

Annual Audit and Inspection Letter

February 2008



# **Annual Audit and Inspection letter**

**North Devon District Council**

External audit is an essential element in the process of accountability for public money and makes an important contribution to the stewardship of public resources and the corporate governance of public services.

Audit in the public sector is underpinned by three fundamental principles:

- auditors are appointed independently from the bodies being audited;
- the scope of auditors' work is extended to cover not only the audit of financial statements but also value for money and the conduct of public business; and
- auditors may report aspects of their work widely to the public and other key stakeholders.

The duties and powers of auditors appointed by the Audit Commission are set out in the Audit Commission Act 1998 and the Local Government Act 1999 and the Commission's statutory Code of Audit Practice. Under the Code of Audit Practice, appointed auditors are also required to comply with the current professional standards issued by the independent Auditing Practices Board.

Appointed auditors act quite separately from the Commission and in meeting their statutory responsibilities are required to exercise their professional judgement independently of both the Commission and the audited body.

### **Status of our reports**

This report provides an overall summary of the Audit Commission's assessment of the Council, drawing on audit, inspection and performance assessment work and is prepared by your Relationship Manager.

In this report, the Commission summarises findings and conclusions from the statutory audit, which have previously been reported to you by your appointed auditor. Appointed auditors act separately from the Commission and, in meeting their statutory responsibilities, are required to exercise their professional judgement independently of the Commission (and the audited body). The findings and conclusions therefore remain those of the appointed auditor and should be considered within the context of the Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission.

Reports prepared by appointed auditors are:

- prepared in the context of the Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission; and
- addressed to members or officers and prepared for the sole use of the audited body; no responsibility is taken by auditors to any member or officer in their individual capacity, or to any third party.

### **Copies of this report**

If you require further copies of this report, or a copy in large print, in Braille, on tape, or in a language other than English, please call 0844 798 7070.

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## Key messages

- 1 The main messages for the Council included in this report are as follows.
  - Our assessment of the Council's corporate management arrangements, carried out in 2007 as part of the Comprehensive Performance Assessment (CPA) process, judged the Council's overall performance as Fair. This is an improvement from its previous rating of Weak.
  - An unqualified audit opinion was issued by your auditor on the 2006/07 financial statements.
  - The arrangements for achieving value for money were satisfactory, as at 31 March 2007.
  - The use of resources assessment, carried out by your auditor, rated the Council as meeting level two which is the same score as last year. Within this overall score, the rating for financial reporting reduced from three to two but for financial standing, it increased from two to three.
  - The quality of many of the Council's services has improved and the Council is making steady progress in meeting its corporate priorities. However, some improvements have been inconsistent and not always sustained.
  - Whilst the arrangements for securing data quality are assessed as performing well overall, your auditor has made a number of recommendations for further improvement.

## Action needed by the Council

- 2 Ensure that the areas for improvement identified by the CPA assessment are built into the Council's future development plans.
- 3 Review and monitor the action being taken to achieve further improvement in the use of resources assessment. This should also address the steps being taken to meet the new UoR criteria likely to be introduced from 31 March 2009.
- 4 Ensure that Council responds appropriately to the auditor's detailed recommendations for strengthening the data quality arrangements.

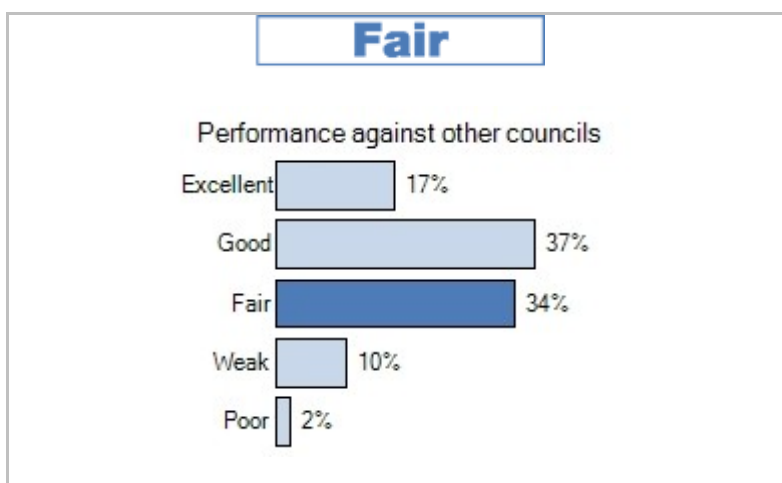
## Purpose, responsibilities and scope

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

## How is North Devon Council performing?

- 11 North Devon District Council was assessed as Fair in the Comprehensive Performance Assessment (CPA) carried out during 2007. These assessments have been completed in all district councils and we are now updating these assessments, through an updated corporate assessment, in councils where there is evidence of change. The following chart is the latest position across all district councils.

