

Annual Audit and Inspection Letter

March 2008



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North Norfolk District Council

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

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

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

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

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

Status of our reports

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

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

Reports prepared by appointed auditors are:

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

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Key messages

- 1 The main messages for the Council included in this Annual Audit and Inspection Letter (letter) are as follows.
 - The Council's performance is mostly improving in its priority areas, such as housing and recycling. Improved IT and different ways of working have resulted in better access, speed, and quality of service to customers. Increasing emphasis is being given to ensuring that services meet the needs of all groups within the community, although performance is currently weak regarding equality and diversity issues. Value for money remains adequate. Services costs are generally at or below the average for district councils, with some high levels of performance, such as in recycling.
 - The Council continues to focus on the current and emerging issues for local people. Performance management is becoming increasingly embedded and effective. The continuing programme of business process reviews is resulting in increased efficiency. Political restructuring has improved input by councillors. However, the capacity of the Council to continue to deliver its priorities remains stretched.
 - We issued an unqualified audit opinion on the 2006/07 financial statements and certified the completion of the audit in September 2007.
 - We concluded that, in all significant respects, the Council made proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2007, except for the failure to put in place arrangements to maintain a sound system of internal control. This qualification reflected the fact that the Council's business continuity plan was still under development at the year end.
 - We assessed the Council as performing at level 2 in our 'use of resources' judgement which represents an adequate level of performance. However, there was a reduction in the score for financial reporting from the previous year's assessment, as not all of the requirements of the new Statement of Recommended Practice were fully complied with, and some improvements are required in this area when the 2007/08 financial statements are prepared.
 - Overall data quality arrangements are satisfactory but further work is necessary to develop and embed these arrangements across the Council.

Action needed by the Council

2 The Council should:

- continue to drive forward the Council's improvement programme to address areas identified in the direction of travel report;
- prioritise improvements in diversity and equality to ensure faster progress in the coming year;
- ensure that the recommendations made in the appointed auditor's Annual Governance Report are addressed;
- address the issues necessary to further improve the Council's use of resources assessment and the value for money conclusion; and
- further develop the strategic corporate approach to data quality management arrangements within the Council.

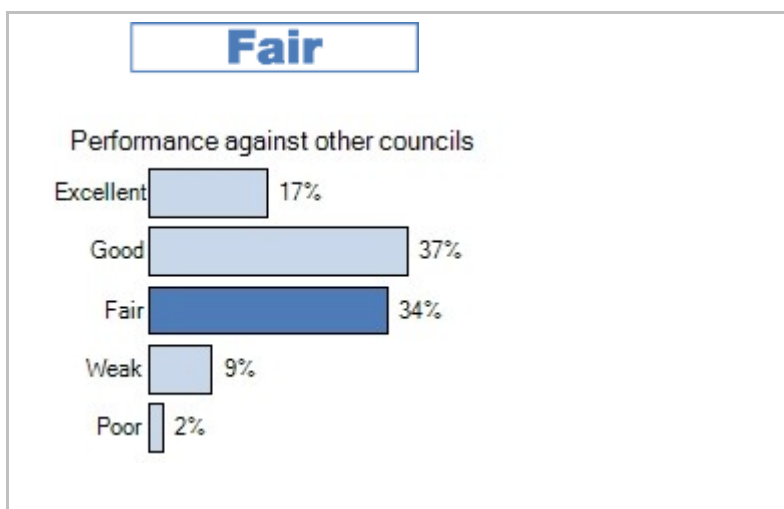
Purpose, responsibilities and scope

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

How is North Norfolk District Council performing?

- 9 North Norfolk District Council was assessed as 'Fair' in the Comprehensive Performance Assessment carried out in 2003. These assessments were completed in all district councils and we are now updating these, through an updated corporate assessment, in councils where there is evidence of change. The following chart is the latest position across all district councils.

Figure 1 Overall performance of district councils in CPA



Source: Audit Commission

The improvement since last year - our Direction of Travel report

What evidence is there of the Council improving outcomes?

- 10 Performance across services is generally improving. The Council's 59 per cent improvement against national performance indicators in 2006/07 is in line with the average for English district councils and 41 per cent of the indicators were in the top 25 per cent. This is above the national average for district councils of 33 per cent.
- 11 There is a clear, shared partnership vision that the district should be 'a place where everyone can enjoy a high quality of life and where the unique and attractive environment is sustained into the future'. To deliver this vision the Council has consulted with local people and has identified continued service improvement in housing, benefits, recycling, planning, good quality jobs and training, and services focussed around young people as its priorities.

