

Annual Audit and Inspection Letter

March 2008



# Annual Audit and Inspection Letter

**Taunton Deane Borough 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.
- 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, 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**

This report provides an overall summary of the Audit Commission's assessment of the Council, drawing on audit, inspection and performance assessment work and is prepared by your Relationship Manager.

In this report, the Commission summarises findings and conclusions from the statutory audit, which have previously been reported to you by your appointed auditor. Appointed auditors act separately from the Commission and, in meeting their statutory responsibilities, are required to exercise their professional judgement independently of the Commission (and the audited body). The findings and conclusions therefore remain those of the appointed auditor and should be considered within the context of the Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission.

Reports prepared by appointed auditors are:

- prepared in the context of the Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission; and
- addressed to members or officers and prepared for the sole use of the audited body; no responsibility is taken by auditors to any member or officer in their individual capacity, or to any third party.

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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](http://www.audit-commission.gov.uk)

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## Key messages

- 1 The main audit messages for the Council from this letter are as follows.
  - Taunton Deane Borough Council is making steady but noticeable progress since last year in delivering its aims and overcoming a number of challenges. The Council is in the process of re-shaping itself and has faced a number of challenges this year including opposing the county council's plans to form a unitary council in Somerset. Other issues include the forming of new partnerships, new political leadership since May 2007 and managing a number of regeneration projects. Meeting these challenges has had a significant impact on the Council's capacity. Subsequently, the Council's rate of improvement in its services is not matching that of its peers. Performance in a number of key areas deteriorated in 2006/07.
  - However, some services show early signs of recovery, for example benefits and increased investment in some survey information to improve strategic housing. The Council is also developing better arrangements to deal with diversity and equalities issues. Business planning continues to be strong and there is a clear sense of place based on a well grounded understanding of local needs. The Council is re-structuring to ensure that its services and partnerships will make a positive impact on all its communities.
  - There are a number of risks to sustaining improvement. Working more closely with other councils in Somerset is a clear opportunity but also a significant challenge. The capacity of councillors is stretched and they are not communicating their expectations and priorities clearly enough to staff and partners. Workforce development plans are not well developed. Governance and organisational arrangements are being redeveloped to reflect the impact of new partnership arrangements.
  - The Council was given an unqualified opinion on its accounts for 2006/07 and we assessed your value for money arrangements for that year as adequate.
  - The updated assessment for arrangements for use of resources for 2006/07 shows that they continue to meet or exceed the minimum requirements in all respects, although the rate of improvement has slowed and in some areas stalled.
  - The concessionary travel scheme continues to place extreme pressures on the Council's budget and working balances, with an actual net overspend against budget forecast for the current year.
  - There were significant control weaknesses in the new financial systems introduced during 2006/07, but we have received assurances from officers that these have now been addressed.
  - Our triennial review of internal audit, provided to the Council by the South West Audit partnership, confirmed that it meets all the key requirements of the Code of Practice for internal audit.

## Action needed by the Council

- 2 The key actions that the Council needs to take in response to the issues raised in this letter and in order of priority are as follows.
  - Improve the information available about the housing market to inform its strategic approach and strengthen mechanisms to support the development of new affordable housing.
  - Review the current approach to the management and improvement of its own housing stock to support the delivery of the decent homes standard.
  - Ensure that effective governance and performance management arrangements are in place and appropriately monitored for each key partnership.
  - Support councillors to ensure they are more visible and clearly articulate their expectations and priorities to the community, staff and partners, and have sufficient capacity to effectively drive forward and lead the Council's ambitious agenda for the area.
  - Work collaboratively and effectively with councils in Somerset to improve the clarity of plans, priorities, level of leadership and governance arrangements needed to deliver significant improvements through joint working and increased efficiency savings.
  - Demonstrate that council services are delivering consistent and equitable levels of high performance to all communities in accordance with the Council's vision and aims.
  - Address the key areas for improvement identified at last year's use of resources audit.
  - Review the profile of balances and reserves for both the General Fund and the Housing Revenue Account over the period of the medium-term financial plan to ensure they are forecast to remain at adequate levels throughout that period.
  - Ensure that appropriate action continues to be taken to address the control weaknesses we identified last year in the new financial systems.

