

Annual Audit and Inspection Letter

March 2008



Annual Audit and Inspection Letter

Watford Borough Council

External audit is an essential element in the process of accountability for public money and makes an important contribution to the stewardship of public resources and the corporate governance of public services.

Audit in the public sector is underpinned by three fundamental principles.

- Auditors are appointed independently from the bodies being audited.
- The scope of auditors' work is extended to cover not only the audit of financial statements but also value for money and the conduct of public business.
- Auditors may report aspects of their work widely to the public and other key stakeholders.

The duties and powers of auditors appointed by the Audit Commission are set out in the Audit Commission Act 1998, the Local Government Act 1999 and the Commission's statutory Code of Audit Practice. Under the Code of Audit Practice, appointed auditors are also required to comply with the current professional standards issued by the independent Auditing Practices Board.

Appointed auditors act quite separately from the Commission and in meeting their statutory responsibilities are required to exercise their professional judgement independently of both the Commission and the audited body.

Status of our reports

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

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

Reports prepared by appointed auditors are:

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

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Key messages

- 1 Watford Borough Council is delivering improvement in priority areas and successfully concluding major projects. These include: housing stock transfer, the redevelopment of two leisure centres and a shared services programme with a neighbouring council. The Comprehensive Performance Assessment categorisation improved from 'weak' to 'good' in 2007. Performance indicator improvement is well above average at 77 per cent and 31 per cent are now amongst the best nationally.
- 2 There are robust plans for priorities with some good outcomes. Cassiobury Park has received a Green Flag Award; Building Control and Development Control services achieved a Charter Mark; crime levels are generally falling; and level three of the Local Government Equality Standard was attained. The Council provides adequate value for money. It is comparatively high spending but keeps council tax rises low while improving performance. Improved procurement has contributed to the delivery of £1.2 million of efficiency savings.
- 3 There is good capacity to deliver plans with significant progress in financial management, workforce planning and partnership working. Performance management is effective but not all plans have clear outcome targets. Staff sickness levels remain high.
- 4 As part of our 2006/07 audit, we have provided:
 - an unqualified opinion on your accounts;
 - a conclusion that your value for money arrangements are adequate; this included an assessment that your arrangements for ensuring data quality met minimum requirements; and
 - an unqualified report on your Best Value Performance Plan.
- 5 Although, we were able to issue an unqualified opinion on the 2006/07 accounts by the statutory deadline, arrangements for their production and audit were inadequate. The initial set of accounts presented for audit were of a poor quality and contained material errors and delays were experienced in receiving responses to audit queries.
- 6 We assessed the Council's arrangements for its use of resources as adequate. Although the overall assessment has not changed from the previous year, there have been changes in individual areas. The assessments in relation to financial reporting and financial standing have declined, with financial reporting inadequate. This downward movement is the result changes to the scoring rules and key lines of enquiry (KLoE) for 2007 to raise standards under the harder test framework, rather a drop in quality or performance from the previous assessment. Although not reflected in the overall scores, the Council has demonstrated improvement in some areas. In particular, asset management where improvements have resulted in an increased theme score of level two.

Action needed by the Council

7 The Council needs to:

- develop an action plan to address the areas for improvement in our use of resources assessment, particularly in relation to financial reporting and the production of the accounts, where arrangements were assessed as inadequate;
- strengthen action and improvement plans to provide a greater focus on outcomes;
- use benchmarking more effectively to address high service costs; and
- strengthen performance management of partners and the LSP to provide more timely information which is clearly linked to priorities.

