

# **Annual Audit and Inspection letter**

**Stockton-on-Tees Borough Council**

**Audit 2004-2005**

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## Key messages

### Council performance

- 1 Under a new assessment process, the Council has been judged to be four-star overall (the highest rating), improving well and consistently above minimum requirements - performing well in its use of resources. The Council has robust plans in place and the capacity to secure sustained improvements in services. Services in most priority areas are improving and public satisfaction remains high. Value for money (VFM) is good and efficiency gains are being achieved in most areas.

### Financial position

- 2 The Council's accounts for 2004/05 presented fairly its financial position. Financial standing is sound, but future pressures of single status and job evaluation combined with uncertainty regarding future grant settlements will be key considerations for members both in annual budgeting and in longer-term financial planning.

### Other accounts and governance issues

- 3 The Council's arrangements for financial management, including links to strategic management exceed minimum standards and the Council performs well in most areas.

### Action needed by the Council

- 4 The key issues for members are to:
  - ensure that the ALMO recovery plan delivers the required improvements;
  - maintain a prudent approach to the budget for 2006/07 and future years as single status and job evaluation costs are likely to be higher than anticipated; and
  - continue to challenge managers for those services where performance can be improved - even if these services are not priorities, the Council should be aiming to see all its services in the top quartiles of performance.

## Performance

The Council has robust plans in place and the capacity to secure sustained improvements in services. Services in most priority areas are improving and public satisfaction remains high. Value for money is good and efficiency gains are being achieved in most areas.

### CPA scorecard

- 5 The CPA judgements this year have been made using the revised methodology: CPA - the harder test. CPA is now a more stringent test with more emphasis on outcomes for local people and value for money. A Direction of Travel judgement is part of this test and measures how well the Council is improving. Under the new framework the Council is judged to be improving well and its overall CPA category is four-star.

**Table 1 CPA scorecard**

Element	Assessment
Direction of Travel judgement	3: Improving well
<b>Overall</b>	<b>Four-star</b>
<b>Current performance</b>	<b>Out of 4</b>
Children and young people	3
Social care (adults)	3
Use of resources	3
Housing	3
Environment	4
Culture	3
Benefits	3

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

- 6 The Council has robust plans in place together with the ability to secure sustained improvements to the services it provides.
- 7 Services in most priority areas are improving. Most targets are being met, and the Council is promptly implementing its housing recovery plan.

- 8 Education achievement is increasing. The number of child protection registrations has reduced and support for individual children is more effective. Together with the PCT, the Council has improved health outcomes for older people. More homes are decent and benefit processing times have been reduced. Leisure facilities and open spaces have improved. The housing recovery plan is tackling issues of low tenant participation and inadequate housing management. A substantial regeneration programme is delivering environmental and economic improvements. Public satisfaction with services remains high. Access to services and consultation with all groups is improving. Progress is being made in delivering the outcomes of the local area agreement. Value for money is good and efficiency gains are being achieved in most areas.

## Direction of Travel report

- 9 The Council is improving services in most priority areas. Overall public satisfaction levels remain in the best quartile and satisfaction with handling of complaints has improved. Fifty one per cent of key BVPIs have improved with 35 per cent of these now in the best quartile.
- 10 Children's services consistently deliver above minimum requirements. Improved achievement rates in all core subjects are above those found nationally. Investment to improve Key Stages 3 and 4 is producing record results with significant improvement in some areas. Children's social care services have also continued to improve, with a stable child protection register, reducing registrations and effective review and better support for individual children.
- 11 Adult social care services have improved in key areas and overall are serving most adults well. The capacity to improve is promising. The Council was awarded beacon status for its work in partnership with the Primary Care Trust (PCT) on improving health outcomes.
- 12 Investment in regeneration is substantial and is leading to improvement in employment. Environmental services continue to be a low cost, high standard and award winning areas, with maintenance of top-level performance on key indicators. There has been significant improvement in the administration of housing benefits, with processing times cut in half.
- 13 The Audit Commission's inspection of the Council's ALMO (Housing Company) in March 2005 saw the rating drop from two stars to one-star. Weaknesses were highlighted in leadership, tenant participation and housing management. An action plan to address the weaknesses is now in place and is already leading to more decent homes, improvements in tenant participation and a planned approach to housing repairs.
- 14 Stockton is placing a greater priority on cultural services as key contributors to improving the quality of life of residents and identified as priorities by residents. The Council is focusing on improving leisure facilities and the quality of parks and open spaces. Leisure services user satisfaction is improving and usage is increasing. Investment in urban parks restoration is increasing the opportunity to use open spaces.

