

# Annual Audit and Inspection Letter

## Salford City Council

### INSIDE THIS REPORT

#### PAGES 2 - 4

- Key messages
- The purpose of this Letter
- Background to the audit and inspection programme

#### PAGES 5 - 13

- Objectives of audit and inspection
- Council performance

#### PAGES 13 - 18

- Financial aspects of corporate governance
- Audit assurance work

#### PAGES 19 - 20

- Audit and inspection fees
- Strategic regulation: future audit and inspection work
- Status of our Audit and Inspection Annual Letter
- Closing remarks

#### PAGES 21 - 23

#### Appendix 1

- Audit and inspection reports issued during 2002/2003

#### Appendix 2

- Auditor report to Salford City Council on its Best Value Performance Plan for 2002/2003

<b>Reference:</b>	SA002-11-2003
<b>Date:</b>	December 2003

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## Key messages

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### Introduction

*During the year we have carried out work in a number of significant areas. The full details of these are contained within the main body of the letter. The key messages that we would like to bring to your attention are summarised below.*

### CPA scorecard

*Over the last year some of Salford Council's services have not delivered improvements, for example the management of council houses remains a cause for concern.*

*More positively, the Council has been short listed for national recognition for its housing benefits and support services to vulnerable people. The Council's relationships with partners have increased its ability to provide services, for example successful community safety and regeneration partnerships.*

*The Council is committed to improving services and there is progress in a number of areas. For example the Council has put plans in place to improve education services and we expect to see measurable improvements in the next 12 months.*

*Salford Council now needs to focus on increasing the level of support and leadership provided to service areas to ensure more consistent improvement. The Council has put plans in place to do this and we will be monitoring progress over the coming year.*

### Inspections

*In previous years we have criticised the Council for failing to use the Best Value process to drive improvements. We are therefore pleased to report that when we followed up progress in this area we found evidence of effective use being made of Best Value to help to achieve improved services. A number of key changes have been made such as Cabinet taking an active part in the process and the appointment of a lead Councillor to take responsibility for each individual review. There is also more robust challenge during reviews with the involvement of scrutiny chairs, the chief executive, other directors, external 'critical friends' and consultants.*

*The impact of these changes is reflected in the success of the planning Best Value review which we inspected in June 2003. We found that the Council was providing a good, two star service that had promising prospects for improvement.*

### Other performance work

*Our most significant piece of performance work this year relates to following up progress on the housing service improvement plan (SIP) that was prepared following the poor, zero star inspection in June 2002. We reviewed progress up to the end of January 2003 and found that, at this stage, many of the tasks had been delayed and there was little evidence of service improvement. Our initial plan was to undertake a second review of progress up to the end of June 2003 but this did not take place. It was agreed that it would be more appropriate for management to concentrate on implementing the new measures they had already started to introduce without the distraction of another review. The housing service will be subject to a compulsory re-inspection in December 2003 eighteen months after the original inspection.*

*Our second key piece of performance work related to risk management. The Council started to introduce formal risk management processes last year by agreeing an action plan for taking this area forward. We reviewed progress during 2003 and found that good progress had been made. The Council now has a risk management framework in place. The challenge for the next twelve months is to move from theory to practice to a culture where risk management informs decision making and all aspects of management.*

### **Financial standing**

*Over the last few years the Council has been working towards putting its financial standing back on a sound footing following the problems encountered in 1999/2000 when all remaining reserves had to be utilised to meet additional expenditure on looked after children.*

*We are pleased to report that the Council has made good progress in this area. The general fund balances stood at £5m at 31 March 2003 and there is provision in the 2003/2004 budget to increase them by a further £1m to £6m by 31 March 2004. The Council is to be congratulated on this achievement.*

*Whilst the Council has taken significant steps to address the problems surrounding its financial health, there are areas that still need to be addressed and plans to address these are contained in the medium term financial strategy. The most significant ones are:*

- *increasing reserves further to £8m (3% of revenue expenditure) by 31 March 2007*
- *ceasing to capitalise approximately £4m of 'grey' areas of expenditure that were previously charged to revenue*
- *increasing the bad debt provision for council tax to the required level by 31 March 2005 by declaring a deficit of £1m on the collection fund for 2003/2004.*

*We recognise that keeping to the medium term strategy is going to be difficult in the current financial climate. Current predictions are that savings of approximately £2m are going to have to be found in 2004/2005, £10m in 2005/2006 and £4m in 2006/2007 to contain expenditure within resources. This problem has been compounded by the recently identified demand for additional resources in Social Services which could increase these saving figures by a further £2m per annum. However we would stress the importance of implementing these plans to secure the Council's long term financial stability.*

### **Accounts**

*We issued an unqualified opinion on the statement of accounts in December 2003. We found that during 2002/2003 a number of the problems raised in the past had been addressed such as the reconciliation of internal debtors and creditors and an increase in the provision for sundry debtors. Furthermore, with the introduction of a new cash receipting system, the bank reconciliation is now up to date in the current year. The Council is to be congratulated on these improvements.*

*For the first time in 2002/2003 we had to comply with Statement of Auditing Standard 610 'Reporting to those charged with governance'. This required us to report to members any issues arising from our audit before we give our opinion on the financial statements. The key issue in our SAS610 report related to the capitalisation of £567,000 of 'grey' areas of capital expenditure where we thought the Authority had gone beyond what could reasonably be classed as capital. As officers disagreed with our interpretation we asked members to either:*

- *adjust the financial statements for this misstatement*
- *provide us with a letter of representation explaining why the financial statements were not going to be adjusted.*

Members decided to amend the accounts for the expenditure related to PFI consultants' fees and asset management salaries (£439,000) but left the expenditure relating to survey fees (£128,000) unaltered. As the accounts included revenue contributions to capital the above adjustments will not impact on the overall financial position of the Council. It was also agreed that further guidance on the treatment of the items in question would be sought for future years.

### **Best Value Performance Plan (BVPP)**

Last year the BVPP was compliant with legislation in all respects. However our BVPP opinion contained a statutory recommendation aimed at ensuring the problems we had encountered with the accuracy of some of the performance indicators were addressed.

We are pleased to report that this year we will be issuing an unqualified opinion on your BVPP. The Council has made significant efforts to ensure that the performance indicators included within the BVPP are accurate largely through a management commissioned review carried out by Internal Audit before our own audit commenced. The Authority needs to introduce a sound quality control system for future performance indicators so that the improvements made in 2002/2003 are maintained.

