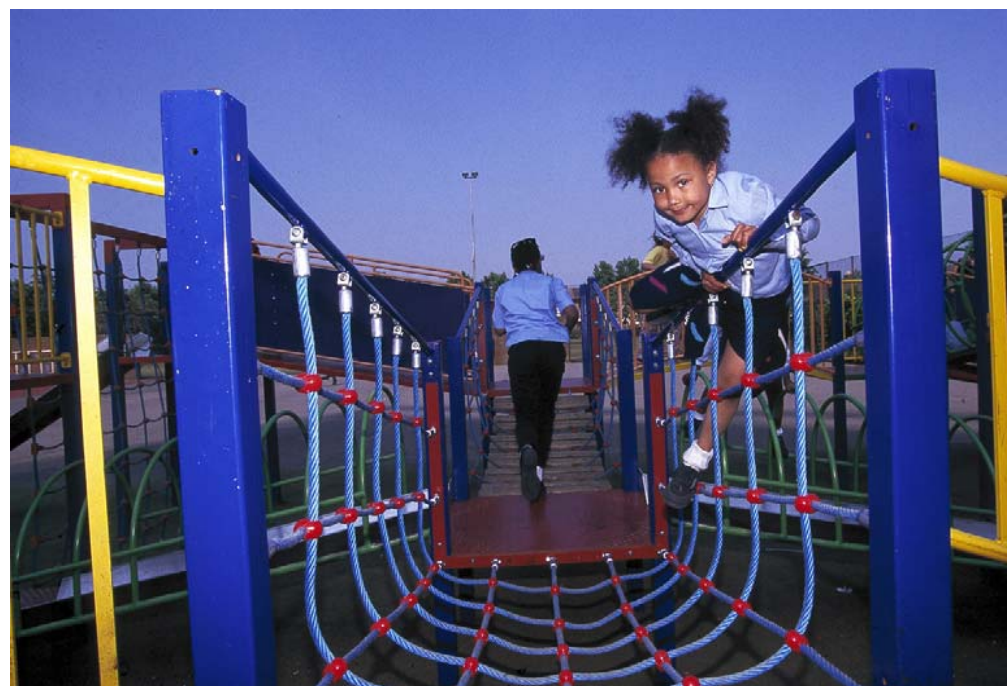


# Charnwood Borough Council 2003/04 Joint Audit and Inspection Letter



The Members  
Charnwood Borough Council  
Southfields  
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November 2004

Ladies and Gentlemen

**Joint Audit and Inspection Letter 2003/04**

We are pleased to present our Joint Audit and Inspection Letter for 2003/04. We hope that the information contained in this report provides a useful source of reference for Members. The Cabinet considered the Letter on 25<sup>th</sup> November 2004.

Yours faithfully

PricewaterhouseCoopers LLP

Encs

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## **Code of Audit Practice and Statement of Responsibilities of Auditors and of Audited Bodies**

*We perform our audit in accordance with the Audit Commission's Code of Audit Practice (the Code), which was last issued in March 2002. This is supported by the Statement of Responsibilities of Auditors and Audited Bodies, which was last issued in April 2000. Both documents are available from the Chief Executive of each audited body.*

*The purpose of the statement is to assist auditors and audited bodies by explaining where the responsibilities of auditors begin and end, and what is to be expected of the audited body in certain areas.*

*Our reports and audit letters are prepared in the context of this statement and in accordance with the Code.*

*Reports and letters prepared by appointed auditors and addressed to members or officers are prepared for the sole use of the audited body, and no responsibility is taken by auditors to any Member or officer in their individual capacity, or to any third party.*

# Executive summary

## The purpose of this report

We are required, under the Audit Commission's Code of Audit Practice (the Code), to issue an annual Audit Letter to the Council on completion of our audit, demonstrating that the Code's objectives have been addressed and summarising all issues of significance arising from our work. Our report also includes a summary of the results of the inspection work undertaken during 2003/04 by the Audit Commission in accordance with their responsibilities as detailed in section 10 of the Local Government Act 1999.

The joint reporting of audit and inspection work in this format recognises the steps that the Audit Commission has taken to integrate more closely audit and inspection regimes, whilst recognising and maintaining their separate statutory responsibilities. The Audit Commission has appointed 'relationship managers' for all local authorities to co-ordinate planning and delivery of inspection work alongside the statutory audit work.

