

Annual Audit and Inspection Letter

May 2006



Annual Audit and Inspection Letter

Oxford City Council

Audit 2004/2005

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 to the Council

The Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission explains the respective responsibilities of auditors and of the audited body. Reports prepared by appointed auditors are addressed to members or officers. They are prepared for the sole use of the audited body. Auditors accept no responsibility to:

- any member or officer in their individual capacity; or
- any third party.

Copies of this report

If you require further copies of this report, or a copy in large print, in Braille, on tape, or in a language other than English, please call 0845 056 0566.

© Audit Commission 2006

For further information on the work of the Commission please contact:
Audit Commission, 1st Floor, Millbank Tower, Millbank, London SW1P 4HQ
Tel: 020 7828 1212 Fax: 020 7976 6187 Textphone (minicom): 020 7630 0421
www.audit-commission.gov.uk

Contents

Key messages	5
Council performance	5
The accounts	5
Financial position	5
Systems of internal financial control	6
Standards of financial conduct and the prevention and detection of fraud and corruption	6
Legality of transactions	6
Use of resources judgements	7
Action needed by the Council	7
Council performance	8
Direction of travel report	8
Other performance work	12
Other Audit Commission inspections	14
Accounts and governance	17
Last year's letter	17
Audit of 2004/05 accounts	17
Financial standing	19
Systems of internal financial control	21
Standards of financial conduct and the prevention and detection of fraud and corruption	23
Legality of transactions	23
Sale of Land at Minchery Farm (Kassam Stadium)	25
Cornmarket Street reconstruction	25
Use of resources judgements	26
Other work	29
Grant claims	29
National Fraud Initiative	29
Looking forwards	30
Future audit and inspection work	30
Revision to the Code of Audit Practice	30

4 Annual Audit and Inspection Letter | Contents

A new CPA framework	30
Closing remarks	31
Availability of this letter	31
Appendix 1 – Background to this letter	32
The purpose of this letter	32
Audit objectives	32
Inspection objectives	33
Appendix 2 – Audit and inspection reports issued	34
Appendix 3 – Audit and inspection fee	35
Inspection fee update	35

Key messages

Council performance

- 1 The Council continues to invest in building a better Council for the longer term. This necessarily involves making considerable changes, to enable it to deliver a more significant level of service achievement. This investment is now much more consolidated.
- 2 Our direction of travel report (below) shows that the Council now has a much better focus on agreed priorities, and a stronger infrastructure through which to achieve them.
- 3 However, it has made gradual but not significant overall improvements, and thus needs to demonstrate that it can achieve substantially better services. Its overall value for money is poor.
- 4 Our performance reviews support this picture of the Council's general development – but with improvements still needed. In 2005 our landlord services inspection assessed the Council as having 'promising' improvement prospects, having already developed considerably to achieve a 'fair' service. Similarly, our review of human resource management shows that the Council has improved its approach, with scope to develop further. We also followed up our 2002 review of managing rent arrears, finding considerable progress.
- 5 We continue to work with the Council to assess performance risks. In April 2006 we will report on the impact of area committees, particularly on development control, having identified a number of areas for improvement. We have also begun to review the Council's revenues and benefits service, to assess barriers to improvement, and are working with the Council to develop the way it challenges and reviews its services.

The accounts

- 6 We issued an unqualified opinion on your 2004/05 accounts on 27 February 2006, following satisfactory resolution of a technical accounting adjustment.

Financial position

- 7 The Council's financial position continues to be soundly based. It has a good record of meeting its budget, within acceptable tolerances. It continues to experience slippage on its capital programme.

Systems of internal financial control

- 8 The Council's corporate and financial governance arrangements continue to be strengthened. However, further work is necessary to fully embed:
- its risk management arrangements throughout the organisation including the identification of risks at business unit level; and
 - a system of assurance that reports on the effectiveness of the internal control framework and supports the annual Statement of Internal Control (SIC).
- 9 Weaknesses in control identified by the Council in its leisure services have been investigated by your internal audit service. We are satisfied that internal audit has considered all concerns expressed regarding the service where these are evidence based, and that all matters have been satisfactorily addressed in its report. We also welcome the focus of the Audit Committee on this area, its continued monitoring role, and the decision to confirm through wider work that such instances could not apply across the wider organisation.

