



## **Annual Audit and Inspection Letter 2006/07**

### **SUMMARY**

- 1.1 The Annual Audit and Inspection Letter summarises the inspection work undertaken by the Audit Commission and the Council's external auditors, PricewaterhouseCoopers. It provides the annual Direction of Travel statement on progress made in addressing our priorities and the auditor's work on the Council's accounts, governance and performance arrangements.
- 1.2 The letter provides a positive report on the Council's progress in 2006/07 and its continuing good governance and financial management. The key messages identified in the Letter are as follows...
- The Council has achieved the highest '4 star' rating Comprehensive Performance Assessment - CPA - category and is assessed as 'improving well'.
  - The recent Corporate Assessment confirmed the Council as 'performing well', with a better score in this assessment than last time in the 'ambition' theme from 3 to 4. Key services for children and adults are assessed as 'good', with housing services receiving the top rating of 'excellent'.
  - The Council provides good value for money and has effective management and robust plans for further improving services, including through the Local Area Agreement.
- 1.3 The Letter also highlights actions to be undertaken by the Council as follows...
- The need to review and strengthen our neighbourhood level communication around priorities, progress and achievements.
  - To capture, report and use all customer contact data to ensure services meet best need.
  - To refocus the Council's consultation and engagement procedures to ensure older people's wider needs are understood and fully integrated into priorities.
- 1.4 Subject to any issues raised at the meeting, I support the following recommendations.

### **RECOMMENDATIONS**

- 2.1 To receive the Annual Audit and Inspection Letter 2006/07.
- 2.2 To refer the Letter to Council on 21 May 2008.
- 2.3 To note that the Audit and Accounts Committee will consider the report on 3 April 2008.





DERBY CITY COUNCIL

**COUNCIL CABINET**  
**18 March 2008**

**ITEM XX**

Report of the Corporate Director of Resources

## **Annual Audit and Inspection Letter 2006/07**

### **SUPPORTING INFORMATION**

#### **1 Background**

- 1.1 The Annual Audit and Inspection Letter summarises the inspection work undertaken by the Audit Commission and the Council's external auditors, PricewaterhouseCoopers. It provides the annual Direction of Travel statement on progress made in addressing our priorities and the auditor's work on the Council's accounts, governance and performance arrangements.
- 1.2 The Letter covers the following areas...
- Overall summary of performance.
  - Direction of Travel.
  - Corporate Assessment and Joint Area Review Inspections.
  - Audit of accounts and value for money, including use of resources and data quality.

#### **2 Key findings**

- 2.1 The key issues identified in the Letter are as follows:
- The Council has achieved the highest '4 star' rating overall Comprehensive Performance Assessment - CPA - category and is assessed as 'improving well'.
  - The recent Corporate Assessment confirmed the Council as 'performing well', with a better score in this assessment than last time in the 'ambition' theme from 3 to 4.
  - Key services for children and adults are assessed as 'good'.
  - Housing services received the top rating of 4 and are rated as 'excellent'.
  - Strong partnership working has helped increase capacity to deliver improvements in priority areas.
  - The Council provides good value for money and has effective management and robust plans for further improving services, including through the Local Area Agreement.
  - Where there are service areas where performance is less good, the Council is taking action to address them.



- The Council is successfully building its internal capacity through better IT connections, a strong culture of performance management, robust financial and risk management and a sound approach to procurement.
- The external auditor issued an unqualified opinion on the accounts and Best Value Performance Plan.
- Overall use of resources was assessed as 'consistently above minimum requirements'
- Data quality arrangements are considered to be 'performing well'.

2.2 The Letter also highlights actions to be undertaken by the Council...

- The need to review and strengthen our neighbourhood level communication around priorities, progress and achievements.
- To capture, report and use all customer contact data to ensure services meet best need.
- To refocus the Council's consultation and engagement procedures to ensure older people's wider needs are understood and fully integrated into priorities.

### 3 Next Steps

3.1 It is proposed to refer the Annual Audit and Inspection Letter to Council on 21 May 2008.

3.2 The Audit and Accounts Committee will also consider the report on 3 April 2008.

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**Background papers:**

**List of appendices:**

Appendix 1 – Implications

Appendix 2 – Annual Audit and Inspection Letter 2006/07



## Appendix 1

<b>IMPLICATIONS</b>
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### **Financial**

1. The audit and inspection fee for 2006/07 was £269,053.

### **Legal**

2. The Annual Audit and Inspection Letter has been produced in accordance with Section 10 of the Local Government Act 1999 and the Audit Commission's Code of Audit Practice.

