

**HERTFORDSHIRE COUNTY COUNCIL
AUDIT PANEL
THURSDAY 2 FEBRUARY 2006 AT 2:00 P.M.**

AUDIT COMMISSION ANNUAL AUDIT LETTER 2004/05

Report of Finance Director

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This report sets out a draft response to the attached Audit Commission Audit & Inspection Letter for the financial year 2004/05 which covers:

- Council performance
- Accounts and governance
- Performance management

Subject to any comments the Audit Panel wish to make, the report will be presented to Cabinet and the final agreed response sent to the Audit Commission and published on the Council web site.

1. Summary

The letter summarises the conclusions and issues arising from the audit and inspection and suggests certain actions; these are:

- Ensure the Council delivers identified improvements in all corporate performance areas. (Para 11)
- Continue to monitor the financial position of the council. (Para 12)
- Ensure arrangements are in place to produce the 2005/06 accounts in line with the earlier deadline of 30 June 2006. (Para 13)

The key issues addressed in the report relate to (Audit Commission comments in italics and responses in bold):

(a) Performance

The council is improving well and demonstrating a 4 star overall performance.

Key areas for improvement identified were

CPA scorecard

The council achieves good value for money and has improved this in waste management and through more efficient management processes. However although many services perform well, the overall cost of a number of services is high, and performance in some services such as road maintenance is mixed (Para 16)

Finance Board and Performance & Planning group (PPG) acknowledge the issues of cost and performance and as part of their remit and will look at the specific areas and activities. Further clarification will be sought from the Auditors to identify the areas referred to and advise members accordingly.

The Council is improving arrangements for planning local services and recently developed its first corporate plan. Some important targets have been achieved and the Council has successfully recruited key social care staff. Further work still needs to be undertaken to improve the Council's arrangements to manage performance and to make targets for some plans clearer. (Para 17)

Members and officers are working to ensure the targets in the next corporate plan and performance measures in the balanced scorecard are robust. Service planning guidance is being enhanced to include output from the strategic compass work (services direction of travel) together with firm milestones and target performance measures and robust target setting.

The Council has an integrated fire service, which was subject to a Fire CPA assessment in 2005. This inspection assessed the way the Council's Fire and Rescue Service is run and the delivery of its services as fair (on the scale: excellent/good/fair/weak/poor). (Para 19)

The Key areas for improvement identified were:

It has not made its strategic objectives and priorities clear

The development of the services Integrated Risk Management Plan together with our Community Safety Service Plan will address the Commission's concerns in this area. At the time of the audit, work on both documents was at an advanced stage and it is felt that this has not been given significant recognition.

Performance management processes are not well developed and there is inconsistent management of individual performance

The Service has carried out significant amount of work on the Performance Management system and now meets many of the requirements anticipated by the Audit Commission. On individual performance, the national Integrated Personal Development System (IPDS) is being developed regionally. In addition the HCC Performance Framework has been adopted for senior support staff and it is intended to roll this out across the service during the financial year 2006/07.

It does not have a clear framework on what its plan to do next. It lacks robust medium and long term future plans and key plans are not clearly linked

A considerable amount of work has been done in respect of future planning but has not been scored highly by the Commission. Work is continuing to further develop our future plans and planning processes to ensure a greater degree of integration and alignment. The Service's Community Safety Plan already has targets set up to 2010.

(b) Direction of Travel

The Council has improved services in key national and local priority areas.

Key areas for improvement identified were as follows

Improving outcomes

- *Whilst there is general improvement evident, there are some areas where progress is less robust. For example Highways performance is mixed, with performance for footpath condition in the lower quartile and performance for minor roads also in the lower quartile. The Council reports that performance for the condition of principal roads is high, although this cannot be confirmed from the most recent best value performance data. There are also some examples of worst quartile performance in other service areas. For example, excluded children receiving tuition is in the worst quartile (Para 22)*

These issues are now featured in the strategic compass discussions put in place by the administration to improve value for money and resources allocation. There are clearly issues about the availability of up to date comparative highways data. Clarification of these factors and their use in planning will be a priority.