Standards of financial conduct and the prevention and detection of fraud and corruption

- 10 The Council's arrangements to prevent and detect fraud and corruption are generally satisfactory. However, we did identify scope to strengthen the Council's ethical governance arrangements.

Legality of transactions

- 11 The Council has responded positively to our recommendations from last year regarding governance arrangements. The Council has successfully recruited a substantive Monitoring Officer and is taking steps to strengthen its arrangements.
- 12 The independent joint scrutiny review of the Cornmarket Street reconstruction project has identified all of the issues which needed to be brought to the attention of the public, and an appropriate commitment has been made by each council to address the weaknesses identified.
- 13 At this point in time we are not able to conclude our investigation into the sale of land at Minchery Farm (Kassam Stadium). Action is in hand to conclude this work with a view to producing a separate report. Our aim, subject to receipt of additional information from the Council, is to update Members on progress on 29 June when this Letter is presented to the Audit Committee.

Use of resources judgements

- 14 This is the first year where we have been required to make scored judgements on the Council's use of resources, where key elements are scored on a 1 to 4 basis. The Council has scored 1 out of 4 overall, but this masks some important improvement that has taken place at the Council. The Council is already taking action to improve internal control by refining its risk management processes and through the appointment of internal auditors. This, combined with more effective working on its final accounts should stand the Council in good stead when scores are re-assessed in 12 months time. The key challenge for the Council, which may be a longer term objective is improving its overall value for money. There is a commitment to do this, and we are working with the Council to help it to achieve this goal.

Action needed by the Council

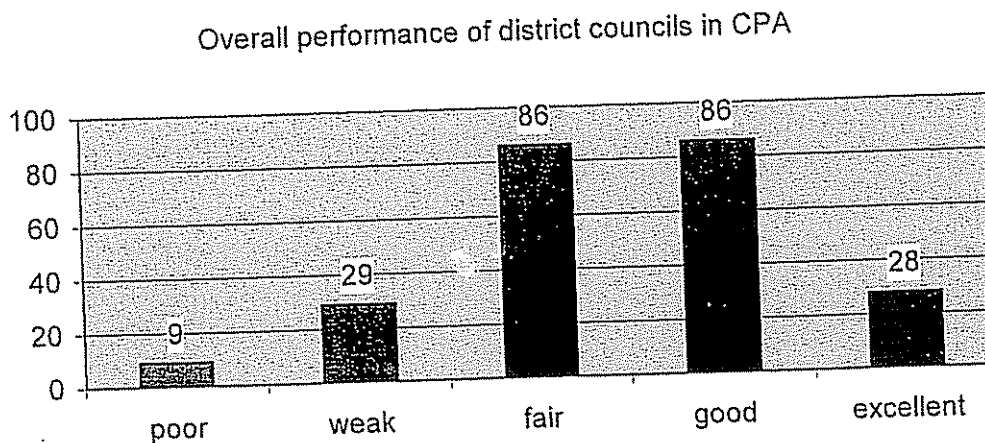
- 15 Based on the outcome of our Direction of Travel review, the Council needs to continue to focus on its improvement priorities by:
- achieving tangible and measurable progress against the priorities of the Oxford plan; and
 - achieving a much stronger capacity for change by:
 - greater focus on improvement via effective challenge;
 - ensuring a stronger and more confident understanding between its councillors and its managers in order to deliver this; and
 - considering options that will enable it to deliver better services for less cost.
- 16 Key actions from the wider Letter are:
- working papers produced to support the financial statements are further developed to meet the more stringent requirements of the Audit Commission's Use of Resources assessment;
 - issues identified as reasons for slippage in the capital programme are addressed; and
 - key improvements identified through the Use of Resources assessments are appropriately addressed.

