

Annual Audit and Inspection Letter

South Norfolk District Council

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As an independent watchdog, we provide important information on the quality of public services. As a driving force for improvement in those services, we provide practical recommendations and spread best practice. As an independent auditor, we ensure that public services are good value for money and that public money is properly spent.

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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Our overall summary

- 1 This report provides an overall summary of the Audit Commission's assessment of the Council. It draws on the findings and conclusions from the audit of the Council and from any inspections that have been undertaken in the last year. The letter includes our review of how well the Council has progressed (our Direction of Travel report) and the auditor's assessment of how well the Council has managed its finances (the Use of Resources scores). These latter components have been factors in the recent decision to approve the Council's request for a corporate assessment to assess the potential for a rescoring the Council's Comprehensive Performance Assessment (CPA) category.
- 2 The report is addressed to the Council, in particular it has been written for councillors, but is available as a public document for stakeholders, including members of the community served by the Council.
- 3 The main messages for the Council included in this report are:
 - The pace of improvement continues to be rapid with services once again improving. Overall, 80 per cent of the Audit Commission's basket of performance indicators have improved; this is much higher than the district council average of 58 per cent. The Council continues to achieve in its priority areas, such as affordable housing and recycling. Local people are benefiting from high quality local services. Overall, value for money is good.
 - The Council continues to strengthen its corporate arrangements to ensure it is well placed to make further improvements in the future. Performance management is strong and the Council's range of service reviews, continue to challenge the current provision and deliver service enhancements. The Council has shown leadership on equality and diversity issues, for example in respect of homeless people, gypsies and travellers. However this is not consistent across services and although currently meeting level 2 of the equalities standard the Council has not raised the rating since 2003/04.
 - We issued an unqualified opinion on your accounts for 2005/06 and certified our audit as complete. Our audit opinion was again delayed due to inadequate draft accounts and working papers.
 - We issued a qualified value for money conclusion.
 - The Council achieved a level 2 (adequate performance) this year for its use of resources assessment.

Action needed by the Council

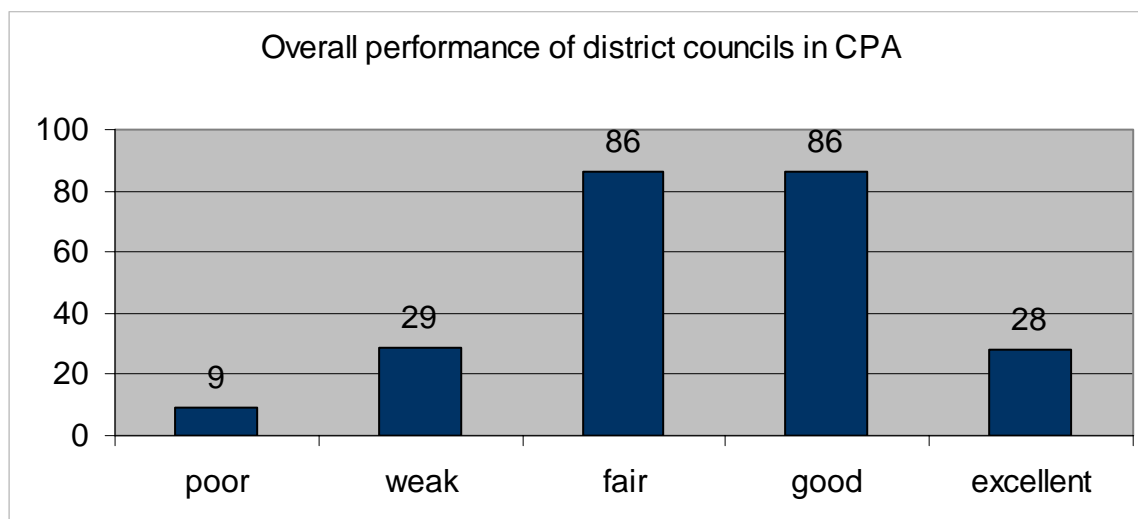
- 4 We recommend that the Council should:
 - consider the improvement issues raised in the direction of travel report and incorporate them into an improvement plan to ensure they are addressed before the Council's re-categorisation corporate assessment;

- improve year end and qualitative processes for producing the financial statements to ensure the accounts presented for approval are free from significant errors and are supported by a robust set of working papers;
- ensure that staff with appropriate knowledge and skills are involved with the preparation of the 2006/07 annual accounts and subsequent audit; and
- address the improvement issues identified in our use of resources assessment.

