

# Annual Audit and Inspection Letter

**Melton Borough 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.

### **Status of our reports**

This report provides an overall summary of the Audit Commission's assessment of the Council, drawing on audit, inspection and performance assessment work and is prepared by your Relationship Manager.

In this report, the Commission summarises findings and conclusions from the statutory audit, which have previously been reported to you by your appointed auditor. Appointed auditors act separately from the Commission and, in meeting their statutory responsibilities, are required to exercise their professional judgement independently of the Commission (and the audited body). The findings and conclusions therefore remain those of the appointed auditor and should be considered within the context of the Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission.

Reports prepared by appointed auditors are:

- prepared in the context of the Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission; and
- addressed to members or officers and prepared for the sole use of the audited body; no responsibility is taken by auditors to any member or officer in their individual capacity, or to any third party.

### **Copies of this report**

If you require further copies of this report, or a copy in large print, in Braille, on tape, or in a language other than English, please call 0844 798 7070.

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## Key messages

- 1 Melton Borough Council is making positive progress against its priorities. Customer focus is more embedded and access to services particularly for hard to reach groups is improving. Other priorities such as 'greener cleaner' continue to progress with Melton delivering high levels of recycling. Overall improvement is above the national average with 61 per cent of performance indicators improving in 2006/07. However, although there has been some improvement since 2003/04, satisfaction with the Council and its services is mostly below the national average. Value for money remains 'adequate' with low overall service costs.
- 2 The Council has sound improvements plans which focus on its corporate and neighbourhood priorities but performance against its own targets is mixed. Capacity for improvement is strengthening particularly through the change team which takes a joined up customer focus approach to transforming services. The Council is involved in a number of joint working arrangements although to date the overall delivery of improved outcomes through joint working with other Leicestershire Councils is limited.
- 3 The appointed auditor was able to give an unqualified opinion on the Council's 2006/07 financial statements. The appointed auditor also provided an unqualified conclusion on the Council's use of resources. In all significant respects, Melton Borough Council made proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2007.
- 4 The Council has improved its overall Use of Resources score from 2 (adequate performance) to 3 (performing well).
- 5 Looking to the future, the Council should prepare for the Comprehensive Area Assessment which will recognise the importance of councils in leading and shaping the communities they serve.

## Action needed by the Council

- 6 The Council should:
  - strengthen the approach to performance management, ensuring the requisite capacity to maintain and deliver improvement; and
  - strengthen the approach to joint working with other Leicestershire councils.