### **Personnel**

3. None directly arising from the report.

### **Equalities impact**

4. None directly arising from the report.

### **Corporate priorities**

5. None directly arising from the report.



# **Annual Audit and Inspection Letter**

**Derby City 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:

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The duties and powers of auditors appointed by the Audit Commission are set out in the Audit Commission Act 1998 and 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.

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## Key messages

- 1 Our recently published summary gives an overall assessment of the Council's progress over the previous 12 months:

*Derby City Council is performing well across a range of areas with key services for children and adults assessed as good. It is generally improving services in its priority areas, engages well with local communities, is making services more accessible and public satisfaction is above average. The Council is good at partnership working and uses it to increase its capacity to deliver its priorities such as the regeneration of the city centre and improving the quality of life in priority neighbourhoods. While there are service areas where performance is less good, the Council is taking action to improve these.*

*The Council provides good value for money, has effective management and robust plans for further improving its services, both in respect of its own priorities and those of the Local Area Agreement. It is effective at identifying and securing external funding and is shifting resources in line with priorities. It is also successfully building its internal capacity through better IT connections, a strong culture of performance management, robust financial and risk management and a sound approach to procurement.*

*Source: Audit Commission Direction of Travel scorecard February 2008*

## Action needed by the Council

- 2 The following areas for improvement are taken from our recent corporate assessment report:
  - The Council is committed to neighbourhood working and engaging with local communities. However, communication of its priorities, progress and achievements locally is limited, representing a lost opportunity. The Council should review and strengthen its neighbourhood level communication so that it can widen neighbourhood participation and engagement;
  - The Council uses metrics well to track performance and set targets, and makes satisfactory use of knowledge about performance to drive continuous improvement. But it needs to capture, report and use all customer contact data to ensure services best meet need. It needs to mainstream across all departments its good practice embedded in its business process review to ensure they make best use of metrics to drive continuous improvement. This includes better use of lead indicators to manage performance;



- The Council has a new older people's strategy which addresses independence and well-being as well as the traditional areas of health and social care. However, current consultation remains focused on health and social care and engagement is limited to those active in, or affected by, that agenda. The Council should refocus its consultation and engagement approach to ensure older people's wider needs, for example in relation to active aging, are understood and fully integrated into its priorities.



