

Annual Audit and Inspection Letter

March 2006



Annual Audit and Inspection Letter

Rossendale Borough Council

Audit 2004/2005

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 to the Council

The Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission explains the respective responsibilities of auditors and of the audited body. Reports prepared by appointed auditors are addressed to members or officers. They are prepared for the sole use of the audited body. Auditors accept no responsibility to:

- any member or officer in their individual capacity; or
- any third party.

Copies of this report

If you require further copies of this report, or a copy in large print, in Braille, on tape, or in a language other than English, please call 0845 056 0566.

© Audit Commission 2006

For further information on the work of the Commission please contact:

Audit Commission, 1st Floor, Millbank Tower, Millbank, London SW1P 4HQ

Tel: 020 7828 1212 Fax: 020 7976 6187 Textphone (minicom): 020 7630 0421

www.audit-commission.gov.uk

Contents

Key messages	5
Council performance	5
Use of resources	6
The accounts	7
Financial position	7
Other accounts and governance issues	7
Best Value Performance Plan and Indicators	8
Action needed by the Council	8
Council performance	9
Progress Assessment Report	9
Other performance work	10
Performance management follow up	10
Best value Performance Plan and Performance Information	11
Other Audit Commission inspections	11
Environmental services inspection	11
Housing	12
Financial management	13
Accounts and governance	14
Audit of 2004/05 accounts	14
Financial standing	15
Systems of internal financial control	18
Standards of financial conduct and the prevention and detection of fraud and corruption	19
Legality of transactions	19
Civil Contingencies	19
Use of resources judgements	20
Other work	24
Grant claims	24
National Fraud Initiative	24
Looking forwards	25

4 Annual Audit and Inspection Letter | Contents

Future audit and inspection work	25
Revision to the Code of Audit Practice	25
A new CPA framework	25
Closing remarks	26
Availability of this letter	26
Appendix 1 – Background to this letter	27
The purpose of this letter	27
Audit objectives	27
Inspection objectives	28
Appendix 2 – Audit and inspection reports issued	29
Appendix 3 – Audit and inspection fee	30
Inspection fee update	30

Key messages

Council performance

- 1 Rossendale Borough Council is progressing well. Political and officer leadership is much improved and the Council is now characterised by a more positive approach. Public confidence in the Council is improving, albeit from a low base. There is still much to do and it is important that members and staff remain focussed on ensuring that all services meet acceptable standards as the Council continues to transform key areas of its activities. Overall, good progress has been made in the last year.
- 2 The Council is clear about its role in delivering ambitions for the local community and recognises that it needs to review priorities to ensure better links with the Community Strategy themes and to take account of its own successes. Communication has improved and community leadership is developing but community engagement is not yet fully effective. The Council has made substantial improvements in customer care through a new one stop shop and customer care standards as part of a sustained drive to improve community engagement.
- 3 The Council has increased its capacity to deliver improvement through an organisational review and by making positive use of partnerships to deliver services. However, it does not have the skills to fully support this new approach and is therefore making good use of external advice. Despite this, partnership working is an area of strength. High sickness absence continues to impact on resources despite some recent improvements.
- 4 The Council recognises that it needs to do more work to equip members and staff with the skills they need to manage performance and commission services.
- 5 The Council's programme of fundamental service reviews is a positive approach to performance improvement but it recognises that more work is needed to embed effective and consistent performance management. The introduction of the Covalent monitoring system is greatly assisting in developing a standardised performance management framework but it is not yet fully embedded into the wider management arrangements. A sustained focus remains necessary to improve performance.
- 6 A clear commitment to delivering regeneration related schemes and to sustaining and building on other service improvements has been made during the past year. The Council is making good use of its capacity to sustain the current pace of progress.

- 7 The Commission's Housing Inspectorate has conducted a high level review of housing services in January 2006 in advance of LSVT and a planned full strategic housing inspection in 2006/07. The review found that there are some elements of the housing service that perform well. However, it also found a number of areas for improvement including improved publicity on access to services and monitoring to tailor services to the diverse community that the Council serves.
- 8 It is important that the Council considers the advice given by the Audit Commission's Technical Team to ensure full compliance with the Statement of Recommended Practice in terms of accounting entries in the 2005/06 accounts and to protect its future financial standing post LSVT.

