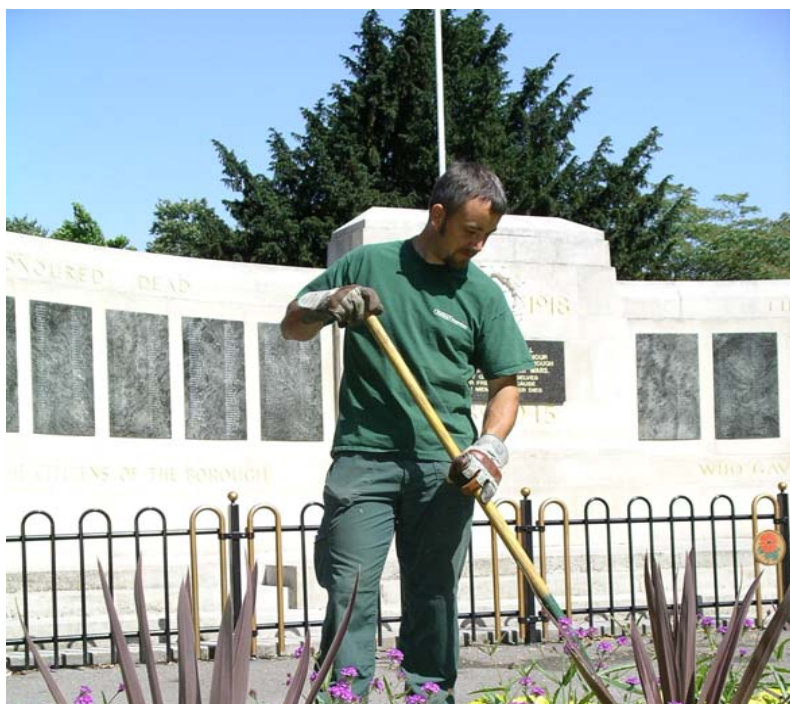


# London Borough of Barking and Dagenham 2004/05 Joint Audit and Inspection Letter



The Members  
London Borough of Barking and Dagenham  
Civic Centre  
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Essex  
RM10 7BY

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 Committee (the Corporate Monitoring Group) considered the Letter on 15 December 2005. We look forward to presenting it to you at the Assembly meeting on 4 January 2006.

Yours faithfully

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## **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. A new Code of Audit Practice is in place for the 2005/06 audit year, together with a new Statement of Responsibilities of Auditors and Audited Bodies, both of which were issued in March 2005.*

# Executive summary

## The purpose of this report

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 recognises 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.

Our audit work during the year was performed in accordance with the plan that we presented to the Corporate Monitoring Group in April 2004 which was updated in April 2005. We issued a number of reports during the audit year, detailing the findings from our work and making recommendations for improvement, where appropriate. A list of these reports is included at Appendix A to this letter.

There has been a reassignment of member portfolio roles with Councillor Wade appointed as Deputy Leader and Councillor Bramley taking over the finance portfolio. We look forward to working with these Members in their new roles and thank Councillor Geddes for his support over the past few years.

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

### Performance Management

The Council has undergone a number of major changes during 2004/05. A key element of these changes was the appointment of a new Chief Executive. We look forward to continuing to work with Rob Whiteman and are keen to provide constructive challenge to the Council as it seeks to deliver its corporate priorities. There has also been a reassignment of portfolios to Councillors to strengthen and refocus governance arrangements and accountability between members and directors.

A series of changes at the Council are planned to bring renewed emphasis on ensuring quality service delivery and to raise customer satisfaction. There has been a large scale corporate project undertaken resulting in the formation of the customer contact centre, Barking and Dagenham Direct. We reviewed the e-government and Customer First programmes which confirmed there had been a positive impact upon customer access to services, although improvement could be made as this has yet to deliver transformational change to the Council.

It is important that going forward the Council ensures that the pace of change is coordinated, strategically managed and supported by the corporate services. We completed a review of the Council's Human Resources (HR) service and noted that despite improvements, there is a need to standardise procedures, strengthen the role of corporate HR and ensure costs are controlled. The Council has commenced an HR change process and has set up an HR and Organisational Development (OD) Board to oversee improvement in this area.

Inevitably as the progress of change accelerates the Council recognises that it is likely to be faced with a number of potential barriers, not least an element of cultural resistance. To ensure the impact of these is minimised Members and officers will need to be fully engaged within the process, and supportive of the aims and objectives.

The Council understands that the benefits associated with change will take some time to be realised. A number of additional structures and processes have been set up to support and drive change such as the creation of the Service and Financial Planning Board and the Equalities Board. Over the next financial year the operation of these boards will be fully established which should provide a greater indication of their effectiveness.

Alongside internal drivers for change there are also a number of complex external factors that the Council will need to address for example, responding to

the Government's children's services agenda. This is requiring closer working between the education and social services, and will result in the appointment of a Director of Children's Services from 1 April 2006.

