

# London Borough of Newham 2004/05 Joint Audit and Inspection Letter



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

December 2005

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 report provides a useful source of reference for Members. The Audit Board considered the Letter on 10 January and the Cabinet on 24 January 2006.

Yours faithfully

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## **The Audit Commission**

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## **Status of our reports to the Council**

*Our reports are prepared in the context of the Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission. Reports are prepared by appointed auditors and addressed to members or officers. They 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.*

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# Introduction, Background and Key Messages

## **The purpose of this Letter**

We write to you each year, on completion of our audit, to summarise the more important issues that we wish to bring to your attention.

## **Joint Audit and Inspection Letter**

The joint reporting of audit and inspection work in this format reflects the steps that the Audit Commission has taken to integrate 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.

## **Working with other inspectorates and regulators**

An important aspect of the role of the Relationship Manager is to work with other inspectorates and regulators who also review and report on the Council's performance. These include:

- Ofsted;
- Commission for Social Care Inspection (CSCI);
- Benefits Fraud Inspectorate (BFI);
- DfES; and
- The Government Office

We share information and seek to provide 'joined up' regulation to the Council

Our audit work during the year was performed in accordance with the plan that we presented to the Audit Board in 2004, and which was subsequently updated in March 2005. We issued a number of reports during the audit year detailing the findings from our work and making recommendations for improvement, where appropriate. We also performed a number of additional pieces of work for the Council outside the scope of our Audit responsibilities. A list of these reports is included at Appendix A to this letter.

We have set out below what we consider to be the most important issues that we have discussed with members and officers in the course of our work.

## **Key messages**

This audit letter contains a number of key messages for the Council set out under the Code requirements, summarised as follows.

### **Financial standing**

The Council's financial position was healthier than expected at 31 March 2005, with a positive movement of £15.0m in total reserves compared with a budgeted reduction of £1.0m. There was a £6.1m surplus on the General Fund, with a further £0.5m surplus on the Housing Revenue Account. The overall level of reserves are in accordance with the budget. A minimum General Fund reserve position of £24million at 31 March 2006 was planned at the time of the 2005/06 budget.

The Council is forecasting a General Fund surplus of £4.6m. This is mainly due to favourable treasury management performance, offset by a number of service pressures.

### **Accounts**

The Council produced a complete set of accounts for audit in July 2005, and we are pleased to report that few adjustments were required to the first draft.

An unqualified opinion was signed on the accounts on 21 October 2005, with the accounts having been presented to Cabinet on 20 October 2005.

Next year, the deadlines for both the approval and audit of accounts are being accelerated by Central Government to 30 June and 30 September respectively. This will present an additional challenge for officers and auditors alike and discussions are in progress to ensure that this is effectively managed.

### **Inspection**

#### **Direction of Travel**

Newham scored a 3 on direction of travel, having been judged as improving well by the Audit Commission.

Newham is performing well and Council services are improving in line with its priorities, particularly education and children's social services. Over 70 per cent of performance indicators have improved since 2002/03. Newham has a clear understanding of its diverse communities and has improved the services it offers to its local population such as housing benefit and access to interpretation. Partnership working is effective and focuses on community strategy priorities and improvements continue to be achieved such as increased road safety and reduced levels of abandoned cars and teenage pregnancies. Newham is aware that improvement is needed in a small number of service areas such as waste recycling levels and waste management. Good value for money is being delivered in the majority of services which generally perform well with low costs.

The Council has robust plans in place for further improvement and a good track record of delivery. Council capacity has increased, through, for example, strong financial management, staff development and recruitment initiatives. Corporate governance arrangements are effective and Newham is well placed to continue to deliver sustained improvement in services.

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

The CPA 2005 regime is a "harder test", with a Use of Resources assessment undertaken by PwC contributing to the overall rating. The Use of Resources work was completed in October 2005 and resulted in the Council achieving an overall rating of 3, which the Audit Commission defines as "Good".

The Council is having a corporate assessment inspection in March 2006 that will result in a published scored report, including areas for improvement.

### **Best Value**

We anticipate being able to issue an unqualified opinion on the Council's 2005/06 Best Value Performance Plan. Our work identified an improvement in the quality of published performance information, with reservations on two Best Value Performance indicators (against five the previous year).

### **Performance Management**

The following targeted reviews were undertaken in 2004/05 as part of the audit:

- An insurance claims handling review;
- Social Services follow-up
- Crime and antisocial behaviour – two stage review, undertaken jointly by specialists from PwC and the Audit Commission

The findings from these reviews have been summarised in the Performance Management section of this Letter.

### Challenges for 2005/06

It will be important for the Council to continue to drive value for money throughout the organisation and deliver the “Gershon” efficiency agenda. We completed an initial assessment of the Council’s strategy to achieve savings during the year, and will keep this under review in 2005/06. We intend to monitor progress in implementing the strategy further as part of our Use of Resources assessment in the summer of 2006.

The scale of development at the Olympics site, Canning Town and Stratford Circus present a number of challenges, including potential financial risks and governance issues. In addition, the Local Space housing project has now been given approval. We will continue to monitor the progress made in these scheme as part of our 2005/06 audit, and consider the potential impact of issues raised.

Key decisions still have to be taken by members on the proposed accommodation strategy. A number of options for the back office have been evaluated, including co-location with other public sector bodies in Docklands.

The environment in which the Council is operating continues to grow in complexity. In particular, there is an increasing focus and reliance on partners and partnership working for the delivery of key services – and the associated risks that this brings. The Council needs to develop constructive working relationships with its partners to ensure that it maintains the high quality of services it delivers. Maintaining these relationships will require time and effort.

### CPA Scorecard

The Audit Commission has assessed core service performance in the service areas detailed in the table below. Each service is scored on a scale of 1 to 4, with 1 being the lowest and 4 being the highest. Education and social care are given more importance in reaching the overall score than other areas.

