

# Annual Audit and Inspection Letter

## Salford City Council

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## Executive summary

### The purpose of this letter

This is our audit and inspection 'Annual Letter' for members which incorporates the Annual Audit Letter for 2003/04, and is presented by the council's District Auditor and Relationship Manager. The letter summarises the conclusions and significant issues arising from our recent audit and inspections of the council.

We have issued separate reports during the year in line with the programmes which we have agreed with the council. These reports are listed at Appendix 1 for information.

Appendix 2 sets out the scope of audit and inspection.

Appendix 3 provides information about the fees charged.

## Key messages

### Council performance

The council has made improvements in several services over the last year. Refuse collection services have improved and recycling has increased. Effective working with partners has created more jobs and reduced teenage pregnancies and smoking rates.

Burglary, robbery and car theft have also reduced and national recognition has been awarded to housing benefit and support for vulnerable people.

Education and children's social care are improving but progress is slow in some areas. For example, educational attainment at secondary school level needs significant improvement and the number of children placed with foster carers needs to increase.

The council faces a major challenge in reconsidering how to finance the improvements needed to achieve decent housing standards for all by 2010. Despite this housing has improved from a low base and the city's new housing strategy has attained the government standards. If this assessment could have been included in the Comprehensive Performance Assessment (CPA) for 2004, the council's overall assessment would have improved to 'fair'.

Overall, the council's direction of travel is positive and it can point to a number of achievements in its priority areas. Many of these, particularly those relating to regeneration activity, partnership working to reduce crime and improved health are not recognised under the current CPA scoring framework. The areas which carry most weight; education, social care and housing have improved but not significantly enough to impact on the council's overall CPA rating.

The Audit Commission has been consulting on a new framework for CPA for 2005 and beyond. Salford was one of the pilot sites for testing the new methodology. We would like to express our gratitude to the council's members and officers for the positive cooperation and assistance which they provided during the pilot.

### Financial position

The council's overall financial position continues to be sound. Delivering the financial targets in the council's medium-term financial strategy remains key to maintaining this position for the future.

Treasury management issues currently being considered by the relevant bodies could have a significant impact on the council's future financial standing and will need to be carefully examined when the outcome is known.

### Action needed by the council

- Ensure plans to address educational attainment at secondary schools are implemented.
- Continue to develop alternatives to residential care for looked after children.
- Complete stock options appraisal and determine a clear way forward for improving the housing stock.

- Further develop performance management processes, by making use of the 'balanced scorecard' approach which will focus on critical success areas.
- Ensure the human resources strategy is fully implemented across all activities.

## Council performance

In last year's Annual Letter we reported the results of Salford's Comprehensive Performance Assessment (CPA) which was undertaken by the Audit Commission. The Commission's role in CPA is to form a judgement on the performance and proven corporate capacity of local authorities.

The Commission published updated judgements from last year's assessment on 16 December 2004. The published scorecard and summary comments for Salford's assessment are reproduced below.

### CPA Scorecard

Element	Assessment
Overall	Weak
Current performance	out of 4
Education	2
Housing	1
Use of resources	3
Social care (children)	2
Social care (adults)	3
Benefits	4
Environment	3
Libraries and leisure	3
Capacity to improve (not reassessed in 2004)	2 out of 4

(Note: 1=lowest, 4=highest)

The council has made improvements in several services over the last year. Refuse collection services have improved and recycling has increased. Effective working with partners has created more jobs and reduced teenage pregnancies and smoking rates. Burglary, robbery and car theft have also reduced and national recognition has been awarded to housing benefit and support for vulnerable people.

Education and children's social care are improving but progress is slow in some areas. For example, educational attainment at secondary school level needs significant improvement and the number of children placed with foster carers needs to increase. Housing has improved from a low base and the city's new housing strategy has attained the government standards. The council faces a major challenge in reconsidering how to finance the improvements needed to achieve decent housing standards for all by 2010.

The council has improved the way it works through investments in management systems and there are further plans to strengthen this.

Based on Salford council's current plans, the council is well placed to improve the way it works and the services it provides to local people.

### CPA improvement report

The 2004 CPA update includes an assessment of the council's progress against its agenda for improvement. Our findings as summarised on the published scorecard are outlined in more detail below. In July 2004 the council was a pilot site for the new CPA 2005/07 methodology. Where appropriate and agreed with the council we have used findings from the pilot to support our comments in this report.

#### Priorities

The council and its partners have set out clear priorities in the community plan as identified in our 2003 qualitative assessment. This has been built on by:

- development of the council's pledges so that there are now seven pledges which are aligned with the community plan themes and ambitions;
- the identification of priorities for improvement against each of the seven pledges, including setting annual targets against each pledge; and
- widely publicising the pledges throughout the council so that there is a good understanding amongst staff of what the council is trying to achieve and how this links to the pledges.

Local priorities are set out in the community action plans. These clearly link to the community plan themes and have been influenced by local people and stakeholders. However, the committees are not yet fully representative of their communities. The council is starting to address this by building its knowledge through targeted consultation with different groups and the development of neighbourhood management.