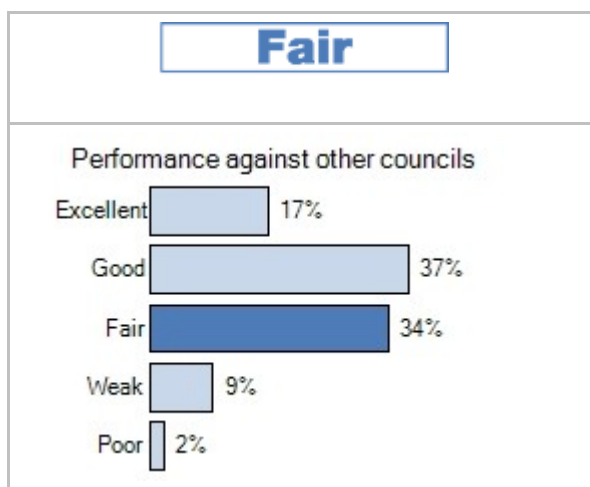
## Purpose, responsibilities and scope

- 7 This report provides an overall summary of the Audit Commission's assessment of the Council. It draws on the most recent Comprehensive Performance Assessment (CPA), the findings and conclusions from the audit of the Council for 2006/07 and from any inspections undertaken since the last Annual Audit and Inspection Letter.
- 8 We have addressed this letter to members as it is the responsibility of the Council to ensure that proper arrangements are in place for the conduct of its business and that it safeguards and properly accounts for public money. We have made recommendations to assist the Council in meeting its responsibilities.
- 9 This letter also communicates the significant issues to key external stakeholders, including members of the public. We will publish this letter on the Audit Commission website at [www.audit-commission.gov.uk](http://www.audit-commission.gov.uk). In addition the Council is planning to publish it on its website.
- 10 Your appointed auditor is responsible for planning and carrying out an audit that meets the requirements of the Audit Commission's Code of Audit Practice (the Code). Under the Code, the auditor reviews and reports on:
  - the Council's accounts;
  - whether the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources (value for money conclusion); and
  - whether the Council's best value performance plan has been prepared and published in line with legislation and statutory guidance.
- 11 This letter includes the latest assessment on the Council's performance under the CPA framework, including our Direction of Travel report, and the results of any inspections carried out by the Audit Commission under section 10 of the Local Government Act 1999. It summarises the key issues arising from the CPA and any such inspections. Inspection reports are issued in accordance with the Audit Commission's duty under section 13 of the 1999 Act.
- 12 We have listed the reports issued to the Council relating to 2006/07 audit and inspection work at the end of this letter.

## How is Melton Borough Council performing?

- 13 Melton Borough Council was assessed as Fair in the Comprehensive Performance Assessment carried out in 2004. These assessments have been completed in all district councils and we are now updating these assessments, through an updated corporate assessment, in councils where there is evidence of change. The following chart is the latest position across all district councils.

**Figure 1 Overall performance of district councils in CPA**



Source: Audit Commission

## The improvement since last year - our Direction of Travel report

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

- 14 Melton Borough Council's priorities are based on: enhancing the town centre; providing a cleaner and greener environment; community safety; transport; decent affordable homes; opportunities for young people and, customer focus. These were reviewed and refreshed in 2007.
- 15 The Council is continuing to make progress against its 'greener/cleaner' priority. Its recycling performance is amongst the best councils nationally and improving and it is making small reductions in waste to landfill. Cleaning standards are comparatively high in terms of dealing with graffiti and fly posting but not so for litter. Satisfaction levels with these services are below the national average and not significantly improving. Local community improvements include a greater focus on priority neighbourhoods such as the 'Pride in Egerton' event and better litter collection facilities in the town centre.

- 16 The Council is making positive progress against its customer focus priority. Satisfaction with complaint handling, electronic access to services, access to leisure facilities, and all benefits PIs are above the national average and improving. The Council is at Level 2 of the Equality Standard and is improving ways for vulnerable groups to access services – for example it has introduced the ‘all pay2’ system which enables people to pay their rent or council tax at 30 outlets within the borough including fuel stations and post offices. In October 2007 the Council introduced customer services outreach workers to assist vulnerable people access services through home visits. The Council and its partners are now focused on the hard to reach and its priority neighbourhood approach is embedded into its services.
- 17 The Council is making progress against other priorities. A 2007 survey found that over half of the business surveyed thought the town centre had improved and the police have reported a significant fall in violent crime in the town centre. Community safety improvements include a new anti-social behaviour officer and mobile CCTV system targeted on ‘hot spots’ in the borough. The Council has developed more opportunities for young people working with partners to expand the programme at the learning Hub and a new skate park. Housing performance is starting to improve particularly in the areas of response to repairs and decent homes. The Council has been successful in seeing the Melton by-pass and improvements to the ring road being included in the Local Transport Plan.
- 18 The Council’s overall rate of progress is mostly positive. Against an Audit Commission basket of Performance Indicators, 61 per cent improved in 2006/07, above the national average range of 57 - 59 per cent. Fifty-six per cent of PIs are above the national average. However, although there has been some improvement since 2003/04, satisfaction levels for the Council and its services are mostly below the national average and not improving in line with its other performance indicators.
- 19 Value for money is progressing slowly and the Council has not improved its 2006 ‘adequate’ score for value for money within its 2007 Use of Resources Assessment. Although the Council’s overall spend is comparatively low, the priority area of waste collection has comparatively high unit costs but does not perform well in all areas. Melton has a good record of exceeding its efficiency targets and the Welland procurement unit is starting to yield efficiency savings. Benchmarking and measuring value are developing but not fully embedded.

