

# London Borough of Newham 2003/04 Joint Audit and Inspection Letter



The Mayor and Members  
Newham Council  
East Ham Town Hall  
London  
E6 2RP

December 2004

Ladies and Gentlemen

**Joint Audit and Inspection Letter 2003/04**

We are pleased to present our Joint Audit and Inspection Letter for 2003/04. We hope that the information contained in this report provides a useful source of reference for Members. The Audit Board considered the Letter on 15 December 2004.

Yours faithfully

PricewaterhouseCoopers LLP

Encs

# Contents

<a href="#">Executive summary</a> .....	5
<a href="#">Accounts and Governance</a> .....	8
<a href="#">Performance management</a> .....	14
<a href="#">Inspection</a> .....	18
<a href="#">Audit plan 2004/05</a> .....	24
<a href="#">Appendix A: Audit reports issued in relation to the 2003/04 financial year</a> .....	25
<a href="#">Appendix B: Recommendations</a> .....	26

## **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 last issued in March 2002. This is supported by the Statement of Responsibilities of Auditors and Audited Bodies, which was last 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.*

# Executive summary

## **The purpose of this report**

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 2003/04 by the Audit Commission in accordance with their responsibilities as detailed in section 10 of the Local Government Act 1999.

The joint reporting of audit and inspection work in this format recognises the steps that the Audit Commission has taken to integrate more closely audit and inspection regimes, whilst recognising and maintaining their separate statutory responsibilities. The Audit Commission has appointed 'relationship managers' for all local authorities to co-ordinate planning and delivery of inspection work alongside the statutory audit work.

The Council are also a pilot site where we as appointed auditors will undertake the Audit Commission's planned inspection work alongside the audit work to develop this more integrated approach. This pilot started midway through 2003 and has come into full effect for the 2004/05 audit and inspection year.

The new approach is intended to provide a more proportionate and integrated approach to performance audit and inspection work.

The main area for an integrated approach has been in respect of performance review work, based on the improvement plan developed by the Council, following the Audit Commission's Comprehensive Performance Assessment process (CPA).

Our Audit Plan set out the risks that we identified as part of our audit planning, together with the targeted work that we planned to perform in order to address these risks. The inspection work undertaken this year was a result of the Council's Improvement Plan.

We have issued a number of reports during the audit year, detailing the findings from our work. A list of these reports is included at Appendix A to this Joint Audit and Inspection Letter.

We have set out below what we consider to be the key issues arising from the audit and inspection work.

### Accounts and Governance

We issued an unqualified audit opinion of the Statement of Accounts and the Pension Fund before 30 November 2004 deadline for publishing the accounts.

We are pleased to report that during 2003/04 the Council began the process of establishing an Audit Board and that in May 2004 the Board had its first meeting. The Audit Board should enable members to maintain a sharper focus on audit matters, for example by maintaining an overview of inspection, external audit and internal audit work programmes and by monitoring officers' progress on implementing audit recommendations. As a result, it should also help to improve the profile and effectiveness of Internal Audit.

### Performance Management

The Council has continued to develop and strengthen its framework for managing performance. In particular detailed action plans which support the seven key areas for improvement and define the Council's top priorities are now in place. This provides an increased level of focus for driving performance improvement.

Improvement targets have been set on the basis of national requirements, local priorities and the Council's comparative position. Overall the Council is demonstrating improvements in line with the targets set but continues to be challenged to do so across a limited set of key national indicators.

During 2003/04 the Council began restructuring its services and director portfolios to align them with the corporate priorities under a change programme called 'Moving to Excellence'. This is an ambitious programme, which aims to improve the Council's services and, as a result, secure it a rating of 'excellent' under the CPA inspection regime.

The Council will continue to face significant challenges associated with its stretching improvement agenda and medium term financial plans. However, plans for re-structuring common key support services to improve services and realise savings are progressing under the 'Business Efficiency' initiative. Certain key projects have now moved into the implementation stage. The management of change and risks associated with this work will therefore be a key issue in the coming year.

Whilst performance management arrangements are strong and the direction of change is positive there are a limited number of key issues which require some attention. Firstly there is a need for greater consistency in business planning and value for money assessment across the Council addressing work undertaken at the service area level. Secondly greater internal assurance regarding the reliability of performance measures produced is required.

### Inspection

Based upon published inspection scores and performance indicators, the Council has made improvements in education, libraries and leisure services over the last year.

The Council is ambitious and is clear about its priorities and where it needs to improve further to achieve its goals. Engagement with partners is good and Newham uses public consultation to develop and improve services. Capacity has been strengthened. Financial and performance management is strong. The Council is now focusing on developing its human resources and risk management processes. It continues to learn through external challenge and is making appropriate investments to enable future improvements.

Based on its current plans, the Council is now well placed to improve further the way it works and the services it provides to local people.

We discussed the issues contained within this Joint Audit and Inspection Letter with the Audit Committee on 15 December 2004.

# Accounts and Governance

In this section of our document we comment upon the results of our Accounts and Governance work. In particular:

## Accounts

- Audit Opinion;
- Accounting Developments;

## Governance

- Establishment of an Audit Committee;
- CPA – auditor scored judgements;
- Prudential Framework;
- Financial standing;
- Systems of internal financial control;
- Standards of financial conduct and the prevention and detection of fraud and

corruption; and

- The legality of financial transactions.

We also provide some information about our work on certifying grant claims.

## Accounts

The purpose of our accounts work is to perform an audit of the final accounts of the Council, in accordance with approved Auditing Standards.

## Audit Opinion

The Accounts and Audit Regulations 2003 brought forward the timetable for the production and publication of the accounts so that by 2005/06 the accounts will need to be approved by 30 June 2006 and published by 30 September 2006. As a first step, the deadlines moved forward by one month for the 2003/04 accounts.

The Council successfully shortened the 2003/04 accounts preparation process to such an extent that the accounts were approved by the Council in July 2004, which was significantly before this year's 31 August 2004 deadline (itself one month earlier than last year). The accounts were formally signed as approved by the Chair of the Investment Committee.

