

Relationship Manager's Annual Letter

The Vale of Glamorgan Council

INSIDE THIS LETTER

PAGES 3-4

- Key messages arising from this year's Letter

PAGES 5-30

Section 1:

- Introduction

Section 2:

- Accounts

Section 3:

- Financial aspects of corporate governance

Section 4:

- Performance management

Section 5:

- Inspection programme

Section 6:

- Future audit work – Regulatory Plan update
- Closing remarks

PAGE 31

Appendices

- Reports issued during the audit

Reference:	1343A2004 - Final
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Status of our reports to the Trust/Council

This report has been prepared for the internal use of the named body. Our reports are prepared:

- *In relation to performance audit, under the Audit Commission Act 1998, in the context of the Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission.*
- *In relation to inspection, following inspection work carried out under Section 10 of the Local Government Act 1999 and in accordance with the guidance issued by the National Assembly for Wales in Circulars 14/2000 and 18/2002. The inspection report is issued in accordance with the duty under Section 13 of the 1999 Act.*

Reports are prepared by appointed auditors and inspectors, and addressed to non-executive directors / members or officers. They are prepared for the sole use of the named body, and no responsibility is taken by auditors or inspectors to any director / member or officer in their individual capacity, or to any third party.

KEY MESSAGES ARISING FROM 2003/2004 AUDIT AND INSPECTION PROGRAMME

Overall conclusion

The Council has continued to demonstrate considerable commitment over the last 12 months to deliver continuous service improvement. The processes and arrangements developed to achieve this objective are now in place and are beginning to deliver real and meaningful improvements.

The Council has continued to exercise robust and effective management of its financial affairs and it now finds itself in a relatively strong financial position with general and specific reserves totalling in excess of £44m (as at 31 March 2004).

The Council is undertaking a comprehensive review of its reserves to ensure they are appropriate and are still required for the purposes intended when originally established. It is envisaged that following completion of this work, the Council, guided by the Director of Finance, ICT and Property, will bring forward proposals for making best use of available resources in a way which is publicly justifiable, addresses identified needs and provides value for money without compromising the long-term financial stability of the organisation. In our view, this sound and secure financial platform provides the opportunity to deliver further improvements in services. The challenge for the Council over the next 12 months will be to maintain the momentum that has been built up so that the people of the Vale of Glamorgan see the true benefits of improved Council services. This will be no easy task and will need to be delivered against a backdrop of ever increasing public expectations, tight financial settlements and a change in property tax bands. With that in mind, the Council will need to:

- continue to deliver improvements in services; this will become increasingly difficult particularly in those areas where the Council is already one of the top performing authorities in Wales;*
- complete and implement the result of the budget review to support the improvement process;*
- implement and manage the results of the job evaluation exercise that is currently taking place throughout the Council; and*
- continue to review its options in relation to housing stock and school investment to help achieve Welsh Assembly Government targets.*

Some of the other more significant messages arising from this year's audit and inspection programme are summarised overleaf.

Accounts opinion

The Authority submitted draft accounts for audit on 9 July 2004 and a clear audit opinion was issued on 15 December 2004; both dates were within the deadlines prescribed by the Welsh Assembly Government.

Considerable time and effort has been put in by the finance staff to achieve the early 'close down' and production of the Council's financial statements. The early closure again this year demonstrates the Authority's commitment to meeting the new accounts closure timetable and suggests that the Authority is well placed to achieve the more demanding deadlines imposed under the 'Whole of Government Accounts' (WGA) agenda.

Financial aspects of corporate governance

Sound corporate governance arrangements have continued to be operated within the Authority to ensure the legality of transactions, sound internal financial control and the prevention and detection of fraud and corruption. Nevertheless, there are a number of issues raised in this Letter which needs to be addressed to ensure these arrangements are strengthened further.

Performance management

The Authority's Performance Management Framework (PMF) has continued to develop and improve over the last 12 months and good progress has been made in implementing the key requirements of the framework. The Council has also continued to refine its internal arrangements for assessing its key priorities and risks at both a corporate and service level and has demonstrated considerable commitment to the improvement of services. Service plans are being used throughout the Council to drive this process; the development of team plans and the operation of a staff appraisal system should ensure that the objectives of the Council are aligned with service delivery. The arrangements introduced by the Council for members to scrutinise, on a quarterly basis, the delivery of such plans should help to clarify accountability and facilitate the delivery of improved services.

The specific work undertaken during the year on key risk areas has concluded that the Council's overall arrangements are satisfactory. Where issues have been raised, robust action plans have been produced to address the issues identified.

Inspection work

A number of improvement studies have been undertaken during the year; the results have generally been positive, with several examples of good practice being identified. Again any issues arising have been addressed through the Council's PMF.

The local risk based inspection work concentrated on supporting and challenging the Council's internal review process. Internal reviews were carried out robustly and effectively and although a number of significant issues were raised as part of these reviews, an effective way forward was proposed which fully reflected Council priorities.

Introduction

Background

1. Following recent discussions with audited and inspected bodies, Welsh Assembly Government and the Welsh Local Government Association, it has been suggested that we should adopt a simple and straight forward way of communicating the results of audit and inspection work whilst minimising the burden for audited and inspected bodies. In response, we have developed this Relationship Manager's Annual Letter (RMAL).
2. The Letter combines the results of the annual audit and inspection programme; it sets out the messages assisting from work undertaken by the Appointed Auditor under the Code of Audit Practice, and by the Relationship Manager under the Audit Commission in Wales (ACiW) inspection powers, possibly as a precursor to a fully integrated Letter next year.
3. The combined audit and inspection messages have been integrated as much as possible to maximise the impact and value of the Letter. A copy of this Letter is available in Welsh.

The purpose of this Letter

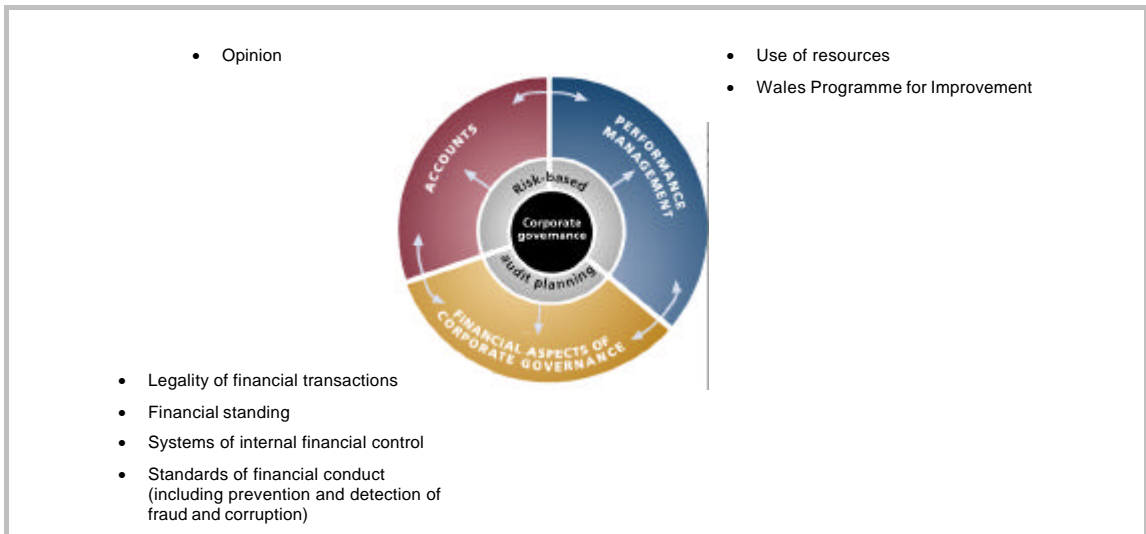
4. This Letter summarises for members the more important matters arising from our 2003/2004 'Regulatory Plan' and comments on other current issues. We have produced separate reports during the year following the completion of specific aspects of our work. A list of these reports is attached for members' information at Appendix 1; these reports have been discussed in detail and agreed with officers.