**Figure 1 Overall performance of district councils in CPA**



Source: Audit Commission

- 12 North Devon asked for a Corporate Assessment to be carried out in 2007 to take stock of improvements achieved. As a result the Council was recategorised from 'Weak' to 'Fair'.
- 13 The CPA assessment concluded that Council is making steady progress in improving the lives of those living, working and visiting North Devon. The Council has set clear and ambitious aims for the district which are shared and supported by partners. It is focusing on the things most important to local people and resources are being allocated accordingly. However, there are gaps in the strategic planning of some services and projects and improvements have been inconsistent and not always sustained.
- 14 Strengths identified during the assessment include:
- an ambitious plan for the future redevelopment of Barnstaple;
  - a good understanding of local issues, informed by strong consultation;
  - clear priorities for improving services to the public;
  - committed and well managed staff; and
  - the quality of many services has improved and the Council makes a positive contribution towards wider community outcomes.

**15** Areas for improvement include:

- providing greater clarity on long term outcomes for those living, working and visiting North Devon;
- developing the capacity to manage ambitious redevelopment projects;
- ensuring performance management systems consistently address underperformance;
- greater consistency in measuring the contribution of partnerships to local priorities; and
- sustaining and improving the quality of council services so that they meet the needs of all sections of community and provide value for money.

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

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

- 16** The quality of many services has improved and the Council is making steady progress in meeting its corporate priorities. However, some improvements have been inconsistent and not always sustained. Some priority services, such as recycling and the provision of affordable housing have improved significantly but in others, such as planning, improvement is slow and performance remains poor in comparison to other councils. Public satisfaction with council services has been variable and not sustained - although recent surveys show improvement in a number of areas.
- 17** The Council is performing well against its economic priorities. There have been a number of significant developments supporting local businesses and commercial growth in both rural and urban areas. There are ambitious regeneration plans for the district. However, while many improvements have been made, a number of the Council's ambitions for regenerating town centres have not yet been achieved.
- 18** The Council's approach to addressing the housing challenges of the area is improving. Investments in improving poor quality private dwellings are being made, there is good progress in preventing and responding to homelessness and the number of new affordable homes has increased significantly - addressing the needs of some of the most vulnerable in the district. Understanding the needs of travellers, gypsies and rough sleepers is improving and the Council is working well with partners to address their issues. However, outcomes are not consistently in place. The Council's approach to equalities and diversity is progressing well; it has reached level two of the equalities and diversity scheme and has clear plans for reaching level three. The diversity of its work force is improving.

- 19 In partnership with others the Council is making a significant and increasing contribution to improving the quality of life of its citizens while protecting the natural environment. Infrastructure developments such as Ilfracombe Quay, the Rock Park play area and South Molton Skate Park are helping improve the built environment. Progress has been made in protecting the natural environment, for example through the North Devon International Biosphere - work that is also contributing to the tourism economy. There are some examples of innovative approaches to sustainability such as the Oak Meadow sustainable housing scheme, a Healthier Homes Initiative and reducing the carbon footprint of the Council's facilities and services.
- 20 Access to services is expanding but is variable. Improvements have been made to the Council's customer services with the introduction of a customer services team. There have been improvements in telephone systems and access to council buildings, and one stop shops are soon to be opened. However, significant and comprehensive improvements have not yet been realised.
- 21 The efficiency of council services is adequate and generally improving. Some services, such as benefits, have high levels of satisfaction, good and improving performance and comparatively low costs. Others are performing well but are high cost, such as waste management, and some, including planning, are not providing good value for money. Overall financial management and procurement are adequate, and the Council is improving the management of its assets, business risks and capital programme. The efficiency of services is improving but the quality and value for money varies across different services.

