

**Report of:** Director of Finance and Corporate Services

**To:** Executive Board

**Date:** 16<sup>th</sup> April 2007

**Item No:**

**Title of Report :** Audit Commission Annual Audit and Inspection Letter



### Summary and Recommendations



**Purpose of report:** To introduce the Audit Commission's Annual Audit and Inspection Letter and propose a series of actions in response.



**Key decision:** No

**Portfolio Holder:** Leader of Council; Cllr Goddard

**Scrutiny Responsibility:** Finance



**Wards affected:** All

**Report Approved by:** Cllr John Goddard - Leader of Council



Mark Luntley – Strategic Director, Finance & Corporate Services



Jeremy Thomas - Monitoring Officer



**Policy Framework:** None



**Recommendations:** That Executive Board:



1. Notes the Annual Audit Letter and Comments of the Audit and Governance Committee.

2. Notes the progress on the action plan in response to last year's Annual Audit and Inspection Letter



3. Adopts the action plan to address the key issues in this year's Annual Audit and Inspection letter.



## **Purpose of the Annual Audit and Inspection Letter**

Each year the Audit Commission provides the Council with an Annual Audit and Inspection Letter (AAIL). This letter:

- Summarises the Commission's work in the previous 12 months
- Gives Members an assessment of financial management of the authority.

In the last few years the letter has also included:

- A scored review of the Council's performance against "Use of Resources" and "Value for Money" checklists.
- An assessment of the Council's "Direction of Travel" over the last 12 months.

The letter is included as Appendix 1.

## **Considering the AAIL**

The AAIL is a report that has to be considered by full Council. However in line with best practice the Council has established an Audit and Governance Committee, whose remit includes receiving the AAIL and questioning the external Auditor and Council Managers on its contents.

The Audit and Governance Committee makes comments on the AAIL (attached as Appendix 2) prior to it being considered by Council.

In previous years the Executive Board has set out a series of proposed actions in response to the AAIL. Last year's proposed actions (together with progress to date) are attached as Appendix 3.

## **The key messages in the AAIL**

It is important to not lose sight of the original purpose of the AAIL. This was to independently report to Members on the set of financial accounts. The Audit Commission has given an "unqualified" opinion on those 2005-6 accounts (i.e. the year ended 31<sup>st</sup> March 2006).

The AAIL also draws together key findings from the Audit Commission's work over the last year (leading up to December 2006). The Commission's conclusions are essentially positive and start by saying:

*"The Council can demonstrate service improvements and other significant changes in the last 12 months. Its progress against its priorities has become more visible and tangible, and shows consolidation and focus."*

The Commission concludes that the Council has:

- Made progress against local priorities - e.g. reducing inequality.
- Become a more confident organisation.
- Improved business planning processes.
- Given significant effort to improving budget and financial systems resulting in greater financial realism.
- Continued to strengthen financial governance.

However work remains to:

- Have a “firmer approach” to Value for Money given the context of our higher than average costs.
- Ensure the best possible return on the Council’s assets.

### **Use of Resources**

A recent development is that the Commission also assess Councils against a series of checklists (called Key Lines of Enquiry - or KLOEs) each checklist has a subset of further questions.

These KLOEs are intended to test how well authorities are managing against five areas. The Council has improved against the financial KLOEs and achieves an overall score of 2 (compared with 1 a year ago).

In one area (Financial Standing) the Council now achieves level 3, and in the other areas we are told we are close to also achieving that level.

However we have been scored at level 1 for “Value for Money”, in light of our higher than average costs.

### **CPA re-categorisation**

The Audit and Governance Committee explored the issue of CPA re-categorisation with the Audit Commission, noting that it was several years since the Council was assessed in this area.

The Committee asked that the Strategic Director, Finance and Corporate Services establishes a timetable and targets for making a decision on when to apply for a CPA review.

### **Proposed actions**

The challenge is for the council to build on existing improvements in business planning, financial management and service outcomes whilst making further improvements are in:

- Delivering improvements in Value for Money by understanding and then (if appropriate) reducing high costs without reducing quality of service.

- Embedding risk management arrangements.
- Making the further financial improvements in order to achieve level 3 on financial KLOEs.
- Simplifying our financial and business planning arrangements.
- Ensuring our workforce is more representative of the diversity of the wider community.

A detailed action plan to address these issues is included as Appendix 4.

