

**AGENDA MANAGEMENT SHEET**

**Name of Committee** Cabinet

**Date of Committee** 02 February 2006

**Report Title** 2004/2005 Joint Audit & Inspection Letter to Members

**Summary** The Cabinet is asked to consider and receive the Annual Audit Letter from PricewaterhouseCoopers, the Council's external auditors - attached as an appendix.

**For further information please contact:** David Clarke  
Strategic Director of Resources  
Tel: 01926 412003

**Would the recommended decision be contrary to the Budget and Policy Framework?** No.

**Background papers** None

**CONSULTATION ALREADY UNDERTAKEN:-** Details to be specified

- Other Committees  Audit Panel Meeting held on 12 January 2006
- Local Member(s)  Not applicable
- Other Elected Members  .....
- Cabinet Member  .....
- Chief Executive  .....
- Legal  .....
- Finance  .....
- Other Chief Officers  .....
- District Councils  .....
- Health Authority  .....
- Police  .....

Other Bodies/Individuals  .....

**FINAL DECISION NO**

**SUGGESTED NEXT STEPS:**

Details to be specified

Further consideration by this Committee  .....

To Council  *For approval at it's meeting on 7 February 2006*

To Cabinet  .....

To an O & S Committee  .....

To an Area Committee  .....

Further Consultation  .....

## Agenda No

### Cabinet - 02 February 2006.

#### 2004/2005 Joint Audit & Inspection Letter to Members

#### Report of the Strategic Director of Resources

##### Recommendation

That Members are asked to note the Joint Audit & Inspection Letter to Members.

1. The attached Audit Management Letter will be presented by PricewaterhouseCoopers and the Audit Commission to the Cabinet. The letter has previously been considered by the Audit Panel.
2. This will be the final time which PricewaterhouseCoopers present the Management Letter to Members as their appointment comes to an end with the closure of the 2004/2005 audit.
3. PricewaterhouseCoopers have been the County Council's auditors since 1987, when they replaced Arthur Andersen. The relationship between the County Council and PricewaterhouseCoopers has always been constructive and they have consistently supported the County Council. This was particularly so in relation to our capping appeals in the early 1990s, when their partner participated in the delegations to Ministers.

DAVID CLARKE  
Strategic Director of  
Resources

Shire Hall  
Warwick

20 January 2006

Government and Public Sector

January 2006

# Warwickshire County Council 2004/05 Joint Audit and Inspection Letter



The Councillors  
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4 January 2006

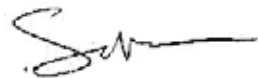
Ladies and Gentlemen

**Joint Audit and Inspection Letter 2004/05**

We are pleased to present our Joint Audit and Inspection Letter for 2004/05. We hope that the information contained in this Letter provides a useful source of reference for Councillors. The Audit Panel will consider the Letter on the 12 January 2006.

Yours faithfully

*PricewaterhouseCoopers LLP*



PricewaterhouseCoopers LLP

Relationship Manager

# Contents

|  |    |
|--|----|
| Executive summary.....   | 1  |
| Council Performance .....  | 3  |
| Accounts and Governance .....  | 6  |
| Performance management .....   | 11 |
| Fees update 2004/05.....   | 13 |
| Appendix A: Audit reports issued in relation to the 2004/05 financial year ..... | 14 |

## **Code of Audit Practice and Statement of Responsibilities of Auditors and of Audited Bodies**

*We perform our audit in accordance with the Audit Commission's Code of Audit Practice (the Code), which was issued in March 2002. This is supported by the Statement of Responsibilities of Auditors and Audited Bodies, which was issued in April 2000. Both documents are available from the Chief Executive of each audited body. The purpose of the statement is to assist auditors and audited bodies by explaining where the responsibilities of auditors begin and end, and what is to be expected of the audited body in certain areas. Our reports and audit letters are prepared in the context of this statement and in accordance with the Code.*

*Reports and letters prepared by appointed auditors and addressed to members or officers are prepared for the sole use of the audited body, and no responsibility is taken by auditors to any Member or officer in their individual capacity, or to any third party. A new Code of Audit Practice will be in place for the 2005/06 audit year, together with a new Statement of Responsibilities of Auditors and Audited Bodies, both of which were issued in March 2005.*

# Executive summary

## The purpose of this Letter

We are required, under the Audit Commission's Code of Audit Practice (the Code) to issue an annual Audit Letter to the Council on completion of our audit, demonstrating that the Code's objectives have been addressed and summarising all issues of significance arising from our work. Our report also includes a summary of the results of the inspection work undertaken during 2004/05 by the Audit Commission in accordance with their responsibilities as detailed in section 10 of the Local Government Act 1999.

This letter includes a summary of the issues we wish to report to you arising from all aspects of our work. In particular, we are formally required to report to you under Statement of Auditing Standard (SAS) 610 - "Communication of audit matters to those charged with governance".

We have continued to develop the joint reporting of audit and inspection work again recognising the steps that the Audit Commission has taken to integrate more closely the audit and inspection regimes, whilst continuing to maintain their separate statutory responsibilities. The Audit Commission's appointed 'relationship manager for Warwickshire County Council has continued to work with the statutory audit team to co-ordinate planning and delivery of inspection work alongside the statutory audit work.

Our Audit Plan set out the risks that we identified as part of our audit planning process, together with the targeted work that we intended to perform in order to address the identified risks.

We have issued a number of reports during the course of the year setting out the detailed findings and recommendations arising from our work. A list of these reports is included at Appendix A to this joint audit and inspection Letter ('Letter')

It is the responsibility of the Council to identify and address its operational and financial risks and to develop proper arrangements to manage them, including adequate and effective systems of internal control. In planning and performing our audit work we have considered the significant operational and financial risks that are relevant to our responsibilities under the Code, and have tailored our work accordingly.

During our audit of this year's financial statements, we have not identified any material weaknesses in the Council's internal control systems. However we did identify one issue relating to the Highway Maintenance partnership agreement which we consider is of sufficient significance to include in this Letter. We identified a number of minor control issues and have discussed these with the Financial Accounting Team. We are currently in the process of agreeing an action plan to address these points in 2005/06.

We have set out on page 5 what we consider to be the key issues arising from our audit and inspection work.

2004/05 represents the final year in which PwC is engaged by the Audit Commission to perform Warwickshire County Council's Statutory Audit. PwC has worked successfully in partnership with the Council for a number of years in the capacity of external auditor. We would like to take this opportunity to thank all Members and officers who, over the years, have provided us with their invaluable time and support.

We will discuss the issues contained within this Letter with the Audit Panel on 12 January 2006.

## Council Performance

- The Council's Comprehensive Performance Assessment (CPA) for 2005 is three (out of a possible four) stars. In terms of direction of travel it has been assessed as improving adequately.
- There is a picture of improvement in many, but not all, priority areas and the "Use of Resources" assessment found that the Council is performing consistently well above minimum requirements indicating continuing improvements in overall efficiency and effectiveness;
- Overall services for vulnerable adults do not show consistent or sufficiently rapid improvement, with the CSCI annual performance assessment remaining at "serving some people well".
- The Council's overall business planning process has been revised and improved since the last corporate assessment in 2004;
- The Council's own monitoring shows that, whilst a majority of the improvement plans are on track, a significant number are late;
- Arrangements for performance management continue to improve and the Council is well placed to deliver improved value for money;
- The Council's recent appointment of a new Chief Executive and the decision to make major changes in its organisational structure are significant developments in planning for future improvements; and
- In November 2005 the Audit Commission published the Use of Resources assessment. Overall the Council performed well scoring 3 out of 4.

## Accounts and Governance

- The accounts preparation process has continued to improve and the agreed target of 30 June 2005 was achieved;
- We issued an unqualified audit opinion on the Council's statement of accounts for 2004/05;
- The Council has continued to make good progress in preparing for the additional disclosures required for Group Accounting and is in the final stages of defining its responsibilities and how these will be addressed in the 2005/06 Statement of Accounts;
- The Council continues to include the potential impact of a pension fund deficit in the assumptions on pension contributions made in its Medium Term Financial Strategy. This strategy will continue to be reviewed on an ongoing basis to incorporate the results of the latest actuarial valuation and to determine the impact on employer contributions going forward;
- The County Treasurer reported the Council's quarter 1 projections to Cabinet on 8 September 2005, noting a projected net overspend of just over £0.5million. Given the measures being taken to reduce areas of current spending the Council needs to carefully balance the importance of achieving financial balance in 2005/06 against the potential impact on the Council's achievement of its stated strategic and service level objectives in the short, medium and longer term;
- Internal Audit needs to ensure that it achieves full compliance with the CIPFA Code of Practice in respect of the coverage and assurance given in respect of non-financial systems; and
- The Council needs to ensure that the revised management and monitoring arrangements for the Highways Partnership agreement are successful and that, as a consequence, the benefits expected from the arrangement are delivered.