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

- 20 The Council has sound plans for improvement. It has developed priority action plans which focus on its corporate priorities. They have clear links to the Local Area Agreement and Single Sustainable Community Strategy and where appropriate national priorities. Well resourced plans exist to build on the Council's priority neighbourhood approach and Melton has been instrumental in working with the County Council to develop two new children's centres on schedule to be opened in 2008. Resourced plans are in place to address other local issues including modernising car parks, meeting decent homes standard and to improve the swimming pool.
- 21 The Council's performance in meeting its own targets is mixed. The 2007 Best Value Performance Plan shows that in 2006/07 it met 46 per cent of its targets. Targets were mostly met for benefits, planning, community safety and homelessness, but not for corporate health, housing, culture, waste and cleanliness largely due to lower than expected customer satisfaction. The Council has met or is on schedule to meet most of its targets in 2007/08 however its half year report indicates that it is meeting approximately 53 per cent of its targets but only 40 per cent of indicators are improving indicating a slowing of the Council's progress. The Council does set challenging targets reflected by the fact that most indicators are improving but not always achieving the target. Its performance management arrangements enable it to identify and focus on key areas of under performance against improvement plans.
- 22 The Council is developing capacity to continue its improvement journey. Its, priorities have been refreshed, and there is a clear development framework for service plans and key projects. The Council's change team reflects the Council's commitment to a customer focused culture. The team is now embedded and has appropriate staffing and ICT support. It has completed the transformation of a number of services including revenues and benefits, economic development, and customer services. This has resulted in the development of more joined up services enabling outreach workers to advise and assist on a range of services. The Council is installing extra capacity to develop this further particularly within its priority neighbourhoods. A customer insight manager is being recruited to gain a greater understanding of needs and its two customer services outreach workers are now embedded. The Council is committed to developing more efficient ways of delivering services through procurement and shared services and is involved in a range of joint working arrangements, however overall progress on shared services with other councils in Leicestershire has been limited.

## **Service inspections**

- 23 There were no service inspections carried during this period.

## The audit of the accounts and value for money

- 24** The appointed auditor has reported to Overview and Scrutiny Committee on 18 September 2007 under International Standard on Auditing (ISA) 260 on the issues arising from the 2006/07 audit and has provided the following.
- An unqualified opinion on your accounts.
  - An unqualified conclusion on the Authority's arrangements to secure economy, efficiency and effectiveness in its use of resources, which were deemed to be adequate.
  - A report on the Best Value Performance Plan confirming that the Plan has been audited and that there were no issues arising.
- 25** In respect of the 2006/07 financial accounts, your appointed auditor has reported that:
- there were no unadjusted misstatements that needed to be brought to the attention of Members;
  - there were no material weaknesses noted in the Council's accounting and internal control systems during the 2006/07 audit;
  - the presentation of the 2006/07 final accounts and standard of working papers to support underlying transactions incorporated within the 2006/07 accounts were of an appropriate standard; and
  - there were no matters of irregular expenditure, fraud or misconduct, or poor standards of financial integrity that we need to bring to your attention.

### Use of Resources

- 26** 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).

- 27 For the purposes of the CPA your auditor has assessed the Council's arrangements for use of resources in these five areas as follows.

**Table 1**

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

(Note: 1 = lowest, 4 = highest)

- 28 The appointed auditor has noted that your theme scores for Financial Standing and Internal Control have improved from a '2' to a '3', which raises the Council's overall assessment from '2' ('adequate arrangements') to '3' ('performing well').