Council performance

Direction of travel report

- 17 Oxford City Council was assessed as weak in the Comprehensive Performance Assessment carried out in 2004. These assessments have now been completed in all district councils with the following results.

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

- 18 Since the assessment, the Council has identified its priorities for improvement and we have been working with the Council as it seeks to improve further. Its seven corporate priorities, confirmed in the Oxford Plan 2006-2009, address both service delivery and further developments in the Council's capacity and approach. The priorities are:
- equalities and social inclusion;
 - more and better housing;
 - quality of environment;
 - crime and anti-social behaviour;
 - climate change and environmental resources;
 - ensuring more efficient and improved services; and
 - being an open, intelligent and responsive organisation.

Priorities and focus

- 19 The Council has consolidated its focus on clear priorities and invested further in the systems and learning needed to help achieve them. This combination is important, given the need to focus on overall improvement, as well as specific community-oriented priorities. This is the second year in which the Council has had an agreed corporate plan, which has enabled it to gain confidence in this approach – making an important contribution to the culture and capacity needed for further improvement.
- 20 The last year has seen greater corporate focus and consensus, reflecting a greater political consensus around the Council's key priorities. The 2006-2009 Oxford Plan was agreed in 2005 and shows further consolidation in its seven clear and agreed priorities, and agreement about the nature of some of the organisational changes involved. For the first time, the Council has agreed a set of core values. These emphasise the importance of greater outward focus in working with the local community and with partners.
- 21 However, the Council is not able to demonstrate clear progress against its agreed priorities, such that it can be clear that its resources are targeted and being used effectively to deliver agreed service improvements and other benefits to local residents. It is clear where it has achieved milestones that support its priorities, but has not got a consistent picture of the outcomes of this activity. But it has taken steps to address this by further developing its monitoring framework for the coming year, with the intention of basing its budget on its new priorities and identifying specific and measurable targets that are better linked with service and business planning.

Leadership and capacity

- 22 Since its CPA assessment, the Council has continued to invest in building a better council for the longer term. Its approach reflects good self awareness within its leadership. For example, although there is much more to achieve throughout the organisation, its executive has led and developed a much stronger financial focus, supported by the Council's financial scrutiny committee and by better access to financial systems and information.
- 23 Over the last year some good political and managerial leadership has helped the Council become more realistic about the scale of change that it needs to address, in order to build on its progress in becoming better organised, more focused and more confident. This depth of focus is important, as its aim to become an excellent authority requires the Council to focus on achieving sustainable longer-term improvement.
- 24 The Council has continued to invest in systems that are strengthening its capacity. It has improved its business planning, performance monitoring, budgetary and human resource management systems. These systems are now helping the Council match its resources to its agreed priorities, and will play a stronger part in supporting the Council's planning and prioritising in the 2006/07 financial year.

These systems and priorities are not yet fully established throughout the organisation but, as they continue to develop, they should enable further improvement.

Organisational culture

- 25 The Council has developed a more positive workplace culture, with a positive effective on both organisational and team learning. Council initiatives such as improvement teams, and a continued focus on communication, are helping engage staff and managers in addressing areas of Council priority that lie outside its traditional service team structures.
- 26 The results of its MORI staff survey in 2005 were particularly impressive, and demonstrate a shift in culture. Good managerial leadership has helped the Council achieve a significant improvement in staff morale, to a level above that of other councils, as well as much greater ownership of the change agenda throughout the Council. This has included continued investment in better understanding of the roles and relationships of councillors. However, the strong results from most services in its 2005 staff survey also reveal a contrasting marked lack of confidence among staff working in leisure, parks and in the unit providing some of its cleaning and waste services.
- 27 Although it is given high priority, the Council's capacity to deliver change is still relatively weak, and the confidence to deliver it therefore remains fragile. Councillor and managers have not yet established consistently clear roles and relationships through which to deliver improvements. Stronger understanding between councillors and managers has been emerging, for example in the shared focus on corporate priorities – but this is inconsistent, and suffers from tensions in some areas.