- 15 The Council makes an effective contribution towards wider community outcomes, delivering with partners, a substantial regeneration programme to stimulate economic growth and increase employment and investment. Eighty-five per cent of residents are satisfied with the Borough as a place to live compared to 78 per cent in 2002 and residents are much more optimistic about the future of the local economy than the national average.
- 16 The Council has achieved 70 per cent of LPSA targets. Outcomes are improving across most areas. Direct benefits for the whole community include:
- better education results;
  - reduced crime;
  - clean streets;
  - more choices and options for independent living for vulnerable adults and older people; and
  - for many living in social housing the standards of this housing have improved.
- 17 The Customer First programme is improving the Councils understanding, focus and responsiveness to all residents and service users. Key activities that contribute to improving access and quality of service for hard-to-reach groups include consultation arrangements with people from black and minority ethnic (BME) communities, people with disabilities, and young people; which impact on spending priorities. BME Groups and Asylum Seekers have assisted with the revision of translation and interpretation guidelines for services, employee awareness is being raised through a video made by local residents and a review of reception areas is underway to ensure they are welcoming to people who have English comprehension difficulties and to people with disabilities.
- 18 The Council is improving value for money and generally delivering good quality services above minimum standards, for mid-range cost and investing effectively in priority areas. Below average council tax rises over the last three years has moved band D council tax from top quartile to just above median. The Council is delivering efficiency gains in most service areas and has set ambitious targets to increase the level of efficiency savings.
- 19 The Council works well with partners and maximises resources through external and partnership funding and there are many examples of joint procurement including:
- framework contracts;
  - pooling arrangements in Tees Valley;
  - a joint commissioning function with the PCT; and
  - consideration of a Stockton/Darlington partnership for support services.

- 20 The Council's approach to planning is very strong. The Corporate Plan (CP) sets out the key improvement priorities for the coming year and the medium-term, and is closely aligned to the borough's Community Strategy. The CP contains priorities for service improvement and priorities for building organisational capacity. It focuses on key improvement areas supported by service grouping improvement plans, service delivery plans and individual unit plans. A new Local Area Agreement (LAA) was signed in March 2005.
- 21 The CP incorporates seven key organisational capacity improvements arising from the last corporate assessment and there has been good progress in most of these areas. Some slippage has occurred in progressing single status and the involvement of Cabinet in performance management has not yet been reviewed. The Council is on track to achieve 84 per cent of service improvement targets and 73 per cent of organisational capacity targets.
- 22 The Council has the capacity to deliver its plans. A small corporate management team is supported by a strategic resources group and capital strategy and asset group to ensure resources are used effectively. The Council is active in seeking bring budgets together on priority schemes. Financial capacity is sound with a good medium-term financial plan in place.
- 23 There are no significant weaknesses in arrangements for securing continuous improvement or failures in corporate governance that would prevent improvement levels being sustained.

## Performance information

- 24 We are required to give an opinion on your best value performance plan (BVPP) and certify the performance indicators specified by the Audit Commission. We gave an unqualified opinion on the BVPP and no performance indicators were qualified.

## Other Audit Commission inspections

### Tristar Homes (ALMO)

- 25 Tristar Homes was inspected by the Audit Commission's Housing Inspectorate as part of the Government's Arms Length Housing Management initiative in February 2005. The inspection assessed Tristar Homes as providing a 'fair', one-star service that has poor prospects for improvement.

- 26 Although a number of strengths were noted Tristar Homes needed to take action to improve:
- value for money in contracts for services across the board including repairs;
  - ineffective use of stock condition information to prioritise investment to ensure sustainability of stock;
  - poor management of the partnering arrangement for decent homes investment and weak consultation with tenants; and
  - weak planning and strategic leadership, with no strategic vision to drive the development of the business.
- 27 Tristar, with support from the Council, have prepared a service improvement plan to address the recommendations contained in the report and good progress has been made to date on a number of the actions in the plan. However, delays in appointing a Managing Director (MD) and gaps in strategic leadership are slowing the development of a medium to long-term strategy. The newly appointed MD will make this a high priority.

## Working with other inspectorates and regulators

- 28 An important aspect of the role of the Relationship Manager is to work with other inspectorates and regulators who also review and report on the Council's performance. These include:
- Ofsted;
  - Commission for Social Care Inspection (CSCI);
  - Benefits Fraud Inspectorate (BFI);
  - DfES; and
  - Local Government Office contact.
- 29 We share information and seek to provide 'joined up' regulation to the Council. During the last year the Council has received the following assessments from other inspectorates:
- annual performance assessment for adult social care;
  - annual performance assessment for children's services including social care and education; and
  - BFI annual assessment.