We requested a number of adjustments to the financial statements submitted for audit, all of which were accepted by officers. These adjustments did not affect the

overall financial standing of the Council. We have issued an unqualified audit opinion of the Statement of Accounts and the Pension Fund.

As auditors we are required to issue a Statement of Auditing Standards 610 (SAS 610) report, which communicates to those charged with governance (the audit committee), the following issues, where applicable, arising from our audit:

- Expected modifications to the audit report;
- Unadjusted misstatements, i.e. those misstatements identified as part of the audit that management have chosen not to adjust other than those that are clearly trifling;
- Material weaknesses in the accounting and internal control systems identified as part of the audit;
- Our views about the qualitative aspects of the Authority's accounting practices and financial reporting; and
- Any other relevant matters relating to the audit.

Our SAS 610 report was received by the Council and circulated to Audit Board members prior to the accounts being approved.

### **Accounting developments**

A number of new accounting and reporting developments were required to be adopted this year. These are outlined below.

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

2003/04 was the first year of full implementation of FRS 17. The FRS is concerned with identifying the real underlying financial position of an authority with regard to its participation in pension schemes.

Preparation of the disclosures has required the Council to commission expert advice from actuaries and present more information about the Council's longer-term financial position than required under previous accounting treatments.

The availability of information as required under FRS 17 has provided the Council with advance information about the likely impact on employer's contribution rates of the next full valuation of the pension scheme, which uses information as at 31 March 2004. Recent trends in the stock market suggest that the valuation may confirm a worsening position in the fund from that reflected in the last actuarial valuation. This would require an increase in contribution rates in the future.

The Council has considered the potential impact of a continuing pension fund deficit and incorporated its assessment into the medium term financial strategy.

### **Statement of internal control**

The Accounts and Audit Regulations 2003 included a requirement that the statement of accounts prepared by an authority in England should contain a statement on internal control (SIC) from 2003/04. These statements refer to much wider systems of control than purely financial systems and require the Council to have in place such systems of control. Authorities are required to conduct annual reviews of the effectiveness of the system of internal control, which will provide the findings to support the SIC.

The Council produced a SIC as required and disclosed that the annual review of the effectiveness of the system of internal controls required further development for 2004/05. It also disclosed that financial management within the social services department was a significant control issue that is being actively addressed. We comment on financial management within the social services department in our sections on the Council's financial standing and our performance audit work.

## **Governance**

### **Establishment of an Audit Committee**

We are pleased to report that during 2003/04 the Council began the process of establishing an Audit Board and that in May 2004 the Board held its first meeting. We have presented our audit service plan for 2004/05 and this Interim Audit and Inspection Letter for 2003/04 to the Board.

The Audit Board should enable members to maintain a sharper focus on audit matters, for example by maintaining an overview of inspection, external audit and internal audit work programmes and by monitoring officers' progress on implementing audit recommendations. As a result, it should also help to improve the profile and effectiveness of Internal Audit.

### Comprehensive Performance Assessment – auditor scored judgements

As part of the Audit Commission's Comprehensive Performance Assessment (CPA) process, auditors have been required to complete an assessment of the corporate governance arrangements of the Council in line with our Code objectives.

As in previous years we invited the Director of Resources and his staff to complete a self assessment, rating the Council against the various finance criteria included in the Audit Commission's Auditor Scored Judgments exercise. We then evaluated the self assessment in the light of our cumulative knowledge of the Council and sought evidence from officers where ratings were judged as having improved compared with the previous year.

We are pleased to report that in all areas of the financial aspects of corporate governance the Council has improved during the year or maintained the highest score possible. The results are summarised as follows (scores from 1 to 4, 4 being the highest):

Area	Overall Assessment 2003	Overall Assessment 2004
Financial Standing	4	4
Internal Financial Control	3	4
Financial Conduct/prevention and detection of fraud & corruption	4	4
Financial Statements	4	4
Legality of significant financial transactions	4	4

Improvements in the monitoring of financial systems and internal audit contributed to an improvement in the score for internal financial control.

### Prudential Framework for Capital Expenditure

From 1 April 2004, each authority has had to plan its capital expenditure under the new Prudential Framework, which focuses on the authority's ability to afford the consequences of spending decisions from future years' revenue accounts and allows it to set its own limits on the borrowing needed to achieve an affordable capital strategy.

We undertook a high level review of the steps the Council took in 2003/04 to prepare for the implementation of the Prudential Framework, including the process for setting limits and indicators under the CIPFA Prudential Code. We found that the Council established effective arrangements for the Prudential Framework. The revised arrangements required only a small number of changes to the Council's existing processes. The most significant change was the inclusion of Prudential Code limits and indicators in the 2004/05 budget strategy report to Members.

### 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. Specifically we comment on the following:

- Overall financial performance in 2003/04;
- Housing Revenue Account financial performance in 2003/04;
- Performance of trading operations;
- Collection Fund;
- Balances and reserves;
- The 2004/05 financial year and outlook; and
- The Council's pension fund.

### **Overall financial performance in 2003/04**

The Council remains in a healthy position, but continues to face some significant financial challenges in the short to medium term. It achieved a surplus of £0.1m on the General Fund in 2003/04 through the utilisation of £4.0m from the capital expenditure earmarked reserve. This is broadly in line with the original budget as it had been planned to breakeven after making use of a £3.0m contribution from reserves. However, this position is net of a £3.3m Social Services overspend on operational budgets, which was due to increased expenditure on children's and adults' residential placements.

The Council's capital programme is managed over a rolling five year period. The original budget for 2003/04 had been £123m; however this was revised down to £99m as £24m of schemes were re-phased into future years. As in previous years, the largest element of capital expenditure related to improvements and modernisation of the housing stock. The Council also continues to fund a number of projects within the community.