The Council is actively shifting resources to target improvement and considerable success has been achieved, for example within Housing Benefits where a change programme has been implemented following the BFI inspection. Strong improvement has also been demonstrated within Education and the gap between local performance and the national average is closing. However, it is disappointing that increased resources directed towards children's social services has yet to raise performance, with the recent inspection awarding 1 star and uncertain prospects.

Increasingly, the Council is looking towards improving and demonstrating Value for Money (VFM) from its services and a number of structures have been put in place to support this activity, such as creation of the Efficiency Board. The Council needs to continue to work on the level of involvement of members, particularly on providing challenge to the efficiency and value for money agenda.

We have undertaken a range of tailored reviews in 2004/05. Each has resulted in a number of recommendations, which have formed the basis of action plans. Information on these is contained in our section on Performance Management.

### Accounts and Governance

We are pleased to note that the Council has made progress in developing risk management, for example senior managers and members have received training in this area and both strategic and operational registers have now been completed. However, as detailed in the Statement on Internal Control the Council accepts that further work is required given that risk management is not yet embedded into the decision making processes of the Council.

The Council continues to benefit from a healthy reserves balance and we are pleased to note that the level of reserves is reviewed on an annual basis as detailed in the Council's Medium Term Financial Strategy.

In last year's Letter we reported that some difficulties were encountered over the operation of the Oracle financial system, such as problems in reconciling Oracle with the cash management system. It is good to report that from the second half of 2004/05 procedures were put into place to ensure that reconciliations were undertaken on a daily basis. The challenge for the Council now is to ensure that

it achieves full functionality from the system. We will perform a follow up study in this area as part of our 2005/06 programme of work.

We have completed our assessment of the Council's Use of Resources in accordance with the methodology and guidance prescribed by the Audit Commission. We scored the Council as adequate overall. The Council appealed against 3 areas of our scoring and, as a result, we have agreed to amend the scores in 2 of those areas. The overall score of adequate remained unaffected.

We issued an unqualified audit opinion on the Statement of Accounts before the 31 October 2005 publication deadline and would like to express our thanks to officers for their assistance with our audit work.

#### Inspection

Improved service outcomes in corporate priorities have been achieved, some from a low base. Over 75 per cent of core service indicators have improved since 2002/03 but some services require further improvement to meet community expectations. Areas of particular public concern such as crime, clean streets and street repairs are being targeted through the Council's Local Partnership Service Agreement. The Council works well with its partners. There is recognition of the Borough's growing diverse communities and the Council is encouraging community inclusion through on-going major investment to further improve access, service quality and outcomes for the most vulnerable. The Council achieved corporate Investors In People accreditation during 2005. The established performance reporting culture has ensured a focus on areas of weakness and ambitious key strategic plans are supported by robust action plans. Processes to enhance improved value for money have been established but have not yet demonstrated significant improvements, but the Council is in a good position to continue their positive service improvement trend.

We discussed the issues contained within this Joint Audit and Inspection Letter with the Audit Committee on 15 December 2005.



# Accounts and Governance

We comment on the following areas in this section:

- Accounts;
- Accounting issues;
- Financial Standing;
- Internal Control;
- Standards of financial conduct and the prevention of fraud and corruption;
- Legality of transactions;
- Comprehensive Performance Assessment – Use of resources; and
- Certification of 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.

The accounts were approved by Members on 27 July 2005 in accordance with the Accounts and Audit Regulations 2003, and the accounts were signed on 26 October 2005. The acceleration of the timetable required considerable effort from the finance teams at the Council (both the central team and those in the directorates). We would like to thank those teams for the assistance provided during the audit of the financial statements.

For the 2005/06 accounts, the deadline will be brought forward by a month meaning that the accounts will need to be approved by 30 June 2006. The bringing forward of the timescale by another month is likely to increase the pressure on officers during the closedown process, and the Council will therefore need to ensure that robust year-end procedures are put into place to meet the earlier deadline. These should include:

- Tight closedown procedures;
- Clarity of responsibilities; and
- Early preparation.

In addition, however, to reduce the pressure on officers at year end, the Council will also need to undertake work during the remainder of this year to monitor and review in year transactions, and to determine appropriate accounting policies before year end.

## Accounting Issues

Although there were a number of adjustments to the financial statements that were submitted for audit, we are pleased to note that these were all accepted by officers and adjusted within the accounts. In previous years we have raised several issues relating to the quality of the Council's working papers, and for 2004/05 we are pleased to note that there has been some improvement in the quality of files that were provided. However, further improvement can be made particularly with regard to the retention of supporting working papers used to evidence the figures submitted by departments to Corporate Finance. We experienced delays in our fieldwork, mainly due to delays in resolving query resolutions and in obtaining supporting documentation for some account areas. However, this did not impact on achieving the deadline as the accounts were signed off by the required reporting deadline of 31 October.

We understand that the Council is currently reviewing both its closure timetable and the guidance issued around working papers to ensure continued improvement in this area.