# Council Performance

## Comprehensive Performance Assessment

The CPA scorecard and Direction of Travel summary statement were published on 15 December 2005. Under the new framework the Council is a three star authority which is improving adequately. The table below presents a summary of the council's scores contributing to its overall category.

### 2005 CPA scorecard

| Element  | Assessment           |
|--|----------------------|
| Direction of Travel judgement                                    | Improving adequately |
| Overall  | Three Star           |
| <b>Current performance</b>                                       |                      |
| Children and young people  | 3 out of 4           |
| Social care (adults)   | 2 out of 4           |
| Use of resources   | 3 out of 4           |
| Environment  | 3 out of 4           |
| Culture  | 3 out of 4           |
| <b>Corporate assessment/ capacity to improve (Assessed 2004)</b> | 3 out of 4           |

(Note: 1=lowest, 4= highest)

The CPA judgements this year have been made using the revised methodology: CPA - the harder test. As the title implies CPA is now a more stringent test with more emphasis on outcomes for local people and value for money. We have also added a new dimension, a Direction of Travel judgement that measures how well the Council is improving. A summary of the assessment of direction of travel is outlined below.

## Summary of Direction of Travel Assessment Conclusion

The overall assessment judgement is that the Council is improving adequately.

### 1. What evidence is there of the Council improving outcomes?

There is a picture of improvement in many, but not all, priority areas. Areas of good performance are improving well but areas of relatively weaker performance show less improvement. Between 2002-03 and 2004-05 57 per cent of core service performance indicators have improved and 43 per cent have not. This is against a background of generally good performance, with 62 percent of indicators above average, of which 33 per cent were in the best performing quartile. Where performance is weaker there is less improvement, with only 28 per cent of below average performance indicators improving.

The Council's use of resources assessment found that the council is performing consistently well above minimum requirements. This indicates continuing improvements in overall efficiency and effectiveness.

Good progress is being made in improving outcomes for children and young people. The Council's annual performance assessment found that most outcomes are good or generally good. Progress in Environment and Culture Services show an overall positive (but not consistent) picture of improvement. In Environment Services since 2002-03 7 performance indicators have improved and 6 have not. There has been significant progress in work with District Councils to improve recycling and the statutory target was met. In Culture Services (where performance is already good) 2 indicators have improved and 2 have not.

Overall services for vulnerable adults do not show consistent or sufficiently rapid overall improvement, with the CSCI annual performance assessment remaining at "serving some people well". The Council accepts that this is a priority area where better performance is needed. In January 2005 we published an inspection of arrangements for the delivery of the supporting people programme in Warwickshire. This judged that the service was poor with uncertain prospects for improvement. The Council has responded positively to this inspection by strengthening its capacity and has clear plans for improvement.

The Council's contribution to the wider community is improving. The positive approach to partnership working is reflected in good relationships and some improved outcomes. This includes regeneration programmes in the Camphill Estate in Nuneaton and significant reductions in crime. The CPA of the fire service found effective work with young people to reduce the levels of arson. Quality of life performance indicators show a positive improvement trend, with 24 (44 per cent) showing significant improvement, 24 (44 per cent) showing moderate improvement and only 7 (12 per cent) showing no improvement.

There have been positive developments in improving access to services but progress on addressing diversity is more limited. The Council is piloting a One Stop Shop with Warwick District Council and is on track to achieve its e-government target by the end of 2005. There has been some slippage in the implementation of the Council's plan to meet its obligations under the Disability Discrimination Act and it also remains at level 2 of the equalities standard.

The Council continues to perform well and to make improvements in delivering value for money. The Council scored 3 (above minimum requirements) in the value for money element of its use of resources assessment.

## **2. How much progress is being made to implement improvement plans to sustain future improvement?**

The Council's overall business planning process has been revised and improved since the last corporate assessment in 2004. There is effective planning for improvement in the majority of council services where performance is already good. There are also some examples of where performance management and scrutiny have identified, and started the process of planning for improvement, where performance is weaker. These include improving the complaints processes and identifying the reasons for dissatisfaction with public transport. The Council is working on the implementation of its plans to improve performance in adult social care.

Progress on the implementation of plans is monitored, reported and kept on track effectively. There are systems in place for this, including regular monitoring and reporting within directorates and reporting progress to Members every 6 months, along side the outcomes of the annual public consultation. Project management is used to implement plans with Prince 2 used where appropriate.

The Council's own monitoring shows the majority of improvement plans are on track but a significant number are late. The latest report on progress of the implementation of plans shows 57 per cent of corporate actions for 2004/05 are completed or on track to be completed by the year end, 37 per cent are partially completed but completion may be delayed by up to 6 months and 4 per cent have longer delays. This later group includes DDA compliance and plans to develop options appraisal processes for the procurement of services.

Arrangements for performance management continue to improve and the Council is well placed to deliver improved value for money. A range of improvement plans have been integrated to maximise the efficient use of available capacity. Children's services are judged as having excellent capacity for improvement and are well placed to make further gains. Adult social care is less well placed and CSCI have judged that capacity for future improvement is uncertain. The Council is now investing in additional senior management capacity to support improvement.

The Council continues to improve its capacity through partnership working. It has developed a framework for evaluating partnerships and plans to exit those which are not effectively supporting corporate priorities. The Council continues to engage actively with the voluntary sector but recognises that it still has more to do to improve the effectiveness of this partnership.

The Council's recent appointment of a new Chief Executive and the decision to make major changes in its organisational structure are significant developments in planning for future improvements. This indicates an intention to modernise and significantly change the direction of the Council. These plans will be successful if they can improve effectiveness in working with partners and take forward cross cutting issues important to local people.

## Use of Resources Assessment

In November 2005 the Audit Commission published the use of resources assessment. Overall the Council performed well scoring 3 out of 4. The table below outlines the Council's scores in each of the five themes assessed.

### Summary of theme scores

|                      | Score |
|----------------------|-------|
| Financial reporting  | 3     |
| Financial management | 3     |
| Financial standing   | 2     |
| Internal control     | 3     |
| Value for money      | 3     |

Source: Use of Resources Scoring:

1 (below minimum requirements), 2 (only at minimum requirements), 3 (consistently above minimum requirements), 4 (well above minimum requirements).

The key conclusions under each of the use of resources themes are outlined below.

### Financial reporting

Overall arrangements for financial reporting are consistently above minimum requirements. The Council's Statement of Accounts was compiled in accordance with statutory and professional reporting standards. The Statement of Accounts was also produced in accordance with the agreed timetable and achieved the plain English crystal mark. Comprehensive supporting papers were provided for most but not all departments. The Council has not yet published summary accounts.

## Financial management

Overall financial management arrangements are consistently above minimum requirements. The Council's medium-term financial strategy, budgets and capital programme are soundly based and designed to deliver its strategic priorities. There was an overall underspend of £9.3m in 2004/05 with significant underspends in Education (£6.1m) and Other Services (£2.4m). The Council's asset management arrangements are strong and there is evidence of good practice.

### Financial standing

The Council has a formal policy on the level of general reserves it requires and this is based on a risk assessment. The Council maintains its spending within its overall budget but needs to ensure that there are no significant unexpected departmental variances. Monitoring information is available that evaluates the effectiveness of debt recovery action but further work is required on monitoring the associated costs of recovery actions.

### Internal control

Overall arrangements for internal control are consistently above minimum requirements. Councillors have been given risk management awareness training and risk management is clearly part of member decision making. The Council's arrangements to promote and ensure probity and propriety in the conduct of its business are good. The whistle blowing policy is communicated widely to staff. This should also be communicated to those parties contracting with the Council.

