- 32 The Council has introduced new procedures to help deal with this. The Deputy Chief Executive Officer, along with service managers, has rescheduled each capital item over a more realistic timescale, and streamlined leisure pre-contract letting processes to avoid overlong consultations.

Collection fund

- 33 The deficit balance on the collection fund increased slightly in 2004/05 from just under half a million pounds to just over. However, the balance remains less than one percent of collection fund income.
- 34 The Council performs well on council tax collection, being in the top 25 per cent, but is average on non domestic rates (NDR) (Figure 4).

Figure 4 Collection of NDR compared with nearest neighbours
 The Council has only average performance



Source: Indicate - AC database of B VPIs

- 35 A similar picture emerges if we compare the Council with Nottinghamshire districts, East Midlands districts and all districts. This appears slightly anomalous as the Council's NDR arrears actually fell slightly in 2004/05 from £0.65 million to £0.62 million and you more or less achieved your target for 2004/05 of 98.7 per cent. The implications are that:
- you collected old arrears in 2004/05 (the BVPI only measures performance on collecting NDR due in 2004/05); and
 - your target is low.
- 36 Currently, this is not a cause for concern but suggests that the Council may need to review its target when the new NDR system has settled down.
- 37 One general issue affecting all types of debt collection at the Council is that it needs formally to demonstrate the effectiveness of different recovery actions, associated costs, and the cost of not recovering debt promptly.

Pensions fund deficit

- 38 Pension fund balances are a topical issue and a matter of national debate particularly for those employers like the Council, which operate defined benefit, final salary schemes.
- 39 A report from the pension fund actuaries for the purposes of the 2004/05 accounts showed the Council's net liabilities to be about £21 million (£12 million in 2003/04). The statutory arrangements for funding the deficit mean that the financial position of the Council remains satisfactory, as the deficit will be met by increased contributions over the remaining working life of its employees. The actuary assesses the need for changes in contributions every three years.
- 40 The latest assessment from the fund's actuaries is imminent at which point the Council may need to consider whether it needs to increase contribution rates and any impact this will have on the 2006/07 budget and its medium-term financial plan. Clearly, given the current net liabilities, the Council's costs as an employer are likely to increase.

Systems of internal financial control

We have not identified any significant weaknesses in the overall control framework. You are already taking corrective action where necessary - for example, on risk management. Internal Audit is currently under strength which you also aim to address soon.

Internal Audit and new IT systems

- 41 We placed significant reliance on your Internal Audit for 2004/05 and planned to continue this into 2005/06 and 2006/07. However, as at February 2006 your Internal Audit Section is heavily depleted due to staff leaving. Where we cannot rely on the work of Internal Audit then this will lead to higher audit fees from us, as well as reducing the quality of your internal control arrangements.

- 42 For example, you have implemented a new revenues and benefits system during 2005/06. Council tax is now live and NDR will go live shortly. Implementation of new IT systems generally requires audit work on such aspects as transfer of balances from the old system to the new one. We would normally place reliance on Internal Audit for much of this work.
- 43 Additionally, you have implemented a document image processing system (DIPS) system and have met problems with it. A successful DIPS system is a key requirement for meeting targeted efficiency savings and improving processing quality and time. You have also updated your payroll system.
- 44 Your Head of Finance is aware of our concerns and is currently considering the best course of action for the Council.

Risk management

- 45 Members have approved a comprehensive paper for corporate governance and this included an overall risk management strategy. SMT takes responsibility for strategic risks. Operational risks are allocated to individual managers/section heads.
- 46 We reviewed the operational and strategic risk registers during 2004/05 and concluded that risk management was becoming embedded. Our main recommendations were that the risk registers should be updated and that the Council would benefit from a more detailed stand alone risk management strategy. Lack of resources in Internal Audit has delayed development and approval of the new strategy.

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

- 47 We have not identified any significant weaknesses in your arrangements to prevent and detect fraud and corruption.

Legality of transactions

- 48 We have not identified any significant weaknesses in the framework established by the Council for ensuring the legality of its significant financial transactions.