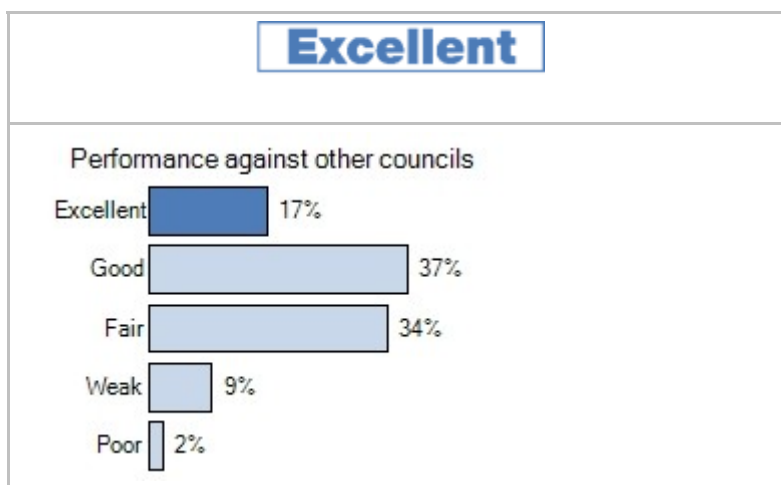
## Purpose, responsibilities and scope

- 3 This report provides an overall summary of the Audit Commission's assessment of the Council. It draws on the findings and conclusions from the audit of the Council for 2006/07 and from any inspections undertaken under section 10 of the Local Government Act 1999. The letter includes a review of how well the Council has progressed in the last year (the Direction of Travel report) and the auditor's assessment of how well the Council has managed its finances (the Use of Resources scores).
- 4 This letter is addressed to councillors as it is the responsibility of the Council to ensure that proper arrangements are in place for the conduct of its business and that it safeguards and properly accounts for public money. Recommendations have been made to assist the Council in meeting its responsibilities.
- 5 This letter also communicates the significant issues to key external stakeholders, including members of the public. This letter will be published on the Audit Commission website at [www.audit-commission.gov.uk](http://www.audit-commission.gov.uk). [In addition the Council is planning to publish it on its website].
- 6 Your appointed auditor is responsible for planning and carrying out an audit that meets the requirements of the Audit Commission's Code of Audit Practice (the Code). Under the Code, the auditor reviews and reports on:
  - the Council's accounts;
  - whether the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources (value for money conclusion); and
  - whether the Council's best value performance plan has been prepared and published in line with legislation and statutory guidance.
- 7 A list of the reports issued to the Council relating to 2006/07 audit and inspection work is given at the end of this letter.

## How is Taunton Deane Borough Council performing?

- 8 Taunton Deane Borough District Council was assessed as Excellent in the Comprehensive Performance Assessment carried out in 2004. These assessments have been completed in all district councils and these are now being updated through corporate assessments in councils where there is evidence of change. The following chart is the latest position across all district councils.

**Figure 1 Overall performance of district councils in CPA**



Source: Audit Commission

## The improvement since last year - our Direction of Travel report

- 9 Since last year's Direction of Travel assessment we have been working with the council as it seeks to improve further. The Council's revised Corporate Strategy for 2007/10 includes six corporate aims. They are:
- Economy;
  - Transport;
  - Crime;
  - Healthy Living;
  - Environment; and
  - Delivery.