Element	December 2005
Direction of travel judgment	3
<b>Current Performance</b>	
Social care (adults)	2
Children and Young People	3
Environment	2
Housing	2
Culture	3
Benefits	3
Use of Resources	3

The CPA judgments 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 greater emphasis on outcomes for local people and value for money. Under the new framework the Council is improving well and its overall CPA category is 3.

### Performance information

We undertook our annual audit of the Council’s Best Value Performance Indicators. This year we placed a reservation on only one indicator and amended one other indicator. This represents a marked improvement compared with 2003/4 when 3 indicators were reserved and amendments were made to 29 indicators. We were pleased to note improvements in the completeness and quality of the audit trails and working papers to support all of the BVPI indicators this year.

# Accounts and Governance

We comment on the following key areas in this section:

- Audit of the 2004/05 accounts;
- Report to those with responsibility for governance in the Council
- Matters arising from the final accounts audit
- Other accounts matters
- Financial Standing
- Systems of Internal Financial Control
- Standards of Financial Conduct and the Prevention and Detection of Fraud and Corruption
- The Legality of Transactions
- Electors' Questions

## **Audit of 2004/05 Accounts**

We issued an unqualified opinion on the Council's accounts on 21 October 2005.

We received the first draft of the accounts and pension fund accounts prior to the commencement of the audit. These were prepared to a high standard and were generally supported by sufficient working papers. This helped to ensure that the audit progressed in line with the timetable agreed with officers.

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

As auditors we are required to issue a report in accordance with Statement of Auditing Standards 610, This communicates to those charged with governance (essentially Cabinet members), 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 members prior to our audit opinion on the accounts being signed.

## **Matters arising from the final accounts audit**

The published accounts are an essential means by which the Council reports

its stewardship of the public funds at its disposal and its financial performance in the use of those resources. Members approved the Council's annual accounts on 20 July 2005.

In last year's Annual Audit and Inspection Letter we emphasised that timeliness in producing the accounts would become increasingly important over the next few years as the deadline for completion of the accounts was brought forward in line with the Government's requirement. The accounts have been prepared to meet the requirements this year. The deadline for the Council's approval of the accounts in 2006 is 30 June, and the deadline for the issue of our audit opinion is 30 September. These deadlines will be more difficult to achieve and will require early planning and thoughtful scheduling of key meetings next year.

### **Group Accounts**

The 2004 Statement of Recommended Practice contains substantial revisions relating to its requirements for group accounts, designed to provide a fuller picture of the totality of a Council's economic interests and results. The Council will need to consider in the light of relevant guidance whether disclosure of related entities' financial information will be required in its 2005/06 financial statements. If so, this will necessitate preparatory work by finance staff in the forthcoming months.

### **Financial standing**

The Council's financial position was healthier than expected at 31 March 2005, with a positive movement of £15.0m in total reserves compared with a budgeted General Fund reduction of £1.0m. There was a £6.1m surplus on the General Fund, with a further £0.5m surplus on the Housing Revenue Account.

### **Balances and reserves.**

In aggregate, the level of the Council's revenue reserves has increased significantly. They have moved from £52.6m at 1 April 2004 to £67.7m at 31 March 2004.

Within the General Fund surplus, there were some notable differences

between outturn and original budget in certain services. For example Social Services underspent by £4.3m. This was due to a reduction in homecare services, children's placements and agency staff, but also a reflection of the strengthening of financial management and forecasting of the demand-led elements of the service. Crime & Anti-Social Behaviour (£0.4m) and Public Realm (£1.4m) both overspent compared with their original budgets and the Council continues to address financial control issues in these areas.

School balances, which are monies that are earmarked for use by individual schools, have increased significantly from £6.7m to £10.4m. This headline figure conceals that fact that around 12 schools are actually in deficit with a combined deficit balance of £3.2m. Of these 12 schools, 8 were also in deficit at 31 March 2004. These schools continue to work to recover their deficits.

Excluding the increase in school balances, other earmarked revenue reserves have increased by £4.8m, including a contribution of £3.8m to the PFI Reserve Account relating to grant monies set aside for future expenditure.

### **Housing Revenue Account**

The Council had budgeted for a deficit of £1.0m on the HRA in 2004/05. However, it achieved a surplus for the year of £0.5m. This was largely explained by increased Housing Subsidy income received and a decrease in central charges. The balance on the HRA reserve at 31 March 2005 was £11.5m.

### **Capital programme**

The Council's capital programme is managed over a rolling five year period. The original budget for 2004/05 had been £98m. However, this was revised down to £92m as £6m 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 (£29.5m). The Council also continues to fund a number of projects within the community, and invests in IT (£11.3m).

### **Income collection and arrears – Collection Fund**

The Collection Fund recorded an accumulated deficit of £2.0m for the year ended 31 March 2005. £1.2m of this was required by legislation to be transferred to the General fund to offset the previous year's Collection Fund surplus. The in-year deficit is therefore £0.8m.

In line with the statutory provisions, the Collection Fund's accumulated deficit will be taken into account when the Council Tax is next calculated and is planned to be recovered in 2006/07.

The proportion of Council Tax collected was 91.0% (91.0% in 2003/04). The target had been 92.5% and the average for outer London boroughs in 2004/05 was 95.1%. The NNDR collection rate improved from 98.7% to 99.2% and exceeded the Council's 99.0% target. This also compared favourably with the average for outer London boroughs in 2004/05 of 98.3%.

### **Income collection and arrears – Rents**

Rents arrears increased from £13.0m as at 31 March 2004 to £15.3m at 31 March 2005. Housing Revenue Account arrears, those that relate to Council tenants, decreased from £9.9m to £9.4m, but General Fund rent arrears rose from £3.1m to £5.8m, largely due to the use of leaseholder accommodation for the homeless.

The proportion of Housing Revenue Account rents collected has increased from 94.9% in 2003/04 to 96.0% in 2004/05, which exceeds the Council's target of 95.5%.

### **Outlook for 2005/06**

The budgeted minimum reserve position of £24m was after planned use of earmarked reserves of £5m to support the budget strategy. £2m of this is to be used to support the General Fund Budget 2005/06. The balance of £3m is allocated towards achieving savings and as an investment in moving to excellence service changes.