The council is clearly committed to a customer focus for driving its ambitions and priorities through its 'Think Customer' initiative. The aim is for future service provision, both within the council and with key partners, to be developed and designed around the customer to provide public services which are highly responsive, accessible and joined up at the point of delivery. The work is progressing via seven pilot projects, for example access to bereavement services and joining-up street scene services.

### Focus

The development of the pledges and associated targets as outlined above will help the council stay focused on its priorities. The council now needs to ensure service plans are consistently effective in integrating priorities as some are aspirational and lack well founded targets.

The council has recently completed a strategic review of its governance arrangements. As a result organisational arrangements are being realigned to provide a more fit-for-purpose structure, greater capacity and focus for the council to effectively deliver its priorities.

The medium-term financial strategy could be more effective as a mechanism for ensuring strategic focus is maintained. Although the council has put considerable effort over the last few years into improving this there is scope for further development. For example, more explicit detail of where resources needed to be shifted in the future in line with priorities and stronger linkages with other key plans and processes like the human resources strategy and service plans.

### Capacity

The council has further developed the skills and capacity it needs to achieve improvement.

For example:

- strengthened political leadership has enabled the council to develop its vision and lead members to have a greater commitment and understanding of their role in strategic and policy decision making;
- further development of the risk management framework which is now embedded in corporate and strategic planning and facilitating decision making at cabinet level;
- improved financial health with the rebuilding of reserves to a reasonable level;
- continued effective use of partnerships to enhance capacity. Partnerships are now beginning to deliver against the community plan (see achievements section below); and
- the development of a revised human resources strategy which is being implemented.

There are still areas where capacity needs further development. These areas are recognised and are being addressed by the council. They include:

- risk management, which now needs to be further embedded at the operational level, for example, within service planning;
- the human resources strategy is not yet fully in place or embedded across all council areas so has yet to realise a significant impact on capacity; and
- a corporate procurement strategy is not yet in place.

### Performance management

Performance management has improved.

For example:

- the work clarifying the pledges and sub-pledges and improved links to actions and targets identified above has addressed a significant weakness;
- there has been a strong drive and leadership from the top to improve performance management. This has provided a clear focus and accountability for directors to manage performance and targets;

- the council has commissioned external support to help drive improvements, for example from the Improvement and Development Agency and the Audit Commission; and
- the development of a performance management framework for the Local Strategic Partnership.

Key areas where performance management still needs to improve include:

- more consistency in application of performance management across the whole council, for example improved ownership of performance data so that it is seen as a tool to help manage performance;
- development of quarterly performance meetings so that they focus more on evaluation of progress towards delivering tangible outcomes rather than progress on service-based performance indicators;
- target setting needs to be more robust. For example, in 2003/04 only 46 per cent of targets were achieved;
- the role of scrutiny in performance management needs to be further developed; and
- performance information presented externally, for example the Best Value Performance Plan, could be more effectively presented by demonstrating how improvements in quality of life are being achieved and where further action is being taken to tackle problem areas.

The council is aware of these issues and has plans to address them, including using external support, as appropriate.

### Learning

The council does learn from experience, for example, learning through use of neighbourhood renewal and other funding to drive changes in mainstream delivery. However, some opportunities are missed and there is scope to develop a more systematic approach to sharing good practice and learning across directorates.

### Achievement

In determining the council's achievements over the last 12 months we have considered these under some key services and key community strategy themes. We have used 2003/04 performance indicators as evidence where appropriate.

A repeat MORI survey was conducted nationally in 2003 to update user satisfaction performance indicators. For Salford these showed that user satisfaction has improved in a number of areas, for example, waste collection services, street cleanliness and public transport. This is against the national trend which has generally shown decreases in user satisfaction.

### Education

Within education, performance has improved for a number of key indicators. For example, GCSE pass rates, performance at Key Stage 2 and 3 and school absence and exclusions rates. Comparative performance has also improved at primary school level where the council is no longer in the lowest quartile for most indicators and has improved to above average for some. However the rate of progress is slower at the secondary school level where comparative performance is still in the lowest quartile for all key indicators.

The council recognises the challenges at the secondary level and has clear plans to address them. There is strong leadership to drive improvement in partnership with schools, a focused school improvement strategy, with a recently appointed secondary school improvement team.

### Social care

There have been improvements in both children's and adults' social services. For example:

- educational outcomes for looked after children and care leavers prospects have improved;
- the council has started developments to integrate children's services with partner agencies in response to 'Every Child Matters';

- the number of looked after children has decreased. This is against a national picture of increases in the area, however overall levels in Salford remain comparatively high;
- significant progress has been made developing and increasing the range of services available for older people to prevent unnecessary hospital admission;
- all adults and older people now receive statements of needs and how they will be met; and
- good joint working with health partners has been further developed with the appointment of a new post with responsibility for joint commissioning.