### Value for money

There are many strengths evident from the review of value for money. There is a firm commitment to achieving value for money, and systems in place to support this. The Council also has some very positive value for money outcomes – it has consistently achieved significant efficiency savings over a protracted timescale and overall services perform well and with below average costs. Residents and service users are satisfied with the Council's performance overall. However, there has been insufficiently rapid progress in the key adult social care service that is already below average. There are two high costs services – fire and rescue and culture - and although there is awareness and some understanding of the reasons for this, there is little evidence of clear outcomes from plans to tackle this anomaly in the short term.

# Accounts and Governance

In this section we summarise our work on the Council's Statement of Accounts for the year ended 31 March 2005, commenting on the following:

- The production of the Council's Financial Accounts;
- Our audit opinion;
- Statement of Auditing Standards 610-Communication of audit matters to those charged with governance;
- Any significant accounting issues that arose during the course of our work; and
- The work we have performed in response to electors' questions and objections received during the year.

We also comment on the Council's Governance arrangements including:

- Financial Standing;
- The work we have performed on the Council's systems of internal control;
- The adequacy of its financial systems and arrangements for the prevention and detection of fraud and corruption; and
- The adequacy of the Council's arrangements to ensure the legality financial transactions.

## Financial Accounts

We have completed our audit of the Council's Statement of Accounts for 2004/05 in accordance with approved Auditing Standards. We continued to work in partnership with the Council during the year to identify further improvements that could be made to the accounts completion process. The Council's centralised Financial Accounting Team continued to build on the strengths it has developed over the previous 2 financial years. The team demonstrated continuous improvement through:

- The production of a first draft of the financial statements in accordance with an agreed target of 30 June 2005;
- Most of the departmental working papers were to a high quality and were available in advance of our final audit visit;
- Weekly progress meetings to improve communication and help to resolve developing issues on a timely basis during the audit; and
- The majority of adjustments and disclosure issues being pre-cleared prior to their presentation to the County Treasurer at the Accounts Clearance Meeting;

We acknowledge the positive steps that the Council has taken to refine the accounts closedown process further so as to enable closedown to be brought forward by another month in 2005/06. However the Council needs to provide some focus on;

- Ensuring the scope and quality of working papers are delivered to a consistently high standard for all departments; and
- Ensuring that a robust methodology is developed and applied for bad debt provisioning in all departments.

## Audit Opinion

The Accounts and Audit Regulations (2003) required local authorities to present a set of accounts to Councillors for approval by the end of July. We are pleased to report that the Council complied with this requirement, presenting its accounts to the Council on 21 July 2005.

Following the completion of our audit work, we are pleased to report that we have issued an unqualified audit opinion on the Council's 2004/05 Statement of Accounts together with the accounts of the Warwickshire Pension Fund.

## SAS 610

The Statement of Auditing Standard (SAS) 610: 'Communication of audit matters to those charged with governance' is applicable to the 2004/05 financial year. This SAS requires auditors to report to 'those charged with governance' issues needing to be considered prior to approving the accounts. We agreed that the Audit Panel was the most appropriate forum for this purpose and the Audit Panel considered our SAS 610 report on 14 October 2005.

There was one matter included that we consider needs to be brought to Councillors' attention in this Letter.

We have reviewed the new Highways Maintenance partnership agreement which the Council has entered into. Whilst we were satisfied that the financial transactions have been accounted for correctly we did have concerns regarding the way in which the partnership agreement has been controlled and managed including, in particular:

- There is no single person with overall responsibility for monitoring the arrangements;
- A lack of effective management and performance information;
- Lack of clarity as to whether the arrangement was delivering the benefits that were originally anticipated; and
- The development of a confrontational rather than partnership relationship with the contractor Carillion.

These issues had been recognised by officers following two reviews of the contract, one by Internal Audit and the second by an independent consultant.

Following these reviews, revised arrangements have been put in place to strengthen the management and monitoring arrangements for the partnership and work to strengthen these further is continuing. These revised arrangements have been the subject of a detailed scrutiny review by the Council's Environment Overview and Scrutiny Committee.

## Accounting issues

### Group accounts

It is probable that the Authority will have a significant new responsibility in 2005/06 to publish group accounts, consolidating the financial transactions and balances of other entities in which it has a substantial interest. During this audit we have reviewed the administrative and technical preparations that the Council has made to ensure that arrangements will be in place to produce group accounts in 2005/06. We concluded that the Council has made good progress in preparing for the additional disclosures required.

### Financial Reporting Standard (FRS) 17: Retirement Benefits

2004/05 provided an opportunity for the Council to take stock and embed the accounting arrangements for FRS 17. The FRS is concerned with identifying the real underlying financial position of the Council's occupational pension schemes.

The Council continues to include the potential impact of a pension fund deficit in the assumptions on pension contributions made in its Medium Term Financial Strategy. This strategy will continue to be reviewed on an ongoing basis to incorporate the results of the latest actuarial valuation and to determine the impact on employer contributions going forward.

### Pension Fund

The County Treasurer will be commissioning further work during the year to review all potential cases relating to "frozen refunds", where contributions may be repayable to certain former employees. This work should quantify the extent of any such liability that might exist more accurately and whether any provision should be included in the Pension Fund accounts for 2005/06.

## Electors Questions and Objections

Section 16 of the Audit Commission Act 1998 provides local electors with the opportunity each year to inspect the accounts of a Council and, subsequently, to put questions and/or objections relating to those accounts to the auditor. Any such representations must be resolved prior to the closure of the audit.

We have not received any questions or objections during our 2004/05 audit.

## Financial standing

In this section we comment upon the Council's general financial standing taking into account both its performance during the last year and its ability to meet known financial obligations.

### Overall financial performance in 2004/05

#### Revenue Expenditure

We have identified in the following table the key features of the 2004/05 revenue budget process:

|  | £m    |
|--|-------|
| Original Budget ratified at Council on 3 February 2004 | 465.1 |
| Increase in Band D equivalent Council Tax              | 6.6%  |
| Final approved budget                                  | 464.2 |
| Final outturn spending                                 | 455.0 |
| Net service underspend                                 | 9.4   |
| Surplus as disclosed in the Statement of Accounts      | 4.0   |
| Surplus as a percentage of Original Budget             | 0.86% |

The difference between the net service underspend and the surplus disclosed in the Statement of Accounts is due mainly to underspends in relation to the Standards Fund Grant (£1.5million), ring fenced delegated schools budgets (£1.8million) and additional PSA1 monies (£0.7million) being appropriated to specific reserves. The small positive variance between final outturn position and the revised budget demonstrates the effectiveness of the close monitoring of budgets during the year.

#### Capital Expenditure

We commented in past Letters on the slippage incurred on the Capital Programme. Capital expenditure in 2004/5 was £8.5 million less than the quarter 3 estimate reported to Members, equivalent to 10.3% of the total programme (16%, 2003/2004).

We are pleased to note the increased level of reporting to Members which now includes in depth reasons for slippage which enables Members to more easily identify those schemes that require management action.

We are also pleased to note the move to monitoring on an accruals basis rather than on a payments basis.

#### Pension Fund

A summary of the performance of the Pension Fund over the last two years is set out below:

|                                    | 2004/05        | 2003/04        |
|------------------------------------|----------------|----------------|
| Surplus of Income over Expenditure | £4.5 million   | £2 million     |
| Value of Net Assets                | £744.2 million | £670.1 million |

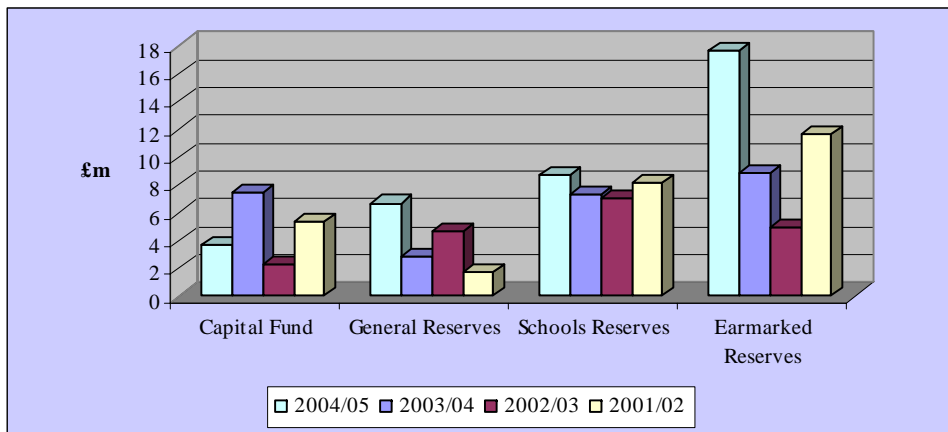
The results of the triennial valuation were released and showed that the current funding level of the scheme is 82%. This is favourable, compared to the average funding for similar schemes in England which stands at 71%, however it is significantly below the previous triennial valuation level of 102%. The main reasons for the fall are reduced performance in the investments return against the assumptions used by the actuary in the previous valuation and a 'toughening up' of actuarial assumptions.