As auditors we are required to issue a Statement of Auditing Standards 610 (SAS 610) report, which communicates to those charged with governance (the Corporate Monitoring Group), 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 has 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 Council's accounting practices and financial reporting; and
- Any other relevant matters relating to the audit.

Our SAS 610 report was presented to the Corporate Monitoring Group on 24

October 2005. The main issues discussed in the report that we would like to bring to the attention of Members are set out below.

In previous years the Council has been unable to reconcile its bank account to the financial statements. For the 2003/04 accounting period this was due to difficulties with reversing entries to cash receipts which resulted in the general ledger (Oracle) not reconciling with the cash management system (Radius). Although further reconciling items were identified in the period April to October 2004 that related to the previous year, we are pleased to report that from November 2004 the Council put a process in place which has enabled the systems to be reconciled on a daily basis.

We note that a further reconciliation is also undertaken which ensures that cash receipted by the Council is actually received into the bank account. This provides an additional control over the Council's cash.

## Other Accounting Issues

### Private Finance Initiative (PFI) funding

Over the last year the Council has made greater use of PFI funding, for example in schools funding. This is a complex accounting area and for 2005/06 will require the Council to start accounting for the residual interest in the assets transferred to the Council at the end of the PFI contract. We look forward to working with officers in this area and welcome discussions on the accounting issues associated with this at an early stage.

### Group accounts

The Council will have a significant new responsibility in 2005/06 to publish group accounts, consolidating the financial transactions and balances of other entities in which it has a substantial interest. During this years' audit we have reviewed the administrative and technical preparations that the Council has carried out to ensure that arrangements will be in place to produce group accounts in 2005/06. We plan to audit the 2004/05 comparative figures early in 2006.

## 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 2004/05;



- Housing Revenue Account financial performance in 2004/05;
- Performance of trading operations;
- Collection fund;
- Balances and reserves;
- The 2005/06 financial year and outlook; and
- The Council's pension fund.

#### *Overall financial performance in 2004/05*

In 2004/05 £211.4 million was spent on services against a revised budget of £219.6 million resulting in a net underspend of £8.2 million. The main reasons for the Council spending less than anticipated were as follows:-

- Additional interest income received due to slippage on the capital programme and higher interest rates than expected; and
- Underspend within Social Services of £1.9 million, which was caused by a variety of reasons.

Against these underspends the Council incurred additional expenditure within some areas such as Education which overspent by £200,000. This represents a significant improvement from the prior year when Education overspent by £1 million.

The capital programme is managed by the Capital Programme Management Office (CPMO) with assistance on financial issues coming directly from the Finance Department. This team has added more rigour to the approval process and enhanced procedures in place to ensure that projects are adequately monitored.

However, we note that as in the previous year there remained a significant underspend on capital projects - for the financial year 2004/05 a total of £75 million was actually spent on capital against a budgeted total of £92 million. We understand that the underspend is largely due to the profiling of the budgets, i.e.

officers are overly optimistic concerning how quickly the projects will progress and the expenditure be incurred. We understand that this is being built into future capital budgets and we welcome the Council's latest capital forecast which predicts that the programme will fulfil its spending budget of £96.3 million for 2005/06.

#### *Housing Revenue Account performance in 2004/05*

The Housing Revenue Account (HRA) recorded a surplus of nearly £1.1 million for 2004/05 which is broadly in line with the budget and a significant improvement from a deficit of £1.6 million for 2003/04. Key reasons for the improved financial performance include higher leaseholder service charges and an increase in commercial rents resulting from higher occupancy levels.

This has contributed to the HRA now carrying forward a working balance of over £3 million into 2005/06. Although this is a healthy carry forward balance, the Council will need to ensure that adequate resources are available in the medium term to enable expected future pressures to be addressed such as meeting the decent homes standard by 2010.

#### *Performance of trading operations*

The Council operates nine trading undertakings and an operational surplus was achieved by all but two of the undertakings. We note however that this deficit is only £223,000 on an expenditure total of just over £5 million. Overall, the performance of the trading operations resulted in a contribution to the Council of nearly £900,000 representing a 6% improvement from the previous year.

#### *Collection Fund*

The Collection Fund recorded an overall deficit of £1,283,000 which is nearly £600,000 greater than the budgeted total. The main reasons for the increased deficit are as follows:

- There was a need to increase the provision for doubtful debts given that there has been an overall increase in amounts owed to the Council by taxpayers.
- There were a higher number of residents in receipt of the personal discount during the year, which has resulted in less overall income than previously anticipated.

#### *Balances and Reserves*

As at the 31 March 2005 the Council has a total of £28.1 million specific general

fund reserves (2004: £31.4 million) and £20.4 million in general reserves (2004: £15.0 million), which includes the balances held within the general fund. The present level of balances is healthy and generates significant interest and investment income which helps to finance the Council's spending.

The Council has set out its intentions to use its reserves strategically to support non-recurrent expenditure that enables the Council to realign its resources against the community priorities. We support this and welcome the Council continuing to include a review of reserves balances within the Medium Term Financial Strategy (MTFS).

