

Audit and Inspection Annual Letter

Runnymede Borough Council

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- Auditor's Statutory Report on the best value performance plan

Reference:	HRRU002AAL03W – Final
Authors:	Peter Arkell, District Auditor Paul Chambers, Relationship Manager Hassan Rohimun, Audit Manager
Date:	December 2003

Key messages

Performance management

The Council continues to develop its performance management and monitoring systems. This year, service plans have been revised to enable Members to also monitor the progress of any recovery actions considered necessary.

E-government

The Council has a clear vision of the service provision they wish to deliver and the IEG2 statement reflects their core values and strategic priorities. As a result of the range and complexity of projects identified in the IEG2 statement, the Council will need to review their current arrangements and develop a revised structure for managing all the projects which have been identified.

Procurement

Our review identified that there is scope for the Council to enhance and advance overall procurement arrangements at Runnymede. In particular, the Council should ensure:

- that the commissioning and procurement strategy more clearly states the Council's policy for procurement and defines the strategy
- the key corporate tasks identified in the procurement strategy's implementation section are completed.

Inspection

During the year, the Council's housing services were inspected by the Audit Commission's Housing Inspectorate. The service was rated as Good (two stars) with promising prospects for improvement.

Financial position

The Council's overall financial position remains healthy. The medium-term financial strategy is dependent on the utilisation of significant balances. This emphasises the need for

continued prudent financial management and monitoring by Members to ensure that balances remain adequate for the Council's needs.

Accounts

Following our review of the final accounts we were able to issue an unqualified opinion on the accounts.

The purpose of this letter

This joint audit and inspection 'Annual Letter' summarises for Members the conclusions and significant issues arising from our 2002/03 audit and inspection programme. It also comments on other current issues.

We have issued separate reports during the year having completed specific aspects of our programme.

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 will be the Commission's primary point of contact with you on improvement planning and is also the interface between the Commission and the other inspectorates, Government Office and other key stakeholders.

The demand on the Council to respond to the challenges of various national and local issues continues. Issues facing the Council this year include:

- rising public expectation

- meeting the corporate objective to 'maintain rigorous financial control of the Council's affairs to ensure we keep to a minimum any additional call on council taxpayers'
- progressing on priorities of the Council's housing strategy. The Council has a plan of investing in its housing stock to ensure it meets the 'Decent Homes Standard' in advance of the Government's 2010 target
- continued development of performance management and best value
- development of the community strategy in partnership with the local community
- progressing the e-government initiative.

The Council is also preparing for the forthcoming comprehensive performance assessment (CPA). The assessment of all district councils is being carried out on a phased basis over a two year period. The Council's overall performance on corporate issues and services will be formally assessed as part of the CPA and our audit findings will form part of this.

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 (BVPP).

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.

Performance management

The Council continues to develop its performance management and monitoring systems. This year, service plans have been revised to enable Members to also monitor the progress of any recovery actions considered necessary.

Comprehensive performance assessment

The CPA of the Surrey districts was due to commence in the week beginning 8 December 2003. CPA is intended to help councils improve the services they deliver to the local community and the results will be an important consideration in future improvement planning.

Future of CPA

CPA is about helping councils deliver better services to local people as part of the wider improvement agenda set out in the Local Government White Paper *Strong Local Leadership – Quality Public Services*. CPA has been developed to encompass the role of district councils in developing and contributing to sustainable social and economic environments for their communities and local area.

The main elements of the district councils CPA approach are:

- council self-assessment
- accredited peer challenge to inform the self-assessment
- a corporate assessment
- diagnostic assessments of the Council's:
 - management of public space and
 - progress in meeting the decent homes standard or contribution to the management of housing market
- Benefit Fraud Inspectorate's assessment of benefit services
- appointed auditor assessments of performance on each of the main elements of the Code of Audit Practice
- audited performance indicators, inspection reports and plan assessments.

Performance management

The key strategic document is the Leader's Position Statement. Whilst the statement is a political document, it is reviewed annually and sets out the main priorities for the Council. The overall aims and objectives from the Leader's Position Statement are cascaded into service plans and the setting of service and individual objectives. Individual objectives are monitored through the Council's appraisal system.

This year, the Council has further developed its service plans to take the format of an action plan table, setting out individual responsibility for targets, due dates and progress to date.

Members at Runnymede receive reports at each committee cycle which outline the performance of the Council in delivering key objectives. These reports include comparative information from the Surrey Benchmarking Group and national performance indicator (PI) data. This information is also used by Members to challenge and scrutinise service performance.

Best value

Our statutory review of the 2002/03 BVPP found that it complied in all significant respects with legislation and statutory guidance.