## Purpose, responsibilities and scope

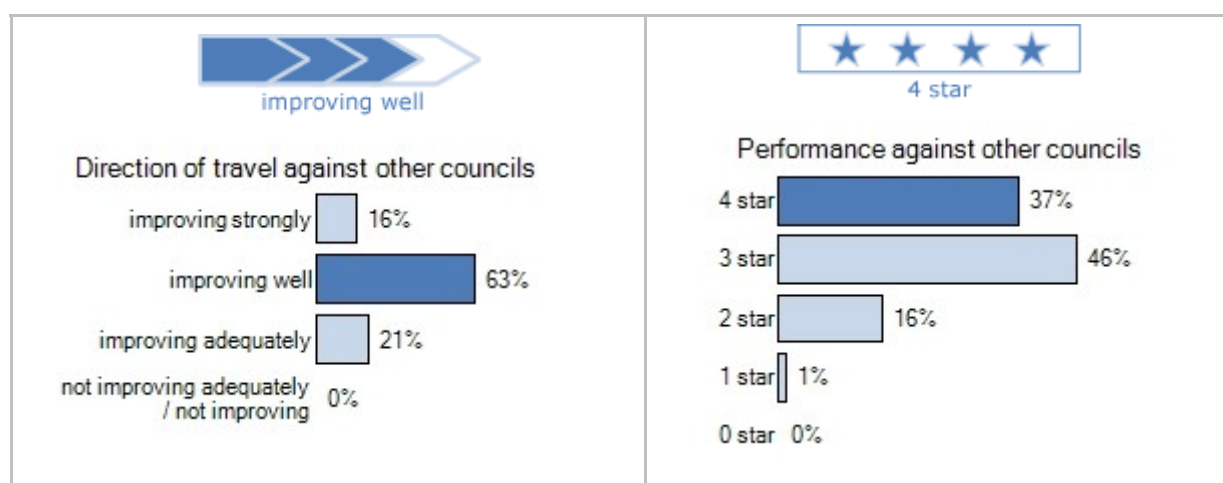
- 3 This report provides an overall summary of the Audit Commission's assessment of the Council. It draws on the most recent Comprehensive Performance Assessment (CPA), the findings and conclusions from the audit of the Council for 2006/07 and from any inspections undertaken since the last Annual Audit and Inspection Letter. It also includes the results of the most recent corporate assessment.
- 4 We have addressed this letter to members as it is the responsibility of the Council to ensure that proper arrangements are in place for the conduct of its business and that it safeguards and properly accounts for public money. We have made recommendations to assist the Council in meeting its responsibilities.
- 5 This letter also communicates the significant issues to key external stakeholders, including members of the public. We will publish this letter on the Audit Commission website at [www.audit-commission.gov.uk](http://www.audit-commission.gov.uk). In addition the Council is planning to publish it on its website.
- 6 Your appointed auditor is responsible for planning and carrying out an audit that meets the requirements of the Audit Commission's Code of Audit Practice (the Code). Under the Code, the auditor reviews and reports on:
  - the Council's accounts;
  - whether the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources (value for money conclusion); and
  - whether the Council's best value performance plan has been prepared and published in line with legislation and statutory guidance.
- 7 This letter includes the latest assessment on the Council's performance under the CPA framework, including our Direction of Travel report and the results of any inspections carried out by the Audit Commission under section 10 of the Local Government Act 1999. It summarises the key issues arising from the CPA and any such inspections. Inspection reports are issued in accordance with the Audit Commission's duty under section 13 of the 1999 Act.
- 8 We have listed the reports issued to the Council relating to 2006/07 audit and inspection work at the end of this letter.



## How is Derby City Council performing?

- 9 The Audit Commission's overall judgement is that Derby City Council is improving well and we have classified Derby City Council as four star in its current level of performance under the Comprehensive Performance Assessment. These assessments have been completed in all single tier and county councils with the following results.

**Figure 1**



*Councils with a CPA star rating under review or with a direction of travel judgement that is subject to review are excluded from this analysis.*

- 10 The detailed assessment for Derby City Council is as follows.

### Our overall assessment - the CPA scorecard

**Table 1 CPA scorecard**

Element	Assessment
Direction of Travel judgement	Improving well
Overall	4 stars



Corporate assessment/capacity to improve	3 out of 4
Current performance	
Children and young people*	3 out of 4
Social care (adults)*	3 out of 4
Use of resources*	3 out of 4
Housing	4 out of 4
Environment	3 out of 4
Culture	3 out of 4
Benefits	3 out of 4

(Note: \* these aspects have a greater influence on the overall CPA score)  
(1 = lowest, 4 = highest)

## The improvement since last year - our Direction of Travel report

### What evidence is there of the Council improving outcomes?

- 11 The Council is improving services in its priority areas, and in its recent Corporate Assessment it was assessed as 'performing well'. The needs of customers and neighbourhoods are at the forefront of the Council's drive to improve. It is above average in its level of public satisfaction with its services and in the percentage of the public who think that the way the Council runs things has improved.
- 12 The Council has six priorities for 2007-2010:
  - making us proud of our neighbourhoods;
  - creating a 21st Century city centre;
  - leading Derby towards a better environment;
  - supporting everyone in learning and achieving;
  - helping us all to be healthy, active and independent; and
  - giving you excellent services and value for money.