Audit objectives

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

Audit work is based on the significant financial and business risks facing the Authority and is structured around three main elements:

EXHIBIT 1: THE THREE MAIN ELEMENTS OF OUR AUDIT OBJECTIVES



6. Our audit has addressed the requirement of the Code of Audit Practice and we have worked with officers to maximise the benefits of the ‘integrated audit’ approach.

Regulatory fee

7. The Regulatory Plan agreed with the Authority identified the work we would be undertaking and the associated fee. We are required to keep the audit and inspection programme under review during the course of the audit and advise the Authority of any changing circumstances which may affect the fee (reproduced below).

We have reported regularly to the Audit Committee on the progress made against this year’s Regulatory Plan and, as at the date of this Letter, there are no issues which will require us to change the fee.

EXHIBIT 2: AUDIT FEE 2003/2004

	Planned 2003/2004 £	Actual 2003/2004 £
Accounts	54,645	54,645
Financial aspects of corporate governance	60,718	60,718
Performance	82,359	82,359
Inspection	60,600	60,600
Total fee	258,322	258,322

8. Additionally, we have not undertaken any ‘non-code’ work for the Authority.

Accounts

We are satisfied that there are sound core processes in operation for ensuring the financial statements are free from material mis-statement. Following completion of the audit of the Council's 2003/2004 financial statements, we issued an unqualified opinion on the accounts on 15 December 2004.

The Council has continued to make good progress during the year to improve the timeliness of its production of the statement of accounts in readiness for the introduction of the WGA.

Core process review

9. The core processes operated during the year provided us with a high level of assurance for the audit of the financial statements.

Main accounting system

10. The Council's main accounting system was effectively operated and controlled during the year. Only minor weaknesses were identified. These have been reported previously to the Council and were addressed prior to the completion of the final accounts audit.

Budgetary control procedures

11. Overall, the Council has sound budget setting and monitoring arrangements in place. The Finance Department provided training on budget management and control during the year for budget holders throughout the Authority. To maintain the impetus created by this programme, further training events should be held to ensure there is no misunderstanding of the different roles and responsibilities.

Close down procedures

12. There were effective year-end closure procedures in place. The Council successfully followed a 'closure' plan which enabled the accounts to be closed and the financial statements to be produced well in advance of the deadlines prescribed by the Welsh Assembly Government.

Final accounts review

13. We provided an unqualified opinion on the Authority's 2003/2004 financial statements on 15 December 2004.
14. The Council submitted draft accounts for audit on 9 July 2004; we issued a clear audit opinion on the accounts on 15 December 2004. Both dates were within the statutory deadlines imposed by the Welsh Assembly Government.

15. Under the WGA initiative, which is due to take full effect in 2006/2007, all local authorities will be required to submit their accounts for audit by 30 June with the audit to be completed by 30 September. To meet these more demanding deadlines, the WGA intends to bring forward the deadline by one month each year, for the next three years (commencing 2004/2005). The Authority's success in again bringing forward the closure process suggests the Council is well placed to meet this more demanding timetable.
16. Although the audit of the financial statements was substantially completed within three months of the accounts being submitted, delays were experienced in finalising the disaggregating balances with Cardiff County Council. It is encouraging that agreement has finally been reached and all necessary amendments have been made to the accounts. The clearance of this issue should facilitate an even more prompt and effective closure process next year.

Grant claim audit

17. The Authority operates sound grant claim control arrangements which have been developed and refined over recent years.
18. In 2003/2004, new grant claim audit arrangements were introduced by the Audit Commission. These arrangements were introduced to help reduce the number of claims and returns requiring certification, thereby reducing costs.
19. The audit of the 2003/2004 grant claims is ongoing and it is evident that there has been a further improvement in the quality of working papers being provided in support of claims.
20. The Authority has addressed the majority of recommendations made following our 2002/2003 grant claim audit. Nevertheless, the Authority still needs to address the weaknesses around grant claim monies defrayed by third parties. This is becoming increasingly important as the Authority enters into a greater number of partnership arrangements for grant claim schemes. This is an area that we intend to review in greater detail as part of next year's audit.
21. A summary of the findings arising from our 2003/2004 audit of grant claims will be submitted under separate cover following the completion of the work.

Financial aspects of corporate governance

The Authority's financial aspects of corporate governance are sound and well controlled.

Introduction

22. As outlined in Exhibit 1, our work on the financial aspects of corporate governance covers the Authority's arrangements in the following:
- legality of financial transactions;
 - financial standing;
 - systems of internal financial control; and
 - standards of financial conduct and the prevention and detection of fraud and corruption.

Legality of financial transactions

23. The Authority has operated effective arrangements for ensuring the legality of transactions with financial consequences.

Overall arrangements

24. To meet our objectives in this area we have:
- reviewed the Authority's arrangements for ensuring the legality of financial transactions;
 - reviewed the minutes of the Cabinet and relevant committees;
 - discussed key issues and concerns with Council staff;
 - reviewed the local applicability of relevant national issues;
 - had regard to matters drawn to our attention where legality, losses or deficiencies may be an issue; and
 - challenged the Authority's review of legal services.
25. Overall, we are satisfied that the operation of the Authority's arrangements, as set out in its Constitution, are operating adequately and we have identified no significant weaknesses that need to be raised with members.

Questions received at audit

26. During the year, we received a number of questions relating to the Council's accounts for 2003/2004. Most of these have been resolved and at this stage there are no issues that need to be brought to the attention of members.

Review of legal services

27. Under the Authority's Wales Programme for Improvement (WPI) work programme for 2003/2004 an internal review of legal services was carried out and as part of that review, we provided external challenge to the process. The review identified a number of significant issues for the Authority to address, including providing improved strategic leadership and management of the section, poor (but improving) management information, low staff morale and poor 'customer' satisfaction. A detailed action plan to address the shortcomings identified has been put in place, and over recent months a variety of measures have been taken to improve the management and delivery of legal services. A formal launch of the new arrangements is scheduled for January 2005.