The MTFS was developed in 2003 and we are pleased to note that this has been updated to reflect the three years from 2005/06 to 2007/08. Whilst this is positive, we believe there are other areas that the Council could consider that would add value to the document, such as introducing a sensitivity analysis to assess the impact of changes in some of the key assumptions.

#### *The 2005/06 financial year and outlook*

Overall the Council has a budget requirement of £232.2 million for 2005/06 in comparison with £220.2 million for 2004/05. This amount represents the Council's net expenditure to be funded from a combination of Council tax, formula grant and business rate grant (NNDR).

The Council is forecasting an overall balanced position at the year end. Financial pressures have been identified in the Regeneration and Environment and Housing and Health budgets. This is being offset by a modest projected underspend in Social Services and a favourable position on interest on balances.

As a result of significantly better income the working balance on the Housing Revenue Account is forecast to be £4.9 million, which is £2 million better than the original budget of £2.9 million.

The MTFS details that efficiency gains or savings of £4 million to £5 million are required for each financial year 2005/06 to 2007/08. It is likely that these targets will prove to be challenging for the Council and we welcome the Council's initiative in setting up an Efficiency Board and developing an efficiency programme to ensure that these issues are effectively addressed and monitored.

#### *Council Pension Fund*

The 2004/05 financial statements recorded a net liability on the pension fund of £118 million in comparison with the previous year total of £60 million. The main

reason for the significant increase is because the actuary, in line with industry best practice, used a different estimation technique for valuing the liability which resulted in a lower discount rate being used.

In order for the Council to be able to meet this liability, following advice from the actuary the Council will increase employer contribution rates from 9.2% in 2004/05 to 16.2% in 2007/08. It should be noted that the net liability on the pension fund is favourable in comparison to other Council pension funds.

We commented in last year's Letter that the financial impact that contribution rate rises have upon the Council will need to be carefully monitored. We note that this issue is being incorporated into the updated MTFS.

#### **Internal Control**

The Accounts and Audit Regulations 2003 included a requirement that the statement of accounts prepared by councils in England should contain a Statement on Internal Control (SIC). These statements refer to much wider systems of control than purely financial systems and require the Council to conduct an annual review of the effectiveness of its systems of internal control.

The Council produced a comprehensive SIC, which disclosed three significant internal control issues:

*Risk Management* - in last year's Letter we recommended that the Council develops its risk management processes, in line with best practice, to meet the needs of the organisation. We stated that this should involve the development of an organisation wide risk register, detailing risks, control activity and specific individuals to champion each risk and that key risks should be collated and considered by the management team.

From our work undertaken in this area we are pleased to report that many of the recommendations that we made in this area have been implemented, such as the development of operational risk registers and the integration of risk management into the Council's performance management system. However, as disclosed in the SIC the Council believes that it is likely that it will take at least a year for management to have assurance that the processes are embedded throughout the Council.

In the current climate of change within the organisation, strong and embedded risk management becomes more important. We understand that risk management is

now incorporated into all agendas as a standing item and that the risk register is regularly updated and reviewed.

*External Inspections* – Recent external inspections of the supporting people and the children’s inspection services identified weaknesses in the delivery of these services.

*Business Continuity Planning* – the lack of a comprehensive Business Continuity Plan was identified by the Council as an area of concern. As part of our audit programme we undertook a review in this area. The details are contained within the Performance section of our letter.

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

We have reviewed the overall arrangements developed by the Council in respect of standards of financial conduct and arrangements for the prevention and detection of fraud and corruption. Our work did not identify any matters that we consider need to be reported in this letter.

### The legality of financial transactions

We have reviewed the overall arrangements developed by the Council to ensure the legality of its transactions and have no matters to bring to your attention.

### Use of Resources Judgement

The use of resources assessment evaluates how well the Council manages and uses its financial resources. It is a more stringent test of performance than the auditor scored judgements that have formed part of the comprehensive performance assessment (CPA) framework up until 2004. It focuses on the importance of having sound and strategic financial management to ensure that resources are available to support the Council’s priorities and improve services. It has 5 themes covering:

- *Financial reporting* – the Council was assessed as performing well in this area. The accounts presented for audit were complete and of a good standard, although the quality of working papers should be improved. There were no material audit adjustments to the draft accounts which were approved by members within the required timescale.

- *Financial management* – the Council was assessed as performing well in this area. The Council has a Medium Term Financial Strategy that has strong links to the capital programme, budgets and other corporate strategies. The Council’s annual budget draws upon both financial and non financial information, and there are robust procedures in place to ensure the budget is regularly monitored by both members and officers.
- *Financial standing* – the Council was assessed as adequate in this area. The reserves balance at the Council is healthy and there are sound monitoring procedures in place to monitor reserves/balances. The Council tends to spend within budget for the majority of areas and any budget variances are identified and actions are implemented to secure the Council’s overall financial standing.
- *Internal control* – we concluded that the Council has sound arrangements in place to maintain an adequate system of internal control.
- *Value for money* – this is reported upon in the Performance section of the Letter.