- 13** In recognition of the cross-cutting nature of its priorities, the Council delivers many improvements through strong partnership working. For example an ambitious programme of regeneration work is being delivered through the Derby City Partnership's City Growth Strategy and Derby Cityscape Master Plan, with developments such as the recently opened Westfield Centre transforming the look, feel and vibrancy of the city. The Community Safety Partnership works well in communities to improve the local quality of life in priority neighbourhoods. An exemplary neighbourhood approach to providing reassurance, tackling crime and anti-social behaviour, and engaging its services in delivering safer and stronger communities, is embedding as routine. In housing the Council is performing well, having met its decent homes target ahead of schedule. Against its environment priorities there is good performance on recycling, regeneration is being undertaken in an environmentally aware way and progress on tackling climate change is picking up pace.
- 14** Key services for both children and adults have been assessed as good. The overall effectiveness of the Council's contribution to improving outcomes for children and young people is good and has led to a number of improvements. For example, a range of partnerships are supporting improvements in children and young people's health and robust and effective procedures are implemented to keep them safe. The Council has been assessed as delivering good outcomes in adult social care. Its capacity to improve has been assessed as promising. It provides a wide and improving range of coordinated services for older people. The continued strength of these service areas underpins the Council's good overall performance.
- 15** There are areas where the Council is performing less well. Compared to other unitary and county councils Derby's improvement against national performance indicators has been below average for 2006/07, with 56 per cent of indicators having improved since last year. This reflects a three year trend of below average improvement on performance indicators. Although the Council is working to address economic inequalities, 2006/07 targets in respect of the economically inactive and the number of young people in full-time education or employment were missed; and monitoring shows that differences in unemployment levels between neighbourhoods are not uniformly or significantly narrowing. Educational attainment at Key Stages 3 and 4 has dipped in 2007 prompting careful analysis and planned strategies to regain previous improvements. Performance is relatively poor in other areas such as the collection of waste and in housing benefits services. However the Council is addressing these areas of concern.
- 16** The Council engages well with local communities, using their views to develop ambitions and act on local priorities. The Council has a strong commitment towards community cohesion. It bases its approach on good local knowledge and extensive involvement through various forums, underpinned by a vision of a city where people live together and respect one another. The Community Safety Partnership through its neighbourhood working is making sound progress on community cohesion issues. The Council is delivering on its responsibilities under race equality and disability legislation. It has negotiated a compact for partnership working with the community and voluntary sector and actively involves it in service delivery.



- 17 The Council takes clear action to make services more accessible to vulnerable groups and identifies the needs of groups at risk of disadvantage. For example, its transport improvements are reducing social exclusion and are appropriately meeting the specific transport needs of disadvantaged groups and rural communities. It communicates clearly and transparently with the public so that they know what the Council is doing and how well it is performing.
- 18 The Council achieves good value for money and has strong processes for improving in this respect. Costs compare well with others and are commensurate with performance and service delivery. Areas of high spending fit with priorities but, where appropriate, are also being addressed. Targets for achieving efficiency gains are embedded in service budgets, and these targets are being exceeded.

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

- 19 The Council has robust plans for improving. It has a clear and challenging vision based on the needs of the area and its communities and extending to the city's wider role in the region. Its ambitions for the area are challenging and realistic with stretching and SMART<sup>1</sup> targets and are founded on a good and improving understanding of the problems and opportunities faced by each neighbourhood in Derby. Robust action plans address the needs of black and minority ethnic communities and other groups at risk of disadvantage.
- 20 Improvement planning is being well implemented. The Council's own monitoring shows that it is making good progress on achieving corporate plan measures and on best value performance indicators. Of these, 82 per cent are forecast to be met by year end, though 11 per cent will miss target by more than 5 per cent.
- 21 The Council has improved its performance against its Local Area Agreement (LAA) targets. Strongest improvements have been made in relation to regeneration and outcomes for children and young people. However there has been deterioration in performance in respect of targets relating to culture. Overall the progress of the LAA is good.
- 22 Areas of under-performance are being tackled by the Council. For example there have been recent improvements in the percentage of council tax collected, looked after children with more than three placements in the year and the speed of handling of planning applications. The housing benefits service has also been the subject of scrutiny and resulting action is making an impact. For example, the processing of new claims has improved and recent performance is now at the national standard.

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<sup>1</sup> Specific, Measurable Achievable Realistic and Timed



- 23** The Council has the capacity to deliver its plans. It is effective at working in partnership and at identifying and securing external funding. It has good service management and is successfully building its internal capacity to deliver its corporate priorities, using better IT connections to help enable this. A strong culture of performance management is developing at all levels, with well-embedded systems and processes holding services to account for their performance with the aim of driving continuous improvement and helping to shift resources in line with priorities. Investment is made in under-performing services to secure future improvements in value for money. There is a robust financial strategy and management and the Council is using best procurement practice to improve its capacity to deliver. Significant business risks are well managed, with risk management embedded into strategic planning, financial management, policy-making and review and performance management.