Having completed our statutory audit of your 2003/04 BVPP, we are able to issue our opinion and statutory BVPP report. These are included in this letter at Appendix 1.

Performance information

The Council has improved its central processes for collecting and publishing performance information. Overall the systems for collecting and recording performance indicators are sound but there remains scope for improvement in certain areas. During the course of our review we noted a number of cases, seven of the 51 tested, where either the definition had not been correctly followed or the calculation contained arithmetical errors. Our initial findings have been discussed with officers and we will issue a report shortly.

E-government

For the past few years, local authorities have been responding to the Government's e-agenda and authorities progress have been outlined in submissions – in the form of implementing e-government (IEG) statements – to the Government. Whilst the first IEG statement focused on planning and preparation, the emphasis for the latest statement has now moved to delivery.

During the year, we undertook a review of the Council's response to the e-agenda. Our review considered some of the key strategic and operational issues that could affect the Council's capacity to deliver on e-government. Although our work in this area is yet to be finalised, the following key messages have been discussed with officers:

- the Council has a clear vision of the service provision they wish to deliver and the IEG2 statement reflects their core values and strategic priorities
- the Council aims to deliver service improvement by adopting an approach which focuses on service delivery
- there is a commitment to and understanding of the e-government agenda amongst staff
- the Council has an ICT strategy and has developed a single page ICT mission statement, which identifies how they aim to enhance and improve service delivery. It is recognised, however, that the ICT Strategy needs to be reviewed as it is now over three years old.

The Council has a number of processes in place to assess the full cost and resource usage of proposed projects, such as the capital scheme appraisal process. The range and complexity of projects identified in the IEG2 statement will make it essential for the Council to keep arrangements under review to ensure the identified projects are delivered.

The Council is now in the next stage of the e-government agenda, delivering the vision. For all local authorities, this step is dependent upon having excellent programme, project, change and risk management processes in place. The Council will need to focus on these areas to ensure that they have appropriate structures, processes and skills to enable the effective use

of limited resources to deliver their e-government agenda.

Procurement

Procurement is an important area for strategic consideration because of the large amount of resources allocated by public organisations through procurement processes. At Runnymede, the combined revenue and capital expenditure on bought-in goods and services of some £20 million annually represents a significant level of procurement. Effective and open procurement, including the exploitation of new technologies to improve efficiency, has been increasingly promoted as a key factor in the development of best value services.

During the year, we undertook an overview of the Council's corporate approach to procurement. Our overview was based on good practice identified by the Audit Commission and recommended in the Byatt report of 2001.

The commissioning and procurement strategy agreed in July 2002 describes the Council's approach to procurement and highlights the importance of procurement procedures. Leadership on procurement matters is corporately provided by the Directors Management Team (COMT).

The Council has an aggregated procurement approach for several goods and services which adheres to good practice as it is likely to deliver savings. This approach is carried out by several different teams, including the stores service, administration and leisure, technical services, and the IT manager.

Our review, which has been discussed with officers, identified that there is scope for the Council to enhance its overall procurement arrangements. Key issues for Members' attention are:

- the commissioning and procurement strategy needs to be reviewed to ensure that it more clearly states the Council's policy for procurement and defines the overall strategy, details of which are in other corporate documents
- the identified key corporate tasks in the procurement strategy's implementation section have not been completed. Whilst these tasks should be progressed as a

matter of urgency, we recognise that implementation is a challenge as there are issues of corporate capacity

- the Council has yet to fully progress its consideration of the risks and benefits of e-procurement.

It is encouraging that officers have recently established the corporate procurement project group to take forward action on procurement corporately.

Community strategy

The Local Government Act 2000 introduced a duty on local authorities to prepare a community strategy which promotes the economic, social and environmental well-being of their areas.

During 2002/03, the Council worked to a phased plan to produce a community strategy. The plan, which was published in November 2002, contains targets and actions to improve medium- and long-term development in the borough. Whilst the issues and themes identified by the people of Runnymede in the community strategy cannot all be delivered solely by the Council, they do inform the Council's policy formulation process.

We understand that the Chief Executive has been able to report significant progress to Members and the local strategic partnership on achievement of targets.

Risk management

Whilst the Council introduced a risk management strategy in 1998, it recognised that the strategy did not concur with current best practice. This year, the Council decided to review its methodology to ensure it is able to methodically identify all business and operational risks. As part of our 2002-04 audit plan, we agreed to work with the Council to facilitate the implementation of risk management through workshops. However, due to the impending CPA review, we have deferred our input. We will reassess the position with you in light of the CPA results.