### **The purpose of this letter**

This is our first joint audit and inspection 'annual letter' for members which incorporates our annual audit letter, and is presented by the Council's Relationship Manager and District Auditor. The letter summarises the conclusions and significant issues arising from our 2002/2003 audit and inspection programme and comments on other current issues.

We have issued separate reports during the year having completed specific aspects of our programme. These reports are listed at Appendix 1 for information.

Auditor's responsibilities are summarised in the Audit Commission's statement of key responsibilities of auditors. The responsibilities of Audit Commission inspectors are detailed in section 10 of the Local Government Act 1999. What we say in this letter should be viewed in the context of that more formal background.

### **Background to the audit and inspection programme**

To ensure that councils receive a tailored seamless service, integrated with the work of other inspectorates, the Audit Commission has appointed a Relationship Manager for each Council. The Relationship Manager is the Commission's primary point of contact with you and is also the interface between the Commission and the other inspectorates, Government Office and other key stakeholders.

Over the last twelve months the Council has been subject to the following significant inspections:

- joint Audit Commission/SSI review of social services
- OFSTED inspection of education services.

In addition, following the Council's CPA assessment last December, attention has been focussed on implementing the comprehensive improvement plan produced to address the weaknesses highlighted by the CPA assessment. Our audit and inspection plan for 2003/2004 has been tailored around this improvement planning process.

## Objectives of audit and inspection

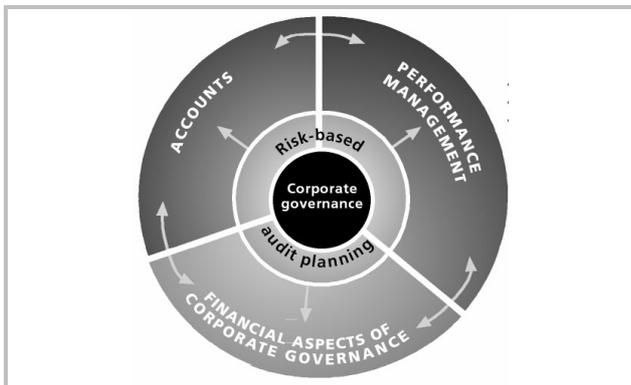
### Audit

Our main objective as your appointed auditor is to plan and carry out an audit that meets the requirements of the Code of Audit Practice. We adopt a risk-based approach to planning our audit, and our audit work has focused on your significant financial and operational risks that are relevant to our audit responsibilities.

Central to our audit are your corporate governance arrangements. Our audit is then structured around the three elements of our responsibilities as set out in the Code and shown in Exhibit 1.

#### EXHIBIT 1

#### The three main elements of our audit objectives



#### Accounts

- Opinion.

#### Financial aspects of corporate governance

- Financial standing
- Systems of internal financial control
- Standards of financial conduct & the prevention and detection of fraud and corruption
- Legality of transactions.

### Performance management

- Use of resources
- Performance information
- Best Value Performance Plan.

### Inspection

Inspection work is based around section 10 of the Local Government Act 1999, which requires us to carry out inspections and deliver reports that will:

- enable the Council and the public to judge whether Best Value is being delivered
- enable the Council to assess how well it is doing
- enable the Government to assess how well its policies are being implemented
- identify failing services where remedial action may be necessary.

The main inspection activity relating to 2002/2003 was mostly completed in time to feed into last year's CPA assessment. However, a follow up inspection of the Council's Best Value processes was undertaken in April 2003 and an inspection of planning services was published in August 2003.

## Council performance

*Over the last year some of Salford Council's services have not delivered improvements, for example the management of council houses remains a cause for concern.*

*More positively, the Council has been short listed for national recognition for its housing benefits and support services to vulnerable people. The Council's relationships with partners have increased its ability to provide services, for example successful community safety and regeneration partnerships.*

*The Council is committed to improving services and there is progress in a number of areas. For example the Council has put plans in place to improve education services and we expect to see measurable improvements in the next 12 months.*

*Salford Council now needs to focus on increasing the level of support and leadership provided to service areas to ensure more consistent improvement. The Council has put plans in place to do this and we will be monitoring progress over the coming year*

**CPA scorecard**

The Audit Commission’s role in CPA is to form a judgement on the performance and proven corporate capacity of local authorities.

Updated judgements for all single tier authorities and county councils were published by the Audit Commission in a ‘balanced scorecard’ on 18 December 2003. The results of Salford’s assessment are detailed below:

Element	Assessment
<b>Overall</b>	<b>Weak</b>
Current performance	Out of 4
• education	2
• social care (children)	2
• social care (adults)	3
• environment	2
• housing	1
• libraries and leisure	2
• use of resources	3
• benefits.	4
Capacity to improve (not reassessed in 2003)	2 out of 4

**CPA improvement report**

**Purpose**

A clear purpose behind CPA is to encourage authorities to improve service delivery. To this end the 2003 CPA update has included an assessment of the Council’s progress against their agenda for improvement and our findings, as summarised on the published scorecard, are outlined in more detail below.

**Priorities**

The Corporate Assessment findings in 2002 identified a need for the Council to strengthen its corporate direction and provide greater clarity around its priorities for development. The Council has worked hard to address this through:

- the new leader – who is actively focussed on ensuring that members are more strategically focussed, setting out a Cabinet Work Plan and priorities documents for 2003/2004 with 3 main themes:
  - making services better reflect the needs of the people
  - increasing member and public participation
  - raising the profile of the City, to which the ‘IN Salford’ brand should play a major part
- the BVPP – this has been used to bring together the many sources of priorities, as well as recognising the improvement priorities arising from the CPA 2002 process.

Work has now started to build on this to:

- clarify how all these sources of influence are condensed into a single overarching set of priorities that can be easily understood by all
- match these priorities to SMART targets for improvement against which performance can be easily measured and reported.

In doing this the Council intends to build on its success in regard to the Community plan and associated Community Action Plans. The Council also plans to ensure that all plans are aligned with the Community Plan themes.

**Ambition**

The Council remains clear and strong on its overall ambitions which have been further developed during the year around a vision of Salford as ‘The City of Choice’ and a jointly developed image with partners around ‘IN Salford’. These ambitions are linked to reality with evidence of concrete progress around the development plans for Central Salford including the involvement of large scale investors.

