



RUNNYMEDE **BOROUGH COUNCIL**

CORPORATE MANAGEMENT COMMITTEE

4 NOVEMBER 2004

APPENDIX B

ANNUAL AUDIT AND INSPECTION LETTER

Annual Audit and Inspection Letter

Runnymede Borough Council

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Reference:	RU002 Annual Audit and Inspection Letter- Draft
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Date:	October 2004

The purpose of this letter

This Annual Audit and Inspection Letter summarises for members the more important matters arising from our 2003/04 audit and inspection programme. It also comments on other current issues. We have produced separate reports during the year on completion of specific aspects of our work, which are being discussed in detail with officers. The reports are listed at the end of this Letter for members' information.

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

Background to the audit and inspection programme

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

- The impact of the Local Government Act 2003, in particular the pooling of capital receipts.
- New licensing responsibilities.
- Decriminalised parking enforcement.
- Progressing on priorities such as investment in the housing stock to ensure the 'Decent Homes Standard' is met in advance of the 2010 target.
- Seeing through the last stage of the Chertsey Revitalisation scheme and progressing on the Action Addlestone project.

Key messages

Council performance

A Comprehensive Performance Assessment (CPA) of the Surrey district councils was carried out by the Audit Commission in December 2003. CPA has been applied to all district councils on a phased basis over a two year period and it is intended to help councils improve services delivered to the local community.

The result of the council's review was published in April 2004 and the council is to be congratulated on its CPA assessment as an 'excellent' authority. The council recognises that further improvement can be made and have developed an improvement plan to address the key issues. The key challenge now facing the council is to ensure that the achievement of the plan leads to the desired outcomes.

Financial position

The council's overall financial position remains healthy. The medium-term financial strategy is based on the utilisation of balances, achievement of revenue reductions and stepped increases in the council tax until income matches ongoing revenue expenditure. 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 aspects of corporate governance

On the basis of our work in reviewing financial aspects of corporate governance, we are satisfied that the council's overall arrangements are satisfactory. However the council should ensure that control account and bank account reconciliations are promptly undertaken during the year.

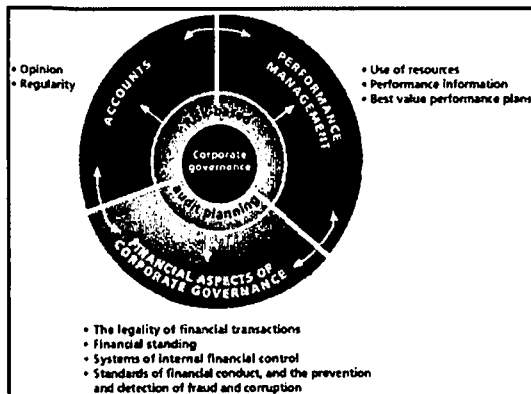
Accounts

Following our review of the final accounts we have issued an unqualified opinion on the accounts on 27 October 2004.

Audit objectives

Our Code of Practice requires us to design a programme of work to address the significant operational and financial risks you face which impact on our responsibilities. Our work focuses on whether you have adequate arrangements for the following.

EXHIBIT 1 – THE CODE OF AUDIT PRACTICE



Performance

- Securing economy, efficiency and effectiveness in the use of your resources.
- Best Value Performance Plan.
- Producing performance information.

Financial aspects of corporate governance

- Ensuring your financial standing is soundly based.
- Satisfying yourselves that your systems of internal financial control are both adequate and effective.
- Ensuring proper standards of financial conduct and to prevent and detect fraud and corruption.
- Securing the legality of transactions.

Accounts

- We have to give an opinion that your accounts present fairly the council's financial position.

Our audit has addressed the requirements of the Code of Audit Practice and we have worked with the council to maximise the benefits of the

integrated audit approach. We have reviewed your arrangements for dealing with risks and we have undertaken more detailed work in selected areas of higher risk.

