

Annual Audit and Inspection Letter

January 2006



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Swindon Borough Council

Audit 2004-2005

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Key messages

Council performance

- 1 Swindon Council continues to make good progress as shown by its Direction of Travel assessment of 'improving well' and its CPA score of two stars for overall performance.
- 2 It has achieved significant improvements in its priority services and in areas that are important to the public. Results for education, adult social care, benefits and planning are now much improved, as a result of the Council focusing on aspects that have been performing poorly in the past. Other services also continue to improve and the Council recognises it still has more to do in areas such as waste management and children's social care. Corporate recovery plans have a strong sense of direction and focus on initiatives that will improve access to services and value for money. The Council is also working well with partners to deliver shared priorities and is actively strengthening its community leadership role.
- 3 The Council has sound improvement plans in place, at both the corporate and service-level. Key objectives and deadlines are being achieved, and tight monitoring of performance is helping to keep plans on track. Substantial change has been implemented at the top of the organisation. Councillors and senior managers recognise that further cultural change is needed throughout the organisation to ensure that this trend of improvement continues. The Council is beginning to address this in the development of its next corporate plan.
- 4 Audits of the best value performance plan and performance indicators, together with reviews of performance management arrangements and e-government, have highlighted areas for improvement. These points have been agreed with officers and incorporated into action plans. The Council has responded positively to recommendations and progress is being made.

Use of Resources

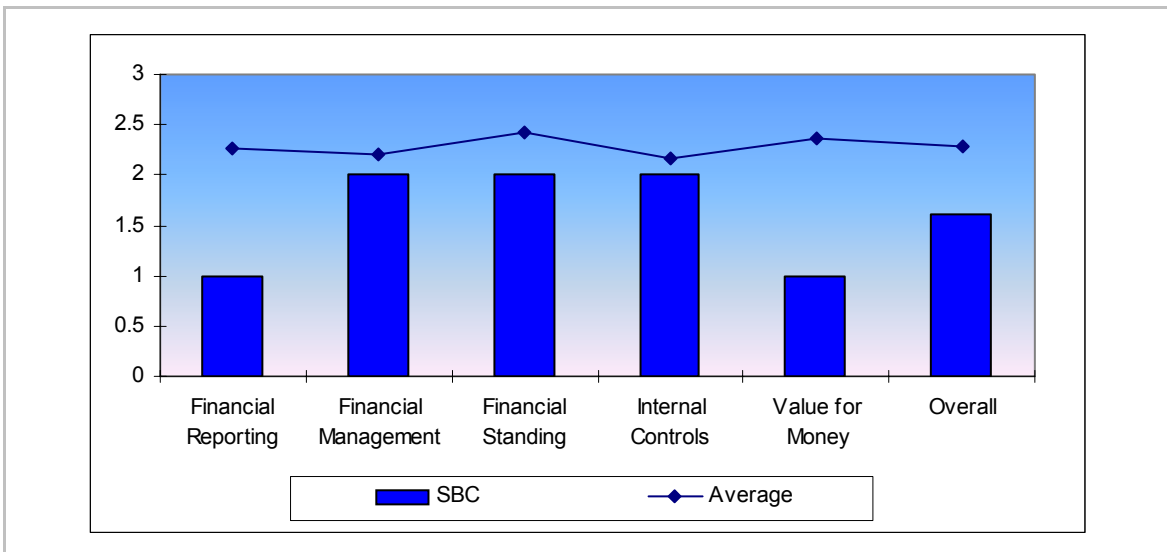
- 5 We have recently completed the Council's CPA Use of Resources assessment. This forms part of the work leading to our opinion on whether the Council has proper arrangements in place for securing economy, efficiency and effectiveness in its use of resources.
- 6 The chart overleaf shows that, whilst the Council is below the unitary council average, it is making real progress in improving its performance in each of the areas. In three of the five areas, it is performing adequately. It should be noted that this assessment was completed in August and September 2005, before the full impact of the recently introduced management arrangements had time to take their full effect and the assessment reflects this. Given the improvement in arrangements that are now being introduced, we anticipate that these assessments should improve further in 2006.

- 7 As an improving Council, Swindon faces a variety of risks. To manage these risks, it is vital for the Council to ensure that its internal control arrangements are well developed and embedded across the organisation. We also recognise that the Council is developing fresh structures and arrangements to ensure that good value for money is delivered for all of its services. Whilst improvements in underlying arrangements have been made over recent months, our review has identified those specific areas where the Council's arrangements still need to be strengthened and embedded. We recognise that the Chief Executive and his senior team are addressing this. The appointment of a Group Director for Resources and a new Director of Finance, starting in January 2006, will help increase capacity in this area.
- 8 In this letter, we are required to report on the findings of our work completed over the last year. Inevitably, we will focus on those areas where further management action is required to improve underlying arrangements. As already stated, Swindon is introducing new initiatives and arrangements rapidly through a newly appointed, very experienced, senior management team. This letter, summarises those findings reported at the time of the review, but also recognises those areas where progress, sometimes significant, has been made, but has not yet been subjected to a formal external assessment.
- 9 Findings from our use of resources audit are set out in detail in later sections of this letter. The key messages are as follows.
 - The Council is fundamentally reviewing its business and financial planning processes. A new corporate plan, introduced mid-way through the financial year, needs to be fully integrated into future service and financial plans.
 - A comprehensive medium-term financial plan (MTFP) identifying revenue and capital resources requirements and funding needs to be developed, disseminated across the Council and integrated into other operational plans.
 - Tighter budget monitoring arrangements are being introduced by the Council. These need to be embedded across the organisation to ensure that budget overspends, experienced in previous years, are avoided.
 - Good progress has been made, to date, in developing risk management processes. But these need to be developed further to ensure that the key risks in delivering the Council's priorities are assessed and robustly managed. A corporate risk register needs to be agreed by councillors and wider risk management needs to be fully integrated into service and financial planning. We understand that this has been recognised and that a report has now been put before councillors outlining developments to the risk management arrangements.