Audit Commission inspections

During the year, the Council's housing services were inspected by the Audit Commission's

Housing Inspectorate. The service was rated as Good (two-star) with promising prospects of improvement.

The main area of inspection activity for the forthcoming year will be the CPA.

Financial aspects of corporate governance

New political arrangements

To prepare for the requirements of the Local Government Act 2000, Runnymede adopted a trial interim political structure of a leader and executive in May 2000. A late amendment to the Bill gave district councils such as Runnymede, with populations of less than 85,000, the option of either:

- proposing a new structure of a type to be permitted by regulations, which does not include an executive body but with provision for scrutiny or review arrangements, or
- proposing a new structure with an executive alongside the models outlined elsewhere in the Act.

Following a consultation exercise, there was an overwhelming majority consensus for arrangements not including an executive body. The new statutory constitution came into effect in May 2002 with the Council discharging its responsibilities through five policy committees, together with a standards and audit committee and a review board for overview and scrutiny.

Whilst the Council opted for arrangements which do not include an executive body, there is still a requirement for an effective scrutiny role to be developed. In our 2002-04 audit plan, we have agreed to review the Council's arrangements and new constitution in order to assess whether they are in line with the intended changes set by government and specifically the effectiveness of arrangements for overview and scrutiny. This work is due to be undertaken in January 2004 and will be informed by the outcome of the CPA review.

Financial standing

The Council's overall financial position remains healthy. The medium-term financial strategy is dependent on the utilisation of significant balances. This emphasises the need for continued prudent financial management and monitoring by Members to ensure that balances remain adequate for the Council's needs.

Financial position – general fund

The Council incurred a deficit of £1.19 million in 2002/03 in comparison with the original budgeted deficit of £2.66 million and the revised budget of £2.27 million. The main reasons for variations between the original budget and actual performance are detailed in Table 1.

Table 1 General fund variances budget to actual

Variance	£'000
Staffing, administration and running costs	349
Additional income not budgeted for	344
Pension fund deficit payments discharged by lump sum	258
Planned underspends carried forward to 2003/04	240
Land drainage reduction in special projects	134
No contribution to DSO deficit and delay to recycling contract	131

Budget monitoring arrangements are effective and the focus of the Council on keeping the level of council tax at a minimum is recognised. The large variances between the original budget and actual performance have been reported and explained to Members.

The general fund balance currently stands at £4.44 million with a further £3.49 million in the general fund contingency reserve at £1.41 million in earmarked reserves. These levels of balances continue to be healthy. In line with the overall financial strategy, the Council has been utilising its reserves as illustrated in Table 2.

Table 2 Level of general fund reserves

	00/01 £'m	01/02 £'m	02/03 £'m
General fund balance	7.20	5.64	4.44
General fund contingency reserve	2.58	3.17	3.49
Earmarked reserves	2.24	1.48	1.41
Total	12.02	10.29	9.34

The current five-year financial strategy is dependent on these balances being utilised in the medium-term and the achievement of net revenue savings. As a result, the total level of revenue reserves is forecast to be £1.75 million by 2008/09. This is above the Council's minimum recommended level of £1 million. However, Members will need to keep the position under review to ensure that balances remain adequate for the Council's needs.

Financial position – housing revenue account

On the housing revenue account (HRA), the Council achieved a surplus of £798,094 in 2002/03 in comparison with the original budgeted surplus of £7,500 and the revised budgeted surplus of £31,400. The main reasons for variations between the budgeted and actual performance are detailed in Table 3.

Table 3 HRA variances budget to actual

Variance	£'000
Savings on housing repairs	369
Provision for estate improvement not utilised	102
Additional HRA subsidy	73
Additional rental income	72

Of the variances identified, £199,700 were planned underspends which have been carried forward to 2003/04. The HRA balance currently stands at £2.03 million. Last year, we noted that by the end of 2007/08, the balance was forecast to be £379k. Under the current financial strategy, by 2007/08, the forecast balance will be £1.37 million. This is then expected to reduce to £0.57 million by 2008/09. The Council will need to keep the situation under review to ensure that the level of the HRA balance

continues to be sufficient to meet the potential risks which it may face at that time.

The Council is seeking to meet the 'Decent Homes Standard' by 2007 in advance of the 2010 requirement. Major issues facing the HRA are the estate redevelopments at Roakes Avenue and Wapshott Road.

Financial position - capital

Capital expenditure in 2002/03 totalled £15.82 million compared to budgeted expenditure of £18.02 million. The main reasons for variations between the budgeted and actual performance are:

- budgeted expenditure on shared ownership housing schemes amounted to £2.8 million the actual expenditure on these schemes was £1.60 million
- budgeted expenditure on town centre schemes amounted to £2.17 million, the actual expenditure in-year was £1.19 million.