A prudent view was taken at the time of setting the 2005/06 budget in order to reflect expected pressures. For example, additional expenditure was assumed to be spent against an unexpected capital grant in the Financial Settlement. Projections were also made to reflect a reduction in

Unaccompanied Asylum Seekers grant.

The Council is now forecasting a budget surplus for 2005/06 of £4.6m. This surplus mainly arises from favourable treasury management (where officers continually seek to drive down costs) plus a continuing pattern of underspending in Social Services. There are, however, service pressure concerns in Public Realm and Crime & ASB. Expenditure pressures are also being experienced in connection with benefits and customer services Housing General Fund services.

Initiatives to improve the appearance of the Borough (mainly cleansing) coupled with operational issues (changes in sweeping arrangements) have resulted in a forecast overspending in Public Realm of £1.1m.

There have been investigations into management practices within Crime & ASB, with the result that all previous senior management in this area have left the Council. The financial costs of the issues are still emerging and overspendings to date of £1.1m have been identified.

In Social Services, placement and staff costs (net of a Youth Offending Team overspend) are likely to be under budget by £0.6m. Provisions in respect of the costs of asylum seekers are also predicted to be some £2.4m less than planned, due to a slowdown in the growth in numbers and a favourable special circumstances grant settlement above thresholds.

The Housing General Fund is broadly in line with the budget, however,, some significant differences are arising mainly in the large highly volatile areas of housing benefits and homelessness. Benefits are overspending by £0.8m and Homelessness underspending by £1.2m. In the area of Customer Services, cost pressures of £0.5m have been identified as part of the Vanguard Business Review process. Pre set-up costs of £0.5m are being incurred in respect of the move to Local Space, although it is possible that these could be recoverable from the Registered Social Landlord special purpose vehicle

Expenditure pressures in the new services were foreseen at the time of setting the 2005/06 budget. The reconfigurations of Public Realm and Crime

and ASB were thought unlikely to be possible without incurring additional charges. Certain loss-making contracts and poor working practices could not be terminated immediately and some losses were incurred before the contracts could be re-let. In addition, there was a commitment to providing the necessary resources and financial investment to see the Vanguard process through. Initial improvements in service delivery appear to be demonstrating that this was a worthwhile and effective project.

To conclude, the Council had to deliver a budget that was sufficiently flexible to accommodate a range of risks and uncertainties. There was an acknowledgement of pressures at the outset and expenditure has been contained within budget – minimising the likelihood of having to fund deficits through use of working balances and/or Council Tax increases in 2006/07.

The Mayor is considering the 2006/07 budget and three year budget strategy and will be addressing the above issues accordingly.

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

We considered the Council's system of internal control through flowcharting certain processes in conjunction with Internal Audit. We also conducted a review of general computer controls.

We have also conducted a review of the general computer controls in place at the Council, and have flowcharted the National Non-Domestic Rates and Sundry Debtors systems.

We have not identified any significant weaknesses in the overall control framework. We have, however, prepared a detailed Internal Control Report in partnership with Internal Audit, which will report issues noted in our reviews to management.

In 2005/06 we shall again liaise with Internal Audit in order to help us flowchart the remaining key systems at the Council, which include the Housing and Council Tax Benefits, the Housing Rents system, the general ledger, accounts payable and Council Tax systems.

### **Statement on Internal Control**

The Accounts and Audit Regulations 2003 include a requirement that the statement of accounts prepared by a local authority in England should contain a Statement on Internal Control (SIC). This statement refers to the full range of internal controls, rather than being limited to financial controls. It requires the Council to conduct an annual review of the effectiveness of the system of internal control, which provides the evidence to support the SIC.

The SIC produced within the 2004/05 financial statements is compliant with requirements and reflects the controls in operation during 2004/05, together with areas for future development.

### **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. 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 focused 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.

### **Legality of 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.

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

### **Electors' Questions**

We have responded to a number of questions raised by local government electors during the year.

None of the issues raised were significant in the context of our audit and they have all been satisfactorily addressed.

# Pension Fund

We comment on the following key areas in this section:

- Pension Fund Valuation;
- Governance; and
- Other areas for consideration.

During the year we conducted an audit of the Council's pension fund. The findings of this review are discussed in this section.

## **Pension Fund deficit**

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 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 shows a deficit which has grown since the last triennial valuation (calculated by reference to assets invested and additional liabilities). The next triennial actuarial valuation will be based on information as at 31 March 2005 and will impact on the 2005/06 accounts. Contributions will increase from 21% to 24% over the next three years and the period over which the deficit in the pension scheme will be recovered remains at 20 years. The combined effect of adopting a long recovery period and stepping the increase in pension contributions is that

there is likely to be little impact on the deficit by the time of the next triennial valuation.

Over the course of recent valuations, increased contributions have in practice been insufficient to arrest the increasing deficits in local government pension funds, which are affected by demographic trends such as increased longevity and by poor investment performance.

For the purposes of the 2004/05 accounts, 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 2005 was an excess of liabilities over assets of £377million (£276m in 2003/04), which is equivalent to the scheme being just 52% funded (57% in 2002/03). The decrease in the discount rate assumption from 6.5% in 2003/04 to 5.4% in 2004/05 has had the effect of increasing the estimated pension liability payable in future years.

It was noted during our final accounts audit that pension fund issues were included on the Council's risk register. However, further updates to the risk register are required following the 2004 actuarial valuation and revisions to the funding and investment strategies in 2005. We understand that this latest revision is in progress, but that it has yet to be completed.

We believe that members should continue to monitor the funding position and overall pensions risks. They should be prepared to take further steps if circumstances warrant it.

***Other areas for consideration***

The Pensions Act 2004 came into force from 6 April 2005. Among other things, the Act imposes a duty on the Council and other employers to report breaches of applicable law which are likely to be of material significance to the Pensions Regulator. In the course of our work on the Pension Fund, it was found that there was no official procedure for reporting any such breaches, if they arise.