- The Council has an effective Internal Audit function and the Audit Committee is developing well. However, the overall assurance framework needs to become more embedded within the organisation with prompt and effective response to audit issues and recommendations made.
- The Council needs to build upon its recent initiatives to evaluate and deliver value for money in its services. In particular, benchmarking data should be utilised more extensively across all service directorates. Efficiency targets should be more focused, rather than, as previously, based on generic budget cuts. We appreciate that this is now being taken forward, with clearer targets for efficiency savings built into individual departmental plans and budgets.
- Whilst draft accounts were produced and adopted by the Council within the prescribed timescale, there were a number of errors and departures from the Statement of Recommended Practice (SORP) included within them. Currently, the Council does not produce an annual report, or similar, which provides clear and comprehensive financial information to stakeholders in a user-friendly format.

Figure 1

The Council's CPA Use of Resources scores compared with the unitary Council average



Accounts and governance

- 10 We issued an unqualified opinion on the Council's 2004/05 accounts on 31 October 2005. The Council met the statutory deadline for production of the draft accounts, although group accounts, in accordance with the SORP, were not produced by end of July 2005. Our audit identified a number of errors and areas for improvement in future years and these have been discussed and agreed with officers.
- 11 The 2005/06 draft accounts have to be approved by the Council before the end of June 2006, a month earlier than in 2004/05. In addition to the tighter deadline, new accounting requirements will make this a significant challenge to the Council. We will continue to work with the finance team to look for further opportunities to streamline the accounts preparation and audit process and ensure the timetable is achieved.
- 12 Our interim audit of governance arrangements, which underpinned elements of our use of resources work in relevant areas, recognised a number of important areas where the Council has strong or improved arrangements, such as internal audit. However, we found that, as in previous years, management had been slow to address weaknesses identified by both ourselves and Internal Audit and implement recommendations. Our subsequent review has found that, in a number of priority areas, there had been some improvements. Indeed, Internal Audit has adjusted its assurances on the majority of those systems previously assessed as having either significant or fundamental weaknesses. We acknowledge and commend the Council for making these improvements and urge it to address the remaining control weaknesses as soon as possible.

Action needed by the Council

- 13 The Council should:
 - further integrate corporate, service and financial planning;
 - develop risk management arrangements both corporately and across all service areas;
 - improve the preparation and reporting of its annual accounts;
 - continue to address the weaknesses identified by audit in core systems; and
 - produce better evidence that it is managing and achieving value for money across all of its services, based on better benchmarking against other councils and evidencing of efficiency gains.

Performance

CPA scorecard

Table 1 CPA scorecard

Element	Assessment
Direction of Travel judgement	Improving well
Overall	Two-star
Current performance	
Children and young people	2
Social care (adults)	2
Use of resources	2
Housing	2
Environment	2
Culture	3
Benefits	3
Corporate assessment/capacity to improve (not reassessed in 2005)	2

(Note: 1=lowest, 4=highest)

- 14 The CPA judgements this year have been made using the revised methodology: *CPA - the harder test*. As the title implies CPA is now a more stringent test with more emphasis on outcomes for local people and value for money. We have also added a new dimension, a Direction of Travel judgement that measures how well the Council is improving.
- 15 Under the new framework the Council is improving well and its overall CPA category is two stars.

Direction of Travel report

- 16 The Council has achieved significant improvements in its priority services and in areas that are important to the public. Overall, 58 per cent of core service indicators improved between 2002/03 and 2004/05, with a number of indicators showing accelerated improvement in 2004/05. The Council's own figures show continuing improvement in 2005/06, with improved performance relative to other councils.