- 12 The Council has been generally successful in improving performance in housing. The way in which homeless people are dealt with is better than average, with none placed in bed and breakfast or hostel accommodation since 2005. The accuracy in dealing with housing benefit claims remained comparatively low in 2006/07, but the speed of processing these claims improved to being amongst the best nationally. For example the time taken to process new claims reduced from 63 days in 2005/06 to 24 days in 2006/07. This performance has slipped slightly in the current year and is being closely monitored. The number of affordable homes completed in 2006/07 increased to 108 compared to 81 in the previous year, but in the current year only 62 dwellings are expected to be provided – a shortfall of ten affordable homes against the Council’s target. People who are among the more vulnerable members of society have seen increased provision to meet their needs, but it is not clear that this improvement can be sustained.
- 13 The Council continues to deliver high levels of recycling, retaining its position amongst the highest performers with a further increase to over 41 per cent in 2006/07. The cost of waste collection remained amongst the lowest. A robust approach to fly-tipping with prosecutions of offenders sends a clear message to businesses that this is not acceptable and contributes to the low levels of litter in the district. Residents continue to benefit from a clean environment and efficient waste and recycling service.
- 14 Performance in the planning service has been mixed. There was some improvement in the speed of determinations for two of the three categories in 2006/07, but a slight reduction regarding minor applications. Council data indicates that speed of determinations for all three categories decreased during 2007, with officers having a caseload almost 30 per cent higher than recommended nationally. Performance against the planning quality of service checklist is low and the Council has programmed a project in 2008 to improve this. The level of appeals awarded against the Council in 2006/07 was among the lowest nationally, indicating that planning determinations are generally sound; however, applicants are having to wait longer for planning permission to be granted.
- 15 In line with corporate priorities, effective support has been provided to local businesses, for example the Council's economic development unit has safeguarded a yacht building operation at Hoveton by supporting its relocation to bespoke refurbished premises. The award winning Learning for Life project team has provided redundancy skills training and advice to over 150 individuals. Partnership with three other local authorities helped secure a high level of external funding that has enabled the Council to provide free ‘Safer Food Better Business’ food safety management training to over 200 businesses.

- 16 The Council continues to contribute positively to the quality of life for local people. Demand for activities for young people has reduced, indicating progress in meeting this need. But it is still important to residents and the Council continues to engage with young people to ensure that they receive the services they require. Leisure and cultural services continue to improve, for example, the contractor who runs the leisure centres is investing £275,000 in extending the gym at the Victory Pool complex. North Norfolk remains one of the lowest areas for crime. Most categories of crime reduced in 2006/07 and fear of crime is low.
- 17 Improved IT and different ways of working have resulted in better access, speed, and quality of service to customers. Information is now more quickly available from the improved website and services are being more actively promoted through the quarterly Outlook magazine that is distributed to all households. The Council is aware that it needs to better promote some services, such as cultural provision in rural areas, but overall local people are becoming better informed about what is available.
- 18 Progress in diversity and equality is weak. The Council had only reached Level 1 of the Local Government Equality Standard by March 2007 and was amongst the weakest performers regarding meeting its duty to promote race equality, for example with no published Race Equality Scheme. Equality impact assessments should have been carried out on all policies and procedures since 2002, but so far these have only been implemented in three areas. Funding has been secured for a countywide community cohesion post that the Council will host. Partnership work with faith groups is underway so that issues, such as access to services and the role these groups can play in the community, can be identified. The Council is working with the Audit Commission and an action plan has been drafted to ensure compliance with legislation and achievement of Level 3 of the Local Government Equality Standard by 2009/10. However not all of the planned equality and diversity actions for 2007/08 were completed and it is not clear that the Council has the capacity to deliver its future plans in this area. The Council is unable to demonstrate that all groups within the community are being provided with services meeting their needs and helping them to enjoy a high quality of life.
- 19 The Council continues to deliver adequate value for money. Services costs are generally at or below the average for district councils, with some high levels of performance, such as in recycling. There has been slow progress in implementing the procurement strategy, but the procurement board has secured savings, for example by rationalising suppliers. Some savings have resulted from internal reviews, such as in printing costs. A higher than average proportion of performance indicators are in the top 25 per cent for councils nationally and generally services have improved.