Council housing investment options appraisal

28. As part of its National Housing Strategy, the Welsh Assembly Government requires local authorities to bring their housing stock up to the Welsh Housing Quality Standard by 2012. The Welsh Assembly Government also require each authority to produce a financial Business Plan by 30 September 2004. It intends to manage the stock over a 30 year period.
29. Most councils have come to the view that they do not have sufficient funds to meet the standard by 2012 or to sustain the Housing Revenue Account over the 30 year period specified. Consequently, local authorities have considered the two main options of stock retention or stock transfer which might take them closer to the target and enable them to produce a sustainable Housing Revenue Account. In devising a realistic programme for bringing their stock up to the target standard by 2012, the Welsh Assembly Government have emphasised that "local authorities should take account of the views and aspirations of tenants.....The programme should be the product of dialogue and mutual understanding".
30. The Council has set about carrying out its options appraisal with purpose and has sought to ensure that appropriate resources are allocated to the project. There has been good communication between members, officers and trade unions, and sound action plan has been agreed to take forward the reviews necessary to evaluate the scenarios set out in the Business Plan for stock retention. However, despite the Council's commitment to engage with tenants on this issue, it has had only limited success in doing so.
31. The Council will need to ensure that the current presumption in favour of stock retention is properly evaluated against the stock transfer option when the reviews have been completed. At that stage, the Council should also seek to engage with a wider group of tenants than it has been able to achieve so far.

School investment strategy

32. The Welsh Assembly Government has stated that by 2010 all schools should be fit for purpose. The Authority has identified that capital investment of at least £85m is required to achieve this target. This has been identified from a number of detailed exercises including the condition survey undertaken in 2001 and a strategic school property appraisal. Raising this sum of money will be no easy task and every option will need to be explored before any firm decision on funding mechanisms can be taken.

- 33. This represents a considerable challenge (and risk) to the Council and the Council has been reviewing the various funding options available to it. We will continue to liaise closely with the Authority in this area.

Financial standing

Overall arrangements

- 34. The Authority’s arrangements continue to be developed and refined with greater clarity being introduced into the reporting arrangements.
- 35. The Authority has operated within budget over the last few years and has built up considerable levels of general and specific reserves. This has been achieved by setting money aside from budget underspends and through the generation of higher than expected council tax receipts (as a result of an improvement in council tax collection performance). This is discussed further below.

Revenue

- 36. The Authority reported an underspend of £3.823m against a revised revenue budget of £144.899m during 2003/2004. The Authority subsequently transferred £3.729m from services into specific reserves leaving an overall underspend of £94,000 which was subsequently transferred to general balances. This position analysed over each Directorate is set out below (together with a comparison with the previous year).

EXHIBIT 3: DIRECTORATE OPERATING POSITION

Directorate	2002/2003 Out-turn position - under/(over) spent £000's	2003/2004 Out-turn position - under/(over) spend £000's
Learning and development	299	102
Community Services	(376)	(1340)
Environmental and economic regeneration	564	278
Legal and regulatory	293	58
Policy	4,192	4,725
Total	4,972	3,823

- 37. The overall underspend figure tends to mask some significant variations most notably within Finance, ICT and Property, where there was an underspend of £4.641m and within Community Services where there was an overspend of £1.340m.
- 38. These and other issues are currently being reviewed by the Council as part of its comprehensive budget review that is intended to inform the 2005/2006 budget setting process.

Capital

- 39. The Authority has pursued an extensive capital programme over the last two years amounting to approximately £27m per annum. We have expressed concern in previous Annual Audit Letters over the level of slippage that has arisen.
- 40. In 2003/2004, the capital programme slipped by £1.2m (6%) against the revised capital programme (see below). As in previous years, significant changes were made to the original capital programme during the year and details of these changes were reported regularly to members.

EXHIBIT 4: CAPITAL PROGRAMME OUT-TURN AGAINST THE ORIGINAL AND REVISED PROGRAMMES

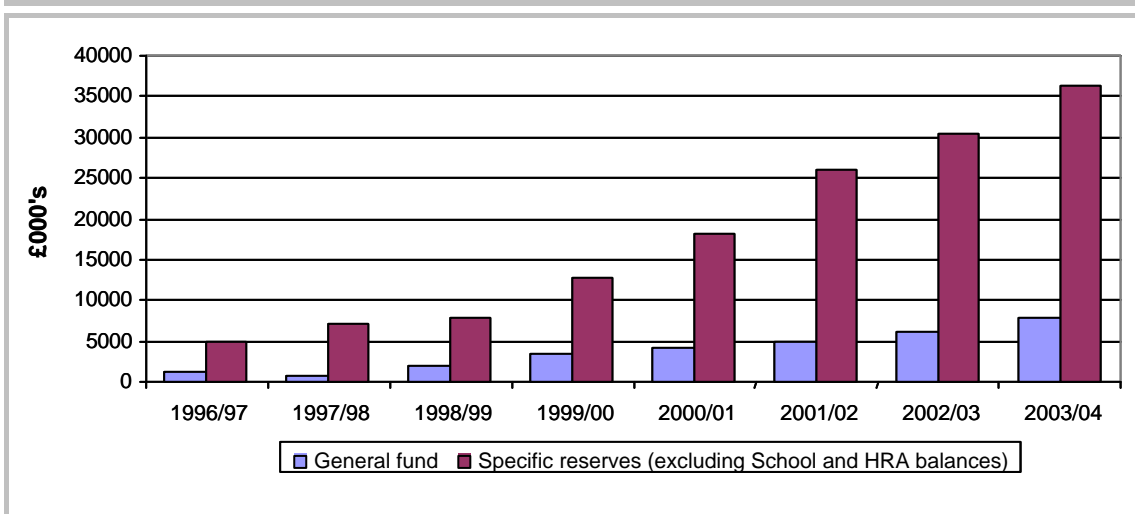
Out-turn position	2002/2003 £000's	2003/2004 £000's
Original programme	28,391	27,014
Revised programme	24,855	20,403
Actual out-turn	22,177	19,168
Movement against revised programme	2,678 (11%)	1,235 (6%)

- 41. If the Authority is going to meet the requirements of the Prudential Code it needs to ensure that the capital strategy facilitates informed decision making about affordable and sustainable levels of borrowing to improve the delivery of its capital programme.

