

Annual Audit and Inspection Letter

March 2008



Annual Audit and Inspection Letter

East Devon 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.

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Key messages

- 1 The Council is delivering improved results for people in East Devon. It has strengthened its capacity to deliver its priorities and is making considerable progress in some priority areas. The Council continues to make a significant contribution towards wider community outcomes, customer access to services is good and has improved this year, and equality remains important and is clearly stated in its policies.
- 2 Other main messages for the Council included in this report are as follows.
 - Financial planning and management arrangements are strong. Unqualified audit opinions were issued by the auditor in 2006/07 on the financial statements and on the arrangements to achieve and manage value for money (VFM).
 - The Council is performing well in delivering value for money. This is demonstrated through making better use of its resources and in its overall use of resources score of three (performing well).
- 3 However, the Council is facing a number of challenges in securing further improvement. These include the following.
 - The Audit Commission's inspection team highlighted some important areas in housing management that require improvement. They rated the service provided by the Council as 'fair' with 'uncertain prospects for improvement'.
 - The Council's overall management arrangements for ensuring data quality are performing well. This is an improvement from last year when we concluded that arrangements in place were inadequate, however, there is further work to do in embedding the arrangements.

Action needed by the Council

- 4 Agree actions in readiness for the introduction of the Audit Commission's new performance assessment framework, the Comprehensive Area Assessment (CAA). Although the auditors' use of resources judgements will continue, their scope for 2008/09 will be widened to cover issues such as commissioning and the sustainable use of resources.
- 5 Implement the recommendations arising from the inspection of the housing management service, realising the expected benefits for both local people and the organisation.
- 6 In order to ensure the delivery of good corporate governance, the Council needs to ensure that the Audit and Corporate Governance Committee meets its objectives and has sufficient impact.
- 7 Address the issues arising from our work on data quality. This will result in an improvement in the quality of performance information, leading to greater confidence in the supporting data on which performance assessments are based.

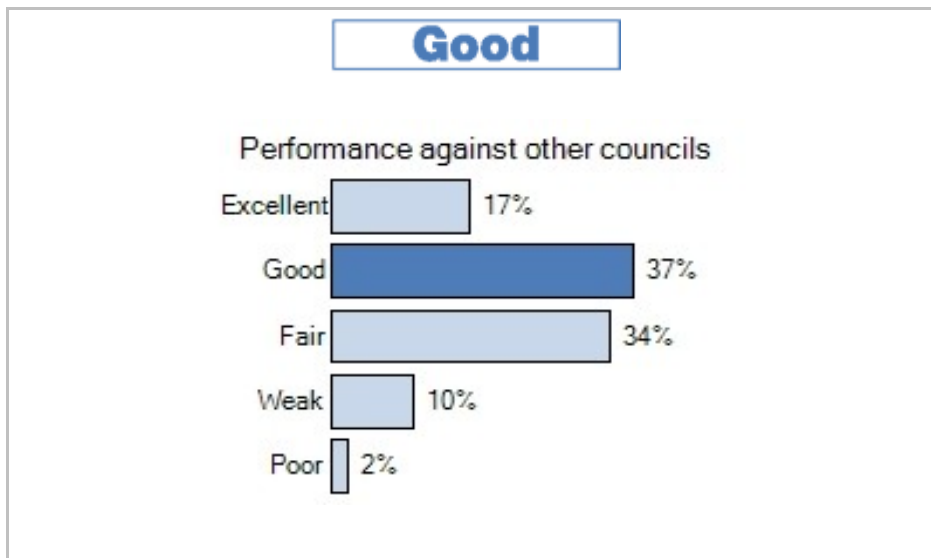
Purpose, responsibilities and scope

- 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 will publish the Letter 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 East Devon District Council performing?

- 14 East Devon District 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 updating 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?