The Council will need to carefully consider the funding strategy going forward in particular the balance between recovering part of the deficit from council tax payers in the short or medium term rather than passing it on to future generations to pay.

## Overall Financial Position

### Balances and reserves

We have continued to review the financial position of the Council and, in particular, the levels of reserves. The levels of reserves at the year-end, along with prior year comparatives, are shown below:



The general reserves of the Council have increased by £4 million to £6.9 million as at 31 March 2005. The Council's general reserves now represent 1.5% of 2004/05 total net expenditure which is in line with the County Treasurer's risk assessed level of general reserves required.

The Council's total usable reserves, including earmarked and schools reserves have increased by £10.3 million (39%) in 2004/05.

### Performance of trading operations

The Council's trading operations have provided an overall surplus in 2004/05 of £0.3m (£1.1m 2003/04). The County Grounds Maintenance unit and Construction unit incurred a deficit of £0.2 million each. We are aware that the Council is considering this at present.

### The 2005/06 financial year and outlook

The County Treasurer reported the Council's quarter 1 projections to Cabinet on 8 September 2005. This identified a number of variations to the original gross budget of £574.9million, resulting in a revised budget of £580.2million. The County Treasurer noted a projected overspend of just over £0.5million. The main service pressures are:

- Social Services £2.5million

The County Treasurer reported that the two main budget pressures faced by the department are the costs of rising numbers of Looked After Children (and children on the Child Protection Register) and the difficulties of continuing to commission services for people with learning disabilities in a high cost market dominated by a few suppliers reflecting the national position for Social Services..

- Libraries and Heritage £0.5million

This overspend mainly relates to the areas of information technology and procurement and will be covered by a transfer from their service reserves.

- PTES £0.9million

There are a number of key pressures that have been reported to Councillors. PTES are seeking to address these issues by various measures.

Your officers will attempt to reduce these areas of current overspending in 2005/06 through a combination of cost reduction measures, holding open vacant posts and delaying future service developments and projects.

The Council needs to carefully balance the importance of achieving financial balance in 2005/06 against the potential impact on the Council's achievement of its stated strategic and service level objectives in the short, medium and longer term.

## Systems of internal control

### Statement on Internal Control

The Accounts and Audit Regulations 2003 included a requirement that the Statement of Accounts should contain a statement on internal control (SIC). These statements refer to all systems of internal control, not just financial systems, and require the Council to conduct annual reviews of the effectiveness of

the systems of internal control and to comment on these within the SIC. We have reviewed the SIC and are satisfied that it is not inconsistent with our knowledge of the internal control environment at the Council.

Our audit approach involved undertaking an assessment of the work of Internal Audit, documenting and testing key monitoring controls based on a risk assessment, and reviewing the Council's Statement of Accounts. We are pleased to report that there were no major concerns regarding the systems of internal control arising from our work.

We identified a number of minor control issues and have discussed these with the Financial Accounting Team. We are currently in the process of agreeing an action plan to address these points in 2005/06.

#### **Internal Audit**

We concluded that we were able to place assurance, where appropriate, on the work of Internal Audit in line with the team's coverage of departmental financial systems.

The Internal Audit team are developing their planning approach to assess the extent to which assurance on the Council's non-financial systems can be provided from the work that they perform in order to meet the requirements of the CIPFA Code of Practice and the expectations of management going forward.

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

Our work with regard to standards of financial conduct and the prevention and detection of fraud and corruption, focussed on an assessment of the control environment at the Council and the monitoring controls in operation designed to prevent and detect fraud and corruption.

We are pleased to report that our work did not identify any significant or fundamental weaknesses in these overall control arrangements.

#### **The legality of financial transactions**

In order to discharge our responsibilities in respect of the legality of the Council's significant financial transactions, we have focussed on the arrangements that the Council has in place.

There are no issues that have arisen as a result of our work in this area that we wish to bring to your attention.



# Performance management

## Performance Audit

Under the Audit Code of Practice, each year we are required to undertake work to assess the organisations use of resources, giving due regard to the achievement of economy, efficiency and effectiveness. During the 2004/05 audit year we undertook work in the following areas:

- Best Value Performance Plan 2004/05 and performance indicators for 2003/04
- Review of school admission appeals

## Best Value Performance Plan and Performance Indicators

In June 2004 the Council published its Best Value Performance Plan in accordance with the requirements laid down in the statutory guidance. As a consequence we were pleased to issue an unqualified opinion and we did not need to make any recommendations in relation to the plan.

As part of our work we also reviewed a sample of the Authority's performance indicators to ensure that they were calculated and reported correctly. Although some minor amendments to reported figures were required these were not significant and we were able to report positively on the outcome of our audit.

The Council's new auditors will have recently completed their work on the Best Value Performance Plan 2005/06 and Performance Indicators for 2004/05 and will be issuing their statutory report before the deadline of 31 December 2005.

## Review of the Council's arrangements for the implementation of the HRMS System

In 2004 we were commissioned by the Council to conduct a review of the Councils arrangements for the implementation of the HRMS system. The HRMS project represents a significant opportunity and risk for the Council given its involvement in both the Human Resources and payroll processing functions of the Council.

The project represents a significant investment for the Council and, prior to 2004, it had experienced significant time delays and cost overruns with respect to both the project implementation costs and the costs of maintaining the legacy systems,

Our report, which we published in February 2005, focused on:

- the project management arrangements; and
- the security and configuration of the implemented environment.

## Project management

The Council identified the need to adopt the principles of Prince2 as a project management methodology after tacking stock of the HRMS project's progress in early 2004. To facilitate this, the Council appointed an external Project Manager. Overall the project has greatly improved since this appointment in early 2004. Prior to this, the project suffered from a lack of dedicated skilled resources and very low team morale.

Since the new Project Manager has come on board, he has implemented a number of practices and controls, including the appointment of a new project board and the recruitment of a number of skilled contractors to work on the project full time.

However, there were certain areas which we considered could be better controlled in the later phases of this project and other future projects, including:

- clearly defining the business benefits in a business case and measuring project progress against these;
- the use of a risk mitigation and "issues management" process;
- user acceptance testing; and
- project documentation and decision approval sign-off.

## **Application security and configuration**

Our review established that:

- in general application security has been appropriately designed. However there are some specific areas where improvement is required. Generally these relate to the design of responsibilities and the allocation of responsibilities to users.
- the current configurable application controls implemented by management have been generally well designed and incorporated into the final payroll solution.

An action plan has been developed and agreed with the Council and has been implemented by the project manager.

## **Review of School Admission Appeals**

Our second piece of targeted performance audit work examined the issue of school admission appeals. School Admission Appeals have been comparatively high in Warwickshire for a number of years. The number of appeals lodged as a proportion of total admissions was one of the highest in the Country and the percentage decided in the parent's favour compared unfavourably with the national average for 2003/04.

Our work with the Council identified some key metrics which the Council can utilise to monitor and make changes to the way in which the Schools admission process runs.

The average cost of each schools admission appeal is approximately £175. We did not identify any significant concerns with the way in which the appeals process was administered.

We did not identify unusually high levels of criticism from the public with regard to the timeliness or completeness of information and the vast majority of parents (regardless of the outcome of the decision) rated the council as good or excellent.

We have discussed our findings with the Council's nominated officers and agreed a final report. The Council is now developing an action plan in response to the issues raised and has agreed to share this with its new auditors so that follow up work can be undertaken in due course.

# Fees update 2004/05

## **Fees update for 2004/05**

We reported our fee proposals as part of our Audit Plan for 2004/05. These fee proposals covered the 12 month period.

Our actual fees were in line with our proposals.

