

Annual Audit and Inspection Letter

Devon County Council

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

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

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

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

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

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

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Our overall summary

- 1 This report provides an overall summary of the Audit Commission's assessment of the Council. It draws on the findings and conclusions from the audit of the Council, from the Corporate Assessment that was undertaken in the last year and from a wider analysis of the Council's performance and its improvement over the last year, as measured through the Comprehensive Performance Assessment (CPA) framework.
- 2 The report is addressed to the Council, in particular it has been written for councillors, but is available as a public document for stakeholders, including members of the community served by the Council.
- 3 The main messages for the Council included in this report are:
 - The Council received a further corporate assessment in 2006 under the Audit Commission's "Harder Test" methodology and retained an overall score of 3 (out of 4). A separate report was issued to the Council the findings of which were also reflected in our direction of travel statement which is summarised later in this letter.
 - The Council received a three star rating compared with four in the previous year. The reason for this was a reduction in service score from three to two for children and young people. The reasons for this were reported to the Council in the Joint Area Review and summarised in the Corporate Assessment.
 - The Council achieved a score of 3 for its use of resources underpinned by sound financial management and standing and internal controls. Value for money too was good. We reported some areas for improvement relating to capital and asset management strategies as well as its gifts and hospitality procedures.
 - Whilst data quality arrangements overall were adequate, policies and guidance were not properly applied to the calculation of all indicators and we qualified two Best Value Performance Indicators (BVPs).

Action needed by the Council

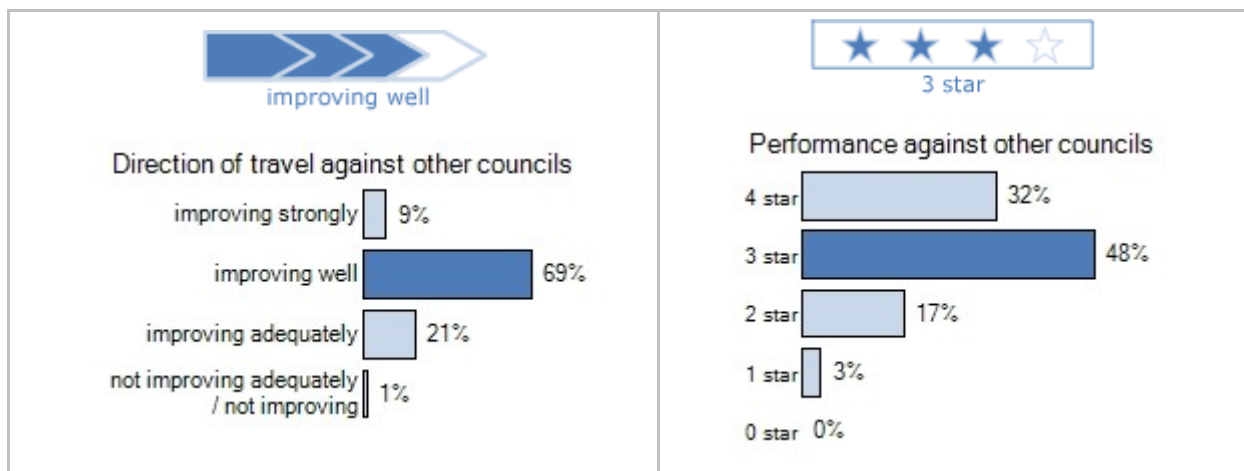
- 4 The Council needs to ensure that the new corporate performance management system results in best practice in every department and enables councillors and managers to be comfortable with measuring and interpreting data and taking the necessary action.
- 5 The Council must pay particular attention to delivering restructuring whilst at the same time ensuring that staff are supported through the changes.
- 6 The Council should ensure that data quality policies and guidance are applied to all indicators across all directorates.

- 7 The Council needs to update its capital and asset management strategies as well as its gifts and hospitality policies. It will also need to assess its performance against newly introduced criteria for the assessment.

How is Devon County Council performing?

- 8 The Audit Commission’s overall judgement is that Devon County Council is improving well and we have classified the Council as three star in its current level of performance under the Comprehensive Performance Assessment. These assessments have been completed in all single tier and county councils with the following results.

Table 1



Source: Audit Commission

- 9 The detailed assessment for Devon County Council is as follows.

Our overall assessment - the CPA scorecard

Table 2 CPA scorecard

Element	Assessment
Direction of Travel judgement	Improving well
Overall	Three star
Children and young people	2 out of 4
Social care (adults)	3 out of 4
Use of resources	3 out of 4
Environment	3 out of 4
Culture	4 out of 4

Element	Assessment
Corporate assessment/capacity to improve	3 out of 4

(Note: 1=lowest, 4= highest)

The improvement since last year - our Direction of Travel report

What evidence is there of the council improving outcomes?