- 15 The Council is making good progress in some priority areas. There have been improvements in 65 per cent of performance indicators in the last year, which is above the average for similar districts. The Council has 32 per cent of its PIs in the best quartile which is slightly below average for similar districts. Overall satisfaction with the Council is good. The progress in some service areas is amongst the best nationally, including satisfaction with cleanliness of public and open spaces, average length of stay in hostel accommodation, and recycling and composting. In particular satisfaction with sports and leisure facilities has improved significantly. However, there remain some services that have not improved over the last 12 months, including some planning services where minor and other planning applications determined within eight weeks are amongst the worst performers and performance has deteriorated, although the speed of determining major applications has improved. The Council has experienced staffing problems over the last 12 months in this service area. Some Council services have improved but others remain amongst the worst performers nationally, for example housing benefits.
- 16 The Council continues to make a good contribution towards wider community outcomes. It is supporting sports for young people and on behalf of a multi-agency team won over £200,000 from the Big Lottery Children's Play Programme.
- 17 The Council has delivered 62 new affordable homes and established a development programme of over 1,400 affordable homes in the district. It has also secured in excess of £13 million Housing Corporation funding for affordable homes at the new Cranbrook development.
- 18 The Council has delivered a £5 million repair and improvement programme in order to maintain council owned homes at the decent standard; this and tenant satisfaction is now amongst the best nationally. The Council continues to work with others in making East Devon a safer, more pleasant place to live and work, for example through education and enforcement of the new alcohol and entertainment regime, in partnership with other statutory bodies and with the Police in carrying out a series of neighbourhood assessments.
- 19 Customer access to services is good and has improved this year. The website is user friendly and easy to use and people can contact and obtain services without difficulty electronically. Developments on the website this year include a 'youth site'. Customer Services continues to develop and the number of services within its responsibility has increased by over 65 per cent since March 2007. It is now able to deal with over 212 discrete customer services at first point of contact with call answering performance not falling below 94 per cent. Access to housing has increased through the opening of an office in Exmouth.

8 Annual Audit and Inspection Letter | How is East Devon District Council performing?

- 20 Access and equality remain important to the Council and its commitment is clearly stated in its policies. During the year it has increased services in concessionary fares, increased activity in sports and leisure, engaged with young people, achieved the Charter Mark standard for excellence in customer service delivery within its environmental health team and supported a number of education campaigns.
- 21 The Council is performing well in delivering value for money (VFM). It has low costs overall and there are no significant areas where costs and performance levels are not in line. Waste services are low cost and the Council is investing in this area to deliver long term service improvements. The Council is about to review other service areas such as planning and benefits where performance is a concern. There is a good track record of monitoring performance and budgets and the Council has produced and is achieving its efficiency plans. It works in partnership to deliver VFM, for example, in delivering the council tax booklet.

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

- 22 The new corporate plan provides better linkage and engagement with wider county plans. Its corporate plan provides for long-term improvements across each of the revised priority areas. For each priority there are clear outcomes and measures in place. This provides a comprehensive and clear future plan and brings better focus to the areas most important to the community. The Council has been working with towns and parishes in supporting the production of their plans, there are now 23 parish plans and design statements. These together with the new corporate plan provide better alignment with county plans.
- 23 The Council has a robust performance management system in place and human resource policies are good. The Council maintains robust control over the delivery of its improvement priorities through a variety of regular monitoring arrangements, for example through Executive Board, Scrutiny and senior management meetings. Councillors monitor progress against the corporate plan regularly. The majority of measures have been achieved or are progressing well. There are a minority of measures that have not yet progressed and these are included in the revised Corporate Plan. Councillors have also been closely monitoring services that are not performing well and have developed action plans to improve performance, for example in planning. The Council is also undertaking 'systems thinking reviews' in service areas where performance is poor to help eliminate poor practice and drive up performance.

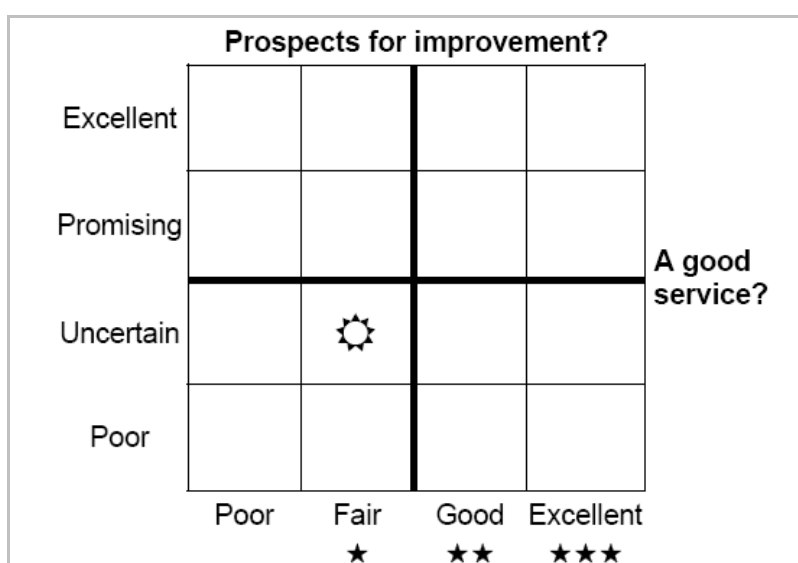
- 24 The Council has strengthened its capacity to deliver its priorities. It has re-structured senior responsibilities and is improving capacity through training and staff development. A leadership development programme has been introduced for senior managers and heads of service, and this combines with a new 360 degree feedback process to formulate individual personal development programmes. The appraisal scheme has been updated and improved and linked to a competency framework and there are regular one-to-one updates with external tutors. The Council has increased capacity in some important service areas such as procurement. The appointment of a procurement manager has improved outcomes in greater e-procurement, enhancing the finance system and placing supplier catalogues on-line. By strengthening its capacity, the Council is enhancing its ability to sustain improvement in the future.