The CSF strategic compasses addressed exclusion, with specific delivery targets around key stage 4 centres. Since the last report to the Audit Commission the LA has introduced a regular monitoring of provision for excluded pupils who are out of school. The introduction of regular monitoring has also provided us with a basis for monitoring our processes and for case work to improve the placement of pupils in alternative provision.

The LA has recognised the need to further improve prevention, support reintegration and to expand its capacity to make alternative provision for pupils out of school. Planning is taking place to:-

- **develop a county wide structure of Key Stage 4 Learning Centres, providing 240 places for excluded pupils for whom returning to school is unsustainable,**
 - **introduce reintegration protocols for 'hard to place' pupils across the Authority's schools and improve preventative work – in particular by the realignment of behaviour support services and by removing place blocking in education support services.**
- *Our review of the Council's use of resources has found that whilst there are a number of useful processes to improve value for money including for example, reviews such as the integrated transport review, there are a number of actions that can be undertaken to improve the management of value for money. These include greater use of unit cost data, use of comparison and the*

development of performance indicators and associated monitoring for strategic procurement. (Para 23)

Finance Board and the PPG are taking this forward with service departments to further develop unit cost information and identify comparative bench marks which will highlight areas for value for money improvements. Systems to collect information in relating to strategic procurement and an appropriate performance score card are being developed.

Progress

Key objectives are being achieved as a result of improvement planning.

- *However, there are some milestones, which have yet to be achieved, and where progress has been slow. These include the following:*
 - *the Council predicts that some of its LPSA targets will not be achieved by 2005/06, a number of these relate to education attainment targets, where the Council recognises that targets set have been too stretching and not achievable;*
 - *performance in some areas such as the educational attainment of minority groups is not on target; and*
 - *the Council has been seeking to improve performance management through the implementation of the balanced scorecard but progress has been complicated by system development issues. (Para 25)*

It is clear that some targets have proved over ambitious. Members have overseen a process which has resulted in the implementation of improved target setting.

Added emphasis is being given to areas where progress has been slower than desired e.g. the educational attainment of minority groups, has driven the Challenge 'to maximise opportunities for all children and young people'. Further specialist IT expertise has been procured to speed up system development.

Specific and significant steps have been taken to help underachieving minority ethnic pupils. These include:-

- **the reorganisation of Minority Ethnic Curriculum Support Service (MECSS) and its specialist teams in line with Aiming High Strategy.**
- **increasing capacity through a closer working relationship with other strategies, for example the primary and secondary strategies.**

- **research into the causes of underachievement in these groups through a Members Scrutiny Panel as well as an action research project within MECSS.**
 - **the formation of a task force, in partnership with members of the Pakistani community, to investigate and address underachievement amongst Pakistani heritage pupils, especially boys.**
- *Performance monitoring is in place at a department and corporate level and includes a considerable amount of detail. Performance monitoring by the Children, Schools and Families (CSF) department against its department plan has been noted as effective by the Commission for Social Care Inspection (CSCI). The outstanding issues to be resolved by the Council are the lack of comparative data, (for example, against high performing Councils) and the lack of unit cost data, as well as the development of the balanced scorecard to improve and bring greater consistency of performance monitoring. (Para 31)*

Addressed in response to Paragraph 23 above

(c) Performance information

Having completed our statutory audit of your 2005/06 Best Value Performance Plan (BVPP), we issued our unqualified opinion on 14 December 2005.

- *However, we reported reservations on five local performance indicators, specifically relating to the libraries services. Three of these indicators could not be verified due to an inflexible computer system which could not be interrogated, and the remaining two had not been calculated in accordance with the definitions. (Para 35)*

Issues concerning timing of the collection and quality of adequate information, and definitions are been reviewed. Measures have been taken to improve future recording of figures and ensure prompt returns. Electronic return forms have been introduced. This will eliminate potential miscalculations and enable staff to record usage swiftly and accurately.

In addition the software used to report stock performance indicators is being developed to make the reporting on stock related standards more efficiently in the future.