Whilst the inspection work undertaken at Charnwood Borough Council is carried out by the Commission, we have liaised closely with the Relationship Manager to ensure that our work is integrated with the inspection work.

The new approach is intended to provide a more proportionate and integrated approach to performance audit and inspection work.

Looking forward, the main area for an integrated approach will be in respect of performance review work, based on the improvement plan developed by the Council, following the Audit Commission's Comprehensive Performance Assessment process (CPA).

Our Audit Plan set out the risks that we identified as part of our audit planning, together with the targeted work that we planned to perform in order to address these risks.

We have issued a number of reports during the audit year, detailing the findings from our work. A list of these reports is included at Appendix A to this Joint Audit and Inspection Letter.

We have set out below what we consider to be the key issues arising from the audit and inspection work.

The Council has been through significant organisational changes during the year resulting in the departure of a number of long serving directors and service department restructures. In light of this changing environment the Council has maintained sound financial control and we are pleased to present an audit letter, which contains a number of positive messages for Members.

#### **Accounts and Governance**

Our work in respect of the accounts this year was completed in an efficient and effective manner and we are issuing the Council with an unqualified audit opinion on the accounts. The Council's finance team should be commended for their efforts in achieving an efficient and timely accounts closure process.

In 2003/04 the Council was required to produce more detailed information than before on future pension liabilities. This information indicates that, in setting the budget for 2005/06 and beyond, significant additional funds will need to be set aside for employer's contributions to the local government pension scheme.

During 2003/04 the Council managed its expenditure within budget and reported a deficit of £0.8 million as at 31 March 2004. As a result of this deficit and other contributions from reserves the Council's overall level of earmarked and general reserves have decreased. The current level of the general revenue reserve represents approximately 6% of net budgeted operating expenditure. Although we have concluded that the level of uncommitted general reserves is adequate the Council must monitor any further reduction to ensure they maintain a sufficient level of reserves to meet known current and future liabilities and operational cost pressures. This should be mirrored with monitoring the achievement of cost savings identified as part of the 2004/05 budget.

The Council's Housing Revenue Account reported a deficit of £0.69 million for the year, reducing the level of HRA reserves to £0.74 million as at 31 March 2004. Given the legislative restrictions on the sources of funding available to the HRA it is important that the Council continue with robust budget setting and monitoring arrangements.

We are satisfied that the Council has made good progress in implementing the Prudential Framework.

#### **Performance Management**

The Council was subject to the Audit Commission's Corporate Performance Assessment (CPA) during the year, which rated the Council as "fair". The Council is close to finalising their Outcome Improvement Plan, which will set out how they plan to address the development areas identified as part of the CPA. The key areas for development identified include providing clarity on the Council's priorities, improving the performance of Housing and embedding performance management and risk management within the Council.

As highlighted above, a key priority for the Council is the development of a more robust performance management framework. Consideration has been given to implement improvements in this regard and we recommend that the Council closely monitors all aspects of their revised performance management system to evaluate its effectiveness.

Our 2002/03 Audit Letter included our unqualified opinion on the Council's 2003/04 best value performance plan. We are in the process of completing our audit work on the 2004/05 plan and subject to the satisfactory resolution of the outstanding issues we anticipate issuing an unqualified opinion by 31 December 2004.

Our audit work on the 2003/04 performance indicators resulted in four indicators being qualified and we also found a number of calculation errors during our audit work. We have made recommendations aimed at improving the accuracy and overall internal control arrangements in respect of performance indicators.

# Accounts and Governance

## Accounts

The purpose of our accounts work was to perform an audit of the final accounts of the Council, in accordance with approved Auditing Standards.

We are pleased to report that the working papers requested were made available at the start of our audit. The standard of working papers to support underlying transactions incorporated within the accounts were of a high standard. The Council's finance officers should be commended for their efforts in providing good working papers and prompt assistance during the course of our audit. This assistance aided the completion of our audit in a timely and efficient manner.

We presented our "SAS 610 report" (setting out the findings from our accounts work) to Audit and Risk Management Scrutiny Committee on 26<sup>th</sup> October 2004. There were no matters in that report, or that have arisen subsequently, that we need to bring to your attention in this letter.