Use of resources

- 9 Overall Rossendale Borough Council makes adequate use of its resources under the new CPA harder test framework, the Council scored 2 out of a possible 4. Some improvements can be made to financial reporting including stake holder consultation on summary accounts and to consider the benefits of producing an annual report in a user friendly format. Financial management arrangements are developing with the current position reflecting the time needed to integrate into wider management arrangements through revised systems, processes and cultural changes to support better financial management. Members and non-financial officers will benefit from the programmed financial management training.
- 10 Significantly more work is required on the capital strategy and asset management arrangements to ensure they are fully aligned with corporate priorities and to improve the Council's ability to manage its assets. This limits its ability to make informed decisions about the rationalisation and maintenance of assets. However, at present the management team feel they can demonstrate improvements in the management of the assets on all of the current major capital projects.
- 11 Arrangements to gather information on the SIC are not robust. Risk management arrangements are developing with more work required on formulating a partnership RM policy framework, broader staff and member RM related training. A more risk aware culture could be developed through explicit consideration of opportunity upside of risks in decision-making.
- 12 Rossendale Borough Council has achieved significant performance improvements in some of its key priority areas over a relatively short period of time. Benchmarking information on costs and quality of services achieved currently and over time needs to be used consistently throughout all services and corporately as a means of challenging performance and value for money (VFM).
- 13 The Council has recently approved a corporate procurement strategy but there is limited information available on which to assess the VFM achieved from past and current procurement activity. The Council increasingly understands the full short and long-term costs of its actions and is now starting to take account of these when evaluating options and making policy decisions.

- 14 Clear VFM targets are needed for senior managers and members to assess VFM and monitor its achievement. Structures and processes for assessing the wider VFM of policy decisions for the whole community need to be formalised. To further enhance effective performance management arrangements the Council needs to ensure full integration between all of its key strategies and strengthen structures for monitoring and reviewing efficiency savings.

The accounts

- 15 We issued an unqualified opinion on the Council's accounts on 20 October 2005. The Council is working to meet the earlier deadlines imposed by the whole of government accounts agenda for the closure of accounts and production of financial statements in 2005/06. The Council is to be commended on the quality of electronic working papers. It is important that the Council continues to develop and evidence its internal SoRP compliance review.

Financial position

- 16 The Council's financial position is continuing to improve in line with the reserve recovery targets. The Council's level of arrears is continuing to reduce, however more work is needed to reduce the level of debt further, especially on Council Tax. The Council needs to develop an asset management plan, which will ensure that all assets contribute towards corporate priorities or are considered for disposal where capital receipts could be generated.

Other accounts and governance issues

- 17 Corporate arrangements within the Council are continuing to improve, however, the Council needs to continue working with Lancashire Audit Service to further improve the effectiveness of Internal Audit. There is scope to further embed risk management into financial management and partnership arrangements. The Council also needs to establish more proactive arrangements and awareness on ethical governance and anti fraud and corruption issues. In addition, the Council needs to review compliance with the CIPFA Code of Practice on Treasury Management.
- 18 Rossendale Borough Council has responded well to the Civil Contingencies Act and has updated their Emergency Plan and developed a Business Continuity Plan. The main elements to comply with the Act appear to be in place or under development including member involvement and public awareness on Civil Contingencies and business continuity, and formalised information sharing with the Local Resilience Forum.

Best Value Performance Plan and Indicators

- 19 The Council's Best Value Performance Plan (BVPP) was compliant in all significant respects with the statutory guidance, with an unqualified opinion issued on 12 December 2005. The quality of information produced for performance indicators (PIs) has improved, but the Council needs to continue its work on further improving quality control arrangements.

Action needed by the Council

- 20 The actions for the Council which relate to members' responsibilities include the need to:
- oversee plans to build effective capacity and skills to manage performance and commission services;
 - monitor the implementation of LSVT and an effective strategic housing function;
 - support the full integration of risk management into the Council's decision-making, planning, governance, performance and financial management arrangements;
 - develop financial management and value for money skills to further challenge the future use of Council's resources;
 - review the introduction of improved assurance gathering arrangements including effective internal audit to inform a robust statement on internal control;
 - embed a proactive anti fraud and corruption and wider ethical governance culture; and
 - monitor Civil Contingencies Act compliance, business continuity arrangements and public awareness strategies.