### **HRA financial performance in 2003/04**

The Council had budgeted for a deficit of £1.0m on the HRA in 2003/04. However, it achieved a surplus for the year of £0.6m as a consequence of lower interest rates as a result of the Council rescheduling its debt portfolio.

As a result of the surplus the balance on the HRA reserve has increased from £10.4m as at 1 April 2003 to £11.0m as at 31 March 2004. This equates to 6.9% of 2003/04 gross expenditure. It is anticipated that the balance will reduce in the medium term due to the financial pressures that it is forecast the HRA will face. These are detailed in the Council's 3-year HRA strategy.

### **Performance of trading operations**

Apart from Newco all of the trading operations disclosed in the accounts show a surplus. Newco is a part of the Housing department and provides employment opportunities to disabled people. It made a deficit of £0.47m. The Council is currently finalising its plans to address this.

### **Collection Fund**

The Collection Fund recorded an accumulated deficit of £0.8m as at 31 March 2004, compared with a surplus of £1.1m at 1 April 2003. The reduction in surplus relates to the recovery of the prior year's budgeted Council Tax surplus (£1.4m) and an excess of expenditure over income on the fund in the year of £0.5m. This

is primarily due to the Council providing £1.6m against doubtful debts in 2003/04, compared with just £0.4m in 2002/03.

In line with the statutory provisions, the Collection Fund's accumulated deficit will be taken into account the next time that the council tax is calculated. Therefore, the Council will plan to recover the deficit in 2005/06.

The proportion of Council Tax collected was 91.0% (90.0% in 2002/03). This is an improvement but the target had been 91.5% and the 2002/03 top quartile London was 96.9%. Similarly the NNDR collection rate improved from 97.7% to 98.7% and only fell slightly short of the Council's 99.0% target, which is also the 2002/03 top quartile London figure.

### **Balances and reserves**

The level of the Council's Revenue Reserves has remained broadly stable. They have moved from £54.1m at 1 April 2003 to £52.6m at 31 March 2004. The earmarked capital reserve has reduced from £8.2m by £4.0m to £4.2m, which reduces the amount that the Council has available to fund future capital schemes in line with its planned expenditure.

School balances, which are monies that are earmarked for use by individual schools, have increased significantly by £1.7m from £5.0m to £6.7m. This headline figure conceals that fact that around 10 schools are actually in deficit with a combined deficit balance of £3.2m. These schools are now working to recover their deficits.

The Council continues to experience significant budgetary pressures and therefore, whilst the overall level of reserves remains sufficient to meet the Council's needs in the short term, further revenue overspends would significantly affect the Council's ability to fund new developments that have not already been earmarked in reserves.

### **The 2004/05 financial year and outlook**

The Council's net revenue budget for 2004/05 is £418m representing an increase of £22m from 2003/04. This equates to an increase of 5.6%. Education and Social Services were the largest growth areas. The budget also assumes that over £7m of efficiency savings and additional income generation will be achieved during the year. Within the Council's regular budget monitoring framework particular attention is being given to these schemes to ensure that the savings are achieved.

The latest financial information suggests that the Council's financial difficulties in the areas of Social Services are abating as the department is forecasting that it will break even on its budget. As part of the Mayor's 2003/04 budget priorities, £0.2million was made available to support finance and performance management in the department. Officers have been working to link the service's client base and likely changes in demand for services, more closely to financial information. As part of the 2003/04 audit programme we undertook targeted audit work in Social Services. This is reported in the Performance section of this document.

Other areas of the Council are forecasting to achieve their 2004/05 budgets. Each department has areas of over and under spend that they are projecting they will be able to manage within their overall department budget.

### **The Council's Pension Fund**

The Council's pension fund provides pensions and other benefits for former employees of the Council and admitted bodies. It is a statutory defined benefit scheme operated under regulations issued by the Central Government. The investments of the fund are administered by the Council and presently invested by external fund managers. In common with many other UK pension funds, the fund has a deficit which has grown since the last triennial valuation due to falling stock markets. The next triennial actuarial valuation will be based on information as at 31 March 2004. Current expectations are that contributions will have to increase.

For the purposes of the 2003/04 financial statements, the Council's actuaries have estimated, by rolling forward their assumptions from the last formal triennial valuation, that the overall position of the fund at 31 March 2004 was an excess of liabilities over assets of £258million (£307million in 2002/03), which is equivalent to the scheme being just 59% funded (48% in 2002/03).

The actuaries have recently provided their draft triennial actuarial valuation to the Council and we understand that it suggests that employer's pension contributions will need to increase from 21% to 24% in steps over the next three years. This is in line with the assumptions made within the Council's medium term financial strategy.

### **Systems of internal financial control**

Overall, we concluded that the operation of the Council's systems was sufficient to support our planned audit approach. Some problems with the implementation of a new payroll system in 2003/04 caused us to adopt a revised substantive audit approach in this area of the accounts.

We were able to place reliance on internal audit's review of the implementation of the new payroll system when considering how to revise our approach. Due to staffing difficulties within the internal audit department, however, the department was not able to undertake one of the system reviews that we had previously agreed we would place reliance upon. This meant that we had to undertake this work ourselves.

We have already issued a report to the Executive Director of Resources reporting the results of our review of systems of internal financial control at the Council. It included the results of our review of computer controls, carried out as part of the 2003/04 audit programme and forming part of the “managed audit” work undertaken in liaison with the Council’s Internal Audit department.

We have agreed an action plan to address the issues raised in our report with officers and will monitor progress against this plan during the next audit year.

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

The prime responsibility for the prevention and detection of fraud and irregularities rests with the Council’s management. It is the responsibility of the Council to ensure that its affairs are managed in accordance with proper standards of financial conduct and to prevent and detect fraud and corruption. It is our responsibility to consider whether the Council has put in place adequate arrangements to maintain proper standards of financial conduct and to prevent and detect fraud and corruption. It is not the auditors function to prevent or detect breaches of proper standards and our work does not remove the possibility that fraud or corruption has occurred and remained undetected.