How is South Norfolk Council performing?

- 5 The Council was assessed as 'Good' in the Comprehensive Performance Assessment carried out in 2003. These assessments have been completed in all district councils and we are now starting to update these assessments, through an updated corporate assessment, in councils where there is evidence of change. 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

What evidence is there of the Council improving outcomes?

- 6 South Norfolk District Council has made significant improvements in the quality of services over the past year. These are consistent with its corporate objectives and build on already high standards of service. The Council continues to work with partners to address the diverse needs of local people and to deliver services more efficiently.

- 7 A sustained improvement in performance has been achieved in most areas. Based upon an Audit Commission basket of indicators, 80 per cent of indicators improved between 2004/05 and 2005/06, compared with an average of 58 per cent for all district councils. This is a considerable achievement as the Council continues to build on already above average improvement shown over the previous two years. The proportion of PIs where this Council is performing in the best quartile is 56 per cent. This compares with the average for district councils of 31 per cent.
- 8 Performance improvement is linked to corporate priorities. The Council's top priority is to produce more affordable housing: 71 new affordable homes were completed in 2005/06 against a Council target of 67 and there were improvements in other housing indicators, such as returning private sector homes to occupation and reducing the length of stay in bed and breakfast and temporary accommodation. These improvements were continued in 2006/07.
- 9 Other corporate priorities include improving the environment, reducing crime and fear of crime, improving access to services and addressing the needs of young people, older people and equal opportunities for all. With its partners, the Council has made improvements in all these areas. It has expanded recycling services, (although other environmental sustainability achievements are limited); most types of crime have reduced; and the website has been greatly improved to provide better access to services.
- 10 Services have been adjusted to reflect public views. Local public priorities include better public transport, more youth activities and improved recycling (2003/04 surveys). These were all improved in 2006. For example, there was a 44 per cent increase in uptake of the county-wide free bus pass for older people. More recently, the access to services review showed that the public did not want a call centre so attention is focused on improving standards of customer care across the Council. Engagement with young people has led to development of specific websites and young people now take part in the training of Police Community Support Officers (PCSOs).
- 11 The Council is contributing to wider community outcomes through the South Norfolk Alliance (Local Strategic Partnership) and the Local Area Agreement. It is engaging with neighbouring councils in the Norwich sub-region to deliver additional housing and economic development, through a joint core strategy (Local Development Framework). The Council's scrutiny committee is focusing on wider community issues, such as neighbourhood policing, local hospital facilities and the effectiveness of the South Norfolk Alliance. It has recently adopted an environment strategy, including climate change issues, but this is at an early stage and, as yet, has had little impact.

- 12 Access to services has improved for all through various channels, including the Customer Information Centres and new e-services, such as electronic billing. The Council has also improved access for groups with particular needs. South Norfolk has a high percentage of older people, who have benefited from the new concessionary fares scheme and community transport provision. Improved affordable housing, credit union and benefits services are intended to assist people who are economically disadvantaged. Consultation with young people has led to IT projects, such as mobile buddies,¹ which also reduce the difficulties of travel in a rural area. The extension of broadband hotspots and website improvements helps with communications and opportunities for people in rural areas. Council leaders are now more focused on complaints and a new corporate complaints system has been introduced. District councillors and officers have shown positive leadership in providing sites for gypsies and travellers and all staff have received 'Dignity and Respect' training. The Council remains at level 2 of the equality standard and has not achieved its target of achieving level 3.
- 13 Value for money is judged to be good overall. The Council delivers high quality services and although council tax levels are above average for Norfolk, they are below the national average for shire districts. High spending is mainly in priority areas. The Council has made a number of small-scale efficiency savings across many services, for example via electronic billing and procurement of tyres. There have also been productivity gains, for example in planning where the number of applications handled has significantly increased. However, the Council has been slow to reduce overhead costs following the transfer of its housing stock. The best value review of support services identified some £750,000 savings over three years but these have not been fully implemented.