We have written a more detailed letter to the Council outlining the reasons for our judgements and setting out areas for improvement.

### Certification of grant claims

Our work on certifying grant claims for 2004/05 is well underway, and we anticipate being able to meet the 31 December submission deadlines on the remaining claims. We are pleased to note that the improvements in the process which we reported to you in 2003/04 have continued this year. The use of the 'grant claims checklist' to assist in the production and quality of complete working paper files is now more fully embedded within the organisation, and officers have demonstrated a greater understanding of the certification process.

All qualification letters are now agreed with the relevant Head of Finance prior to submission to the funding body. This has increased awareness of the guidelines that accompany the use of grant funding, and has led to greater ownership of claims within Directorates. Although adding to the time currently taken to conclude certification procedures, this should assist in a transparent dialogue with officers and promote measures to reduce future qualification issues.

In 2003/04 we produced for the first time a separate report outlining the results of the grants certification process in terms of amendments and qualifications, areas for consideration and control weaknesses. This was well received by Officers, and we intend to conduct a similar exercise to analyse the outcomes of the 2004/05 grants work.

# Performance management

This section of the report covers:

- Engagement and involvement of Members;
- Change management;
- Our audit of the 2005/6 Best Value Performance Plan and 2004/5 Best Value Performance Indicators;
- Targeted audit work in the areas of:
  - e-government and Customer First;
  - human resources;
  - business continuity planning; and
  - educational attainment of looked after children;
- Follow up work tied to previous audit activity; and
- Comprehensive Performance Assessment – Use of resources.

## Engagement and Involvement of Members

A number of changes have recently been made to member portfolio responsibilities, with Councillor Wade appointed as Deputy Leader and Councillor Bramley assuming the finance portfolio. Executive members have a role on a number of boards such as the Resource Monitoring Panel, overseeing the capital programme and revenue financial performance, and the Corporate Monitoring Group that ensures the delivery of the corporate priorities. Increasingly the Council is now looking towards improving and demonstrating value for money, as well as raising performance and delivering good financial management. In response to the widening focus the Council should continue to engage and involve Members, particularly within the efficiency agenda and in challenging the VFM of its services.

## Change Management

The appointment of a new Chief Executive brings the opportunity for a fresh outlook on the delivery of services within the Borough. Culturally, the Council is demonstrating increasing ambition with the aim to achieve the equivalent of 'Good' under CPA by 2006 and 'Excellent' by 2008, and the implementation of the 'Done in One' project.

Inevitably, as new ideas are introduced change is required throughout the Council to shift the culture of the organisation and to ensure that services are delivered to

maximum effect. This presents a number of challenges for the Council, not least an element of cultural resistance. It will be important to ensure that the pace of change is sufficient to achieve the desired outcomes, and that the support of members and officers is maintained.

Additionally, it is essential that the Council assures itself that it has the corporate capacity in key functions such as human resources to facilitate such changes. The Council has taken steps to address this with the commencement of the HR improvement programme. As part of our audit programme we have undertaken a review of HR, which is reported later in this letter.

In 2004/05 the Council has commenced a series of change programmes that seek to improve services and raise customer satisfaction. A large scale corporate project has begun with the setting up of the customer contact centre, Barking and Dagenham Direct. In addition, in line with the national children's services agenda, a Children's directorate is being created and, in response to this, the remainder of the Council is being restructured.

We welcome the initiative of the Council in setting up structures and processes to assist with service improvement such as the Customer First Board, Efficiency Board and a Regeneration Board. Over the next financial year it is important that these boards are effective and constructively challenge the status quo and alter the way that the Council does business.

It was disappointing that the recent Commission for Social Care Inspection of children's social services awarded only 1 star and uncertain prospects for improvement. However, the recent assessment of adult's social service has increased the judgement to 2 star with promising prospects for improvement. During 2004/05 and 2005/06 Social services was budgeted to spend at FSS, which reflects the Council's commitment to improve performance substantially.

#### Targeted audit work

Under the Audit Code, there is a statutory responsibility for auditors to satisfy themselves that a Council has put in place adequate arrangements to secure economy, efficiency and effectiveness in its use of resources. Auditors are required to meet this responsibility by reviewing and, where appropriate, examining evidence that is relevant to aspects of these arrangements, including the use of resources in specific services and functions. Our work is targeted on areas of key risk or priority to the Council, based on a risk assessment discussed and agreed with relevant officers and presented to Members.

The results of our audit work are summarised below.

#### *Review of business continuity planning*

Through PwC's audit work on computer controls over recent years we have identified that the Council's Business Continuity Plan is not regularly updated. This lack of up to date Business Continuity Plans was also identified by the Benefit Fraud Inspectorate's report of May 2004.

In the current climate this leaves the Council exposed to the risk that it could not continue to provide critical services to its community in the event of a significant incident, or, that its services would be unavailable for longer than if plans were in place. In more extreme cases members of the public may be put at risk by a lack of Council services.