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

- 22 There are a number of ambitious plans to enhance the area and improve council services. There are clear and ambitious regeneration plans for Barnstaple which are progressing well and plans for Ilfracombe are developing. Improved Human Resource (HR), financial, Information and Communications Technology (ICT), risk and project planning is helping to use internal resources more effectively. The Council is well placed to achieve many of its priorities assisted by a joint local strategic partnership and emerging sustainable community plan with Torrington - which links well to the Devon Local Area Agreement. There is a strong understanding and commitment to meeting the Council's objectives across the organisation and through partners.
- 23 The Council has made steady progress on its improvement journey. Its corporate assessment score improved from 'Weak' to 'Fair' in October 2007. It is effectively addressing many of the recommendations raised in the assessment such as improving its approach to project management and is accessing external expertise to increase capacity - for example on risk management and housing. Resources have been allocated in line with priorities and the Council has identified, and is disinvesting from, non priorities.

- 24 Improvements in business planning are supporting the Council's improvement agenda. There is a developing performance management culture but assessment of value for money is underdeveloped. While improving, scrutiny could be used more effectively and the performance management of partnerships is inconsistent. Learning from external challenge and from other authorities has influenced changes in service delivery resulting in improvement to services for the public.
- 25 Partnerships are building capacity. Economic collaborations such as North Devon Plus are increasing support for local businesses and are helping to attract new companies. Other partnerships help address environmental priorities or contribute to economic and social cohesion objectives such as the growing North Devon Festival. The Council is open to alternative ways of providing services including private contractors and trust arrangements some of which have helped secure external funding. However plans to share services with neighbouring authorities, such as waste management, have been slow in developing and in realising opportunities for greater efficiencies.
- 26 The Council has managed its change in political leadership during the year well. Governance of the Council has improved with closer working between political parties. This is developing a more cohesive organisation and improving decision making. Industrial relations are good and the introduction of single status is going smoothly. Improved communications and staff development are helping to strengthen internal capacity supported by very low and improving sickness levels.

## The audit of the accounts and value for money

- 27 Your appointed auditor has reported separately to your Audit Committee on the issues arising from our 2006/07 audit and have issued:
- an audit report, providing an unqualified opinion on your accounts and a conclusion on your vfm arrangements to say that these arrangements are adequate; and
  - a report on the Best Value Performance Plan confirming that the Plan has been audited.

### Use of Resources

- 28 The findings of the auditor are an important component of the CPA framework described above. In particular the Use of Resources score is derived from the assessments made by the auditor in the following areas.
- Financial reporting (including the preparation of the accounts of the Council and the way these are presented to the public).
  - Financial management (including how the financial management is integrated with strategy to support council priorities).
  - Financial standing (including the strength of the Council's financial position).
  - Internal control (including how effectively the Council maintains proper stewardship and control of its finances).
  - Value for money (including an assessment of how well the Council balances the costs and quality of its services).
- 29 For the purposes of the CPA your auditor has assessed the Council's arrangements for use of resources in these five areas as follows.

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**Table 1**

<b>Element</b>	<b>Assessment</b>
Financial reporting	2 out of 4
Financial management	2 out of 4
Financial standing	3 out of 4
Internal control	2 out of 4
Value for money	2 out of 4
Overall assessment of the Audit Commission	2 out of 4

*(Note: 1 = lowest, 4 = highest)*

## The key issues arising from the use of resources audit

- 30 The Council has maintained its overall score of two, 'performing adequately' for use of resources. The theme score for financial reporting reduced from three to two but on financial standing, the score increased from two to three. The other theme scores on financial management, internal control and value for money remained the same at level two.
- 31 The main areas of improved performance included the following
- There was a notable improvement in the quality of the final account working papers from the prior year.
  - The budget reported to members now includes a positive assurance statement from the chief finance officer about the robustness of estimates made for the purposes of the budget calculations
  - Significant work has been undertaken in relation to the arrangements for managing the Council's asset base.
  - The Council has made progress in its risk management arrangements.
- 32 Examples of areas for further development include the following.
- Ensure that the review of the draft accounts identifies and corrects any material errors before submission to the auditor.
  - Ensure that there are project appraisals, business plans and affordability tests for new policy and capital developments.
  - Put in place an assurance framework that maps the council's strategic objectives to risks, controls and assurances and ensure that it provides members with information to support the Statement on Internal Control.
  - Continue strengthening the role of the audit committee for example by providing challenge to the Executive when required and giving effective leadership on governance, financial reporting and audit issues.
  - Ensure that standing orders, standing financial instructions and scheme of delegation are reviewed and updated as appropriate and that there are arrangements in place for monitoring compliance.
  - Strengthen the arrangements in place for countering fraud and corruption.