Our work in respect of the 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. There are no issues arising from our work that we wish to bring to your attention.

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

In order to meet our objectives in this area, we have:

- Reviewed the arrangements in place within the Council for ensuring the legality of financial transactions;
- Reviewed the minutes of the Council and relevant Committees;
- Discussed key issues and concerns with management;
- Had regard to the Council’s implementation of significant new legislative/statutory requirements;

- Reviewed the local applicability of relevant national issues;
- Taken account of advice issued by the Audit Commission; and
- Had regard to matters coming to the auditor’s attention where legality, losses or deficiencies may be an issue.

In last year’s audit letter we commented that when undertaking our Regeneration study in December 2002, we had noted that contracts with the two entities Renaisi Ltd and Stratford Development Partnership (SDP) had not been signed. We were concerned, because a significant amount of work in financial terms is delegated to these entities.

The contract with Renaisi Ltd was signed in September 2003 and we are pleased to note that the contract with SDP has recently been signed.

### **Local Government Electors**

During the year, we have received a number of letters from members of the public in relation to the Council’s services. We have addressed the issues raised in these letters in line with our statutory duties as auditors to the Council and in line with guidance issued by the Audit Commission. There are no specific matters in relation to these issues to bring to your attention.

### **Grants**

In 2003/04 the Audit Commission introduced a more streamlined process for certifying grant claims. Only grants where the amount claimed is greater than £100,000 are subject to the full certification procedures. Claims between £50,000 and £100,000 are subject to limited tests and claims beneath £50,000 no longer require certification by the auditor. It is anticipated that this should reduce the amount of grant claim work required of auditors and Councils alike.

The Council continues to receive a significant amount of funding that is subject to detailed grant claims certification procedures. In most instances the deadline for this is 31 December following the financial year end to which the claim relates.

We have completed a number of claims to date and there are no significant issues that we wish to bring to your attention.

# Performance management

This section of the report covers:

- The Council's Performance Management Framework
- Ongoing work associated with the Council's CPA Action Plan
- Our audit of the 2004/5 Best Value Performance Plan and 2003/4 Best Value Performance Indicators
- Targeted audit work in the areas of Corporate Financial and Performance Leadership and Social Services Income Maximisation
- Follow up work tied to previous audit activity

## **Performance management framework**

The Council has a generally well established framework for managing performance which is supported consistently through Departmental Management structures, monthly meetings between the Mayor and Chief Executive and scrutiny committees and commissions. We have gained assurance in this respect from CPA, recent inspections, our assessment of Best Value Performance Planning and targeted performance work.

Detailed plans were developed this year to support delivery of improvements across the seven key corporate themes. These plans specify key milestones for action and associated performance targets which will enable the Council to focus on top priorities whilst driving improvements across all service areas. This is a significant and positive move forward.

Overall this framework is delivering improvements across national performance indicators and in relation to the Council's key Corporate Priorities. Improvement targets were reported as fully or mainly achieved for almost 90% of set targets for 2003/4 in the 2004/5 Best Value Improvement Plan.

The Council must continue to address performance in areas where the local position is still comparatively weak e.g. staff sickness, recycling and some important areas of social services and education. In some cases targets have been moderated to reflect local factors which are considered to be impacting on performance.

In two key areas, Council Tax and rent collection, the Council is no longer aspiring to top quartile performance over the next three years as, within the context of the boroughs high levels of deprivation, it does not consider this to be achievable.

The Council is in the process of negotiating approved achievements on its first Local Public Service Agreement (LPSA) and we understand prospects for reward allocation are good. It is also applying the lessons learnt from agreeing its first LPSA to ensure that the targets currently being finalised for its second LPSA are

right for the Council.

### **Comprehensive Performance Assessment (CPA)**

The Council's achieved an improved CPA (2003) rating of 'good' in 2003. Continued progress was made during 2003/4 against the action plan resulting from the initial Corporate Assessment. In particular:

- Action plans and headline performance targets, which are tied to the Council's revised key themes, are now fully specified addressing some identified weaknesses associated with prioritization and focus;
- The Council's Community Strategy has now been completed and plans are in place to maintain the emphasis on established community forums by developing linked Neighborhood Action Plans;
- The Council is currently reviewing its performance management framework and key areas for improvement have been identified to stream line processes and address the wider cultural needs; and
- There is a greater focus on performance tied to basic services within CPA 'block' categories, along with continued innovation in key areas such as Crime and Disorder and E-government. In particular a major review and re-organization of street scene services has been undertaken to provide a more consistent quality of service across the Borough.

It is important that the Council maintains the momentum associated with the implementation of their CPA action plan.

Our involvement in the CPA process for 2003/04 has been to update our assessment of the corporate governance arrangements of the Council, in line with our Code objectives. The results of this work are included in the Accounts and governance section of this Letter.

### **Best Value**

Under the Local Government Act 1999 we are required to carry out an audit of the Council's Best Value Performance Plan (BVPP). We reported upon our audit work in relation to the BVPP issued in June 2003 as part of our prior year audit letter. We provided initial advice to the Council in relation to its draft 2004/5 BVPP and anticipate issuing an unqualified opinion on the final plan.

Our annual audit of Best Value Performance Indicators (BVPs) has been

completed. Whilst we have no major concerns regarding the Council's capacity to produce reliable indicators we consider there is a need for a reduced level of reliance on external audit. The ongoing level and range of problems associated with supporting audit trails, adherence to guidance and/or calculation errors is a cause for some concern. These problems were encountered on almost half of the 84 indicators tested this year. Whilst there was only one remaining reservation 29 indicators required amendment.

In order to address similar problems last year we recommended that the Council needed to improve its assurance controls at the corporate and/or departmental level. Efforts were made to improve the Corporate audit trail form used to support and control accuracy but further work is needed. We will work with the Council to review management arrangements during 2004/5 and in particular address the training and guidance needs of officers leading on the production of BVPs.