## **Freedom of Information Act**

In the event that, pursuant to a request which the Council has received under the Freedom of Information Act 2000, it is required to disclose any information contained in this report, it will notify PwC promptly and consult with PwC prior to disclosing such report. The Council agrees to pay due regard to any representations which PwC may make in connection with such disclosure and the Trust shall apply any relevant exemptions which may exist under the Act to such report. If, following consultation with PwC, the Trust discloses this report or any part thereof, it shall ensure that any disclaimer which PwC has included or may subsequently wish to include in the information is reproduced in full in any copies disclosed. Reports and letter prepared by appointed auditors and addressed to directors or other officers are prepared for the sole use of the audited body and no responsibility is taken by auditors to any directors or officers in their individual capacity or to any third party.

# Appendix A: Audit reports issued in relation to the 2004/05 financial year

## **Accounts and Governance Reports**

- *Audit Issues Report 2004/05;*
- *Audit opinion for 2004/05 financial statements;*
- *BVPP opinion for 2004/05;*
- *Oracle HRMS (Payroll) Implementation Review update; and*
- *SAS 610 report.*

## **Audit & Inspection reports issued**

- *Direction of Travel for Annual Audit and Inspection Letter; and*
- *Use of Resources Scoring.*

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Government and Public Sector

January 2006

# Warwickshire County Council 2004/05 Joint Audit and Inspection Letter



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4 January 2006

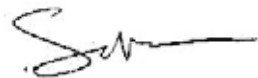
Ladies and Gentlemen

**Joint Audit and Inspection Letter 2004/05**

We are pleased to present our Joint Audit and Inspection Letter for 2004/05. We hope that the information contained in this Letter provides a useful source of reference for Councillors. The Audit Panel will consider the Letter on the 12 January 2006.

Yours faithfully

*PricewaterhouseCoopers LLP*



PricewaterhouseCoopers LLP

Relationship Manager

# Contents

|  |    |
|--|----|
| Executive summary.....   | 1  |
| Council Performance .....  | 3  |
| Accounts and Governance .....  | 6  |
| Performance management .....   | 11 |
| Fees update 2004/05.....   | 13 |
| Appendix A: Audit reports issued in relation to the 2004/05 financial year ..... | 14 |

## **Code of Audit Practice and Statement of Responsibilities of Auditors and of Audited Bodies**

*We perform our audit in accordance with the Audit Commission's Code of Audit Practice (the Code), which was issued in March 2002. This is supported by the Statement of Responsibilities of Auditors and Audited Bodies, which was issued in April 2000. Both documents are available from the Chief Executive of each audited body. The purpose of the statement is to assist auditors and audited bodies by explaining where the responsibilities of auditors begin and end, and what is to be expected of the audited body in certain areas. Our reports and audit letters are prepared in the context of this statement and in accordance with the Code.*

*Reports and letters prepared by appointed auditors and addressed to members or officers are prepared for the sole use of the audited body, and no responsibility is taken by auditors to any Member or officer in their individual capacity, or to any third party. A new Code of Audit Practice will be in place for the 2005/06 audit year, together with a new Statement of Responsibilities of Auditors and Audited Bodies, both of which were issued in March 2005.*



# Executive summary

## The purpose of this Letter

We are required, under the Audit Commission's Code of Audit Practice (the Code) to issue an annual Audit Letter to the Council on completion of our audit, demonstrating that the Code's objectives have been addressed and summarising all issues of significance arising from our work. Our report also includes a summary of the results of the inspection work undertaken during 2004/05 by the Audit Commission in accordance with their responsibilities as detailed in section 10 of the Local Government Act 1999.

This letter includes a summary of the issues we wish to report to you arising from all aspects of our work. In particular, we are formally required to report to you under Statement of Auditing Standard (SAS) 610 - "Communication of audit matters to those charged with governance".

We have continued to develop the joint reporting of audit and inspection work again recognising the steps that the Audit Commission has taken to integrate more closely the audit and inspection regimes, whilst continuing to maintain their separate statutory responsibilities. The Audit Commission's appointed 'relationship manager for Warwickshire County Council has continued to work with the statutory audit team to co-ordinate planning and delivery of inspection work alongside the statutory audit work.

Our Audit Plan set out the risks that we identified as part of our audit planning process, together with the targeted work that we intended to perform in order to address the identified risks.

We have issued a number of reports during the course of the year setting out the detailed findings and recommendations arising from our work. A list of these reports is included at Appendix A to this joint audit and inspection Letter ('Letter')

It is the responsibility of the Council to identify and address its operational and financial risks and to develop proper arrangements to manage them, including adequate and effective systems of internal control. In planning and performing our audit work we have considered the significant operational and financial risks that are relevant to our responsibilities under the Code, and have tailored our work accordingly.

During our audit of this year's financial statements, we have not identified any material weaknesses in the Council's internal control systems. However we did identify one issue relating to the Highway Maintenance partnership agreement which we consider is of sufficient significance to include in this Letter. We identified a number of minor control issues and have discussed these with the Financial Accounting Team. We are currently in the process of agreeing an action plan to address these points in 2005/06.

We have set out on page 5 what we consider to be the key issues arising from our audit and inspection work.

2004/05 represents the final year in which PwC is engaged by the Audit Commission to perform Warwickshire County Council's Statutory Audit. PwC has worked successfully in partnership with the Council for a number of years in the capacity of external auditor. We would like to take this opportunity to thank all Members and officers who, over the years, have provided us with their invaluable time and support.

We will discuss the issues contained within this Letter with the Audit Panel on 12 January 2006.

## Council Performance

- The Council's Comprehensive Performance Assessment (CPA) for 2005 is three (out of a possible four) stars. In terms of direction of travel it has been assessed as improving adequately.
- There is a picture of improvement in many, but not all, priority areas and the "Use of Resources" assessment found that the Council is performing consistently well above minimum requirements indicating continuing improvements in overall efficiency and effectiveness;
- Overall services for vulnerable adults do not show consistent or sufficiently rapid improvement, with the CSCI annual performance assessment remaining at "serving some people well".
- The Council's overall business planning process has been revised and improved since the last corporate assessment in 2004;
- The Council's own monitoring shows that, whilst a majority of the improvement plans are on track, a significant number are late;
- Arrangements for performance management continue to improve and the Council is well placed to deliver improved value for money;
- The Council's recent appointment of a new Chief Executive and the decision to make major changes in its organisational structure are significant developments in planning for future improvements; and
- In November 2005 the Audit Commission published the Use of Resources assessment. Overall the Council performed well scoring 3 out of 4.

## Accounts and Governance

- The accounts preparation process has continued to improve and the agreed target of 30 June 2005 was achieved;
- We issued an unqualified audit opinion on the Council's statement of accounts for 2004/05;
- The Council has continued to make good progress in preparing for the additional disclosures required for Group Accounting and is in the final stages of defining its responsibilities and how these will be addressed in the 2005/06 Statement of Accounts;
- The Council continues to include the potential impact of a pension fund deficit in the assumptions on pension contributions made in its Medium Term Financial Strategy. This strategy will continue to be reviewed on an ongoing basis to incorporate the results of the latest actuarial valuation and to determine the impact on employer contributions going forward;
- The County Treasurer reported the Council's quarter 1 projections to Cabinet on 8 September 2005, noting a projected net overspend of just over £0.5million. Given the measures being taken to reduce areas of current spending the Council needs to carefully balance the importance of achieving financial balance in 2005/06 against the potential impact on the Council's achievement of its stated strategic and service level objectives in the short, medium and longer term;
- Internal Audit needs to ensure that it achieves full compliance with the CIPFA Code of Practice in respect of the coverage and assurance given in respect of non-financial systems; and
- The Council needs to ensure that the revised management and monitoring arrangements for the Highways Partnership agreement are successful and that, as a consequence, the benefits expected from the arrangement are delivered.

# Council Performance

## Comprehensive Performance Assessment

The CPA scorecard and Direction of Travel summary statement were published on 15 December 2005. Under the new framework the Council is a three star authority which is improving adequately. The table below presents a summary of the council's scores contributing to its overall category.