## What evidence is there of the council improving outcomes?

- 10 Performance indicators show that the Council's rate of improvement is slowing. Public satisfaction is falling – 57 per cent in 2006/07 compared to 70 per cent in 2002/03. In 2006/07, 39 per cent of best value performance indicators (BVPIs) match the best 25 per cent of councils nationally. Since 2003/04, only 42 per cent of BVPIs have improved, although performance in 2003/04 was strong. The Council is ranked 346th out of 388 councils for improvement since 2005/06 with 46 per cent of BVPIs improving. This is worse than last year when 56 per cent of BVPIs improved. Most revenues and benefits BVPIs, sickness absence, and the speed of processing minor and other planning applications match the worst 25 per cent of councils. Unaudited data for 2007/08 indicates that there are some signs of improvement in benefits and housing. But many corporate health and planning indicators remain largely unchanged.

### Economy

- 11 The Council is continuing to make steady noticeable progress in delivering economic regeneration schemes in the district. The Council secured £5.4 million of regional funding for the purchase of land and property for the Firepool development in Taunton. The Council continues to support creative industries, cultural activities, rural business schemes, and youth projects through grants and by supporting partnering initiatives. The Council held two food festivals in Wellington attracting over 15,000 people and over 70 local producers generating £500,000 of trade. Over 97 per cent of visitors rated the event good or excellent.
- 12 However, the result of the Council's economic work lacks clarity. Average earnings, new business registration, and gross weekly pay is steadily increasing but the impact on areas of deprivation and disadvantaged groups, such as people with disabilities is not clear.

### Transport

- 13 The Council is continuing to use its powers effectively to deliver improved transport in the borough. Transport is a high community priority due to the increased congestion within the Taunton area. The Council is effectively supporting two new park and ride schemes, delivering its green travel plan, introducing a more integrated car parking strategy, and supporting regional transport priorities. The concessionary travel scheme continues to be very popular. The Council also supports various cycling, rural transport and car share schemes.



## Crime

- 14 Crime levels are generally low but despite being an active member of the crime and disorder reduction partnership (CDRP) crime is increasing. CDRP data from 2006/07 shows an increase in violent crime, sexual crime, theft of and from a motor vehicle and robbery. Fear of crime is increasing, in particular by older people. Robbery and burglary is decreasing slightly. The CDRP was ranked seventh in its family group of 15 in 2005/06 and is now tenth in 2006/07. The Council runs various safety campaigns that are increasingly well attended, delivers youth diversionary schemes and provides additional funding towards 40 Police Community Support Officers. The 'Drink Safe, Be Safe' campaign reduced alcohol related crime by 40 per cent in Taunton town centre over the last two years. However these initiatives have not made a sufficient impact on reducing the increase in crime.

## Healthy Living

- 15 The Council is maintaining an effective role in providing opportunities for local people to participate in community activities and so improve their health and quality of life. Opportunities for cycling, walking, and sports participation are increasing with new sports facilities and a wide range of leisure and outreach activities. The Council's leisure partner continues to provide a comprehensive suite of leisure sessions, activities and courses at its leisure centres, fulfilling its mission of *'more people, more active, more often'* by increasing use of its facilities by 6 per cent up to 971,235 visits in 2006/07.
- 16 The Council's housing services have historically performed well, however in the last year performance has declined. Most housing BVPIs from 2006/07 show above average but declining performance. The Council does not have up-to-date information about the condition of its own stock, private sector housing or an up-to-date housing needs survey to inform its strategies. This is a significant weakness.
- 17 The Council has not delivered enough affordable housing to meet local needs. Only 53 new units of affordable housing were delivered in 2006/07 although the Council expects this to increase to 147 this year. The Council recognises the weaknesses in its current approach and is working to develop new policies and improve partnership working with other local councils to improve performance. However, there is a significant risk that the Council will not meet its target of 985 new affordable homes by March 2011.