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

- 20 The Council is currently reviewing the affordability of its existing plans. In-depth research commissioned jointly with the local strategic partnership is helping to inform this and to secure alignment with the refreshed community strategy. This approach ensures that the revised corporate planning reflects community priorities and secures partnership commitment to carrying through actions to secure the desired outcomes the community.
- 21 Councillors and senior officers ensure that priorities continue to reflect the issues that are important to local people. Research confirmed the existing corporate priorities, but noted some increasingly prominent issues such as coastal erosion, in which the Council is now taking a national lead. Keeping abreast of important local issues enables the Council to use its resources to achieve outcomes that are relevant to North Norfolk residents.
- 22 The corporate plan contains specific and measurable targets to drive up performance and these are cascaded into service planning. For example the Council is aiming to achieve a 47.5 per cent recycling rate in 2008/09 and 50 per cent in 2009/10. Consultancy is being used effectively to ensure that informed decisions are made, for example on the recycling of food waste. A food waste scheme is planned to start in the summer and is projected to further reduce the amount going to landfill by five per cent.
- 23 Working relations across the Council continue to be good and staff and councillors are clear about their respective responsibilities. Priorities and plans are discussed and performance is regularly reported to senior management and to councillors in a format that enables constructive challenge, for example regarding the environment and under-performance on diversity and equality issues. Where performance is low, this is either accepted due to resource constraints in non-priority areas or tackled to ensure improvement, for example regarding benefits processing. Scrutiny has not been fully effective but is becoming increasingly proactive, for example by raising a number of issues and making formal representations to cabinet.
- 24 Partnership working continues to be effective in improving services, for example in the joint environmental health project with the Health and Safety Executive on work-related accommodation and the exploitation of migrant workers.
- 25 The continuing programme of business process reviews is resulting in increased efficiency, for example by transferring resources from environmental health and from management of the tourist information service into the new customer services team allowing scope for staff rationalisation and the deletion of some temporary posts. Similar restructuring opportunities have been identified in the current review of strategic housing. Creation of a customer services team has led to a more customer-orientated approach, coupled with greater productivity and the prospect of multi-skilling.

- 26** The level of sickness absence has improved, but is not yet meeting the targets that the Council has set. A more systematic management approach is resulting in staff who have been off ill for a long time either returning to work or leaving. Managers are quicker to make home visits where staff are off several weeks and reports are now available on request for groups of staff to identify any trends. However, there is still a significant number of long-term absences and the number of days off due to colds, flu and other viral infections during the winter months doubled this year compared to last. Sickness levels continue to impact on capacity.
- 27** Political restructuring has improved input by councillors. The size of the cabinet has reduced and two cabinet support members now assist each portfolio holder. This enables increased focus on specific areas and councillors' skills and knowledge are well used, for example the cabinet member providing support on equality issues used to work for the Race Relations Council. An open and inclusive philosophy enables councillors of all political persuasions to contribute to the work of the Council. A range of training sessions has been set up for the high proportion of new councillors. Although attendance has been variable, these sessions have been well received. This helps ensure a better informed and more positive approach to decision taking.
- 28** The Council's capacity to continue to deliver its priorities remains stretched. Unexpected and significant issues, such as a controversial major retail planning application place further pressures on resources. Although the Council is carrying on with business as usual, the current review by the Boundary Commission is a further pressure as officers and councillors focus on the issues that this raises. This presents a risk to continued service improvement.

The audit of the accounts and value for money

- 29 Your appointed auditor has reported separately to the Audit Committee on the issues arising from our 2006/07 audit and has issued:
- an audit report, on 27 September 2007, providing an unqualified opinion on your accounts and a conclusion on your value for money arrangements to say that these arrangements are adequate except for the failure to put in place arrangements to maintain a sound system of internal control; and
 - a report on the Best Value Performance Plan confirming that the Plan has been audited.

Use of Resources

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

Table 1

Element	Assessment
Financial reporting	1
Financial management	2
Financial standing	3
Internal control	2
Value for money	2
Overall assessment of the Audit Commission	2

(Note: 1 = lowest, 4 = highest)

The key issues arising from the audit

- 32** The overall score of 2 indicates that the Council is performing adequately overall. The key issues arising from the audit, as reflected in the above judgements, are set out below.
- 33** The Council produced its financial statements on time, supported by relatively comprehensive working papers, and an unqualified opinion was issued. However, the 2006/07 financial statements required material amendments due to the incorrect application of the new CIPFA Statement of Recommended Practice (the SORP) to a small number of items in the financial statements. Additionally, the Statement of Internal Control did not provide sufficient detail on Internal Audit's findings regarding significant weaknesses and was redrafted before our audit opinion was issued.
- 34** Openness and accountability are areas in which the Council has been strengthening its arrangements in respect of financial reporting. Access to the financial statements and annual audit and inspection letters is provided on the Council's website. However, the requirements regarding information being published in accessible formats appropriate to comply with duties under the equalities legislation is being expanded, and this is an area which may benefit from wider consideration.
- 35** The Council's medium term financial strategy, budgets and capital programme are soundly based and are designed to deliver its strategic priorities. Regular budget monitoring takes place and the outcome is shared with members. This could be further improved by the linkage to key operational activity indicators and clearer monitoring of planned savings where these are necessary.
- 36** Management of the asset base is improving following significant work by the Council.
- 37** The Council's arrangements for ensuring sound financial standing continue to operate well.
- 38** The Council has adequate arrangements in place to manage its significant business risks. These arrangements could be further improved by fuller consideration of risks in relation to significant partnerships. Additionally the Council should ensure that all appropriate staff have been given relevant training and guidance to enable them to take responsibility for risk management.
- 39** Arrangements designed to maintain a sound system of internal control need to be further improved in some areas. The key area to be addressed is the full implementation and review of the business continuity plan. This was not sufficiently developed and embedded at 31 March 2007, and this is the main cause of the qualified value for money opinion.
- 40** Other internal control areas which should be improved are the arrangements around the approval of the Annual Governance Statement (previously the Statement of Internal Control) and ensuring that procedure notes for key financial systems are maintained and updated on a regular basis.