# Performance Management

We comment on the following key areas in this section:

- Comprehensive Performance Assessment;
- Use of Resources;
- Best Value;
- Targeted Audit and Inspection Work;
- E Government; and
- Follow Up of Previous Performance Reports and Audit Letters.

The Council is currently rated as improving well and demonstrating a 3 star performance in CPA terms. Newham is pursuing its Moving To Excellence programme, which was introduced in 2004.

An important development to drive improvement is the establishment of the Mayor's Framework for Cost Effectiveness, supplemented by quarterly performance and strategy meetings. At these meetings the directors and heads of service are set challenging action plans designed to make savings and to remain within budget. The Mayor requires officers to demonstrate to him three months later that they have undertaken the actions set for them, that foreseeable overspends have been controlled and that performance has improved as a result. This type of frequent, effective intervention by the Mayor is an example of notable practice in driving up performance.

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. Included in the overall CPA category is the Use of Resources judgment made by the Appointed Auditor in October 2005. We have also added a new dimension, a Direction of Travel judgement that measures how well the Council is improving. Under the new framework the Council is improving well and its overall CPA category is 3 stars.

## CPA scorecard (Note: 1=lowest; 4=highest)

Element	Assessment
Direction of Travel judgment	3 Improving well
Overall	3 Stars
<b>Current performance</b>	
Children and young people	3
Social care (adults)	2
Use of resources	3
Housing	2
Environment	2
Culture	3
Benefits	3

## Direction of Travel

### 3 – Improving well

Newham scored a 3 on direction of travel, having been judged as improving well by the Audit Commission.

Newham is performing well and Council services are improving in line with its priorities, particularly education and children's social services. Over 70 per cent of performance indicators have improved since 2002/03. Newham has a clear understanding of its diverse communities and has improved the services it offers to its local population such as housing benefit and access to interpretation. Partnership working is effective and focuses on community strategy priorities and improvements continue to be achieved such as increased road safety and reduced levels of abandoned cars and teenage pregnancies. Newham is aware that improvement is needed in a small number of service areas such as waste recycling levels and waste management. Good value for money is being delivered in the majority of services which generally perform well with low costs. The Council has robust plans in place for further improvement and a good track record of delivery. Council capacity has increased, through, for example, strong financial management, staff development and recruitment initiatives. Corporate governance arrangements are effective and Newham is well placed to continue to deliver sustained improvement in services.

### Use of resources judgments

The use of resources assessment is a new assessment which focuses on financial management but links to the strategic management of the Council. It looks at how the financial management is integrated with strategy and corporate management, supports Council priorities and delivers value for money. It will be carried out annually, as part of each council's external audit. For single tier and county councils, the use of resources assessment forms part of the CPA framework.

For the purposes of the CPA we have assessed the Council's arrangements for use of resources in five areas (described below). The Council performed a self-assessment against the key lines of enquiry for each of the five judgments. We reviewed and challenged the self-assessment and

supporting evidence and drew on our cumulative audit knowledge. This resulted in scores which were submitted to the Audit Commission to form part of the overall assessment, which is summarised below:

Element	Assessment
Financial reporting	2 out of 4
Financial management	3 out of 4
Financial standing	4 out of 4
Internal control	2 out of 4
Value for money	3 out of 4
<b>Overall</b>	<b>3 out of 4</b>

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

Under the Audit Commission's definition a score of 3 represents an authority that is consistently above the minimum requirements and performing well.

We recognise that Newham will be striving to achieve a maximum score across all the elements in 2006/07 and we would encourage officers and members to consider how they can demonstrate exemplary practice in these areas. Key issues arising from the 2005/06 Use of Resources exercise are as follows:

- Financial Reporting – Greater clarity in dialogue between auditors and officers regarding the importance of the agreed deliverables and adherence to the agreed timetable. Where temporary staff are engaged in the accounts closure process, it is important for their input to be proactively managed by senior finance staff. In addition, stakeholders' views need to be sought on the summary accounts and annual report.
- Financial Management – The medium-term financial strategy does not yet describe in financial terms the Council's joint plans agreed with partners and other stakeholders. In addition, officers recognise the need to strengthen the balance sheet reporting in the medium term and the council still has to fine tune a set of local performance measures in

relation to assets that link asset use to corporate objectives.

- Financial Standing - There is a record of recent under and overspends and the level of reserves is some £6million above target. Further under and overspends in 2005/06 and beyond could create the impression that the Council is not in control of its finances to the extent expected by the Audit Commission to justify a score of 4?
- Internal Control – There are a number of actions for the Council to address under this heading:
  - The risk management process needs to be more explicit in terms of partnership risk
  - The Chair and other members of the Audit Board needs to be formally trained in risk management
  - At the time of undertaking our fieldwork, there had been no annual review since the Risk Management strategy was introduced in 2002. The requirement to review the risk process annually will be factored into the Audit Board's timetable from September 2005.
  - There needs to be evidence of Member challenge on risk management, the Statement of Internal Control and Assurance Framework matters.
  - The Assurance Framework was not in place at the time of our fieldwork, but was taken to the September 2005 Audit Board. The next steps are for members and chief officers to demonstrate that they are using the Assurance Framework to support operational decisions and are taking active steps to cascade its importance down to less senior officers.
  - At the time of our fieldwork, 15 of the 38 posts in the fraud team were vacant. There were sufficient qualified managers in place, but the Council was experiencing difficulty recruiting supervisors, team leaders, principal auditors, auditors and trainees. We understand that

recruitment is now in progress and this situation should be kept under review

- Value for money – The cost of maintaining the democratic core and corporate centre appears high. This should be reviewed and explained by officers. In addition, there are a number of service-specific costs, such as fostering in Children and Young People's Services and street cleaning in Public Realm for which trends and inter authority comparisons need to be reviewed and understood.

With Value for Money in mind, the Council also needs to ensure that its decisions to provide services free of charge are underpinned by cost benefit analyses to establish the impact on the wider community. Finally, all satisfaction scores need to be considered and used as a driver for change.