General and specific reserves

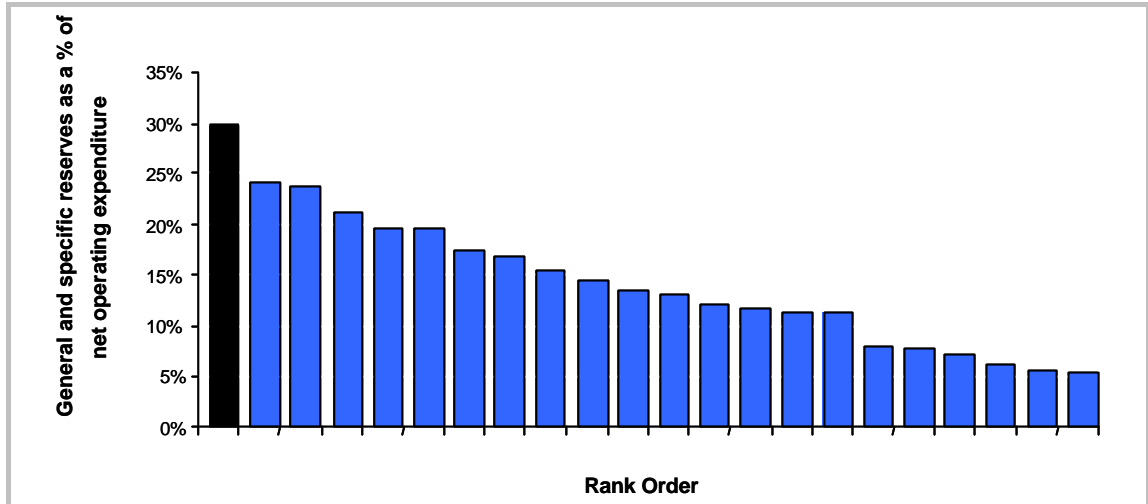
- 42. Since the formation of the Council in 1996, the level of general and specific reserves has increased year on year, particularly over recent years. As at 31 March 2004 the general and earmarked reserves (excluding schools and Housing Revenue Account reserves) totalled in excess of £44m, and equated to some 30% of the revenue out-turn of the Authority.

EXHIBIT 5: LEVELS OF RESERVES HELD BY THE AUTHORITY SINCE IT WAS FORMED



- 43. This level is very high when compared with the level of reserves held by other Welsh authorities (the Authority has the highest level of reserves both as a percentage of its net operating expenditure and per head of population).

EXHIBIT 6: COMPARISON OF RESERVES HELD ACROSS WELSH AUTHORITIES AS AT 31 MARCH 2004 (BASED ON DRAFT ACCOUNTS)

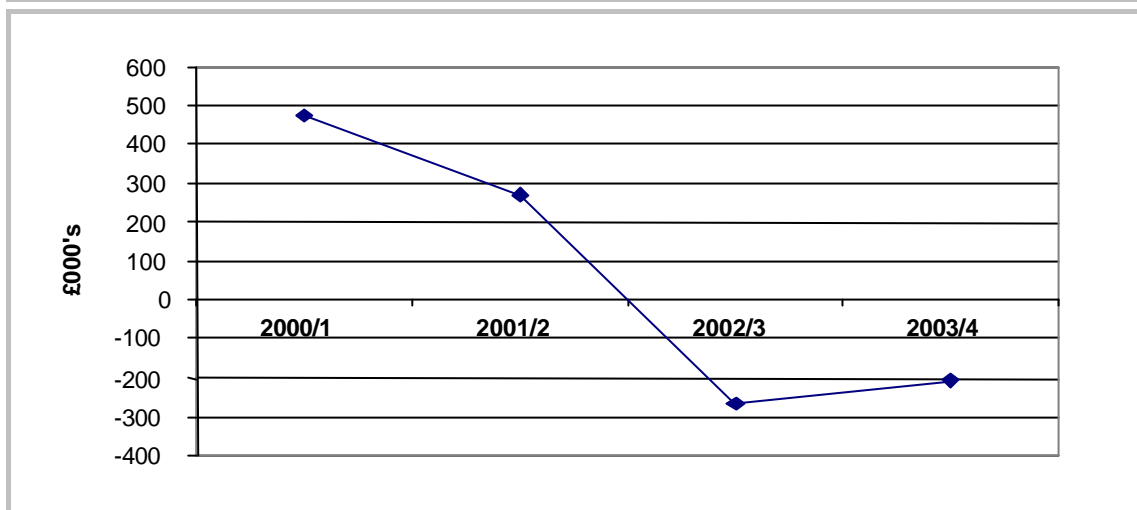


- 44. We are aware that the Director of Finance is currently holding ‘budget workshops’ with members to review the Authority’s Financial Strategy. Members will need to consider whether the number of reserves (and the sums involved) are still required for the purpose they were originally established. Following completion of this work it is envisaged that the Council, guided by the Director of Finance, ICT and Property will bring forward proposals for making best use of available resources in a way which is publicly justifiable, addresses identified need and provides value for money without compromising the long-term financial stability of the organisation.

Trading activities

- 45. The Council's trading accounts for 2003/2004 reported a cumulative deficit of £205,000. This is a marginal improvement on the deficit reported in the previous year (Exhibit 7).

EXHIBIT 7: OVERALL PERFORMANCE OF TRADING ACTIVITIES OVER THE LAST FOUR YEARS



- 46. Individually, four of the nine trading operations reported deficits. Of particular concern are the building maintenance deficit of £168,000 and the grounds maintenance deficit of £195,000. We intend to review these areas of activities in greater detail as part of the 2004/2005 audit.

Systems of internal financial control

- 47. The systems of internal financial control continue to be appropriate and robust, with good progress made to address the majority of audit issues raised previously.

Prudential Code

- 48. New capital finance regulations came into force with effect from 1 April 2004 which fundamentally changed the way in which local government finances and accounts for capital expenditure. The Prudential Code moves the emphasis from statutory regulation to self-regulation, thereby aiming to give local authorities greater financial flexibility. In accordance with the Prudential Code, the Authority has determined a range of treasury management indicators which are set to support and record the decision making process locally. The indicators were submitted to the Council in January 2004 in accordance with the deadlines prescribed in the Prudential Code. Revisions were also required to the Treasury Management Strategy and Policy Statements to reflect the new Code requirements; these were approved by Cabinet in 2003/2004.

49. The Authority appears to have introduced the required procedures to meet the 'compliance' requirements of the Code. As part of our 2004/2005 Regulatory Plan, we intend to switch the emphasis of our work to consider the effectiveness of the Council's arrangements.

Internal Audit

50. Internal Audit (IA) is a fundamental part of an audited body's corporate governance arrangements and, if operated properly, provides both the Council and ourselves with a high degree of assurance about the systems of financial control. As part of our audit, we assessed the quality of IA's work against the standards in the CIPFA Code of Internal Audit and the level of reliance we could place on their work.
51. Overall, we are satisfied with the work undertaken by IA which complies fully with the CIPFA standards included in the Code of Internal Audit. We have raised a number of specific issues regarding IA's ability to fully achieve the staffing, training and planning standards, in particular:
- In 2003/2004, the department experienced a high level of staff turnover and at one stage it was operating at 74% of its establishment. This problem was compounded by the skill mix of the department, which is well below the CIPFA average in relation to the proportion of qualified accountancy staff.
 - The high staff turnover has impacted on IA's ability to deliver its audit plan. In 2003/2004 the audit plan slipped by some 20% (but not in any high risk areas).
52. These issues have been the subject of a detailed report that was agreed with the Council and discussed at Audit Committee. An action plan has been agreed to take these issues forward; we will review progress as part of next year's audit.