- 10 There is strong evidence that the council is improving outcomes in priority areas and areas the public say are important to their community. The Council's Strategic Plan clearly links with areas the public say are important and achievements against these priorities are noticeable to users, for example in waste management and transport.
- 11 There is evidence that the rate of improvement compares well against other councils and the Council is continuing to improve outcomes for local people in areas such as sustainability, crime and services for older people.
- 12 The work of the council in achieving its key priorities has significant impact on wider community outcomes. The Council is delivering a range of activities to improve health, for example, the 'Fresh Start' Programme has introduced healthier meals in schools, an increasing number of children now walk or cycle to school and road safety activities are contributing to fewer fatalities and serious injuries on the road.
- 13 Other notable improvements include improved recycling and composting to over 40% in 2005/06, educational qualifications for looked after children and an overall reduction in crime in Devon. Progress against the Council's priority of creating a safer, stronger community means there are fewer burglaries, robberies and thefts of motor vehicles in the area. The Council's approach to older people is highly effective, and built on thorough consultation.
- 14 Driving up school achievement, particularly in disadvantaged areas from its average performance is necessary to match the performance of most other services. The Council knows this and is devoting more resources and attention to this but should look to a whole organisation approach to maximise the impact.
- 15 The Council also needs to improve the protection of children at the greatest risk of abuse by reviewing the thresholds which govern access to services, together with ensuring a more consistent application of eligibility criteria.

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- 16 The Council is improving access and the quality of its services for the people of Devon. Electronic delivery of services is improving and is amongst the best nationally. The Council has a key aim to eliminate inequality and build stronger communities based on mutual respect and understanding for everyone. The Council has made a particular effort to listen to the needs of hard to reach groups and it's BME Communities through a range of means like the Citizen's Panel and the Equality Reference Group.
- 17 The Council, with partners, is improving access to services for those most at risk of disadvantage. It has effectively configured services to improve quality and access, for example, supported housing services for young people.
- 18 The Council opened a new customer first service in 2006 and this has improved access to services. It is also undertaking community profiles for each of Devon's 28 market and coastal towns and the city of Exeter to gain a better understanding of the diverse range of needs of Devon's communities and to help target resources where they are most needed.
- 19 The Council provides good value for money. It generates sufficient and accurate information on costs and performance for most services and there are clear relationships between levels of spend and performance. Spending is in line with priorities and the Council targets resources to priority areas through the new performance management system although it is still too early to see benefits at all levels of the organisation.
- 20 The Council is also matching resources to priority areas through its Medium Term Financial Plan. The Council achieved efficiency savings of £11.5 million in 2004/06 compared to its target of £9.8 million and has plans to make further improvements and efficiencies for example, through strengthening procurement arrangements; reviewing internal trading arrangements and making better use of ICT to improve business processes

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

- 21 The Council has good, robust plans in place to deliver its services. Service plans are comprehensive and link to the planning framework.
- 22 The Council is achieving key objectives and has implemented improvement planning well. The Council has achieved improvements in 65 per cent of relevant PI's and this performance is better than the overall council average. It now has 42 per cent of its indicators performing in the best 25 per cent nationally.
- 23 Performance management has improved since last year with the implementation of new performance management software which has improved reporting and monitoring arrangements. Improvement in performance management is not uniform, however, as there are some weaknesses in Children's services.
- 24 The Council needs to ensure that the new corporate performance management system results in best practice in every department and enables councillors and managers to be comfortable with measuring and interpreting data and taking the necessary action.

- 25 Improvement planning has led to a range of demonstrable benefits and improved outcomes, for example in Social Services where improvements in service user waiting times for assessments and packages of care improved by 14 per cent over a two year period. .
- 26 The Council can demonstrate that it has the capacity to deliver its plans. The recent corporate assessment concluded that the Council is performing well on developing capacity, with its partners, to deliver against its ambitions and that staff capacity is strong and recognised by partners.
- 27 Officer capacity to deliver priorities has improved through the Council's recent restructuring. Councillor capacity is improving, developed through appropriate training and challenge is increasingly effective.
- 28 The Executive is effective, well organised and focused on delivering the Council's priorities. The Council's financial planning and management is robust as is its human resources and related policies and it has recently updated its IT strategy. However, asset management and capital strategies have not been re-visited in recent years and are becoming increasingly out of date.
- 29 The rapid change over the last year has however shown in higher stress levels and a feeling of initiative overload, as detailed in the recent staff survey. The Council is rightly mindful of bringing its staff and managers with it as it makes changes to its policies and budgets.

Service inspections

- 30 No individual service inspections were carried out by the Audit Commission this year.
- 31 Relationship Managers work with other inspectorates and regulators who also review and report on the council's performance. We share information and seek to provide co-ordinated regulation to the Council.
- 32 During the last year the Council has received assessments from other inspectorates, including:
 - Government Office South West Local Transport Plan Assessment.
 - Commission for Social Care Inspection (CSCI) Annual Performance Assessment of Adult Services.
 - OFSTED/ CSCI joint area review of Children and Young Peoples Services.
- 33 We have used these as evidence to help arrive at the Council's overall CPA rating and to reach the Direction of Travel judgement. The assessments have been separately reported to the Council, and they are referred to in the Direction of Travel report where significant.