We will maintain a regular dialogue with the Executive Director of Resources regarding progress against these actions and preparation for the 2006 Use of Resources exercise.

### **Best Value**

#### ***Performance Plan***

Under the Local Government Act 1999 auditors are required to carry out an audit of the Council's Best Value Performance Plan (BVPP). Our work on the Council's June 2004 BVPP was reported in our 2003/04 Audit Letter.

We have completed our fieldwork on the Council's 2005/06 Plan, including work on the 2004/05 performance indicators. We expect to issue an unqualified opinion on the Plan, and have outlined our findings from our work on performance indicators below.

#### ***Performance Indicators***

The Council continues to make further improvements to the quality of its published performance information. This year we placed a reservation on only one indicator and amended one other indicator. This represents a marked improvement compared with 2003/4 when 3 indicators were reserved and amendments were made to 29 indicators.

We reserved one of the CPA indicators selected for audit by the Audit Commission. This related to the Public Libraries Service Standards on Stock – PLS 5, for which there was an insufficient audit trail to support the published figures.

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

#### ***Insurance Review***

Our review of the insurance function sought to make recommendations to improve its effectiveness and lead to net savings in the total insurance spend. We looked at the following aspects of the insurance function:

- Management controls;
- Claims management;
- Third party relationships;
- Risk management;
- Insurance purchasing; and
- Training and knowledge-sharing.

Overall we concluded that there were strong risk management and repudiation processes in place for public liability claims. The IT system in place allowed for effective management of the insurance operation and there were good working relationships with third party service providers. There was sufficient consideration of alternative options when various contracts came up for renewal.

In terms of weaknesses, we found that there was only limited regular management reporting and review performed on the internal and external insurance operations. There were no defined and agreed fraud detection processes and procedures in place and there was limited financial recourse from third parties for non-performance.

Settlement controls for low value claims handled by the third party handlers were limited and potential recovery and subrogation opportunities were neither identified nor pursued.

There were a number of areas where we believed there to be potential for improvements to reduce potential total insurance costs and risk assumed, as well as improving management, service and understanding of any issues that arise in the day to day insurance operations. These include:

- Implementation of regular management reporting and review to be identified and managed before significant cash leakage occurs.
- Implementation of fraud detection controls and processes, to increase the detection rate and reduce fraud payments.
- Improve claims settlement controls, to reduce the risk of overpayment particularly for low value claims.
- Reduce the potential for process breakdowns in third parties, resulting in significant leakage by implementing independent audits focused on Newham's issues.
- Increasing the financial accountability of third parties by strengthening the link between performance and reward within the contract terms.
- Increase potential for subrogation and recoveries through widening scope and more aggressive recovery practices.
- Improve effectiveness of operational risk management, through increased co-operation between the insurance and risk management team

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

In 2004/05 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.

The results of this work were reported in the previous year's Joint Audit and Inspection letter. Overall we concluded that whilst there were a number of key strengths associated with the Department's approach to managing income, management arrangements at that time did not provide full assurance that income was being maximised across all income streams reviewed.

Because the 2005/06 service inspections were treated as priority, officers were not able to respond to us on the initial findings in our report until September 2005. Hence we have taken the view that it is appropriate to set out the principal findings in this year's letter, together with an update on progress made to implement our recommendations.

Our initial report made a number of recommendations relating to 12 key risk areas for improvement or further investigation. These included issues around, integration of income management into the wider financial and business planning framework, management of grant funding and relationships with voluntary sector and a number of issues around the management of jointly funded placements and debt management.

The Council has made good progress in restructuring the social services finance function and strengthening financial management processes and has now addressed the majority of the key weaknesses identified in our review. We conclude that the Council now has systems in place to address 9 of the 12 areas identified in our report and is in the process of addressing a further 2 of the recommendations. The only recommendation yet to be adequately addressed relates to support to voluntary organisations, although we appreciate that this responsibility does not lie within Social Services *per se*. We will follow up with the Council's Community service the progress that has been made in building capacity within the local voluntary sector.

### ***Crime & Antisocial Behaviour***

In 2005 PwC and the Audit Commission undertook a joint study into Crime & Antisocial Behaviour. There had been provision in the previous year's inspection programme to undertake work in this area, but the project was deferred, following agreement between officers and the Audit Commission. The work undertaken in 2005 was not a scoring inspection, but was designed

as a targeted piece of work to review the effectiveness of various local measures.

The study was undertaken in two phases by experts from the Audit Commission and PwC. The first phase was a review of the Neighbourhood Renewal Fund (NRF) funded crime and anti social behaviour work stream. The four individual projects covered were as follows:

- Anti Social Behaviour Information and Communication Technology (ASB ICT) project;
- the CCTV upgrade;
- the Joint Resource Team (JRT); and
- the Together project..

Each project has a series of existing performance indicators in place and progress is reported back to the Crime and Disorder Reduction Partnership (CDRP) on a regular basis. The review found that the majority of the measures in place could be revised or replaced to assist members and managers in judging the success of the individual projects more effectively.

A number of issues were identified in relation to the existing indicators. Some of the indicators could only be collected on a national basis and some relied on annual borough surveys, when interventions were planned at a ward level. Some measures related to actions outside the remit of each project, whereas some referred to work no longer required. A revised set of measures has been proposed for each project. These measures have been discussed with the relevant lead officers and are based on existing systems and indicators where possible to reduce the burden of data collection.

The Joint Resource Team represents the largest single NRF funding award and provides an innovative approach to tackling crime and anti social behaviour in partnership with the MPS. An analysis of this information gives a positive initial indication of the effectiveness of this project – the JRT appears to be reducing crime and ASB in the specific areas in which it is working. Anecdotal evidence suggested that a lack of ASB specific targets for the JRT

may have led to a focus on crime in tasking meetings. A recommendation to introduce a more robust set of ASB measures was made.

The Together project is a continuation of the Respect campaign, a well publicised initiative based around environmental improvements, crime prevention, education initiatives and community involvement. The project was awarded £1m from the NRF budget. No evidence was provided to demonstrate the work that had been carried out since the award of NRF funding. Other concerns were raised around the financial management of the Respect and Together campaigns and the performance management arrangements in place. The Council is aware of the issues and is currently reviewing the structure of the Crime & ASB Service, as well as introducing a revised structure for the project.