Service achievement

- 28 We found general consensus within the Council that services are improving, with some also focusing on achieving better value for money. However, the overall level of performance remains average and there is clearly much more to do.
- 29 The Council has not yet realised its ambitions to achieve significant levels of service improvement. There are also some risk areas, including a much-improved benefits service that has struggled to reach beyond average levels of performance. In the last year the Council has set itself some ambitious improvement targets in 40 key areas, but has only achieved 11 of these. Where aspects of its services have not improved, when compared with other similar councils, two thirds of these have been in services that are below the all-council average.
- 30 While it continues to show signs of development, the Council still needs to achieve much more before it can demonstrate consistent and significant service improvement. This is because its overall current value for money is poor, and it has not yet developed cohesive and effective ways of challenging the balance between its costs and its performance. We address this further in the following sections.

31 However, the Council – overall – has improved on many of the performance indicators that are used to compare it with similar councils elsewhere. Based on performance indicators for all district councils for 2004/05 the Council has improved in 63 per cent of the areas available for comparison.

32 Some individual services have shown improvement. For example, the Council's planning service has steadied, having been a planning standards authority for a number of years until the summer of 2005. It has been achieving much better standards for processing planning applications. Our landlord services inspection in 2005 found a number of areas of improvement in housing management that benefit residents and tenants. These examples are part of an overall drive for better customer focus that has also seen improvements in the Council's public facilities and service access. Although it has more to do, the Council has also taken some determined steps to improve its overall response to equalities.

Value for money

33 In 2006, we concluded that the Council's value for money (vfm) is poor, with considerable room for improvement. Costs are high across a range of services, in some cases exceptionally so, for average outcomes. Towards the end of 2005 the Council began a best value review of its leisure service, as it recognised weaknesses in its value for money. The early stages of our recent inspection of the Oxfordshire county waste partnership show that Oxford City Council is not a strong performer on value for money in either its recycling or waste collection services. Its planning service is also relatively high cost.

34 It is to the council's credit that it acknowledges this fully; for example, with its finance scrutiny committee active in exploring potential barriers by establishing a series of vfm studies. But while some services have been addressing vfm, and there are pockets of stronger performance, the overall message is that the Council's culture is not yet attuned to it and that improvement will require considerable focus throughout the council.

Challenge

35 Effective challenge is at the heart of service and council improvement but – with some exceptions – the Council has a relatively weak track record in this. Although it has identified areas for improvement and begun to engage both internal teams and external consultancy in this, it recognises that, overall, it has not yet harnessed or coordinated the interests of all its stakeholders in sufficiently focused and productive challenge processes.

36 It is not yet making full use of benchmarking, considering some more radical options for service redesign, or engaging differently with partner organisations. Its improvement reference group has had some positive contributions but in the past year its role and future has become unclear. Challenge is important, as value for money in service improvement is likely to involve the council in change on a much more significant scale than it has achieved so far.

- 37 The Council is open to the implications of this and we are now working with it to review and improve its challenge processes. It has also engaged external consultancy support to help it achieve greater challenge and impact in its best value review of its leisure service during 2005/06.

Next steps

- 38 In summary, the Council has made progress but is also aware that it has some considerable challenges to overcome in providing better services for local people. The current focus on corporate priorities offers a good basis for clearer organisational understanding of the steps that might be taken to achieve this. However, two years on from our original corporate assessment, the Council now needs to start to demonstrate that its investment in service improvement is starting to secure progressive and consistent council-wide returns.