## Inspections

### Corporate Assessment

- 24** In February 2008 the Audit Commission published its updated Corporate Assessment (CA) of the Council. The CA was aligned with a Joint Area Review (JAR) of services for children and young people, and the findings from the JAR used to inform the CA. The JAR was reported separately and the assessments made are summarised later in this report. Key messages from the corporate assessment are incorporated into the Direction of Travel report above. The CA covered five specific themes; ambition, prioritisation, capacity, performance management and achievement. The key lines of enquiry followed within these themes represented a harder test than that applied as part of the last CA in 2004.
- 25** The overall CA score has remained at '3', which represents 'performing well'. The scores against the five themes are summarised in Table 3.

**Table 2      Summary of Corporate Assessment scores**

Headline questions	Theme	Score (out of 4)
What is the Council, together with its partners, trying to achieve?	Ambition	4
	Prioritisation	3
What is the capacity of the Council, including its work with partners, to deliver what it is trying to achieve?	Capacity	3
	Performance Management	3
What has been achieved?	Achievement	3
<b>Overall Corporate Assessment Score</b>		<b>3</b>



**\*Key to scores**

- 1 – below minimum requirements – inadequate performance
- 2 – at only minimum requirements – adequate performance
- 3 – consistently above minimum requirements – performing well
- 4 – well above minimum requirements – performing strongly

*Source: Audit Commission February 2008*

- 26** An important aspect of the role of the Relationship Manager is to work with other inspectorates and regulators who also review and report on the Council's performance. Relationship Managers share information and seek to provide 'joined up' regulation to the Council. During the last year the Council has received the following assessments from other inspectorates.

### **Joint Area Review**

- 27** This review was conducted using the arrangements required under section 20 of the Children Act 2004 and formed part of a national programme for reviews. It was carried out by a multi-disciplinary team from the Office for Standards in Education (Ofsted), the Healthcare Commission and the Audit Commission. The review was linked to the contemporaneous corporate assessment of the Council by the Audit Commission and these findings plus aspects of the most recent Annual Performance Assessment are represented in the relevant part of the corporate assessment report.
- 28** Joint area reviews focus on the extent to which children and young people are healthy, safe, enjoy and achieve, make a positive contribution, and are well prepared to secure economic well-being. The report was published in February 2008 and the overall score for the JAR was a score of '3', which represents 'good'. The main findings of this joint area review are as follows:
- The contribution of local services to improving outcomes for children and young people at risk, or requiring safeguarding, is good. There is effective interagency and preventative work to identify and respond to the needs of children at risk. However, the timeliness of initial assessments has declined and there is no over-arching strategy for missing children.
  - The contribution of local services to improving outcomes for looked after children and young people is good. Strong and effective partnerships are making a discernible difference to children's lives. Further progress needs to be made to ensure that all children in care are allocated to a qualified worker.
  - The contribution of local services to improving outcomes for children and young people with learning difficulties and/or disabilities is good. There is a high commitment to inclusion and major strengths in the services provided. However, there is insufficient collation of data to give an accurate city-wide picture of attainment and progress. College courses lack flexibility and there are insufficient opportunities for work-based learning for these young people.



- Access to and the effectiveness of sexual health services for children and young people, including teenage pregnancy support, are adequate. A wide range of often imaginative projects has been introduced to educate young people about sexual health but their impact has not been evaluated sufficiently. The rate of teenage pregnancy remains higher than average.
- The authority offers suitable accommodation for adequately meeting the needs of most children and young people in the local population. There are effective intervention strategies to minimise homelessness and good partnership working between the authority and other agencies. However, there is insufficient accommodation to meet the needs of some vulnerable groups and data analysis does not ensure that provision is consistently targeted on those in greatest need.
- Service management is good. The council has outstanding ambitions, prioritises well and, through close collaboration with partner agencies, has extended its capacity for delivery. However, some services are heavily reliant on time limited funding. Monitoring and review mechanisms are effective but action plans are not consistently detailed and best use is not always made of data. There is good capacity for further improvement.



## The audit of the accounts and value for money

- 29 Your appointed auditor has reported separately to The Audit and Accounts Committee on the issues arising from the 2006/07 audit and has 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 28 September 2007; and
  - a report on the Best Value Performance Plan confirming that the Plan has been audited.