- 17 Education services have improved. Best value performance indicators (BVPIs) show improvements in educational attainment, such as at key stage 3 and 4. Other achievements include a reduction in the number of schools in formal categories of concern. After three years of external management, the Secretary of State directed that education services should return to local authority control on 1 September 2005. An Education Partnership Board is continuing to provide support and advice to the Council.
- 18 Social care is improving with the help of a three-year partnership agreement with Kent County Council. Secondments and knowledge transfer are helping to strengthen management processes as well as front line services. Specific improvements that the public would recognise include all adult residential care homes being brought up to government standards. External assessments show that improvements are being achieved from the former low base of 'no stars'. The CSCI 2005 performance assessment judges adult social care as 'serving some people well' with 'promising' capacity to improve. It judges children's social care as 'serving some people well' with 'uncertain' capacity to improve.
- 19 Performance in the benefits service has recently been showing strong improvement following a dip in performance towards the end of 2004. The Council, in conjunction with the contractor, has been focusing on improving this previously poor performing service. Processing times are much improved and the Benefits Fraud Inspectorate's report on the Council's self-assessment against government standards resulted in a score of 3, that is, good performance. The Council has invested to make client side management more robust and continues to work with the contractor to deal with continuing problems of accuracy, caused mainly by the contractor's staffing difficulties.
- 20 Other services continue to show steady improvement. For example, the percentage of Council homes meeting the decent homes standard has increased, achieving best quartile performance in 2004/05. An Audit Commission inspection of the planning service in November 2005 found evidence of rapid and significant change. For example, although the Council had been a standards authority in 2004/05, the speed of deciding all categories of applications is now in line with national targets. In waste management, indicators show good improvement although the Council missed its government targets for recycling and composting over the last two years. To accelerate the rate of improvement, the Council has introduced a number of measures including new roadside recycling schemes and strengthened client management. All these developments are resulting in improved outcomes for service users.
- 21 The Council is working well with partners to deliver shared priorities and is actively strengthening its community leadership role. The local area agreement process is proceeding well and is helping to cement stronger relationships. The Council is also working closely with local businesses to improve the town's image, an issue identified as important to local people. Joint working with other agencies, such as the police, is delivering positive outcomes for the community – for example, a range of initiatives has helped reduce the number of people killed or seriously injured on the roads.

- 22 The Council is making progress in achieving its priorities relating to equalities, for example, through staff training, community consultation over Council plans and processes, and joint initiatives with partners. It is improving access for hard-to-reach groups, such as through the establishment of children's centres in some of the more deprived parts of the borough. However, further work is needed to improve the accessibility of Council buildings to disabled people. The Council is now reviewing the way it addresses this issue.
- 23 The Council is starting to improve its approach to ensuring value for money. With the help of external consultants, it has identified over £10 million savings over three years in the non-schools budget. It has begun to secure some of these savings, for example, through its management de-layering exercise.
- 24 Sound improvement plans are in place, at both the corporate and service level. For example, the current 'Full Recovery' plan sets out the programme of actions to be taken to achieve accelerated organisational change. Reports by external inspectors and assessors, confirm that robust improvement plans are in place for services that have performed poorly in the past – such as benefits, planning and adult social care. Both external and internal reports also confirm that milestones and targets are being reached and, in some cases, exceeded.
- 25 While there are no serious weaknesses that would prevent continuous improvement overall, there have continued to be some capacity issues in the children's social care service. The Council is taking appropriate action, such as the appointment of new managers and the agreement of a new workforce strategy. However, these initiatives are too new to have yet resulted in measurable improvements to frontline service delivery.
- 26 The Council has put substantial effort and resources into improving capacity, particularly at the corporate level. It has restructured and strengthened both its corporate management and political leadership, and is supporting this with a leadership programme. It has also invested in building blocks such as corporate planning, performance management and procurement, and is strengthening the client management of its contracted-out services. The Council acknowledges that some of its new structures are, as yet, untested and that the next major challenge is to ensure that the required cultural change is fully achieved at all levels of the organisation. The Council is beginning to address this in the development of its next corporate plan.

Use of Resources judgements

- 27 The Use of Resources assessment is a new assessment that focuses on financial management but links to the strategic management of the Council. It looks at how financial management is integrated with strategy and corporate management, supports Council priorities and delivers value for money. The assessment will be carried out annually, as part of each Council's external audit. For single tier and county councils, the use of resources assessment forms part of the CPA framework.

- 28 For the purposes of the CPA, we have assessed the Council's arrangements for use of resources against specified Audit Commission key lines of enquiry in five areas.

Table 2 Use of Resources assessments

Element	Assessment
Financial reporting	1 out of 4
Financial management	2 out of 4
Financial standing	2 out of 4
Internal control	2 out of 4
Value for money	1 out of 4
Overall	2 out of 4

(Note: 1=lowest, 4=highest)

- 29 In reaching these judgements, we have drawn on our Code of Audit Practice audit work, the work of other regulators and a detailed review of an evidenced self-assessment prepared by the Council.
- 30 The messages from the value for money assessment are covered below. Key messages in respect of financial reporting, financial standing, financial management and internal control are summarised in the accounts and governance section of this letter.
- 31 Further details of the Council's strengths, areas for development and recommendations can be found in our Use of Resources report.

Use of resources - value for money assessment

- 32 We have assessed the Council at level 1 for value for money (below minimum requirements). This reflects the fact that, historically, the Council has not put adequate performance management systems in place or demonstrated that is achieving, or is improving, the value for money in its service delivery.
- 33 However, the appointment of a new interim chief executive in early 2005 and the subsequent senior level restructuring and appointment of an experienced director team in the summer of 2005 has re-invigorated the Council. As a result, a wide range of initiatives and improvement actions have been implemented. Inevitably, it takes time for the fruits of such initiatives and actions to be seen and evidenced. Therefore, our work has reflected the arrangements in place during the financial year 2004/05, although taking account of recent developments, wherever possible, We would anticipate that, in future assessments, the outcomes of the actions introduced to date and those yet to come, will be more tangible.

