

Annual Audit and Inspection Letter

Swindon Borough Council

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Executive Summary

The purpose of this letter

This is our audit and inspection 'Annual Letter' for Members which incorporates the Annual Audit Letter for 2003/04, and is presented by the Council's Relationship Manager and Appointed Auditor. The letter summarises the conclusions and significant issues arising from our recent audit and inspections of the council.

We have issued separate reports during the year having completed specific aspects of our programme. These reports are listed at Appendix 1 for information.

Appendix 2 sets out the scope of audit and inspection.

Appendix 3 provides information about the fees charged.

Key messages

Council performance

In October of this year the council underwent a Corporate Assessment (CA) and Corporate Governance Inspection (CGI) by the Audit Commission, which included significant reviews by the Commission for Social Care Inspection (CSCI) and the Office for Standards in Education (OFSTED). In addition, the Benefits Fraud Inspectorate (BFI) reviewed the council's benefits service.

The CA concluded that the council has made sufficient progress since 2002 to move from the poor to the weak category, but that the pace of improvement is too slow. CSCI reported improvements in services for older people and OFSTED have recommended that responsibility for the management of the council's education service be returned to the council.

Our CGI found that:

- the council is not successful at communicating its aims and direction to its community and is not exercising clear community leadership;
- the council's corporate approach to internal control is weak with few strengths;
- the council has made good progress in service planning and moderate progress with ICT and has started to tackle weaknesses in HR and asset management; and
- leading members and directors are becoming increasingly effective in leading their service areas, but have yet to develop the mechanisms for corporate policy-development. The directors' team is still in a formative phase and has yet to become fully effective. There have though been significant gains in cross-party and member-officer relations.

The BFI reported that the council has yet to meet any of its performance standards, although there have been sustained improvements in a number of areas.

The performance audit work carried out this year has shown that the Council has made progress in:

- developing a framework to ensure there is systematic development, implementation and review of policies;
- the overall quality of corporate governance arrangements, particularly in respect of leadership and joint working between service areas; and
- making more support available to members engaged in the scrutiny of services.

However, our work has also shown that further attention is needed to ensure that:

- the proposed framework for policy development is implemented effectively. Clear leadership, an effective training programme and a means of enforcement will be necessary to embed the new arrangements;
- the understanding between officers and members regarding the strategic and operational working of the Council is improved, including awareness of how the Council's political structures should function;
- the arrangements for service and financial planning are strengthened with better integration in the planning framework; and
- proposals for performance management arrangements develop urgently in accordance with recognised best practice, engaging members and officers from across the Council.

The Accounts

An unqualified opinion was provided on 17 December 2004. Our audit work identified a number of adjustments to the financial statements which were discussed and agreed with the Council. Our SAS610 report, detailing the findings from our audit, was presented to the Cabinet on 15 December 2004.

Financial position

The financial position of the Council reported in the accounts identified that in 2003/04 a deficit of £0.66 million was incurred on the general fund, reducing the general fund reserve balance to the minimum appropriate level set by the Council of £4 million, at the end of the year. The latest monitoring report (29 September 2004) indicates an overspend against original budget for 2004/05 of £2.4 million (Social Services £1.6 million and Education £0.45 million), but this is before the impact of the savings programme initiated by management. These savings, together with one-off receipts totalling £0.8 million, should bring the deficit down to around £0.3 million (as predicted at the end of October 2004).

We will continue to closely monitor the financial position of the Council over the coming months.

Other accounts and governance issues

Our review has concluded that there remain some significant weaknesses in the Council's systems of internal financial control, with major weaknesses in the underlying control environment of a number of core systems. We have found that Internal Audit have continued to provide an effective work programme and we have been able to rely upon their work on core systems. Risk management arrangements are developing at the Council, but there remains some way to go. We commend the introduction of an Audit Committee and urge members to use this forum to drive through the necessary improvements in core systems. We will monitor its effectiveness over the next year.

Action needed by the Council

- Short-term priorities should be reviewed by officers, agreed by the cabinet and regularly reviewed to achieve a set of live, achievable operational plans that include the further required investments identified in the CGI report.
- The Council should ensure that it adopts its annual accounts in line with the audit and accounts regulations. For year ending 31 March 2005, this will be 31 July 2005.
- Senior councillors and directors should review monthly together key performance indicators, progress against key service and project plans, and headline revenue and capital expenditure. Risks and mitigations should be reviewed and recorded at these meetings.
- Meeting structure and processes should be reviewed to ensure that the cabinet takes collective ownership for developments in childrens' and adults' services, poorly performing services and the physical development of the borough.

- Portfolio-holders and managers responsible for key areas of the medium-term strategy, including second and third tier managers where appropriate, should follow a programme of meetings to review and develop a ranked and achievable set of medium term priorities, owned by the cabinet and understood by the council, based on the work of the community strategy and corporate plan.
- Official meetings of the council be managed so as to allow a suitable level of cross-party debate on important council business and to develop the scrutiny role of the council.
- Non-priority work should be rigorously stripped out.
- The council must fully understand and consciously manage its financial capacity. In particular the medium term financial plan should be closely-matched to the council's strategic intentions, capital options be appraised, valuations kept up-to-date and disposals planned ahead.
- Financial management within Social Services needs to be improved through more effective allocation of resources and tighter budgetary control.
- Weaknesses identified in the core financial systems need to be addressed.
- Progress needs to be made in both improving the performance of the Housing Benefits service and strengthening the contract with the service provider.
- The Audit Committee needs to ensure improvements in the control environment are delivered.
- Arrangements for the provision of information and complying with EU procurement rules in respect of major projects need to be strengthened.
- Overall procurement arrangements including the re-tendering of services currently provided in-house and the development of robust contracts.

Council Performance

CPA Scorecard

Element	Assessment
Overall	Weak
Current performance	out of 4
education	3
housing	2
use of resources	3
social care (children)	1
social care (adults)	2
benefits	1
environment	2
libraries & leisure	3
Capacity to improve	2

(Note: 1=lowest, 4=highest)

The pace of improvement has been too slow and, overall, results are mixed. The council now has a single party administration and has appointed new service directors. These factors are helping the council to begin recovery, but it still has weaknesses in its corporate systems such as how it buys goods and services and manages its performance. Services for elderly mentally infirm people and care services for people at home have improved, but child protection is still an area of concern.