Risk management

53. The Council has made good progress in establishing effective risk management procedures. The Council has succeeded in raising the profile of risk management with a high level of commitment from the Authority and key officers in identifying and managing the risks facing the Council. Several other key developments have also taken place, namely:
- A proactive risk management working group has been established to drive forward the risk management agenda. This group takes an overview of the risks and their status on a quarterly basis. This group is also intended to help the Council capture new risks outside the formal WPI process although this process is being refined through the development of the annual risk assessment (ARA) exercise.
 - A wide range of risks have been identified which have been categorised in terms of likelihood and severity, present controls, improvement potential and priority. These will be monitored in line with the Authority's risk strategy.
54. There are a number of areas which require further development as set out in a detailed report agreed with the Council earlier this year. An action plan has been produced to take these issues forward.

Procurement

55. The Council has taken several steps to improve its procurement performance. The Procurement Officer is having a positive effect for the Council in terms of the provision of more coherent procurement advice and guidance. In our view good progress has been made over the past year in taking the procurement agenda forward. In particular we noted that:
- A procurement strategy has been produced which is being implemented through the production of the Procurement Guide within the Strategy.
 - A procurement action plan has been produced. The actions now need to be implemented and monitored so that the desired outcomes are achieved and the overall performance of procurement across the Council improves.
 - Procurement has been recognised as a key corporate risk and a procurement working group has been set up to provide the impetus to make changes. This group is chaired by the OM Support Services in Environmental and Economic Regeneration.
 - A list of contracts have been set up by the Welsh Purchasing Consortium.
56. The next stage is the 'full implementation' of the Procurement Strategy and associated actions.

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

Whilst overall we are satisfied with the arrangements put in place to assist in the prevention and detection of fraud and corruption, the underlying messages in policies need to be reinforced for members and officers through training.

Code of Conduct

57. A local Code of Conduct was implemented for members in May 2002 which is contained within the Council's Constitution. The Authority has run training sessions on the Code of Conduct for members, although only 40% of members had attended the training. If the Code of Conduct is to fulfil its purpose, it needs to be promoted throughout the organisation and all members should be encouraged to attend further training programmes.

Anti-fraud and corruption policies

58. An anti-fraud and corruption and whistle-blowing policy are in place and are available on the Authority's intranet. It would be good practice to include these policies in the induction packs for new starters to ensure they are made fully aware of the policies and to reinforce their importance to the Authority.
59. The Authority also intended to roll out a programme of fraud awareness training to support the messages in these policies although to date, this training has only been provided to housing benefit officers.

Gifts and hospitality and pecuniary interests

60. The Authority's procedures for recording gifts and hospitality were reviewed last year in line with the gifts and hospitality policies adopted for members and officers. Several issues were identified as requiring attention to strengthen the Authority's arrangements, particularly in improving the format and monitoring of the registers. These matters are in the process of being addressed.

Performance management

- WPI;
- Performance management; and
- Use of resources.

Wales Programme for Improvement (WPI)

The Council has continued to develop and refine its internal arrangements for assessing its key risks both at a corporate and service level and has demonstrated considerable commitment to improving services.

Annual risk assessment 2004/2005

61. The ARA (Annual Risk Assessment) process was robustly undertaken again this year for all service areas, with an updated risk assessment completed early in 2004 to inform the 2004/2005 service planning process and the 2004/2005 Improvement Plan.
62. However, the process did not investigate limited or poor performance in detail and the level of analysis within the service plan of actions that had been delayed, were ongoing or had been completed was minimal. This process would be further enhanced with an assessment of the impact of completed actions through the development of more outcome related measures within each service. These can then be fully assessed on a regular basis and used to demonstrate service improvements.
63. Progress against the corporate risks identified last year has been reviewed as part of the Authority's overall risk management arrangements. The Corporate Risk Register has been revised and should be monitored in the same way as service plans. The links between the ARA and the corporate risk register should be addressed as part of the risk assessment process for the current year.
64. The Authority is reporting performance against action plans and performance indicators on a quarterly basis to the relevant scrutiny committee, where performance can be challenged and, where appropriate, investigated. This will increase the accountability of service plan delivery and also provide an ongoing risk assessment for future service plans. This will greatly aid the ARA process required under WPI.

Improvement Plan

65. The Improvement Plan was completed and published in line with national guidance and met all statutory requirements. It is a well prepared and considered document and has been produced in line with the PMF. Although it does not play a key part in the operational delivery of improvements within the Authority (the Corporate and Service Plans are used essentially for that purpose) it does allow all key stakeholders, members, staff, partners and the community to assess how the Council performs against its key themes and objectives.

66. The IP includes 126 National Assembly for Wales Performance Indicators (NAWPIs). Of the indicators tested 85% were satisfactory, 6% were qualified (ie, the systems cannot be relied upon) and 9% were amended. This shows a slight increase in the level of PIs that have been qualified and amended from last year, which equated to 5% and 8% respectively.
67. Of the eight PIs qualified, three were outside the control of the Authority; and of the 11 PIs amended, seven were identified internally by the Authority's quality assurance process (but too late to amend the detail in the published document).
68. Overall, the Authority has continued to develop its systems for producing accurate and complete PIs.

Performance management

The Authority's PMF has continued to develop and improve over the last 12 months and good progress has been made in implementing the key requirements of the Framework.

69. A detailed report 'One Framework for All' was produced in December 2003, which outlines the aims and operating procedures to be used in relation to the PMF. This provided a clear basis for all stakeholders in implementing and complying with the requirements of the PMF. The Council is aware that this is an evolving process and further work is programmed in the current year to ensure its continued development. This is demonstrated by the recent production of a Manager's Guide to the 'PMF in the Vale of Glamorgan'.
70. The PMF is now being implemented across all service areas, although there are still varying levels of consistency in the way it is used in day to day operations. The majority of the managers are committed to the approach and are beginning to realise real benefits as a result. For example, the process has resulted in service heads having a much improved assessment of their service, its strengths and weaknesses and a better understanding of areas in need of improvement.

Service plans

71. The Council has continued to develop and improve its service plans as the dominant planning document. More specifically, the plans now have better linkages between the overall objectives and related actions of both the Council and individual services.
72. A service plan template was issued to all Directorates in their preparations of service plans for 2004/2005 and a Manager's Guide 'Service Planning in the Vale of Glamorgan' has recently been produced. The structure of the template is thorough and has been followed in almost all cases. Services within the Authority are now recognising the value of PMF and improvements are being realised.
73. Services are being more realistic in terms of the actions that they can deliver and are starting to develop outcomes that are measurable and can be monitored, although we appreciate that this is not an easy process, further work is still required in this area.