- 34 The overall value for money score comprises two judgements – firstly, achievement of value for money and, secondly, arrangements for improving value for money.
- 35 We assessed the Council's performance in achieving value for money, currently, as below adequate (a score of 1). However, we did find a number of areas where the Council was performing adequately, in particular:
- the Council has some information on costs and how they compare with other similar Councils;
 - benchmarking data is used well in some service areas to identify potential savings or areas for improvement;
 - mechanisms for reviewing service costs and quality have been introduced over the last year; and
 - action has been taken to improve the management of capital projects.
- 36 But our audit also identified a number of areas where the Council needs to improve its arrangements for securing good value for money in the delivery of its services. Specifically, it has lacked sufficient or appropriate information in the past to both test and demonstrate that it is providing value for money. Whilst benchmarking data has been used, in some areas, it has not been utilised extensively across the Council. The reporting and use of performance indicators to specifically assess value for money has been limited and, where they have been used, have been more in isolation rather than linking together to show the whole picture. There has not been a programme of best value reviews to test value for money and, whilst we accept that this was suspended to concentrate on implementing the improvement agenda, no alternative mechanisms were employed to demonstrate that this was being considered. And, until late 2005, there was no corporate assessment of the timely and cost effective completion of capital projects.
- 37 The Council's arrangements for managing and improving value for money were also assessed as level 1. This, again, reflects the fact that many of the initiatives introduced by the Council at the time of our review were still in their infancy.
- 38 Our review recognised a number of significant improvements in arrangements, in particular:
- the Council has introduced a consistent mechanism for reviewing performance, including value for money, and identifying unintended high spending;
 - procurement savings have been identified and are being realised; and
 - consultants have been employed and have identified further, significant, efficiency saving opportunities.

- 39 However, our audit also found that:
- there was a lack of evidence demonstrating a corporate drive to improve and achieve value for money until mid-2005;
 - efficiency targets have previously been based on budget cuts rather than improvements in service design or organisation; and
 - more robust processes and controls have yet to be applied for procurement expenditure below £150,000.
- 40 From our discussions with senior officers and more recent evidence, the Council is addressing many, if not all, of these areas. We would anticipate that, if these continue, and become embedded, then an improvement in the value for money assessment is likely, next year. The Council needs to ensure that clear information on costs and performance, over time and compared with other authorities, is produced and used by councillors and managers to routinely challenge value for money. The Council will also need to ensure that recent developments in its management arrangements, including further developing corporate procurement and achieving substantial savings, are embedded across all service directorates and corporately.

Other Audit Commission inspections

- 41 In May 2005, the Audit Commission reported that the Council's Supporting People programme was a fair service with uncertain prospects for improvement. Although slow to develop, the Council was beginning to make steady progress in establishing the programme and developing services under its new Supporting People five-year strategy. To ensure that their limited resources were best used for those in greatest need, the Council needed to develop better management information, stronger leadership and greater user involvement.
- 42 An Audit Commission inspection of the planning service, in November 2005, reported that the Council provides a good planning service that has promising prospects for improvement. Strengths include a good understanding of local needs, strong forward planning and success in securing developer contributions to the community infrastructure. Inspectors found a track record of rapid and significant change within the service, such as improvements to the speed of planning application decisions. Strong and effective leadership, supported by sound performance management, means that stakeholders are increasingly confident about the future.

Working with other inspectorates and regulators

- 43 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.
- 44 We share information and seek to provide 'joined up' regulation to the Council. During the last year, partner inspectorates and regulators have continued to work together through the Swindon Government Monitoring Board. Information from Board members has been used to inform the Direction of Travel statement included within this letter.
- 45 In addition to the activities of the Monitoring Board and the Audit Commission inspections referred to earlier, the Council has received an inspection from CSCI on child protection services. Inspectors concluded that the Council was serving some people well, with uncertain prospects for improvement. They found a good level of commitment amongst councillors, throughout the Council's children's service and among partner agencies to improve and develop services for the protection of children. However, they also identified some risks to the improvement plan. These difficulties included: the level of vacancies, particularly in the referral team; the need to ensure managers at all levels had sufficient focus, grip and impact on managing a service under pressure; and the inevitable uncertainty during a period of management re-structuring.

Other performance audit work

BVPP and performance indicators

- 46 The Council's best value performance plan (BVPP) 2005/06 was published, in line with the statutory timescales, by 30 June 2005. We are required to undertake a compliance audit of the annual BVPP.
- 47 We are pleased to report that the Council produced a compliant document and we were able to issue an unqualified opinion on 30 November 2005. Whilst we did not make any statutory recommendations, our review did identify a small number of areas for improvement that have been discussed and agreed with officers.