Name of author	Mark Luntley <a href="mailto:mluntley@oxford.gov.uk">mluntley@oxford.gov.uk</a> 01865 (25)2394
Background papers	No unpublished papers
Appendices	1 Annual Audit and Inspection Letter 2. Minutes of Audit and Governance Committee (March 2007) 3. AAIL Action plan (progress) 2006 4. AAIL (proposed) 2007

**APPENDIX 1 - Annual Audit and Inspection Letter (14/03/07, 10.55am)**

## APPENDIX 2 – Audit and Governance Committee draft minutes

### AUDIT AND GOVERNANCE COMMITTEE

Thursday 22<sup>nd</sup> March 2007

**COUNCILLORS PRESENT FOR THE WHOLE OF THE MEETING:** The Chair (Councillor Clark Brundin), The Vice-Chair (Councillor Craig Simmons), Councillors Jim Campbell, Bryan Keen, Bob Price and John Tanner (Attending as a substitute for Councillor Oscar Van Nooijen)

**OFFICERS PRESENT FOR THE WHOLE OF THE MEETING:** Mark Luntley, Sharon Cosgrove and Michael Lawrence (Strategic Directors), Penny Gardner (Finance and Asset Management), Mathew Metcalfe and Lindsay Cane (Legal and Democratic Services).

Donald Sadler from KPMG and John Bull and Andy Burns from the Audit Commission also attended for the whole of the meeting.

#### 68. APOLOGIES FOR ABSENCE

Apologies were received from Councillor Oscar Van Nooijen (Councillor John Tanner attended as a substitute).

#### 69. DECLARATIONS OF INTEREST

None declared.

#### 70. NOTIFICATION OF URGENT BUSINESS

None notified.

#### 71. DIGEST OF AUDIT COMMISSION REPORTS

##### (a) Audit Commission Opinion Audit Report 2005/06

The Strategic Director, Finance and Corporate Services submitted a report (previously circulated now appended) which the Audit Commission had submitted which detailed its Opinion Audit Report for 2005/06.

Mark Luntley introduced the report and said that this was the Audit Commission's opinion on the Council's Statement of Accounts.

In response to questions regarding the Cash Flow Statement, the Committee was informed that this was an area for improvement and

that KPMG had completed the fieldwork on this and that a report would be submitted to a future meeting of the Audit and Governance Committee.

Mark Luntley with regard to the recommendation concerning Debtors, said that 2 tranches of debt, each totalling £1m, had been transferred to Capita. He said that debt that was 5/6 years old was unlikely to be recovered. Capita had done chasing of debts and had recovered £170k which had previously been identified as uncollectable. He further added that work was now being done on writing-off £500k of the original £2m debt, and that depending on the size of each debt within the total amount, Officers were authorized to write-off debt.

The Committee agreed to note the report.

**(b) Audit Commission Annual Audit and Inspection Letter**

The Strategic Director, Finance and Corporate Services submitted a report (previously circulated now appended) which detailed the Audit Commission Annual Audit and Inspection Letter which had been submitted to the Council from the Audit Commission.

Andrew Burns from the Audit Commission said that the report was a positive one that recognised the change in culture and confidence of the Council, and allowed for many examples of good practice to be highlighted within the report. However there were areas that required further improvement, such as value for money, which required more evidence to show that value for money was being achieved on the Council's services.

Councillor Tanner asked how the issue of value for money would be taken forward. In response Mark Luntley said that the Council had to understand the costs and performance of services. In September 2006, a comprehensive analysis of costs was carried out and more work was underway on this. He added that a series of Value for Money Audits had also been commissioned from KPMG and the results would be reported shortly, and with 12 months the reasons for the high cost of City Council services would be known.

Councillor Price said that in the budget for 2007/08 there were a number of areas which had efficiency gains and this should be 'dove-tailed' in with the work on value for money. He said that he had concerns with regard to 'Systems Thinking' in that during the process of change, performance would drop, even though this might be a temporary drop, it was important that this was monitored closely.

Councillor Simmons asked that absolute dates be put into the report whenever a date was mentioned as this allowed Members etc. to know exactly when something should be done or when information had been collected. In response Andrew Burns said that there was scope to make the report clearer.

In response to further questions Andrew Burns said that the report with regard to Planning Services reflected more clearly the improvements etc. in the service, following the previous Audit Commission report which had looked at the Planning Service and Area Committees and which the Council had raised objections to some of the views of the Audit Commission.

Andrew Burns in response to question said that the Council was asset rich and that the Council should receive the best return possible on its assets and he felt it was good practice to have a Member take a lead on this.

Councillor Brundin asked when would the Council receive another Comprehensive Performance Assessment (CPA). In response Andrew Burns said that the Council could apply for a review at any time, which would be carried out by an independent Panel, which would look at what had changed since the previous CPA.

Councillor Brundin said that while the report was encouraging it was important that this did not lead to complacency, it was a progress report and much work was still required to continue the improvement of the Council and its services.

Councillor Tanner said that it would be helpful to have a clear timetable on a possible application for a re-assessment. In response Mark Luntley said that this report would be submitted to the Executive Board along with a set of actions, as has previously been the case. He added that it was difficult to set a timetable, but there could be set of targets created, which could be used as a trigger for an application.