How much progress is being made to implement improvement plans to sustain future improvement?

- 14 Progress is being made to sustain further improvements. The Council has good performance management arrangements and capacity to deliver its priorities. Some plans, however, are at a transition stage.
- 15 The majority of plans and strategies are in place, although some need updating. The Community Strategy 2004/07 has been updated with a 2006/07 Programme of Action. But a new Sustainable Community Strategy 2007/10 will not be developed until later in 2007 when the new LSP board is established. The Corporate Plan was revised 2006/09, and will be revised again following May 2007 elections. Annual service plans and appraisals are in place. Budgets and service quality are considered together. A best value review programme is in place. Plans with resources exist to deliver some 600 affordable homes in the next three years. A challenging Environment Strategy has been adopted, but unrealistic deadlines and few extra resources make delivering significant outcomes difficult.

¹ A scheme aimed at reducing isolation for young people – a modern equivalent of pen pals

- 16 The Council uses the Model for Excellence which identifies performance indicators that it most wants to improve and those it is content to maintain. Performance targets (for example for housing) and milestones (for example improved recycling and those arising from a BVR of access to services) are being achieved. Quality reviews were undertaken in 2006 using external mystery shoppers, internal staff reviews and other techniques, with more to come in 2007. One result from the mystery shopping was to target the improvement of e-mail communications where standards were found to be variable.
- 17 The Council has the capacity to deliver its priorities. It has demonstrated its ability to deliver consistent improvements over past years, and to manage areas of underperformance. It has high levels of capital reserves, good IT capability, a stable workforce and low sickness absence. It has conducted staff training, including middle management and diversity. It makes use of partnerships as appropriate. Scrutiny is effective and adds to capacity, covering cabinet decisions, performance, and major projects. There is a good relationship between councillors and officers and there are no significant weaknesses or corporate governance issues that would prevent further improvement in outcomes for local people being achieved.

Performance Reviews

- 18 South Norfolk District Council took part in a Norfolk-wide review of E-Government and Customer Access during 2006. The review sought to better understand the complexity of electronic service delivery and access to services across Norfolk, and to gain assurance that improved access to services and efficiency gains were being delivered. It found:
 - Improvement in customer access is a key objective in the Council's corporate plan. Several partnerships are established that support customer access.
 - Face to face service provision is important to the Council and local residents. Council Information Centres (CICs) have been established in partnership with other councils. Information centres at Diss, Norwich and Harleston provide support to South Norfolk residents in a 'one stop shop' facility shared with the County Council, Town Council and police services.
 - The customer access strategy has been reviewed and the Council has decided not to invest in customer contact development or a customer relationship management system.
 - There is support from councillors and officers to continue the work of the Norfolk Connect Partnership in promoting customer access solutions across Norfolk.
 - The Norfolk Connect Partnership (of which the Council is a member), has clear objectives and has delivered a number of projects since it began in 2001, for example the Norfolk Connect on-line portal benefited from Partnership strategic procurement decisions.

10 Annual Audit and Inspection Letter | How is South Norfolk Council performing?

However:

- at the time of the review the Partnership lacked a clear direction and had suffered from a loss of impetus; and
- overall, there have been missed opportunities to develop and procure joint customer access related systems or solutions, which may have offered improved customer services and efficiency possibilities.

19 A number of joint recommendations were issued to enhance Norfolk-wide customer access and improve outcomes and value for money across the Norfolk Connect Partnership. Members should note and consider the recommendations from these reports.

