

Annual Audit and Inspection Letter

March 2008



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South Norfolk District 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.

Copies of this report

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Key messages

- 1 The main messages for the Council included in this Annual Audit and Inspection Letter are as follows.
 - South Norfolk District Council comprehensive performance assessment in October 2007, judged that the Council had improved and therefore increased its assessment score from 'good' to 'excellent'. The Council is making improvement in its priority areas. Performance in the Council's priorities is good with 40 per cent of PIs in best quartile and 63 per cent of PIs improved in 2006/07. The Council is increasing the amount of waste recycled and is improving cleanliness. Effective partnership working is improving quality of life for local people. The Council is significantly improving access to services and facilities. It continues to perform well in securing value for money.
 - There are clear plans for improvement although some targets need to be more focused on outcomes. Some plans to support the new priorities are being developed but others are in place. Through effective performance management the Council is meeting its current targets and improving both services for local people and its own corporate management; as a result, capacity is in place to deliver its plans.
 - There is a need for clearer links between the Council's own ambitions and those of the community as set out in the community strategy.
 - We issued an unqualified audit opinion on the 2006/07 statement of accounts and certified the completion of the audit.
 - We concluded that, in all significant respects, the Council made proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2007, except for the failure to put in place arrangements to maintain a sound system of internal control.
 - We assessed the Council as performing at level 2 in our 'use of resources' judgement which represents an adequate level of performance.

Action needed by the Council

- 2 We recommend that the Council:
 - strengthens its plans to provide a greater focus on outcomes that will make a real difference to the local community;
 - addresses the issues necessary to further improve the Council's use of resources assessment; and
 - exercises strong governance through the period of uncertainty as the proposals for Norfolk local government re-organisation are clarified.

Purpose, responsibilities and scope

- 3 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.
- 4 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.
- 5 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.
- 6 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 (the 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.
- 7 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.
- 8 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 South Norfolk District Council performing?

- 9 South Norfolk Council was re-categorised as 'Excellent' in the Comprehensive Performance Assessment carried out in 2007. These assessments were originally completed in all district councils during 2003/04 and are now being refreshed, through an updated corporate assessment, at 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?

- 10 Council services are performing well overall. Both the rate of improvement in best value performance indicators (PIs), and the number in the best performing 25 per cent nationally, places the Council among the top performers in the country. Sixty-three per cent of PIs improved in 2006/07 which is above average for district authorities (56.9 – 59.1 per cent). The percentage of PIs in best quartile at 40 per cent is considerably above average when compared to district authorities' average of 33 per cent.
- 11 Service performance in Council priorities is good. The Council developed new priorities in 2007/08 following the transfer of political power from the Liberal Democrats to the Conservatives. The Council's new priorities are:
- be businesslike and efficient in providing services people value the most;

- become among the best in the country for recycling;
 - get to grips with anti-social behaviour and environmental crime;
 - preserve the character of our market towns and villages;
 - make South Norfolk a culturally and economically richer place to live; and
 - innovate and deliver low cost housing for local people.
- 12** These cover similar areas to the previous priorities but have a stronger focus on improving efficiency and delivering the services residents want, plus cultural services are now a priority.
- 13** Efficient services are being provided. The Council's corporate performance is amongst the best 25 per cent of councils. It performs strongly in the speed of responding to complaints; the percentage of invoices paid by agreed date or within 30 days; the percentage of council tax collected; and in dealing with housing benefit claims. Performance in housing benefits is currently the best in the country.
- 14** Recycling and waste collection performance is improving. Waste collected per household is low. The Council achieved the LPSA stretch target for the amount of waste brought down to 2003 levels; securing a £200,000 grant. It offers a charged fortnightly collection of garden waste and works with local communities to promote home and community composting. Performance is above average in its recycling and composting rate. However the cost of waste collection per household is performing amongst the worst 25 per cent of councils with the costs continuing to rise.
- 15** The local environment is improving through a range of actions. The Council has responded to poor performance with cleanliness by taking the street cleaning and fly-tipping services in-house, giving it more flexibility to move resources to where they are needed the most. Surveillance using hidden cameras and covert operations in known hot spots has increased as has enforcement action against offenders. Customers have a free phone number to report fly-tipping incidents and other environmental crime. Residents report improved cleanliness.
- 16** The Council has made good progress on delivering affordable housing. The 2006/07 target of 106 was exceeded with 108 affordable homes completed. The Council is continuing to set challenging targets to achieve 210 by 2008/09. The Council is investing £2 million over three years to deliver low cost housing to further improve its performance.