Inspection

Audit Commission inspectors operate within the statutory requirements of the Local Government Act 1999. Inspectors seek to enable:

- the public to judge whether best value is being delivered;
- the council to assess how well it is doing;
- the Government to assess how well its policies are being implemented on the ground; and
- the council to identify failing services where remedial action is necessary.

Performance management

Comprehensive Performance Assessment

The council are to be congratulated on achieving a rating of 'excellent' following the recent CPA review. The key challenge now facing the council is to implement identified improvement priorities, integrate them into a corporate plan and service plans and take steps to ensure that planned improvements are achieved.

Comprehensive Performance Assessment (CPA), carried out by the Audit Commission, has been applied to all district councils on a phased basis over a two year period, 2003 to 2004. CPA is intended to help councils improve services delivered to the local community and the results of the review will be an important consideration in future improvement planning by councils.

The review at Runnymede, and the other ten Surrey districts, was undertaken in December 2003. It was based on a methodology produced by the Audit Commission, following detailed consultation. The starting point for the review was the self assessment prepared by the council and informed by an accredited peer challenge. Other aspects of the review included:

- a corporate assessment;

- two diagnostics assessing the council's progress in meeting the decent homes standard and its management of public space – covering the key areas of managing the environment, waste management, community safety and provision for young people;
- Benefit Fraud Inspectorate's assessment of benefit services;
- auditor assessments of the code of audit practice elements; and
- audited performance indicators, inspection reports and plan assessments.

The result of the council's review was published in April 2004. Runnymede was assessed as **excellent** in the way that it serves local people. Our review identified a number of strengths that the council has, together with areas where further improvement was possible.

Our findings were summarised at the time in a community digest and this is attached at Appendix 1.

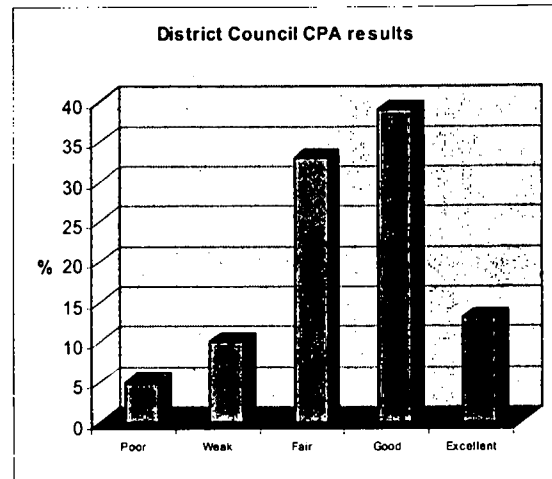
In response to issues identified from the CPA, the peer review and self assessment the council have established an improvement plan which it is in the process of delivering to an agreed timetable. Whilst we have not reviewed the actual progress made as part of our audit or inspection program we note that the following key actions have been put in progress:

- A cross party member working group is reviewing the current corporate planning and policy framework. This includes the clear articulation of strategic ambition and prioritisation.
- The ongoing development of a comprehensive set of published service standards for all major public facing services based on need and relevance.
- The development of a corporate procurement strategy and the establishment of a new Procurement Officer post who will be responsible for the council's procurement arrangements.
- The development of a communication strategy and the establishment of a new post of Communications Officer with responsibility

for external communication and the enhancement of internal communication.

As at September 2004, results of 188 district councils have been published and the chart illustrated in exhibit 2 analyses the ratings given.

EXHIBIT 2 – DISTRICT COUNCIL CPA RESULTS



As part of our 2004/05 audit we will review the council's progress in implementing its improvement plan and seek to work with you in taking this forward. We will report our findings to members in next year's letter.

Performance management

The Leader's Position Statement has traditionally set out the council's key priorities. Whilst it is a political document it is reviewed annually and agreed by 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.

Our CPA found that the statement is a strong mechanism by which the council maintains focus. The statement consolidates into a single statement how the council proposes to respond to the many influences on its work from national initiatives and legislative changes to feedback from the local community and it forms the basis for budget and service planning. The assessment did however identify that the council needs to ensure its strategic objectives mirror the needs of the local community and are a mechanism to drive improvements in service delivery with

clearly set priorities. This is being considered as part of the council's improvement planning process.