- 18 The Council is making inadequate progress in ensuring all its homes meet minimum standards and IT systems are not effectively supporting service delivery. In 2006/07 only 169 homes were improved to meet the decent homes standard out of an estimated 1,076 homes that currently fail to meet minimum standard. Positively, the Council has adopted an effective approach to meeting the decent homes standard by targeting properties on an area by area basis. However, the Council's IT systems are not currently supporting the effective performance management of the housing service or the efficient management of its stock. The Council cannot easily identify improvements to homes or their condition and it does not have accurate information about performance on reletting empty homes quickly or importantly progress with annual gas safety checks.
- 19 Satisfaction with the way the Council manages its own stock is high and performance in some areas is good. The Council has high levels of satisfaction with its housing services, particularly with repairs and maintenance. Relet times in 2006/07 were good and a review of the approach may help to improve performance further. The Council is working well to improve its future plans following the unsuccessful stock transfer ballot in 2006. This includes developing new partnerships with other councils to deliver better value for money from housing maintenance and estate management.
- 20 Taunton Deane is successfully tackling homelessness. The Council performs well in preventing homelessness. It has developed an effective scheme for bringing empty private sector homes back into use as high quality temporary accommodation. It has also accessed funding to extend provision for rough sleepers in partnership with local providers. These initiatives are already having a positive effect and there are robust plans to further reduce the use of bed and breakfast accommodation. The Council is on course to meet its target of reducing the number of homeless households in temporary accommodation by 50 per cent by 2010.

## **Environment**

- 21 Taunton Deane is improving its performance in meeting local and national objectives to improve the environment. The Council's recycling and composting rate has continued to improve and more people are able to recycle. The Council's investment in better equipment and more frequent cleaning regimes is resulting in better street cleanliness and public satisfaction with cleanliness remains high. However, public satisfaction with waste collection is deteriorating, largely due to problems encountered with introducing new waste collection arrangements.

- 22 The Council has a good understanding of the issues that affect climate change. New policies and arrangements are being made to ensure that staff and partners reduce any negative effects of their actions on the environment. The Council's green travel plan is reducing car use by staff by 6 per cent and cycling and walking to work is increasing. The energy efficiency of Taunton Deane's housing has improved 20 per cent in the last ten years. A 3.5 per cent improvement was made in 2006/07 equating to a reduction of 8,362 tonnes of carbon dioxide emissions. Tougher housing targets and development policies are in place and good progress is making made in developing a climate change strategy.

## **Delivery**

- 23 Customer access to services is improving. Electronic access increased by 10 per cent last year and the website is slowly improving. Car park charges can be paid by telephone, and more services and information is available on the website. New customer service standards for telephone access are being met. The Council's access strategy is being delivered and more services are being provided through parish councils and tourist information centres.
- 24 The Council is continuing to develop its links with minority groups in its communities. The Council has created a new disability forum, is establishing stronger links with Gypsy and traveller communities, faith communities, and with black and minority ethnic groups. A local college researched a report on the needs of migrant workers and the Polish Association is creating a welcome pack. As a result, community capacity is increasing and a better understanding of Taunton as a place and resulting in more appropriate long term plans such as the local development framework and sustainable community strategy for 2007-2017.
- 25 Better arrangements to help address diversity issues are in place. Good progress is being made this year but from a low starting position. Community consultation is good. The Council has successfully encouraged a broader range of councillors to lead its work and these better reflect the district's social and demographic profile. Councillors are also taking diversity more seriously and are championing issues relating to young people, rural access, disability and co-ordination of services to elderly people. However some PIs that measure progress in addressing the diversity of staff are poor, for example the number of BME employees.
- 26 The process of changing and designing services to meet the needs of the wider community has begun but progress is slow. Taunton Deane has only achieved level 2 of the Equality Standard. The results of equality impact assessments have been reviewed and this assessment highlights the scale of the task needed to deliver changes to services. Environmental health, leisure, and benefits services are delivered from different locations but not all services are able to demonstrate how they can improve access and take up of their services by communities that are harder to reach. The impact of the Council's work on the quality of life in the most deprived wards in the borough is unclear and not reported.