Target setting

74. All services have attempted to set meaningful targets for 2004/2005. There has been a general improvement in the quality of targets when compared with last year's action plans. To improve target setting, the Improvement and Development Team produced new guidance on the development of targets and target setting, and a paper 'a practical guide on setting effective targets to drive improvement' is available on the improvement pages of the Authority's intranet.
75. Each Directorate also has a PIs co-ordinator who is responsible for data collation and reporting on PIs. In addition, services have established a monthly managers meeting where a review of progress in meeting targets and PIs contained in the Action Plan is discussed. There have also been some other notable developments throughout some service areas, for example, the Economic Development and Leisure Service and the Planning and Transportation Service have mapped out their respective PIs in a 'service realignment chart' which enables the services to link their key PIs, local PIs and equality and sustainability PIs directly to their service objectives and the Corporate Plan.

Monitoring of performance

76. Monitoring of performance is through regular monthly service meetings, where actions are reviewed and progress or problems raised. In addition, each service now reports progress to its relevant scrutiny committee on a quarterly basis through an approved template that looks at performance in relation to key PIs/targets and progress against actions plans. This process commenced in September 2004. Initial feedback is very positive, since it makes members fully aware of current performance and the progress being made by services as part of the WPI agenda.

Project management

77. The Authority has adopted a modified PRINCE2 system as the basis for its preferred project management system. Two members of the Improvement and Development Team have been trained and they have developed a bespoke system for the Authority.
78. Full details of the approach to project planning and a comprehensive range of background documents have been placed on the Authority's intranet site and a Manager's Guide 'Managing Projects in the Vale of Glamorgan' has recently been developed.
79. In addition, all Directors, Heads of Service and Operational Managers have undertaken a one day 'awareness' training of project management provided by external consultants during March/April. Consideration is also being given to the purchase of software to allow greater co-ordination and improved sharing of good practice.
80. Managers are very supportive of the Authority's approach to project management. The consultants employed by the Authority to undertake a one day awareness course on project management painted a very favourable picture of the Authority's approach and the attitude of staff who undertook the training. Additional training will be provided by the Authority's in-house training resource as and when required.

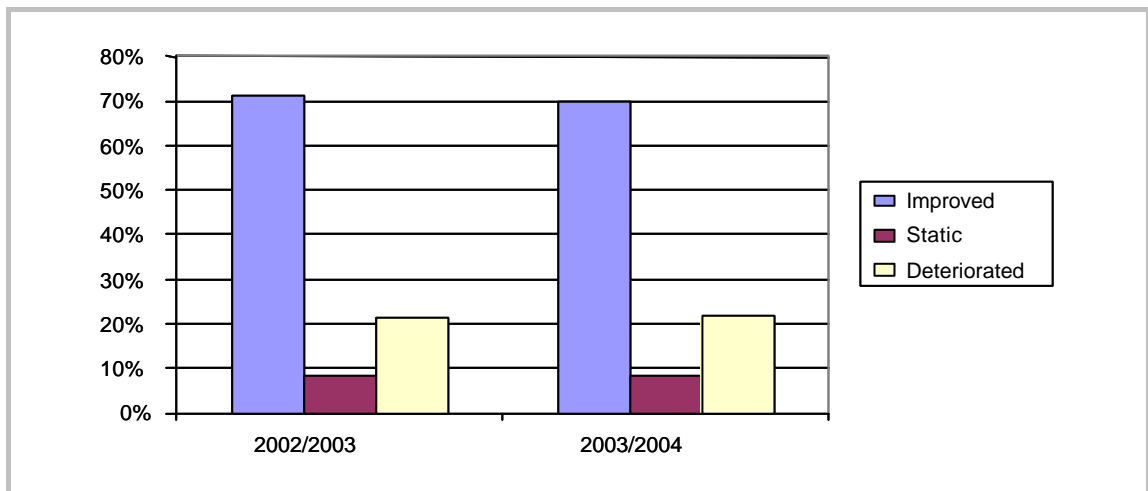
Staff appraisal

- 81. Staff appraisal and development is highlighted as a key element in the PMF and is being implemented via the Performance and Development Review System (PDRS). This system is seen as a useful tool by both managers and staff, but with the qualification that there was a perception by some staff, expressed through focus groups, that already its implementation has not been consistent and resources for training are not always available.
- 82. The Authority launched PDRS2 in April 2004 which amended the original PDRS process to include:
 - personal work targets which will be agreed between individuals and managers; and
 - a new procedure to deal with groups of staff who are engaged in the same work where it would be impractical for the line manager to conduct individual sessions.
- 83. The PMF recognises the significance of team plans in providing the link between service objectives and staff roles and development needs. Team plans are prepared annually and preparation and although at an early stage, they are being used by the services to drive improvement and form the link between service and personal objectives.

Track record

- 84. Our review of the NAWPIs in the Improvement Plan demonstrates that the Authority is continuing to perform very well in the majority of areas and is above the Welsh average in 55% of key PIs reported in the Improvement Plan (based on 2002/2003 performance).

EXHIBIT 8: ANALYSIS OF PIs OVER IN 2002/2003 AND 2003/2004



85. During 2003/2004, 70% of PIs had improved (or cannot improve any further), 8% remained static and 22% deteriorated (these figures have been updated to reflect further information provided by the Council and differ slightly from those referred to in my report on the Council's Improvement Plan issued in October 2004). We have also reviewed the Authority's performance against the targets it set for itself in 2003/2004. This again shows that the Authority's performance is consistent with previous years with the majority of targets achieved.

Use of resources

86. As part of the audit planning process, the following areas were identified for review from the joint risk assessment:
- human resources;
 - asset management;
 - SWIFT;
 - democratic renewal; and
 - information technology (IT) management arrangements.

Human resources

87. In March 2003, we published a report of an inspection of human resources (HR) at the Council and made a number of key findings for the Council to action. In June 2003, the Council approved an HR strategy together with an associated action plan to address these and other HR related service improvement priorities. This review considered the progress being made by the Council.
88. Our review identified that the Council is progressing many of the issues previously raised and has reported its progress to the Change Board in accordance with good practice. There are, however, some key areas that the Authority needs to continue to address/monitor:
- prioritise use of resources to achieve the HR Strategy;
 - evaluate the impact of the HR Strategy implementation with chief officers and members;
 - monitor implementation of the HR Strategy robustly to ensure implementation is not impeded by overly long timescales;
 - plan for the outcome of the job evaluation process;
 - develop an implementation plan to accompany the Training and Development Strategy;
 - fully implement the PDRS/TDRS appraisal system; and
 - develop detailed costs and savings of implementing an integrated HR/payroll system.
89. The Council should now take steps to ensure that these issues are incorporated and addressed by the overarching HR Strategy Action Plan.