However, these improvements have not been significant enough to increase the council's star rating from the Commission for Social Care Inspection to three stars. Areas where further improvements are needed include:

- development of alternatives to residential care for looked after children;
- improvements in timeliness of assessments for children and older people; and
- the percentage of carers of people who have a learning disability who have been assessed is relatively low despite recent improvements. The council has set itself a challenging target in this area.

### **Sustainable communities**

There has been good progress in this area and a number of positive achievements.

- Regeneration activity and investment is focused on areas of low employment, poor housing and low quality environment.
- This is producing results. For example, growth in the business services sector is higher than the regional average and over 4,000 jobs have been created in regeneration areas.
- The recent inspection of waste management was very positive judging the service as a good two-star service with excellent prospects for improvement. This highlighted the efficient and effective refuse collection service and street care services that are responsive and accessible to users giving rise to improvements in user satisfaction.

- The Salford housing benefits team won the Institute of Revenues, Rating and Valuation 'Benefits Team of the Year' award and the service has achieved Beacon status.
- Supporting people services have also been awarded Beacon status.

There has been progress in addressing housing, a key area of poor performance in the past. Considerable work has been focused on the development of a robust housing strategy. This has been successful and the strategy was declared 'Fit for Purpose' by the Government Office North West in October 2004. If this could have been taken into account by the CPA model, the council's CPA rating would have improved to 'fair'.

The re-inspection of housing which was reported in early 2004, also showed an improvement to a one star service. A number of performance indicators have also improved, for example, responsive repairs.

The key challenge for the council now is to identify how it will meet the investment to reach decent homes standards with at present 68 per cent of its stock not meeting required standards. The council is currently conducting a stock options appraisal including consultation with tenants. It is essential that a clear decision is taken soon so that improvements in the housing stock are not delayed any longer.

### **Safe and stronger communities**

Good achievements can be demonstrated.

- Although crime levels still remain high the trend is of improvement. Burglary, robbery, and car theft have all reduced. Compared with similar authorities Salford performs well. Fear of crime, which is still high and a priority area for the council, is being tackled by a range of initiatives.
- Anti-social behaviour has reduced in specific 'hotspot' areas.
- The youth offending team is having an impact. Initiatives taken have been successful in engaging 65 per cent of young people in its client group in education and training.

- The drug and alcohol action team has received 'green beacon' status for success in expanding drug treatments, one of only three councils' teams in the North West.
- Community engagement is another area of strength recognised by the positive outcome from our inspection undertaken in March 2004.

### Healthier communities

The council has worked hard with its health partners to improve health outcomes and can demonstrate achievement. For example:

- teenage pregnancy has reduced by 15 per cent since 1998;
- targets for smoking cessation have been exceeded;
- the health equality strategy is good and there is effective partnership working within multi-disciplinary teams to address health inequalities. Progress has been made in planning new healthcare services and facilities; and
- the recent inspection of culture and leisure services was positive judging the service as a good two-star service with promising prospects for improvement, an improvement on the previous inspection. In particular, there is now a large programme of leisure activities in place and the service is focusing on improving access for underrepresented groups in the community.

### Looking to the future

Overall the direction of travel is positive and the council can point to a number of achievements in its priority areas. Many of these, particularly those relating to regeneration activity, partnership working to reduce crime and improved health are not recognised under the current CPA scoring framework. The areas which carry most weight; education, social care and housing have improved but not significantly enough to impact on the overall CPA rating.

The pilot CPA has been a positive learning experience for the council and an improvement plan to address the issues flowing from this is in development. This will provide focus for key improvement priorities moving forward. Getting on and delivering this will be the key to success.

## Other performance work

### Change management and corporate development

*Audit Commission facilitated management development programmes have helped support the council develop the skills of managers to manage change and impact on corporate and cross-cutting improvement priorities. This approach to development needs to be built on and extended to other managers. Progress has been made on developing performance management processes. Future development needs to focus on developing the ability to manage action on priorities in a coherent and pro-active way, making use of the balanced scorecard approach.*

This work focused on assisting the development of frameworks, skills and knowledge that will equip the council to achieve improvement.

We provided support to:

- contribute to the ongoing development of effective performance management; and
- develop the knowledge and skills of managers to manage change and impact on corporate and cross-cutting improvement priorities.

Two strands of support have been concluded:

- facilitated development of the performance management systems, specifically to increase the clarity of vision and translation into action of the council's pledges and to increase the impact of the Quarterly Performance Evaluation meetings; and
- a series of five action learning based groups for assistant directors/third tier level officers. The groups aimed to develop change management, leadership and cross-cutting skills and seek to impact on key corporate priorities. Participants focused on five areas: building skills and aspirations, image, parks and open spaces, crime and disorder and Investors In People.

Overall commitment from participating managers to the management development programme was excellent. This approach to training was unfamiliar to many of those involved, but most were positive in their assessment of the value of the programme and saw the need to extend it to other managers.

Almost all those managers involved in the development programme identified benefits to the organisation overall and to the particular cross-cutting issues they focused on.