## Accounts and governance

We have given an unqualified audit opinion on the Council's accounts for 2004/05. Your overall corporate governance arrangements exceed minimum standards in all areas.

### Use of resources judgements

- 30 The use of resources assessment is a new assessment which focuses on financial management but links to the strategic management of the Council. It assesses how the financial management is integrated with strategy and corporate management, supports Council priorities and delivers value for money. It will be carried out annually, as part of each council's external audit. For single tier and county councils, the use of resources assessment forms part of the CPA framework.
- 31 For the purposes of the CPA we have assessed the Council's arrangements for use of resources in five areas.

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**Table 2**

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

(Note: 1 = lowest, 4 = highest)

- 32 In reaching these judgements, we have drawn on the above work and supplemented this with a review against specified key lines of enquiry (KLoE).
- 33 The Council is assessed as 'consistently above minimum requirements - performing well' in all areas and has established an Audit Committee which should strengthen arrangements further. The areas where the Council could consider further improvement are:
- supporting government office to further embed the arrangements for financial management and corporate governance across the LAA;
  - integrate information on assets with service and financial performance information; and
  - develop annual reporting in consultation with partners and stakeholders.

## **Audit of 2004/05 accounts**

- 34 We gave an unqualified opinion on the Council's accounts on 27 October 2005. A number of minor amendments were made to the statements and a non-material error was identified which reduced the HRA surplus by £480,000.
- 35 The published accounts are an essential means by which the Council reports its stewardship of the public funds at its disposal and its financial performance in the use of those resources. Members approved the Council's annual accounts on 20 July 2005.
- 36 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. Officers have already started to review the closure process and are addressing ways in which tasks can be brought forward and identifying those which are unnecessary to ensure the deadline of 30 June can be met.
- 37 There has been an improvement in the time taken to respond to queries, however, working papers and the audit trail could be further improved by clear indexing and cross referencing of electronic and hard copy working papers.

## **Report to those with responsibility for governance in the Council**

- 38 We reported to those charged with governance (in this case to Performance Review and Audit Committee) that there were no outstanding matters of concern before we gave an opinion on the financial statements.

## **Financial standing**

The Council's financial position is sound and appropriate risk assessments have been done on future financial pressures, however higher than anticipated equal pay costs are likely and could have an adverse impact on the medium-term financial plan (MTFP).

## General fund spending and balances

- 39 The Council's outturn of its financial position for 2004/05 showed a favourable variance of £2.6 million against budget. This has allowed the Council to retain higher working balances than it normally would do. However, there are a number of financial uncertainties, not least of which are the impact of job evaluation/single status and the grant settlement for the next three years, which mean this level of balances will still need to be closely monitored to ensure it is sufficient. In addition, the Council needs to consider whether and how to build grant funded services into the mainstream budget when the grants end. It is anticipated that some £20 million of expenditure will need to be considered over the next three to five years.
- 40 In last year's Audit and Inspection Letter we noted that the Council was reviewing the needs and resources allocations to services. The results of the review will impact on the 2006/07 budget, but Health and Social Care service grouping is projecting a breakeven financial position at the end of 2005/06 which is an improvement on previous years.

## Housing revenue account

- 41 Despite the poor inspection report, the financial position of the HRA remains sound, balances carried forward into 2005/06 were slightly less than anticipated but within tolerance. The decent homes business plan is being thoroughly reviewed to ensure that the plans are affordable.
- 42 In 2003/04, we commented on the length of time taken to finalise the payments under the strategic partnership arrangements for decent homes standard works. Similar problems have occurred in 2004/05:
- one partner has failed to maintain expected progress on-site and has not provided adequate evidence of actual cost. Payment has been based on-site inspections; and
  - another has consistently provided inaccurate or unsupported claims for payment and these have been disregarded. Payments have been made using a formula rather than inspections.
- 43 Consequently, the final position for 2004/05 has not yet been determined and one partner's contract has been terminated. The Council needs to review and evaluate the costs and benefits of the strategic partnership arrangements before entering into any similar agreement.

## Systems of internal financial control

- 44 We have not identified any significant weaknesses in the overall control framework, and the Council has further strengthened arrangements through monitoring by the Risk Management Group and the establishment of an Audit Committee. Officers are looking to incorporate best practice into financial management arrangements by self evaluation against CIPFA's financial model.