### 2005 CPA scorecard

| Element  | Assessment           |
|--|----------------------|
| Direction of Travel judgement                                    | Improving adequately |
| Overall  | Three Star           |
| <b>Current performance</b>                                       |                      |
| Children and young people  | 3 out of 4           |
| Social care (adults)   | 2 out of 4           |
| Use of resources   | 3 out of 4           |
| Environment  | 3 out of 4           |
| Culture  | 3 out of 4           |
| <b>Corporate assessment/ capacity to improve (Assessed 2004)</b> | 3 out of 4           |

(Note: 1=lowest, 4= highest)

The CPA judgements this year have been made using the revised methodology: CPA - the harder test. As the title implies CPA is now a more stringent test with more emphasis on outcomes for local people and value for money. We have also added a new dimension, a Direction of Travel judgement that measures how well the Council is improving. A summary of the assessment of direction of travel is outlined below.

## Summary of Direction of Travel Assessment Conclusion

The overall assessment judgement is that the Council is improving adequately.

### 1. What evidence is there of the Council improving outcomes?

There is a picture of improvement in many, but not all, priority areas. Areas of good performance are improving well but areas of relatively weaker performance show less improvement. Between 2002-03 and 2004-05 57 per cent of core service performance indicators have improved and 43 per cent have not. This is against a background of generally good performance, with 62 per cent of indicators above average, of which 33 per cent were in the best performing quartile. Where performance is weaker there is less improvement, with only 28 per cent of below average performance indicators improving.

The Council's use of resources assessment found that the council is performing consistently well above minimum requirements. This indicates continuing improvements in overall efficiency and effectiveness.

Good progress is being made in improving outcomes for children and young people. The Council's annual performance assessment found that most outcomes are good or generally good. Progress in Environment and Culture Services show an overall positive (but not consistent) picture of improvement. In Environment Services since 2002-03 7 performance indicators have improved and 6 have not. There has been significant progress in work with District Councils to improve recycling and the statutory target was met. In Culture Services (where performance is already good) 2 indicators have improved and 2 have not.

Overall services for vulnerable adults do not show consistent or sufficiently rapid overall improvement, with the CSCI annual performance assessment remaining at "serving some people well". The Council accepts that this is a priority area where better performance is needed. In January 2005 we published an inspection of arrangements for the delivery of the supporting people programme in Warwickshire. This judged that the service was poor with uncertain prospects for improvement. The Council has responded positively to this inspection by strengthening its capacity and has clear plans for improvement.

The Council's contribution to the wider community is improving. The positive approach to partnership working is reflected in good relationships and some improved outcomes. This includes regeneration programmes in the Camphill Estate in Nuneaton and significant reductions in crime. The CPA of the fire service found effective work with young people to reduce the levels of arson. Quality of life performance indicators show a positive improvement trend, with 24 (44 per cent) showing significant improvement, 24 (44 per cent) showing moderate improvement and only 7 (12 per cent) showing no improvement.

There have been positive developments in improving access to services but progress on addressing diversity is more limited. The Council is piloting a One Stop Shop with Warwick District Council and is on track to achieve its e-government target by the end of 2005. There has been some slippage in the implementation of the Council's plan to meet its obligations under the Disability Discrimination Act and it also remains at level 2 of the equalities standard.

The Council continues to perform well and to make improvements in delivering value for money. The Council scored 3 (above minimum requirements) in the value for money element of its use of resources assessment.

## **2. How much progress is being made to implement improvement plans to sustain future improvement?**

The Council's overall business planning process has been revised and improved since the last corporate assessment in 2004. There is effective planning for improvement in the majority of council services where performance is already good. There are also some examples of where performance management and scrutiny have identified, and started the process of planning for improvement, where performance is weaker. These include improving the complaints processes and identifying the reasons for dissatisfaction with public transport. The Council is working on the implementation of its plans to improve performance in adult social care.

Progress on the implementation of plans is monitored, reported and kept on track effectively. There are systems in place for this, including regular monitoring and reporting within directorates and reporting progress to Members every 6 months, along side the outcomes of the annual public consultation. Project management is used to implement plans with Prince 2 used where appropriate.

The Council's own monitoring shows the majority of improvement plans are on track but a significant number are late. The latest report on progress of the implementation of plans shows 57 per cent of corporate actions for 2004/05 are completed or on track to be completed by the year end, 37 per cent are partially completed but completion may be delayed by up to 6 months and 4 per cent have longer delays. This later group includes DDA compliance and plans to develop options appraisal processes for the procurement of services.

Arrangements for performance management continue to improve and the Council is well placed to deliver improved value for money. A range of improvement plans have been integrated to maximise the efficient use of available capacity. Children's services are judged as having excellent capacity for improvement and are well placed to make further gains. Adult social care is less well placed and CSCI have judged that capacity for future improvement is uncertain. The Council is now investing in additional senior management capacity to support improvement.

The Council continues to improve its capacity through partnership working. It has developed a framework for evaluating partnerships and plans to exit those which are not effectively supporting corporate priorities. The Council continues to engage actively with the voluntary sector but recognises that it still has more to do to improve the effectiveness of this partnership.

The Council's recent appointment of a new Chief Executive and the decision to make major changes in its organisational structure are significant developments in planning for future improvements. This indicates an intention to modernise and significantly change the direction of the Council. These plans will be successful if they can improve effectiveness in working with partners and take forward cross cutting issues important to local people.

## Use of Resources Assessment

In November 2005 the Audit Commission published the use of resources assessment. Overall the Council performed well scoring 3 out of 4. The table below outlines the Council's scores in each of the five themes assessed.

### Summary of theme scores

|                      | Score |
|----------------------|-------|
| Financial reporting  | 3     |
| Financial management | 3     |
| Financial standing   | 2     |
| Internal control     | 3     |
| Value for money      | 3     |

Source: Use of Resources Scoring:

1 (below minimum requirements), 2 (only at minimum requirements), 3 (consistently above minimum requirements), 4 (well above minimum requirements).

The key conclusions under each of the use of resources themes are outlined below.

### Financial reporting

Overall arrangements for financial reporting are consistently above minimum requirements. The Council's Statement of Accounts was compiled in accordance with statutory and professional reporting standards. The Statement of Accounts was also produced in accordance with the agreed timetable and achieved the plain English crystal mark. Comprehensive supporting papers were provided for most but not all departments. The Council has not yet published summary accounts.

## Financial management

Overall financial management arrangements are consistently above minimum requirements. The Council's medium-term financial strategy, budgets and capital programme are soundly based and designed to deliver its strategic priorities. There was an overall underspend of £9.3m in 2004/05 with significant underspends in Education (£6.1m) and Other Services (£2.4m). The Council's asset management arrangements are strong and there is evidence of good practice.

### Financial standing

The Council has a formal policy on the level of general reserves it requires and this is based on a risk assessment. The Council maintains its spending within its overall budget but needs to ensure that there are no significant unexpected departmental variances. Monitoring information is available that evaluates the effectiveness of debt recovery action but further work is required on monitoring the associated costs of recovery actions.

### Internal control

Overall arrangements for internal control are consistently above minimum requirements. Councillors have been given risk management awareness training and risk management is clearly part of member decision making. The Council's arrangements to promote and ensure probity and propriety in the conduct of its business are good. The whistle blowing policy is communicated widely to staff. This should also be communicated to those parties contracting with the Council.

### Value for money

There are many strengths evident from the review of value for money. There is a firm commitment to achieving value for money, and systems in place to support this. The Council also has some very positive value for money outcomes – it has consistently achieved significant efficiency savings over a protracted timescale and overall services perform well and with below average costs. Residents and service users are satisfied with the Council's performance overall. However, there has been insufficiently rapid progress in the key adult social care service that is already below average. There are two high costs services – fire and rescue and culture - and although there is awareness and some understanding of the reasons for this, there is little evidence of clear outcomes from plans to tackle this anomaly in the short term.

# Accounts and Governance

In this section we summarise our work on the Council's Statement of Accounts for the year ended 31 March 2005, commenting on the following:

- The production of the Council's Financial Accounts;
- Our audit opinion;
- Statement of Auditing Standards 610-Communication of audit matters to those charged with governance;
- Any significant accounting issues that arose during the course of our work; and
- The work we have performed in response to electors' questions and objections received during the year.

We also comment on the Council's Governance arrangements including:

- Financial Standing;
- The work we have performed on the Council's systems of internal control;
- The adequacy of its financial systems and arrangements for the prevention and detection of fraud and corruption; and
- The adequacy of the Council's arrangements to ensure the legality financial transactions.