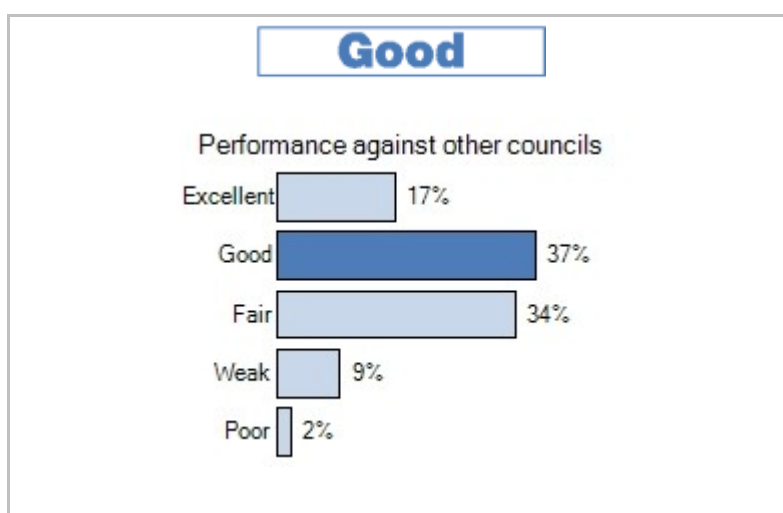
Purpose, responsibilities and scope

- 8 This report provides an overall summary of the Audit Commission's assessment of the Council. It draws on the most recent Comprehensive Performance Assessment (CPA), the findings and conclusions from the audit of the Council for 2006/07 and from any inspections undertaken since the last Annual Audit and Inspection Letter.
- 9 We have addressed this letter to members as it is the responsibility of the Council to ensure that proper arrangements are in place for the conduct of its business and that it safeguards and properly accounts for public money. We have made recommendations to assist the Council in meeting its responsibilities.
- 10 This letter also communicates the significant issues to key external stakeholders, including members of the public. We will publish this letter on the Audit Commission website at www.audit-commission.gov.uk. (In addition the Council is planning to publish it on its website).
- 11 Your appointed auditor is responsible for planning and carrying out an audit that meets the requirements of the Audit Commission's Code of Audit Practice (the Code). Under the Code, the auditor reviews and reports on:
 - the Council's accounts;
 - whether the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources (value for money conclusion); and
 - whether the Council's best value performance plan has been prepared and published in line with legislation and statutory guidance.
- 12 This letter includes the latest assessment on the Council's performance under the CPA framework, including our Direction of Travel report, and the results of any inspections carried out by the Audit Commission under section 10 of the Local Government Act 1999. It summarises the key issues arising from the CPA and any such inspections. Inspection reports are issued in accordance with the Audit Commission's duty under section 13 of the 1999 Act.
- 13 We have listed the reports issued to the Council relating to 2006/07 audit and inspection work at the end of this letter.

How is Watford Borough Council performing?

- 14 Watford Borough Council's Comprehensive Performance Assessment carried out in 2007 increased the Council rating from 'Weak' to 'Good'. The following chart is the latest position across all district councils.

Figure 1 Overall performance of district councils in CPA



Source: Audit Commission

The improvement since last year - our Direction of Travel report

- 15 Watford Borough Council is delivering improvement in priority areas and successfully concluding major projects.

Improving outcomes

- 16 Watford has 77 per cent of performance indicators improved since last year (against a district average of 57-59 per cent) and is ranked 6th out of 388 authorities for improvement. It has 31 per cent of indicators in the best quartile (against a district average of 33 per cent). There has been positive progress in most stated priorities, although there are still areas where planned outcomes are yet to be delivered:

A town with a high quality environment

- 17 The quality of the urban environment continues to improve. The Council has launched a Green Travel Plan to reduce traffic congestion and carbon emissions, and is working with seven partners to promote car sharing. It has also agreed a Carbon Management Strategy that sets targets for reducing carbon emissions both from its own operations and, through its community leadership role, across the borough as a whole. The Council has protected and enhanced its open spaces through its Green Spaces Strategy. Cassiobury Park, the principal open space in the borough has been improved and received a Green Flag award in June 2007. This performance supports the delivery of Hertfordshire Local Area Agreement (LAA) targets and will help generate significant reward funding. The Council's performance in dealing with graffiti removal and fly-posting improved through 2006/07 but remains well below average in performance when compared with other councils.

A safer town

- 18 Partnership working and initiatives are contributing to a safer town. The Crime and Disorder Reduction Partnership (CDRP) were awarded Home Office Together Academy status for its 'best practice' work on anti-social behaviour (ASB). The Council has been the CDRP lead on tackling anti-social behaviour and has disseminated national best practice through the Together Academy 'respect workshops'. The Police's ASB officer is now located with the Council Community Safety team and a new Council ASB co-ordinator has been appointed. This enhances the co-ordinated and effective enforcement of ASB work across the borough.
- 19 When compared to Watford's Home Office group of similar towns, crime levels are generally lower, and levels of theft from a motor vehicle, theft of a motor vehicle and robberies are below average. In contrast, the level of domestic burglaries, violence against the person and sexual offences is relatively high. The Council has focussed resources on actions that are clearly within its own remit such as funding CCTV, park rangers, diversionary activities for young people and programmes to combat graffiti and fly-posting instead of part-funding Police Community Support Officers (PCSOs). These recent initiatives are leading to improved perceptions about community safety and significant reductions in crime levels during 2007 – down by around 18 per cent overall.