We will be issuing an unqualified audit opinion on the Authority's 2003/04 financial statements.

## Financial Reporting Standard (FRS) 17: Retirement Benefits

2003/04 was the first year of full implementation of FRS 17. The FRS is concerned with identifying the real underlying financial position of an authority with regard to its participation in pension schemes.

Preparation of the disclosures has required the Council to commission expert advice from actuaries, via Leicestershire County Council, for staff in the local government pension scheme. This advice is used to present more detailed information about the Council's longer-term financial position than required under previous accounting treatments. Based on our work, we are satisfied that the new pensions disclosures made in the 2003/04 accounts are consistent with FRS17.

The local government pension scheme is a funded scheme, meaning that the Council and employees pay contributions into a fund, calculated at a level intended to balance the pension liabilities with invested assets. As at 31 March 2004, in respect of the assets and liabilities attributable to the Council, this scheme was in deficit by £7.9 million.

The availability of information, as required under FRS 17, has provided the Council with advance information about the likely impact on employer's contribution rates following the next full valuation of the Leicestershire Pension Fund. This rate change will impact on the 2004/05 financial position. Recent trends in the stock market suggest that the valuation may confirm a worsening position in the fund that would require the Council to fund an increase in contribution rates in the future.

## Financial standing

For 2003/04, the Council's net operating expenditure was £19.2million, representing an increase of 11% from 2002/03 (£17.3million). This level of expenditure was in line with budget and at the end of the year the Council reported a deficit of £0.8 million, after making a net appropriation from reserves.

Overall, the Council managed its expenditure within budget. Members have received monitoring reports detailing variations to budget although we note that there have been no significant over or under spends during the year.

The Council's overall level of earmarked and general reserves have decreased year on year representing a net reduction in available funds from £12.3million as at 31 March 2003, to £9.73million as at 31 March 2004 (representing approximately 6% of budgeted net operating expenditure). The majority of this decrease resulted from the contribution from reserves to fund operating expenditure and the net general fund deficit for the year. There was also a reduction in the level of reserves held for capital works since slippage on the Council's 2002/03 capital programme was alleviated during the year.

| 31 March 2003 | Item                             | 31 March 2004 |
|---------------|----------------------------------|---------------|
| £0.9m         | Major Repairs Reserve            | £1.18m        |
| £1.7m         | Earmarked capital reserves       | £1.02m        |
| £2m           | General revenue reserve          | £1.19m        |
| £1.43m        | Housing revenue reserves         | £0.74m        |
| (£0.03m)      | Collection fund                  | £0.05m        |
| £6.3m         | Other earmarked revenue reserves | £5.55m        |
| <b>£12.3m</b> | <b>Total funds</b>               | <b>£9.73m</b> |

It is important that the Council maintains a sufficient level of reserves to meet both known current and future liabilities and also future operational cost pressures. Based on the Council's net expenditure for the year, we have concluded that the level of uncommitted general reserves is adequate.

Looking forward, the setting and managing of budgets is becoming increasingly challenging where costs pressures in certain service areas are expected to increase to meet both operational demands and non operational commitments such as pension liabilities for the local government pension scheme. In addition, significant cost savings have been identified as part of the 2004/05 revenue budget.

With the Government seeking to impose limits on future Council Tax increases, the Council will need to ensure that robust plans are in place to minimise the impact of any future overspends. We understand that planned increases in the level of council tax levied by the Council, based on the 2004/05 and 2005/05 budgets, are within the Government's limits.

The Council's Housing Revenue Account (HRA) reported a deficit of £0.69 million for the year, reducing the level of HRA reserves from £1.43 million as at 31 March 2003 to £0.74 million as at 31 March 2004. The Council has budgeted a £0.2million surplus for 2004/05. If the budgeted surplus is achieved, the level of reserves at 31<sup>st</sup> March 2005 will be £0.94million. The current level of reserves is sufficient to meet the Council's policy of maintaining a minimum balance of £100 per dwelling. Given the legislative restrictions on the sources of funding available to the HRA it is important that robust budget setting and monitoring arrangements continue.

### Prudential Framework for Capital Expenditure

From 1 April 2004, the Authority has been able to plan its capital expenditure under the new Prudential Framework, which focuses on the Council's ability to afford the consequences of spending decisions from future years' revenue accounts and allows it to set its own limits on the borrowing needed to achieve an affordable capital strategy.