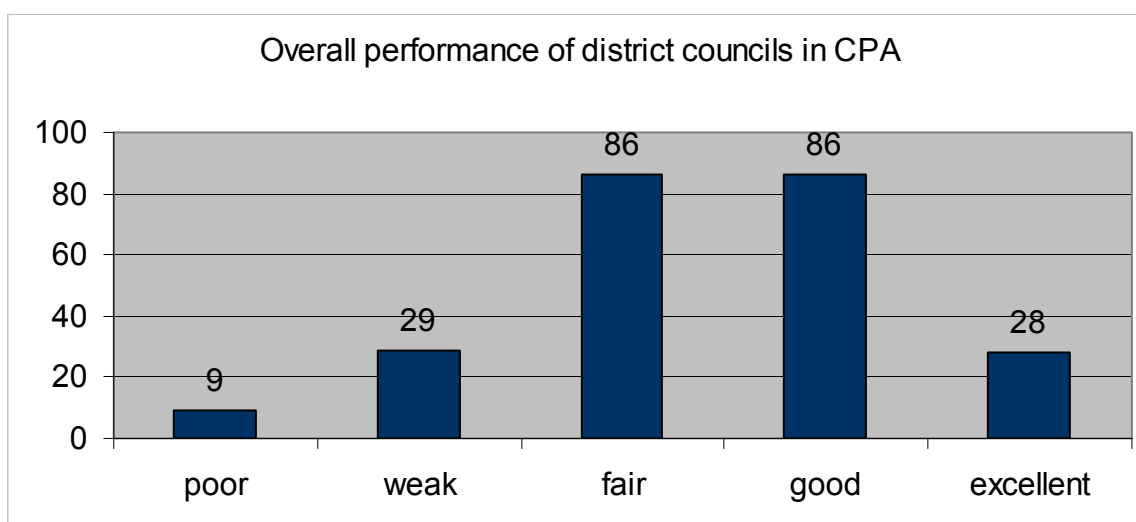
Council performance

Progress Assessment Report

- 21 Rossendale Borough Council was assessed as 'Poor' in the Comprehensive Performance Assessment carried out in January 2004. These assessments have now been completed in all district councils with the results shown in Figure 1.

Figure 1 Overall performance of district councils in CPA

Three times as many district councils are rated Good or Excellent than Poor or Weak



Source: Audit Commission

- 22 Since the assessment, the Council has identified its priorities for improvement and we have been working with the Council as it seeks to improve further.
- 23 Rossendale Borough Council is progressing well. Political and officer leadership is much improved and the Council is now characterised by a more positive approach. Public confidence in the Council is improving, albeit from a low base. There is still much to do and it is important that Councillors and staff remain focussed on ensuring that all services meet acceptable standards as the Council continues to transform key areas of its activities. Overall, good progress has been made in the last year.
- 24 The Council is clear about its role in delivering ambitions for the local community and recognises that it needs to review priorities to ensure better links with the Community Strategy themes and to take account of its own successes. For example, in securing a positive response from tenants for the proposed transfer of housing stock.

Priorities have broad cross party ownership, are supported by staff, and reflect local people's concerns. Communication has improved but community engagement is not fully effective. Community leadership is beginning to develop but is an acknowledged area for further development.

- 25 The Council has increased its capacity to deliver improvement through an organisational review and by making positive use of partnerships to deliver services. However, it does not have the skills to fully support this new approach and is therefore making good use of external advice. Despite this, partnership working is an area of strength. High sickness absence continues to impact on resources despite some recent improvements.
- 26 Although there is now a much better approach to business planning, the approach to target setting varies. The Council recognises that more work is needed to embed effective performance management consistently.
- 27 Fifty one per cent of best value performance indicators have improved with 26 per cent in the best national quartile. However, a sustained focus remains necessary to improve performance as 43 per cent of indicators remain in the worst national quartile. The Council's programme of fundamental service reviews is a positive approach to performance improvement.
- 28 The Council is aware of the significant challenges which remain to be addressed and has invested resources to address gaps in capacity. It has made substantial improvements in customer care through a new one stop shop and customer care standards as part of a sustained drive to improve community engagement.
- 29 The Council does not have an up to date asset management plan or a capital strategy fully aligned with corporate priorities. This limits its ability to make informed decisions about the rationalisation and maintenance of assets.
- 30 Future plans include a strong focus on regeneration with an ambitious scheme for Rawtenstall Town Centre underway and a master planning exercise for Stacksteads and Bacup resulting in visible improvements in private sector housing. The Council has a clear commitment to delivering these schemes and to sustaining and building on other service improvements it has made in the past year. It is making good use of its capacity to sustain the current pace of progress.

Other performance work

Performance management follow up

- 31 We have carried out an assessment of progress made by the Council in implementing the recommendations from previous reports. In December 2005, we reviewed the Council's progress in implementing the original action plan. We found generally good progress. Whilst the performance management is now beginning to develop with the introduction of the Covalent monitoring system it is still not yet fully embedded in the wider management arrangements.

- 32 We have identified three high priority recommendations aimed at fully embedding performance management. In order to achieve improvement, the Council needs to:
- make full use of the Covalent system and ensure monitoring covers key success indicators, actions within business plans and local performance indicators;
 - develop a consistent approach to target setting with stretch targets which where realistically possible reflect top quartile performance; and
 - ensure baseline information is collated for all Community Strategy priorities.
- 33 The Council recognises that it needs to do more work to equip members and staff with the skills they need to manage performance and commission services. We will continue to work with the Council to establish a comprehensive performance management framework.

Best value Performance Plan and Performance Information

- 34 The Council's Best Value Performance Plan (BVPP) complied with statutory guidance in all significant areas and was issued with an unqualified opinion on 12 December 2005. The published BVPP met all the required legislation with no performance indicators requiring a reservation.
- 35 However, one out of six indicators still required amending by 5 per cent or more. The Council needs to continue its work on improving quality control arrangements as performance indicators are the bedrock to a robust performance management framework.

Other Audit Commission inspections

Environmental services inspection

- 36 During February 2006, we began a wide ranging inspection of the Council's environmental services. The focus and scope of the inspection is on the natural and built environment of the borough. Inspectors will make an assessment of the Council's contribution to the protection, maintenance and development of the local environment through service delivery and through work with partners.