## How much progress is being made to implement improvement plans to sustain future improvement?

- 27 Taunton Deane Borough Council continues to be innovative and forward thinking. This is reflected in the partnerships that it is developing. In October 2007 the Council joined a joint venture company called Southwest One which is a partnership with a large private sector company and Somerset County Council. This ten year partnership aims to modernise and reduce costs, and improve access to services. Five transformation projects have also been commissioned in addition to the main service delivery contract. These include improvements to procurement, the further development of locality based working in Wellington and better staff development. This will place the Council in a good position to improve value for money in the future.
- 28 Steady progress is being made in exploring the potential for more effective joint working between councils. This follows the government's decision to retain the county and district structure in Somerset. A clearer commitment to joint working and the beginnings of a formal process with council leaders and chief executives has commenced. Capacity funding has been secured to support this process. However, there is currently a lack of clarity with the plans, priorities, level of leadership and governance arrangements needed to deliver significant improvements through joint working and the efficiency savings identified by the district councils in their 'Team Somerset' proposals.
- 29 There is a strong sense of place and a well grounded understanding of local needs underpinning many of the Council's and its partners' plans and strategies. Operationally, relationships with the county council are good. The Council's contribution to the shared priorities of the Local Area Agreement is clearer and clear targets for improvement are in place that are outcome-focused, challenging and realistic. A re-structuring of the Local Strategic Partnership followed an external review of its impact. A new Sustainable Community Strategy is in place and council commitment to a new LAA in March 2008 is strong.
- 30 Arrangements to deliver and improve value for money are still improving despite a drop in performance by some of the Council's services. Financial management remains good. Strong business planning, budget prioritisation and identification of lesser priorities have enabled the Council to close its budget gap for 2008/09. Savings are being made from staff re-structuring, better treasury and asset management, and the freezing of recruitment and capital spending. The Council is working more effectively with the other Somerset councils to deliver a county-wide contract for waste collection and recycling which aims to improve value for money. The Council's investment in partnerships is placing it in a good position to maintain its relatively low costs and find further ways of delivering efficiencies.

- 31 Performance management arrangements are improving, with clearer and more frequent performance reports but reporting can be too reactive and is not predicting problems and reacting quickly enough; for example in highlighting increases in violent crime, predicting homelessness, understanding trends, predicting the performance of partnerships, and progress in meeting the decent homes standard. There is a risk that the Council will not be able to understand how well it is meeting its vision *'to be a high performing Council, working in partnership to create a good quality of life for all Taunton Deane residents'*.
- 32 The pace of change has been affected by outside pressures and the considerable amount of time needed to develop new and innovative partnerships. The Council's rate of improvement has been affected by developing new partnership arrangements such as South West One and in opposing the county council's plans to form a unitary council in Somerset. As a result, the Council has been very internally focused this year and this has affected its ability to manage service performance. The Council is on target to meet only half of its targets and meet at least 9 of its 19 strategic objectives in the corporate strategy. The Council recognises the priority of improving its housing service and its strategic housing function and has for example commissioned a housing needs analysis. It has been slow however to commission stock condition surveys on its own housing.
- 33 The Council is facing a number of significant risk and uncertainties. A number of the Council's plans for the development and improvement of its services are out of date or are being amended, for example its procurement strategy, partnership risk arrangements and information strategy. Workforce plans are not well developed. Matching the Council's capacity with its ambitions remains a constant challenge. The high number of projects and partnerships is continually stretching management capacity. In response the Council is re-structuring its strategic management team to focus on the themes of partnerships, place, performance, and people. The development and clarity of staff structures outside the South West One partnership is causing some confusion to staff, although early proposals to move away from functional roles will help deliver better capacity in the future.
- 34 Progress with new governance arrangements is mixed. The Council recognises that risk management arrangements, asset management plans and its data quality work needs to improve. Work is underway on better financial and governance arrangements with key partners. Scrutiny arrangements are improving well and councillors understand their roles better. However, councillor capacity is stretched and they are not communicating their current and future expectations and priorities clearly enough to the community, staff and partners. A local Code of Corporate Governance has not yet been adopted.