We have reviewed the steps the Council took in 2003/04 to prepare for the implementation of the Prudential Framework, including the process for setting limits and indicators under the CIPFA Prudential Code. We are satisfied that the Council has made good progress in implementing the Prudential Framework.

### Statement of internal control

The Accounts and Audit Regulations 2003 included a requirement that the statement of accounts prepared by an authority in England should contain a statement on internal control (SIC) from 2003/04. These statements refer to much wider systems of control than purely financial systems and require the Council to have in place such systems of control. Authorities are required to conduct annual reviews of the effectiveness of the system of internal control, which will provide the findings to support the SIC. The SIC included within the Authority's 2003/04 statement of accounts meets the requirements of the Regulations.

### Internal audit

In accordance with the 'managed audit' approach we set out to work closely during the year with internal audit to ensure that between us we achieved appropriate coverage of the Council's key financial systems.

We commented in our interim audit report (June 2004) that internal audit had not reviewed all of the Council's key systems during the year and that we were unable to assess internal audit's performance against the audit plan since this had not been monitored during the year.

We are pleased to note that since our interim report, officers have appointed an audit and performance manager who is in the process of addressing our audit issues relating to internal audit. Going forward, the Council must ensure that it maintains compliance with the CIPFA Code of Practice for internal audit.

### CPA scored judgements

Under the Code of Audit Practice each year we are required to submit 'auditor scored judgements' to the Audit Commission as part of the Comprehensive Performance Assessment (CPA). Based on set criteria we are able to 'score' the Council under each of the five categories for assessment. The results of our assessment are set out below.

| Category                   | Score |
|----------------------------|-------|
| Financial standing         | 3     |
| Internal financial control | 2     |

|  |   |
|--|---|
| Standards of financial conduct and prevention of fraud | 2 |
| Financial statements                                   | 4 |
| Legality of significant financial transactions         | 3 |

1= inadequate; 2= adequate overall/some weaknesses; 3= adequate; 4= better than adequate.

These scores were used by the Audit Commission to inform part of their overall assessment under the CPA.

### Standards of financial conduct and the prevention and detection of fraud and corruption and the legality of financial transactions

We are pleased to report that there are no issues arising from our audit work in relation to financial conduct, fraud or the legality of financial transactions that we wish to bring to your attention.

# Performance management

## Performance management framework

The Council has experienced a period of significant change during the year. The appointment of the new Chief Executive in September 2003 has resulted in a radical restructure of the senior management team including the appointment of a new post of Deputy Chief Executive. The previous Directors team has been scaled down with the loss of some long serving experienced Directors. The next twelve months will be a challenging time for the Council and an opportunity to make significant progress in all areas including performance management.

A key priority for the new management team is the development of a more robust performance management framework. This is being progressed by a revision of the corporate plan 'Leading in Leicestershire' which sets out the priorities for the Council. The revised plan is still in draft form but will be presented to Cabinet in December 2004. The new annual service delivery plans (SDP) are currently being developed and will more closely align to the budgets. Monitoring arrangements are in place and key priorities and indicators are monitored by the Chief Executive Team. The newly introduced more cross cutting scrutiny arrangements will also be used to monitor performance. The staff personal development system will set objectives for all staff in line with the SDP's and should ensure all staff are fully informed of their role in the delivery of Council priorities.

The Council should closely monitor all aspects of the revised performance management system to evaluate its effectiveness.

## Comprehensive Performance Assessment (CPA)

On 16 September 2004 the Audit Commission published the results of its comprehensive performance assessment of your Council. The CPA process has resulted in Charnwood being judged as a 'Fair' Council. The key findings are summarised below.

The Council has some good services in priority areas. It is beginning to implement its plans to improve services. The Council has clear ambitions. It works effectively with its local strategic partnership and has a clear understanding of local challenges and problems. However, long term ambitions are unclear as current ambitions are relatively short term.

Priorities for the Council are less clear and reflect the short term nature of current ambitions; non-priorities are not explicitly identified. Communication of priorities is inconsistent and there is no hierarchy of priorities or sense of relative importance. However, the Council has based many of its priorities on sound consultation. The Council has lacked some of the mechanisms to ensure its continued focus over time, but has demonstrated a track record in some areas such as economic development, cleaning and leisure services.