## Financial Accounts

We have completed our audit of the Council's Statement of Accounts for 2004/05 in accordance with approved Auditing Standards. We continued to work in partnership with the Council during the year to identify further improvements that could be made to the accounts completion process. The Council's centralised Financial Accounting Team continued to build on the strengths it has developed over the previous 2 financial years. The team demonstrated continuous improvement through:

- The production of a first draft of the financial statements in accordance with an agreed target of 30 June 2005;
- Most of the departmental working papers were to a high quality and were available in advance of our final audit visit;
- Weekly progress meetings to improve communication and help to resolve developing issues on a timely basis during the audit; and
- The majority of adjustments and disclosure issues being pre-cleared prior to their presentation to the County Treasurer at the Accounts Clearance Meeting;

We acknowledge the positive steps that the Council has taken to refine the accounts closedown process further so as to enable closedown to be brought forward by another month in 2005/06. However the Council needs to provide some focus on;

- Ensuring the scope and quality of working papers are delivered to a consistently high standard for all departments; and
- Ensuring that a robust methodology is developed and applied for bad debt provisioning in all departments.

## Audit Opinion

The Accounts and Audit Regulations (2003) required local authorities to present a set of accounts to Councillors for approval by the end of July. We are pleased to report that the Council complied with this requirement, presenting its accounts to the Council on 21 July 2005.

Following the completion of our audit work, we are pleased to report that we have issued an unqualified audit opinion on the Council's 2004/05 Statement of Accounts together with the accounts of the Warwickshire Pension Fund.

## SAS 610

The Statement of Auditing Standard (SAS) 610: 'Communication of audit matters to those charged with governance' is applicable to the 2004/05 financial year. This SAS requires auditors to report to 'those charged with governance' issues needing to be considered prior to approving the accounts. We agreed that the Audit Panel was the most appropriate forum for this purpose and the Audit Panel considered our SAS 610 report on 14 October 2005.

There was one matter included that we consider needs to be brought to Councillors' attention in this Letter.

We have reviewed the new Highways Maintenance partnership agreement which the Council has entered into. Whilst we were satisfied that the financial transactions have been accounted for correctly we did have concerns regarding the way in which the partnership agreement has been controlled and managed including, in particular:

- There is no single person with overall responsibility for monitoring the arrangements;
- A lack of effective management and performance information;
- Lack of clarity as to whether the arrangement was delivering the benefits that were originally anticipated; and
- The development of a confrontational rather than partnership relationship with the contractor Carillion.

These issues had been recognised by officers following two reviews of the contract, one by Internal Audit and the second by an independent consultant.

Following these reviews, revised arrangements have been put in place to strengthen the management and monitoring arrangements for the partnership and work to strengthen these further is continuing. These revised arrangements have been the subject of a detailed scrutiny review by the Council's Environment Overview and Scrutiny Committee.

## Accounting issues

### Group accounts

It is probable that the Authority will have a significant new responsibility in 2005/06 to publish group accounts, consolidating the financial transactions and balances of other entities in which it has a substantial interest. During this audit we have reviewed the administrative and technical preparations that the Council has made to ensure that arrangements will be in place to produce group accounts in 2005/06. We concluded that the Council has made good progress in preparing for the additional disclosures required.

### Financial Reporting Standard (FRS) 17: Retirement Benefits

2004/05 provided an opportunity for the Council to take stock and embed the accounting arrangements for FRS 17. The FRS is concerned with identifying the real underlying financial position of the Council's occupational pension schemes.

The Council continues to include the potential impact of a pension fund deficit in the assumptions on pension contributions made in its Medium Term Financial Strategy. This strategy will continue to be reviewed on an ongoing basis to incorporate the results of the latest actuarial valuation and to determine the impact on employer contributions going forward.

### Pension Fund

The County Treasurer will be commissioning further work during the year to review all potential cases relating to "frozen refunds", where contributions may be repayable to certain former employees. This work should quantify the extent of any such liability that might exist more accurately and whether any provision should be included in the Pension Fund accounts for 2005/06.

## Electors Questions and Objections

Section 16 of the Audit Commission Act 1998 provides local electors with the opportunity each year to inspect the accounts of a Council and, subsequently, to put questions and/or objections relating to those accounts to the auditor. Any such representations must be resolved prior to the closure of the audit.

We have not received any questions or objections during our 2004/05 audit.

## Financial standing

In this section we comment upon the Council's general financial standing taking into account both its performance during the last year and its ability to meet known financial obligations.

### Overall financial performance in 2004/05

#### Revenue Expenditure

We have identified in the following table the key features of the 2004/05 revenue budget process:

|  | £m    |
|--|-------|
| Original Budget ratified at Council on 3 February 2004 | 465.1 |
| Increase in Band D equivalent Council Tax              | 6.6%  |
| Final approved budget                                  | 464.2 |
| Final outturn spending                                 | 455.0 |
| Net service underspend                                 | 9.4   |
| Surplus as disclosed in the Statement of Accounts      | 4.0   |
| Surplus as a percentage of Original Budget             | 0.86% |

The difference between the net service underspend and the surplus disclosed in the Statement of Accounts is due mainly to underspends in relation to the Standards Fund Grant (£1.5million), ring fenced delegated schools budgets (£1.8million) and additional PSA1 monies (£0.7million) being appropriated to specific reserves. The small positive variance between final outturn position and the revised budget demonstrates the effectiveness of the close monitoring of budgets during the year.

#### Capital Expenditure

We commented in past Letters on the slippage incurred on the Capital Programme. Capital expenditure in 2004/5 was £8.5 million less than the quarter 3 estimate reported to Members, equivalent to 10.3% of the total programme (16%, 2003/2004).

We are pleased to note the increased level of reporting to Members which now includes in depth reasons for slippage which enables Members to more easily identify those schemes that require management action.

We are also pleased to note the move to monitoring on an accruals basis rather than on a payments basis.

#### Pension Fund

A summary of the performance of the Pension Fund over the last two years is set out below:

|                                    | 2004/05        | 2003/04        |
|------------------------------------|----------------|----------------|
| Surplus of Income over Expenditure | £4.5 million   | £2 million     |
| Value of Net Assets                | £744.2 million | £670.1 million |

The results of the triennial valuation were released and showed that the current funding level of the scheme is 82%. This is favourable, compared to the average funding for similar schemes in England which stands at 71%, however it is significantly below the previous triennial valuation level of 102%. The main reasons for the fall are reduced performance in the investments return against the assumptions used by the actuary in the previous valuation and a 'toughening up' of actuarial assumptions.

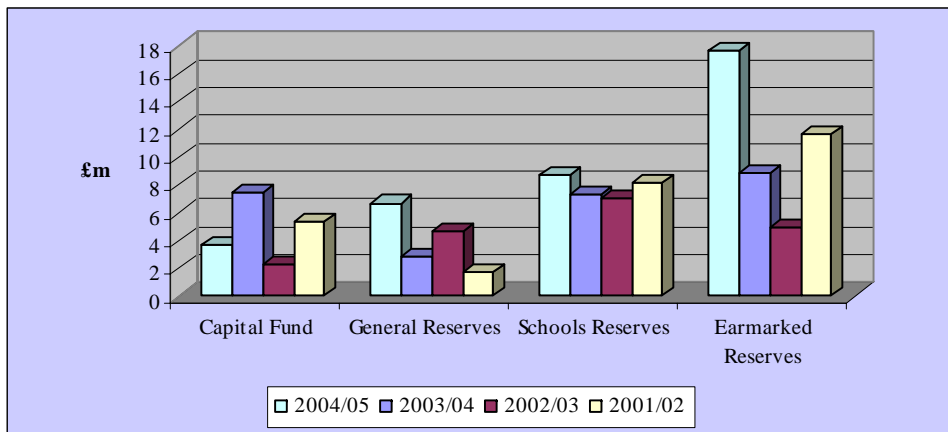


The Council will need to carefully consider the funding strategy going forward in particular the balance between recovering part of the deficit from council tax payers in the short or medium term rather than passing it on to future generations to pay.

## Overall Financial Position

### Balances and reserves

We have continued to review the financial position of the Council and, in particular, the levels of reserves. The levels of reserves at the year-end, along with prior year comparatives, are shown below:



The general reserves of the Council have increased by £4 million to £6.9 million as at 31 March 2005. The Council's general reserves now represent 1.5% of 2004/05 total net expenditure which is in line with the County Treasurer's risk assessed level of general reserves required.