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

- 45 We have not identified any significant weaknesses in arrangements to prevent and detect fraud and corruption, but to strengthen arrangements further the Council could consider anti fraud publicity campaigns especially around benefit fraud and more use of sanctions.

### National Fraud Initiative

- 46 In 2004/05, the Council took part in the Audit Commission's National Fraud Initiative (NFI). The NFI, which is undertaken every two years, aims to help identify and reduce fraud by bringing together data from NHS bodies, local authorities and government departments and other agencies, to detect a wide range of frauds against the public sector. These include housing benefit fraud, occupational pension fraud, tenancy fraud and payroll fraud as well as, new for 2004/05, right to buy scheme fraud and providing new contact details for former tenants with arrears in excess of £1,000.
- 47 The Council has adequate arrangements to follow-up issues arising from the NFI and almost 1,000 high-risk matches are being investigated with some £25,000 of savings realised.

## Legality of transactions

- 48 We have not identified any significant weaknesses in the framework established by the Council for ensuring the legality of its significant financial transactions. However, a number of issues need to be addressed to meet the requirements of the Civil Contingencies Act.

## Other work

### Additional voluntary work

#### Children's services

- 49 The Council was concerned that children's social care services had received only a one-star rating from CSCI in 2004. The key weaknesses identified by CSCI were slow progress in improving some performance indicators, progress which was not keeping pace with other councils, and weaknesses in action planning to address identified areas of under performance. Following discussions with CSCI we were asked to review the issues highlighted.
- 50 We undertook an independent analysis of the performance data and assessment of action plans and a challenge workshop was conducted in April 2005 with senior managers in Children's Services. This revealed some fundamental issues which needed to be addressed, including the balance of care between residential and other forms of care, planning and performance management, overall management and structure of the service.
- 51 A workshop, facilitated by the Commission, was held in July to focus specifically on action planning. This covered both general issues concerning management information and target setting and some key service issues. The service drew upon the outcome of this workshop to develop a more detailed action plan, which is being implemented.

#### Grant claims

- 52 In accordance with Strategic Regulation, the Audit Commission has continued with a more risk-based approach to the certification of grant claims. We have reduced our audit of these claims but our ability to reduce further depends on the adequacy of the Council's control environment.
- 53 The Council's arrangements for managing and quality assuring grant claims submitted for audit has improved in recent years leading to reduced time required to certify claims. However, the Council needs to improve the arrangements for completing the Housing Subsidy Claim. Once again a number of errors were identified at audit, one of which resulted in an adjustment to the claim of £335,000 in the Council's favour.

## Looking forwards

### Future audit and inspection work

- 54 We have an agreed plan for 2005/06 and we have reported in this letter those aspects that have already been completed. The remaining elements of that plan, including our audit of the 2005/06 accounts, will be reported in next year's Annual Letter. Our planned work, together with that of other inspectorates, is included on both the Audit Commission and LSIF (Local Services Inspectorates Forum) websites.
- 55 We have sought to ensure, wherever possible, that our work relates to the improvement priorities of the Council. We will continue with this approach when planning our programme of work for 2006/07. We will seek to reconsider, with you, your improvement priorities in the light of the latest CPA assessment and your own analysis, and develop an agreed programme by 31 March 2006. We will continue to work with other inspectorates and regulators to develop a co-ordinated approach to regulation. The Council's next corporate assessment/ joint area review is scheduled for 2007/08.

### Revision to the Code of Audit Practice

- 56 The statutory requirements governing our audit work, are contained in:
- the Audit Commission Act 1998; and
  - the Code of Audit Practice (the Code).
- 57 The Code has been revised with effect from 1 April 2005. Further details are included in our Audit Plan which has been agreed with Performance Review and Audit Committee in April 2005. The key changes include:
- the requirement to draw a positive conclusion regarding the Council's arrangements for ensuring value for money in its use of resources; and
  - a clearer focus on overall financial and performance management arrangements.

## Closing remarks

- 58 This letter has been discussed and agreed with the Chief Executive and Corporate Director of Resources. A copy of the letter will be presented at the Cabinet on 9 February 2006.
- 59 The Council has taken a positive and constructive approach to our audit and inspection I would like to take this opportunity to express my appreciation for the Council's assistance and co-operation.

## Availability of this letter

- 60 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.

Steve Nicklin  
District Auditor/Relationship Manager  
December 2005.