The Committee agreed:

- (1) To note the Audit Commission's Annual Audit and Inspection Letter;
- (2) To welcome the comments of the Audit Commission that the report was positive one, which recognised the change in culture and confidence of the Council and highlighted improvement in areas such as Financial Governance;
- (3) To note that further work was required in some areas such as Value for Money;
- (4) To request the Strategic Director, Finance and Corporate Services to establish a timetable/targets for making a decision on when to apply for a Comprehensive Performance Assessment review;
- (5) To thank Andrew Burns for his work and support over the past few years and to wish him well for the future.



## **72. INTERNAL AUDIT PROGRESS REPORT**

The Strategic Director, Finance and Corporate Services submitted report (previously circulated now appended) which detailed a number of progress reports submitted by KPMG on the 2006/07 Internal Audit Plan.

Donald Sadler commented on the Progress, Findings and Performance Statement and highlighted the following:

- (i) OBS – Voids Manager – Audit 9 – This would be completed by 16<sup>th</sup> April 2007, following discussion with Manager;
- (ii) Housing and Regeneration Schemes – Audit 10 – The original scope would be used for the Audit and a start date was yet to be agreed;
- (iii) Performance Management – Audit 12 – A report on the outcome of this Audit would be issued shortly;
- (iv) Recruitment and retention – Audit 13 – A report had been issued and awaiting the Management response to its findings;
- (v) Risk Management – Audit 16 – Training workshops were now underway to improve risk management;
- (vi) Value for Money – Street Cleansing – Audit 19 – This audit was half way through the process;
- (vii) Value for Money – Vehicle fleet management/maintenance – Audit 20 – A draft report would be issues shortly;
- (viii) Value for Money – Capital Programme/delivery of schemes – Audit 21 – A report had been issues and awaiting the Management response to its findings;
- (xiv) Value for Money – Planning Services – Audit 23 – the scope for the audit would be submitted to a meeting of the Audit and Governance Committee on 4<sup>th</sup> May 2007.

Donald Sadler introduced the following reports following audits to the Committee:

### Housing and Council Tax Benefits

Donald Sadler said that good practices had been highlighted and that the time to process a claim had fallen to 30 days from 38.5 days. There was a need for a 'Recovery Manual' and that Officers followed the procedure for the non-cashing of benefit payment cheques. He added with regard to the recommendations that the part-implemented recommendation was on the time taken to process claims in 2005/06, which was due to staff level issues and the scanning of documents, all had now been dealt with.

## Treasury Management

Donald Sadler highlighted areas of good practice and said that it was rare that a 'Good' rating was given following an audit of this area.

## Payroll

Donald Sadler highlighted areas of good practice, detailed in the report, however the Payroll and Human Resources systems were not yet integrated, but work was underway on resolving this issue.

Mark Luntley said that work on the integration of the Payroll and Human Resources systems had paused pending the outcome of the bid for Unitary Status by the City Council.

## ICT Strategy and Network Security

Mark Luntley informed the Committee that the revised recommendations were due to the Management not agreeing the initial recommendations because they felt that further opinions were required. He also said that the report due to the funding of the scheme would need to go through the Major Project Approval process.

## Performance Information

Donald Sadler said that overall performance was good and improving, however he highlighted a drop from 88.8% to 73% in the Issue of Draft Reports.

The Committee agreed to note the report.

## **73. INTERNAL AUDIT RECOMMENDATIONS IMPLEMENTATION PROGRESS**

The Finance and Asset Management Business Manager submitted a report (previously circulated now appended) which provided an update on the progress made in implementing the 2005/06 Internal Audit recommendations.

The Committee agreed:

- (a) To note the report;
- (b) That all Members of the Audit and Governance Committee be given access to the K-Client Recommendation Tracker information;
- (c) That the 'Not Applicable' column should have more information on why it is not applicable.

## **74. MINUTES**

The Committee agreed to approve the minutes (previously circulated now appended) of the meeting held on 11<sup>th</sup> December 2006.

## **75. MATTERS ARISING FROM THE MINUTES**

### **(a) Minute 56 – Report on Network Security - KPMG**

The Committee noted that staff had been consulted on the removal of webmail and that this would be followed up with discussions with Members.

### **(b) Minute 57(c) – Follow up Leisure Audit**

The Committee agreed to request the Strategic Director, Physical Environment to provide Members of the Committee with details of that was being done to address the cash deficits at the Blackbird Leys Leisure Centre.