As part of our audit programme we undertook a review of the current business continuity plans and plan development approach being taken by the Council. Its objective was to assess the adequacy of the Council's business continuity plans. We also explored the approaches in place to develop such plans. We focused on the following areas:

- Awareness and Education;
- Programme definition, initiation and management;
- IT Recovery Strategy;
- Business Process Recovery Strategy;
- Business Continuity Plan Development and Documentation; and
- Business Continuity Plan Maintenance and Testing.

The fieldwork was undertaken in November and December 2004 and initial findings fed back at that stage. We found that the Council's business continuity plans were not sufficient to provide assurance that recovery would be possible in the event of an incident. No coordinated business continuity plans or a programme to develop such plans could be found.

Since then the Council has undertaken a considerable amount of work in this area and has begun to implement a comprehensive business continuity planning



process with supporting procedural documentation.

We made a number of recommendations and have agreed an action plan with officers. We understand that of the 12 high priority recommendations the Council has already addressed six. Most of the remaining ones are dependent upon the Council putting an IT disaster recovery contract in place, which we understand is underway.

We have agreed an action plan with officers and will follow up on this area as part of next year's audit programme.

#### *Review of e-government and Customer First*

The scope of our review covered the e-government and Customer First programmes, focussing on areas of risk for both activities.

We are pleased to report that the Customer First programme has made a positive impact on customer access to services and has moved the Council to becoming a more customer-orientated organisation – directly, by improving the 'front end' access and indirectly by having a section championing the customer experience.

However, the Customer First and e-government programmes have not yet delivered transformational change to the business. Business process redesign (BPR) work has not consistently identified better ways of carrying out front office processes and there has been limited activity aimed at transforming the whole of the service from the perspective of the customer.

The key review findings in relation to risk may be categorised in the following broad groups:

- Business transformation;
- Managing for Change; and
- Communication and buy in.

*Business Transformation* – The review found that there had yet to be a strong drive to ensure that the increased orientation of services towards the customer was used to make services improve their delivery. Information being captured from the contact centre was being used informally in some areas as a means of directing service improvement but this had not been brought into a framework and nor had current practice produced an audit trail that demonstrated the impact of

customer feedback on service delivery. We made a number of recommendations aimed at creating a more joined up approach to business process redesign.

*Managing for Change* – We found that although steps had been taken to co-ordinate the programmes better there was not a specific post or group responsible for the whole customer experience. This means that there is no single point around which the various change management activities can focus.

We made recommendations, aimed at improving the coordination of the Council's resource requirements for the two programmes. We understand that the Council has largely addressed these issues with the setting up of the Service and Financial Planning Board and the Customer First Board.

*Communication and buy-in* – The involvement of the new Chief Executive has been a boost to both e-government and Customer First programmes and the subsequent creation of a joint Programme Board and the "Done in One" project should create greater links between Customer First and e-government. However, at the time of the review, similar links had not been made with the Accommodation Strategy and the Council had not articulated an overarching vision to show how the different change programmes relate together.

The Council has been proactive in addressing communication issues, through engaging a consultancy to provide a programme aimed at engaging buy-in across staff groups, and the Chief Executive's presentations at staff events.

We have agreed an action plan with officers and will follow up on this area as part of next year's audit programme.

#### *Review of educational attainment of looked after children*

The educational achievements of looked after children in the borough are below the national and London averages and have been felt by the Council to be unacceptably low. As a result, the Council has developed a range of initiatives to improve its overall performance and to support it in meeting related targets.

The Council's Looked After Children Health and Education Service (LACHES) was transferred from the Department of Education, Arts and Libraries (DEAL) to Social Services (DSS) in July 2004. The purpose and function of LACHES is to improve the education and health of looked after children. At the time of transfer, members agreed to allocate additional resources of approximately £255,000 to LACHES to fund a number of initiatives to support the Council in meeting its targets and improving the Council's overall performance.

Our review examined the adequacy of current initiatives and actions in place for achieving the Council's key targets in relation to the educational attainment of looked after children (LAC) and the arrangements for monitoring and assessing progress towards those targets. Where appropriate, we made recommendations for improving the Council's arrangements.

The key finding from the review is that moving the responsibility for LAC from the DEAL to the DSS and the accompanying enlargement of the LACHES team has provided a much needed and generally welcomed boost to the Council's work with LAC. It has raised the profile of, and the focus on, LAC significantly. Both services acknowledge that they now pay much greater attention to LAC's needs than in the past. There is much greater awareness of the challenges that LAC face in terms of educational attainment and the poor (though improving) standards that they currently attain.

In terms of specific areas for development and improvement, a number of common themes arose during the course of the review. These included:

- *Common routines and protocols:* There is a need to clarify individual responsibilities. For example, uncertainties included who should be sent a copy of a Personal Education Plan (PEP) once it is completed and how information about a change of home placement should be communicated.
- *Data flows:* Data flows are not as clear as they could be, with concerns about the time spent waiting for information and/or chasing information from others;
- *Support systems:* There is insufficient clarity about the various sources of support which are available to those working with LAC. This referred to the scope of the support offered by LACHES or how newly appointed social workers (or designated teachers) were inducted;
- *Communication:* Reflecting the themes which we have set out above, the most frequent concern related to communication flows in general, whether in relation to LAC themselves, the expectations and responsibilities of the different parties or how support can be accessed.