Best value

As an 'excellent' council Runnymede were not required to produce a separate Best Value Performance Plan (BVPP) for 2004/05. The Leaders Position Statement outlined the organisations corporate objectives and outturn data and targets for best value performance indicators were published in a Performance Plan, which is on the council's website. The unqualified opinion on your BVPP is included as Appendix 2 to this Letter.

The council has also continued to deliver on the planned program of best value service reviews.

Performance information

Arrangements for collecting and publishing performance information are satisfactory. We noted a significant improvement in your arrangements from last year.

We are satisfied that the systems for collecting and recording performance indicators are generally sound.

It is pleasing to recognise that there has been significant improvement on the issues identified at last year's audit. We found minor errors in 10 out of the 45 tested and the importance of accuracy should be emphasised to the originators of performance indicators.

Financial aspects of corporate governance

Legality of financial 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. In October 2003 we completed an auditor scored judgement on your processes against set criteria as part of the CPA review and

assessed your arrangements as good, which was the highest category.

Furthermore, no matter relating to the accounts for the year ending March 2004 has been raised by members of the public.

Financial standing

The council's overall financial position remains healthy. The medium-term financial strategy is based on the utilisation of balances, achievement of revenue reductions and stepped increases in the council tax until income matches ongoing revenue expenditure. This emphasises the need for continued prudent financial management and monitoring by members to ensure that balances remain adequate for the council's needs.

As explained above, we completed an auditor scored judgement on your processes against set criteria as part of the CPA review and assessed your arrangements as good. Subsequent financial results and actions taken by the council have confirmed this assessment.

Financial position – general fund

As part of the planned use of balances, the council incurred a deficit of £2.06 million in 2003/04, which was less than the original budgeted deficit of £2.5 million and the revised budget of £2.77 million. The main reasons for variations between the revised budget and actual performance are detailed in Table 1.

Table 1 General fund variances revised budget to actual

Variance	£'000
Planned underspends c/fwd to 2004/05	254
Savings on running costs, staff budgets and administration budgets	120
Savings on IT hardware and software maintenance	100
Did not incur expenditure against the Leaders Position Statement initiatives budget	44

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

The general fund balance currently stands at £2.39 million with a further £3.77 million in the general fund contingency reserve and £1.43 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

	01/02 £'m	02/03 £'m	03/04 £'m
General fund balance	5.63	4.44	2.39
General fund contingency reserve	3.17	3.49	3.77
Total unallocated reserves	8.80	7.93	6.16
Earmarked reserves	1.48	1.35	1.43
Total revenue reserves	10.28	9.28	7.59

The current five-year financial strategy is dependent on these balances being utilised in the medium-term and the achievement of significant net revenue savings. As a result, the total level of revenue reserves is forecast to be £1.83 million by 2009/10 with unallocated being £0.99 million. This is in line with the council's minimum recommended level of £1 million for unallocated reserves. 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 £212k in 2003/04 in comparison with the original budgeted surplus of £372k and the revised budgeted deficit £471k. The change between the original and revised budget related largely to decisions to accelerate and initiate major repair and improvement schemes, but in the event this did not proceed as planned. The main reasons for variations between the revised budget and actual performance are detailed in Table 3.

Table 3 HRA variances revised budget to actual

Variance	£'000
Major repair and improvement scheme works deferred to 2004/05.	219
Increase in rental income compared to budget.	102
Less expenditure on demand maintenance than budgeted.	80
Other works deferred until 2004/05	75
Reduced entitlement to rent rebate and HRA subsidy.	(63)

The HRA balance currently stands at £2.24 million. Last year, we noted that by the end of 2008/09, the balance was forecast to be £0.57 million. Under the current financial strategy, by 2008/09, the forecast balance will be £1.36 million. This is then expected to reduce to £0.97 million by 2009/10.

The major issues for the HRA are the requirements to meet the 'Decent Homes Standard' by 2010. The council plans to achieve this standard by 2007, subject to the estate redevelopments at Roakes Avenue and Wapshott Road, proceeding in line with current HRA business plan.