The benefits service is still poor and the council needs to tackle this urgently. The council has improved its planning and housing services. Education for younger children (key stage 2) continues to improve but results for 14-16 year olds are still insecure.

Swindon Borough Council needs to continue to focus on developing effective management and planning systems before there can be any real improvement in the services it provides to local people. The council has put plans in place to do this and we will continue to monitor progress over the next 12 months.

CPA Corporate Assessment

The council has given priority to its recovery and has focused successfully on some key areas of failure identified in 2002. It has achieved a collaborative approach across political parties on major issues and recruited high-quality senior officers, creating a reasonably secure foundation for future corporate improvement. Some recruits are attracted by the opportunity to manage change, allowing the council a short-term window of opportunity for rapid progress.

There is progress in most but not all areas of previous service failure. Education was judged satisfactory by Ofsted at its last inspection in 2003 and has made further progress since. There are some hard-won gains in social services under a recently recruited management team and the council is investing in external social services help from Kent CC. A structural change that separated housing from social services has fostered housing improvements and some good cross-service initiatives with social services and health. However corporate performance management remains weak, leading to inconsistency in tackling underperformance in priority areas. For example the council has failed to tackle its underperforming benefits service; performance in recycling and affordable housing targets are un-ambitious in view of the council's opportunities.

Recovery has been slow outside the education department. In the last three months improved senior management capacity and a single party administration has started to increase the pace but it is still not sufficient. Weaknesses remain that were identified in 2002, in achieving an owned vision for the community, in decision-making processes, in linking budgets to policy, in value-for-money and in procurement. The council now has the capacity to tackle these areas and needs to do so urgently.

The council has supported the Swindon Strategic Partnership in producing a soundly based, well-presented community strategy this year. This joint work is of high quality with meticulous planning and performance management already in place. There are good horizontal and vertical links, including to the council's operational plans. The council's internal planning processes are now clearly set out. This planning framework was a key recovery priority and is now delivered. However the priorities of the community strategy and corporate plan are not owned by councillors. They have not been reviewed since the election of a majority administration in June and are not being used to drive medium term priorities, budget plans or to strip out the low-priority work that besets the council.

The Ofsted work for this joint inspection, was focused primarily on advising the Secretary of State for Education and Skills whether the council should take back its education service when the contract with the external partner ends next year. Ofsted, finding further improvements in service management, concludes that the education department should manage the service when the contract ends. It is less positive about the council's ability to govern the service and concludes that the Education Partnership Board (EPB) should continue with some involvement of the Secretary of State.

The report of the CSCI re-inspection of services for older people found that there are improvements in services for elderly mentally infirm people and in extra care services for people at home. Well-focused recovery plans have resulted in an improved 'prospects for improvement' judgement. There are some good partnerships with health but limited councillor engagement in them. The recent draft agreement with Kent CC for social services support is well-focused on the areas where the council can benefit most.

The council needs now to separate recovery work from strategic planning, allowing its managers the authority to drive internal improvements at a pace, whilst creating more measured member/partner/officer structures and processes for visioning and planning a coherent, owned vision for the community. A priority is to support the Director of Education in the development of a unified childrens service. Another linking strand is to achieve an agreed, robust and sustainable vision for the future physical, cultural and socio-economic shape of the town, building on the good work already done for the community strategy and corporate plan.

The council lacks experience of how a successful modernised council supports and manages its visioning, prioritisation, policy-development and governance processes. It needs to move forward quickly to achieve an owned and sustainable vision for Swindon, to rank its medium and short-term priorities, to strip out low-priority work and to get its decision-making and monitoring processes working better.

Ambition and Priorities

The 2002 corporate assessment judged that ambitions lacked clear plans and targets, and that the council had yet to develop effective leadership both within the organisation and for the wider community. The community strategy and corporate plan, published in January 2004 as linked documents, now give the council clear priorities and specific, achievable targets based on broad and well-executed consultation. Communication within the organisation is much improved. However the new administration has not explicitly signed up to the published strategy and there is public confusion about its ambitions for the community. Weaknesses outweigh strengths.

The 2002 assessment reported that, given the uncertainties about ambitions and objectives, prioritisation was weak. This is still true. This area is weak with few discernible strengths.

Focus

In 2002 the council was giving a rapid response to problems and moving on to others without fully tackling the first. It was distracted by the changing political balance and had under-invested in the corporate centre. Albeit under close external regulation, it now has a good track record of investment in the corporate centre, improvement in education, and an emergent one in social services and housing. It is no longer distracted by political instability. The move to a single party administration in June 2004 has allowed clearer direction and the council has consciously and successfully built a climate of consensus over the last two years. It has made some difficult decisions in both social services and education. However it still lacks corporate mechanisms to plan its direction and keep it on track. The lack of clarity about priorities hampers its ability to strip out low priority work. Although improved, weaknesses still outweigh strengths.

Investment and future plans

In 2002 the council's lack of corporate capacity was undermining its ability to improve. There was limited upward communication into policy development and little structure or consistency in downward communication through the organisation. The council has made good recent progress. The larger directors' team is a significant investment from a council that had little history of recognising the contribution of high-quality managers. Recovery was initially slow but has speeded up in recent months, as measures are being put in place to remedy many of the council's shortcomings in capacity. Strengths outweigh weaknesses.

In 2002 there was no integration in the planning process and operational plans did not align resources to priorities. Community planning is now strong and much of the council's statutory, internal and corporate planning greatly improved. However, the council's lack of regular review of plans, poor links between operational and financial planning and lack of clarity about the future means that weaknesses still outweigh strengths.

Capacity

There has been significant progress in building the council's capacity, which was judged in 2002 to have weaknesses in relationships between the political parties and between members and officers, in human resources (HR) management, in containing social services spending and in procurement, although weaknesses still outweigh strengths.