### **Targeted audit and inspection work**

#### **Finance and Performance Leadership Review**

We undertook a review to consider the extent to which efforts to manage finance and performance are suitably joined up across the Council. We paid particular attention to role of the Council's S151 officer and national guidance which is likely to impact on future CPA assessment.

Overall we concluded that the Council's framework for managing finance and performance provides a solid foundation for meeting the inter-related aims of improved performance, financial stability and increased efficiency. Requirements for financial leadership and management within the Local Government Act (2003) are being adhered to. There is a strong focus on good stewardship, improving performance and transformational change in the provision of financial services. Key strengths identified include:

- Established structures which align performance and finance reporting and levels of joint working between service managers and finance specialists across the Council. In particular the annual budget setting process is tied to the Council's wider framework for risk management and medium term financial planning; and
- The scale and scope of the corporately led change agenda 'Moving to Excellence', which encompasses 'Business Efficiency'. 'Business Efficiency' is driving forward a major programme of restructure with a focus on cross-cutting

support services, efficiency savings and performance improvement. The Council has now declared savings and set further targets in some key areas of service e.g. in the areas of HR, administrative support and e-commerce. 'Planning for the Future' was launched in 2004 and focuses on wider structural change which is tied to the provision of front line services and associated senior management responsibilities. Some services which were operating within traditional Departmental based structures are now tied to portfolios of service which share common outcomes e.g. the new Public Realm division.

Newham has set itself an ambitious improvement agenda within the context of significant savings targets and a commitment to moderate rises in Council Tax. If all aspects of this future plan are to be realised there is a need to tackle three key issues identified through the assessment work undertaken.

*Change Management:* There is a need to more effectively communicate the 'Business Efficiency' and 'Planning for the Future'. In particular staff who are close to major projects within these programmes need to be more closely involved in work to manage risks.

*Inconsistency:* Levels of reported participation and the quality of some aspects of joint working between service managers and finance specialists warrants attention. This is most clearly evidenced with respect to the more challenging aspects of joint working (e.g. longer term planning, identifying and managing cost pressures, benchmarking and business planning).

*Accountability:* There is a need to address levels of assurance and responsibilities regarding cost scrutiny and value for money assessment throughout the Council. This is a key requirement for 'Business Efficiency' and attention must be paid to translating efforts led by the Centre to Council wide management practices. As Newham is aspiring to be an excellent authority greater assurance is needed to demonstrate to its stakeholders that the provision of all main services offer value in terms of cost and quality.

### **Social Services Income Maximisation Review**

We undertook a review of management arrangements within Social Services across a range of income streams which are tied to the funding of both core care and preventative services. This was at the request of the Departmental Management Team and our understanding of risks associated with ongoing cost pressures.

Overall we have concluded that whilst there are a number of key strengths associated with the Department's approach to managing income, current management arrangements do not provide full assurance that income is being maximised across all income streams reviewed. The framework for strategic planning and performance management in this area of the Department's needs to be strengthened so that an improvement agenda which is more financially focused can be defined and shared across all management levels. In particular:

- Whilst there is a strong approach to directing externally held resources to meet Departmental priorities for service provision, in order to build on this a clearer assessment of benefits and dependencies is needed.
- Although management arrangements to support charging for residential care services in adults are now generally strong, further work is required in order to ensure assurance regarding the validity of users financial statements is as good as is possible and that specialist finance services are interfacing appropriately with social work teams.
- A sound options appraisal of charging for home care has been undertaken and a commitment made to ongoing review of the current 'no charges' policy. Plans to obtain a more precise assessment of income levels amongst users receiving home care and review options should now be taken forward.
- There are some significant issues which need to be addressed associated with the agreement of and accounting for health contributions towards nursing care placements within adults and children's services. A number of weaknesses associated with supporting policies and procedures and recording and accounting systems established within the Department need to be addressed. At best reliable financial planning is not possible for this key area of income and at worst income is not being maximised.

We are in the process of agreeing a realistic action plan which will provide greater assurance that financial benefits from this area of business are being optimised.

### **Progress on Previous Targeted audit and inspection work**

#### **E-Government**

There has been excellent progress with continued implementation of e-government during the year and 99.33% of relevant services have now been e-enabled. The Council should therefore meet the 100% government target by

December 2005. Newham's position is therefore one of the strongest nationally. We assessed progress on the limited set of recommendations made in this area last year and conclude that this has been good. The key issues of disaster recovery, provision of appropriate evidence to support the LPSA assessment process and continued to assess viable options for Smart Cards have been addressed. There is a need to continue developing the disaster recovery plan building on the work undertaken on risk management and assessment of options for contingency plans. Continued appraisal of Smart Care options, taking into account central government and market dependencies, is also required.

### ***Social Services – 2003 Continual Improvement Review***

We consider that good progress has been made in taking forward the challenging action plan agreed with the Department following our review last year. The action plan provided a comprehensive response to the recommendations we made to better enable the Department to manage its ambitious improvement agenda within the context of a financial climate which will continue to be volatile. In particular:

- Guidance has been developed to ensure cost management is more consistently incorporated into strategic plans, the annual business planning framework and through the work of Partnership Boards;
- Work has been undertaken to address a range of more discrete requirements including the development of a business plan for the new Children's Placement and Monitoring service and assessment of the financial benefits of supported housing services as alternatives to residential care;
- The capacity of strategic and operational financial management has increased to build on work undertaken to provide more integrated and timely financial and activity reporting; and
- A medium term financial strategy is being developed to enable the Council to take a more focused and co-ordinated longer term view of the financial climate it is operating within and associated management strategies.

The action plan is being monitored by the Departmental Monitoring Team on a quarterly basis and we will continue to assess progress over the coming year focusing on continued work to develop the Department's medium term financial plan.

Within the wider context of work undertaken in 2003/4 there has been good progress across a range of key performance priorities including children's assessments and reviews. The need to further improve performance in some remaining areas and balance the budget will continue to be a significant challenge for the Department and we note that there was a need to introduce a moratorium arrangement (limit funding approval at lower levels of the Department) during the year to control expenditure.