The outcomes from the groups have been considered seriously by directors and members. It is important that this is followed through with clear action as this will give a strong message and will be far more powerful than any words about empowerment and engagement.

A particularly strong message is the value of cross directorate groups improving the understanding of corporate agendas and how a range of disparate functional areas could all contribute to these. In addition this resulted in greater appreciation of the similarities of some of the challenges and some of the constraints. This should help provide a sound rationale for further internal learning opportunities.

The management development programme also provided some important messages about how the organisation is perceived by managers to help inform the leadership of further action that is needed to achieve step change.

- Managers would value greater empowerment so that they can achieve change quickly within the overall ambitions and priorities of the council.
- Managers would value greater engagement with senior leadership, both management and members, to help shape how improvements can best be achieved and ensure continued clarity of vision and strategic priorities.
- Managers desire an organisation that is confident, tenacious and consistent about its agenda without being complacent or resistant to challenge (internal and external).
- Leadership skills need to be developed and demonstrated throughout the organisation.

The key issues arising from the performance management part of this work have been covered above in the CPA improvement report. We will be continuing this supportive work during 2005. This will focus on:

- facilitating the development of a set of key balanced scorecards for change to improve focus on 'critical success' areas in line with priorities; and

- contributing to the delivery of a capacity building programme for further developing the skills to make step change improvements. This will be based as previously on learning from internal success, action learning in new improvement areas and specialist technical input.

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

*We gave an unqualified audit opinion on the council's BVPP on 29 November 2004.*

We concluded that the council's 2004/05 Best Value Performance Plan (BVPP) complies with statutory requirements and our testing of the Best Value performance indicators also proved satisfactory.

## Other Audit Commission Inspections

### **Re-inspection of housing services**

*Our re-inspection of housing services assessed the Area Housing Service provided by New Prospect Housing Limited as providing a 'fair', one-star standard, but with uncertain prospects for improvement.*

The re-inspection concluded that the service displayed the following strengths:

- offices are well managed and generally welcoming for customers;
- more repairs are being completed on time, an appointments system has been introduced and gas servicing has improved. The waiting list for adaptations to be carried out in customers' homes has come down; and
- homes are being re-let more quickly and the standards of cleanliness in empty homes are higher. The system for re-letting has been improved to include accompanied viewings.

However, there were a number of areas which were identified where improvements needed to be made relating to, for example, customer access to services, removing uncertainties around future options for service delivery, management capacity and governance issues.



Our inspection report concluded with a set of recommendations to deal with these issues and promote further improvement in the service. An action plan has been agreed which is in the process of being implemented. The council recognises that it needs to build its strategic capacity within housing and we will provide assistance to support this.

### Community engagement

*Our inspection of the council's arrangements for community engagement assessed the council as providing a 'good', two-star approach that has promising prospects for improvement.*

The council's approach has a number of strengths including:

- a firm and sustained commitment, recognised and supported by all staff, to involve communities in the delivery of services;
- strategies and service plans reflect this commitment, and demonstrate a knowledge of their users through frequent consultation and feedback;
- community committees have a good understanding of local issues, and are increasingly able to apply for and manage several funding streams;
- some services are experimenting with giving greater decision-making powers to community committees such as grounds maintenance and sports development;
- engagement is leading to good examples of empowerment such as the community youth facilities on the Duchy estate;
- more culturally sensitive delivery of services are being delivered through for example social care contracts awarded to the Jewish community and the advice services to the Link project; and
- a variety of appropriate and efficient types of engagement are in place, ranging from basic information provision and access to services, through to consultation events and devolved decision making.

However the approach is not entirely delivering the council's vision.

- Community committees are not representative of their communities. This makes it difficult to channel major budgets through them.
- Current community action plans are of variable standard and lack clarity about exactly what will be delivered when.

### Waste management

*Our inspection of waste management assessed the council as providing a 'good', two-star service that has excellent prospects for improvement.*

The service displays a number of strengths including:

- efficient and effective refuse collection and street care services that are accessible and responsive to users;
- increased user satisfaction;
- a strong contribution to meeting the council's corporate aims;
- service provision reflects the diversity of the local area;
- a reduction in the amount of household waste collected per head of population;
- an extensive recycling infrastructure;
- proactive enforcement and education policies;
- good use of information technology to improve responsiveness and performance management; and
- favourable comparisons with services provided by other councils.

However, some matters require attention.

- The council does not yet have strategies and action plans to reduce its own waste production and promote re-use activities.
- The cleanliness of the environment is not fully meeting users' expectations and perceptions.
- Sickness absences, although not disrupting service delivery, are creating additional costs through the supply of agency staff.