- 37 The inspection will use as a base for assessment Community Strategy themes and corporate priorities. We have agreed a wide ranging scope for the inspection building on the 2004 inspection of the Council's waste management services and examining the Council's approach to environmental health, forward planning, environmental services (eg NEAT teams and open spaces) and housing market renewal. We will also look at relevant cross cutting areas where the Council's environmental services contribute to housing, economic development, health and community safety.
- 38 We will not produce a detailed assessment of services which have already been subject to previous inspections, for example waste and recycling, but we will review progress on the implementation of recommendations for these services. We expect to publish the findings of the inspection in April 2006.

Housing

- 39 During the last two years, the Council's housing management resources have been directed towards stock transfer. It is important for tenants that the core housing service continues to function effectively in the period up to transfer and that the Council is well prepared for the future management of the strategic housing function.
- 40 Accordingly we identified a risk that resources could be diverted from day to day service delivery and agreed with the Council that the Commission's Housing Inspectorate would conduct a high level review of housing services. This work was completed in January 2006.
- 41 The review found that there are some elements of the housing service that perform well. However, it also found a number of areas for improvement. The following are immediate priorities to be addressed.
- Access to the service – the need to ensure there is adequate publicity relating to the housing related services provided including service standards. The latter is important in terms of monitoring satisfaction levels.
 - Diversity - monitor take up of services and use this information to tailor services.
- 42 These are key requirements which if absent, would impact considerably on any future inspection score. Other areas to be addressed are:
- detailed delivery of the strategic housing function;
 - communication between senior managers and the housing service team;
 - the future management of the homelessness function and the homelessness forum;
 - the housing register or an alternative arrangements to provide for vulnerable residents;
 - the local plan and planning framework;

- the private sector renewal budget; and
 - targets to ensure value for money.
- 43 The Council has responded to the review by developing a comprehensive improvement plan, which will be prioritised and included in the service business plan. The service will be subject to a full inspection of the retained strategic function in December 2006.
- 44 In preparation for LSVT on 27 March 2005 the Council has sought advice from the Audit Commission Technical Team on various technical accounting and associated cost components of the transfer. It is important that the Council considers the advice given to ensure full compliance with the SoRP in terms of accounting entries in the 2005/06 accounts and to protect its future financial standing post LSVT.

Financial management

- 45 The corporate improvement plan identified financial management as one of the eight top priority improvement areas. We have worked with the Council over the last two financial years to review arrangements using the CIPFA Financial Management model and facilitated workshops aimed at improvement through better financial management.
- 46 The initial review and workshop held in early 2005 identified the following four improvement areas:
- prioritisation of objectives;
 - governance, performance and risk management arrangements;
 - competencies and systems; and
 - policies and procedures.
- 47 A member and chief officer follow up workshop in December 2005 demonstrated good progress is being made against the original action plan. The focus for further improvement through better financial management, as reported to the Audit and Performance management Overview and Scrutiny Committee in January 2006, is on:
- revisiting business and financial planning links and finance staff involvement in departmental planning;
 - integrating Covalent performance and risk management system and financial management especially on joint reporting and developing more detailed risk analysis applied to budget monitoring;
 - embedding the new Radius main accounting system and building financial management capacity and acumen for financial and non financial staff and members through a CIPFA lead training programme; and
 - underpinning the developing arrangements update financial management related policies and procedures.

Accounts and governance

Audit of 2004/05 accounts

- 48 To ensure focus is maintained on the areas of greatest risk in our audit of the Council's accounts, we carry out work on the core financial processes prior to the receipt of the financial statements.
- 49 This core process review enables us to take significant assurance from the systems and processes which support the preparation of the accounts. Our review focuses on the Council's budgetary control process, main accounting systems and closedown procedures.
- 50 Our review identified a number of areas where arrangements and processes required strengthening. Whilst the majority of expected main accounting system controls are in place, there is scope to improve arrangements on:
- regularity and authorisation of control account reconciliations for the main feeder systems;
 - journal procedures; and
 - system access levels.
- 51 We were however able to conclude that the core processes provide a sound basis for the preparation of financial statements free from material misstatement or error.
- 52 Our review of the Council's budgetary control arrangements incorporated an examination of the procedures in relation to budget setting, monitoring, controlling and reporting. A number of key budgetary control procedures needed to be addressed including:
- budget monitoring information reported to members;
 - defining responsibilities for budget holders; and
 - documenting the budgetary control system.
- 53 The Council is working towards improving the budget monitoring procedures with the enforcement of the new financial system and since the review budget monitoring information to members has considerably improved with elements of good practice.
- 54 Our review of the closedown procedures shows effective arrangements are in place and the Council is to be commended on the quality of electronic working papers produced to support the accounts. To comply with the whole of government accounts agenda the Council needs to ensure a detailed closedown plan and procedures are in place to ensure early preparation of accounts is achieved.