The next development phase for LACHES is to:

- Embed and consolidate its practice;

- Ensure that data and communication protocols and routines are clear and easy to use; and
- Establish robust, but not burdensome, evaluation practices in order to judge the success of the Service's work.

We have agreed an action plan with officers and will follow up on this area as part of next year's audit programme.

#### HR Review

The review of HR Service Delivery was commissioned as part of our 2005/06 audit plan and has been delivered in time to report our findings within this audit letter. The review objectives were to:

- Conduct a detailed, evidence based assessment of the current state of HR service delivery;
- Establish a base-line for HR that will drive and support the shape and direction of the future HR service;
- Identify scope for improvement, including the greater consistency, efficiency, streamlining, standardisation and sharing of HR Services across Directorates; and
- Enable future measurement of improvements in overall HR service provision by providing a baseline of evidence based service information.

Many improvements are planned or have recently been implemented with the aim of strengthening HR services, for example an HR and Organisational Development (OD) Board has been established to review procedures, identify required cultural changes and consider the future HR service. Some revision has already been undertaken of HR policies and procedures (most recently sickness absence and grievance).

In addition, there is strong commitment to HR service change amongst the Senior Executive and the HR leader to support the Council's overall business improvement agenda. All are seeking more efficient and streamlined HR processes, with high quality, proactive, reliable and accurate HR advice and support that are more aligned to customer objectives.

However, whilst progress has been made, certain issues remain and are summarised below:

- HR benchmark analysis indicates that HR costs are high, compared with high performing local authorities.
- There is no documented HR Strategy or plan. Although some Directorates have HR plans, most are more operationally focussed than strategic, with few measurable targets that are identified and tracked. There is no defined and agreed scope of HR services;
- Managers rate the HR service as only 'marginally effective' in delivering those HR activities that they rate as important;
- In general, HR staff spend their time on activities appropriate to their roles, for example, Heads of HR spend more time on 'strategic' than 'administrative' activity. However, high levels of 'administrative' (for example, transactions processing) and 'advisory' activity (for example, delivering HR advice, implementing HR solutions) across the HR process areas were reported at senior levels, in particular with respect to supporting the employee relations process;
- An individual departmental approach prevails regarding ways of working. There is scope for improvement in the way the HR community works together. Although some progress has been made, there is limited sharing of knowledge and good practice between Directorates and with Corporate HR;
- There is no central co-ordinated approach to HR measurement and reporting;
- Data integrity is not high and systems are not utilised as effectively as they could be for example. Oracle functionality;
- Management Information production is not centralised or standardised and equally, HR costs are not collated/reviewed at a Council level and HR finds it is difficult to produce a reliable headcount list; and
- The HR Service Delivery model is complex and most services are not delivered consistently between Directorates.

We have made a series of recommendations and will be following up the Council's progress as part of our 2006/07 audit programme.

#### Progress on Previous Targeted audit work

Each year our performance management audit programme includes follow up work to consider the Council's progress on the agreed action plans arising from previous performance management reports. This can take a number of forms including collecting further data for the Audit Commission's national follow up indicators, undertaking further targeted work ourselves, or reviewing the Council's own follow up procedures.

During the year, we have continued to liaise with officers and monitor the Council's arrangements on agreed action plans arising from audit work undertaken in previous years, which have included the Council's developments with regard to:

#### *Homecare Services*

As part of our 2003 audit programme, we reviewed the Council's arrangements for the provision of homecare services and assessed the progress made after a restructure of the in-house provision. Our work looked at action the Council had taken following the 1997 Joint review that identified the Homecare service as a relatively ineffective and expensive service.

We are pleased to report that the Council has fully implemented a number of the recommendations made within our 2003 review such as:

- A staff handbook has been developed that includes guidance on basic working policies such as sickness and holidays;
- Full compliance with the European Working Time Directive has been obtained; and
- Managing the number of delayed transfers of care within the target set by the Strategic Health Authority.

However, a number of the issues we identified still exist, such as:

- Higher unit costs of the in-house service;
- The need to effectively reconcile scheduled activity to what is actually delivered;
- A lack of consistency in the monitoring approach between in-house and external provision;

- Accuracy of recording contact time with clients; and
- The need to clarify the relationship with the voluntary sector.

The Gershon Efficiency Review will have an impact on the Home Care service as it is one of the areas included within the efficiency programme although specific targets have yet to be set. Electronic monitoring of homecare services is one option that Council is considering which should improve the efficiency of the external contractors as well as the in-house service.