## Cultural strategy and leisure services

*Our inspection of cultural strategy and leisure services assessed the council as providing a 'good', two-star service that has promising prospects for improvement.*

The service demonstrates a number of strengths including:

- corporate ambitions are clearly stated and understood by everyone, and they address cultural as well as economic and environmental issues in improving the city;
- the cultural strategy articulates an ambitious vision for a cultural identity for Salford incorporating self-esteem, creativity and pride in the city. It is clearly aligned with and supports the council's ambitions for the city;
- the leisure service is clear about its aims, and clear that it gives highest priority to the corporate pledges of social inclusion and health. Its strategy balances local needs with national and regional priorities. Its structure, with the emphasis on sports development and seats on the board for members of the public, gives the leisure trust a strong structural bias towards these aims;
- the trust's operational processes, such as its pricing policy, also support its aims;
- there is effective and sustained engagement with local communities through the sports and arts development staff attached to Community Committees;
- Salford Community Leisure works effectively with partners (such as the local primary care trust) and with the private leisure sector;

- there is a large and diverse programme of leisure activities built round the priority aims. Staff put particular stress on engaging underrepresented groups and overcoming barriers to access, using methods such as subsidy and targeted programmes;
- indoor leisure facilities are in good condition (outdoor ones less so); residents' satisfaction with them is close to the national average and 80 per cent of users rate leisure centres as good or excellent; and
- The council can demonstrate the effectiveness of its policy through improved outcomes in health and juvenile crime. In other priority areas, it can show good satisfaction and participation rates.

However some aspects are not yet developed.

- The cultural strategy espouses corporate cultural values but does not translate them into targets and programmes for individual cultural services, so the leisure service links its aims to the corporate pledges, but not via the cultural strategy.
- The council uses a single funding stream across several departments for its summer programme of activities, but it does not take an integrated view across mainstream provision.
- The council does not adequately define and monitor the impact and outcomes of activities directed at cultural goals and as a consequence the leisure service mainly uses participation and satisfaction ratings as its performance measures.
- Infrastructure such as management information systems and budget divisions do not adequately support the business.
- Access to the leisure service, whether for disabled people or for example through interactive web pages, is under-developed

### Follow-up on inspections

We will follow-up the council's progress in tackling the areas identified for further development as part of our future audit and inspection plans.

### Working with other inspectorates and regulators

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. These include:

- Ofsted;
- Commission for Social Care Inspection;
- Benefits Fraud Inspectorate;
- Department for Education and Skills, and
- Local Government Office contact.

We share information and seek to provide 'joined-up' regulation to the council.

We have included details of assessments from other inspectorates in the CPA improvement report above.

## Accounts and governance

### Audit of 2003/04 accounts

*We gave an unqualified opinion on the council's accounts on 26 November 2004.*

The Director of Customer and Support Services and his staff are commended for the earlier closure of the 2003/04 accounts. Members approved the council's annual accounts in August 2004. Timeliness in producing the accounts will become increasingly important over the next two years as the deadline for completion of the accounts is brought forward in line with the whole of government accounts initiative. In 2005 the accounts will need to be approved by members by the end of July 2005 and audited by the end of October 2005. This will require early planning and thoughtful scheduling of key meetings next year.

### Report to the council

We are required by professional standards to report to 'those charged with governance' certain matters before we give an opinion on the accounts.

In accordance with this requirement we reported the matters arising from our audit to the Accounts Committee on 22 November 2004. The Director of Customer and Support Services issued a report in response to these issues and the Accounts Committee agreed with his recommendation to make several amendments to the accounts. These amendments did not impact on the reported balances in the council's general fund reserve or the housing revenue account.

### Financial standing

*The council's financial position continues to be sound. Delivering the financial targets in the council's medium-term financial strategy remains key to maintaining this position for the future.*

*Treasury management issues currently being considered by the relevant bodies could have a significant impact on the council's future financial standing and will need to be carefully examined when the outcome is known.*

### General fund spending and balances

The council budgeted to contribute £1 million to the general fund reserve in 2003/04.

This, together with £0.9 million underspend for the year, resulted in the general fund reserve increasing from £5.1 million at 31 March 2003 to £7 million at 31 March 2004. This level of balances is in line with the minimum identified by the council as part of its financial risk assessment in approving its 2004/05 revenue budget.

The council's budget monitoring for 2004/05 indicates that overall spending is currently projected to be within budget. Looking ahead, it is important that members ensure that the council continues to deliver the key financial targets which are included in its medium term financial strategy. These include:

- maintaining general fund and housing revenue account balances at the minimum (or more) identified by the council's financial risk assessments;
- clearing the deficit on the collection fund (£0.95 million at 31 March 2004) in 2004/05; and
- eliminating the dependence on capital funding for some expenditure which might more normally be charged to revenue.

#### **Schools' deficits**

As at the 31 March 2004 there were over 30 schools with deficit balances which totalled around £2 million. This has significantly increased compared with the previous year when the total was £1.2 million. Members, the LEA and relevant schools' governors need to ensure that there are clear plans to eliminate the schools' deficits and that further schools do not fall into deficit.

#### **Treasury management**

Two issues of national relevance have recently arisen which apply to other local authorities as well as Salford. We are awaiting further guidance from the Audit Commission and professional bodies which we will share when it becomes available. Further details are provided below.