## **76. FUTURE ITEMS TO THE AUDIT AND GOVERNANCE COMMITTEE**

The Committee agreed to note that the following items would be submitted for consideration at future meetings of the Audit and Governance Committee:

- (a) Risk Register/Management
- (b) Oxford City Council Staffing Policies
- (c) Audit remit for Planning Services
- (d) Internal Audit Plan
- (e) KPMG Progress Report
- (f) Audit remit for Homelessness
- (g) Statement of Accounts – Update
- (h) Value for Money Report – KPMG

## **77. DATES OF FUTURE MEETINGS**

The Committee agreed:

- (a) To hold an additional meeting on Friday 4<sup>th</sup> May 2007, starting at 9.30am in the Town Hall;
- (b) To note the following meeting dates for the 2007/08 Council year, and that each meeting would be in the town Hall and start at 9.30am:

Thursday 28<sup>th</sup> June 2007

Wednesday 15<sup>th</sup> August 2007  
Friday 28<sup>th</sup> September 2007  
Tuesday 6<sup>th</sup> November 2007  
Monday 17<sup>th</sup> December 2007  
Tuesday 22<sup>nd</sup> January 2008  
Tuesday 4<sup>th</sup> March 2008  
Wednesday 23<sup>rd</sup> April 2008

The meeting started at 9.30am and finished at 11.00am

### Appendix 3 - 2006 High level actions (and progress)

Action	Progress
<p><b>Better governance</b></p> <p>Embed the risk management process at business unit level across the authority.</p>	<p>Underway. Risk register updated, risk management training sessions being rolled out. Further work on risk register underway. Progress recognised by Audit Commission (paragraph 38).</p>
<p>Improve statement of accounts preparation - in line with Commission recommendations.</p>	<p>Underway. Audit Commission recognised improvements in accounts in their annual audit letter and Use of resources score (paragraph 38)</p>
<p>Joint Member/Manager development programme with shared learning and working</p>	<p>Underway. An extensive Member development programme has been developed with and Administration and SMB have jointly participated in events.</p>
<p><b>Improving Value for Money (VfM)</b></p> <p>A comprehensive VfM report, drawing on cost/performance data, benchmarking, service inspections, best-value reviews &amp; internal VfM audits. To inform the 2007-8 budget process.</p>	<p>Done. Audit Commission recognised this in their report, and in part of the VfM score.</p>
<p>2007-8 budget to take explicit regard of VfM in a) investment and b) where savings might be made.</p>	<p>The Commission refer at several points to improvement in the 2007-8 budget process, and results</p>
<p>Complete BV review of leisure.</p>	<p>Report close to completion.</p>
<p><b>Better focus</b></p> <p>A major review of budget process, looking at “best in class” with a medium term financial strategy that informs and reflects the Corporate Plan.</p>	<p>Done. Work recognised in AAIL.</p>
<p>Implement outcomes of KPMG due diligence review of Council Tax.</p>	<p>Done. A working group was established and council tax in-year collection increased by 1.4% to highest yet level whilst arrears reduced by more than 10%.</p>

<p>Accept and ensure actions as a result of Audit Commission challenge reports (Challenge/VfM processes, Housing Landlord Services Inspection and Planning/Area Committee report)</p>	<p>Audit reports now subject to detailed review by Members in Audit and Governance Committee. Actions built into work plans.</p>
<p>Implement outcomes of Planning/Area Committee services inspection</p>	<p>Underway.</p>
<p>Review of capital programme against existing priorities and assessment of reasons for slippage. Review to include assessment of other ways of delivering outcomes.</p>	<p>Some work done, but more still to be done. VfM review of Capital Programme commissioned from KPMG and report due to A&amp;G.</p>

#### Appendix 4 - Proposed actions in response to AAIL 2007

Action	Lead officer/Member
<p>1. Improve financial management systems by:</p> <p>Produce a detailed action plan by May 2007 to address issues in the Use of Resources report with aim of achieving all level 3 in the four financial and risk areas by Feb 2008.</p>	<p>Strategic Director F&amp;CS + Leader and PH for Betterfinances.</p>
<p>2. Strengthen VfM by:</p> <p>Ensuring clear understanding of implications of 2006 VfM analysis and programme of actions taken to address those issues to feed into decisions for 2008-9 budget.</p>	<p>Chief Executive and Leader of the Council.</p>
<p>3. Embed risk management by:</p> <p>Complete first round of risk management training sessions by May 2007. Developing and publishing a SMART plan to take forward risk management (and emerging new governance) arrangements for agreement by Executive Board in September 2007.</p>	<p>Strategic Director F&amp;CS + Leader.</p>
<p>4. Develop business planning by:</p> <p>Introducing a simplified business planning process, built around an agreed set of priorities, a Medium Term Strategy, and Directorate Plans. MTS by June 2007.</p>	<p>Chief Executive + Leader.</p>
<p>5. Address workforce representation &amp; equality issues by:</p> <p>Commission independent pay audit and develop a smart action plan to strengthen HR function. Ensure single status is completed by April 2008.</p>	<p>Business Manager HR + Leader</p>