

Annual Audit and Inspection Letter

March 2007



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East Devon 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 that have been undertaken in the last year. This 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 will be an important aspect for any future decision regarding the potential for 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 East Devon.
- 3 The Council has a positive direction of travel and is delivering good results for people in East Devon. Services are improving in areas identified by the Council as a priority and the delivery of a balanced budget supported by much stronger financial planning ensures that key plans are affordable. Good progress is also being made with improvement plans and the Council has introduced procedures to review and improve value for money through service planning and the budget setting process.
- 4 The main messages for the Council included in this report are as follows.
 - Financial planning and management arrangements have improved significantly in recent years and provide the Council with a strong framework from which to deliver priority services. Unqualified audit opinions were issued by the auditor in 2005/06 on the financial statements and on the arrangements to achieve and manage value for money (VFM) subject to addressing weaknesses in data quality.
 - The Council is demonstrating that it is making better use of its resources. It has improved its overall score for use of resources from last year's score of 2, 'performing adequately' to an overall score of 3, 'performing well'. In particular, the Council has demonstrated improvements in its overall scores for internal control, financial reporting and value for money.
- 5 However, the Council is facing a number of challenges in securing further improvement. These include the following.
 - Despite improving its arrangements to deliver and manage value for money there are still some issues to address with VFM. The Council needs to evaluate the impact on users of changes in spending. It should also demonstrate that it assesses results by balancing costs with outcomes. There is also no formal process for monitoring or reporting performance against efficiency targets during the year.

- Financial challenges remain. The Council has secured stronger financial planning and financial management arrangements, however, challenges still remain, in particular:
 - delivering a balanced budget year on year;
 - impact on the capital programme of reductions in funding and capital receipts;
 - setting and delivering Gershon savings in the longer term; and
 - collection of major streams of income and addressing outstanding arrears.
- The Audit and Governance Committee enhances 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. This Committee is key to the delivery of good corporate governance and the Council will need to ensure that it maintains momentum and impact.
- In order that decisions being made by the Council are soundly based, improvements are required to ensure the accurate recording and reporting of data quality.

Action needed by the Council

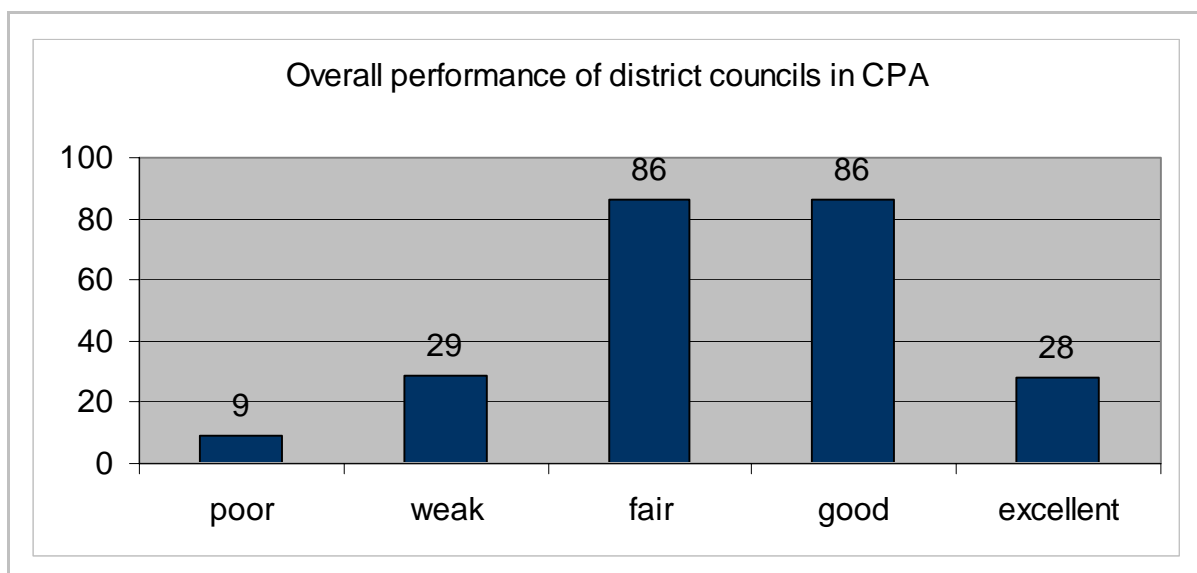
- Agree an action plan to ensure that the improvements achieved this year to attain level 3 (performing well) are maintained and advancement continues on all the use of resources themes.
- Ensure the delivery of a balanced budget whilst facing future revenue and capital challenges. Continued close monitoring of the general revenue budget is essential and prompt action must be taken where adverse variances are identified.
- The Council should strengthen its arrangements for internally auditing and monitoring the accuracy of its performance indicators, and to report the results to members.
- Following the transfer of services to Leisure East Devon a number of arrangements still require clarification.
- Improve the strategic management of the asset base and make investment and disposal decisions based on a thorough option appraisal including whole life costing.