##### *Interest on loans*

The council has entered into a number of loan agreements which include a reduced rate of interest in the initial period (ranging from two to five years) followed by a planned minimum increase in the interest rate after this initial period. The council's budget assumes that interest will be charged to the accounts in line with the payments made each year.

To comply with the requirements set out in the Financial Reporting Standards, the council may need to spread all the interest it plans to incur over the life of the loans in equal instalments for each year of the loans. The estimated impact in 2003/04 is £1.1 million of interest above the amount charged to the revenue account. This increases by a further amount of £1.8 million in 2004/05 and £1.5 million in 2005/06.

The Director of Customer and Support Services advised the Accounts Committee in November 2004 that in the event that the council needs to meet these charges, approximately 50 per cent would fall on the housing revenue account and will be eligible for housing subsidy. The remaining 50 per cent would be borne by the general fund.

##### *Premium on restructured loans*

There is also an issue relating to the premium on restructured loans. Where the council has repaid loans early and paid a premium for doing so, the related general fund amount is held in the balance sheet and written off over the period of the replacement loan. There are instances where the council is still writing off the premium where the replacement loan has itself been restructured. If the authority is required to write-off this amount there will be an additional charge to revenue of £1.8 million.

The Director of Customer and Support Services advised the Accounts Committee in November 2004 that in the event that the council needs to meet these charges there is adequate provision within the Capital Financing Reserve to write this off.

#### **Systems of internal financial control**

*Progress continues to be made in strengthening the council's systems of internal financial control and governance arrangements.*

### Statement on internal control

The Accounts and Audit Regulations now require authorities to carry out an annual review of internal control arrangements together with the provision of a signed assurance statement in the published accounts. CIPFA recognised that the review and associated statement for 2003/04 would be transitional towards a complete methodology which will need to be in place for 2004/05.

The council's assurance statement for 2003/04, which was redrafted following our audit, met the transitional requirements. The council has recognised that much still needs to be done to fully comply with the requirements envisaged for 2004/05 and has set up a Management Group to take this forward. We will keep progress on this under review as part of our regular liaison with the Director of Customer and Support Services.

Based on our ongoing review we are of the view that the council is continuing to make good progress in strengthening its corporate governance arrangements, particularly in the area of risk management. Our review of Internal Audit's work on testing the key controls in the major financial systems found that the work had been performed to a good standard. An area where the council needs to take action is strengthening the reported weaknesses in the payroll system.

### Income collection

In past years we have commented on the council's performance relating to income collection and the need for strengthening systems of internal financial control in this area.

Current trends in performance on key financial indicators for income collection and management of arrears are generally encouraging. The comparative position with last year for arrears is illustrated below.

#### EXHIBIT 1

Income	2003/04 Arrears £m	2002/03 Arrears £m
Council tax	14.689	16.619
National non domestic rates	2.472	3.311
Sundry debtors	12.330	13.067
Housing rents	6.505	6.616

Despite the overall improvement the arrears on housing rents are around 10 per cent of the annual rental income. Collection performance in 2003/04 was 93.6 per cent, which fell short of the council's target of 96 per cent. The council needs to work closely with New Prospect Housing Limited to identify opportunities for improving collection performance of housing rents.

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

*We have not identified any significant weaknesses in the council's arrangements to prevent and detect fraud and corruption.*

The council has in place effective standards of conduct and arrangements for preventing and detecting fraud and corruption.

Policy documents covering such areas as anti fraud and corruption, fraud prosecution, whistle-blowing arrangements and a code of conduct for members and officers are well publicised, including being available on the council's website.

These arrangements have been supplemented this year by the introduction of an Investigations Panel of senior officers which aims to ensure timely and effective management of all ongoing investigations relating to fraud, corruption and disciplinary matters.

### Partnership working

Authorities are becoming involved in more innovative working practices which often involve working in partnership with others. Whilst this is to be commended because of the potential for service improvement, such practices need to be managed carefully because of the added legal and financial risks that can arise from such arrangements. For our part we maintain a watching brief and comment on the council's arrangements for managing such risks where we feel it is appropriate. Specific issues which we have considered include:

- plans to establish a joint venture for delivering development services;
- Higher Broughton regeneration partnership arrangements;
- pooled budget arrangements for people with learning difficulties living in Salford; and
- implementation of the schools' PFI schemes.

We are satisfied that any matters we have highlighted to date have been taken into account by the council. We will continue to monitor these and any other significant risks as they arise.

We are also working on a joint initiative with the council's monitoring officer to establish a database for the authority which records key information relating to all of the authority's partnership arrangements.

### Legality of transactions

*Our audit work confirms that the council has sound arrangements in place for considering the legality of transactions that might have significant financial consequences and ensuring that appropriate action is taken.*

It is the responsibility of the council to act within the law and to take appropriate legal advice where necessary.

We are of the view that the council has a responsible attitude towards ensuring it acts within the law and that it continues to respond positively to government legislation.