Performance Management

The council's planning framework and corporate performance monitoring have improved from a low base and there are new managers in place to lead developments in performance, risk and financial management. However a culture of non-accountability for performance in some parts of the council is still at present reinforced by poor corporate management processes and this area remains weak with few identifiable strengths.

Achievement

The 2002 assessment judged that weaknesses outweighed strengths. The council supported good work on crime and disorder but performance in education and social services was poor. The council has achieved improvements in major services, but has not tackled other priority service areas. Weaknesses continue to outweigh strengths in the council's corporate ability to drive improvement.

The council has moved forward corporately where there has been intervention. In other areas improvement is driven by capable managers working with their individual portfolio-holders. PIs show a mixed picture typical of poor corporate performance management. Since 2002/03 58 per cent of indicators have improved. Of the 73 PI targets set by the council in 2003/04, only 40 per cent were achieved. Of those that were not, 30 per cent failed to show any improvement. Resident overall satisfaction with the council has decreased from 61 per cent in 2000/01 to 47 per cent for 2003/04.

Environment

The council has shown steady improvement in the speed of its planning service however, performance is still below national targets in all three categories of application. The council has maintained a good level of performance within its transport service with good levels of satisfaction with public transport services. Its waste service is poor, performing well below satisfactory levels, with low levels of recycling, poor opportunities for local people to increase recycling, low satisfaction and high levels of waste going to landfill.

Education

The external partner has been successful in strengthening education services. In the light of continuing improvements in strategic and operational planning and in the management of education functions, the education department is now capable of managing education independently at the end of the current contract with the external partner.

However, the increasing confidence of schools in the work of the education department does not extend to elected members and the council's policies. The trust of stakeholders in the strategic direction and the implementation of the council's strategies is still fragile and needs to be maintained, particularly in the period of change that will accompany the introduction of children's services in Swindon.

The council still requires support for its implementation of the Children Bill and to ensure that the education department has the capacity to sustain improvement and lead on the development of children's services. The role of the education partnership board should be retained, but its membership amended to take on a wider remit of children's services. Its current role of policy advice and guidance to council should continue. Its independence, and that of the chairperson as a joint appointment by the Secretary of State and the council, should be maintained.

That support should, however, be tapered over the period of planning and implementing children's services. It should be linked to agreed measures of the council's capacity to meet its implementation targets and to take on increasing responsibility for the management of education and social care for children and young people. The council's progress in meeting these milestones should be assessed at agreed points over the period of implementation. The council, in agreement with the Secretary of State and the independent chair of the partnership board, should decide the precise nature and timing of that assessment.

Social Services

The council is not making significant improvement, there is some evidence of improvement in how the council serves vulnerable adults but still poor levels of service for children services.

Housing

The housing service has maintained its levels of performance. There are high levels of tenant satisfaction, although satisfaction with tenant participation is average. The housing service is meeting the code of practise for race equality in rented housing.

Other performance work

Review of Policy Development, Implementation and Review

The audit of policy development, implementation and review, was carried out between November 2003 and March 2004. The audit developed the aspects of policy development identified in our previous reviews of corporate and service planning (July 2001) and corporate governance arrangements within the Council (June 2002). The findings from these audits identified that officers and members considered that the Council had a number of strengths; for example, working in partnership with external organisations. However, they reported that significant further progress was required, in particular:

- developing a corporate approach to consultation;
- ensuring that appropriate corporate resources were available to support service planning;
- addressing conflicts between national and local priorities;
- introducing effective mechanisms for reviewing policy implementation;
- engaging departments with the corporate agenda; and
- reconciling the financial and service planning cycles, to ensure resources could be matched to priorities.

The review, this year, has picked up on these issues and sought to deepen understanding of the context for policy development, implementation and review in the Council.

Overall, the review showed that there has been little change in the Council's approach to policy development, implementation and review since July 2001. However, a new policy framework, being developed at the time of our review, does offer the Council a way forward and, if successfully implemented, may overcome many of the barriers currently inhibiting success, including the need to:

- ensure consultation is conducted, effectively, and the resulting information used well;
- engage departments with cross-Council and corporate policies;
- build capacity at each stage of the policy development, implementation and review process;
- establish mechanisms for the dissemination of policies;
- develop effective arrangements for the enforcement of policies and monitoring their implementation;
- improve access to policies; and
- put in place a process to resolve conflicts between policies.

However, there remain a number of barriers that require further consideration. Whilst the framework is strong in respect of offering a clear and potentially rigorous process for policy development, it will only deliver relevant, appropriate and timely policies if it can be effectively implemented and embedded across the whole of the Council. The audit suggested that there are three key obstacles that need to be overcome, if the Council is to achieve this.

- The previous lack of strong corporate and directorate leadership.
- The absence of mechanisms to 'police' and enforce implementation.
- Inadequate officer and member training.

The audit also raised a number of further issues that will not necessarily be resolved by the new framework.

- The need to ensure the effectiveness of consultation.
- The need to match resources to priorities.
- The need to build capacity within departments for policy work.

These issues have been discussed with officers and are reflected in our recommendations in the agreed action plan.

We will follow up the Council's progress in respect of policy development, implementation and review as part of our audit, next year.

Review of Corporate Governance Arrangements

In 2002, we undertook a review of the Council's corporate governance arrangements, considering the key aspects of corporate governance for local authorities, as set out by the Audit Commission and the Chartered Institute of Public Finance and Accountants (CIPFA).

A survey was developed in collaboration with the Council to test performance in each of the key areas, and distributed to officers and members. The results showed that officers and members considered that the Council was performing well in certain respects, including:

- ensuring officers and members were aware of their roles and responsibilities;
- providing training and development opportunities; and
- developing a culture of partnership working, with officers expressing the belief that working in partnership will improve services.

However, the results also raised a number of issues. In particular:

- the level of understanding of, and the relationship between, members and officers (for example, where members thought services had declined, officers thought they had improved);
- the lack of a clear vision and need for strong managerial and political leadership; and
- the perceived lack of transparency, timeliness and accountability of decision-making structures.