# Inspection

This section of the report covers:

- Two completed inspections – Cultural Services and Supporting People
- The Council's Direction of Travel statement
- Review of key documents such as the Council's self assessment to support the direction of Travel assessment (October 2004), Moving to Excellence and the Council's Corporate Plan/Best Value Performance Plan 2004/05
- Follow up work

PricewaterhouseCoopers (PwC) were requested by the Audit Commission to participate in the National Inspection Pilot for Appointed Auditors. Consequently the whole service inspections of Housing Management and Cultural Services (including the Cultural Services Regular Performance Assessment) were undertaken by PwC.

PwC also carried out the review work in connection with the Audit Commission's Direction of Travel assessment for the Council.

The only inspection work undertaken in this period not carried out by PwC was the Supporting People inspection. It has been agreed with the Council that two further studies, crime and antisocial behaviour (including work on diversity and racial equality) and the Environmental Services Regular Performance Assessment should be deferred until 2005.

## **Published Inspections** **Cultural Services**

The Council was judged to be providing a good service with promising prospects for improvement.

Clear links can be demonstrated between the ambition for cultural services and the ambition for the local area. The Council's understanding of user groups' demands and perceptions is excellent and supporting management information is strong. The service makes a significant contribution to three of the Council's improvement priorities and satisfaction levels continue to improve.

The Council still has to meet a number of mandatory standards for public libraries. In addition, three out of six libraries and two out of four leisure centres do not meet Disability Discrimination Act (DDA) standards and there is no comprehensive plan, including resources, to ensure all buildings are compliant.

Prospects for improvement are promising with strong financial management, innovative approaches to service provision and measures to increase capacity, such as growing the number of clubs and effective strategic partnerships.

The Council now needs to finalise its service improvement review of libraries and to strengthen the qualitative measures to assess the outcomes from specific projects and activities.

### **Supporting People [Audit Commission to provide text]**

### **Housing Management**

The fieldwork for this inspection was undertaken in June 2004 and a draft report and score has been discussed with members and officers. A final moderation meeting is currently being organised by the Audit Commission. This will address outstanding issues and a score for this inspection is to be published early in 2005.

### **Direction of Travel Assessment**

#### **Ambition**

Newham is an ambitious council. The Council's vision is that by 2010, Newham will be a major business location and a place where people choose to live and work. In addition to this it is determined to become an excellent council by 2005/06.

The vision has been clarified further in the corporate plan. This incorporates the best value performance plan 2004/05 and is a review of the services provided by the Council in the past year. The corporate plan links the Council's seven improvement priorities with its six aspirations set out in its 2010 Vision. As a relatively deprived area, there is a common understanding among stakeholders of actions that have to be undertaken as part of a local improvement agenda and the Council takes a lead role in strategic planning for the borough. The community strategy, developed by the Local Strategic Partnership (LSP) through consultation, has shared ambitions and values by key partners and stakeholders. The Council has yet to finalise its second Local Public Services Agreement but a draft focuses on addressing levels of crime and antisocial behaviour, social services, environment (public realm) and raising employment levels, particularly in hard to reach groups and this is consistent with other key corporate documents.

Newham has a good record of public consultation. Apart from the community strategy, views have been regularly sought from Newham's Household Panel and the ten community forums to further develop services. For example, the crime and anti social behaviour service and a public realm division was set up in direct response to users views.

Further evidence of the Council's community leadership is the lead role that it is taking in London's bid for the 2012 Olympics. The pivotal roles of the mayor and the executive director of culture and community services in the bid process to date are a reflection of the extent to which the Council regards the Olympics as a key opportunity to drive the programme for social and physical regeneration of a derelict part of the borough. The Council will benefit from enhanced facilities and infrastructure even if the overall bid is unsuccessful since approximately 90% of the new assets will be sited in Newham.

### **Prioritisation and focus**

The Council is clear about its priorities. The Council's seven improvement priorities are at the heart of corporate planning and cascade from the 2010 vision and link to the community strategy, the best value performance plan and the corporate improvement plan. These priorities are not recent initiatives, as they have been Council themes for several years:

- educational achievement
- public realm
- social and physical regeneration
- social services
- crime and anti social behaviour
- health and well being
- business efficiency and human resources

The Council has maintained focus on improvement. Focus is achieved through the mayor's quarterly strategy and performance meetings. Directors remain accountable for their specific service areas and report to a challenge team to ensure that activities are in accordance with corporate priorities. In addition, a programme office has been established to drive and monitor the implementation of the corporate improvement plan. The other main focus for improvement has been around the Council's "moving to excellence" programme which covers the following five key elements:

- establishing a vision of what the organisation needs to be to deliver excellence
- implementing the leadership and management framework to deliver the vision
- ensuring that there is clarity about the aims and outcomes that need to be achieved
- internal organisation to deliver those aims and outcomes
- having a culture that supports and enables the Council's delivery of excellence

Moving to excellence is a relatively new initiative, but an actual change that has already been implemented as a result is the creation of a new crime and anti social behaviour service. This ensures that there is a single dedicated service focused on one of the Council's improvement priorities. In addition, those aspects of the Council's services not directly linked to service provision, such as the parks maintenance function, have been transferred to a new public realm service. This is to become a stand alone division from April 2005 and will improve the ability of the existing service to focus on user's needs.

The Council has made some tough decisions. Its financial position is stable, yet it is under-funded relevant to its deprivation and population growth, in comparison with neighbouring Councils. This inevitably exerts a strain on resources and choices have to be made accordingly. Within the last year, educational achievement, social services and crime and anti social behaviour have been identified and resourced as priority services. The Council has also shown that it can de-prioritise where appropriate, with recent examples being a reduced

emphasis on tourism and heritage. Progress against the seven improvement priorities is monitored through the establishment of key milestones for delivery, together with performance indicators to measure the impact of that activity.