Matters arising from the final accounts audit

- 55 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. We gave an unqualified opinion on the Council's accounts on 20 October 2005. The Council amended the accounts for one material and a number of other non trifling errors and they were re-approved by Full Council on 19 October 2005.
- 56 The material amendment within the accounts related to the incorrect accounting treatment of the grant received to fund Futures Park.
- 57 The accounts presented were of a good standard. The amendments highlighted in our final accounts memorandum ensured full compliance with CIPFA Statement of Recommended Practice (SORP 2004).

Report to those with responsibility for governance in the Council

- 58 We are required by professional standards to report to those charged with governance, which in Rossendale's case was the Full Council, in the absence of the now dissolved Audit Committee, certain matters before we give an opinion on the financial statements.
- 59 As all material and non trifling errors had been amended in the re-approved accounts with no other material weaknesses, we informed the members at Full Council on the 19 October 2005 that no SAS 610 report was necessary.

Financial standing

- 60 Table 1 shows a summary combined reserve total of £2.6 million. The general fund balance is improving and the Council are working towards achieving a reserve balance of £500,000 by 31 March 2006. However, the Council needs to maintain its continual review of the level of reserves in place as well as allocating resources to corporate priorities.

Table 1 Level of revenue balances

This table summarises the overall level of balances and reserves

Year	General fund	Earmarked reserves	Housing Revenue Account	Total
	£000	£000	£000	£000
2001/02	505	1,093	970	2,568
2002/03	0	1,069	708	1,777
2003/04	211	1,108	802	2,121
2004/05	386	1,074	1,171	2,631

Source: Statement of accounts

General fund spending and balances

- 61 The net cost of services per head of population is £211 in 2004/2005, which is in the mid range for districts. The general fund balance represents 2.8 per cent of the net operating expenditure, which although improving remains in the lower quartile for districts.

2005/06 forecast and 2006/07 budget

- 62 Cabinet budget monitoring information reported on 25 January 2006 indicates that as well as reaching the required reserve level of £0.5 million the Council expects an additional £117,000 savings from the housing stock transfer, the creation of a one stop shop and closure of neighbourhood offices.
- 63 The latest 2006/07 budget indicates that the grant settlement is more favourable than previously anticipated being around the average settlement for Districts.
- 64 The Council has identified additional costs which can be funded from the increase in grant as well as additional spending and savings which can be made to improve the Council's services. The Council's ability to remain focused is essential in view of the current significant challenges it faces with the:
- continued impact of the Gershon review efficiencies savings;
 - matching of resources to meet the Council's priorities; and
 - realisation of capital receipts from planned asset disposals.

Housing Revenue Account

- 65 The Housing Revenue Account Balance has improved, as a result of a 2004/05 surplus of £370,000, to £1,172,000. In 2004/05 the HRA balance represents 9.7 per cent of the HRA expenditure, which is in the mid range for all districts. The Council needs to continue its close monitoring of the HRA balances especially in light of the forthcoming LSVT.

Capital programme

- 66 The capital programme total spend for 2004/05 was £7.1 million for both housing and other services. The total spend within other services was £2.624 million compared to a budgeted £3.687 million. The 2005/06 capital programme is projecting a shortfall of £0.6 million on the approved £8.5 million. In addition, the programme has been adjusted to reflect reduced contributions from Elevate on private sector renewal and NWDA on regeneration. The Council needs to develop an asset management plan, which will ensure that all assets contribute towards corporate priorities or are considered for disposal where capital receipts could be generated.

Income collection and arrears

- 67 Table 2 summarises the overall level of Council arrears, and shows that the level of debt has fallen by £293,000, consolidating previous year reductions especially on housing rents and NDR debts. However, the Council has made little progress with council tax arrears and is among the lowest performing district councils. Whilst the Council is improving its collection rates it needs to continue to actively pursue all debts.

Table 2 Total indebtedness

The table shows the debts in each of the main categories

Year	Council tax £000	NDR £000	Housing rents £000	Total £000
2002/03	2,897	711	487	4,095
2003/04	2,671	424	396	3,491
2004/05	2,623	310	265	3,198
Variance £	-48	-114	-131	-293
Variance %	-1.8%	-26.9%	-33.1%	-8.4%

Statement of accounts

Systems of internal financial control

- 68 The arrangements in place should be strengthened to ensure that the Council has adequate and effective systems of internal financial control. Risk identification and management arrangements need to be further improved.

Internal Audit

- 69 In early 2005 we reviewed Internal Audit and a sample of its work against the CIPFA Code of Practice Internal Audit in Local Government. Although the standard of work has improved, significant areas for further improvement have been identified, these are summarised in Table 3. However, the Council has now outsourced the complete service including management to Lancashire Audit Services, who are actively addressing these issues.