This is evident from:

- our review of the council and cabinet minutes;
- the responses we receive from senior officers to issues raised during the audit; and
- the actions which are taken to deal with these issues.

### Auditor scored judgements

One of the outputs from our work this year has been to update the auditor scored judgements relating to the financial statements and financial aspects of corporate governance which contributed to the council's CPA assessment for 2004. A summary is set out in the exhibit below.

#### EXHIBIT 2

Area subject to assessment	Overall assessment	Key to assessments
Financial statements	3	1 = inadequate 2 = adequate overall, but some weaknesses that need to be addressed 3 = adequate 4 = good
Financial standing	3	
Systems of Internal financial control	3	
Standards of financial conduct and prevention and detection of fraud and corruption	4	
Legality of significant financial transactions	4	

Whilst there was underlying improvements in all areas 'legality' is the only area where the overall assessment has changed since last year. This improved from an overall assessment of three to four.

## Other work

### Grant claims

Over recent years the number of claims requiring audit certification has grown and audit fees have risen in line with this growth.

In accordance with its strategic regulation policy, the Audit Commission has adopted a more risk-based approach to the certification of grant claims. With effect from 2003/04 the smaller claims have not been subject to audit or have received a lighter touch. The approach to larger claims has been determined by risk and the adequacy of the council's control environment.

The council's arrangements for managing and quality assuring grant claims submitted for audit has improved in recent years. To help strengthen this process still further we will provide finance staff with a complete list of all certifiable claims including any ongoing additions and deletions. This should provide a better base for monitoring submissions and help identify if there are any opportunities for claiming grant that are being missed.

### National Fraud Initiative

The council took part in the Audit Commission's national fraud initiative (NFI) 2002/03. The NFI, which is undertaken every two years, brings together data from local authorities, NHS bodies, government departments and other agencies, to detect a wide range of frauds against the public sector. Total savings from the 2002/03 exercise exceeded £83 million, of which £0.35 million were identified at Salford.

The Commission is repeating the exercise this year and will again collect payroll, pensions, housing benefits, student loan and housing rents data from authorities. Alongside the core exercise a number of pilot initiatives are being undertaken at selected sites. These are focused on risk areas that were highlighted by authorities and include payments made to privately run care homes, abuse of blue badge parking permits, serial insurance claimants and duplicate payments to suppliers. These pilot areas, if they prove effective, will be incorporated into future NFI exercises.

## Looking forward

### Future audit and inspection work

We have an agreed plan for 2004/05 and we have reported in this letter those aspects that have already been completed. The remaining elements of that plan, including our audit of the 2004/05 accounts, will be reported in next year's Annual Letter. Our planned work, together with that of other inspectorates, is included on both the Audit Commission and the Local Services Inspectorates Forum websites.

We have sought to ensure, wherever possible, that our work relates to the improvement priorities of the council. We will continue with this approach when planning our programme of work for 2005/06. We will seek to reconsider, with you, your improvement priorities in the light of the latest CPA assessment and your own analysis, and develop an agreed programme by 31 March 2005. We will continue to work with other inspectorates and regulators to develop a co-ordinated approach to regulation.

## Revision to the Code of Audit Practice

The Audit Commission has consulted on a revised Code of Audit Practice for application to the audit of the 2005/06 accounts. The new Code, which will be laid before Parliament in January 2005, is designed to secure:

- a more streamlined audit, which is proportionate to risk and targeted on areas where auditors have most to contribute to improvement;
- a stronger emphasis on value for money, focussing on bodies' corporate performance and financial management arrangements (rather than individual services and functions); and
- better and clearer reporting of the results of audits.

Further details will be provided in the Audit and Inspection Plan 2005/06.

## CPA 2005 and beyond

The Audit Commission has also consulted on a new framework for CPA in 2005 and beyond. The main changes proposed are as follows:

- rationalisation of service blocks;
- 'achievement' assessment element of Corporate Assessment to be driven by review of Community Plan and shared priority themes;
- move away from a numerical model, to one based on rules;
- Corporate Assessments to be undertaken on rolling programme, integrated with Joint Area Reviews of children and young people;
- stronger focus on service delivery for users and customers; and
- more robust and explicit view of value for money and cost-effectiveness.

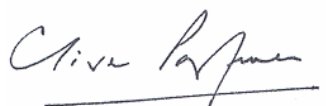
## Closing remarks

This letter has been discussed and agreed with the Chief Executive. A copy of the letter will be presented at the cabinet meeting on 25 January 2005.

The council has taken a positive and constructive approach to our audit and inspection I would like to take this opportunity to express my appreciation for the council's assistance and cooperation.

## Availability of this letter

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.