In view of the Council's ongoing change agenda, it was agreed that this survey should be repeated in the spring of 2004, to measure, independently, the Council's progress in developing robust corporate governance arrangements across services.

The results from this year's survey indicate that, overall, officers and members feel that the Council can demonstrate some improvement in most of the areas probed:

- in the survey of senior managers, 72 per cent (60 of 83), of the questions asked in both years received a more positive response in 2004;
- in the survey of officers, 86 per cent (31 of 36), received a more positive response; and
- in the survey of members, 87 per cent (55 of 63), were answered more positively.

In particular, there is a threefold increase in the number of senior managers who consider that there is clear, senior managerial leadership within the Council, and this is supported by the responses from members. Political leadership is also thought to be clearer.

Significant improvements were also shown in:

- joint working between service areas;
- increased awareness of the Council's long term aims and objectives amongst senior managers;
- the number of senior managers who believe that they are equipped to respond to, and lead on, new initiatives; and
- understanding of the decision-making process amongst senior managers, with four times the number aware of the process of getting a decision from an elected member in 2004, compared with 2002.

However, the survey has also identified matters that the Council needs to consider further.

The particular aspects of concern, highlighted by respondents, include:

- the need to improve understanding between officers and members, carrying forward the matter raised by the 2002 review. For a number of questions asked to both senior managers and members, there is a notable difference between the two groups as to whether the Council has improved or declined;
- the need to improve service and financial planning, reflecting a number of the matters also emerging from the review of policy development, implementation and review. The survey found that the number of senior managers and members believing that the Council had the right aims and objectives remained relatively low. Consultation with the public and stakeholders was also reported to be low, as was the level of engagement with officers. Indeed, 75 per cent of questions asked to both officers and senior managers received a less positive response from officers. Matching resources to priorities, planning services over the longer term, developing performance management systems that actively contribute to service delivery and managing risks are further areas where the results show action is needed; and

- the need to improve decision-making structures. This reflects an issue highlighted by the 2002 survey. Although there is reported to be a high level of understanding of the political process by senior managers and members, the majority still consider that the amount of bureaucracy is high and that they have yet to see that the process is timely and transparent and that Cabinet is focused on strategic items.

Rather than agree an action plan setting out the how the Council needs to respond to the issues coming from the assessment, the Council has presented us with a formal response demonstrating how it is already dealing with, or planning to deal with, each of the matters raised, as part of its ongoing Improvement Plan.

Review of Scrutiny Arrangements

We are currently completing a review of the council's scrutiny arrangements, as part of the wider political structure. We will be reporting the results of the work formally to the Council before the end of 2004.

Our work, to date, has shown that the Council has made progress in respect of the formal guidance and support now available to members. However, issues have already emerged regarding:

- understanding and support for the scrutiny process, from officers and members;
- the linkages between the four Scrutiny Commissions, the Cabinet and the Scrutiny Review Board; and
- the engagement of Scrutiny in performance management and supporting the delivery of corporate priorities.

We will discuss the action the Council plans to take to address these issues in December 2004.

Review of Performance Management Arrangements

Over the last six months, we have been supporting the Council in developing arrangements to manage and monitor the performance of its services. As Council officers have continued their work developing a performance management framework, we have shared best practice, reviewed progress and commented on several of the emerging proposals.

During our review, we have emphasised that the Council should:

- be clear about the different audiences for performance reports and their different needs and requirements;
- ensure performance monitoring remains focused on service outcomes for the community, as detailed in the Corporate Plan;
- strive for simplicity and involve more members and officers in commenting on practicalities;
- ensure that the connection between performance management and the work of the scrutiny commissions is made; and
- have a clear plan to manage the implementation of the framework across the Council.

Our work is currently being drawn together and will be reported to the Council in December 2004.

Best Value Performance Plan including Performance Indicators

As in previous years, we have a requirement to provide an audit opinion by 31 December 2004, on the Council's Best Value Performance Plan (BVPP) for 2004/05, stating that it complies with the statutory requirements.

We are pleased to report that, this year, we have provided an unqualified opinion on the Council's BVPP, reflecting the fact that the key elements of the statutory guidance have been complied with. However, our review identified two areas where statutory recommendations were appropriate. These related to:

- ensuring that appropriate systems are in place for the accurate production of BVPIs; and
- all relevant contracts involving the transfer of staff should fully comply with the Code of Practice on Workforce Matters.

Our audit of the BVPIs calculated by the council and included within the BVPP has shown some improvement since last year with both the number of amendments and reservations reducing. However, there remains considerable scope for the more accurate preparation and calculation of figures. We selected 101 BVPIs for detailed testing, based upon our risk assessment. As a result of our work, we have placed a reservation on six indicators (seven in 2002/03). In two instances, systems at the council were not able to produce reliable figures and in the remaining four instances, the weaknesses in systems used did not provide us with sufficient assurance that the figures presented were accurate.

The audit also identified 30 (38 in 2002/03) BVPIs where the figures reported were inaccurate and an amended figure was submitted to the Audit Commission.

We will continue to work with officers to establish how current arrangements can be further improved to eliminate weaknesses in the systems for preparing BVPIs and the inaccuracies in their calculation.

Review of Data Quality in Social Services

Previous work undertaken nationally by the Audit Commission, SSI, the Joint Review teams and local auditors has identified problems with the completeness, accuracy and reliability of social services performance data.

The Audit Commission and CSCI (formerly SSI) have collaborated to produce a national audit examining the data underlying a small group of PAF indicators, with the overall objective of providing assurance to their completeness, accuracy and reliability. The review was targeted at those authorities with a 'fair', 'weak' or 'poor' CPA score.

Due to the level of work that had already been completed at Swindon Borough Council, we agreed with the Audit Commission that a more limited review, focusing on a small number of indicators, would be undertaken. We integrated this work, as far as possible, with our review on BVPIs in Social Services.