Asset management

90. Our review focused on the working arrangements for asset management planning at the Authority and assessed their effectiveness in terms of future capacity for delivering a corporate strategy for asset management. The findings of our work identified some key areas of good practice, most notably:
- The Authority has prepared a completed Asset Management Plan which compares favourably with English good practice examples. This is a published document which clearly shows the Council's progress and objectives in this area.
 - Asset management is being appropriately driven by the Authority through its Lead Officer, the Director of Finance ICT and Property, the Corporate Property Officer and the Leader of the Council with responsibility for Property issues. This is supplemented by the Corporate Asset Management Group which is well represented by senior staff from across all directorates.
 - The Corporate Asset Management Plan Team and Property leads appear enthusiastic in driving asset management forward and expediting decisions and agreement for the Authority's strategic approach to the subject.
 - The Authority has produced a robust and standard format of Service Asset Management Plan which complements the overall corporate approach. This includes service needs being well accommodated by the methodology used by the Authority.
 - There were some areas identified for further development, namely:
 - The Authority should ensure the general timetable for completing those outstanding aspects of the asset management process are adhered to and any slippage which may occur should be addressed as a priority. The most important aspects of this are property utilisation assessment system(s) and spending and output monitoring information.
 - Although data sets are comprehensive and are appropriate for purpose, the Authority has identified potential weakness in the lack of integration between IT systems.

SWIFT

91. The Council uses the SWIFT application system as a case management tool and to produce management information. Our review identified that the Council has put in place mechanisms to develop, monitor and evaluate its effectiveness. However, there are a number of weaknesses in the controls applied to the system which leaves sensitive personal data vulnerable to loss or unauthorised access and introduces the potential for inaccuracy in key PIs. In particular:
- The Council does not have a standardised approach to entering data in to SWIFT. Practices within teams and throughout the department are varied.
 - The system does not have internal validation controls. Without adequate controls, the system cannot check the quality of data being entered and processed.
 - User access controls are not being applied effectively.
 - The Council is unaware of whether the system has an audit trail. Therefore, staff have not been trained appropriately to run and analyse reports.

- There is limited scope for recovering the system and data in the event of an environmental disaster.
92. A detailed report has been agreed with the Council and appropriate action is being taken to address the weaknesses identified.

Democratic renewal

93. Our work involved reviewing the issues relating to Part II of the Local Government Act 2000 including decision making, policy formulation, scrutiny and accountability arrangements. The work focused on:
- evaluating whether the new arrangements are working as intended in improving effective decision making, openness and accountability; and
 - supporting the Council in drawing up an Action Plan for implementation over the next few months.
94. The Council has embraced the modernisation agenda and is committed to this process. Members and officers are working hard to change the culture of the Council. However, within the current constraints of capacity and resources, the aims, objectives and tasks it has set itself are challenging.
95. It is aware that it still has much to do to ensure the operation of fully effective political management arrangements and particularly the scrutiny function, and is committed to regular review and evaluation to achieve this aim.
96. The key issues that the Council need to address can be summarised as:
- Further develop scrutiny and accountability arrangements and support, increasing their status, impact, capacity, and pace, to ensure more clarity, focus, and full understanding of all members, officers and co-optees in order to reach their potential and achieve maximum impact and value to the Council.
 - Improve its decision making arrangement, review and clarify its schemes of delegation at all levels, and arrangements for consulting with, and recording views of local and Cabinet members; ensuring consistency and full understanding of all members and officers.
 - Review the role and purpose of its improvement panels to ensure an integrated approach with scrutiny to the improvement and WPI agenda as a whole.
 - Ensure appropriate and adequate infrastructure to support the new arrangements, particularly:
 - ensuring adequate and appropriate dedicated officer support, particularly for scrutiny;
 - ensuring more clarity of the different roles and relationships between Cabinet, scrutiny and officers; and
 - undertaking further member and officer development, particularly in scrutiny, and on the Constitution for new members following elections in 2004.
97. A detailed report has been produced and the issues discussed in a member's workshop. A members working group has been established to respond to the Action Plan to ensure that all these issues are progressed. We will review progress as part of this year's audit.

Information Communications and Technology (ICT) management arrangements

98. The Council has experienced significant challenges and changes in its ICT services over the past few years. We reviewed the ICT management arrangements within the Council as part of the audit to provide an overview of the management of ICT and to facilitate comparison with good practice.
99. Our review concluded that the core arrangements for the delivery of ICT services are generally satisfactory although there is scope for improvement, namely:
 - establish and approve a detailed action plan for the e-Government, information management and ICT strategies;
 - establish an ICT group to advise on ICT strategic decisions and provide governance over the ICT Section;
 - improve ICT Section key PIs and report these to the strategic Head of ICT and the Authority on a regular basis;
 - perform and document a formal security risk assessment;
 - document a corporate plan for the business arrangements for the recovery of key facilities, services, systems and data in the event of a disaster scenario;
 - prepare and document a fully detailed corporate wide Disaster Recovery (DR) Plan for the recovery of key IT systems and data;
 - perform DR testing on a periodic basis; and
 - perform a formal DR and risk assessment to identify the impact and risks of systems unavailability.
100. Our findings, conclusions and recommendations have been agreed with the Council and an action plan produced. We will revisit this area as part of the 2004/2005 audit.

Inspection programme

Introduction

101. This part of the Letter provides a summary of the inspection work undertaken by the ACiW as set out in the Regulatory Plan. This includes the work undertaken in response to the local joint risk assessment and the national improvement studies carried out across all 22 local authorities in Wales.

As part of the inspection programme, the following work has been undertaken:

- a series of improvement studies; and
- local risk based inspection work where we have challenged and supported the Council's internal review process.

Improvement studies

102. As set out in Section 6.4 of the Welsh Assembly Government Circular 18/2002 and following consultation, for ACiW mandated a range of inspection work. This work was partially funded from resources made available to ACiW by the Wales Improvement Board. The rationale for allocating resources to the following areas is to:

- provide learning and informed direction on areas of collective risk in Welsh local government;
- support areas not well served by current or recent work; and
- make visible short-term impact in informing and supporting improvement.