Financial management and value for money

- 20 The District Auditor has reported separately to the Final Accounts Committee, acting as 'those charged with governance' on the issues arising from the 2005/06 audit and has provided:
- an unqualified opinion on your accounts;
 - a qualified value for money conclusion; and
 - a report on the best value performance plan confirming that the plan has been audited.

The audit of the accounts

- 21 We gave an unqualified opinion on the financial statements on 2 February 2007. Our Annual Governance Report noted a number of significant issues which had resulted in material amendments to the accounts. We also identified material weaknesses in the accounting and internal control systems, in particular in respect of the cash management system and bank reconciliation process.

Value for money conclusion

- 22 We are required to issue a conclusion on whether we are satisfied that the Council has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. This is known as the value for money conclusion.
- 23 We concluded that the Council had proper arrangements in place to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2006 except in respect of meeting the following criteria; putting in place arrangements to maintain a sound system of internal control.

Use of Resources

- 24 The findings of the auditor are an important component of the CPA framework. 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).

- 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).

25 For the purposes of the CPA we have assessed the Council's arrangements for use of resources in these five areas as follows.

Table 1

| Element | 2005 Assessment | 2006 Assessment |
|--|------------------------|------------------------|
| Financial reporting | 1 | 2 |
| Financial management | 2 | 2 |
| Financial standing | 2 | 3 |
| Internal control | 2 | 2 |
| Value for money | 3 | 3 |
| Overall assessment of the Audit Commission | 2 | 2 |

(Note: 1=lowest, 4=highest)

26 The key issues arising from the audit, as reflected in the above judgements where appropriate, are as follows.

Financial reporting

27 The Council is performing adequately overall on financial reporting, although within this assessment there are elements of inadequate performance within the annual accounts production process. Whilst the accounts were produced within deadlines and subject to member scrutiny, they were not free from material and non-trivial errors and were not supported by a comprehensive set of working papers.

Financial management

28 The Council is performing adequately in this area. The key areas of strength remain the same as the previous assessment but the following improvements were noted:

- clearer links between the medium term financial plan and the Council's other internal strategies; and
- a review of financial management arrangements was undertaken to ensure that they remain 'fit for purpose'.

29 We identified the following key areas for improvement:

- consistently apply the approval procedures used to adjust and approve budgets in year if major programmes are varied by more than pre-set tolerances;
- clearly identify the level of backlog maintenance and the plan approved to address it;
- further develop of a set of local performance measures which link asset use to corporate objectives; and
- embed whole life costing in all of the Council's investment and disposal decisions.

Financial standing

30 The Council is performing well in this area. The increased score this year reflects improvements made to the Council's policy for reserves and balances which is now properly and clearly reported to members. Quarterly monitoring information is also now available that evaluates the effectiveness of recovery actions, associated costs, and the cost of not recovering debt promptly for material categories of income.

Internal control

- 31 The Council is performing adequately in this area. Good progress continues to be made in embedding risk management into the Council's core business although work is still required to specifically consider risks in relation to significant partnerships and gain assurance for the management of those risks.
- 32 Improvements have been made to the assurance framework. In addition, an Audit Committee was formed during 2006. The role and core business of the Audit Committee is still developing, however its introduction is key in ensuring leadership and challenge on audit and governance issues.
- 33 Ensuring that procedures notes for key financial systems are up to date and fit for purpose remains an area for improvement. In addition, fully resolving the reconciliation issues identified in earlier in this letter will be key for an improved assessment in this area next year.

Value for money

34 The Council continues to perform well in this area, as reported above in the direction of travel report.

Conclusion

- 35 This letter has been discussed and agreed with the Chief Executive and the Head of Financial Services. A copy of the letter will be presented to the Cabinet on 23 April 2007.
- 36 The Council has taken a positive and constructive approach to our audit and inspection I would like to take this opportunity to express my appreciation for the council's assistance and co-operation.

Availability of this letter

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

Sue Jewkes
Relationship Manager
March 2007