- 48 We also perform an audit of a sample of the Council's best value performance indicators (BVPIs) and other indicators that feed into the Council's Comprehensive Performance Assessment (CPA), to ensure that they have been prepared accurately and in accordance with the guidance set out by the Audit Commission.
- 49 For 2005/06, we audited a sample of 100 (69 per cent) from the 145 BVPIs included in the Plan. These BVPIs were selected for testing based on a risk assessment of new or amended BVPIs or those indicators where problems or errors were identified in the previous year, as well as those where we were required to do work by the Audit Commission. In addition, we tested ten non-BVPIs, due to their inclusion in the CPA methodology. At the Council's request, in late November 2005, we revisited two BVPIs where we had previously expressed a reservation due to weaknesses in the underlying systems. This resulted in one of the reservations being removed.
- 50 This year, we were required to place reservations (that is, there was insufficient evidence for us to confirm that the figure reported was robust) on four indicators (two BVPIs and two non-BVPIs). As a result of our audit work, there were amendments to a further 32 BVPIs, a slight increase on previous years. We have discussed these issues, together with a number of other observations arising from our audit work, with officers, and agreed action to address these and implement improvements in future years.

Review of performance management arrangements

- 51 In our 2003/04 letter, we reported that we had been completing a review of the performance management arrangements at the Council and that we were due to formally report back our findings in December 2004. Our final report was issued to the Council in January 2005.
- 52 As part of the work, we agreed that we would maintain a review of the arrangements as they developed and provide commentary and feedback throughout the year to help support the improvements being implemented. This involved a review of the proposals and documentation produced as well as regular meetings and correspondence with key officers. We provided formal feedback to officers in April 2005 and again in June 2005, with the next update being incorporated into our use of resources review.
- 53 Many of the aspects of these updates have already been reflected, broadly, in our comments on value for money. We are pleased to report that the Council has responded positively to the issues that we have raised and this has been reflected in the framework that has been developed. Specific areas where we recommended action be taken included:
- ensuring that the framework focuses on the issues and objectives described in the corporate plan;
 - ensure that the timeframe for updating the framework is realistic and achievable, to ensure that the quality of arrangements were not compromised;

- the engagement of directors through quarterly performance action reviews (QPARs) ensures they are clear on their role and responsibilities;
- performance targets need to be kept up-to-date and relevant;
- there should be robust arrangements in place to ensure integrity of data (as identified, over 30 per cent of BVPIs required amendment following audit); and
- the framework must meet the needs of the main audience and other interested stakeholders, to ensure buy-in and usefulness of the information presented to inform decision-making.

54 We will continue to review the robustness and effectiveness of the performance management framework on an ongoing basis, to support the Council on its continued development.

Review of e-government

55 In May 2005, we issued our follow-up report of the 2003 audit review of the Council's arrangements for meeting the e-government agenda. Our review recognised that the Council had made progress in a number of areas. Officers reported a number of tangible improvements with directorates recognising the value of corporate support in realising the benefits of electronic service delivery.

56 Our review made a number of recommendations and the officers' responses were recognised in the final report. Whilst recognising this progress, we identified three over-arching recommendations:

- senior officers and councillors needed to clarify the vision for e-government at Swindon and commit to the delivery of the agenda, ensuring that appropriate mechanisms are in place to drive through necessary change;
- the developing business planning framework should prompt directorates to consider how e-government initiatives can enable service improvement and to build in local targets and performance measures; and
- project management should be strengthened for the corporate and local management of e-government initiatives.

57 We recognise that the Council has taken action to address these issues and we will assess the effectiveness of these as a part of our 2005/06 audit. However, we note that the Council has recently achieved compliance with the best value performance indicator which measures progress on its e-government development.

Accounts and governance

- 58 In this section, we set out the results of our work on the use of resources assessment of financial reporting (including key messages from our audit of the 2004/05 accounts), financial standing, financial management and internal control, aspects of our 2004/05 governance work and our work in following up on previous recommendations.

Financial reporting

- 59 We have assessed the Council at level 1 for financial reporting (below minimum requirements).
- 60 The overall financial reporting score comprises two judgements – firstly, performance in producing the 2004/05 annual accounts and, secondly, arrangements for promoting external accountability.
- 61 Whilst there were a number of areas where the Council was performing at an adequate level for both of these judgements, there were some significant weaknesses which precluded an overall assessment of adequate. The main areas for improvement relate to:
- producing accounts that fully comply with the SORP and are free from material error or misstatement;
 - providing councillors with a comprehensive report explaining the accounts, providing additional information and context as necessary and clarifying the implications of the figures reported; and
 - publishing an annual report, or similar document, that meets the requirements of stakeholders, as determined through consultation.
- 62 In addition, we are working with Council officers to discuss and agree how to streamline the accounts and audit process further, to enable the shorter statutory timescale for production and audit of the 2005/06, and subsequent years, accounts to be met.

Financial standing

- 63 We have assessed the Council as adequate (level 2) for financial standing.
- 64 The Council has been introducing arrangements to strengthen its budgetary control arrangements over recent months. New budget monitoring reports have been presented to councillors, identifying at both a corporate and service directorate level, the main areas of overspend and potential remedial action.