## Use of Resources

- 30 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).
- 31 For the purposes of the CPA your auditor has assessed the Council's arrangements for use of resources in these five areas as follows.

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**Table 3**

Element	2007 Assessment	2006 Assessment
Financial reporting	3 out of 4	3 out of 4
Financial management	3 out of 4	3 out of 4
Financial standing	4 out of 4	4 out of 4
Internal control	3 out of 4	3 out of 4
Value for money	3 out of 4	3 out of 4
Overall assessment of the Audit Commission	3 out of 4	3 out of 4



*(Note: 1 being below minimum requirements, 4 being well above minimum requirements)*

- 32** The key issues arising from our review, as reflected in the above judgements are as follows:
- In overall terms, the Council's arrangements for the use of resources in 2006/07 are considered to be consistently above minimum requirements.
  - Particular areas in which improvements in arrangements have been made since the prior year include:
    - producing an annual report within the 'Your Derby' newsletter which goes to every resident in Derby and within this document producing summary financial, service and performance information in one place;
    - The 2008/09 to 2010/11 revenue budget strategy includes new requirements, to strengthen the consultation on and scrutiny of budget proposals against priorities; and
    - Arrangements for managing and improving value for money have been continued to be strengthened. The Council remains ahead of its target for cumulative efficiency savings.
  - There is evidence of some deterioration in the Council's arrangements to promote and ensure probity and propriety in the conduct of its business. At level 3 of the Internal Control theme we are unable to evidence that staff are making appropriate disclosures for hospitality, gifts and pecuniary interests on a consistent basis and in some areas of the Council the anti-fraud culture needs to be strengthened. This has resulted in a downwards movement to prior year at individual KLOE level however the overall score remains at level 3 for this theme.
- 33** Members should also be aware that the proposed Comprehensive Area Assessment (CAA) and the changes to the Use of Resources (UoR) from 2009 will pose a significant challenge as the bar is raised and a broader and harder UoR test is introduced.

## **The key issues arising from the audit**

### **Data Quality**

- 34** During the year we completed an assessment of the Council's management arrangements in relation to data quality in accordance with the methodology and guidance prescribed by the Audit Commission. The results of our assessment were used to inform CPA, the detailed work we undertook on data quality spot checks and our conclusion on the Council's Use of Resources in respect of performance information.



35 Our assessment covered five themes relating to data quality. Levels of performance are assessed under the following categories:

- Below minimum requirements – inadequate performance;
- Only at minimum requirements – adequate performance;
- Consistently above minimum requirements – performing well; and
- Well above minimum requirements- performing strongly.

36 The results of our assessment for each theme are set out in the table below:

Theme	2007 Assessment	2006 Assessment
Governance and Leadership	Performing well	Performing well
Policies and Procedures	Performing well	Performing well
Systems and Processes	Performing well	Performing well
People and Skills	Performing well	Performing well
Data Use	Performing strongly	Performing strongly

37 In overall terms the Council's data quality arrangements were considered to be above minimum requirements and therefore performing well.

38 A number of factors were relevant to this score:

- Responsibility for data quality has been assigned within the Council and this now includes an individual at top management level who has overall strategic responsibility for data quality;
- The Council has a well established corporate system 'Performance Eye' for securely collating and analysing data;
- There is effective use of internal audit in the review of high risk indicators; and
- Quarterly performance reporting is undertaken to Chief Officers and members, with areas of achievement and improvement highlighted.

39 Our data quality work also extended to detailed testing of the Council's performance indicators. We are pleased to report that the outcome of this work was positive and we did not identify any significant errors or control issues from the work undertaken.

## Accounts

40 The purpose of the accounts work was to perform an audit of the Council's Statement of Accounts, in accordance with approved Auditing Standards.

41 The audit identified a number of misstatements and disclosure issues within the draft accounts submitted for audit. These were discussed with the Director of Resources at a clearance meeting on 3 September 2007.