A healthy town

- 20 The Council's has sound plans to achieve this priority but there are as yet few outcomes which will be recognised by residents. Successful achievements include working with 'One Watford' partners on a 'smoke free Watford'; the 'Scores on Doors' scheme to support the Council's work on improving hygiene standards in eating places across the borough; and improved two leisure facilities which will be available in the summer of 2008.

- 21 Performance in dealing with vulnerable people with housing needs is mixed but improving. Reducing the average time spent in hostel accommodation was prioritised by the Council and it achieved an 18 week reduction between 2005/06 and 2006/07 (BV183b). The Council has also met the government target for the number of households in temporary accommodation three years early – down from 147 in December 2004 to 69 by December 2007. The Council has developed an innovative rent deposit scheme to allow access to private sector housing for residents – to date 27 families and individuals have benefited from the scheme. The Housing and Regeneration Initiative (HARI), a joint working initiative between Three Rivers Council, Watford Council and Registered Social Landlords (RSLs) has delivered additional affordable housing units across the two districts.

A good town for business, skills and learning

- 22 There has been limited achievement against this Council priority. Investments which may deliver future improvement include: commissioning an Economic Development Strategy for the borough from the economic development manager jointly funded with two neighbouring councils to promote South West Hertfordshire to the business and commercial sectors, and working with West Hertfordshire College on its plans for a modern, purpose-built campus in the heart of the town. Each of these initiatives addresses elements of the business and skills agenda. Projects addressing other priorities may also have a significant impact on this area, for example improving the town centre and the health campus.

A well-informed community where everyone can contribute

- 23 The Council takes explicit account of the needs of all sections of the community and works well with minority groups. It established the 'One Watford Equality Panel' to provide meaningful challenge to equality impact assessments (EIA). EIAs are applied to all policies and services, leading to changes in service delivery. Watford achieved Level three of the Local Government Equality Standard in February 2007 and has clear plans to achieve Level four by March 2009. Performance on the duty to promote race equality is improving and remains in the second quartile. As a result community cohesion is a strength for the Council.
- 24 The Council worked closely with tenants' representatives to enable an informed choice on housing stock transfer and to secure agreement to the transfer to another provider. It developed a Community Gateway model (only the second in the country) for Watford community housing trust which acquired the housing stock in September 2007. The Trust will now be able to deliver the Decent Homes standard. The Council is working with local communities to transfer of some of its community centres to local management. Voluntary sector funding contracts have been revised to require delivery of key objectives. However, these actions have not yet resulted in outcomes that are clear to local people. The Council has piloted its first service improvement group to enable residents to have a real say in shaping its waste, recycling and street cleansing services.

- 25 The Council's three-year service transformation programme has created a strong customer focused culture. The continuing success of the customer service centre is due to high quality ICT support and well trained staff. Customers can access services and make payments on-line and the Council is improving the website to make it more user-friendly and interactive. Further investment in ICT is planned for revenues and benefits to speed up processing times. Access to services has improved for local people.

A town to be proud of

- 26 The Cultural Strategy (2007/12) has been revised to provide a framework for long term plans for culture, leisure and sport in the borough. The Council has brought together key partners to develop long term plans to transform the 'civic quarter' of the town, including the Town Hall site, Hertfordshire County Council's library site and West Hertfordshire College campus to support the creation a 'family friendly' town centre. These plans currently include an improved indoor market and a town centre cinema. However, these plans are at an early stage so have not yet resulted in outcomes that benefit local people.
- 27 The Council provides adequate value for money and is taking effective action to improve efficiency. It is a high spending council per head of population in comparison with its nearest neighbours and the level of Council Tax is high. However, it has set the lowest percentage rise in council tax in Hertfordshire up to 2006/07 for the fourth year in a row, and the second lowest in 2007/08. It tested its budget proposals for 2008/09 with local residents and received endorsement for its future spending plans. The Council has significantly reduced the cost of waste (BV86), which it set as a priority in 2006/07, and is no longer the highest cost council in the county by this measure.
- 28 £1.2 million efficiency savings were delivered during 2006/07, including an ongoing £225,000 net savings from the best value review of building services and an estimated £100,000 from the review of children and young people's services. Procurement has been strengthened and there are good examples of collaborative and partnership working in order to achieve efficiency savings and improved services. For example, the contract to build the two new leisure centres has achieved £5 million procurement saving. A further £2 million has been committed by a neighbouring council to contribute to the cost of the leisure redevelopment.