Table 3 Internal Audit

Areas of standards improvement required by Internal Audit

Standard	Summary of Findings and areas for improvement
Scope	A Terms of reference for Internal Audit needs to be completed to meet with code of practice requirements.
Audit Strategy	An audit strategy needs to be in place and enforced.
Audit Assignments	Audit briefs need to comply with code of practice requirements.
Quality Assurance	The Internal Audit manual needs to be updated. Performance management processes are limited to delivery of the audit plan.
Reporting	Some working papers completed by Rossendale internal audit staff was not always well documented. The reports should show evidence to support the Statement on Internal Control and include a recommendation table detailing for all reports the level of each recommendation.

Source: Interim audit planning work

Treasury management

- 70 We have identified scope to improve treasury management arrangements and policies to ensure greater compliance with the CIPFA Code of Practice on Treasury Management. The Council needs to review compliance with the CIPFA Code of Practice on Treasury Management, in particular:
- adopt the four clauses on treasury management (part five of the code) as part of standing orders, financial regulation or other formal policy documents;
 - adopt a treasury management policy statement part six of the code; and

- adopt treasury management practices based on part seven of the code
- 71 The Council has already programmed a full review of treasury management during 2006/07.

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

- 72 We have not identified any significant weaknesses in your arrangements to prevent and detect fraud and corruption, but we have suggested a number of areas where improvement is required, including:
- the Code of Conduct for members needs to be reviewed so it is more relevant to the Councils structure;
 - update the anti fraud and corruption policy;
 - promote awareness of conduct ethical standards and fraud and corruption issues for officers and members; and
 - re-introduce a monitored register of interests for employees.

Legality of transactions

- 73 We have not identified any significant weaknesses in the framework established by the council for ensuring the legality of its significant financial transactions.

Civil Contingencies

- 74 Recent incidents in Rossendale tested the existing procedures and showed them to be effective. Where lessons were learned from these incidents, plans have been amended. Emergency Planning is therefore very much to the fore, and this has also highlighted the need for Business Continuity Plans.
- 75 Members and senior managers have taken a proactive role in the development of training for themselves and staff with ongoing training plans in place. In addition members and officers take part in regular exercises both as active participants and as observers.
- 76 Arrangements to ensure that contractors can, where relevant, support the Council during an emergency, are not uniformly in place. It is important that not only is the emergency dealt with but that critical services are also continued and steps should be taken to develop a purchasing policy which includes these elements.
- 77 Recommendations were made around member involvement and public awareness on Civil Contingencies and business continuity, and formalised information sharing with the Local Resilience Forum.

Use of resources judgements

- 78 The use of resources assessment is a new assessment which focuses on financial management but links to the strategic management of the Council. It looks at how 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. We anticipate in future the Use of Resources judgements will form part of the CPA framework.
- 79 We have assessed the Council's arrangements in five key theme areas as outlined in Table 4.

Table 4 Councils arrangements

Overall Rossendale Borough Council makes adequate use of its resources

Element	Assessment
Financial reporting	2 out of 4
Financial management	2 out of 4
Financial standing	2 out of 4
Internal control	1 out of 4
Value for money	2 out of 4
Overall	2 out of 4

(Note: 1 = lowest, 4 = highest, 2 adequate performance, 3 performing well, 4 performing strongly)

- 80 In reaching these judgements we have drawn on the above work and supplemented this with a review against specified Key Lines of Enquiry. A separate Use of Resources report has been agreed with the Management Team with the most significant areas where further development is needed outlined below.

Financial reporting

- 81 Improve the final accounts quality assurance arrangements to ensure the statement of accounts is fully SoRP compliant and free from material and non trifling errors. Need to introduce a process of consultation with a range of stakeholders on content and format of future summary accounts. In addition, consider the benefits of producing an annual report in a user friendly format.

Financial management

- 82 The Council is developing its financial management arrangements and is fully aware of the need to improve through better financial management as demonstrated in it being one out of the eight corporate priorities. A fully developed action plan has been put in place following Audit Commission facilitated financial management workshops, which is being implemented. The current position reflects the time needed to introduce revised systems, processes and cultural changes to support better financial management.
- 83 Many of the basic building blocks are being put in place, such as an updated Medium Term Financial Strategy (MTFS), linkages to business planning, planned training programmes for staff and members and a new finance IT system. This will provide a robust framework for supporting the Council's overall improvement agenda.
- 84 Significantly more work is required on the capital strategy and asset management arrangements to improve the Council's ability to manage its assets. The Council is aware of the need to better manage its asset base and proposals have been presented to the Improvement Board on an effective way forward. Work is currently being done to ensure that base data is complete and accurate before updating the asset management plan (AMP). As part of updating the AMP a disposals strategy will be developed. Also, robust base data will allow the Council to fully develop its capital strategy providing the foundation for the capital programme. However, at present the management team feel they can demonstrate improvements in the management of the assets on all the current major capital projects.