- 65 The Council has set a balanced budget each year, although there has not been a robust medium-term financial plan to support this. While spending has remained within the overall budget, without significant overspends, departmental overspends have been an issue for the Council. Our review found that there is a policy for maintaining the level of general fund reserves and, indeed the level of general fund balances have been increased over recent years to a level which we believe is more appropriate. However, a longer-term reserves policy, to support the medium-term expenditure and resource plans, needs to be developed.
- 66 Our review also found that the treasury management procedures at the Council are in line with best practice. But the cost of debts, mainly around recovery actions, needs to be more fully analysed and reported to appropriate officers and councillors.
- 67 At the end of 2004/05, the Council made a surplus on its general fund of £621,000, after bringing back surplus specific reserves into the general fund. There was a total overspend on service budgets of £575,000. The most significant of these was £1.9 million in Social Services, but this was offset by savings elsewhere. At 31 March 2005, there were £17.6 million of miscellaneous reserves and a general fund balance of £4.6 million, which, at 1 April 2005, was increased to the agreed minimum balance of £5 million.
- 68 The Council approved a net revenue budget for 2005/06 of £197 million. The latest in-year budget monitoring report, presented to the Cabinet on 18 January 2006, shows the financial position as at the end of November 2005, and projects a small overspend against this budget of £98,000. This is the first budget monitoring report to be presented to the Cabinet since the budget was re-cast from 1 October 2005, to reflect the changes brought about through 'Full Recovery'.
- 69 Analysis of this report reveals that there remain budget pressures in the majority of service directorates, and, at the end of November 2005, there are a number of areas of overspend. Most notable is the Environment and Leisure directorate which is facing pressure both from lower than anticipated income and increased costs, particularly energy costs. However, all directorates are expecting to be able to contain and redress these areas to ensure that the year-end overspend is managed and minimised.
- 70 Capital expenditure in 2004/05 totalled £34.7 million. The latest budget monitoring information for the 2005/06 capital programme includes information up to 30 November 2005. This shows that the current profiled budget for the year is £65.8 million and the projected outturn is £53.7 million, a variance of £12.1 million. This variance is due to slippage on the current programme. The budget monitoring report does not provide further details or analysis of the schemes that are subject to slippage, or when they are likely to be delivered and we would expect that this level of information should be provided. We will continue to discuss with appropriate officers the delivery of the capital programme and improvements may be introduced, if necessary, to reduce the level of slippage in future.

- 71 The level of arrears for both council tax and NNDR has decreased since last year by £0.7 million to £11.2 million. The level of sundry debts, however, increased by £2.5 million to £12.3 million. As identified previously, the Council needs to establish the reason for this relatively large increase and establish the costs associated with this.
- 72 The Council recognises that careful financial management will be required to ensure continued financial stability as it seeks to fund service and capital developments over the next three years.

Financial management

- 73 We have assessed the Council at level 2 for financial management (performing adequately).
- 74 The overall financial management score comprises judgements on whether:
- the medium-term financial plan (MTFP) and capital programme are soundly based;
 - the Council manages performance against budgets; and
 - the Council manages its asset base.
- 75 The key messages for the Council arising from our assessment are set out below.
- 76 The Council's performance on medium-term financial forecast and budgets was assessed as level 1, below adequate. Our review recognised that the Council is in the process of reviewing and redesigning its business and financial planning processes to ensure that these are robust and fully integrated with corporate plans. We also confirmed that budgets: detail how expenditure will be funded, are allocated to appropriate budget holders and are subject to regular review. An affordable capital programme has also been established.
- 77 At the time of our review, the new corporate plan and 'Full Recovery' were relatively recent initiatives and had yet to become widely implemented across the Council. We identified that the key areas where action should be focused were:
- agreeing and publishing the revised corporate plan (this has now been done);
 - develop and agree a comprehensive medium-term financial plan identifying how corporate priorities will be funded over the coming years and communicate this to staff; (this is currently being developed and will be in place from 2006/07);
 - ensure that business and financial planning are fully integrated; and
 - ensure that the new mechanisms to ensure that the revenue implications of capital expenditure is assessed is recognised and embedded across the Council.

- 78 The Council's arrangements for managing budgets were assessed as being adequate (level 2). This judgement was based on the fact that the budgeting process is reasonable and balanced budgets have been set in the past and that there have been no overspends which the Council has not been able to manage, in its overall resources.
- 79 Our review did identify a number of areas where further improvements should be introduced. In particular, while there are now new arrangements for ensuring that overspends are reduced, it was too soon to assess how effectively they are operating. Budget monitoring reports should also be enhanced to include operational indicators, providing information on the drivers of costs and income and making a realistic assessment of future expectations for demand led services and what impact that may have. There is also scope to ensure that the delivery of savings targets are fully incorporated within the budget setting process and are separately monitored and reported against.
- 80 We found that the Council's arrangements for managing assets were, generally, good. Overall, we assessed the arrangements as adequate, although there were a number of areas where the criteria at the next level were being met. We were particularly pleased that:
- the Council's asset management plan has been assessed as 'Good' by the ODPM and the intention is to combine asset and capital management by the end of the financial year;
 - there is an up-to-date asset register in place;
 - there is an ongoing review of property and a clear understanding of the level of backlog maintenance; and
 - responsibility for asset management is clear.
- 81 Our review identified the following areas that should be addressed to improve the management of assets further, and gain an improved assessment, specifically:
- clarify the relationship between the asset management plan and the MTFP;
 - agree a plan to fund and reduce the level of backlog maintenance; and
 - develop more performance measures for asset management and ensure these are communicated to relevant stakeholders.
- 82 If these areas are addressed, then an improved assessment for financial management should be achieved in future years.