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- 41** The Council's arrangements to promote and ensure probity and propriety in the conduct of its business are acceptable but areas of improvement have been identified which need to be addressed before the Council could be considered to be 'performing well' in this area.
- 42** Our Direction of Travel assessment, earlier in this letter, includes comments on the value for money theme.
- 43** Although our overall Use of Resources assessment has remained unchanged, this should be set in the context of the criteria having become more challenging in some areas in 2007.

Data quality arrangements

- 44** We concluded that the Council's overall management arrangements for ensuring data quality are adequate. The completion of the Council's data quality policy in 2006/07 is a key improvement, but it was relatively new at 31 March 2007, with only a draft action plan at that stage. Our detailed report, issued to officers for agreement, includes a number of recommendations for improvement in data quality arrangements with regard to:
 - governance and leadership on data quality;
 - data quality policies;
 - the systems and processes in place to secure the quality of data;
 - the skills that the Council's people have in ensuring quality of data; and
 - the use of data and its reporting.
- 45** Our checks found that the non BVPI percentage of private sector homes vacant for more than six months (HIP HSSA) had not been completed. This was due to the absence of the person responsible for submission of this data. There were no alternative arrangements in place to provide this data. We found similar capacity issues in other elements of our data quality work, where there is often significant reliance on one individual.

Other matters

- 46** In 2005/06 we received correspondence from several members of the public in relation to contractual arrangements entered into between the Council and a major supermarket chain. On the basis of the evidence provided to us, we did not identify any unlawful actions by the Council in this regard.
- 47** The Council developed an action plan and has, more recently, formalised its monitoring arrangements for this, with the action plan to be monitored by the corporate management team and the Audit Committee. We have considered the progress on the action plan, noting the positive contributions that development of the Asset Management Board, a property asset disposal policy, and a database for contracts have all made, and consider that the Council, whilst acknowledging that further action is still required in some areas particularly around procurement, has taken appropriate action.

Looking ahead

- 48 The public service inspectorates are currently developing a new performance assessment framework, the Comprehensive Area Assessment (CAA). CAA will provide the first holistic independent assessment of the prospects for local areas and the quality of life for people living there. It will put the experience of citizens, people who use services and local tax payers at the centre of the new local assessment framework, with a particular focus on the needs of those whose circumstances make them vulnerable. It will recognise the importance of effective local partnership working, the enhanced role of sustainable communities strategies and Local Area Agreements and the importance of councils in leading and shaping the communities they serve.
- 49 CAA will result in reduced levels of inspection and better coordination of inspection activity. The key components of CAA will be a joint inspectorate annual area risk assessment and reporting performance on the new national indicator set, together with a joint inspectorate annual direction of travel assessment and an annual use of resources assessment. The auditors' use of resources judgements will therefore continue, but their scope will be widened to cover issues such as commissioning and the sustainable use of resources.
- 50 The first results of our work on CAA will be published in the autumn of 2009. This will include the performance data from 2008/09, the first year of the new Local Area Agreements.
- 51 The coming year will see the Boundary Committee review of local government arrangements in Norfolk and Suffolk, which sets out to make a 'unitary' recommendation to the Secretary of State in December 2008. This means that there is significant potential for change in Norfolk. We will work closely with all councils to both monitor the on-going situation and support them where possible as they go through this difficult period.

Closing remarks

- 52 This letter has been discussed and agreed with the Chief Executive and Strategic Director - Resources. A copy of the letter will be presented to Council members on 6 May 2008. Copies need to be provided to all Council members.
- 53 Further detailed findings, conclusions and recommendations on the areas covered by our audit and inspection work are included in the reports issued to the Council during the year.

Table 2 Reports issued

Report	Date of issue
Audit and inspection plan	June 2006
Opinion on 2006/07 Best Value Performance Plan	December 2006
Review of Progress on Corporate Building Blocks report	March 2007
Annual Governance Report	September 2007
Opinion on financial statements	September 2007
Value for money conclusion	September 2007
Use of Resources Auditor Judgements 2007 report	February 2008
Data Quality Report	February 2008 (draft)
Regularity Report (including interim and final accounts audit memoranda)	February 2008 (draft)
Annual audit and inspection letter	March 2008

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

Availability of this letter

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

Susan Jewkes
Relationship Manager

March 2008