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- 17 The Council works effectively with partners to deliver community outcomes. This includes working with partners to deliver LAA outcomes such as increasing employment. Access to transport has improved through working with volunteers to develop community transport schemes. Progress in reducing crime and the fear of crime is being made. The Council has developed a frontline service where community safety staff, environmental officers and other staff are working in partnership with the police on Safer Neighbourhood Teams. Joint training days for police community support officers are in place and a full time anti-social behaviour coordinator has been appointed. Software has been installed to record anti-social behaviour so this can be shared readily with the police. This strong partnership working ensures effective action to reduce crime and improve quality of life.
- 18 The Council has significantly improved access to its services and its facilities. All public buildings are fully compliant with the Disability Discrimination Act. Examples of improving access within services include leisure services providing sign language training for staff to help with holiday activities and regular activities at the leisure facilities and other programmes such as the local 'Deaftastics' club, a multi sports club for young people with hearing problems. British Sign Language has been incorporated into two outdoor theatre performances. All new benefits customers are visited at home, reducing their need to travel to the Council offices. This also provides staff with the opportunity to provide a more holistic response by offering other services which may be appropriate. Further building blocks are being put in place to improve access to services. Five neighbourhood forums have been established which aim to improve resident engagement and deliver support to local groups to meet Council priorities. The Council has introduced council-wide free phone telephone numbers from November 2007 to provide a more accessible service.
- 19 The Council has an effective approach to diversity and maintains a strong focus on users. It remains at Level 2 of the Equalities Standard and is working towards Level 3 by 2009.
- 20 The Council is performing well in securing value for money (VfM). A number of key decisions made over the last year have reduced costs and improved quality of service. Bringing its three leisure centres into an integrated in-house unit from April 2007 has reduced costs. There is an effective approach to procurement. Services recently going out to tender include internal audit and street cleaning. The decision to bring the street cleaning contract back in-house resulted in significant savings. Council tax payers are benefiting through the reduced costs, improved services and increased income.

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

- 21 The Council has clear plans in place for improvement. Following a change in administration in May 2007, a new corporate plan has been adopted which sets out the Council vision and six new priorities. These are understood by key stakeholders and staff. Local and national PIs have been allocated to the priorities and clear annual targets have been set through to 2009/10 which will be reviewed annually. But not all of these are outcome based. A clear framework of strategies and plans is being developed to deliver the new priorities. Some shifting of resources to deliver new priorities has been undertaken. The Council has strengthened its focus on what it wants to achieve.
- 22 An effective performance management framework is in place. The Council has used performance information well, through the setting of challenging targets, to drive service improvement and deliver improved PIs. Officers and councillors are clear about their roles. Partnerships are effectively performance managed and learning is used to drive improvement.
- 23 The Council has the capacity to deliver its plans. It has high levels of good information and communications technology (ICT) capability, clear and strong leadership, and well motivated, innovative staff. Staff training and development is appropriate and effective. Good use is made of partnerships. Scrutiny is effective. There is a good relationship between councillors and officers. Capacity is being further strengthened through using external funding.
- 24 The Council is facing a key risk that may prevent it from sustaining a focus on improvement. The Boundary Committee is carrying out a review into the possibility of local government reorganisation in Norfolk; this can prove distracting for both officers and councillors, and use up precious corporate capacity.

The audit of the accounts and value for money

- 25 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, on 28 September 2007, providing an unqualified opinion on your accounts and a conclusion on your value for money arrangements to say that these arrangements are adequate except for the failure to put in place arrangements to maintain a sound system of internal control; and
 - a report on the Best Value Performance Plan confirming that the Plan has been audited.

Use of Resources

- 26 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).
 - 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).
- 27 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	Assessment (out of 4)
Financial reporting	1
Financial management	2
Financial standing	3
Internal control	2
Value for money	3
Overall assessment of the Audit Commission	2

(Note: 1 = lowest, 4 = highest)

The key issues arising from the audit

- 28** The Use of Resources assessment covered the year to 31 March 2007 and the overall score of 2 indicates that the Council is performing adequately overall. The key issues arising from the audit, as reflected in the above judgements, are set out below.
- 29** The Council produced its annual accounts in accordance with the relevant standards and on time, supported by comprehensive working papers. However, the draft 2006/07 statement of accounts contained a number of material and non-trivial errors which, following our audit, were amended prior to the issue of the audit opinion.
- 30** The Council's medium-term financial strategy/plan, budgets and capital programme were soundly based and designed to deliver its strategic priorities. It adequately managed both its performance against budgets and its asset base. There was good evidence that the financial performance of partnerships was being regularly reviewed, linked to outputs, and the results shared with partners and acted upon.
- 31** However, while the Council had agreed processes to adjust and approve budgets in year if major programmes were varied by more than pre-set tolerance levels these processes were not being applied consistently.
- 32** Further work was required to clarify the level of backlog maintenance. The Council had not fully developed a set of local performance measures to evaluate how well assets were being used to assist delivery of corporate objectives and whole life costing was not being used in significant investment decisions.
- 33** Our audit identified a number of instances where ongoing failures to complete timely reconciliations were resulting in a weak internal control environment. The earlier report to the Audit Committee made recommendations to address all these issues.

Looking ahead

- 34** 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.
- 35** 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.
- 36** 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.
- 37** The coming year will see the Boundary Committee review of local government arrangements in Norfolk and Suffolk, which sets out to make a 'unitary' recommendation to the Secretary of State in December 2008. This means that there is significant potential for change in Norfolk. We will work closely with all councils to both monitor the on-going situation and support them where possible as they go through this difficult period.

Closing remarks

- 38 This letter has been discussed and agreed with the Chief Executive. A copy of the letter will be presented to the Cabinet in April 2008. Copies need to be provided to all Council members.
- 39 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
Final accounts memorandum	October 2007
Review of performance management arrangements	January 2008
CPA Re-categorisation Report	February 2008
Annual audit and inspection letter	March 2008

- 40 The Council has taken a positive and constructive approach to our 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

- 41 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 2008