- 25 The Council has improved its corporate governance arrangements and is in the process of embedding these. It has published a code of corporate governance and updated its ethical policies, such as the anti-fraud, theft and corruption policy, whistle blowing and financial regulations. Almost half of the councillors are new and the Council has recognised the need for and delivered appropriate levels of governance training. The Council is also up to date with the revised corporate governance framework. The Council has also completed job evaluation and the new arrangements are embedding well.

Service inspections

- 26 The housing management service provided by the Council is rated as 'fair' but with 'uncertain prospects for improvement'. On the chart below on a scale from zero to three stars the Audit Commission's inspection team gave the service a 'fair' one-star rating.

Figure 2 Scoring chart



Source: Audit Commission

10 Annual Audit and Inspection Letter | How is East Devon District Council performing?

- 27 The service displays some important strengths in its day-to-day delivery of services but still has some weaknesses to address. Repairs, gas safety checks and disabled adaptations are carried out promptly and homes are maintained to a good standard. There is an effective approach to anti-social behaviour and satisfaction with the housing service is high. However, some important aspects of the service are not customer focused and the management of value for money is an area for improvement.
- 28 The Council has some work to do before its housing services match those of the best performing providers. However, it is clear that housing is a priority for the Council and there is an appetite to take difficult decisions to deliver improvements. Progress is being made but some of the 'building blocks' to drive improvement are not yet in place.
- 29 The inspectors found a number of positive features of the service. These include:
- tenant satisfaction is high and communication and customer access are good;
 - the majority of estates are well managed and there is a robust approach to dealing with anti-social behaviour;
 - routine repairs, adaptations and annual gas safety checks are carried out promptly; and
 - homes are now warmer and most meet the decent homes standard.
- 30 To help the service improve, inspectors made a number of recommendations. These include:
- increasing the customer focus of the service in respect of complaints handling, repairs appointments and service standards and the amount of choice offered to tenants;
 - improving the quality of preventive work on rent arrears; and
 - improving the value for money of the service in areas such as the time it takes to re-let empty homes, and improving income collection rates.

The audit of the accounts and value for money

- 31** Your appointed auditor has reported separately to the Audit and Corporate Governance Committee on the issues arising from the 2006/07 audit and issued:
- an audit report, providing an unqualified opinion on your accounts and a conclusion on your VFM arrangements to say that these arrangements are adequate on 27 September 2007; and
 - a report on the best value performance plan confirming that it has been prepared and published in line with legislation and statutory guidance.

Use of resources

- 32** 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).
- 33** 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
Financial reporting	3 out of 4
Financial management	3 out of 4
Financial standing	3 out of 4
Internal control	3 out of 4
Value for money	3 out of 4
Overall assessment of the Audit Commission	3 out of 4

(Note: 1 = lowest, 4 = highest)

- 34 The overall score for Use of Resources assessment was reported to the Council by the Audit Commission on 10 December 2007. Our scores for the Council are outlined above. The Council has maintained its score from last year of three overall (performing well).
- 35 In relation to future assessments, as outlined in the CPA framework documents for 2008, a number of criteria will change. In order for the Council to sustain or to improve upon its current performance at the next assessment, it will also need to take these criteria into consideration.
- 36 The key issues for further development over the coming year arising from the audit include the following.

Financial reporting

- Provide a full set of working papers, appropriately cross-referenced from the first day of the audit.
- Demonstrate that consideration of the views of a range of stakeholders has been taken into account in making a decision whether to publish an annual report.

Financial management

- The medium-term financial strategy should describe in financial terms joint plans agreed with partners and other stakeholders.
- Ensure savings and efficiency gains are profiled and monitored throughout the year and that this process is embedded.
- Ensure the Executive regularly reviews its effectiveness and the leadership it provides with regard to financial management and takes action to address any areas of weakness.
- Set local performance measures in relation to assets that evaluate asset use in relation to corporate objectives.
- Ensure that whole life costing is consistently used to support investment and disposal decisions.
- Through performance measures and benchmarking, use this to describe and evaluate how the Council's asset base contributes to the achievement of corporate and service objectives, including improvement priorities.
- Develop an approach for the co-ordination of asset management information and its integration with relevant organisational financial information.