## **Phase 2**

The purpose of the second phase was to provide the Council with an assessment of the effectiveness of the working arrangements in place around the Joint Resource Team (JRT), at both strategic and operational levels. The project also considered any overlaps in the target groups of young people involved in interventions set up by the Youth Offending Team (YOT) and proposes a series of overarching performance measures for the crime and Anti Social Behaviour work stream.

The Council and partners are aware of the need for appropriate performance measures to identify the impact of interventions. However reports on JRT performance, including those presented to the Crime and Disorder Reduction Partnership tend to focus mainly on output measures and there is little regular and structured monitoring and evaluation of outcomes based on sound analysis.

Some intelligence is shared on a regular basis. However, whilst intelligence data relating to persons suspected of committing offences is available this data does not routinely feed into the various teams working within YOT. Whilst much of the activity of YOT work relates to young persons who have been convicted or cautioned for offending the ability of the teams to focus and prioritise their interventions would be enhanced if they were made aware of those individuals suspected of offending or re-offending.

Both police and Council officers meet to share information but little joint analysis is carried out to pull together information from different sources into a holistic picture of crime and ASB in specific areas. There is a recognised lack of analytical capacity and resultant gaps in data gathering and analysis particularly around ASB. The inability to thoroughly analyse ASB is potentially limiting the ability of the police and Council to task resources to best effect. Funds have been allocated to address this issue and recruiting is underway.

The review also considered deployment and whether or not targeted groups were being reached. PwC and the Commission will be presenting both the phase 1 and 2 reports at a meeting of the Crime & Disorder Reduction Partnership early in 2006.

## **E-Government**

Local Authorities are expected to meet BVPI 157 by December 2005. This requires all services to be available electronically. All local authorities have submitted four Implementing Electronic Government (IEG) statements to the ODPM in July 2001, October 2002, November 2003 and December 2004. A further statement (IEG 4.5) is to be submitted in July 2005, and a final statement in December 2005. Since 2004 these statements have included progress on the Priority Outcomes as well as BVPI 157.

We have carried out a review and contributed to the Audit letter every year since 2002. As the Council is now close to the final date for completing BVPI 157, this years report is focused on achievement of this and progress and against the Priority Outcomes, as well as considering what happens at the Council beyond the 2005 deadline.

## **BVPI 157**

The Council had signed up to achieve BVPI 157 by March 2004, and currently has achieved 99.78%, with plans for the outstanding item, online payment for planning applications, due to go live in September 2005. As new items for enabling electronically are identified by ODPM the Council assesses what is applicable to them and acts accordingly.

### ***Priority Outcomes***

The Council has indicated that generally its progress against Priority Outcomes is good. There are a number of areas where work remains to be done. These largely relate to initiatives that are being run by external bodies, although they do include their GIS system where there are currently a number of systems in use. However the Senior Management Board is reviewing this with the intention of identifying a standard system and integrating other systems.

### ***Other Issues***

Member level engagement was identified as an issue. Currently only one Member has completed the ECDL qualification which is meant to be mandatory for Members. It is also the view of the interviewees that Members need to drive the ICT programme more and be more on board on ICT projects. It is the intention of Officers to address this issue following the 2006 elections.

### ***Going Forward***

The Council has identified the efficiency agenda as being a key driver for taking their work forward and will be focusing on this beyond 2005. However, this will develop the themes that have emerged from the e-Government programme. The Council also intends to continue to develop regional partnership work such as the North East London Partnership in which it is heavily involved.

### ***Take up of Service***

A review is underway to review the Council's web offering, and this is to include a review of what is available and what citizens are looking for.

### ***Progress and Recommendations***

Progress appears to be good, and the Council has effectively achieved the BVPI157 target. In addition, the Council has the Priority Outcomes under control and has plans in place to ensure continued development beyond the 2005 deadline.

Whilst this is all positive there are a number of actions for the Council to consider in order to ensure this progress continues.

- The Council should continue to monitor new services against BVPI157 to ensure that it maintains its achievements.
- The Council should continue to monitor the progress made both internally and externally to address those Priority Outcomes where it has responsibility to deliver those outcomes.
- The Council should continue to work with the numerous bodies it is involved in, including North East London Partnership and London Connects, and maintain its high level links into bodies such as SOCITM and the Common Infrastructure Board. This will ensure it can influence, as well as be aware of, developments at these bodies and in the wider community.
- The Council needs to ensure the issues around GIS and member involvement are addressed. In the case of the former this will develop more joined up and efficient working across departments, and in the case of the latter it will increase the accessibility of members and their understanding of key ICT related projects for the Councils future.
- The review of web services is important to help focus the Council's offering, and it is important that the results of this review are acted upon.

# Other work

## **Moving to Excellence and Business Efficiency**

As part of its “Moving to Excellence” programme the Council has implemented a major structural change programme to reorganise service delivery along cross-cutting themes. Whilst this has had little impact on our 2004/05 accounts audit, the old departmental structure has changed radically in 2005/06, and we will need to work closely with Officers in the planning stage of our 2005/06 audit to understand how controls have operated in the change period.

During 2004/05 we liaised with senior Officers to develop our understanding of these changes and also to monitor developments as they arose. There were budgetary control issues in Public Realm and the Crime and Anti-Social Behaviour division; management are aware of these and have plans in place to address them. Going forward, the merger of young people’s services in the Education and Social Services departments continues to be a significant challenge for the Council and we will continue to monitor developments in 2006.

The “Business Efficiency” programme aims to integrate back office services to deliver service improvements and to achieve cost savings. As the Council continues to endeavour to locate a site for a single ‘back office’ the extent of this programme’s successes will be limited, but savings are being made.