### Future plans

Future plans have been refocused to address the improvement agenda. Community input is encouraged, the new Unitary Development Plan (UDP) had benefited from a lot of community input and is intrinsically linked to the Neighbourhood Renewal Strategy and the Community Plan.

### Focus

The Council recognises the importance of service plans which reflect reviews in ensuring that focus on improvement priorities is maintained. For example, the action plans arising from the recent AC/SSI Joint Review of Social Services have been translated into the basis of the department's service plan.

The Council is committed to community engagement and is in the process of completing a Best Value Review of this which we will inspect in the New Year. A Quality of Life Survey has recently been completed which should provide some useful evidence on citizen's perceptions of how effectively Salford is responding to their needs and priorities.

Cross cutting issues are being addressed through the various cross cutting portfolios around crime and community safety and children and young people. A recent report from HMI of Constabulary commented that partnership working across the Salford area was outstanding. At the same time the Council is working closely with its health partners to implement innovative ways of integrated service delivery through the Local Initiative Finance Trust (LIFT) project combining health care and a whole range of council services through local centres with a single access point.

### Capacity

A number of capacity issues were highlighted as part of last years CA particularly at the corporate level. The Council has accepted that this is an issue and has started to address this, in particular it has agreed a proposal from IDeA, (utilising some of the Government's capacity building support) to provide support to key officers and members. IDeA's input has been delayed but from a review of the proposals it should be helpful in supporting leading officers and members as they progress the Council's improvement agenda.

Recognising its own financial constraints the Council is seeking additional capacity in more innovative ways including the proposal to establish a Central Salford Special Purpose Vehicle to draw in additional resources to fund the ambitious plans for the area, the proposal to enter into a Joint Venture Company for all Development Services to improve capacity and the skills base. Work in partnership with Cobbetts has already increased the legal capacity of the Council.

### Performance management

The Council's performance management framework is appropriate and performance management is improving as highlighted in our recent review.

We identified a few areas where further improvements could be made, in particular:

- realistic targets need to be set across all service areas
- corporate objectives need to be given the same attention at directorate level as the directorates own objectives
- systems for appraisal and personal development need to be applied more consistently
- the Council needs to explore further opportunities for learning between service areas.

Further work is also required to link PIs to the Council's priorities to ensure that the management information available allows the Council to draw a conclusion as to the extent to which the priorities and targets are being achieved.

## Achievement

In determining the Council's achievements over the last 12 months we have considered the evidence provided by:

- a review of the 2002/2003 performance indicators including a comparison against other authorities as well as an evaluation of year on year performance
- any relevant reports from external inspectorates
- relevant output from our performance work
- the Council's own self assessment, progress reports and other documentation.

The key points are summarised below. It is worth noting that for the first time the Council can now demonstrate a clear understanding of why they haven't achieved the hoped for improvements in some areas and comparator action plans have been developed for each PI which identifies the barriers to improvement and what action can be taken to address these.

## Education

Whilst Education PIs show marginal improvement overall year on year, over 50% are in the worst quartile including the key PI linked to the pledges around GCSE scores.

The recent Ofsted inspection report concluded that overall the LEA is satisfactory which is lower than the assessment of highly satisfactory given by the last inspection in 2000.

However, as well as identifying areas for further improvement it went on to recognise that there is strong evidence that the Council has significantly enhanced their capacity to drive forward the improvement agenda in Education since the appointment of the new Director 18 months ago. For example:

- leadership and direction has been enhanced
- the strategy for inclusion, including special educational needs has been overhauled
- the restructuring of the advisory and improvement service has fundamentally improved the LEA's capacity to assist schools.

There is evidence of robust plans in place to drive improvement in education although this has yet to translate into improvements in attainment.

## Social care

Social care PIs show overall improvement year on year with over 50% of indicators in the top 40% of authorities.

The very positive joint AC/SSI review of social services concluded that Salford is serving most people well with promising prospects for improvement. The review identified two key strengths in the delivery of services:

- an established policy for the inclusion of users and carers which ensures a voice for them in most areas of service delivery
- sound professional practice in both child care and adult services.

Following the self assessment of the Council's child protection and assessment procedures the Council is working to further develop the necessary monitoring and auditing systems to demonstrate the effectiveness of its assessment process.

## Housing

Housing services under the Arms Length Management Organisation (ALMO) have struggled to make the anticipated improvements required following the zero star inspection in 2002. Management problems have undermined attempts to address the fundamental weaknesses within the service and a stable management team has yet to be established.

Our review of progress during the year which is outlined in more detail later in this letter concluded that the service remained a cause for concern.

Members took a difficult decision in withdrawing the ALMO from Round 2 of the Government's scheme for additional financing. In doing this they recognised the need for further work to address the fundamental weaknesses within the service before they could hope to meet the necessary standard to release the promised £53m funding.

Efforts must now concentrate on planning a sustainable future for housing and the best mechanisms by which the Council and the ALMO are going to be able to meet the Governments Decent Homes Standard.

## Regeneration

The regeneration agenda continues to underpin the Council's priorities as evidenced by its success in partnership with Manchester City Council, in being the first to achieve approval for its housing market renewal pathfinder bid bringing additional investment of around £48m into Salford.

## Other achievements

Other specific achievements include:

- further improvements to development and planning services as recognised by the 2 star inspection
- modernisation of the refuse collection service and the introduction of kerbside recycling collection
- extension of successful (charter marked) call centre services to cover Housing services and 60 call centre staff awarded NVQs in customer care
- substantially reduced waiting lists for occupational therapy, equipment and wheelchair services
- multi-agency approach to help improve educational attainment of looked after children starting to produce results.

## Looking to the future

The Council is committed to continuous improvement and it is having an impact in a number of areas although further work is necessary for this to be recognised under the CPA process.

The recent move to clarify priorities and match these to targets should ensure more consistent improvement in services.

Salford now needs to focus on corporate capacity improvements and the significant agenda still facing Housing. The Council has put plans in place to do this and we will be monitoring progress over the next twelve months.

## Other performance work

### Progress review of Housing Service improvement plan

Following the zero star housing inspection in June 2002 the Council, in partnership with New Prospect Housing Limited (NPHL), developed a Service Improvement Plan (SIP) to progress the housing management function from its current rating of 'poor' to achieve a 'good' two star rating.