Financial standing

- Ensure that members set challenging targets for variances from budget, prudential framework indicators and capital programme management.
- Agree a set of financial health indicators and report on these annually to Members.
- Where target levels for reserves and balances are exceeded, the Council should identify and report to members the opportunity costs of maintaining these levels and compare this to the benefit it accrues.

Internal control

- Ensure that risk management is embedded in the Council's corporate business processes.
- Report to members at least annually on how the Council is managing its corporate business risks and the risks in relation to its significant partnerships.
- Ensure governance arrangements with respect to partnerships are fully embedded.
- Demonstrate a strong counter fraud culture across all departments. Ensure that all staff clearly acknowledge their responsibility to prevent and detect fraud and corruption.

Value for money

- Ensure that there is sufficient capacity to manage the capital programme.
- Revise and publish the procurement strategy, as the one currently available on the website is out of date.
- Ensure there is staff capacity to deliver procurement effectively across the Council.
- Consider recruitment options in planning, as recent investments have not realised the full potential of service improvement.
- Negotiations with the waste contractor need to continue to ensure investment in the service realises performance improvement.
- Fully consider e-tendering opportunities as this needs to be further progressed alongside national developments.
- Strengthen the correlation between the budget and performance monitoring to demonstrate VFM.
- Develop specific VFM targets to monitor the delivery of VFM, for example the use of assets.
- Demonstrate that the impact on users is assessed and tracked when making key spending decisions.

Data quality

- 37 This is the second year in which we have undertaken work on data quality in local government. Our work is complemented by the Audit Commission's paper, Improving information to support decision making: standards for better quality data. This paper sets out standards for adoption on a voluntary basis, to support improvement in data quality.
- 38 The expected impact of our work on data quality is that it will drive improvement in the quality of local government performance information, leading to greater confidence in the supporting data on which performance assessments are based.
- 39 We concluded that the Council's overall management arrangements for ensuring data quality are performing well. This is an improvement from last year when we concluded that arrangements in place were inadequate. Our review and spot checks of performance indicators found that they were fairly stated.
- 40 The Council responded positively to the review last year and there is evidence of a stronger corporate approach to data quality. There are strengthened management and quality control arrangements, through closer scrutiny by Internal Audit. There are now rigorous processes in place for checking performance indicators and systems. Senior managers are committed to ensuring good data quality and have put in place a new action group to deliver data quality improvements. The group has developed an action plan with clear milestones and a strategy for data quality is currently being developed.
- 41 However, we made the following recommendations.
- Data quality needs to be fully integrated and embedded into the Council's reporting, planning and monitoring processes.
 - Ensure arrangements with partners include the validation of data.
 - Evaluate training needs and implement a formal programme of training to include officers and councillors.
 - Establish data quality champions across the organisation with clear role and responsibilities and data quality targets.
- 42 The Council is actively pursuing the implementation of our recommendations.

Additional services

- 43** The Council asked us to deliver a workshop aimed at developing understanding and skills of the Audit and Corporate Governance Committee (the Committee). Other councillors were also invited in order to gain an awareness of the Committee's work, along with officers who regularly attend. The workshop blended theory and practice and maximised the opportunities for participation.
- 44** The workshop was designed in consultation with officers and helped participants develop a clear understanding of the Committee's role, approach and style. Particular outcomes were:
- a sound appreciation of the contribution of the Committee to the Council's overall governance framework;
 - awareness of statutory responsibilities, guidance and standards underpinning the establishment of the Committee;
 - a clear understanding of the role and responsibilities of the Committee; and
 - support in planning, key to delivering the Committee's responsibilities.
- 45** The role of the Audit and Governance Committee is to enhance public trust and confidence in the financial governance of the Council through raising the profile of internal control, risk management and financial reporting issues, as well as providing a forum for the discussion of issues raised by internal and external auditors. In our last Letter we drew the Council's attention to the importance of this Committee in the delivery of good corporate governance. Following the training it is opportune to reflect on performance and how the Council ensures that this Committee meets its objectives and has sufficient impact.

Looking ahead

- 46 The public service inspectorates are currently developing a new performance assessment framework, the Comprehensive Area Assessment (CAA). CAA will provide the first 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.
- 47 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.
- 48 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

- 49 This letter has been discussed and agreed with the chief executive. A copy of the letter will be presented at the Executive Board on 26 March 2008. Copies need to be provided to all Council members.
- 50 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	May 2006
Annual Governance Report	September 2007
Opinion on financial statements	September 2007
Value for money conclusion	September 2007
Interim audit memorandum combined with the final accounts memorandum	October 2007
Housing management services Inspection Report	November 2007
Data quality review	November 2007
Use of resources auditor judgements 2007	January 2008
Annual Audit and Inspection Letter	March 2008

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

Availability of this letter

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

Karen Green
Relationship Manager

March 2008

Alun Williams
District Auditor