Other performance work

Area committees

- 39 Following from Oxford City Council's Comprehensive Performance Assessment in 2004, the Audit Commission commissioned a piece of performance work to support the council's improvement in two key areas:
- planning appeal performance linked to the cost of the service; and
 - Councillor/officer working relationships.
- 40 In order to understand the key issues facing the council and variety of assessment methods were used including:
- observation of area committees;
 - interviews;
 - workshops;
 - document review; and
 - analysis of performance information.
- 41 There is broad agreement that the current operation of Area Committees is not delivering the intended or desired outcomes for the City Council or for local people.
- 42 To address these weaknesses there are a number of actions for the Council;
- improve the quality of the meeting process;
 - sponsor improvement of decision making in Area Committees; and
 - redefine the purpose of Area Committee meetings.

- 43 The next phase of the work will be to support the Council in the implementation of these key improvements and secure significant improvement in terms of planning decision performance, officer/councillor working relationships and some improved value for money.

Follow-up Human Resources policies

- 44 We have reviewed progress made following our 2003/04 review of Human Resources policies. The Council has made good progress in implementing our recommendations, and in particular has:
- implemented a new HR management structure resulting in greater capacity;
 - developed a HR strategy which identifies key policy issues to be addressed in the medium and longer term;
 - revised and improved a number of key HR policies;
 - established a service level agreement with Oxford Building Solutions (OBS) to ensure OBS operates within the corporate HR framework; and
 - established a process to enable ongoing policy development and review.
- 45 Despite the considerable progress, the HR service has not yet won the full confidence of staff. Staff expressed concern that policies are not applied consistently by line managers.
- 46 The HR business unit is confident that the impact of these new measures will enable the consistent application of HR policies across the Council but acknowledge that this may take time to take effect.
- 47 We will continue to monitor the Council's progress in improving its HR function and report, as appropriate.

Rent arrears

- 48 Early in 2005 we reviewed progress made by the Council in implementing the recommendations from our 2002 report on managing rent arrears. We are pleased to report that the Council has continued to make good progress towards improving its arrears service. It has demonstrated a positive approach to implementing our recommendations, most of which have now been met in full. This is a considerable achievement given the number and scale of our recommendations. Key improvements include:
- a corporate framework for managing debt;
 - a three year arrears strategy, which is supported by a number of written policies and procedures;
 - a greater emphasis on arrears prevention, such as weekly rent surgeries, active promotion of direct debit as the council's preferred payment method, improved sign-up and voids procedures and more face-to-face and telephone contact with tenants;

14 Annual Audit and Inspection Letter | Council performance

- ongoing publicity campaigns via a variety of medias, to raise the profile of the rents team and to emphasise the importance of paying rent and the consequences of not doing so; and
 - improved organisation and training of the arrears team, which has led to greater focus, more effective use of resources and rent officers being better equipped to perform their roles.
- 49 Overall, the Council is using a greater variety of tools and methods for managing rent arrears, which have contributed to tangible performance improvement, including a reduction in its level of arrears.

Other Audit Commission inspections

Landlord services

- 50 Our inspection, reported in November 2005, concluded that the Council is providing 'fair', one-star landlord services that have promising prospects for improvement. We identified a number of areas of strength including:
- housing services are generally easy to access;
 - the Council is on track to meet the decent homes standard by 2010;
 - performance on rent collection is much improved and approaching the best quartile;
 - the estates are well maintained and anti-social behaviour is addressed robustly;
 - the new formal tenant participation structure brings tenants to the heart of decision-making; and
 - the Council can demonstrate cost savings over time.
- 51 The service has promising prospects for improvement because of the following drivers for change.
- There is a generally positive track record of improvement.
 - The Council has been able to address the most important weaknesses highlighted in the comprehensive performance assessment housing diagnostic.
 - The new top level management is having a positive impact on the morale and culture of the service.

There are nevertheless some important issues which need to be addressed, which were incorporated in our key recommendations, and are summarised in Table 1.