### **The key issues arising from the audit**

- 29 With regard to the Authority's financial position, Members have received a number of significant reports from officers during the year.
- 30 On 23 January 2008 a report went to the Policy, Finance and Administration Committee which included the estimated year-end revenue outturn for 2007/08. The Council still expect to achieve a balanced budget for the year. However, greater than expected use of reserves has been required to maintain this position. An additional £225,000 has been required from reserves to meet general expenses and special expenses. Reserves and balances remain above the thresholds agreed by Members.
- 31 On 6 February 2008 a report was made to the Council setting out the 2008/09 capital programme. Planned expenditure under the programme is £0.88 million within the General Fund, £0.75 million of special expenses and £1.48 million within the HRA.
- 32 The Council's Medium-Term Financial Strategy (MTFS) has been updated in the light of the recent central government grant settlement which has seen a lower level of increase for Melton than for any other Leicestershire authority. The MTFS sets out proposed working balances with effect from 2008/09 of:
- General Fund £0.56 million
  - General Fund Special Expenses £0.05 million
  - Housing Revenue Account £0.36 million

- 33** In addition to these working balances, the Council will continue to maintain general reserves for general and special expenditure. At 31 March 2008 these are expected to amount to:
- Corporate Priorities Reserve                      £0.65 million
  - General Reserve    £0.05 million
- 34** Melton Borough Council is one of the smallest local authorities in the country and is resource constrained. The recent Local Government grant settlement has been particularly challenging to the Council. In recent years, effective financial management has enabled the Council to respond to the needs of residents and to changes in statutory obligations. However, greater than expected reliance on reserves and balances in 2007/08 is indicative of the challenges being faced by the Council. Going forward, the Council will need to ensure that effective financial management is maintained if it is going to continue to be able to improve services and address key priorities.
- 35** There are no aspects of the appointed auditor's certification of grant claims or audit work in respect of the Whole of Government Accounts that need to be brought to your attention.

## **Additional services**

- 36** The appointed auditor has not carried out any work for the Council other than those services required under the responsibilities required by the Audit Commission to conduct an audit and to assess the Best Value Performance Plan, arrangements in place to secure value for money in its use of resources and arrangements to secure data quality.

## Looking ahead

- 37 The public service inspectorates are currently developing a new performance assessment framework, the Comprehensive Area Assessment (CAA). CAA will provide the first holistic independent assessment of the prospects for local areas and the quality of life for people living there. It will put the experience of citizens, people who use services and local tax payers at the centre of the new local assessment framework, with a particular focus on the needs of those whose circumstances make them vulnerable. It will recognise the importance of effective local partnership working, the enhanced role of Sustainable Communities Strategies and Local Area Agreements and the importance of councils in leading and shaping the communities they serve.
- 38 CAA will result in reduced levels of inspection and better coordination of inspection activity. The key components of CAA will be a joint inspectorate annual area risk assessment and reporting performance on the new national indicator set, together with a joint inspectorate annual direction of travel assessment and an annual use of resources assessment. The auditors' use of resources judgements will therefore continue, but their scope will be widened to cover issues such as commissioning and the sustainable use of resources.
- 39 The first results of our work on CAA will be published in the autumn of 2009. This will include the performance data from 2008/09, the first year of the new Local Area Agreements.

## Closing remarks

- 40 This letter has been discussed and agreed with the Chief Executive. A copy of the letter will be presented at the Policy, Finance and Administration Committee on 16 April 2008. Copies need to be provided to all Council members.
- 41 Further detailed findings, conclusions and recommendations on the areas covered by audit and inspection work are included in the reports issued to the Council during the year.

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**Table 2      Reports issued**

<b>Report</b>	<b>Date of issue</b>
Audit and inspection plan	March 2006
Interim audit memorandum	April 2007
Annual report to those charged with governance	September 2007
Opinion on financial statements	September 2007
Value for money conclusion	September 2007
Annual audit and inspection letter	March 2008

- 42 The Council has taken a positive and constructive approach to audit and inspection work, and I wish to thank the Council's staff for their support and cooperation during the audit.

## Availability of this letter

- 43 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.

**Nigel Toms**  
**Relationship Manager**

March 2008