Financial management and value for money

- 34 As your appointed auditor I have reported separately to the Audit Committee in September 2006 on the issues arising from the 2005/06 audit and have provided:
- an unqualified opinion on your accounts;
 - a conclusion on your vfm arrangements to say that these arrangements are adequate; and
 - a report on the Best Value Performance Plan confirming that the Plan has been audited.
- 35 I was unable at that time to issue the audit certificate because I was reviewing severance issues in respect of the former Chief Executive. My investigations are continuing but I expect to conclude the matter by the end of April.
- 36 The findings of the auditor are an important component of the CPA framework described above. In particular the Use of Resources score is derived from the assessments made by the auditor in the following areas.
- Financial Reporting (including the preparation of the accounts of the Council and the way these are presented to the public).
 - Financial management (including how the financial management is integrated with strategy to support council priorities).
 - Financial Standing (including the strength of the Council's financial position).
 - Internal Control (including how effectively the Council maintains proper stewardship and control of its finances).
 - Value for money (including an assessment of how well the Council balances the costs and quality of its services).
- 37 For the purposes of the CPA we have assessed the Council's arrangements for use of resources in these five areas as follows.

Table 3

Element	Assessment
Financial reporting	2 out of 4
Financial management	3 out of 4
Financial standing	3 out of 4
Internal control	3 out of 4
Value for money	3 out of 4

Element	Assessment
Overall assessment of the Audit Commission	3 out of 4

(Note: 1=lowest, 4=highest)

- 38 The key issues arising from the audit, as reflected in the above judgements where appropriate, are as follows.

Financial reporting

- 39 Draft accounts were produced in advance of the deadline of 30 June and included one material error which was of a technical nature. A further 11 non trivial and other trivial errors were identified. Accounts were supported by adequate working papers. The Council is engaged in early discussions on issues prior to the 2006/07 audit of the accounts.
- 40 The Council should consider the views of a range of stakeholders in making decisions on whether to publish an annual report and summary financial information.

Financial management

- 41 The Council has produced a five year strategic plan and a formal medium term financial strategy supported by robust and comprehensive annual budgets. Business and service planning is integrated with financial planning although monitoring of how financial plans and strategies have contributed to achievement of corporate objectives is less well documented.
- 42 Budget monitoring of Directorate expenditure is sound and action is taken promptly when it becomes apparent that an unacceptable deviation from the financial plan is projected. The £15m increase in reserves exceeded the £1m budgeted and reporting of the reasons for this could have been more developed.
- 43 There is a programme for the survey and prioritisation of property maintenance but the capital strategy and asset management plan are becoming increasingly out of date

Financial standing

- 44 The Council's financial standing was good and reserves were set at risk assessed levels.

Internal control

- 45 Risk management is evolving and improving and members receive reports on annually assessed risks, mapped to business objectives although arrangements could be further improved.

- 46 An annual review of the effectiveness of system of internal control is carried out and action plans are in place to address any significant internal control issues. Systems linked to production of the accounts produce reliable financial information. Registers of interests, gifts and hospitality are in place but entries are not demonstrably monitored and embeddedness of these arrangements is uncertain.

Value for money

- 47 The Council is a relatively low spending authority with above average performance. It has detailed information on costs and there are clear relationships between levels of spend and performance. Where service costs are high in comparison with others, these are commensurate with performance and local factors. Areas of high spend are understood and the Council is investing in areas where the quality of service is only average.
- 48 The Council uses information to review and challenge value for money and there is clear commitment to efficiency savings. However, there is not a corporate systematic approach to the achievement of value for money.

Data Quality

- 49 The Audit Commission developed a new approach to the review of data quality at Local Authorities during 2005/06. This involved the auditors performing detailed spot check work on nine performance indicators, selected from the Audit Commission's list of nineteen indicators. A number of errors were found when reviewing the evidence to support the number of disabled adaptations to pedestrian crossings and we found that incorrect data had been used to determine the length of time taken to repair faulty street lights. As a result of the detailed spot-checks, BVPI 165 and BVPI 215 were qualified.
- 50 The Council's management arrangements for data quality were also reviewed against the prescribed key lines of enquiry. On the basis of the assessment, the Council obtained an overall score of 2 (which means the council is performing adequately) for its management arrangements for data quality.
- 51 We made recommendations relating to the consistent application of policies and guidance across all directorates and the Council has agreed to implement these.

Best Value Performance Plan

- 52 The 2005-06 BVPP meets the statutory requirements for BVPPs. The audit report was unqualified and we made no statutory recommendations.

Conclusion

- 53 This letter has been discussed and agreed with the Chief Executive and Director of Finance. A copy of the letter will be presented at the Audit Committee on 28 March 2007.
- 54 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

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

Peter Lawrence
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