(d) Accounts and governance

We have given your accounts an unqualified audit opinion. The Council has good budgetary control arrangements for monitoring and taking action on spending. The financial position is strong and the Council has delivered savings in some key service areas. Reserves are being held at a prudent level. We have not identified any significant weaknesses in the key areas of your corporate governance arrangements. We assessed the Council's arrangements for use of resources in five key areas and overall judged the Council to be performing well and consistently above minimum requirements.

Further improvements were identified, particularly in the areas of financial reporting and management and the corporate monitoring of value for money.

Matters arising from the final accounts audit

- *In last year's Annual Audit and Inspection Letter we emphasised that timeliness in producing the accounts will become increasingly important over the next few years as the deadline for completion of the accounts is brought forward in line with the Government's requirement. Whilst the accounts have been prepared to meet the requirements this year, the deadlines will become increasingly more difficult to achieve and will require early planning and thoughtful scheduling of key meetings next year. (Para 47)*

All officers are very aware of the tighter deadline set for the closing of the 2005/06 accounts. Finance Board and Finance managers have undertaken a review of 04/05 closedown and agreed a time table for 05/06 to achieve the published deadline which is the end of June. This is a month shorter than 04/05. The programme will be regularly monitored by Finance Board.

- *The draft accounts presented for audit were produced to a high standard and the quality of working papers provided as part of the audit process had also improved, although the devolved nature of the finance function created some difficulties in identifying the relevant officers and documentation at a departmental level.*

Finance Board will address the issues raised with a view to improve this for the 05/06 accounts.

- *A number of difficulties were also encountered in verifying figures direct from the SAP system to the financial statements, partly due to the miscoding of revenue items to account codes and the inclusion of both debtors and creditors within individual account codes. Although, all balances were reviewed and correctly entered in the financial statements, the audit trail was complex and the Finance Accountant was almost solely responsible for preparing these reconciliations. If this person were unavailable, the Council would suffer a loss of key expertise. (Para 49)*

The risk identified is recognised and measures have been taken to strengthen the team. The section has undergone a reorganisation, which has improved support to the Finance Accountant and created additional higher level support from the Finance Manager.

(e) Financial standing

The Council has good budgetary control procedures and arrangements in place for monitoring and taking action on spending. Performance against budget is reported to cabinet on a quarterly basis. (Para 51)

Despite initial problems with obtaining budget monitoring information from the new SAP system, the Council underspent in both revenue and capital budgets in the year, achieving savings in some key services areas. (Para 52)

General fund spending and balances

- *Our review of the key variances from budget did not identify any concerns over the Council's reporting and budget monitoring processes. However, control should continue to be maintained across all department budgets, ensuring reports accurately reflect the current position. (Para 54)*

We will continue to monitor, review and improve our processes to maintain accuracy and control. The comments in Paragraph 12 are noted and we will continue to monitor the financial position in accordance with the requirements for regular monthly and quarterly reporting. The SAP system will assist with prompt reporting of variances.

School balances

- *School balances increased by £6.5 million in 2004/05 to £43.3 million, which represents 8 per cent of school budgets. Although this is in line with the national changes in schools' reserves and the increasingly devolved nature of schools' finances, the Council are being proactive in identifying where possible excess balances are held. All schools with reserves over £0.3 million are to produce and submit a three-year plan outlining how balances are to be utilised.(Para 59)*

In addition the Schools Forum has asked the authority to explore the potential to introduce a mechanism which would encourage a reduction in school balances. We propose to consult with schools on this during the summer 2006 with a proposed implementation date of 2008/09.

2. Publication

The Council is required as soon as reasonably practical following its receipt to publish the Letter and keep copies of it available for any person (on payment of a reasonable sum).

To fulfil this requirement the Letter will be placed on the Council's web-site (www.hertsdirect.org): and there will be a reference to it in HERTSDIRECT, the Council's newspaper.

3. Conclusion

It is the responsibility of the Executive to agree the response to the specific issues set out in the report. The panel now needs to consider the suggested response and forward this together with any recommendations and observations to Cabinet for final approval. This will be then be sent to the Audit Commission as the Council's final response.