We agreed, at the request of the Council, to conduct an independent review of progress on the SIP. The project was to be carried out in two phases - phase one reporting on progress to the end of January 2003 and phase two reporting progress to the end of June 2003.

Our review to the end of January 2003 showed that although many of the tasks in the SIP were underway, many were delayed and target completion dates missed. At this stage there were few signs of identifiable service improvements. Some essential building blocks had started to take shape but had not had an impact on services.

We also suggested that:

- the SIP needed to re-focus on key service improvements and to develop appropriate actions and milestones
- there needed to be a clear sense of vision, purpose and direction for NPHL so that the Board, senior managers, staff and tenants understood the direction of the organisation
- this vision should be communicated to staff on a regular face to face basis to ensure that the consequences of not delivering service improvements were clearly spelt out
- monitoring of SIP progress by the Board and the Council needed to be improved and strengthened.

In addition, as part of our review, we provided support to the NPHL Board through training sessions to help to improve their role in driving performance improvement.

We did not undertake the second phase of our work in June 2003 because it was felt that, given the problems we identified in January 2003, there had been insufficient time to make noticeable improvements. In addition there had been many other changes within NPHL which meant that introducing another review was considered inappropriate as all efforts needed to concentrate on making the required changes.

The compulsory re-inspection of the housing service is in progress and will be reported in the New Year.

### **Risk management**

Risk management is a key element of the Authority's corporate governance arrangements. Last year the Council agreed an action plan for taking risk management forward. We followed up progress against the action plan as part of the current year's audit. We found that good progress had been made in the following areas:

- a corporate risk register has been compiled and agreed by Directors and Cabinet
- risk management has been the subject of reports to Cabinet and the Quality and Performance Scrutiny Committee
- initial training has been provided for elected members, although take up was limited
- a system which provides Directors with quarterly updates on risk management has been introduced
- a risk management strategy and toolkit have been developed
- directorate workshops to identify risks and controls have taken place
- the Corporate Governance and Risk Management Group has been set up.

The above progress has put a risk management framework in place for the Council, the challenge now is to move from policy or theory, into practice. Moving to a culture where risk management informs decision-making and all aspects of management (including planning and performance management) is a long-term undertaking. The key requirement for achieving this culture change is awareness and understanding by all staff of the benefits – for service users, staff and the organisation as a whole – both at officer and member level. If staff throughout the organisation are to become committed to the changes in culture they need to be clear about the purpose and involved in the implementation.

In addition to following up progress on the action plan we have worked with Internal Audit during the year to raise the profile of risk management. We did this by contributing to directorate workshops and through presentations to the Cabinet and Corporate Governance and Risk Management Group. We will continue to monitor the progress on risk management in 2003/2004.

### **Health Act flexibilities**

Under Section 31 of the Health Act 1999, partnership working between local authorities and health agencies is encouraged. The Act makes available three alternative ways in which services can be delivered as follows:

- pooled budgets
- integrated provision
- lead commissioning.

The Council has entered into an agreement to develop an integrated mental health service with Bolton, Salford and Trafford Mental Health NHS Trust with effect from 1 April 2003. At this stage a pooled budget is not being established, but this option remains for the future. In June 2003, we reviewed the progress made in developing the integrated service and found that a formal partnership agreement existed, and there was clarity around the aims and objectives of the service. There was a clear commitment to improving outcomes for service users and some of the complex issues around effective partnership working were being addressed.

At this stage, the partnership has brought together the mental health functions of the two organisations. However, a number of key issues relating to the commissioning role remain outstanding and the Partnership will need to address these areas soon to ensure that it operates effectively. In addition, the integrated service will need to agree on one performance management system.

We produced a summary report identifying the Council's progress against the Audit Commissions Health Act Flexibilities checklist. This provides a snapshot as at June 2003 and identifies some key issues that need to be addressed. We intend to monitor progress on these and will be completing a follow up review in March 2004.

### Local public service agreement

The Council has entered into a Local Public Service Agreement (LPSA) with the government under which it will receive significant additional resources if certain improvements in performance are achieved.

During the year we have liaised with the Council to monitor developments in the following areas:

- final action plans
- performance monitoring arrangements
- current performance.

We have made some suggestions for improvement based on good practice elsewhere. We will continue to work with the Authority as the LPSA develops over the coming months.

### Other Audit Commission inspections

#### Best value processes re-assessment

In March 2002, the Audit Commission produced a report on the Council's use of the Best Value process to drive improvements. The report concluded that the Council had not made the most of Best Value and that there was a need for stronger leadership from the corporate management team, improved performance management systems and improved processes to conduct reviews.

In April 2003 we undertook an assessment of progress made against the recommendations. We concluded that the Council had taken on board the report's recommendations and has substantially implemented them. There is now evidence of effective use being made of Best Value to help achieve improved services. The key changes are:

- Cabinet now takes an active part in the improvement process and a lead Councillor has responsibility for each individual review
- Directors champion individual reviews and are now supporting review team leaders where required
- the Council's procurement policy encourages managers to explore all options in the interests of improving services and a wide range of service delivery types are now in use or are being actively explored across the Council
- the challenge process during reviews is now more robust, with involvement of scrutiny chairs, the chief executive and other directors as well as greater use of external 'critical friends' and consultants
- review team leaders now review service areas they have responsibility for and greater ownership of review outcomes is being achieved as a result
- performance management is stronger with a clear focus at directors' meetings, at quarterly performance meetings and at cabinet.

#### Planning services inspection

We carried out a full inspection of planning services in June 2003. We assessed the Council as providing a **good**, two-star service that has **promising** prospects for improvement.

The service was judged good because there are many strengths including:

- the Council is making a significant impact on regenerating and sustaining communities across the city
- planning services take a proactive, multi-disciplinary approach to promoting and supporting new development
- the Council is providing a generally good standard of customer service for users of planning services
- the Council's performance for planning services is better than average compared to that of similar councils.

Areas of weaker performance include:

- the environmental impact of development has not been a high priority
- efficiency is hampered because service and business planning and prioritisation is not well developed
- the process of making decisions through the Planning and Transportation and Regulatory Panel is confusing and inaccessible to the public.