The specific indicators covered by our audit related to older people's services (B11, B12, B13, B17, C26, C28 and C32). We were required to provide a judgement on the returns to the Department of Health that underpinned these indicators.

The evidence from the data quality review shows that the performance indicators are based upon adequate data quality. This means that we consider that there is some risk that the Council's performance, as stated in the Social Services PAF, may be misrepresented.

We identified that the process used to extract activity data from key systems, and thus to data returns, is robust, and this is largely due to the extensive efforts of the Social Services Information team. Their attention to ensuring that data is valid and is not duplicated is fundamental to the whole process. In addition, we identified that the process for analysing costs, and apportioning overheads, has become more robust in 2003/04. However, from our discussions, there is a risk that costs in 2002/03 were under-reported.

The quality of activity data is dependent on the accuracy and validity of source data, that is, data being input to core systems from field workers. It is not clear that there are yet robust and widespread validation arrangements in place, and that, to an extent, this may undermine the work of the Information Team. Consequently, we have reported to management areas where more robust management of processes is required. In addition, the absence of validated timesheets from the independent sector may expose the Council to risk from paying for hours that have not actually been delivered, specifically in respect of home care assistants.

These issues have been discussed with management and action agreed.

Working with other inspectorates and regulators

An important aspect of the role of the Relationship Manager is to work with other inspectorates and regulators who also review and report on the council's performance. These include:

- Ofsted;
- Commission for Social Care Inspection (CSCI);
- Benefits Fraud Inspectorate (BFI);
- DfES; and
- Local Government Office contact.

We share information and seek to provide 'joined up' regulation to the council. During the last year the council has received the following assessments from other inspectorates:

Ofsted – The education department has made satisfactory progress. The great majority of recommendations for improvement from the previous inspection that were the direct responsibility of the education department and the strategic partner have been satisfactorily addressed.

There has been insufficient improvement at the corporate centre and its capacity to effectively manage education remains unsatisfactory. Stable political leadership has only recently been achieved and a full corporate management team is only recently in place.

CSCI – There was a further opportunity to follow up progress with older people's services in October 2004 by inspectors from the Commission for Social Care Inspection (CSCI) in parallel with the Audit Commission Corporate Governance Inspection.

Initiatives to progress the improvement process had been enabled and encouraged by the council's increased understanding and willingness to take difficult decisions in order to modernise services. This was evident in the clearer and more consistent political leadership provided by the Cabinet's decision to support the reconfiguration of the elderly persons' homes.

Two significant service reviews had recently been completed and had yet to be formally adopted as council policy. Both set out an extensive agenda of change.

The review of the Joint Community Teams is ambitious and well scoped, with the eventual aim of achieving integrated systems within an integrated management structure and supported by a pooled budget.

A comprehensive review of intermediate care services across health and social services plans to mainstream intermediate care services across social services and the three health trusts.

BFI – the council did not meet Standard in any of the 7 functional areas of Performance Standards. However it has made and sustained improvements in a number of areas since the contract to administer the Benefits service and counter-fraud operations was changed in August 2002. Significantly it has:

- processed claims faster;
- improved reception facilities for customers;
- reduced the amount of time that customers wait when they make an enquiry by telephone; and
- set up a counter-fraud unit and prosecuted fraudsters.

However, the council has significant weaknesses in its:

- strategic management;
- contract management arrangements;
- accuracy of claims;
- management of the counter-fraud operation; and
- recovery of overpayments.

Accounts and Governance

We have given your accounts an unqualified audit opinion.

Whilst some aspects of your governance arrangements are adequate, there are a number of areas where improvements should be made.

Audit of 2003/04 accounts

The accounts were not approved by the Council until after the statutory deadline of 31 August 2004. Our audit identified a number of amendments to the accounts, and improvements for future years, but these did not impact upon the overall financial position reported for the year. We gave an unqualified opinion on the council's accounts on 17 December 2004.

Matters arising from the final accounts audit

The published accounts are an essential means by which the Council reports its stewardship of the public funds at its disposal and its financial performance in the use of those resources. The Cabinet approved the Council's annual accounts on 9 August 2004 and by full Council on 16 September 2004. The Accounts and Audit Regulations require the accounts to be adopted by the full council, or other properly constituted committee, by the prescribed deadline which, for 2003/04, was 31 August 2004. This deadline is being brought forward by a month for each of the next two financial years under the Whole of Government Accounts initiative so that for the period ending 31 March 2006 will be adopted by 30 June 2004. The council needs to ensure that its accounts are adopted in line with these deadlines in future years.

Our audit identified a number of significant adjustments to the accounts, but these did not impact on the overall financial performance reported for the year.

Report to those with responsibility for governance in the council

We are required by professional standards to report to those charged with governance (in this case the Cabinet) certain matters before we give an opinion on the financial statements.

Our report identified a number of amendments, additional disclosures and presentational adjustments to the draft accounts, which were discussed and agreed with officers and incorporated within the final, published, version of the accounts.

As reported to Members, the accounts showed that a deficit of £657,000 was made on the general fund in 2003/04 and £25,000 on the HRA. Our audit identified a number of issues, some of which have been incorporated into the 2003/04 accounts and others that will be actioned and incorporated into 2004/05 and future years' accounts. Specific issues related to:

- the immediate recognition of capital expenditure within the appropriate fixed asset balance;
- appropriate depreciation charges and formal impairment reviews;
- disposal of fixed assets (£3 million) not recognised in the accounts;
- correct disclosure of cash receipts in bank rather than debtors (£4 million);
- elimination of internal work in progress balances (£1.3 million);

- appropriate disclosures in relation to FRS17 – Retirement Benefits, specifically the pension liability and reserve were overstated by £12.6 million and payments to Wiltshire County Council for contributions were understated by £2.6 million;
- correct disclosure of PWLB loan redemption penalties (£3.6 million);
- review of bad debt provisions to ensure that these are in line with CIPFA good practice guidance; and
- a number of other changes in respect of disclosures and presentation.

Action on all of our findings were discussed and agreed with officers.