Progress on implementing improvement plans to sustain future improvement

- 29 The Council has robust plans for improving the area. These include expanding the town centre beyond the ring road, to develop a cultural sector, as part of the civic quarter, which in turn will attract further investment, and a health campus to provide better health care facilities supported by key worker housing. These plans are well-advanced.

- 30 There are clear links between the community plan, corporate plan and the Local Area Agreement (LAA). The LAA has targets and outcomes which link to other strategies such as the Hertfordshire Waste Strategy, Local Transport Plan and sub-regional Housing Strategy. The Council has also improved links between its own plans across service areas to deliver joined-up services. For example, the Cultural Strategy addresses the needs of children and young people as set out in the LAA. The LAA targets and outcomes are integrated into the community plan and the revised corporate plan. This achieves a cohesive strategic planning framework.
- 31 A robust framework of strategies and plans is delivering the priorities. The three-year medium term financial strategy (MTFS) is aligned with the capital programme and budgets to deliver Council priorities. The MTFS also establishes an annual process to identify budget savings and efficiencies which takes into account corporate priorities. The Council has directed extra resources to priorities, especially recycling and corporate capacity. It has also funded specific initiatives that support priorities such as '24 hour' town centre cleansing, housing stock transfer and new leisure centres. Service planning has been strengthened with more explicit links between the corporate and community plan and services to improve the focus on users and priorities. This robust policy framework will assist in the delivery of priorities.
- 32 The Council can demonstrate improvements in service performance as a result of discrete action plans, for example on street cleaning, planning services and revenues and benefits. The Council has developed its service plans to be a cornerstone of performance management with regular review by Directors and portfolio holders. This ensures a continuous focus on performance improvement.
- 33 The Council is exploring opportunities to reduce central support costs through a shared services partnership with a neighbouring council, with expected savings of £1.6 million annually across the two councils from 2010/11. Both councils agreed to proceed to implementation based on the findings of a detailed business case in February 2008.
- 34 Major projects such as; stock transfer; the shared services initiative and leisure centre re-development have been well managed and milestones and key objectives have largely been delivered to time and budget.
- 35 Corporate Assessment in July 2007 identified that some plans do not clearly identify outward-facing, user-focused targets which can be measured. This means identified actions may be implemented but not necessarily deliver improvements such as, in the corporate priority 'a good town for business, skills and learning'. The council has begun to address this through service and improvement planning for 2008/09.

- 36 The Council has good capacity to deliver its plans. Political and managerial leadership is widely respected, and promotes a culture of openness and support which recognises innovation and learning. Relationships between councillors and officers are appropriate and effective. The Council has made significant progress in important areas including financial management, procurement and risk management, human resources, partnership working, workforce planning, customer services and diversity. An effective performance management framework has helped the Council to deliver its short term priorities, retain focus and improve poorly performing services and achieve above average performance when compared with other district councils.
- 37 The Council has firm plans in place to address identified capacity weaknesses. The Council is self aware that it needs to make further progress in scrutiny, councillor training and sickness absence levels and has begun to put plans in to action. For example, corporate management board CMB is monitoring sickness levels on a monthly basis and identifying trends and possible emerging issues. The impact of this monitoring has been that stress has been highlighted as a potential issue and a corporate approach to tackling stress has been developed and implemented.

Service inspections

- 38 The CPA assessment increased the Council rating from 'Weak' to 'Good'. The main findings are summarised below.

The Council has identified priorities that reflect local needs and put in place plans and processes to address them. It has achieved much. Residents' satisfaction has increased and initiatives are helping to improve community safety, improve the environment and attract new investment into the district. The Council has many ambitious projects underway which aim to deliver further quality of life improvement for residents.