Internal control

- 83** We have assessed the Council at level 2 for internal control (performing adequately).
- 84** The overall internal control score comprises three judgements:
- performance in managing significant business risks;
 - maintaining a sound system of internal control; and
 - promoting and ensuring probity and propriety.
- 85** The Council's performance in managing significant business risks was assessed as level 1, below minimum requirements. We performed a detailed review of the Council's risk management arrangements during the year; our fieldwork started in January 2005 and we issued a draft report to the Council in April 2005. Following a number of discussions, the final report was issued in September 2005. There have been a number of changes since our original fieldwork was completed, and the finalisation of the report, and we sought to update our review as part of our work on Use of Resources.
- 86** In many respects, the Council is developing effective arrangements, and this is recognised by the importance it places on risk management. Our review identified a number of positive arrangements in place, in particular:
- there is a lead member responsible for risk management;
 - the risk management process and membership of the risk management group have been reviewed and updated;
 - a detailed action plan has been developed; and
 - some service areas have identified the business risks.
- 87** At the time of our audit and assessment, there were a number of areas where further improvements were required, to ensure that the minimum expectations were achieved. We recognise that, in some instances, these have now been addressed and this will be taken into account when we refresh our assessment as part of the 2006/07 audit. The key areas outstanding at the time of our assessment related to:
- a member approved corporate risk register and up to date risk management strategy;
 - an assessment of the key risks in delivering the Council's corporate priorities;
 - risk management not yet fully integrated into service and financial planning and project management; and
 - the mechanisms for reviewing and monitoring the risk register needing to be clarified.

- 88 The Council's performance in maintaining a sound system of internal control was assessed as adequate (level 2). The main factors in arriving at this judgement were as follows.
- The Council has an Audit Sub-Committee that is growing in effectiveness and holds officers and members to account. Its continuing role is fundamental in ensuring that control weaknesses and the whole assurance agenda are addressed and improved.
 - The process for approving the Statement of Internal Control (SIC) improved in 2004/05, with wider responsibility amongst the senior management team.
 - An effective Internal Audit function is in place.
- 89 As we have reported in previous letters, the quality of service provided through the Council's internal auditors has continued to improve and we have been able to place assurance on the work that they complete on the core financial systems. In particular, we have assessed that their work is completed to a high standard and the quality of their reports and their audit conclusions are robust. However, at our interim audit, which we completed in May 2005, we found a number of areas where management, along with Internal Audit, needed to take action.
- 90 The principal areas where improvements were sought, related to ensuring that:
- Internal Audit reports were discussed and finalised with management in a timely way;
 - audit recommendations were acted upon, in accordance with the agreed timescales, particularly those areas where significant or fundamental control weaknesses were identified; and
 - where work is outsourced to other organisations, this work is completed to a high standard with clear audit documentation and timely reporting.
- 91 We are pleased to report that, since our review, improved arrangements have been introduced and many of those systems where fundamental or significant control weaknesses were identified have now been addressed. We would emphasise, however, the need to ensure that all recommendations are acted upon within agreed timescales. We will be considering this further, along with the other issues identified during our audit, as part of our 2005/06 review.
- 92 The other areas where we believe that further improvements are required to ensure sound internal control relate to ensuring that:
- the assurance framework is fully embedded across all of the Council's processes;
 - standards and accountability within partnership arrangements are clarified and internal controls strengthened; and
 - procedure notes, identifying key controls, for all business critical systems, not just financial, are in place and reviewed annually.

93 The Council's performance in ensuring probity and propriety was assessed as adequate (level 2). The main factors in arriving at this judgement are set out below.

- Appropriate officer and member codes of conduct are in place, along with a whistleblowing policy.
- The Council has an effective Standards Committee and training for members on ethics and standards is good.

But:

- the Council needs to introduce appropriate arrangements to ensure that investigations, with regulatory requirements such as PACE, can be conducted in-house; and
- strong standards of conduct and anti-fraud policies should be promoted more actively to contractors, suppliers and partners.

94 Clearer evidence is required that all staff acknowledge and accept their responsibilities in respect of fraud and corruption.

Other issues – North Swindon Schools PFI

- 95 The Council achieved financial close on the North Swindon Schools PFI deal by 1 April 2005. We reviewed the proposed accounting treatment of the scheme and provided an opinion that, under the terms proposed, the scheme should be accounted for 'off-balance sheet'. In order to reach this opinion, we were required to undertake a significant amount of additional work that, in our view, should have been more readily undertaken by the Council and their financial advisors.
- 96 We have discussed this, together with the ongoing project management arrangements for the delivery of this high profile and prestigious scheme, with officers. We will continue to monitor its progress over the coming months.