## **Other work**

### **Grant claims**

In accordance with Strategic Regulation, the Audit Commission has continued with a more risk-based approach to the certification of grant claims. We have reduced our audit of these claims but our ability to reduce further depends on the adequacy of the Council’s control environment and the extent to which claims are supported by reliable working papers. Our audit work in relation to 2004/05 grant claims is in progress. We intend to submit a separate report on the Council’s arrangements for managing and quality assuring grant claims to the Executive Director of Resources in the New Year, once all claims have been audited.

### **National Fraud Initiative**

In 2004/05 the Council took part in the Audit Commission’s National Fraud Initiative. The NFI, which is undertaken every two years, aims to help identify and reduce fraud by bringing together data from NHS bodies, local authorities and government departments and other agencies, to detect a wide range of frauds against the public sector. These include housing benefit fraud, occupational pension fraud, tenancy fraud and payroll fraud as well as, new for 2004/05, right to buy scheme fraud and providing new contact details for former tenants with arrears in excess of £1,000.

# Audit Plans and Fees Update for 2004/05

## Audit Plan 2004/05

We issued our Audit Plan for 2004/05 and presented it to the Audit Board in March 2004. The Plan was subsequently updated and presented to the Newham Executive Board July 2005.

## Fees update for 2004/05

We reported our fee proposals as part of the Audit Plan for 2004/05. As shown in the table below, our actual fees were in line with our proposals:

As shown in the table below, our actual fees were in line with our proposals:

Audit area	Plan 2004/05	Actual 2004/05
Inspection – (PwC in 2004/05 only)	111	111
Performance	129	129
<b>Total</b>	<b>240</b>	<b>240</b>
Accounts and Governance	260	260
<b>Total Code of Audit Practice fee</b>	<b>500</b>	<b>500</b>

We presented our audit service plan for 2005/06 to the Audit Board and to Newham Executive Board in 2005. Our Audit Plan is reviewed regularly to ensure that it remains appropriate for the whole of the financial year.

# Looking forward

## Future audit and inspection work

We have an agreed plan for 2005/06 and we have reported in this letter those aspects that have already been completed. The remaining elements of that plan, including our audit of the 2005/06 accounts, will be reported in next year's Annual Letter. Our planned work, together with that of other inspectorates, is included on both the Audit Commission and LSIF (Local Services Inspectorates Forum) websites.

We have sought to ensure, wherever possible, that our work relates to the improvement priorities of the Council. We will continue with this approach when planning our programme of work for 2006/07. We will seek to reconsider, with you, your improvement priorities in the light of the latest CPA assessment and your own analysis, and develop an agreed programme by 31 March 2006. We will continue to work with other inspectorates and regulators to develop a co-ordinated approach to regulation.

## Revision to the Code of Audit Practice

The statutory requirements governing our audit work, are contained in:

- the Audit Commission Act 1998; and
- the Code of Audit Practice (the Code).

The Code has been revised with effect from 1 April 2005. Further details are included in our Audit Plan which has been agreed with the Audit Board in April 2005. The key changes include:

- the requirement to draw a positive conclusion regarding the Council's arrangements for ensuring value for money in its use of resources; and
- a clearer focus on overall financial and performance management arrangements.

# Closing remarks

This letter has been discussed and agreed with officers and with the Audit Board on 10 January 2006. A copy of the letter will be presented at Cabinet on 24 January 2006.

The Council has taken a positive and constructive approach to our audit and inspection I would like to take this opportunity to express my appreciation for the council's assistance and co-operation.

## **Availability of this letter**

This letter will be published on the Audit Commission's website at [www.audit-commission.gov.uk](http://www.audit-commission.gov.uk), and also on the council's website.

Signature

Appointed Auditor

Signature

Relationship Manager

December 2005

# Appendix 1 – Background to this letter

## The purpose of this letter

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

We have issued separate reports during the year setting out the findings and conclusions from the specific elements of our programme. These reports are listed at Appendix 2 for information.

The Audit Commission has circulated to all audited bodies a statement that summarises the key responsibilities of auditors. Our audit has been conducted in accordance with the principles set out in that statement. What we say about the results of our audit should be viewed in the context of that more formal background.

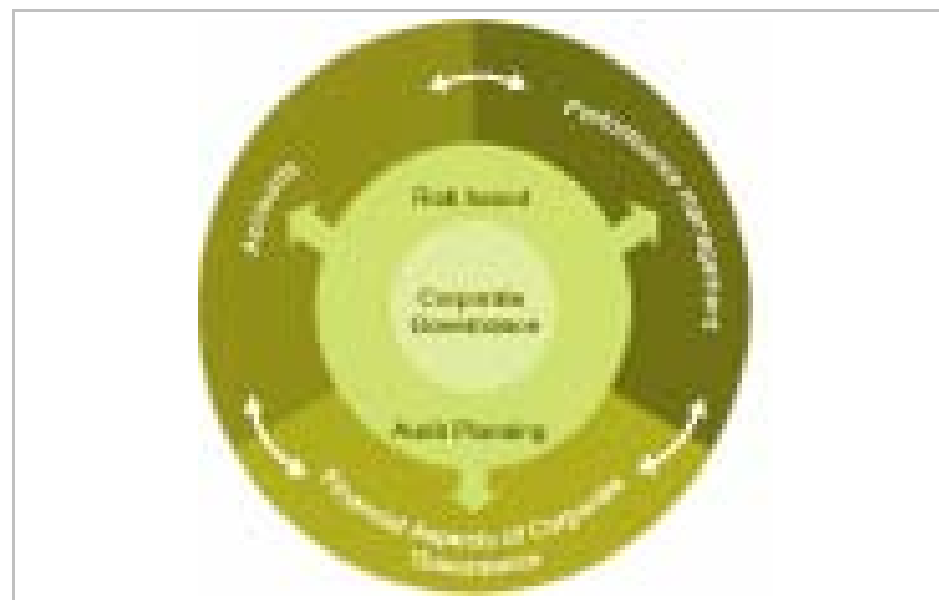
## Audit objectives

Our main objective as your appointed auditor is to plan and carry out an audit that meets the requirements of the Code of Audit Practice. We adopt a risk-based approach to planning our audit, and our audit work has focused on your significant financial and operational risks that are relevant to our audit responsibilities.