Financial standing

- 85 The Council's financial standing is in a period of recovery following the use of reserves to fund the improvement agenda back in 2003. The last two years has seen the Council's reserves recovery plan being monitored by the management team, members and the Improvement Board with concerted efforts to improve the Council's financial health. The Council has placed emphasis on recovery of the Council's financial position by linking the level of reserves to the financial risks it faces. The introduction of new IT systems for budgetary control and a robust MTFS are assisting the management of finances, but to secure financial health they need to be fully embedded.

Internal control

- 86 Risk management arrangements continue to be integrated into the business planning arrangements, although these are not as yet fully embedded. More work is needed on raising awareness via training and regular reporting to appropriate committees. Although risk management is a consideration within major partnerships, more work is required through formulating a partnership RM policy framework. To secure strong performance on managing risks broader staff and member RM related training is required, with a more risk aware culture developed through explicit consideration of opportunity upside of risks in decision-making.

- 87 Arrangements to gather information on the SIC are not robust. IA did not consistently achieve CIPFA code of practice standards during the early part of 2005. There are some basic internal control policies and strategies in place but a counter fraud strategy has not been introduced and other procedures are not being effectively monitored ie registers of interests for officers. Although there was a good response to the NFI exercise, in overall terms, the approach to promote and ensure probity and propriety in the conduct of council business needs to be more proactive.

Value for money

- 88 Rossendale Borough Council has achieved significant performance improvements in some of its key priority areas over a relatively short period of time. The Council has embarked on an ambitious improvement programme and is starting to put in place many of the necessary building blocks to enable it to achieve its vision of 8x8x2008, although much of this development work is still in its early stages.
- 89 The Council increasingly understands the underlying reasons why its costs and spending patterns differ from nearest neighbours and other district councils. Benchmarking information on costs and quality of services achieved currently and over time needs to be used consistently throughout all services and corporately as a means of challenging performance and VFM.
- 90 Members and senior managers have identified and pursued opportunities to reduce costs and improve VFM. There is evidence that improvement planning is now leading to service improvement and better VFM in some priority areas. However, a lack of clear targets and other measures of performance throughout all services suggests that sound arrangements for managing performance and reviewing VFM are still developing.
- 91 Links between corporate priorities, spending and VFM are developing and there is evidence in some service areas of improvement in performance and VFM. However, benchmarking of costs and quality of services achieved currently and over time need further development if they are to act as an effective means of challenging performance and VFM. There are still some distinct differences in the quality and standards of some key services provided to local residents, and their levels of satisfaction with them.
- 92 The Council has only recently approved a corporate procurement strategy and developed a detailed action plan that takes account of the national procurement strategy. At the individual service level, there are some good examples of how joint procurement and partnership procurement opportunities are being used by the Council to improve service performance, quality and VFM. However, there is limited information available on which to assess the VFM achieved from past and current procurement activity.

- 93 The Council increasingly understands the full short and long-term costs of its actions and is now starting to take account of these when evaluating options and making policy decisions. Capital projects are now more clearly and consistently appraised against priorities and the capital investment strategy. There is some evidence that recent procurement and other spending decisions take account of full long-term costs and are supported by business cases to help guide decision-making.
- 94 There are some good individual examples of effective use of IT as a means of managing and improving VFM and service efficiency but IT is not yet being fully exploited throughout all services and corporately.
- 95 An efficiency statement is in place but this does not yet include all known efficiencies and detailed work streams are still developing in many areas. The statement is not backed up by strong processes and structures for monitoring and review.
- 96 VFM considerations need to be integrated by all services into their day to day operational management arrangements. Clear VFM targets are needed for senior managers and members to assess VFM and monitor its achievement. Structures and processes for assessing the wider VFM of policy decisions for the whole community need to be formalised.
- 97 The Council needs to compile information on costs and quality of services in regular reporting to members. To further enhance effective performance management arrangements the Council needs to ensure full integration between all of its key strategies and strengthen structures for monitoring and reviewing efficiency savings.

Other work

Grant claims

- 98 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.
- 99 During the year we have audited the Council's major grant claims including Housing Benefit and Non Domestic Rates. We are pleased to report that no major issues arose during the year.
- 100 However there are areas where improvement can be made especially with the other grant claims. Improvement needs to be made on the grants control environment to benefit fully from new certification arrangements, through:
- evidence based internal quality assurance checks; and
 - improved co-ordination of claims and adherence to government departmental deadlines.

National Fraud Initiative

- 101 In 2004/05, the local authority took part in the Audit Commission's National Fraud Initiative. 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.
- 102 The NFI audit work completed confirms that the Council have adequate arrangements and resources in place to prevent fraud. However, the Council need to have a realistic timetable in place to complete the fraud work. The NFI exercise has identified and made total savings of £23,732 for Rossendale Borough Council during 2004/05.

Looking forwards

Future audit and inspection work

- 103** 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 Audit and Inspection Letter.
- 104** 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 and develop an agreed programme by 31 March 2006.