A significant item of capital expenditure during the year related to the funding of the pension fund deficit. The last three actuarial reviews have shown that the Surrey pension fund is in deficit. To fund the deficit, the Council would have had to make additional revenue contributions of £587,000 over a period of 12 years. Rather than making these contributions from revenue resources, the Council sought and received Government approval to make a one-off payment financed from capital receipts. This payment will reduce investment income and the amount of capital receipts available for other projects.

Systems of internal financial control

On the basis of our work, we are satisfied that overall adequate systems of internal financial control are in place. Whilst we are satisfied with Internal Audit's coverage of key systems during the year there has been a significant level of staff turnover and long term sickness absence in recent years which resulted in changes to the audit plan.

Internal Audit represents a significant part of your internal financial control arrangements and we rely as far as possible on their work. The

significant level of staff turnover and absence within Internal Audit did impact on their ability to deliver their audit plan.

On the basis of our work, we are satisfied that other aspects of your internal financial control arrangements are satisfactory.

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

Arrangements for preventing and detecting fraud and corruption are satisfactory.

On the basis of our work we concluded that your overall arrangements for prevention of fraud and corruption were satisfactory.

The National Fraud Initiative (NFI), which is run every two years, is part of the statutory external audit and authorities are required to provide the data requested. Details of matches in the most recent exercise, NFI 2002, have been provided to the Council and our role has been to assist the Authority to maximise the identification of frauds within the optimum time.

The results of NFI 2002 have been fed back to the Council in two stages; Run 1 at the end of March 2003 and Run 2 in May.

Our work in this area is still in progress and we will report our detailed findings shortly.

Legality of transactions

From the work done to date, we are satisfied with the Council's arrangements for ensuring the legality of transactions with financial consequences.

During the year, we have held discussions with Officers and have reviewed the Council's overall arrangements. There are no issues to report to Members.

Furthermore, no matter relating to the accounts for the year ending March 2003 has been raised by members of the public.

Accounts

Following our review of the final accounts we were able to issue an unqualified opinion on the accounts.

Members approved the Council's financial statements on 4 September 2003, in advance of the 30 September deadline.

Having concluded our audit we issued an unqualified audit opinion on 28 November.

The main issue which arose was that an adjustment was required because housing stock was not valued in accordance with the requirements of the HRA resource accounting manual. The required adjustment was satisfactorily made prior to Members approving the statements.

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 corporate management 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.

There were no issues to report to Members under SAS 610.

Audit fee

The proposed fee for the 2002-04 audit was set out in our audit plan agreed at the start of audit, and is repeated in the table opposite. The work remains in progress and we will provide explanations of any variances as they arise.

Members should note that in order to bring the Audit Commission financial year in line with local authorities, the current plan covers the period from November 2002 to March 2004. In this

time we will deliver two statutory audits and two annual audit letters.

Combined audit fee for 2002/03 and 2003/04

Audit area	£
Accounts	37,250
Financial aspects of corporate governance	39,700
Performance	58,400
TOTAL CODE OF AUDIT PRACTICE AUDIT FEE	135,500
Inspection (1)	31,100
Certification of grant claims (2)	16,500
TOTAL AUDIT FEE	183,100

(1) Inspection fees are net of ODPM grant received.

(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 2002/03 certification work.

Future audit and inspection work

Our audit and inspection programme for 2003/04 is included in the audit and inspection plan 2002-04 which was issued in March 2003.

We will discuss the timetable for planning the 2004/05 audit and inspection programme, linked to your improvement priorities, with officers early in 2004. Our future programmes will be structured across the following themes that help to clarify the purpose of our work:

- assessment
- improvement
- assurance.

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 Manger and appointed 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 Member or officer in their individual capacity, or to any third party.

Closing remarks

This Letter has been discussed and agreed with senior Officers and with the Corporate Management Committee on 4 December 2003.

Finally, I would like to take this opportunity to express our 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.



Peter Arkell
District Auditor



Paul Chambers
Relationship Manager
18 December 2003

Auditor's statutory report on the best value performance plan

Auditor's report to Runnymede Borough Council on its best value performance plan for 2003/04

Certificate

I certify that I have audited Runnymede Borough 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 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.

Opinion

In my opinion, Runnymede Borough Council has prepared and published its best value performance plan in all significant respects in accordance with section 6 of the Act and statutory guidance issued by the Government.

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 Runnymede Borough 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