## Data quality

- 33 Your auditor's work included a review to determine whether proper corporate management arrangements for data quality are in place, and whether these are being applied in practice. The findings contribute to the auditor's conclusion under the Code of Audit Practice on the council's arrangements to secure value for money (the VFM conclusion).

- 34 Your auditor noted some improvements in the management arrangements and assessed the Council's overall management arrangements for ensuring data quality as performing well overall. The challenge for the Council is to ensure that the procedures that have been introduced continue to continue to operate effectively across the whole Council.
- 35 Key aspects of the Council's data quality framework have been assessed as follows.
- In relation to governance and leadership, the Council has performed well in this area. There has been improved communications during the year to staff highlighting the importance of data quality and increasing individuals' awareness of their responsibilities. There is evidence of a strategic approach to data quality in one or more key council documents. However, Data quality is not consistently good across all Council services and is therefore not yet fully integrated into the Council's planning and reporting processes.
  - There are adequate policies and procedures in place. All relevant staff are able to access the policies, procedures and guidance and the council can demonstrate that it is proactive in informing staff of any policy or procedure updates and required standards on a timely basis. However, the council's data quality policy could be improved by introducing a comprehensive and current set of operational procedures and guidance notes that meet user needs and is fit for purpose.
  - There are sound systems and processes in place to secure data quality. These operate according to the principle of 'right first time'. A business continuity plan should be developed across the Council to consistently provide protection for records and performance data which are vital to its continued effective functioning.
  - There are adequate resources in place to secure data quality. However, the roles and responsibilities below the strategic level in relation to data quality should be clearly defined and documented, and incorporated into job descriptions. This has been completed for some but not all relevant staff.

## Looking ahead

- 36** The public service inspectorates are currently developing a new performance assessment framework, the Comprehensive Area Assessment (CAA). CAA will provide the first holistic independent assessment of the prospects for local areas and the quality of life for people living there. It will put the experience of citizens, people who use services and local tax payers at the centre of the new local assessment framework, with a particular focus on the needs of those whose circumstances make them vulnerable. It will recognise the importance of effective local partnership working, the enhanced role of Sustainable Communities Strategies and Local Area Agreements and the importance of councils in leading and shaping the communities they serve.
- 37** CAA will result in reduced levels of inspection and better coordination of inspection activity. The key components of CAA will be a joint inspectorate annual area risk assessment and reporting performance on the new national indicator set, together with a joint inspectorate annual direction of travel assessment and an annual use of resources assessment. The auditors' use of resources judgements will therefore continue, but their scope will be widened to cover issues such as commissioning and the sustainable use of resources.
- 38** The first results of our work on CAA will be published in the autumn of 2009. This will include the performance data from 2008/09, the first year of the new Local Area Agreements.

## Closing remarks

- 39 This letter has been discussed and agreed with the Chief Executive. A copy of the letter will be presented at the Audit Committee on 27 March 2008. Copies need to be provided to all Council members.
- 40 Further detailed findings, conclusions and recommendations on the areas covered by audit and inspection work are included in the reports issued to the Council during the year.

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**Table 2      Reports issued**

<b>Report</b>	<b>Date of issue</b>
Audit and inspection plan	March 2006
Annual Governance Report	Sept 2007
Opinion on financial statements	Sept 2007
Value for money conclusion	Sept 2007
Corporate Performance Assessment Report	Oct 2007
Data Quality Review	Dec 2007
Use of Resources	Dec 2007
Annual audit and inspection letter	March 2008

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

## Availability of this letter

- 42 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.

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Date: 26 February 2008