The prospects of improvement are **promising** because there are more strengths than weaknesses, including a track record of improvement within planning services and the fact that improvement plans cover many of the actions necessary to take the service forward over the next few years. However, the Council has limited resources to fulfil these planned improvements without further developing its work with partners.

### Upstreaming work

As part of the improvement planning work following on from CPA we are carrying out some upstreaming work to support the Best Value reviews of Youth Services and Culture, Heritage and Arts Development which are being undertaken as part of the Council's 2003 Best Value review programme.

### Youth services Best Value review

The purpose of this work was to support the Council and the Best Value review project team in planning, scoping and carrying out the review and to facilitate the transfer of this learning to future reviews. Our initial work focused on the planning and scope of the review, including attending the visioning day held in June 2003. Following this we produced a summary report setting out the key issues that emerged and some suggested actions for strengthening the review. These focused on the scope, collection of baseline information, the review team and the planned use of the 4Cs.

The next stage of our work was conducted after the team had completed the baseline research and analysis of the 4Cs. This included providing challenge to this work and input to the challenge day. The key issues which emerged from this included the need to:

- ensure that all the data collected as part of the review was turned into useful information
- present the final report in a more outward facing manner giving emphasis to the Council's role as community leader and the key outcomes for service users
- conduct a gap analysis as part of completing the compare work of the 4Cs
- engage members so that their awareness of the role the Youth Service can play in relation to the corporate priority for young people can be raised and discussions can take place about the relative priority it has within the Council as a whole.

We completed our work through input to the final challenge day at the end of October. A significant amount of work had been completed since the first challenge day with the remaining work being the production of the Best Value report. Several suggestions were agreed around the scope and structure of this report to help make it a success.

To conclude our work the Best Value lead for the review is evaluating the learning from the process and will report on this in December. This will be aimed at establishing the lessons learnt so that they can be shared via the Council's Best Value steering group to assist the Council with future reviews.

### **Culture, heritage and arts development Best Value review**

As well as sharing learning the aim of our support to this review was to provide challenge to the Council to help it achieve:

- clarity about the strategic role of culture
- the right balance in the Best Value review between taking a corporate, strategic perspective on culture and maintaining a manageable review focused on real improvements.

Our input so far has focused on the preparation stage of the Best Value review and we produced a report summarising key findings arising from this, including the visioning workshop held in September 2003. This included recommendations for the review team to:

- assess the current state of cultural provision in Salford, by the Council and by the private and voluntary sectors
- articulate a succinct and ambitious statement of the Council's vision for culture, so that staff and partners are clear about what the Council is aiming to achieve through its investment in culture.

Also that the review team consider as part of the review:

- how best to balance membership of a wider group of organisations in Greater Manchester with the need to promote a positive and welcoming image for the City
- the efficacy of existing advocacy and leadership arrangements for culture in the Council and various options for strengthening this role
- the ways in which the Council might strengthen its corporate approach to culture and ensure that partnership arrangements are making measurable contribution to its priorities.

The next stage of our work will be in early 2004 at the options challenge stage. This will cover the way the review has been carried out, the use of the 4Cs and the option appraisals and evaluations prior to the production of the improvement plan.

### **Future of CPA**

The Audit Commission has consulted on the future arrangements for CPA and has concluded that it will be developed by:

- the introduction of a new CPA framework in 2005/2006 and again in 2010, that enables assessments to be made in the context of an agreed set of local and national policy priorities
- the release of annual improvement reports in December 2003 and December 2004.

The CPA programme from January 2005 will seek to understand the impact of the Council in their locality, and to recognise the leverage, co-ordination and leadership the Council provides to achieve a wider improvement agenda.

The precise shape and nature of this approach has yet to be finalised, though the Commission has recognised the need to agree the strategy for improvement reporting after 2004, leading up to a further re-assessment from 2010.

## **Financial aspects of corporate governance**

### **Financial standing**

*The Council has made good progress in putting its financial standing back on a sound footing. The two main areas still to be addressed are the need to further increase the level of general fund reserves together with the return to revenue of 'grey' areas of expenditure that are currently being capitalised. Achieving these outstanding aims is going to be challenging given the difficult financial climate.*

### **Financial standing - revenue**

The Council is in the process of restoring its general reserves to a reasonable level following the problems experienced approximately four years ago when reserves were eliminated by a call upon them to meet the additional costs of looked after children.

Over the last three years balances have gradually increased to £5m at 31 March 2003. In addition there is a provision within the 2003/2004 budget to increase them by a further £1m to £6m by 31 March 2004. The Council is to be congratulated on the improvement in this area particularly given the difficult financial climate in recent years.

The current medium term financial strategy aims to increase the general reserves further to £8m (3% of revenue expenditure) by 31 March 2007. This is the level that we have suggested in the past as being appropriate.

The initial predictions for the 2004/2005 budget are that efficiency savings of £2.2m will have to be made. In addition, the medium term financial strategy anticipates that the Council will have to make savings of approximately £10m in 2005/2006 and £4m in 2006/2007 to contain expenditure within resources.

Furthermore the most recent budget monitoring report for 2003/2004 has identified a need for additional resources in Social Services of £1.2m due to the increased cost of external placements for children in care and increased demand for home care services. The Council is confident that it can meet these costs in 2003/2004 and still achieve the planned contribution to reserves due to 'one off' windfall gains in the year. However, the ongoing impact of the increased demand is likely to require a further £1.9m of resources, in addition to those already identified, to be found from 2004/2005 onwards. Notwithstanding these difficulties we understand that the Council is close to identifying a balanced budget for 2004/2005.

The above factors clearly indicate that the financial climate for the foreseeable future is going to remain tight. However, although we acknowledge the difficulties, we would stress the importance of continuing with the medium term financial strategy to restore the Council's financial health to a sound footing.

#### **Financial standing – capital**

The Council has a 2003/2004 capital programme of £89m. It is encouraging to note that some of our concerns over the risks inherent in previous capital programmes have now been addressed through:

- careful monitoring of capital contracts by the appropriate Lead Member, Service Director and Lead Member for Corporate Services to ensure that contractual commitments are only entered into when funding has been identified
- less reliance in the programme on significant levels of capital receipts
- closer monitoring of the realisation of capital receipts.