## Appendix 1 – Background to this letter

### The purpose of this letter

- 1 This is our Audit and Inspection 'Annual Letter' for members which incorporates the Annual Audit Letter for 2004/05, which is presented by the Council's Relationship Manager and District Auditor. The letter summarises the conclusions and significant issues arising from our recent audit and inspections of the Council.
- 2 We have issued separate reports during the year setting out the findings and conclusions from the specific elements of our programme. These reports are listed at Appendix 2 for information.
- 3 The Audit Commission has circulated to all audited bodies a statement that summarises the key responsibilities of auditors. Our audit has been conducted in accordance with the principles set out in that statement. What we say about the results of our audit should be viewed in the context of that more formal background.
- 4 Appendix 3 provides information about the fee charged for our audit and inspections.

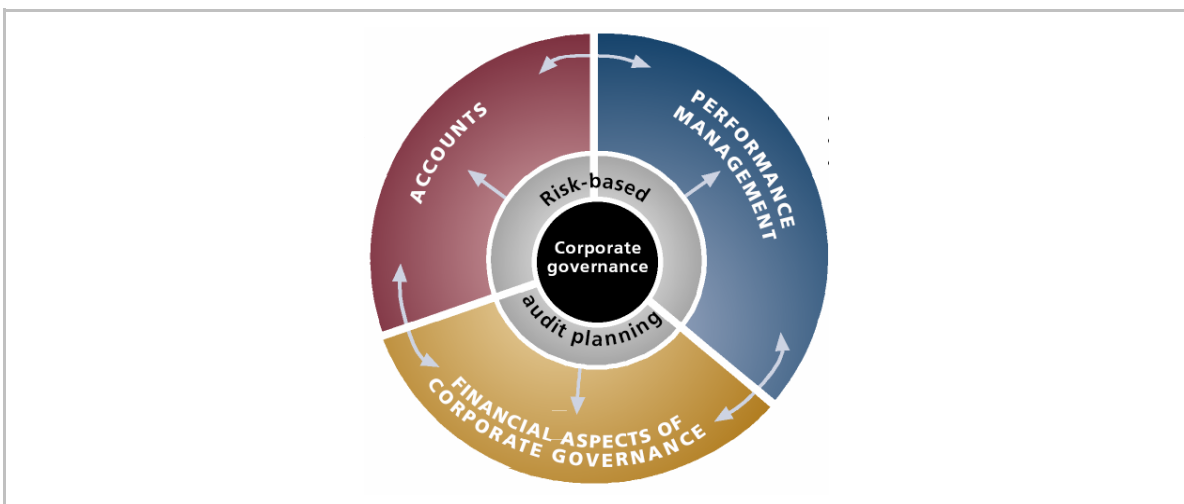
### Audit objectives

- 5 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.
- 6 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 Figure 1.

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#### Figure 1 Code of Audit Practice

Code of practice responsibilities



- 7 Central to our audit are your corporate governance arrangements. Our audit is then structured around the three elements of our responsibilities as shown below.

### **Accounts**

- Opinion.

### **Financial aspects of corporate governance**

- Financial standing.
- Systems of internal financial control.
- Standards of financial conduct and the prevention and detection of fraud and corruption.
- Legality of transactions.

### **Performance management**

- Use of resources.
- Performance information.
- Best value performance plan.

## Appendix 2 – Audit reports issued

**Table 3**

<b>Report title</b>	<b>Date issued</b>
Audit Plan	March 2005
Interim Memorandum	July 2005
Report on the 2004/05 Financial Statements to Those Charged with Governance (SAS 610)	October 2005
BV Opinion	September 2005
Final Accounts Memorandum	November 2005
Use of Resources Rating	November 2005
Direction of Travel Assessment	November 2005

## Appendix 3 – Audit fee

**Table 4     Audit fee update**

<b>Audit area</b>	<b>Plan 2004/05 (£)</b>	<b>Actual 2004/05 (£)</b>
Accounts	86,653	86,653
Financial aspects of corporate governance	77,348	77,348
Performance	40,433	40,433
<b>Total Code of Audit Practice fee</b>	<b>204,434</b>	<b>204,434</b>
Additional voluntary work (under section 35)	0	21,000
<b>Total</b>	<b>204,434</b>	<b>225,434</b>

### Inspection fee update

- 8 The full year inspection fee is £5,000. The work reported in this Audit and Inspection Letter has been funded by an element of the fee covering 2004/05 and by an element of the fee covering 2005/06. In both years the actual fee will be in line with that planned.