Financial position - capital

Capital expenditure in 2003/04 totalled £5.1 million compared to budgeted expenditure of £7.3 million. The main areas for variations between the budgeted and actual performance are detailed in table 4.

Table 4 key variations on budget compared to actual capital expenditure.

Detail	03/04 Budget £'000	03/04 Actual £'000
Major repair works to council housing	1,165	927
Roakes Avenue project	809	208
Allotment rationalisation and improvement programme	507	202
Strategic management plan.	347	105
Runnymede renewal – provision for work on unfit and vacant properties	200	1

The key element for the capital programme from 2005/06 onwards is the potential redevelopment of the civic offices site. The council is proposing to finance this scheme from capital receipts part of which will be generated by the disposal of land occupied by the current office. We will be monitoring the developments of this proposed scheme during the course of our future years audit.

Arrears

Overall the level of arrears at Runnymede is good; however we have noted that following a period of decline the level of rent arrears has increased. Whilst the level of arrears is not high members should keep this under review and ensure action is taken to address any sustained upward trend.

Table 5- Rent Arrears as % of Gross Debit

31.3.01	31.3.02	31.3.03	31.3.04
2.32%	2.15%	2.11%	2.54%

Systems of internal financial control

The council should ensure that control account and bank account reconciliations are promptly undertaken during the year.

2003/04 saw the introduction of new financial systems. While key controls were regularly performed during the year, as a result of implementation issues there were some delays in achieving full reconciliation of some control accounts. However these were completed for year end and we now understand that officers have taken action to ensure that full reconciliation is regularly undertaken.

Internal Audit are an important means by which Management are provided with assurance that the overall arrangements for corporate governance and systems of internal financial control are in accordance with the expected standards and regulations. During the year there was considerable staff turnover and absence within the section which resulted in significant slippage in the delivery of their plan. We recognise however that ongoing action is being taken to address the resource issues within Internal Audit, through the purchase of audit resources on a contract basis. We also note that following a recent recruitment campaign the

council has now appointed a new permanent member of staff to the audit team.

The council has also made good progress in establishing a standards committee which includes a remit for audit.

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 council is shortly to participate in the Audit Commission National Fraud Initiative (NFI) 2004/05. NFI is a data matching exercise designed to help participating bodies to detect fraudulent and erroneous payments from the public purse.

Accounts

Following our review of the final accounts we have issued an unqualified opinion on the accounts on 27 October 2004.

Members approved the council's financial statements on 29 June 2004, well in advance of the 31 August deadline. This puts the council in a good position for the earlier deadline of 31 July next year.

Issues arising from the audit have been discussed with officers. Following the decision by the VAT inspector relating to the sale of the land and buildings of Amer House, Chertsey, the council will need to review and strengthen procedures in this area as appropriate.

Under the Statement of Auditing Standard (SAS) 610 we are required to communicate to those charged with governance (as distinct from management) the following matters before giving an opinion on the financial statements:

- modifications to the auditors' report;
- unadjusted mis-statements;

- material weaknesses in the accounting and internal control systems identified during the audit ;
- their views about the qualitative aspects of the council's accounting practices and financial reporting;
- matters specifically required by other accounting standards to be communicated to those charged with governance; and
- any other relevant matters relating to the audit of your accounts.

Whilst we do not have any issues to draw to your attention under SAS 610 we have reported to officers in our final accounts report the detailed matters arising from our audit.

Audit fee

The proposed fee for the 2002/04 audit was set out in our audit plan agreed at the start of the audit, and is repeated in the table below. 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 have delivered two statutory audits and two annual audit letters.

The Audit Commission has changed the certification audit regime to reduce the amount of work overall, and better link the work to assessments of risk. The benefits of this approach will begin to be achieved in our certification work later in 2004, and be fully achieved in 2005.

Details of the planned fee and estimated final fee are given in exhibit 3. Our work is still in progress and any changes will be discussed with officers.