- 42 Agreement was reached to adjust the financial statements in relation to the majority of these issues. The net effect of errors identified and adjusted was to decrease net expenditure reported in the draft accounts by £251,000.
- 43 The Council provided the appointed auditor with a draft set of 2006/07 financial statements for audit in accordance with the agreed timescale. The presentation of the financial statements and standard of working papers to support underlying transactions, once received, were of a good standard with improvements made in relation to key control account reconciliations.
- 44 During the accounts closure period, finance staff were engaged in managing the transition from the CODAS General Ledger system to the ORACLE system. There were also a number of significant changes to the 2006 SORP which required significant input from senior accountancy staff during the year end closedown process.
- 45 Going forward, the Council should consider how it can use the new ORACLE financial system together with specific process changes to further improve the timely production of the year end financial statements.

### **Internal Control**

- 46 The Council's Internal Audit team has undertaken fraud and special investigation work in a number of areas during the year. The most significant area has been in relation to sundry debtors. Appropriate action has been taken by the Council and your appointed auditor to understand and assess the impact of the findings of these investigations on the Council's financial statements. It has been concluded that these issues were not material in relation to the appointed auditor's opinion on the Council's financial statements.
- 47 The number of fraud investigations during the year represents a shift in the anti-fraud culture of the Council. There have been a number of specific control weaknesses identified arising from this investigation work. Action is necessary and is being taken in response to the issues raised. However, the Audit and Accounts Committee will need to ensure that it maintains oversight of the timely implementation of internal audit recommendations.
- 48 In July 2006, your appointed auditor reported to officers on the outcome of grants certification work undertaken on 2004/05 grant claims. The auditor identified that there was scope for the Council to improve its arrangements for managing the certification process, including the preparation of working papers. Improvements in this area have been made during 2006/07 with the objective of reducing the volume of audit queries and the time required to complete the certification process. There still remains however, an opportunity to further improve the Council's performance in this area.

### **Financial Standing**

- 49 In relation to the overall financial standing of the Council, the Council's management of its finances remains strong but the financial pressures the Council is facing are increasing.



- 50** A 4.9 per cent Council tax increase was required in 2007/08 in combination with a £7 million savings requirement. The Council's 2008/09 and 2009/10 indicative budgets assume that further savings of approximately £4 million per annum will need to be achieved in order to deliver a balanced position. In addition, there are continuing uncertainties regarding job evaluation.
- 51** This Council in common with a number of other Councils, is still undertaking work on Job evaluation which will enable it to finalise agreements. The Council recognised that around 1,500 female members of staff had arguable claims under the Equal Pay Act and £4.7 million of settlement payments were made during the year in relation to this.
- 52** The Director of Resources has reported to members on a number of occasions the potential financial impact on the Council and will continue to do so. However we understand that the potential commitment may exceed that set out in the latest Medium Term Financial Strategy and this will require the Director of Resources to revise current proposals. This will significantly increase the risks and pressure on the Councils financial position going forward.
- 53** The Council continues to pursue a prudent financial strategy and the overall financial position of the Council remains sound. This position is welcomed given the Government's recent announcements in respect to a three year grant settlement and the challenge this will pose for Derby over the next three years.



## Looking ahead

- 54** The public service inspectorates are currently developing a new performance assessment framework, the Comprehensive Area Assessment (CAA). CAA will provide the first holistic independent assessment of the prospects for local areas and the quality of life for people living there. It will put the experience of citizens, people who use services and local tax payers at the centre of the new local assessment framework, with a particular focus on the needs of those whose circumstances make them vulnerable. It will recognise the importance of effective local partnership working, the enhanced role of Sustainable Communities Strategies and Local Area Agreements and the importance of councils in leading and shaping the communities they serve.
- 55** 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.
- 56** 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

- 57 This letter has been discussed and agreed with the Chief Executive. A copy of the letter will be presented at the cabinet on 18 March 2008. Copies need to be provided to all Council members.
- 58 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 4      Reports issued**

Report	Date of issue
Audit and inspection plan	September 2006
Interim audit memorandum	April 2007
Annual Governance Report	September 2007
Opinion on financial statements	September 2007
Value for money conclusion	September 2007
Final accounts memorandum	September 2007
Corporate Assessment Report	February 2008
Annual audit and inspection letter	February 2008

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

## Availability of this letter

- 60 This letter will be published on the Audit Commission's website at [www.audit-commission.gov.uk](http://www.audit-commission.gov.uk), and also on the Council's website.

**Stephen Barnett**  
**Relationship Manager**

19 February 2008