Table 1 Summary of recommendations

Recommendations	Benefits
<p>Improve the customer focus of the service by:</p> <ul style="list-style-type: none"> • increasing the percentage of repairs appointments that are made and kept to 95 per cent by April 2007; • developing a more effective and adequately resourced approach to customer contact; and • increasing the range of choices that tenants have over the shape and content of the capital, planned and cyclical maintenance programmes from April 2006. 	<ul style="list-style-type: none"> • Substantial increase in customer satisfaction; better value for money if tenants receive a reasonable choice.
<p>Improve the value for money of the service by:</p> <ul style="list-style-type: none"> • developing the use of benchmarking and customer feedback in order to monitor the value for money of the service, by April 2006; • driving down the time it takes to relet homes to no more than four weeks on average during 2006/07 and beyond; • increasing the amount of former tenants arrears that are collected by at least 10 per cent year on year for the next three years; • increasing the amount both recharged and collected by ten per cent year on year for rechargeable works; • developing longer term partnering as an alternative to traditional tendering methods for both internal and externally provided services by December 2007; and • reducing the proportion of repairs categorised as emergencies to 10 per cent, by April 2007 	<ul style="list-style-type: none"> • At least £250,000 in additional income which will help to ensure that the aspirations to go beyond the decent homes standard are met. • The ability to house more homeless families and single people and thereby save on these budgets. • Further reductions in costs and improvements in services from partnering.

Recommendations	Benefits
<p>Generate a significant increase in the number of tenants who influence the service by June 2007 by:</p> <ul style="list-style-type: none"> • completing an accurate and detailed database of tenants by April 2007; • in the meantime broadening the use of informal consultation; • developing decision making processes that give tenants a real choice of alternatives over all aspects of the service; and • involving more tenants in monitoring the outcomes that matter most to them 	<ul style="list-style-type: none"> • Improved customer satisfaction. • Continuous improvement and greater accountability.
<p>Improve the quality of the plans for the service by:</p> <ul style="list-style-type: none"> • where possible consolidating the plans into fewer documents; • developing the asset management plan and the housing strategy for black and minority ethnic tenants by April 2006; • developing a detailed risks and contingencies register for the service by April 2006; and • incorporating explicit proposals and targets in respect of value for money within each plan. 	<ul style="list-style-type: none"> • That planning becomes a systematic means of improving all of the service. • That consolidation makes the management of the service simpler for all stakeholders.

Review of the Oxfordshire Waste Partnership

- 52 We have started an inspection of the Oxfordshire Waste Partnership (OWP), which is being carried out in three phases. Phases 1 and 2 are now complete and prepare the ground for the main inspection activity which will be undertaken in spring of 2006. The outcome of formal inspection will be reported in next years Letter.

Accounts and governance

Last year's letter

- 53 Last year we made a number of recommendations under Section 11 of the Audit Commission Act 1998 requiring a public response by the Council. We are pleased to report that the Council has made progress in implementing our recommendations (Table 2).

Table 2 Progress on implementation of recommendations
The Council has made progress in implementing our recommendations

Section 11 Recommendation	Current position
Improve the arrangements for the accurate and timely compilation of annual financial statements.	See comments elsewhere in this Letter. The Council prepared its 2004/05 accounts in advance of the statutory deadline. However, there remains scope for further improvement in the standard of working papers produced to support the financial statements.
Ensure that the Council has sufficient and appropriate long-term access to legal advice, and that robust procedures are in place to evidence consideration and action by the Council on that advice. -	See comments elsewhere in this Letter. The Council has successfully recruited a substantive Monitoring Officer and is taking steps to strengthen its arrangements.

Source: Audit Commission

Audit of 2004/05 accounts

- 54 We issued an unqualified opinion on the Council's accounts on 27 February 2006, following resolution of a technical accounting adjustment following a change in the capital accounting regime.
- 55 The published accounts are an essential means by which the Council reports its stewardship of the public funds at its disposal and its financial performance in the use of those resources. The Council's draft annual accounts were approved by the Audit Committee at its meeting on 29 July 2005.
- 56 We are required by professional standards to report to those charged with governance (Audit and Governance) certain matters before we give an opinion on the financial statements. Table 3 sets out the areas reported to the Audit and Governance Committee in October 2005.