One area that continues to cause concern is the capitalisation of 'grey' areas of expenditure where there is some discretion as to whether this is classed as capital or revenue. Currently the Council is capitalising approximately £4m of expenditure that was previously charged to revenue to ease pressures on the revenue budget. However in the medium term financial strategy, it is recognised that this is a temporary measure. The strategy contains proposals to 'decapitalise' over two years commencing in 2004/2005.

It is important to implement this strategy for the following reasons:

- the continued capitalisation of 'grey' areas is supporting the revenue budget and hiding the true underlying revenue position
- these capitalisations are utilising a significant amount of capital resources that could be better used for other purposes.

Once again we recognise that, given the financial climate described in the previous section, adhering to the strategic plan is going to be difficult. Nevertheless, as resolution of this issue is essential to the Council's long-term financial stability, we would emphasise the importance of implementing the proposals contained in the medium term financial strategy.

#### **Financial standing – housing revenue account**

The Housing Revenue Account (HRA) had a balance of £6.6m at 31 March 2003. However a significant amount of this balance is committed for use in 2003/2004 on capital schemes that have slipped in previous years. This, together with two other areas of expenditure that have arisen in the year, mean that the latest estimate of HRA balances at 31 March 2004 is £1.596m or 1.4% of expenditure.

In the past we have recommended that the Council should retain a working balance on the HRA of 3% of gross expenditure which equates to approximately £3.5m. The Council agrees that this is a reasonable level of reserve to hold to meet any unforeseen circumstances that might arise. Consequently there are plans to reinstate balances to an appropriate level during 2004/2005 from using the proceeds of the extra rent week falling in that year. We support these proposals.

## Systems of internal financial control

*Internal Audit has implemented many of our past recommendations. At the time of our review there were problems with the speed of management responses to some of Internal Audit's reports although this has since been addressed. Follow up of our previous report on income collection shows that improvements have been made.*

### Internal Audit

It is the Authority's responsibility to put in place systems of internal financial control and monitor their adequacy and effectiveness in practice. Internal Audit is central to this process.

Last year we carried out a detailed review of the Council's Internal Audit Section and concluded that it complied with statutory guidance and professional standards. We also found many examples of good practice. We made some recommendations for improvement, the main ones being to ensure that:

- management responded promptly to Internal Audit's reports
- coverage of the key financial controls was sufficient to ensure that they had been operating throughout the whole year.

We followed up progress this year and found that in most areas our recommendations had been either implemented or were in the process of being implemented. In particular Internal Audit had made considerable efforts, including the employment of agency staff, to ensure that all key financial systems were examined during 2002/2003.

Our remaining concern was that the speed of management response to some reports, particularly those on the new financial systems, was still slow. We understand that since our follow up work, the management responses to more recent Internal Audit reports have been much speedier.

### Collection of income

During 2002/2003 we also followed up progress on our previous review of the Council's performance in collecting sundry debtors and council tax. We re-visited this area to ascertain whether the recommendations had been implemented and, if so, what impact they have had on the level of arrears.

We found that in both areas the Council had implemented many of our recommendations including:

- preparing a draft strategy document outlining details of how the regular recovery operations should be performed
- increasing payment options and locations
- tightening the times between the various recovery stages
- extending the use of external debt recovery agents
- writing off significant amounts of irrecoverable debt.

With regard to the impact on the level of arrears we found improved performance in both areas although this was more marked in sundry debtors than council tax. The underlying level of sundry debts had reduced by £2.85m since our original report and debt over 30 days had halved. This is a significant achievement. In contrast the council tax arrears had increased by approximately £2m since our initial review through the addition of new arrears from 2001/2002 and 2002/2003. However the earlier year's arrears had reduced by at least 30% over the period and the in year collection rate had increased albeit by a relatively small percentage from 88.8% to 90.7%.

We have made some recommendations for further improvement although, in the case of council tax, implementing a number of these will depend upon the introduction of a new computerised system in 2005.

## Standards of financial conduct & prevention and detection of fraud and corruption

*The Council has implemented most of our recommendations on the registering of interests, gifts and hospitality. An improved procedure for monitoring fraud and other similar investigations has recently been introduced.*

The Authority must ensure that its affairs are managed in accordance with proper standards of conduct. In addition there should be arrangements for the prevention, detection and investigation of fraud and corruption. This year we continued to review the Authority's arrangements in these areas. In particular we followed up progress on the recommendations from last year's report on interests, gifts and hospitality.

We found that in the main the recommendations had been implemented. The Council is currently introducing an on-line registration system which should significantly improve the efficiency of the process.

We are also pleased to note that, following a recent ombudsman's report, the Council is introducing a new procedure for monitoring fraud and other similar investigations through an independent panel. This should significantly improve the arrangements and help to ensure consistency of treatment across the whole organisation.

### National fraud initiative

The National Fraud Initiative (NFI) is the Audit Commission's data matching exercise. Its main aim is to help identify and reduce housing benefit fraud, occupational pension fraud, tenancy fraud and payroll fraud. The NFI is carried out every two years and data matches were provided to you early in 2003/2004.

We found that the Benefit Fraud Unit was dealing well with the data matches requiring investigation but other sections were not as active with their matches. However since our initial review there have been some improvements in the actions that are being taken. The Payroll Section in particular has employed additional temporary staff to process the potential fraud cases relating to employees.

## Legality of transactions

*The Council has strengthened its overall arrangements for identifying potential legal issues. Legal and directorate staff should now ensure that these are applied in practice.*

We reviewed the Council's overall arrangements for monitoring the legality of its transactions. Towards the end of 2002 the Head of Law strengthened the arrangements by nominating specific legal officers to liaise with directorates and to review their agendas for potential legal issues. Detailed testing of the new arrangements revealed that, whilst they are generally being applied, some issues are being taken forward without the required legal input. We would therefore stress the importance of re-emphasising to legal and directorate staff the need to adhere to the new procedures.

We understand that the Head of Law has since strengthened the arrangements further by changing the role of the committee administration staff so that they focus on the more significant meetings and become 'custodians of the constitution'. This role will include holding a watching brief for any potential legal issues. We support these developments.

During the year we also reviewed a number of specific legal issues including:

- transfer of leisure centres to a non-profit distributing organisation (NPDO)
- proposals to establish a joint venture for delivering development services
- the Council's involvement in the Local Initiative Finance Trust (LIFT).

In each of these areas we have highlighted potential issues or risks that have subsequently been taken into account by the Authority when taking the matters forward. We will continue to monitor these areas as they develop further over the coming months.