## The audit of the accounts and value for money

- 35 Your appointed auditor has reported separately to the Corporate Governance Committee on 24 September 2007 on the issues arising from our 2006/07 audit and has issued:
- an unqualified opinion on your accounts;
  - a conclusion on your vfm arrangements to say that these arrangements are adequate; and
  - a report on the Best Value Performance Plan confirming that the Plan has been audited.

### Use of Resources

- 36 The findings of the auditor are an important component of the CPA framework. In particular the Use of Resources score is derived from the assessments made by the auditor in the following areas.
- Financial reporting (including the preparation of the accounts of the Council and the way these are presented to the public).
  - Financial management (including how the financial management is integrated with strategy to support council priorities).
  - Financial standing (including the strength of the Council's financial position).
  - Internal control (including how effectively the Council maintains proper stewardship and control of its finances).
  - Value for money (including an assessment of how well the Council balances the costs and quality of its services).
- 37 We have updated our assessment of the Council's arrangements in 2006/07 for use of resources in these five areas as follows.

**Table 1**

Element	Assessment for 2006/07	Previous assessment
Financial reporting	3 out of 4	3 out of 4
Financial management	3 out of 4	3 out of 4
Financial standing	3 out of 4	3 out of 4
Internal control	2 out of 4	2 out of 4
Value for money	3 out of 4	3 out of 4
Overall assessment of the Audit Commission	3 out of 4	3 out of 4

(Note: 1 = lowest, 4 = highest)



- 38 The scores for all five themes have remained unchanged, and the Council has retained its overall score of 3 (performing well). However, due largely to pressures on staff time from its major change agenda, in particular the South West One project, it was evident from our audit that the rate of improvement across all the use of resources areas has slowed significantly, and in some cases has stalled. As the assessments are made more challenging each year, this places the Council at an increased risk of receiving lower scores for 2007/08 unless it can show that it has addressed the key areas for improvement that we identified at last year's audit.
- 39 The other key issues from our use of resources audit are as follows.
- The Council has produced a user-friendly and informative summary of the 2006/07 accounts, which we commended to the Audit Commission as good practice.
  - Budget monitoring arrangements remain sound and in-year budget pressures are identified on a timely basis.
  - Progress in developing local performance indicators for asset management has been slow.
  - Overspendings on the Concessionary Fares budget are placing pressures on the Council's general fund balances.
  - The cost-effectiveness of the Council's debt recovery procedures should be subject to regular review.
  - The Council maintains separate risk registers for each of its major projects, but needs to ensure that the corporate risk register is regularly updated and has clear links to strategic business objectives.
  - The Council need to adopt a local Code of Corporate Governance to provide the framework for the preparation of its Annual Governance Statement.
  - The Council delivers a range of quality services and relatively low costs overall, and user satisfaction for many services remains high.
  - The rate of improvement on performance indicators generally has slowed, although the Council is focussing more robustly on its priority areas.
  - Opportunities for joint procurement with key partners are being actively pursued.
  - The Council needs to develop appropriate local indicators for cost-effectiveness and value for money for each service and major project.

## Data quality

- 40 Overall, the Council continues to meet the minimum data quality requirements. Appropriate controls are in place for both manual and computerised systems. There are good security arrangements for the critical performance information systems. In response to issues we raised last year, the Council has improved its quality monitoring arrangements for the systems for preparing individual performance indicators, and we were able to confirm the reliability of all the performance indicators selected for detailed testing this year.
- 41 There are still a number of areas for further improvement.
- Checks on the quality of data from partnerships, particularly financial data, need to be more comprehensive.
  - Progress with the information strategy has stalled.
  - Staff and councillors need to be more fully involved in the development of data quality policies.