How is East Devon District Council performing?

- 6 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 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

Three times as many district councils are rated good or excellent than poor or weak.



Source: Audit Commission

The improvement since last year - our Direction of Travel report

- 7 Since last year's direction of travel assessment the Council has made good progress as it seeks to further improve. The Council's general monitoring arrangements have been enhanced, so that it is easier to assess whether services are improving in areas identified as high priority, and progress has been made to the connections between the costs of running services and the outputs achieved.

What evidence is there of the Council improving outcomes?

- 8 East Devon District Council has shown improvement across 71 per cent of performance indicators that are used to compare councils' performance nationally. The extent of improvement for the Council is above the average range for all district councils. The proportion of performance indicators where the Council is amongst the best performing councils is 29 per cent, which is within the average range for district councils.
- 9 The corporate strategy clearly states the Council's priorities, which are areas the public say are important to their communities. There are four overarching priorities:
 - achieve thriving, balanced communities;
 - take care of and improve our environment;
 - encourage a flourishing local economy; and
 - provide community leadership and good value for money, customer focused services.
- 10 Services are improving in areas the Council has identified as a priority. For example:
 - the Council secured £3 million from the Housing Corporation for housing association partners to deliver 201 new affordable homes in 2006-2008. The Council completed 62 new affordable homes. Funding obtained from council tax income on second homes was released to the Devon and Cornwall Housing Association to buy houses on the open market;
 - there is over £13 million committed by the Housing Corporation to fund affordable housing on the Cranbrook development;
 - the Council has been successful in utilising Section 106 agreements to deliver affordable homes, improve education and open spaces. It also secured £500,000 for a new community centre in Honiton;
 - the Council transferred its leisure services to Leisure East Devon with the aim of improving services, stabilising costs and providing clear targets for community engagement;
 - performance in service areas is improving, for example in the Benefits Service where time taken to process claims and the level of accuracy has improved. The number of visits to households to investigate benefit fraud has also increased; and
 - the Council is improving access to services and the percentage of interactions with the public which are capable of electronic service delivery, is amongst the best performers.

- 11 The Council is making a contribution towards wider community outcomes, for example:
- the actual amounts of household waste recycled and composted has improved year on year. Although the improvements have not kept pace with other councils, East Devon let a major contract in April 2006, which has realised a number of improvements including improved access to services;
 - crime in the district is being tackled, with three performance indicators amongst the best performers nationally and three just below. Crime levels with regards to robberies, thefts from motor vehicles and sexual offences have fallen to levels around the best performers nationally; and
 - the delivery of the Jurassic Coast visitor gateway centres for Exmouth and Seaton. The Council is working with Devon County Council, SWRDA, Seaton Town Council, Exmouth Town Council, Seaton Development Trust and Exmouth Promotion Group to assist the delivery of interpretation centres for the Jurassic Coast. A formal memorandum of understanding has been signed with these stakeholders and an Interim Project Management Group has been meeting over many months. It is project managing the delivery, helping fund the work of consultants and acting as the accountable body for funding purposes.
- 12 The Council has met level one of the Equality Standard and is confident of meeting level two by 31 March 2008. Customer access to services is good. The Council makes it easy for customers to access services using a wide variety of different mechanisms, including good reception areas, telephone and web access. The introduction of a customer service centre, supported by new telephony and customer management systems should help to promote further service improvement.
- 13 The Council is performing well as regards delivering value for money. Overall costs for key services are average or lower than average, whilst providing similar levels and standards of service. A well managed capital programme linked to priorities and external factors that impact on the Council are clearly understood. The Council can demonstrate that it applies good procurement practice and the e-auction recently undertaken is a good example of innovation and willingness to work in partnership.

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

- 14 The Council can demonstrate that it has good plans in place to deliver its priorities. The corporate strategy is clear and comprehensive, and will help deliver service improvements. Each priority is supported by clear outcomes and measures, assigned officers and timescales. The strategy is further supported by plans to help deliver improvements and the Council's priorities.