Financial standing

The financial position of the Council reported in the accounts showed that a deficit was incurred, in 2003/04. Latest monitoring information for 2004/05 indicates a year end overspend of £2.4 million, but arrangements are in place to reduce this to some £300,000, if all targets are achieved.

General fund spending and balances

Review of the latest monthly budget monitoring information for 2004/05

(reported to the Cabinet on 29 September 2004)

forecasts a year end deficit position of £2.4 million. After one off receipts of £0.8 million, this would leave the general fund reserve with a balance of £2.4 million, well below the £4 million minimum balance agreed by the Council in previous years. The Director of Finance acknowledged in his report to Cabinet that, should service overspends continue, then it would be prudent to increase this minimum balance on the reserve to £5 million. The impact of the current overspends is further savings in service budgets and increases in Council Tax in 2005/06 and future years.

The latest financial monitoring information provided by officers, but at the date of this letter not formally reported to members, is that this projected deficit will be reduced through the introduction of a range of savings, cost improvement plans and additional income. This indicates that overspending in key service areas has been reduced, including Social Services (£996k) and Education (£198k) whilst other directorates are producing a budget underspend, such as Central Services (Finance) (£144k). Should these savings plans and additional income targets be achieved, then the overspend on service budgets would be reduced to some £1 million and after one-off receipts, the general fund balance would be reduced to £3.8 million.

However, our review of some of the detailed assumptions would urge an element of caution. For example, within social services some £450k of additional income is projected from agreements with partners on funding – the majority in respect of learning disabilities. However, as recognised, there is a risk that the share of costs to be met from partners has not yet been agreed. There are also assumptions that additional grants will be received, such as the Capacity Building grant from the ODPM, but formal notification of this has not yet been received by the Council.

In conclusion, therefore, it remains a very challenging year for the Council to reduce its overspending service budgets and avoid further savings measures in service areas in future years. In addition, the Council will not be able to rely on such significant one-off receipts and grant payments in future years. We will continue to liaise with the Director of Finance on the financial monitoring in 2004/05 and the preparation of the 2005/06 and future budgets.

Capital programme

In our interim report, we reported that the Council's management of the 2003/04 capital programme was adequate, in respect of project management for ongoing schemes, with actual costs being in line with budgets, but that the delivery of the programme was subject to a relatively high level of slippage. We concluded that the Council needed to review whether appropriate resources were therefore available to ensure that capital schemes are delivered within timescale. Since our report, a project management team has been established within the Directorate for Cultural Change to assist with project management for a large projects and the capital budget cycle has been brought forward to minimise the extent of any slippage.

The latest position on the 2004/05 capital programme was reported to Cabinet on 29 September 2004 in the 'Capital Funded Service Programme Monitoring 2004/05' Report. We recognise that the current reporting of the capital programme is under review, to enhance the clarity of the information being presented to members.

The report only covers the period to the end of July 2004, and a further update is to provided in December 2004. At this time, against the total capital programme of just under £59 million, there were no reported significant under/overspends. The extent of any slippage is due to be identified in the December report.

We will continue to monitor the delivery of the capital programme, the action taken by officers when overspending on budgets is identified and the management of any slippage. In developing the monitoring reports, we would urge the Council to clarify the expected timing in the delivery of individual projects, reflecting the fact that for significant schemes, there may well be a phasing of expenditure over a period of more than one year. In these instances, the issue of slippage and planned later delivery needs to be clearly identified and monitored.

Pensions fund deficit

As is the case nationally, the Council's Pension Fund, part of the Wiltshire Pension Fund administered by Wiltshire County Council, is coming under increased financial pressures from both the recent depression in global stock markets and increased longevity of its members. The 2003/04 accounts makes full disclosure of the Council's pension fund commitments for the first time. This shows that the fund has estimated liabilities of £280.6 million compared with estimated assets of £224 million, producing an estimated deficit of £56.6 million (£87.6 million in 2003/04). This deficit will be met through increased employers contributions to be made over the remaining working life of employees, as assessed by the schemes actuary. The triennial actuarial valuations set the level of contributions for participating organisations within the pension scheme. The last valuation was 31 March 2004 and this set the basic contribution rate of 13.2 per cent. The council has made additional lump sum payments, in order to reduce its deficit, and is required to make payments to fund any added years benefits paid to former employees, of which some £1 million were made in 2003/04.

We will continue to monitor closely the ongoing position.

Budget Setting and Control

Our review of the budget setting arrangements at the Council indicated that there remains scope for significant progress for aligning financial resources with corporate policies. Whilst we acknowledge the establishment of the Medium Term Financial Strategy, this needs to be developed further and the publication of good practice guidance by CIPFA 'Effective Organisations – A model for financial management in the public service' provides a baseline from which to move forward.

The Council has developed its financial monitoring arrangements and, on the whole, detailed council-wide monitoring reports were submitted regularly to Cabinet throughout 2003/04. However, these reports are only as effective as the underlying systems and officers responsible for compiling them, as highlighted in the issues identified in the Learning Disabilities section of Social Services. The Council needs to address the weaknesses in the financial management arrangements particularly within the Social Services directorate as well as other directorates, both through the appropriate allocation of resources and robust budget monitoring.

We will continue to review the Council's arrangements for setting as well as monitoring budgets over the coming months.

Systems of internal financial control

Our review has identified a number of significant weaknesses in the underlying control environment for the majority of core systems. The Council maintains an adequate internal audit service, but there remains scope for further improvements.

Internal Audit

Our assessment is that internal audit provides an effective service overall and we have been able to place reliance on their work to support our opinion audit. In particular, we found that the Internal Audit plan was based on a comprehensive risk assessment of core systems, appropriate work was completed to support the conclusions reached and that the regular detailed testing of transactions (within those core systems assessed as having a weak control environment) was providing management with appropriate assurance that these weaknesses were not being exploited.