**Clive Portman**  
District Auditor and Relationship Manager

January 2005

## Status of our reports to the council

*Our annual audit and inspection letter is prepared in the context of the Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission. Annual audit and inspection letters are prepared by relationship managers and appointed auditors and addressed to members and officers. They are prepared for the sole use of the audited and inspected body, and no responsibility is taken by the Audit Commission or its appointed auditors to any member or officer in their individual capacity, or to any third party.*



## Audit and inspection reports issued during 2004

Report	Date
<b>Planning</b>	
Audit and inspection plan 2004/05	April 2004
<b>Accounts and governance</b>	
Interim audit memorandum (incorporating review of core financial processes and overall governance arrangements)	July 2004
Report to the Accounts Committee on the audit of the financial statements	November 2004
Final accounts memorandum	Currently being completed
<b>Performance</b>	
Change management and corporate development	September 2004
Best value performance plan 2004/05, Statutory Report	November 2004
Health Act Flexibilities – mental health services (follow up report)	July 2004
<b>Inspection</b>	
Re-inspection of housing services	March 2004
Community engagement	June 2004
Waste management	August 2004
Cultural strategy and leisure services	October 2004

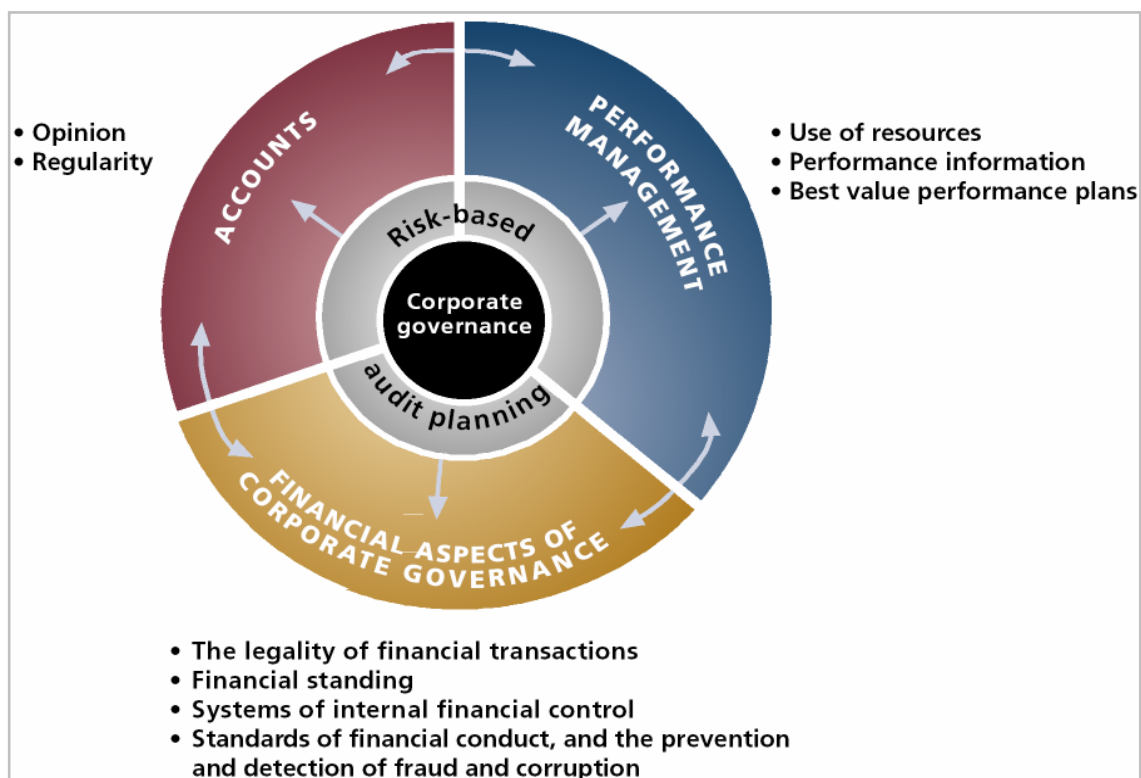
## Scope of audit and inspection 2003/04 and 2004/05

### 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 3.

**EXHIBIT 3 THE AUDIT COMMISSION CODE OF AUDIT PRACTICE OBJECTIVES**



## 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; and
- identify failing services where remedial action may be necessary.

The Audit Commission has circulated to all audited bodies a statement that summarises the key responsibilities of auditors. Our audit has been conducted in accordance with the principles set out in that statement. What we say about the results of our audit should be viewed in the context of that more formal background.

## Audit and inspection fees

### Audit fee

Audit area	Plan 2003/04	Actual 2003/04
Accounts	63,000	63,000
Financial aspects of corporate governance	112,000	112,000
Performance	152,000	126,000
TOTAL CODE OF AUDIT PRACTICE FEE	327,000	301,000
Grant claim certification (see note 1 below)	90,000	93,000
Additional voluntary work (under Section 35)	19,000	19,000
TOTAL AUDIT FEE	436,000	413,000
<p><i>(1) The grant claim audit continues until early 2005, consequently the actual fee reported is our current estimate of the likely fee for the 2003/04 certification work.</i></p>		

### Inspection fee

The full year inspection fee is £139,000. The inspection work reported in this letter has been funded by an element of the fee covering 2003/04 and by an element of the fee covering 2004/05. In both years the actual fee will be in line with that planned.