- 15** The Council's improvement plan targets were generally completed on time. The Council has reviewed its improvement plan and three remaining targets have been incorporated into the corporate strategy. Consequently the Council remains focused on delivering improvements and priorities through this Plan.
- 16** The Council has good monitoring and review procedures in place to track progress against the corporate strategy, introduced procedures to review and improve value for money through service planning and the budget setting process.
- 17** There are no significant weaknesses in arrangements for securing continuous improvement or failures in corporate governance that would prevent the current levels of improvement being sustained. However, the Council recognises that certain aspects provide a challenge and need to be managed, such as communication and managing expectations.

Financial management and value for money

Use of resources judgements

- 18 As your appointed auditor we reported separately to the Audit and Accounts Committee (now the Audit and Governance Committee) on 26 September 2006 on the issues arising from our 2005/06 audit and have provided:
- an unqualified opinion on your accounts;
 - a conclusion on your value for money arrangements to say that these arrangements are adequate, except for putting in place arrangements to monitor the quality of published performance information and to report the results to members; and
 - a report on the Best Value Performance Plan confirming that the Plan has been audited. As a result we recommended that the Council should strengthen its arrangements for internally auditing and monitoring the accuracy of its performance indicators and to report the results to members.
- 19 The findings of the auditor are an important component of the Comprehensive Performance Assessment 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).

- 20 For the purposes of the Comprehensive Performance Assessment 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	2 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)

- 21 The Council has improved from last year's score of 2 and is now assessed as a 3 overall (performing well) - scoring at least 3 on each of the main themes and no score below 2. This is particularly important for the value for money conclusion that we will be giving again this year alongside our opinion on the 2006/07 accounts.
- 22 For district councils, the Use of Resources score will be reviewed with other sources of evidence, in order to reach a view about whether a council's performance has improved (or declined) enough to warrant a corporate assessment, which is necessary to re-categorise a district council's Comprehensive Performance Assessment score. Accordingly the Use of Resources score will become an important indicator of improvement and a source of evidence.
- 23 The results of our use of resources work, together with our assessment of the Council's arrangements for monitoring and reviewing performance will form the evidence for that conclusion. The main areas identified where performance has improved are:
- resources have been reallocated to Housing Services to improve capacity and the effectiveness of the service;
 - good procurement practices have been used to achieve efficiencies, for example e-auction;
 - the profile of financial management has been raised with improved budget monitoring, development of the Council's five year financial strategy and reporting to the Executive Board;
 - clear structures and processes are in place for business planning and the alignment of service objectives to corporate objectives;

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- the Council works well with the community to secure external funding and targeting this at priority areas;
- the new performance management system enables more timely information to be available;
- the Council benchmarks widely at corporate and service levels in different ways; think tanks have been introduced within each portfolio where members have compared costs locally and performance nationally; and
- equity and access to services have a higher profile now than in the past and access is improving, for example kerbside recycling, a new customer services centre and the establishment of the Housing Review Board.

24 The key issues for further development over the coming year arising from the audit include the following.

Financial reporting

- While comprehensive working papers were provided for audit, explanations and additional information were required during the audit. Working papers require further improvement in order to be considered as best practice.
- The Council should consider publishing an annual report, which includes summary accounts and key financial information based on views from a range of stakeholders.

Financial management

- The medium term financial strategy should describe in financial terms joint plans agreed with partners and stakeholders, where relevant.
- The financial performance of partnerships should be regularly reviewed, linked to outputs and the results shared with partners and acted upon.
- There are elements of budget monitoring that require enhancement, for example being predictive rather than backward looking.
- There is no formal process for monitoring or reporting specific performance against efficiency savings targets during the year.
- Improve member involvement with the management of the asset base and ensure that decisions are based on thorough option appraisal and whole life costing.

Financial standing

- Use monitoring information to evaluate the effectiveness of recovery actions, associated costs, and the cost of not recovering debt promptly for material categories of income.

Internal control

- A number of reporting structures have been implemented that demonstrate the effective use of risk management. The next stage is to measure the benefits that accrue and the full impact that this is having across the Council.

- The refreshed Audit and Governance Committee is a major improvement on its predecessor, however, it is important that this key committee continues to maintain momentum and impact.
- Provide staff with regular training on ethics and improve the promotion of fraud awareness in line with best practice.

Value for money

- Following the introduction of the new procurement methodology financial regulations, standing orders and the procurement strategy require updating.
- Savings and efficiency gains realised through improved procurement activity should be recorded and reported to members.
- The Council needs to evaluate the impact on users of changes in spending. It should also demonstrate that it assesses results by balancing costs with outcomes.
- The Council should consider developing value for money targets in order to improve efficiency.
- The Council should develop robust efficiency plans, which are monitored and reported regularly throughout the year to ensure planned efficiencies are achieved.