Central to our audit are your corporate governance arrangements. Our audit is then structured around the three elements of our responsibilities as set out in the Code and shown in Figure 1.

## Figure 1: Code of Audit Practice

### Code of practice responsibilities



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

### **Accounts**

- Opinion.

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

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

### **Performance management**

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

## Appendix 2: Audit reports issued in relation to the 2004/05 financial year

Report title	Date issued
Audit Plan	<i>March 2005</i>
Crime & Antisocial Behaviour – Phase 1	<i>July 2005</i>
Crime & Antisocial Behaviour – Phase 2	<i>September 2005</i>
Report on the 2004/05 financial statements to those charged with governance (SAS 610)	<i>October 2005</i>
Use of Resources score/report	<i>November 2005</i>
Internal Control Report	<i>November 2005</i>
Insurance report	<i>November 2005</i>

# Appendix 3: BVPP Statutory Report

## **Auditor's Report to Newham Council on its Best Value Performance Plan for the Year ending 31 March 2005**

### **Certificate**

We certify that we have audited Newham Council's best value performance plan in accordance with section 7 of the Local Government Act 1999 and the relevant parts of the Audit Commission's Code of Audit Practice. We also had regard to supplementary guidance issued by the Audit Commission.

### **Respective Responsibilities of the Council and the Auditor**

Under the Local Government Act 1999 (the Act) the Council is required to prepare and publish a best value performance plan summarising the Council's assessments of its performance and position in relation to its statutory duty to make arrangements to secure continuous improvement to the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness.

The Council is responsible for the preparation of the plan and for the information and assessments set out within it. The Council is also responsible for establishing appropriate performance management and internal control systems from which the information and assessments in its plan are derived. The form and content of the best value performance plan are prescribed in section 6 of the Act and statutory guidance issued by the Office of the Deputy Prime Minister.

As the Council's auditors, we are required under section 7 of the Act to carry out an audit of the best value performance plan, to certify that we have done so, and:

- to report whether we believe that the plan has been prepared and published in accordance with statutory requirements set out in section 6 of the Act and statutory guidance and, where appropriate, recommending how the plan should be amended so as to accord with statutory requirements;
- to recommend:
  - where appropriate, procedures to be followed in relation to the plan;
  - whether the Audit Commission should carry out a best value inspection of the Council under section 10 of the Local Government Act 1999;
  - whether the Secretary of State should give a direction under section 15 of the Local Government Act 1999.

## **Opinion**

### ***Basis of this opinion***

For the purpose of forming our opinion on whether the plan was prepared and published in accordance with the legislation and with regard to statutory guidance, we conducted our audit in accordance with the relevant parts of the Audit Commission's Code of Audit Practice. In carrying out our audit work we also had regard to supplementary guidance issued by the Audit Commission.

We planned and performed our work so as to obtain all the information and explanations which we considered necessary in order to provide an opinion on whether the plan has been prepared and published in accordance with statutory requirements.

In giving our opinion we are not required to form a view on the completeness or accuracy of the information or the realism and achievability of the assessments published by the Council. Our work therefore comprised a review and assessment of the plan and, where appropriate, examination on a test basis of relevant evidence, sufficient to satisfy ourselves that the plan includes those matters prescribed in legislation and statutory guidance and that the arrangements for publishing the plan complied with the requirements of the legislation and statutory guidance.

Where we have qualified our audit opinion on the plan we are required to recommend how the plan should be amended so as to comply in all significant respects with the legislation and statutory guidance.

## **Opinion**

In our opinion, Newham Council has prepared and published its best value performance plan in all significant respects in accordance with section 6 of the Local Government Act 1999 and statutory guidance issued by the Government.

## **Recommendations on procedures followed in relation to the plan**

Where appropriate, we are required to recommend the procedures to be followed by the Council in relation to the plan.

### ***Basis of recommendations***

For the purpose of making our recommendations, we conducted our audit in accordance with the relevant parts of the Audit Commission's Code of Audit Practice. In carrying out our audit work we also had regard to supplementary guidance issued by the Audit Commission.

We planned and performed our work so as to obtain all the information and explanations that we considered necessary in order to enable us to determine whether or not to make recommendations in this report on the matters that came to our attention during the audit. However, our work cannot be relied upon to identify every weakness or opportunity for improvement. In particular, it has not necessarily covered the same areas as a best value inspection.

For this purpose, our audit included a review and assessment, and where appropriate, examination on a test basis of evidence relevant to the adequacy of the systems set in place by the Council for collecting and recording specified performance information; and the testing of specific performance indicators selected by the Audit Commission for its comprehensive performance assessment of the Council.

## Recommendations

On the basis of our audit work, we consider that the matters set out below should be brought to your attention:

### *Systems for collecting and recording specified performance information*

Overall, the Council complied with the requirement to collect and report on specified performance information.

We are pleased to note that in response to our recommendations the Council has strengthened the robustness of the calculation methods and the audit trails supporting all of its indicators.

This year we did not reserve any best value performance indicators (although we did place a reservation on one of non Best Value CPA indicators selected for audit by the Audit Commission). This marks a significant improvement compared to last year when we reserved a total of three indicators.

## Recommendations on referral to the Audit Commission/ Secretary of State

We are required each year to recommend whether, on the basis of our audit work, the Audit Commission should carry out a best value inspection of the Council or whether the Secretary of State should give a direction.

On the basis of our work:

- We do not recommend that the Audit Commission should carry out a best value inspection of Newham Council under section 10 of the Local Government Act 1999;
- We do not recommend that the Secretary of State should give a direction under section 15 of the Local Government Act 1999

Signature ..... Date .....

*In the event that, pursuant to a request, which the London Borough of Newham 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 London Borough of Newham agrees to pay due regard to any representations which PwC may make in connection with such disclosure and the London Borough of Newham shall apply any relevant exemptions which may exist under the Act to such report. If, following consultation with PwC, the London Borough of Newham 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.*

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