However, we identified a number of areas where improvements to the current service should be introduced. These have been discussed with the acting Head of Audit and action agreed. The key improvement opportunities relate to:

- ensuring that appropriate resources are available to deliver the Internal Audit plan fully. Whilst all of the core systems were reviewed in the financial year, there were a number of non-core systems that were not reviewed as planned. Analysis of productive time revealed that only 83 per cent of planned audit days were actually delivered, although we recognise that this was due, in part, to unique circumstances including long term absence; and
- detailed testing of transactions for assurance purposes should be stratified to enable audit work to focus on higher value items. This work should then be linked to the main internal audit review to demonstrate that the relevant objectives have been met.

We are pleased to report that the Council has now established an Audit Committee to oversee the implementation of audit recommendations. Given the significant control weaknesses in a number of core financial systems, we believe that this Committee will provide a vital and pivotal role in driving through the improvements necessary to redress the weaknesses identified. We will continue to review the effectiveness of the Audit Committee over the next year.

Key financial systems

Our review of Internal Audit's work, as well as our own work, confirms that a number of core systems operated by the Council or its contractor continue to have significant weaknesses, despite reports on these in previous years. It is very disappointing to note that Internal Audit concluded that two systems, housing benefits and housing rents, continue to have fundamental system weaknesses, whilst the main accounting system, payroll, council tax and NNDR systems require significant improvement. Some of the weaknesses identified relate to the absence of basic controls or utilisation of management information and reports.

The housing benefits service has been the subject of a separate inspection from the BFI. This highlighted a number of significant concerns around contract monitoring, performance levels, use of management reports and recovery of overpayments.

The Council needs to ensure that control weaknesses within core systems are addressed as a matter of priority. Unfortunately, this does not appear to be the case. Review of previous year's recommendations made by Internal Audit in respect of the six core systems identified as having significant weaknesses in their control environment, identified that the Council has made only limited progress. The review identified that only 40 per cent of the 109 recommendations had been fully implemented and 30 per cent were still being acted upon. However, the remaining 30 per cent had not had any progress made against them.

Such performance is not acceptable and we will continue to liaise with Internal Audit to ensure that recommendations are both acted upon and improvements implemented, through the Audit Commission, for all weaknesses identified.

Private Finance Initiative

The Council is currently negotiating a PFI contract with its preferred bidder to build two new secondary schools, three new primary schools and two special schools in the Northern sector of Swindon. We have a role to ensure that appropriate arrangements have been followed by the Council both in the project management of the Scheme as well as agreeing with the technical accounting treatment of the proposed scheme to ensure that the balance of risks maintained and those transferred by the Council support an 'off-balance sheet' transaction.

Our review of the project management element of the scheme generally concluded that adequate arrangements were in place. However, we did report to officers that the arrangements for engaging particular specialists were not consistent with the EU procurement rules insofar as the total value of the contract exceeded the value at which a formal competitive tender should have been undertaken under EU rules.

In respect of the technical accounting assumptions, we are still awaiting further information from the Council and its financial advisors to support its initial assertion that the transfer of risks relevant to the scheme were 100 per cent in favour of the Council. Such a level of transfer seems unlikely and our review identified that significant risks such as demand and residual value had not been considered or included within the model on the premise that they were not material. It remains our view that these risks are both significant and material and as such should be incorporated within the risk assessment and modelling for the scheme.

We are continuing to liaise with officers and the financial advisors of the Council directly, in order to resolve these issues.

Procurement

The Council has recognised the need to improve its current arrangements for procurement and is in the process of establishing a Procurement Board. We recognise that there are a number of contracts for services which are currently provided in house, that are due to be retendered over the next few years. We have stressed that this process is managed effectively to ensure that the most appropriate services and terms for contracts are achieved and have recommended that a comprehensive plan be drawn up to ensure that this issue is properly addressed.

We will continue to review the operation of the Procurement Board and make appropriate recommendations on the commissioning and procurement arrangements of the Council as part of our ongoing programme of audit work.

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

The Council adopted the Verification Framework from October 2003, but these arrangements have not yet been embedded effectively within the organisation.

The Council is improving its arrangements in respect of standards of financial conduct and the prevention of fraud and detection of fraud and corruption. In particular, we are pleased to note the introduction of the Housing Benefit Verification Framework in October 2003; but we note that both Internal Audit and the Client Monitoring team have identified weaknesses in existing arrangements. There continue to be a high level of assessments that are calculated incorrectly and there is very little proactive detection work on Housing Benefit fraud.

Internal Audit are developing their programme of proactive fraud work as well as responding to issues as they are raised.

We will continue to review the progress made by the Internal Audit and the Verification team.

Legality of transactions

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

A number of issues have been brought to our attention by interested parties and these matters may warrant further investigation. There are no issues that we wish to bring to your attention at this time.

Other work

Additional voluntary work

The council asked the Audit Commission to review Legal Services. The review is outside the statutory Audit and Inspection Plan and is being carried out by the Commission's Southern Regional Improvement Team.

The review is focussing on those services provided by the Law and Corporate Governance Directorate which support corporate decision making processes and the modernisation agenda, including relevant aspects of the monitoring officers role. It is not considering committee structures or committee administration processes. The objectives are to;

- evaluate the services currently provided;
- identify improvement opportunities; and
- facilitate the development of an action plan for achieving agreed improvements.

The approach differs from a traditional audit review in that, while challenging existing arrangements and acting as a 'critical friend', it will do this by working alongside officers to establish the current situation and identify improvement opportunities.

The review is underway and a series of interviews with legal services officers and their 'customers' have been carried out. We are currently arranging workshop sessions to explore and validate emerging issues and develop agreed solutions.

Certification Instructions

Over recent years, the number of claims requiring audit certification has grown and audit fees have risen in line with this growth. In accordance with Strategic Regulation, the Audit Commission has adopted a more risk-based approach to the certification of grant claims. With effect from 2003/04, the smaller claims (less than £50,000) have not been subject to audit and those above this limit but below £100,000 have received a lighter touch. The approach to larger claims has been determined by risk and the adequacy of the Council's control environment.