Looking forwards

Future audit and inspection work

- 97** We have an agreed plan for 2005/06 and we have reported in this letter those aspects that have already been completed. The remaining elements of that plan, including the audit of the 2005/06 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.
- 98** We have sought to ensure, wherever possible, that our work relates to the improvement priorities of the Council. We will continue with this approach when planning our programme of work for 2006/07 and continue to work with other inspectorates and regulators to develop a co-ordinated approach to regulation. A key element of the 2006/07 programme will be the corporate assessment and joint area review, with the main field work taking place in June 2006. In addition, an inspection of waste management is planned for the autumn of 2006.
- 99** As noted throughout this Letter, our work has been based on tangible evidence that is available to us to support the assertions made by officers. The fact that Swindon is in a rapidly changing environment, with an aggressive improvement agenda and a wide range of initiatives operating concurrently, inevitably means that arrangements are not fully embedded when we come to review them. We acknowledge, and commend, the progress that the Council is making, and will take into account fully those areas where tangible and evidence-based improvements have been made as part of the 2006/07 and future years' assessments.

Revision to the Code of Audit Practice

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

Closing remarks

- 102 This letter has been discussed and agreed with the Chief Executive. A copy of the letter will be presented at the Cabinet.
- 103 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

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

RSM Robson Rhodes LLP
Appointed Auditor

Bill Sanderson
Relationship Manager
January 2006

Appendix 1 – Background to this letter

The purpose of this letter

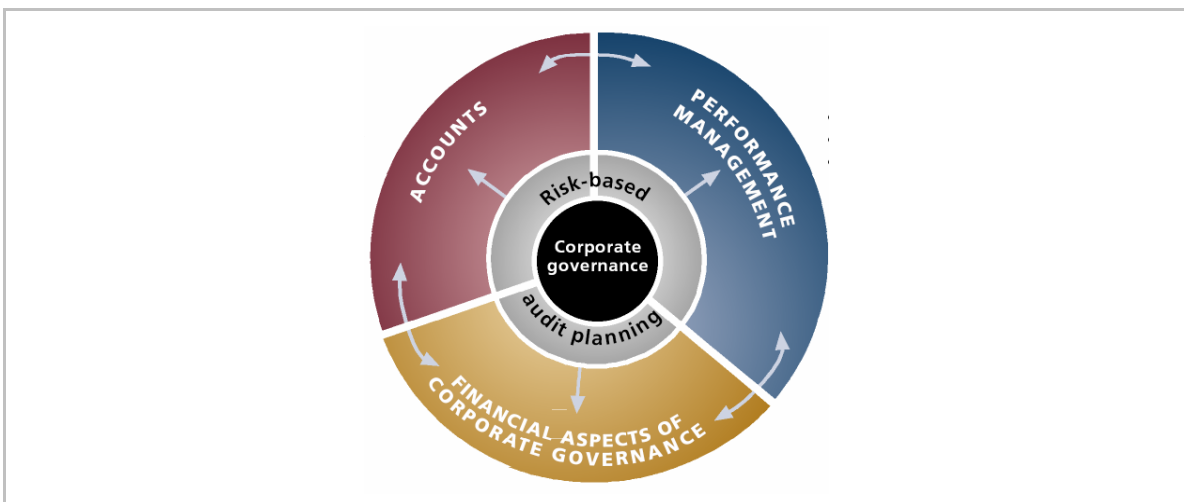
- 1 This is our Audit and Inspection ‘Annual Letter’ for councillors, which incorporates the Annual Audit Letter for 2004/05, which is presented by the Council’s Relationship Manager and Appointed Auditor. The letter summarises the conclusions and significant issues arising from our recent audit and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

Audit objectives

- 5 Our main objective as your appointed auditor is to plan and carry out an audit that meets the requirements of the Code of Audit Practice. We adopt a risk-based approach to planning our audit, and our audit work has focused on your significant financial and operational risks that are relevant to our audit responsibilities.
- 6 Central to our audit are your corporate governance arrangements. Our audit is then structured around the three elements of our responsibilities as set out in the Code and shown in Figure 1.

Figure 2 Code of Audit Practice

Code of practice responsibilities



- 7 Central to our audit are your corporate governance arrangements. Our audit is then structured around the three elements of our responsibilities as shown below.

Accounts

- Opinion.

Financial aspects of corporate governance

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

Performance management

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

Appendix 2 – Audit reports issued

Table 3

Report title	Date issued
Audit and Inspection Plan	June 2004
Review of Performance Management Arrangements	January 2005
Update (1) on Performance Management Arrangements	April 2005
Update (2) on Performance Management Arrangements	June 2005
Review of E-government	May 2005
Inspection of the Supporting People Programme	May 2005
Governance Report	July 2005
Review of Risk Management Arrangements	September 2005
Accounts Audit Report	October 2005
BVPP Opinion and Report	December 2005
Use of Resources – Initial Feedback Report	September 2005
CPA Scorecard	December 2005
Use of Resources – Judgements Feedback	January 2006
Inspection of the Planning Service	January 2006

Appendix 3 – Audit fee

Table 4 Audit fee update

Audit area	Plan 2004/05 £	Actual 2004/05 £
Overall management and direction	52,000	52,000
Accounts	45,000	45,000
Financial aspects of corporate governance ^{*1}	95,000	107,000
Performance	223,000	223,000
Total fee	415,000	427,000

**1 Relates to additional work in respect of providing opinion on North Swindon Schools PFI deal.*

- 1 In addition, we estimate that we will charge the Council approximately £95,000 for the certification of grant claims and returns on behalf of the Audit Commission. This is below our original estimate set out in the Plan of between £100,000 to £120,000 and represents a reduction of 10 per cent on the 2003/04 fee.