Strengths identified by the CPA include:

- strong political and managerial leadership;
- clear ambitions and priorities;
- effective partnership working;
- better management of performance; and
- improving services that are starting to have a positive impact on the local community.

Areas for improvement identified include:

- strengthening the Council's improvement plans;
- strengthening the performance management arrangements of some partnerships; and
- using benchmarking more effectively to address the reasons for high service costs.

The audit of the accounts and value for money

- 39 Your appointed auditor, has reported separately to the audit committee on the issues arising from our 2006/07 audit and has issued:
- an audit report, providing an unqualified opinion on your accounts and a conclusion on your value for money (vfm) arrangements to say that these arrangements are adequate on 28 September 2007; and
 - a report on the Best Value Performance Plan confirming that the Plan has been audited.

Audit of accounts 2006/07

- 40 The audit of the accounts did not identify any significant weaknesses in the Councils accounting or corporate governance arrangements.
- 41 However, the audit did result in officers making material amendments to the accounts in relation to:
- debtors and creditors and cash and bank balances that had been netted off against one another; and
 - amendments regarding the establishment of reserves that did not accord with financial reporting standards.
- 42 In addition, significant difficulty was experienced throughout the audit. The initial set of account presented for audit were of a poor quality and delays were experienced in receiving responses to audit queries.
- 43 The key areas for improvement identified by the audit were:
- improve year end processes for the production of the accounts to ensure they are free from material error and misstatement; and
 - improve review processes for the production of the accounts to ensure they comply with all relevant financial reporting standards and proper practices and are free from error and internal inconsistency.

Use of resources

- 44 The findings of the auditor are an important component of the CPA framework described above. In particular the use of resources score is derived from the assessments made by the auditor in the following areas.
- Financial reporting (including the preparation of the accounts of the Council and the way these are presented to the public).
 - Financial management (including how the financial management is integrated with strategy to support council priorities).
 - Financial standing (including the strength of the Council's financial position).

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- Internal control (including how effectively the Council maintains proper stewardship and control of its finances).
- Value for money (including an assessment of how well the Council balances the costs and quality of its services).

45 For the purposes of the CPA, overall we have assessed the Council's arrangements for use of resources as adequate and meeting minimum requirements. The individual judgements for the five areas as follows:

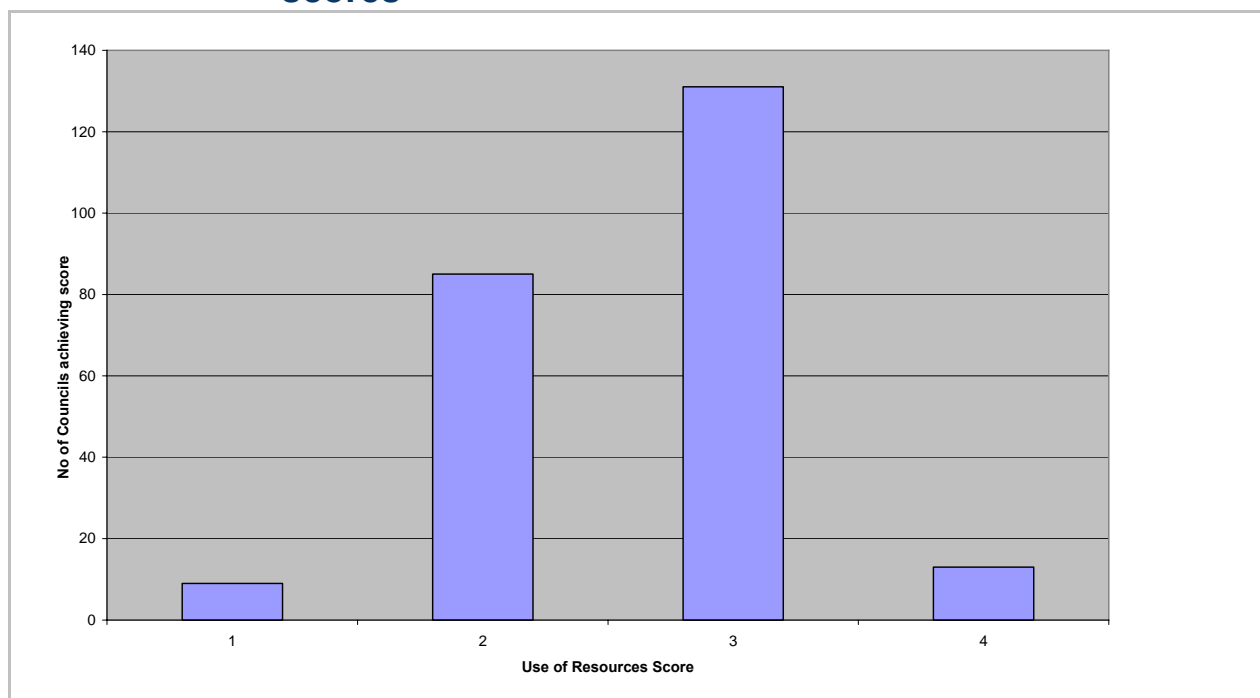
Table 1 District Council use of resources judgement