The Council is in the process of addressing its own internal capacity and has a sound debt free financial position and is able to invest in services. It also has capacity building partnerships which are delivering results particularly the Charnwood strategic partnership, county partnerships and links with local

businesses. At a local level the Council works well with the parishes. Councillors and officers are clear about their respective roles and there are positive officer and councillor working relationships.

Performance management is developing but not fully embedded into the day to day running of services. Although monitoring arrangements have substantially improved implementation is varied. Risk management is not fully integrated into all the Council's services and there is limited analysis of whether they are delivering value for money.

The quality of service as measured by national performance indicators is above average. The 2002/03 national indicators show that 59 per cent are above average with 25 per cent in the top quartile and 20 per cent in the bottom quartile. The Council is performing well in some priority areas such as economic development, promoting a sustainable environment, and leisure. However, the Council performs poorly in the delivery of decent homes.

The Council's track record of improving services is mixed. National indicators for 2002/03 showed that 65 per cent of indicators had improved on the previous year. The Council has delivered improvements to the physical environment in the town and improved customer access. However the Council failed to improve in some priority areas such as recycling, decent homes and housing re-let times.

The Council is self aware and realistic about the challenges it faces. It has learned from itself and others. The Council has recognised its gaps in capacity and is making a number of investments which will contribute to improvement. The Council plans to work both in partnership and internally to improve key service areas such as customer services and recycling.

The main elements of the assessment were:

- a self-assessment completed by the Council
- accredited peer challenge to inform the self assessment
- a corporate assessment of the Council's overall effectiveness in supporting services to deliver improvements
- an assessment of the Council's service delivery performance through two diagnostic assessments on its:
  - progress in meeting the decent homes standard
  - management of public space

- Benefit Fraud Inspectorate's (BFI) assessment of benefit services
- Appointed Auditor assessments of performance on each of the main elements of the Code of Audit Practice
- audited performance indicators, inspection reports and plan assessments.

Each of the scored elements are shown below to provide a broad indication of the main reasons supporting the assessment of Charnwood as a 'Fair' Council.

#### Summary of theme scores

|                                   |   |
|-----------------------------------|---|
| Ambition                          | 3 |
| Prioritisation                    | 2 |
| Focus                             | 2 |
| Capacity                          | 2 |
| Performance Management            | 2 |
| Achievement in quality of service | 3 |
| Achievement of improvement        | 2 |
| Investment                        | 3 |
| Learning                          | 3 |
| Future plans                      | 3 |

Source CPA - Scoring - 1 (weak), 2 (weaknesses outweigh strengths), 3 (strengths outweigh weaknesses), 4 (strong)

#### Summary of diagnostic assessment scores

|                            |   |
|----------------------------|---|
| Decent homes standard      | D |
| Management of public space | B |

Source CPA - The scores in this table reflect the need for improvement - A (very low), B (low), C (high), D (very high)

#### Summary of auditor assessment scores (see page 8)

#### Summary of BFI assessment scores

|                     |                   |
|---------------------|-------------------|
| Current performance | Fair towards good |
| Capacity to improve | Fair towards good |

Source CPA - Poor, Fair, Fair towards Good, Good, Excellent

Following on from the CPA inspection is the improvement planning phase. The Council has identified its priorities and approach to improvement, and is working alongside the Audit Commission and other regulators to determine:

- clear improvement priorities drawing on the findings from CPA to feed into the Council's Corporate Plan to 2011/12
- a targeted audit and inspection programme which supports the Council's improvement work.

#### Best value

Under the Local Government Act 1999 we are required to carry out an audit of the Council's Best Value Performance Plan (BVPP). Our 2002/03 Audit Letter included our unqualified opinion on the Council's 2003/04 best value performance plan.

#### Follow up of prior year recommendations

In our 2002/03 Audit Letter we made four recommendations relating to Best Value, these are detailed below together with the results from our follow up work.

##### Performance Management Framework:

The Council must ensure:

- All Services annually produce their Service Delivery Plans (SDP's) and that these are monitored for consistency across the Council;
- Key priorities agreed by Members and are clearly linked to the SDP's;
- There is clear evidence of linkages between the Council's financial and service planning in respect of allocating resources to corporate and service priorities; and
- Key targets and priorities are monitored regularly by Directors and Members.