### Capacity

Steps have been taken to further increase the capacity of the Council. The Council's financial standing continues to be strong and this has enabled services to operate within budget over the last few years. The exception to this is the demand-led elements of social services, although positive steps have been taken to address this. The Council has successfully increased capacity through partnership working and shared priorities around health and community safety are being delivered jointly with the local primary care trust, the police and the youth offending service. In addition the Council has demonstrated that it can work with private sector partners in order to improve its services such as Greenwich Leisure Limited in the management of its four leisure centres and its ten year agreement with Microsoft, which showcases Newham as best practice for information, communication and technology (ICT) and business efficiency. This is one of only five strategic partnerships that Microsoft has worldwide.

The Council has used its business efficiency review as a driver for significant change. For example, this has enabled it to develop e-commerce and to comply with almost all of the Government's targets for electronic service delivery. The Council has recognised that work is still required to ensure that it has sufficient staff, equipped with the right skills, and in response it has already begun staff training programmes, centralisation of support services (such as finance, ICT and HR) and moves to make smarter use of Council premises and establish a central 'back office'. Social Services has continued to build its capacity to improve service delivery and manage finances.

The HR strategy was launched in September 2003, following consultation internally and with unions. It is linked to the Council's vision and improvement priorities. The ICT strategy is currently being updated as part of the business efficiency exercise.

Issues of equality and diversity continue to be at the forefront of service delivery. There is no diversity strategy at present, but work is currently in progress to link diversity, social inclusion and community cohesion to the Council's overall equality strategy. The Council has achieved level 2 of the equality standard for local government. The Council has demonstrated that it is skilled at engaging with hard-

to-reach groups and shaping services to meet their needs. There are many examples of this in the libraries, sports and leisure services. Some equality issues such as access have still to be fully addressed. For example, three out of six libraries and two out of four leisure centres do not meet Disability Discrimination Act standards and there is not yet a comprehensive plan, including resources, to ensure all buildings are compliant.

### **Performance**

The Council has a well established performance management process. Clear political leadership is provided by the Mayor and Councillors, with policies and direction being cascaded down to officers through the mayor's quarterly strategy and performance meetings. Councillors have demonstrated through this median that they are capable of providing effective challenge to the way the Council works corporately.

Newham's executive board considers performance on a monthly basis and there are also departmental and team initiatives such as local events on good practice, involvement in benchmarking clubs and external accreditation such as Chartermark. These processes are underpinned by the performance indicator database which is used by departments to provide regular reports on performance information. Corrective action is taken as necessary for indicators falling short of their target.

Underlying performance management arrangements are good and the Council is constantly refining its performance management arrangements to implement leading edge technologies. An example is the Neighbourhood Intelligence Management System which was introduced in late 2004 which enables the Council to track usage patterns for those using its cultural services and link records to its other databases. Performance information is being enhanced in areas such as procurement and equalities.

### **Achievement**

The Council has improved service delivery in a number of areas and this is recognised by service users. The Council has made progress in the areas of education (particularly at Key Stage 4) and sport and we expect to see these services, together with numerous other services improve further in the next 12 months. The 2004 satisfaction surveys are encouraging as results show improvements and at a higher level than the London average. In particular service users have reported improved performance in litter refuse and sports and leisure

services.

Education – Council actions are bringing about improvement in this priority area. Overall 58% of performance indicators (PIs) have improved since 2002/03. In particular the percentage of students achieving five or more GCSE grades A\* - C rose from 46% in 2003 to 50% in 2004. However, the percentage of pupils achieving level 5 or above in Key Stage 3 (English, mathematics, science and ICT) remain in the bottom quartile, but the Council has achieved its own locally set targets for these indicators in 2003/04, except for ICT, and in general there has been a trend of improvement since 2001/02.

Social Services is a priority area for the Council and overall there has been some improvement across national performance indicators during 2003/04. Good performance has been either maintained or improved in a number of areas. Despite building capacity to improve service delivery and manage finances, the scale and rate of improvement across a range of key indicators remains challenging. Performance is still comparatively weak on around one third of indicators within the Social Services Performance Assessment Framework. Progress tied to linked key BVPIs has, overall, been mixed. Explanatory factors are the suitability of reporting and recording systems and challenges associated with managing cost pressures.

Housing – There has been a mixed service performance in housing. Since 2002/03, five of the seven PIs for which there is comparable data have improved. However, the average number of weeks spent in temporary accommodation (by homeless households in priority need) was in the bottom quartile and local targets were also missed. The Council's housing strategy has achieved fit for purpose accreditation. The 2004 Supporting People inspection was scored as one star with uncertain prospects.

Libraries and leisure – There has been a mixed service performance in libraries and leisure. In March 2003 the libraries service was judged by the Department of Culture, Media and Sport to have met only 11 out of 26 public library standards but with realistic plans to meet most of the remaining standards. The 2004 Cultural Services inspection was scored as good with promising prospects.

Housing and council tax benefits – Council actions are continuing to bring about some improvement in this service area. BFI found that the Council's benefits service is providing a Fair level of performance. This assessment takes account of the changes since 2003 and the Council's performance against Best Value

performance indicators, and is based on a full self-assessment against the May 2004 Performance Standards in which the Council scored 85%. However, the Council has not achieved standard in any of the Best Value performance indicators and has reported deterioration in performance in 2004/05. This is attributed to the introduction of the Verification Framework and a new benefit IT system. Consequently the Council has set 2004/05 targets of 55 days for the average time for processing new claims and 35 days for the average times for processing changes of circumstances. Both targets are well in excess of the benchmark contained within the Best Value Performance Indicators, but in the case of changes of circumstances, lower than the Council's actual performance in 2002/03 and 2003/04.

Environment – The improvement of street scene services was a corporate priority during 2003/04. A Best Value Review and a reorganisation of street cleansing and waste collection operations was completed this year. Performance across relevant national Best Value Performance in 2003/04 was generally good and improving although there continue to be some significant areas of weakness. Recycling, costs and satisfaction tied to household waste collection require attention. Performance tied to transport management is generally good although the condition of roads is well below the Council's expectations. Planning and environmental health services continue to demonstrate strong and improving performance.