Element	2006 assessment	2007 assessment
Financial reporting	2	1
Financial management	2	2
Financial standing	3	2
Internal control	2	2
Value for money	2	2
Overall assessment of the Audit Commission	2	2

(Note: 1 = lowest, 4 = highest)

46 Figure 2 overleaf summarises the overall scores which have been achieved by district councils in the 2007 assessment. This shows that over half of district councils now achieve overall scores of three or above.

Figure 2 Analysis of District Council use of resources 2007 scores



Audit Commission

- 47 Although the overall assessment has not changed from the previous year, there have been changes in individual areas. The assessments in relation to financial reporting and financial standing have declined, with financial reporting assessed as inadequate. This downward movement is the result changes to the scoring rules and key lines of enquiry (KLoE) for 2007 to phase in the more challenging aspects of the KLoE and raise standards under the harder test framework, rather a drop in quality or performance from the previous assessment. Although not reflected in the overall scores, the Council has also demonstrated improvement in some areas. In particular, asset management where improvements have resulted in an increased theme score of level two.
- 48 We reported our detailed findings to officers in December 2007. If the Council is to secure an overall improvement in its use of resources score, an improvement plan will need to be developed that clearly sets out the areas in which improvements are required and clearly allocates responsibility for securing the improvement. This plan should be monitored on a regular basis at member level.

- 49 The key areas for further improvement identified in our detailed report are:
- improve the processes for the production and audit of the accounts to ensure the accounts submitted for audit present fairly the Councils financial position (ie are be free from material error and misstatement) and contain only a small number of non-trivial errors, and timely;
 - improve the accuracy and meaningfulness of budget monitoring information, including the use of operational activity indicators;
 - further proactive management of debt collection for all material categories of income collection should be undertaken, along with detailed consideration of the cost and effectiveness of action taken;
 - continue to roll out risk management training for all staff and ensure that Members further develop their role in risk management;
 - embed the business continuity plan in all aspects of the Councils activity and ensure it is appropriately and regularly updated and tested;
 - continue to develop unit costing for all key services;
 - continue to develop and embed the concept of whole life costs within procurement; and
 - develop intelligent targets to improve efficiency and value for money linked to an overall efficiency plan.

Data quality

- 50 The audit of the Council's arrangements for ensuring data quality, which fed into our value for money conclusion, concluded that the Councils arrangements currently meet minimum requirements. The following have been identified as areas for further improvement:
- the establishment of corporate objectives, data quality strategy and policies to ensure the Councils commitment to data quality is turned in to action;
 - the integration of risks associated with data quality into corporate risk management;
 - the establishment of a corporate data sharing protocol or policy setting out the minimum data quality requirements when sharing data; and
 - the establishment of a formal data quality training program for all staff.

Looking ahead

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

Closing remarks

- 54 This letter has been discussed and agreed with the Managing Director and Director of Finance. A copy of the letter will be presented at cabinet in May 2008. Copies need to be provided to all Council members.
- 55 Further detailed findings, conclusions and recommendations on the areas covered by audit and inspection work are included in the reports issued to the Council during the year.

Table 2 Reports issued

Report	Date of issue
Audit and inspection plan	March 2006
Annual Governance Report	September 2007
Opinion on financial statements	September 2007
Value for money conclusion	September 2007
Use of Resources report	December 2007
Corporate Performance Assessment Report	July 2007
Annual audit and inspection letter	March 2008

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

Availability of this letter

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

Nigel Smith
Relationship Manager

March 2008