Financial standing

- 25** A challenging budget was set for 2005/06. The Leader's service prioritisation exercise resulted in reductions from lower priority service areas and limited growth in some high priority areas. The Council has delivered within these constraints and continues to demonstrate sound financial management.
- 26** Whilst the Council has performed well in maintaining its spending within available resources, it is facing a number of significant financial challenges in the future. The Council is monitoring these to ensure that general fund balances are maintained whilst corporate priorities are met. These challenges include:
- delivering a balanced budget each year including the budgeted savings requirement over the medium term financial plan (2008/12);
 - monitor and ensure delivery of the Gershon savings requirement target for 2007/08 and set targets well beyond this period;
 - a reduction in funding and capital receipts will impact on the capital programme. The financial resources required to fund the existing capital programme and any new major projects/schemes in future years needs to be determined as a priority; and

- the Council's collection rate in 2005/06 for council tax (98.2 per cent) has improved from last year's level and is now just above the national (97.9 per cent) and Devon averages (98.1 per cent). The Council's collection rate for business rates (99.1 per cent) is around the Devon and national averages, and has improved from last year (98.9 per cent). The Council needs to continue to monitor performance closely including the recovery of outstanding arrears and ensure that improvement in this area is sustained.

27 In view of the risks ahead, strong financial planning and financial management arrangements will continue to be important in managing the Council's future financial position. Prompt action must be taken where adverse variances are identified.

Data quality

28 The Audit Commission developed a new approach to the review of data quality at local authorities during 2005/06. This involved the auditors performing detailed spot check work on a number of performance indicators, selected from the Audit Commission's list of nineteen indicators.

29 The Council's arrangements for data quality were found to be inadequate. Overall the Council considers the quality of the data it uses to be important and senior managers are committed to ensuring good quality data. There is an emerging data quality strategy and internal audit provides a formal programme of data quality review. However, there are weaknesses in corporate governance:

- the responsibility at a corporate level is unclear;
- there is no data quality strategy in place, also the corporate strategy makes no reference to data quality;
- there are no clear objectives for data quality;
- the Council does not have a robust framework for monitoring data quality; and
- there is no risk assessment of performance indicators to be audited.

30 The Council has a performance management system in place and local and Best Value Performance Indicators (BVPs) are reported quarterly to councillors. The performance management system has inbuilt controls and heads of service are required to sign off data electronically before it is reported. However, the Council does not undertake systematic auditing of the controls in place within systems.

31 The Council provides regular and comprehensive corporate training for staff on the preparation of performance indicator information. Staff are also supported by guidance materials, which are available through the intranet.

- 32 The lack of control systems has resulted in erroneous reporting of BVPIs. Specifically our spot checks of the following BVPIs revealed that:
- non-decent homes performance indicator was inaccurate. The Council has reported the performance indicator as 13 per cent, whereas the correct figure is 22 per cent. The inaccuracy is due to the failure to apply the correct year in the calculation. Although the Council's underlying data systems are reliable, however, there are no audit trails to enable adequate checks of the data; and
 - errors in the data base system for the determination of the planning speed performance indicator, whilst not resulting in a significant misreporting is resulting in a misrepresentation of the activity underlying the indicator.
- 33 As a result of our audit, the Council has taken prompt action to address the shortcomings arising from our review and is looking to address these data quality issues for next year.

Formation of leisure trust follow up

- 34 The Council successfully managed the transfer of leisure services to Leisure East Devon on 1 January 2006. Following the transfer there has been further work carried out, to ensure that all the legal documentation and hand over arrangements are satisfactorily completed.
- 35 At the time of our follow up review (as at January 2007), we identified some issues regarding agreed actions by the Council to our earlier report (Formation of Leisure Trust - February 2006) that still remain outstanding. The main issues identified are as follows.
- Procedures have been established by which Leisure East Devon can submit funding requests. However, the criteria by which such requests will be assessed have not been established. These criteria should incorporate the achievement of both financial and performance targets.
 - The Council provides a range of support services to Leisure East Devon. The Council is to some extent protected against changes to the requirements for support services by a year's notice period. However, the Council should ensure that the potential impact of any future changes to the requirements for support services is addressed as a priority.
 - Leisure East Devon is considering providing services to another local authority. Whilst this may offer benefits to Leisure East Devon and the Council, arrangements to address potential cross subsidisation issues are still to be established. The Council should determine how it would respond to Leisure East Devon providing services to another local authority.
- 36 The Council is addressing the issues identified in our report for developing arrangements in the above areas.

Conclusion

- 37 This letter has been discussed and agreed with the Chief Executive. A copy of the letter will be presented at the Executive Board on 11 April 2007.
- 38 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

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

Peter Lawrence
District Auditor/Relationship Manager

March 2007