## Audit assurance work

### Accounts

*We issued an unqualified opinion on the statement of accounts in December 2003. We found that, as part of the 2002/2003 accounts, progress had been made on addressing a number of past problems.*

The final accounts were available for audit on 18 August 2003 which was two weeks ahead of last year and in advance of the Authority's own target of 31 August 2003. In addition a number of on-going problems from previous years had been addressed in the 2002/2003 accounts including:

- the reconciliation of internal debtors and creditors
- increasing in the bad debts provision for sundry debtors to an adequate level
- ensuring that, on the whole, grant debtors in the accounts agree to the claims submitted to the government departments.

We also found that although the bank account had not been reconciled regularly throughout 2002/2003, the reconciliation had been brought up to date as part of the year end processes. Furthermore with the introduction of a new cash receipting system in 2003/2004, the bank reconciliation for the current year is now up to date.

The Council is to be congratulated on the improvements in the timeliness and quality of its financial accounts.

### Reporting to the Council

There is a new auditing standard which applies to our audit of your accounts - Statement of Auditing Standard (SAS) 610 'Reporting to those charged with governance'. This requires us to report issues arising from our audit, to members, in your Council's case the Accounts Committee, before we give our audit opinion on your financial statements.

In previous years we have discussed such issues with officers rather than members, but the SAS encourages openness and accountability by ensuring that members take responsibility for the Council's accounts.

We reported to the Accounts Committee under SAS 610 on 3 December 2003. The significant matters we reported were that:

- there was a misstatement in the financial statements in relation to the capitalisation of £567,000 of 'grey' areas of expenditure where we thought the Authority had gone beyond what could reasonably be classed as capital
- the bad debt provision for council tax is insufficient and the Council is aiming to increase it to the required level by 31 March 2005 by declaring a deficit of £1m on the collection fund for 2003/2004
- there was an imbalance of £489,000 at 31 March 2003 between the rent rebates expenditure recorded in the housing benefits system and the rent rebates expenditure figure in the rents system. The Council has been prudent when compiling the accounts and has included the figure from the rents system which is the lower of the two.

With regard to the capitalisation of 'grey' areas, prior to the closure of the accounts, we carried out a review of the Council's capital proposals to help to minimise the queries we had in this area during the final accounts audit. As a result of this exercise we agreed that £340,000 of proposed capitalisations would be charged to revenue instead. This assisted our year end audit although, as outlined above, we identified a further £567,000 of capitalisations that we felt should be charged to revenue. As officers disagreed with our interpretation we asked the Accounts Committee to either:

- adjust the financial statements for this misstatement
- provide us with a letter of representation explaining why the financial statements were not going to be adjusted.

Members decided to amend the accounts for the expenditure related to PFI consultants fees and asset management salaries (£439,000) but left the expenditure relating to survey fees (£128,000) unaltered. As the accounts included revenue contributions to capital the above adjustments will not impact on the overall financial position of the Council. It was also agreed that further guidance on the treatment of the items in question would be sought for future years.

As the Council is not planning to stop capitalising these 'grey' areas until 2004/2005 we will be undertaking a similar review of the Council's 2003/2004 capital proposals early in 2004.

Since the accounts were prepared the Council has been working to reconcile the £489,000 imbalance and the latest view is that the figure in the housing benefits system is correct. If this is the case, the Council could be entitled to an additional £489,000 housing subsidy grant which would further help to restore HRA balances to an adequate level. We will be examining the reconciliation as part of the housing subsidy grant claim audit before the end of December 2003.

### **Best Value performance plan (BVPP) audit**

*We have issued an unqualified opinion on the Council's 2003/2004 BVPP as it is compliant in all respects with legislation. The accuracy of the performance indicators included with the BVPP has improved significantly when compared to previous years.*

We have commented in detail on your arrangements to comply with Best Value in the earlier section 'Council Performance'. Having completed our statutory audit of your 2003/2004 Best Value Performance Plan we report to you our opinion and statutory BVPP report. These are included in this letter at Appendix 2 and show that we have issued an unqualified opinion on the BVPP.

This year only one indicator was omitted from the BVPP due to circumstances beyond the Council's control as it related to crime figures that had not been supplied by the Police Authority. Furthermore our testing of a sample of indicators showed that their accuracy was much improved when compared to previous years. This is illustrated by the number of Best Value performance indicators (BVPIs) marked as 'reserved' in our Auditors' Report on BVPIs to the Audit Commission. Last year 14 BVPIs were reserved whereas this year only 2 had a reservation. The Council already has plans to improve the system for collecting data for these 2 reserved indicators.

The improved accuracy of the performance indicators is largely due to a management commissioned Internal Audit review prior to our own audit whereby Internal Audit checked that directorate officers were using the correct performance indicator definitions and had retained the information needed for the calculations. It is important that the Authority introduces a sound quality assurance system for future performance indicators so that the improvements made in 2002/2003 are maintained. We understand that officers are currently considering how this issue might best be addressed.

## Audit and inspection fees

The table below sets out our latest estimate of the actual fee for 2002/2003 on the basis that work remains in progress, together with explanations where there are variances.

### EXHIBIT 2

Audit area	Plan 2002/2003	Anticipated actual 2002/2003
Accounts	£63,402	£63,402
Financial aspects of corporate governance	£65,935	£65,935
Performance	£66,019	£66,019
TOTAL CODE OF AUDIT PRACTICE AUDIT FEE	£195,356	£195,356
Inspection (1)	Nil	Nil
Additional s35 work	Nil	Nil
Certification of grant claims (2)	£80,500	£80,500
TOTAL AUDIT FEE	£275,856	£275,856

- (1) Inspection fees for 2002/2003 were all covered by the charge paid in 2002.
- (2) The grant claim audit continues until the end of 2003 and the actual fee reported is our current estimate of the likely fee for the 2002/2003 certification work.

## Strategic regulation: future audit and inspection work

Strategic Regulation contributes to improvement in public services by ensuring that regulators collaborate to identify each council's priorities for improvement, and provide assessments that are useful to managers, professionals, politicians and the public.

For the first time we have brought together co-ordinated audit and inspection plans that make clear how our work supports the improvement agenda of each single tier and county council. These plans are now available on the Audit Commission website.