Use of resources judgements

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

50 We have assessed the Council's arrangements in five areas.

Figure 5 Council's arrangements

The Council has performed well on the new use of resources scored judgement

Element	Assessment
Financial reporting	3 out of 4
Financial management	3
Financial standing	2
Internal control	3
Value for money	3
Overall	3 out of 4

(Note: 1=lowest, 4=highest, 2=adequate performance, 3=performing well)

- 51 In reaching these judgements we have drawn on the above work and supplemented this with a review against specified key lines of enquiry. We have issued a separate report which gives further details of the underlying scores and issues for the Council to address if it to move to a higher level in future years.
- 52 We have included the more significant issues arising from this work in earlier parts of this letter, for example risk management and the effectiveness of different debt collection methods.

Other work

Grant claims

- 53** In accordance with Strategic Regulation, the Audit Commission has continued with a more risk-based approach to the certification of grant claims. We have reduced our audit of these claims but our ability to reduce further depends on the adequacy of the Council's control environment.
- 54** The Council's arrangements for managing and quality assuring grant claims submitted for audit has improved in recent years and our fee has also reduced. However, the Council has experienced problems implementing new systems during the year and this may require additional audit time.

National Fraud Initiative

- 55** In 2004/05, the Council took part in the Audit Commission's National Fraud Initiative (NFI). The NFI, which is undertaken every two years, aims to help identify and reduce fraud by bringing together data from NHS bodies, local authorities and government departments and other agencies, to detect a wide range of frauds against the public sector. These include housing benefit fraud, occupational pension fraud, tenancy fraud and payroll fraud as well as, new for 2004/05, right to buy scheme fraud and providing new contact details for former tenants with arrears in excess of £1,000.
- 56** We assessed the Council's arrangements for responding to the potentially fraudulent data matches provided by NFI 2004. We found the Council has a positive attitude to NFI, with a planned, controlled and monitored approach to the review of the different types of match produced by NFI 2004/5. However savings achieved as a result of 2002 NFI did not reflect this.
- 57** We suggested some small improvements which your Head of Finance accepted.

Looking forwards

Future audit and inspection work

- 58 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.
- 59 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

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

A new CPA framework

- 62 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 around July 2006 with implementation shortly thereafter.

Closing remarks

- 63 This letter has been discussed and agreed with the Chief Executive and his Deputy. A copy of the letter will be presented to the Audit Sub-Committee in April.
- 64 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

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

Andrew Blackburn
District Auditor and Relationship Manager
March 2006

Appendix 1 – Background to this letter

The purpose of this letter

- 1 This is our audit and inspection 'Annual Letter' for members which incorporates the Annual Audit Letter for 2004/05, which is presented by the Council's Relationship Manager and District Auditor. The letter summarises the conclusions and significant issues arising from our recent audit and inspections of the Council.
- 2 We have issued separate reports during the year setting out the findings and conclusions from the specific elements of our programme. These reports are listed at Appendix 2 for information.
- 3 The Audit Commission has circulated to all audited bodies a statement that summarises the key responsibilities of auditors. Our audit has been conducted in accordance with the principles set out in that statement. What we say about the results of our audit should be viewed in the context of that more formal background.
- 4 Appendix 3 provides information about the fee charged for our audit and inspections.

Audit objectives

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

Figure 6 Code of Audit Practice

Code of practice responsibilities



Accounts

- Opinion.

Financial aspects of corporate governance

7 Reviewing how effectively the Council ensures:

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

Performance management

- Use of resources.
- Performance information.
- Best value performance plan.

Inspection objectives

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

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

Appendix 2 – Audit and inspection reports issued

Table 1

Report title	Date issued
Audit Plan	July 2004
Inspection - Planning Services	March 2005
Report on the 2004/05 Financial Statements to Those Charged with Governance (SAS 610)	October 2005
Auditor's Report on the Best Value Performance Plan	December 2005
Final Accounts Memorandum	January 2006

Appendix 3 – Audit and inspection fee

Table 2 Audit fee update

Audit area	Plan and actual 2004/05 (£)
Accounts	29,800
Financial aspects of corporate governance	11,600
Performance	21,800
Total Code of Audit Practice fee	
Inspection	8,200
Additional voluntary work (under section 35)	0
Total	70,750