### **Learning**

The Council is realistic about what it has achieved to date and what remains to be achieved to reach its objectives. It is continuing to learn and make changes as a result of internal and external challenges.

The Council recognises the need to learn from inspectors' comments and from external organisations. An example of a service which has learnt from challenging feedback in recent times is social services where special measures were lifted in response to implementation of the agreed action plan. Benefits is another service which has made significant improvements to response times and the overall service following recommendations from inspectors and auditors. The Council is in the process of responding to its more recent inspections including cultural services and supporting people.

The Council has encouraged a culture of learning, learning from others through exercises such as benchmarking and inviting external organisations to provide challenge. Examples include the Council's work with IDeA and t-three (work on values and development of a shared leadership programme), PricewaterhouseCoopers (performance management measures), and SERCO (challenge work in the public realm area).

### **Future Plans**

The Council effectively involves the community in developing realistic future plans for the borough. The Council is using its "moving to excellence" programme to ensure that it is appropriately structured to deliver against its future plans. The chief executive has taken a personal lead in developing this programme and there has been a commendable level of consultation with officers at all levels to formulate its objectives. In particular, there is to be a progression from the existing departmental structures into smaller service areas organised around the Council's key delivery or outcome drivers and the strategic and functional services needed to support them. Partners have been consulted on "moving to excellence" through the executive group of the Local Strategic Partnership.

Two examples of alternative service delivery are the reorganisations that have led to the establishment of the new public realm and crime and anti social behaviour divisions. The outcome drivers for these new divisions are now well developed and the divisions are to be officially launched on 1 April 2005. The Council is currently planning to agree outcome drivers and the services that they should cover for the remainder of its functions.

There are ambitious plans for regeneration across the borough – examples being the Stratford Circus development and the London Olympics bid. The success of the Olympics bid will impact upon the Council's future planning. Even if the bid is unsuccessful, the Council is already planning to ensure that Newham gains from the construction of assets and supporting infrastructure, as well as the opportunities to launch social cohesion schemes.

## Investment

The Council commitment to investment is strong and it has a good track record of being able to divert resources to priority areas. It has continued with its three year rolling investment strategy for strategic management of its resources and funding areas in line with its priorities. The Council has successfully used best value reviews as a means of redirecting resources to where they are most effective – an example of this is the Council's swift response to funding issues in its schools.

The business efficiency project is demonstrating that there are economies of scale to be realised from more effective use of corporate systems such as procurement. A procurement strategy is now in place and after a slow start, there are signs that services are now making use of the centralised arrangements for purchasing. Initial indications are that it is likely to be more efficient re-organising the Council's support service staff so that they work from a single office as opposed to being based within individual services

The Council has targeted resources to increase the level of involvement in sporting activities. For example the summer 2004 Free Swims programme. (£0.05m, part GLA funded) and the community Olympic summer 2004 participation programme (£0.05m). These initiatives were driven by the corporate priority for crime reduction and were primarily in recognition of the beneficial impact of diversionary activities such as sport in reducing the amount of time that young people spend on the streets.

The Council is in the process of updating its human resources policies and procedures to ensure that they are aligned with current priorities. The Council is working to improve relationships with trade unions and to complete the London-wide Single Status project. An effective appraisal process is in place for almost all officers and the recruitment service is being centralised along with all HR teams which have been under central management since September 2004.

Risk management is being further developed across the Council. Risk registers are now virtually complete, but the process of risk management is not yet embedded in service delivery. In March 2004 agreement was reached at the Directors Board on the headline risks associated with the "moving to excellence" programme and the Council's 2010 vision.

# Audit plan 2004/05

## Audit Plan 2004/05

We have issued our Audit Plan for 2004/05 and we presented it to the Audit Committee at its first meeting in May 2004.

Given the dynamic environment within which you operate, we will revisit our Audit Plan to ensure that it remains appropriate for the 2004/05 financial year. We will discuss with you the implications of any changes in our Audit Plan.

## Fees update for 2002/04

We reported our fee proposals as part of our Audit Plan for 2002/04. These fee proposals covered the 17 month period from 1 November 2002 until 31 March 2004.

We expect to vary our fee as a result of the system reviews that we had to undertake ourselves (explained in more detail in Section 2). A revised fee will be agreed with officers, which we will report to a future Audit Committee.

Our fees charged were therefore:

	2002/04 Outturn (£)	2002/04 Fee proposal (£)
Accounts and Governance	505,000 <sup>1</sup>	505,000
Performance	265,000	265,000
Total	770,000	770,000

---

<sup>1</sup> A revised fee has yet to be agreed.

# Appendix A: Audit reports issued in relation to the 2003/04 financial year

- Performance reports for work carried out in 2003/04:
  - Finance and Performance Leadership Review
  - Social Services Income Maximisation Review
- Internal control report
- Audit opinion for 2003/04 financial statements
- BVPP opinion
- CPA auditor scored judgements issued in October 2003
- SAS 610 report.

# Appendix B: Recommendations

This table summarises the recommendations that we have made in this Interim Audit and Inspection Letter.

Observation	Management response
The Council must consider how the need for greater consistency in value for money assessment and business planning will be achieved.	
The Council must improve internal management arrangements so as to more fully assure the reliability of BVPIs prior to external audit.	
The Council must continue to develop the Social Services' medium term financial strategy and address the issues identified within our review of income maximisation.	
Libraries – the Council should look to complete and report the results of its Service Improvement Review. This will assist planning and ensure greater clarity in the service's objectives going forward.	

*©2004 PricewaterhouseCoopers LLP. All rights reserved.  
PricewaterhouseCoopers refers to the United Kingdom firm  
of PricewaterhouseCoopers LLP (a limited liability  
partnership) and other member firms of  
PricewaterhouseCoopers International Limited, each of  
which is a separate and independent legal entity.*