## Financial standing

- 42 The Council has a sound record of delivering expenditure within budget. However, for 2006/07, there was an overspending against budget of £242,000, which represents 1.9 per cent of the approved budget of £13.060 million. As a result, general fund balances reduced from £1.38 million at 31 March 2006 to £1.24 million at 31 March 2007.
- 43 The major area of overspending in 2006/07 was of £505,000 on the concessionary travel budget. Like many other councils, the Council underestimated the impact of the statutory changes to the concessionary fares scheme from April 2006. The Council included an additional £373,000 for concessionary travel in the 2007/08 budget.
- 44 Despite this, the Council's latest budget forecast for this year shows a further overspend on this budget head of £538,000. Action has been taken to achieve compensating savings elsewhere, in particular through a freeze on recruitment from October 2007. However, there is still a forecast net overspend of £219,000. Combined with supplementary estimates granted during 2007/08, this would reduce working balances at 31 March 2008 to around £650,000, below the minimum target level of £750,000 as set out in its financial strategy.
- 45 At November 2007, the Council reported a budget gap for 2008/09 of £1.1 million. It has now agreed a programme of savings of over £1.2 million which would allow it to produce a balanced budget for 2008/09 and would bring working balances up to around £1 million at 31 March 2009. The balances are then forecast to continue rising in each of the three following years towards £1.5 million. However, it does face a number of financial risks, in particular from:
- the Concessionary Travel scheme, where take-up and costs have persistently out-stripped central government funding; and
  - the South West One project.



- 46 We are currently undertaking a review of the South West One project, covering both the local authority partners, and will report the results of this shortly. The project offers both significant financial opportunities and risks for the Council. In the short-term, it will place extra pressure on the Council's borrowing requirements and balances, as costs from the "transformation projects" are likely to come through more quickly than the anticipated procurement savings from which they will be financed.
- 47 As regards the Housing Revenue Account (HRA), following the ballot rejection of the stock transfer, the Council is setting aside £1.5 million in each of the four years to 2010/11 to help fund the Decent Homes capital programme. As a result, HRA balances are forecast to fall from the current level of just over £3 million to around £900,000 by 31 March 2012. Whilst this would still leave them at a reasonably prudent level, the predicted fall would significantly reduce the Council's capacity to respond to any additional demands on resources, particularly bearing in mind that budgets beyond 2011/12 will not be able to rely on support from balances.
- 48 The Council does, then, face significant financial challenges over the short and medium term. As well as maintaining tight budgetary control generally, it needs to:
- monitor closely the actual delivery of the agreed savings from the 2008-9 budget;
  - monitor the impact of the South West One project; and
  - review the profile of balances and reserves for both the General Fund and HRA over the period of the medium-term financial plan to ensure they are forecast to remain at adequate levels throughout that period.

### **Audit of the financial statements**

- 49 The Council's draft accounts were supported by a comprehensive set of working papers and were subject to robust scrutiny by members prior to their adoption by the Corporate Governance Committee on 27 June 2007. We gave an unqualified opinion on these accounts following the presentation of our Annual Governance Report to the Corporate Governance Committee on 24 September 2007.
- 50 There were a number of changes to the CIPFA Statement of Recommended Practice (the 'SORP') for 2006/07. The Council's officers handled these well. There are further changes for 2007/08, and we are running a local workshop for accountancy staff from all the Somerset district councils to help prepare for these, to supplement a seminar being organised by the Audit Commission in February 2008.

- 51 As part of our opinion audit, we consider the systems of accounting and financial control and report to you any material weaknesses identified. Our review completed during 2006/07 identified control weaknesses in the new systems introduced in that year:
- non-domestic rates;
  - council tax;
  - benefits; and
  - payroll.
- 52 As a result of these weaknesses, our testing provided only limited assurance for our opinion on the 2006/07 accounts, and we therefore carried out additional substantive testing before we gave our opinion on the accounts. We received assurances from officers that they would address the system control weaknesses in the current year.

### **HB and council tax subsidy claim**

- 53 Each year, the Council submits a claim to the Department for Works and Pensions (DWP) which summarises the benefit entitlements awarded by the Council during the year and reconciles these to the amount reclaimed by the Council from the DWP. Part-way through 2006/07, the Council changed from an in-house benefits system to a bespoke system (IBS). This change placed considerable extra pressure on benefits staff and created a number of additional problems in the preparation and audit of the subsidy claim. During the course of the audit, a number of amendments to individual entries on the claim were agreed, although the net effect on the final audited claim was actually an increase of £15,000.
- 54 A number of the problems identified were a direct result of the change process and are therefore specific to 2006/07. However, in our report to officers we have made recommendations for strengthening the Council's ongoing procedures and thereby reduce the risk of problems with the preparation and audit of future claims.