The Council's total usable reserves, including earmarked and schools reserves have increased by £10.3 million (39%) in 2004/05.

### Performance of trading operations

The Council's trading operations have provided an overall surplus in 2004/05 of £0.3m (£1.1m 2003/04). The County Grounds Maintenance unit and Construction unit incurred a deficit of £0.2 million each. We are aware that the Council is considering this at present.

### The 2005/06 financial year and outlook

The County Treasurer reported the Council's quarter 1 projections to Cabinet on 8 September 2005. This identified a number of variations to the original gross budget of £574.9million, resulting in a revised budget of £580.2million. The County Treasurer noted a projected overspend of just over £0.5million. The main service pressures are:

- Social Services £2.5million

The County Treasurer reported that the two main budget pressures faced by the department are the costs of rising numbers of Looked After Children (and children on the Child Protection Register) and the difficulties of continuing to commission services for people with learning disabilities in a high cost market dominated by a few suppliers reflecting the national position for Social Services..

- Libraries and Heritage £0.5million

This overspend mainly relates to the areas of information technology and procurement and will be covered by a transfer from their service reserves.

- PTES £0.9million

There are a number of key pressures that have been reported to Councillors. PTES are seeking to address these issues by various measures.

Your officers will attempt to reduce these areas of current overspending in 2005/06 through a combination of cost reduction measures, holding open vacant posts and delaying future service developments and projects.

The Council needs to carefully balance the importance of achieving financial balance in 2005/06 against the potential impact on the Council's achievement of its stated strategic and service level objectives in the short, medium and longer term.

## Systems of internal control

### Statement on Internal Control

The Accounts and Audit Regulations 2003 included a requirement that the Statement of Accounts should contain a statement on internal control (SIC). These statements refer to all systems of internal control, not just financial systems, and require the Council to conduct annual reviews of the effectiveness of

the systems of internal control and to comment on these within the SIC. We have reviewed the SIC and are satisfied that it is not inconsistent with our knowledge of the internal control environment at the Council.

Our audit approach involved undertaking an assessment of the work of Internal Audit, documenting and testing key monitoring controls based on a risk assessment, and reviewing the Council's Statement of Accounts. We are pleased to report that there were no major concerns regarding the systems of internal control arising from our work.

We identified a number of minor control issues and have discussed these with the Financial Accounting Team. We are currently in the process of agreeing an action plan to address these points in 2005/06.

#### **Internal Audit**

We concluded that we were able to place assurance, where appropriate, on the work of Internal Audit in line with the team's coverage of departmental financial systems.

The Internal Audit team are developing their planning approach to assess the extent to which assurance on the Council's non-financial systems can be provided from the work that they perform in order to meet the requirements of the CIPFA Code of Practice and the expectations of management going forward.

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

Our work with regard to standards of financial conduct and the prevention and detection of fraud and corruption, focussed on an assessment of the control environment at the Council and the monitoring controls in operation designed to prevent and detect fraud and corruption.

We are pleased to report that our work did not identify any significant or fundamental weaknesses in these overall control arrangements.

#### **The legality of financial transactions**

In order to discharge our responsibilities in respect of the legality of the Council's significant financial transactions, we have focussed on the arrangements that the Council has in place.

There are no issues that have arisen as a result of our work in this area that we wish to bring to your attention.

# Performance management

## Performance Audit

Under the Audit Code of Practice, each year we are required to undertake work to assess the organisations use of resources, giving due regard to the achievement of economy, efficiency and effectiveness. During the 2004/05 audit year we undertook work in the following areas:

- Best Value Performance Plan 2004/05 and performance indicators for 2003/04
- Review of school admission appeals

## Best Value Performance Plan and Performance Indicators

In June 2004 the Council published its Best Value Performance Plan in accordance with the requirements laid down in the statutory guidance. As a consequence we were pleased to issue an unqualified opinion and we did not need to make any recommendations in relation to the plan.

As part of our work we also reviewed a sample of the Authority's performance indicators to ensure that they were calculated and reported correctly. Although some minor amendments to reported figures were required these were not significant and we were able to report positively on the outcome of our audit.

The Council's new auditors will have recently completed their work on the Best Value Performance Plan 2005/06 and Performance Indicators for 2004/05 and will be issuing their statutory report before the deadline of 31 December 2005.

## Review of the Council's arrangements for the implementation of the HRMS System

In 2004 we were commissioned by the Council to conduct a review of the Council's arrangements for the implementation of the HRMS system. The HRMS project represents a significant opportunity and risk for the Council given its involvement in both the Human Resources and payroll processing functions of the Council.

The project represents a significant investment for the Council and, prior to 2004, it had experienced significant time delays and cost overruns with respect to both the project implementation costs and the costs of maintaining the legacy systems,

Our report, which we published in February 2005, focused on:

- the project management arrangements; and
- the security and configuration of the implemented environment.

## Project management

The Council identified the need to adopt the principles of Prince2 as a project management methodology after tacking stock of the HRMS project's progress in early 2004. To facilitate this, the Council appointed an external Project Manager. Overall the project has greatly improved since this appointment in early 2004. Prior to this, the project suffered from a lack of dedicated skilled resources and very low team morale.

Since the new Project Manager has come on board, he has implemented a number of practices and controls, including the appointment of a new project board and the recruitment of a number of skilled contractors to work on the project full time.

However, there were certain areas which we considered could be better controlled in the later phases of this project and other future projects, including:

- clearly defining the business benefits in a business case and measuring project progress against these;
- the use of a risk mitigation and "issues management" process;
- user acceptance testing; and
- project documentation and decision approval sign-off.

## **Application security and configuration**

Our review established that:

- in general application security has been appropriately designed. However there are some specific areas where improvement is required. Generally these relate to the design of responsibilities and the allocation of responsibilities to users.
- the current configurable application controls implemented by management have been generally well designed and incorporated into the final payroll solution.

An action plan has been developed and agreed with the Council and has been implemented by the project manager.

## **Review of School Admission Appeals**

Our second piece of targeted performance audit work examined the issue of school admission appeals. School Admission Appeals have been comparatively high in Warwickshire for a number of years. The number of appeals lodged as a proportion of total admissions was one of the highest in the Country and the percentage decided in the parent's favour compared unfavourably with the national average for 2003/04.

Our work with the Council identified some key metrics which the Council can utilise to monitor and make changes to the way in which the Schools admission process runs.

The average cost of each schools admission appeal is approximately £175. We did not identify any significant concerns with the way in which the appeals process was administered.

We did not identify unusually high levels of criticism from the public with regard to the timeliness or completeness of information and the vast majority of parents (regardless of the outcome of the decision) rated the council as good or excellent.

We have discussed our findings with the Council's nominated officers and agreed a final report. The Council is now developing an action plan in response to the issues raised and has agreed to share this with its new auditors so that follow up work can be undertaken in due course.

# Fees update 2004/05

## **Fees update for 2004/05**

We reported our fee proposals as part of our Audit Plan for 2004/05. These fee proposals covered the 12 month period.

Our actual fees were in line with our proposals.

## **Freedom of Information Act**

In the event that, pursuant to a request which the Council has received under the Freedom of Information Act 2000, it is required to disclose any information contained in this report, it will notify PwC promptly and consult with PwC prior to disclosing such report. The Council agrees to pay due regard to any representations which PwC may make in connection with such disclosure and the Trust shall apply any relevant exemptions which may exist under the Act to such report. If, following consultation with PwC, the Trust discloses this report or any part thereof, it shall ensure that any disclaimer which PwC has included or may subsequently wish to include in the information is reproduced in full in any copies disclosed. Reports and letter prepared by appointed auditors and addressed to directors or other officers are prepared for the sole use of the audited body and no responsibility is taken by auditors to any directors or officers in their individual capacity or to any third party.

# Appendix A: Audit reports issued in relation to the 2004/05 financial year

## **Accounts and Governance Reports**

- *Audit Issues Report 2004/05;*
- *Audit opinion for 2004/05 financial statements;*
- *BVPP opinion for 2004/05;*
- *Oracle HRMS (Payroll) Implementation Review update; and*
- *SAS 610 report.*

## **Audit & Inspection reports issued**

- *Direction of Travel for Annual Audit and Inspection Letter; and*
- *Use of Resources Scoring.*

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