#### Procurement

The Council has continued to make positive steps to improve its procurement activity since our earlier reviews. A more strategic approach to procurement is now undertaken and significant efforts have been made to raise the profile of procurement within the Council. A largely decentralised procurement function has been maintained, even with the establishment of a central team. In view of this structure, we have recommended that the Council should consider whether opportunities exist to allow elements of oversight to the central unit in relation to monitoring all procurement activity across the Council.

The Council has developed a database of key corporate contracts and are considering e-procurement options. Despite developments, procurement information remains fragmented and the Council are investigating options to improve coordination.

A new strategic procurement manager has been appointed and is actively overseeing the delivery of the Procurement Best Value Improvement Plan. However, recruitment difficulties remain an issue and policies and procedures require improvement, although much progress has been made from a low baseline.

#### Best Value

The Local Government Act 1999 requires authorities to produce a Best Value Performance Plan (BVPP) and as auditors we are required to certify that we have carried out our audit and to state whether we believe that the Council's plan has been prepared and published in accordance with the relevant statutory guidance.

We reported upon our audit work in relation to the BVPP issued in June 2004 as part of our prior year audit letter. We provided initial advice to the Council in relation to its draft 2005/06 BVPP and have issued an unqualified opinion on the

final plan.

We reported the results of our audit work on the accuracy and controls associated with the Council's systems for collecting and recording specified performance information to the Audit Commission in line with the deadline of 5<sup>th</sup> September 2005.

In overall terms, the Council complied with the requirement to collect and report on specified performance information. We reported reservations on three statutory Best Value Performance Indicators (BVPI). Our reservations were due in one case (BVPI 185 Percentage of responsive repairs) to the indicator not being calculated in line with the Audit Commission BVPI guidance and in a further two cases (BVPI 203 Percentage change in people in temporary accommodation and BVPI 78b Speed of processing housing benefit change of circumstance), the indicators were not supported by sufficient evidence.

#### Use of Resources VFM Judgement

We have undertaken our assessment of the Council's arrangements for securing value for money and found that although there are areas for improvement overall performance is adequate.

Historically, the Council has been frugal and cautious with its use of financial resources. The Council is debt free and has significant reserves, but many assessments of service provision in recent years have highlighted much scope for improvement. Local factors, such as the level of deprivation and adult literacy are recognised by the Council as affecting its comparative performance and we have taken account of them in forming our judgement.

Recently, the Council has begun to use its resources to improve performance standards. The Council's focus has increasingly been on service improvement and considerable success has been achieved in some areas, particularly in children's education, but less so in other areas such as social services. With significant reserves there has been less emphasis on value for money (VFM) in comparison to performance improvement. The Council has acknowledged that past best value reviews have not had sufficient focus on VFM.

Recently, the Council has begun to put in place processes and forums to ensure that VFM is more explicitly considered by staff. For example, the linkage between finance and performance is being strengthened with the establishment of the Efficiency Board and the Service and Financial Planning Board. However, these

developments have only been in place in the last 6 months, and it is not yet possible to demonstrate that they have been effective. Our interviews with service managers revealed that officers do not routinely use performance and financial information together or comparative information to manage the services for which they are responsible.

We have written a more detailed letter to the Council outlining the reasons for our judgements and setting out areas for improvement.

# Inspection

This section of the report covers:

- The annual Direction of Travel Assessment

## Direction of Travel Assessment

Improved service outcomes in corporate priorities have been achieved, some from a low base. Over 75 per cent of core service indicators have improved since 2002/03 but some services require further improvement to meet community expectations. Areas of particular public concern such as crime, clean streets and street repairs are being targeted through the Council's Local Partnership Service Agreement. The Council works well with its partners. There is recognition of the Borough's growing diverse communities and the Council is encouraging community inclusion through on-going major investment to further improve access, service quality and outcomes for the most vulnerable. The Council achieved corporate Investors In People accreditation during 2005. The established performance reporting culture has ensured a focus on areas of weakness and ambitious key strategic plans are supported by robust action plans. Processes to enhance improved value for money have been established but have not yet demonstrated significant improvements, but the Council is in a good position to continue their positive service improvement trend.



# Audit plan and fees update for 2004/05

## Audit Plan 2004/05

We issued our Audit Plan for 2004/05 and presented it to the Audit Committee in April 2004 with the update version being presented in April 2005 as part of our 2005/06 Audit Plan.

## 2004/05 fee update

We are currently in discussion with officers concerning the final outturn position and will report the outcome to Members.

	2004/05 Original (£)
Accounts and Governance	260,000
Performance	110,000
Total	370,000

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

- Report to those charged with Governance on the audit of the 2004/05 financial statements
- Audit opinion for the 2004/05 financial statements
- Computer controls report
- Internal controls report for 2004/05
- Audit opinion for the 2004/05 BVPP
- Audit Commission BVPI Schedule 2004/05
- Targeted performance reports:
  - Review of e-government and Customer First;
  - Review of Looked After Children;
  - Review of Business Continuity Planning;
  - Review of Procurement;
  - Review of Human Resources.
- Use of Resources Assessment

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