### **Triennial review of internal audit**

- 55 During the year, we completed our triennial review of internal audit, which is provided to the Council by the South West Audit Partnership (SWAP). We concluded that SWAP achieves a high level of compliance with the CIPFA Code for Internal Audit. The areas of non-compliance are relatively minor in nature and do not require significant work to secure full compliance in the short-term.
- 56 We are pleased to report that SWAP responded extremely positively to our report and have agreed an action plan to address all the areas of non-compliance with the Code. The Council should use our findings to inform its own annual review of the effectiveness of internal audit, a requirement under the revised Account and Audit Regulations 2006.

## **Additional services**

- 57** During the year, we facilitated a workshop for members of the audit committees (the Corporate Governance Committee for this Council) from all the district councils in Somerset. The workshop provided members with the opportunity to exchange views on the key roles for an audit committee.
- 58** The outputs from the interactive sessions highlighted the key areas where members felt that the audit committee should add value to the Council, particularly through:
- probing the information they receive from internal and external audit;
  - ensuring transparency and accountability in the conduct of the Council's affairs;
  - seeking assurances on the effectiveness of the Council's internal controls; and
  - providing an independent scrutiny of the Council's financial statements prior to their approval.
- 59** The workshop also highlighted the following key areas where members felt they needed additional training to enable them to perform their role as audit committee members effectively:
- the financial statements;
  - risk management; and
  - the new Annual Governance Statement.

## Looking ahead

- 60 The public service inspectorates are currently developing a new performance assessment framework, the Comprehensive Area Assessment (CAA). CAA will provide the first holistic independent assessment of the prospects for local areas and the quality of life for people living there. It will put the experience of citizens, people who use services and local tax payers at the centre of the new local assessment framework, with a particular focus on the needs of those whose circumstances make them vulnerable. It will recognise the importance of effective local partnership working, the enhanced role of Sustainable Communities Strategies and Local Area Agreements and the importance of councils in leading and shaping the communities they serve.
- 61 CAA will result in reduced levels of inspection and better coordination of inspection activity. The key components of CAA will be a joint inspectorate annual area risk assessment and reporting performance on the new national indicator set, together with a joint inspectorate annual direction of travel assessment and an annual use of resources assessment. The auditors' use of resources judgements will therefore continue, but their scope will be widened to cover issues such as commissioning and the sustainable use of resources.
- 62 The first results of our work on CAA will be published in the autumn of 2009. This will include the performance data from 2008/09, the first year of the new Local Area Agreements.

## Closing remarks

- 63 This letter has been discussed and agreed with the Council's senior officers. A copy of the letter will be presented to a group of leading members on 6 March 2008. Copies need to be provided to all Council members.
- 64 Further detailed findings, conclusions and recommendations on the areas covered by audit and inspection work are included in the reports issued to the Council during the year.

**Table 2      Reports issued**

Report	Date of issue
Audit and inspection plan	May 2006
Triennial Review of Internal Audit	July 2007
Annual Governance Report	September 2007
Opinion on financial statements	September 2007
Value for money conclusion	September 2007
Final accounts memorandum	November 2007
Data Quality Review	November 2007
Use of Resources Auditor Judgements	December 2007
Statutory report on the Council's BVPP	December 2007
HB and Council Tax Subsidy Claim	December 2007
Annual audit and inspection letter	March 2008

- 65 The Council has taken a positive and constructive approach to audit and inspection work, and I wish to thank the Council's staff for their support and cooperation during the audit.

## Availability of this letter

- 66 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.

**Rob Hathaway**  
**Relationship Manager**

March 2008