

Report to: Audit Committee
Date of meeting: 23 June 2008
Report of: Director of Finance
Title: Annual Audit and Inspection Letter

1.0 **SUMMARY**

1.1 The Council's external auditors issue an annual letter to Members, summarising their work during the past year. The report has been circulated to Members previously and is now presented for formal consideration. Copies will be available at the meeting for any Member who needs one.

2.0 **RECOMMENDATION**

2.1 That the Committee notes the report and endorses the recommendations made by the Audit Commission and the actions being taken by officers in response
2.2 That the staff of the Audit Commission be thanked for their constructive contributions to the Council's improvement work.

Contact Officer:

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3.0 **DETAILED PROPOSAL**

3.1 The latest Annual Letter was issued in March this year, too late to be included on the Committee's agenda for that month. Although it is therefore somewhat out-of-date, it is useful as a summary of the work undertaken last year and makes relevant suggestions for improvement.

3.2 In summary:

- The Comprehensive Performance Assessment categorisation improved from "weak" to "good"
- Performance indicator improvement is well above average at 77%
- 31% of performance indicators are among the best nationally
- a very positive Direction of Travel Statement that recognises achievements to date in improving priority areas and concluding major projects and assesses the Council as having good capacity to deliver in future.
- The accounts and the Best Value Performance Plan were unqualified
- Use of resources was found to be adequate

3.3 The Letter includes many examples of the improvements being made, across all the themes of the Performance Plan 2006-12. Many of these contributed to the successful reassessment under CPA but the Council has moved on since, for example with the housing stock transfer and the progress on the leisure centres. The Council already has an improvement plan designed to attain an "excellent" standard and there was relatively little for the auditor to propose by way of recommendations for improvement. The main area for improvement is in relation to the Use of Resources.

3.4 The overall score for Use of Resources remained at "2", which represents an adequate standard overall. However, it was disappointing that the score for two themes fell. As the auditor explains, this is primarily due to changes in the standard which councils are required to meet. The Audit Commission has adopted a policy it refers to as "raising the bar", which means that it gets harder to reach a particular score each year. This means that councils are, in effect, running just to stand still. Although the Audit Commission does try to give advance notice of proposed changes, there is often a lengthy consultation period where uncertainty prevails. Different external auditors interpret the Audit Commission Key Lines of Inquiry in different ways and this makes it hard to be certain what evidence is needed in advance of the audit. This was particularly a factor this year, in the Financial Standing theme.

3.5 Although this was also a factor in the reduced score for Financial reporting, the main issue here was the need to make numerous amendments to the accounts. This was primarily due to staff changes, poor management of the closing programme and inadequate supervision. These areas are being prioritised in the action plan.

3.6 Recommendations made by the Audit Commission

- Develop an action plan to improve Use of Resources, particularly in relation to financial reporting
- Strengthen action and improvement plans to provide greater focus on outcomes
- Use benchmarking more effectively to address high service costs
- Strengthen performance management of partnerships and the LSP to provide more timely information , clearly linked to priorities

- 3.7 Officers are already working to address these issues as follows:
- An action plan to improve Use of Resources for 2007/08 was prepared following feedback from the auditors in November 2007. The specific recommendations in this report are covered in Appendix 1. The key focus has been to improve the quality of the accounts by engaging experienced accountants to fill vacant posts and provide expertise on specialist areas. The 2007/08 accounts are elsewhere on this agenda. Nothing more can be done at this stage to improve the 2008 assessment of other themes and the focus now has to move to the 2009 assessment which is being changed significantly to serve the new Comprehensive Area Assessment process.
 - The need for a greater outcome focus was identified as part of the CPA feedback and this has been addressed in the development of the Council's Corporate Plan 2008-14 and through service planning.
 - Establishing meaningful comparative cost comparisons has proven to be extremely difficult. The county-wide review of waste collection costs has taken over a year so far, with limited output. Budget Panel received a summary report comparing Watford BC with two other Hertfordshire districts but lack of resources has delayed further analysis to this year. The latest Audit Commission vfm profiles are being used in developing the Value for Money Strategy.
 - Work on performance management has been undertaken with the LSP and reported on to Call-in and Performance Scrutiny in February this year. This work will inform the development of a toolkit to be used with other partnerships which will include recommendations for sound performance management procedures and outcomes..

3.8 Members are asked to endorse the actions already being taken by officers to respond to the auditor's recommendations.

3.9 Members are reminded that Grant Thornton will be auditing the accounts from 2007/08 onwards. We are also having a change of Relationship Manager, with Mr. Gary Hammersley replacing Mr. Nigel Smith in that role. The Committee may wish to record its thanks to Mr. Smith and Ms Debbie Hanson, the District Auditor and her predecessors and their staff for their contribution to the council's improvement journey. The Annual Letter will continue to be issued by the Audit Commission and its staff will carry out any inspection work in future years.

4.0 **IMPLICATIONS**

4.1 **Financial**

4.1.1 The Director of Finance comments that the use of consultants to support the preparation of the accounts is likely to be more costly than the budget provision for posts that are not being filled but this is a short-term pressure, pending the move to shared services. It also helps to minimise the cost of redundancies that might otherwise have been required.

4.2 **Legal Issues** (Monitoring Officer)

4.2.1 The Head of Legal and Democratic Services comments that there are no legal issues arising from this report.

4.3 Potential Risks

Potential Risk	Likelihood	Impact	Overall score
Failure to respond appropriately could lead to a worsening score for Use of Resources.	2	2	4

It is possible that the steps taken may not have the expected result, due to the uncertain expectations and the change of external auditor this year. The impact under the Comprehensive Area Assessment is unclear.

Appendix 1

Action Plan re Use of Resources

Background Papers

The following background papers were used in the preparation of this report. If you wish to inspect or take copies of the background papers, please contact the officer named on the front page of the report.

Annual Audit and Inspection Letter published March 2008
Use of Resources Auditor Judgements 2007

File Reference

None