##### Results from follow up work

The Council continues to produce Service Delivery Plans for each department. The forthcoming year's plans are currently being developed with the aim of introducing SMART objectives across all departments and to be more closely

aligned to the budgets. The plans will be approved by the Chief Executive (CE) team and monitored by both the CE team and the performance and management scrutiny committee. Key priorities have been amended and the new draft corporate plan 'Leading in Leicestershire' details the new aims and objectives of the Council. The corporate plan is due to be approved in December 2004.

##### Performance indicators:

To improve the accuracy and overall internal control arrangements in respect of Performance Indicators, we recommended that:

- Consideration be given to training key staff on performance indicators, particularly in respect of the methodology and systems for calculation;
- Senior members of staff within each department who have responsibility for performance indicator data should be given appropriate support and guidance to ensure the accuracy of outturn data included in SDP's.

##### Results from follow up work

Our work on the 2003/04 performance indicators resulted in four indicators being qualified in the Audit Commission return because data had either not been collected or the estimate given by the Council could not be substantiated. We also found a number of indicators that had been calculated incorrectly and had to be amended. Our recommendations from 2003/04 remain valid.

##### Target setting:

We recommend that the Council considers ways to improve their current target setting arrangements (e.g. devise a training programme) to assist staff in setting robust and challenging targets that are duly aligned to Council priorities.

##### Results from follow up work

Some targets are being missed and not all indicators are improving. The CPA report highlighted that some managers do not supply information about service performance in a timely way. Our previous year recommendation remains valid.

We intend to follow up our recommendation during 2004/05.

#### Procurement policy:

We recommend that the Council prioritise the finalisation of their Procurement Code and implements the procurement policy across all Council activities to ensure that effective challenge both internally and externally is achieved and can be demonstrated.

#### *Results from follow up work*

The Procurement Code of Practice has now been finalised and the procurement policy should now be demonstrated across all areas of the Council. We recommend that a review of the implementation of the policy is carried out to ensure effective challenge is being demonstrated in all areas of the Council.

#### Targeted audit work

##### Asset Management

Our targeted audit work on asset management was reported in our 2002/03 audit letter. The draft report was issued to the Council for consideration in September 2003 and we are pleased to report that following discussions with officers we have finalised the action plan and our final report was issued in August 2004. A summary of our key findings are summarised below:

- The Council must prioritise the implementation of a disposals policy, which clearly sets out the decision making and approval process.
- Disposals of key development sites should be the result of strategic decision making and not representations from developers. All disposals should be subjected to external marketing and the Council should consider more innovative ways of disposing of their assets.
- Populating the Asset Management Database should be a priority to ensure that all decisions are based on full, up to date management information.

#### E-Government

Our follow up work on our VFM study of E-Government which was due to be reported to the Council in December 2003 was delayed at the request of the Council. We will be following up the recommendations made at the time of our original study during 2004/05. We are aware that the Council has made progress in this area.

# Audit plan 2004/05

## Audit Plan 2004/05

We issued our draft Audit Plan for 2004/05 in June 2004 and duly presented it to the Audit and Risk Management Scrutiny Committee in June 2004. We are still in discussions with key officers to agree specific performance management work we will undertake during 2004/05 to complement the completion of the Council's CPA Outcome Improvement Plan.

Given the dynamic environment within which you operate, we have revisited our Audit Plan to ensure that it remains appropriate for the 2004/05 financial year. We are satisfied it contains current and appropriate key business and audit risks.

## Fees update for 2003/04

We reported our fee proposals as part of our Audit Plan for 2002/04. These fee proposals covered the 2002/03 and 2003/04 audits. We can confirm that our actual fees for 2002/04 were in line with our proposals (£188,000).

# Appendix A: Audit reports issued in relation to the 2003/04 financial year

- Audit report for 2003/04 financial statements – November 2004
- Interim Audit Report - June 2004
- 2003/04 BVPP opinion and report - November 2003 (incorporated in 2002/03 Audit Letter)
- CPA auditor scored judgements - June 2004
- Asset Management Report - August 2004
- SAS 610 report - October 2004

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