103. The key findings are summarised below:

EXHIBIT 9: IMPROVEMENT STUDIES

Study	Key findings
Managerial capacity	<p>The Council is aware of a lack of capacity throughout the Organisation and has put plans and resources in place to address weaknesses including the development of new initiatives relating to recruitment and retention.</p> <p>The Council's member and officer structure is relatively stable but now needs to develop a corporate workforce strategy/plan which considers the vision and objectives of the Council and the number and type of people required in each directorate to achieve its aims.</p> <p>The Council recognises that it has much to do to develop its middle and junior staff to ensure they have the necessary competencies and skills to become the senior managers of the future. The management development programme will be an important initiative in developing managerial capacity.</p>

Study	Key findings
Action Planning Workshops	The Council is well advanced in the production of robust action plans.
Regeneration	<p>The main regeneration priorities for action are clearly outlined in the Community Strategy and the Council's Corporate Plan. In these documents, regeneration is seen principally as an environmental and economic issue. There is good strategic leadership of these activities.</p> <p>In terms of external working relationships, the Council recognises the need to work in partnership and has a well developed framework for doing so. It is starting to work more closely with the local community and voluntary groups to address community regeneration issues.</p> <p>In terms of internal working relationships, multi-disciplinary working groups have been used to deliver the regeneration agenda.</p> <p>Much of the regeneration activity has been directed towards Barry in view of its social, environmental and economic problems. The Council has yet to find a way of transferring the regeneration of the former Barry docks area to the rest of Barry.</p> <p>The report highlights a number of successful regeneration projects but draws attention to the fact that progress is being affected by the limited resources available to the Council. The limited number of staff available within the Council to deliver such projects is also an issue.</p> <p>The Council has demonstrated that it can successfully manage change within a framework of difficult financial and political constraints.</p>
Customer/Citizen Engagement	<p>Over recent years, the Council has been proactively working towards improving customer satisfaction by providing better access to services to. It has developed key strategies and plans to facilitate this aim.</p> <p>The Council is still developing some of the key elements of their customer focused approach.</p> <p>The Council's major priority is to undertake a feasibility study for establishing a contact centre.</p>
Sustainability	Work is ongoing; findings are to be reported at a later date.
Arts and Culture	<p>The Council sees itself as an enabler rather than a direct provider. However resources for development are limited which impacts on the co-ordination of effort within and external to the Council, this should improve with the appointment of an events officer.</p> <p>The Council has recognised the contribution that arts can make towards regeneration and has started to develop its work in this area through the rural regeneration strategy, a public art policy and the Events Strategy.</p>

Local Inspection work

104. Our detailed local Inspection work was derived from the joint risk assessment process completed in 2003/2004 and focused on challenging and supporting the Authority's internal arrangements and reviews. This was intended to provide an 'external perspective' to the review process but also to provide us with assurance that the Authority's internal improvement processes were effective. The local inspection work undertaken during the year is discussed below.

Grounds maintenance and green spaces

105. A review of grounds maintenance and green spaces was carried out as part of the Authority's internal improvement review programme for 2003/2004. This review was completed by the Authority's Improvement and Development Team in conjunction with service staff. The objective of our review was to look at and challenge all aspects of the internal improvement process to ensure that it was completed robustly and effectively.
106. We concluded that the internal review was completed thoroughly and robustly, involving both corporate and service officers in the process. The internal review concluded whilst the service achieved good levels of user satisfaction the parks and grounds maintenance service appeared to be costly and lacked performance information. As a result of the review, a detailed action plan was put in place to address the issues raised. This is an area where we will review progress as part of our 2004/2005 work.

Responding to emergencies

107. Modern local government has recognised the importance of service provision and its need to be able to respond to emergencies 24 hours a day. The internal review covered the way the Council dealt with 'out of hours' emergencies.
108. We again concluded that the internal review was undertaken robustly and incorporated all the aspects of 4C's (Challenge, Comparison, Consultation and Competition). Members were fully involved throughout the process with regular updates being provided to the Members Improvement Panel.
109. All major issues were identified as part of the internal review process and were addressed in the resultant action plan that was produced.

Legal services

110. A full internal review commenced prior to 2003/2004 was delayed whilst the Council completed its Whole Authority Analysis. This internal review was reconvened in 2003/2004 and was undertaken by the Authority's Improvement and Development Team in conjunction with service staff. It was agreed that we would provide external challenge to the review.
111. We presented the results of this work to the Members Improvement Panel earlier this year. The key issues arising are summarised overleaf.

EXHIBIT 10: KEY FINDINGS FROM LEGAL INSPECTION

Area	Key message
Culture	There needs to be a significant change in the culture and approach of legal services staff.
Finance	The internal funding arrangements are not clear and do not work satisfactorily. A common and shared understanding needs to be reached on how all work is to be financed.
Profile and impact	The profile and impact of the Legal team needs to improve.
Quality	The inconsistent quality of work is unacceptable. Much of the work is very good but some is not as good as it could or should be. Good quality work is completely overshadowed by poor 'client' perceptions of service.
Communication and relationships	The communication and internal working relationships between legal services and client departments is not good enough and simply promulgates an already difficult working arrangement.
Capacity	Legal services do not have sufficient capacity to cope with the current workload properly.
Management	The management of legal services at both a team and individual level needs to be significantly improved.
Structure	The present structure is not working and requires overhaul to make its services more effective and responsive.
Morale	Morale is low and needs to be urgently improved if the desired standard of legal service is to be delivered.

112. Since completing this work a wide range of measures have been taken to improve the overall performance of legal services including the recruitment of new staff, the development of more effective working relationships with client departments and the generation of better client perceptions. The 'new' service is scheduled to be relaunched in January 2005.

Future audit work – Regulatory Plan update

113. We are currently undertaking our agreed work programme as set out in the Regulatory Plan. This has considered the significant business and financial risks facing the Authority as identified as part of the joint risk assessment and which now need to be addressed in this year's audit. We will discuss the individual project briefs with your officers prior to undertaking any detailed audit work.

Closing remarks

114. I would like to take this opportunity to express my appreciation for the assistance received from officers during the course of our work. Our aim is to provide a high standard of audit service that makes a practical and positive contribution to the work of the Authority. We appreciate and greatly value your continued co-operation and support.

Paul Griffiths
District Auditor and Relationship Manager
23 December 2004

Reports issued during the audit

Accounts

SAS 610 Report (December 2004);
Accounts (***Draft – December 2004***); and
Overall Grants Claims Audit (***work ongoing – not yet reported***).

Governance

Internal Audit Assessment 2003/2004 (October 2004);
Financial Standing (***Draft – December 2004***);
Risk Management (August 2004); and
Procurement (June 2004).

Performance

Wales Programme for Improvement

WPI Joint Risk Assessment (December 2004);
Improvement Plan Report (October 2004);
Supplementary Report – Review of the Performance Indicators (November 2004); and
Regulatory Plan 2004/2005 (December 2004).

Use of resources

Human resources (***revised draft November 2004 – to be finalised***);
Asset Management (March 2004);
SWIFT (July 2004);
Democratic Renewal (March 2004); and
ICT Management Arrangements (November 2004).

Inspection work

Managerial Capacity (***revised draft November 2004 – to be finalised***);
Action Planning Workshop (March 2004);
Regeneration (December 2004);
Customer/Citizen Engagement (September 2004);
Sustainability (***work ongoing – not yet reported***);
Culture (December 2004);
Grounds Maintenance and Green Spaces – Presentation (May 2004);
Responding to Emergencies (March 2004);
Legal Services – Presentation (March 2004); and
Improvement Journey Presentation (January 2005)