At the conclusion of our audit of the 2002/03 grant claims and returns, we produced a detailed report to management setting out the specific problems we encountered in auditing individual claims and returns. In summary, of the 52 claims that we provided an opinion on, 38 per cent were provided to audit after the deadline prescribed by the grant paying body, 25 per cent were amended as a result of our audit and a further 19 per cent required either a report or qualification letter.

The key issues that frustrated the efficient certification of claims and returns related to:

- the late submission of claims and supporting working papers not being available until well after the claim/return was submitted for audit;
- inadequate working papers and supporting schedules; and
- delays in responding to audit queries.

Having discussed these and other specific issues with officers, we are now undertaking the audit of the 2003/04 claims and returns. It remains too early to draw firm conclusions on the progress made by the Authority in the accurate and timely preparation of grants information.

Looking Forwards

Future audit and inspection work

We have an agreed plan for 2004/05 and we have reported in this letter those aspects that have already been completed. The remaining elements of that plan, including our audit of the 2004/05 accounts, will be reported in next year's Annual Letter. Our planned work, together with that of other inspectorates, is included on both the Audit Commission and LSIF (Local Services Inspectorates Forum) websites.

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 2005/06. We will seek to reconsider, with you, your improvement priorities in the light of the latest CPA assessment and your own analysis, and develop an agreed programme by 31 March 2005. We will continue to work with other inspectorates and regulators to develop a co-ordinated approach to regulation.

Revision to the Code of Audit Practice

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

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

Further details will be provided in the Audit and Inspection Plan 2005/06.

CPA 2005 and beyond

The Audit Commission has also consulted on a new framework for CPA in 2005 and beyond. The main changes proposed are as follows.

- Rationalisation of service blocks.
- 'Achievement' assessment element of Corporate Assessment to be driven by review of Community Plan and shared priority themes.
- Move away from rigid numerical model, to one based on rules.

- Corporate Assessments to be undertaken on rolling programme, integrated with Joint Area Reviews of children and young people.
- Stronger focus on service delivery for users and customers.
- More robust and explicit view of vfm and cost-effectiveness.

Closing remarks

This letter has been discussed and agreed with the Chief Executive, Deputy Chief Executive and Director of Finance. A copy of the letter will be presented to the Cabinet in early 2005.

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

Availability of this letter

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



Matt Gott
Relationship Manager (Audit Commission)

**Appointed Auditor – RSM Robson Rhodes
LLP (Partner – Richard Tremeer)**

December 2004

Status of our reports to the council

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

Audit and Inspection reports issued

Report	Date
Grant Claims and Reports	April 2004
Audit and Inspection Plan 2004/05	June 2004
Report of issues arising from the interim audit	September 2004
Matters arising from the accounts audit	November 2004
Review of BVPP 2004/05 and Performance Indicators 2003/04	November 2004
Review of Data Quality in Social Services	November 2004
Review of Policy Development, Implementation and Review	June 2004
Review of Corporate Governance Arrangements	July 2004
Review of Scrutiny Arrangements	To be issued December 2004
Review of Performance Management Arrangements	To be issued December 2004
Corporate Governance Inspection and Corporate Assessment	December 2004

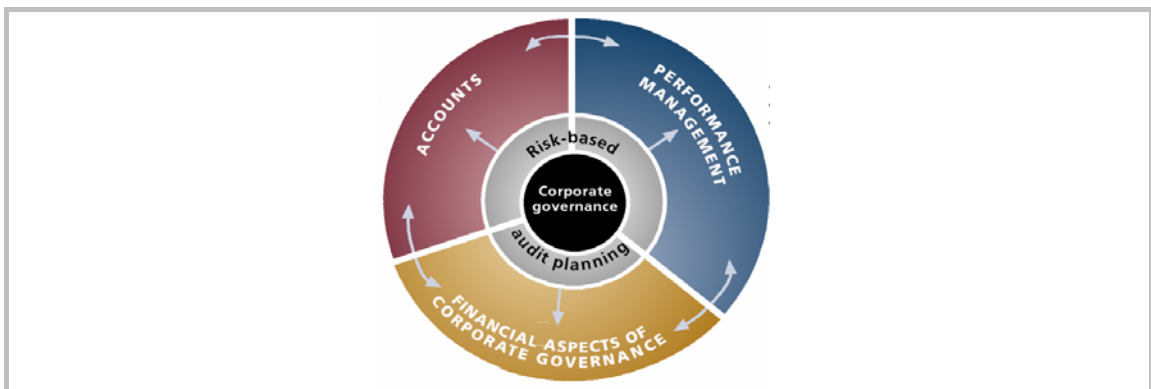
Scope of audit and inspection

Audit

Our main objective as your appointed auditor is to plan and carry out an audit that meets the requirements of the Code of Audit Practice. We adopt a risk-based approach to planning our audit, and our audit work has focused on your significant financial and operational risks that are relevant to our audit responsibilities.

Central to our audit are your corporate governance arrangements. Our audit is then structured around the three elements of our responsibilities as set out in the Code and shown in Exhibit 1.

The three main elements of our audit objectives



Accounts

- Opinion.

Financial aspects of corporate governance

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

Performance management

- Use of resources.
- Performance information.
- Best Value Performance Plan.

Inspection

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

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

The Audit Commission has circulated to all audited bodies a statement that summarises the key responsibilities of auditors. Our audit has been conducted in accordance with the principles set out in that statement. What we say about the results of our audit should be viewed in the context of that more formal background.

Audit and Inspection fee

Audit fee update

Audit area	Plan 2003/04	Actual 2003/04
Overall management and direction	£35,000	£35,000
Accounts	£39,000	£39,000
Financial aspects of corporate governance	£89,000	£89,000
Performance	£91,000	£91,000
TOTAL CODE OF AUDIT PRACTICE FEE	£254,000	£254,000
Grant Claim certification	70,000	*
Additional Voluntary work (under Section 35)		

* Work still in progress, anticipated that actual fees will not differ significantly from that planned.

Inspection fee update

The full year inspection fee is £106,000. The work reported in this audit and inspection letter has been funded by an element of the fee covering 2003/04 and by an element of the fee covering 2004/05. In both years the actual fee will be in line with that planned.