EXHIBIT 3 - AUDIT AND INSPECTION FEE

Area	Plan 2002/04	Actual 2002/04
Accounts	37,250	37,250
Financial aspects of corporate governance	38,200	38,200
Performance	54,000	54,000
TOTAL CODE OF AUDIT PRACTICE AUDIT FEE	129,450	129,450
Inspection (net of ODPM grant)	31,100	31,100
Certification of grant claims	34,000	34,000

Future audit work

A major focus impacting on our work in 2004/05 will be working with you as you implement the issues identified in your improvement plan.

Following our review of the operational and financial risks facing the council that need to be addressed at the 2004/05 audit, our Audit and Inspection Plan for 2004/05 was agreed with the council in May 2004.

We look forward to working with you in addressing this and other challenges.

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:

- Rationalization of service blocks.
- 'Achievement' assessment element of Corporate Assessment to be driven by review of Community Plan and shared priority themes.
- Move away from rigid 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.
- More robust and explicit view of vfm and cost-effectiveness.

Status of our Annual Audit and Inspection Letter 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. The Letter is prepared by the appointed auditor and the relationship manager 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

A summary of the issues raised in this Letter, and the audit work undertaken during 2003/04, will be discussed with the Corporate Management Committee on 4 November 2004.

We would like to take this opportunity to express our appreciation for the assistance received from officers during the course of our work. Our aim is to provide a high standard of audit service which makes a practical and positive contribution to the work of the council. We recognise the value of your co-operation and support.

Availability of this letter

This letter will be published on the Audit Commission's website at www.audit-commission.gov.uk, and also on the council's website.

Peter Arkell
District Auditor
November 2004

Paul Chambers
Relationship Manager
November 2004

Reports arising from the audit

- Comprehensive Performance Assessment
- Interim Audit Report.
- Final Accounts report.

APPENDIX 1

Community digest

Runnymede Borough Council

The way Runnymede Borough Council is run and the delivery of its services is **excellent** (on the scale: excellent/good/fair/weak/poor).

What are Runnymede Borough Council's main strengths?

- It provides a wide range of high quality services and public satisfaction is very high.
- It is committed to improving the quality of life of local people and does this by providing a clean, safe and well maintained environment for the community it serves.
- Council homes are in good order and tenants are satisfied with the services they receive.
- It manages its budgets well and is successful at getting extra money to help it expand the range of services it can offer.
- It has capable and well managed staff and it works well with other organisations.
- It wants to improve even more and has some sound plans to do this.

What are Runnymede Borough Council's areas for improvement?

- The links between the council's priorities and those of its residents are not always clear.

Date: 8 April 2004

What is the Audit Commission's role in CPA?

- *The Audit Commission is an independent body working to check that public money is being spent well on local government, housing, health and criminal justice services.*
- *Comprehensive performance assessment (CPA) is about helping councils to deliver better services to local people.*
- *Councils are being reviewed in county groups from June 2003 to early autumn 2004.*

What do borough councils do?

- *Borough councils provide, directly and in partnership with others, a variety of services to meet the needs of the local community. Services provided typically include housing, waste collection, leisure facilities and dealing with housing benefits.*
- *The money for these services comes mainly from council tax, government grants and fees and charges.*

What happens next?

- *Runnymede Borough Council will use our report to help it improve the services that it provides to local people. You can get more information from the council's website on www.runnymede.gov.uk or by telephoning 01932 838383.*

Auditor's report to Runnymede Borough Council on its Best Value Performance Plan for 2004/05

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 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 Local Government Act 1999 (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; and
- 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 Local Government Act 1999;
 - whether the Secretary of State should give a direction under section 15 of the Local Government Act 1999.

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.

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

Unqualified 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 Local Government Act 1999 and statutory guidance issued by the Government.

Recommendations on procedures followed in relation to the plan

Where appropriate, I am required to recommend the procedures to be followed by the council in relation to the plan.

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 Local Government Act 1999.
- I do not recommend that the Secretary of State should give a direction under section 15 of the Local Government Act 1999.

Signature

Peter Arkell
District Auditor

Date