Our joint audit and inspection plan for 2003/2004 was presented to the Audit Scrutiny Committee following close working with officers and members. We have developed a programme of work that is proportionate to both the Council's risks and its performance as assessed through CPA. We have structured our work programme across the following themes that help to clarify the purpose of our work:

- Assessment
- Improvement
- Assurance.

The key areas of work programmed for 2003/2004 are:

- re-inspection of housing services in December 2003 after the 'zero' star rating
- policy into practice project whereby we will work alongside IDEa to help the Council's developments in this area
- review the progress made in implementing measures to build capacity at senior officer and member level
- inspection of community engagement Best Value review
- inspection of development and building control Best Value review. This has already been completed and is reported earlier in this letter
- staged inspections of youth and culture, arts and heritage Best Value results which, as outline earlier, are currently on-going.

Audit and Inspection planning for 2004/2005, linked to your improvement plan, will be carried out in early 2004.

## Status of our Audit and Inspection Annual Letter

Our Annual Letter is prepared in the context of the Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission. The Letter is prepared by the Relationship Manager and District Auditor and is addressed to Members and officers. It is prepared for the sole use of the audited body, and no responsibility is taken by auditors to any Director or officer in their individual capacity, or to any third party.

## Closing remarks

This Letter will be discussed and agreed with senior officers. A copy of the Letter will be provided to all Members and will be presented to the Cabinet and Audit Scrutiny Committee in January 2004.

Finally, I would like to take this opportunity to express my appreciation for the assistance and co-operation provided during the course of the work. Our aim is to deliver a high standard of audit and inspection which makes a positive and practical contribution which supports the Council's improvement agenda. We recognise the value of your co-operation and support.



Sue Sunderland  
District Auditor and  
Relationship Manager

18 December 2003

**Audit and Inspection reports issued during 2002/2003**

Audit plan	March 2003
Best Value Processes Re-Assessment	April 2003
Progress Review of Housing Service Improvement Plan	May 2003
Review of Capitalisations	May 2003
Risk Management Follow Up	June 2003
Initial report – Youth Services BV Review	June 2003
Collection of Income Follow Up	July 2003
Interim Audit Memorandum	August 2003
Planning Services Inspection	August 2003
Initial report – Culture, Heritage and Arts Development BV Review	October 2003
Use of Performance Indicators	October 2003
Health Act Flexibilities	November 2003

## Auditor's report to Salford City Council on its Best Value Performance Plan for 2003/2004

### Certificate

I certify that I have audited Salford City Council's Best Value performance plan in accordance with section 7 of the Local Government Act 1999 (the Act) and the Audit Commission's Code of Audit Practice. I also had regard to supplementary guidance issued by the Audit Commission.

### Respective responsibilities of the Council and the Auditor

Under the Act the Council is required to prepare and publish a best value performance plan summarising the Council's assessments of its performance and position in relation to its statutory duty to make arrangements to secure continuous improvement to the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness.

The Council is responsible for the preparation of the plan and for the information and assessments set out within it. The Council is also responsible for establishing appropriate performance management and internal control systems from which the information and assessments in its plan are derived. The form and content of the best value performance plan are prescribed in section 6 of the Act and statutory guidance issued by the Government.

As the Council's auditor, I am required under section 7 of the Act to carry out an audit of the Best Value performance plan, to certify that I have done so, and:

- to report whether I believe that the plan has been prepared and published in accordance with statutory requirements set out in section 6 of the Act and statutory guidance and, where appropriate, recommending how the plan should be amended so as to accord with statutory requirements
- to recommend:
  - where appropriate, procedures to be followed in relation to the plan
  - whether the Audit Commission should carry out a Best Value inspection of the Council/Authority under section 10 of the Act
  - whether the Secretary of State should give a direction under section 15 of the Act.

### Opinion

#### Basis of this opinion

For the purpose of forming my opinion whether the plan was prepared and published in accordance with the legislation and with regard to statutory guidance, I conducted my audit in accordance with the Audit Commission's Code of Audit Practice. In carrying out my audit work, I also had regard to supplementary guidance issued by the Audit Commission.

I planned and performed my work so as to obtain all the information and explanations, which I considered necessary in order to provide an opinion on whether the plan has been prepared and published in accordance with statutory requirements.

In giving my opinion I am not required to form a view on the completeness or accuracy of the information or the realism and achievability of the assessments published by the Council. My work therefore comprised a review and assessment of the plan and, where appropriate, examination on a test basis of relevant evidence, sufficient to satisfy me that the plan includes those matters prescribed in legislation and statutory guidance and that the arrangements for publishing the plan complied with the requirements of the legislation and statutory guidance.

Included in the plan are the Council's estimates for the year ending 31 March 2003. Actual results for the year are likely to be different from the figures reported, because events and circumstances frequently do not occur as expected, and the differences may be material. To the extent that figures included in the plan are estimates, my audit work comprised an assessment as to whether the estimates made by the Council had been properly compiled in all significant respects on the basis of the assumptions stated by the Council, as at the date at which the plan was prepared.

Where I have qualified my audit opinion on the plan I am required to recommend how the plan should be amended so as to comply in all significant respects with the legislation and statutory guidance.

### **Opinion**

In my opinion, Salford City Council has prepared and published its Best Value performance plan in all significant respects in accordance with section 6 of the Local Government Act 1999 and statutory guidance issued by the Government.

I planned and performed my work so as to obtain all the information and explanations that I considered necessary in order to enable me to determine whether or not to make recommendations in this report on the matters that came to my attention during the audit. However, my work cannot be relied upon to identify every weakness or opportunity for improvement. In particular, it has not necessarily covered the same areas as a best value inspection.

For this purpose, my audit included a review and assessment, and where appropriate, examination on a test basis of evidence relevant to the adequacy of the systems set in place by the Council/Authority\* for collecting and recording specified performance information; and the testing of specific performance indicators

### **Recommendations on referral to the Audit Commission/Secretary of State**

I am required each year to recommend whether, on the basis of my audit work, the Audit Commission should carry out a Best Value inspection of the Council or whether the Secretary of State should give a direction.

#### **On the basis of my work:**

- I do not recommend that the Audit Commission should carry out a best value inspection of Salford City Council under section 10 of the Act
- I do not recommend that the Secretary of State should give a direction under section 15 of the Act.

**Signature**



**Date** 18 December 2003