Revision to the Code of Audit Practice

- 105** The statutory requirements governing our audit work, are contained in:
- the Audit Commission Act 1998; and
 - the Code of Audit Practice (the Code).
- 106** The Code has been revised with effect from 1 April 2005. Further details are included in our Audit Plan which has been agreed with the management team and former Audit Committee back in early 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.

A new CPA framework

- 107** The Audit Commission is currently considering the results of the consultation on the proposals for revising the CPA framework for District Councils up to summer 2006. The revised framework will then follow later in 2006.

Closing remarks

- 108 This letter has been discussed and agreed with the Acting Chief Executive. A copy of the letter will be presented at the Cabinet on 29 March 2006, issued to all members, and at a future Audit and Performance Overview and Scrutiny Committee.
- 109 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

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

Mike Thomas
District Auditor

Tom Keena
Relationship Manager

March 2006

Appendix 1 – Background to this letter

The purpose of this letter

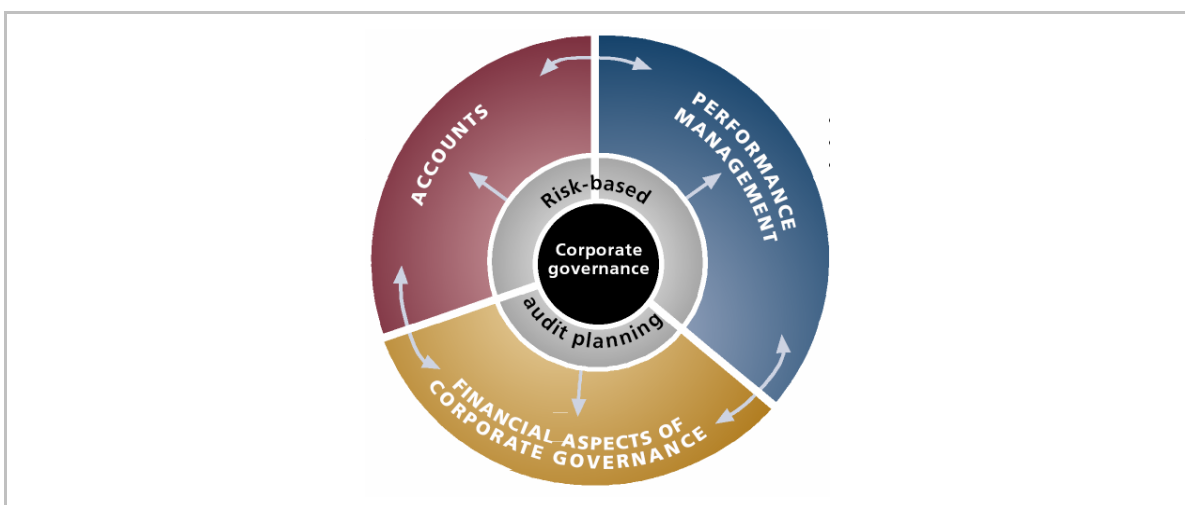
- 1 This is our audit and inspection 'Annual Letter' for members which incorporates the Annual Audit Letter for 2004/05, which is presented by the Council's Relationship Manager and District Auditor. The letter summarises the conclusions and significant issues arising from our recent audit and inspections 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.

Figure 2 Code of Audit Practice

Code of practice responsibilities



Accounts

- Opinion.

Financial aspects of corporate governance

- 7 Reviewing how effectively the Council ensures:
- financial standing;
 - systems of internal financial control;
 - standards of financial conduct and the prevention and detection of fraud and corruption; and
 - legality of transactions with significant financial consequences.

Performance management

- Use of resources.
- Performance information.
- Best Value Performance Plan.

Inspection objectives

- 8 Inspection work is based around section 10 of the Local Government Act 1999, which requires us to carry out inspections and deliver reports that will:
- enable the Council and the public to judge whether best value is being delivered;
 - enable the Council to assess how well it is doing;
 - enable the Government to assess how well its policies are being implemented; and
 - identify failing services where remedial action may be necessary.

Appendix 2 – Audit and inspection reports issued

Table 5

Report title	Date issued
Audit and Inspection Plan	March 2005
Financial management	April 2005
Performance Management Arrangements update	June 2005
SAS 610 Letter for 2004/05 financial statements to those charged with governance	October 2005
BVPP and PI review	November 2005
BVPP Opinion	December 2005
Opinion Memo	January 2006
Civil Contingencies	February 2006
Performance Management follow up	February 2006
Progress assessment report	February 2006
Use of resources auditor scores feedback	March 2006

Appendix 3 – Audit and inspection fee

Table 6 Audit fee update

Audit area	Plan 2004/05 £	Actual 2004/05 £
Accounts	35,200	38,270
Financial aspects of corporate governance	12,800	15,431
Performance	59,500	53,799
Total Code of Audit Practice fee	107,000	107,500

Inspection fee update

The full year inspection fee is £53,815 with Rossendale Borough Council paying £10,763. The inspection work has been funded by the fee planned in 2004/05 and is net of an 80 per cent ODPM grant.