



WALES AUDIT OFFICE  

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Annual Letter

**Bridgend County Borough Council**

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### **Status of this document**

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## Summary

1. This Annual Letter sets out the key messages from work undertaken over the last 12 months up to the point when it was written by:
  - the Appointed Auditor under the Code of Audit and Inspection Practice (the Code); and
  - the Relationship Manager (RM) on behalf of the Auditor General for Wales (the Auditor General) under the studies and inspection powers of the Auditor General.
2. The Annual Letter includes a summary of audit and inspection work and reports progress against improvement actions. It draws on published reports of other inspectorates to provide an annual summary to Bridgend County Borough Council (the Council). The work planned for the year was set out in the Regulatory Plan 2006/2007 and more detail on the specific aspects of the work undertaken can be found in the separate reports that have been issued during the year.
3. The Annual Letter will be presented to the Audit Committee and provided to all members in January 2008.
4. The Auditor General's Appointed Auditor has concluded that the Council's resources were, in all material respects, properly accounted for in 2006/2007:
  - the Council's 2006/2007 accounts presented fairly the financial position of the council and were properly prepared;
  - the Council delivered overall net expenditure in line with its budget for 2006/2007, but continues to face financial pressures;
  - the Council has continued to review and improve its process for achieving, measuring and demonstrating efficiency gains;
  - the Council has appropriate financial management arrangements; and
  - an examination of the Council's significant financial systems did not identify any material weaknesses in internal control but areas for improvements were identified.
5. The Appointed Auditor has concluded that the Council had proper arrangements in 2006/2007 to help it achieve economy, efficiency and effectiveness in its use of resources. However, there are a number of areas where the Council could achieve improvement.
6. The Council's Improvement Plan has been properly prepared in accordance with regulations.
7. Performance, audit and inspection work delivered both by the Appointed Auditor and on behalf of the Auditor General, found that Council performance is improving but there are corporate and service areas where further action is required.

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8. The Council has engaged positively with the Wales Audit Office's initiatives to promote improvement through shared learning and the Good Practice Exchange. We are also continuing to review the Council's progress on Making the Connections.
  9. The Council and the regulators agreed the Joint Risk Assessment. This identified some areas where further work is required and which will be reflected in the Regulatory Plan for 2007/2008, including:
    - implementing and embedding the performance management framework, including improving performance and financial management information;
    - developing management capacity and capability to support a new directorate structure and deliver corporate priorities;
    - integrating economic, environmental and social sustainability and equalities into strategic planning and decision-making processes;
    - providing effective development and support for members to make and scrutinise decisions, maintain an overview of overall direction, challenge financial and service performance;
    - co-ordinating an approach to achieving planned efficiency savings of 2.5 per cent and identifying and delivering efficiencies across as well as within services;
    - remodelling, rationalising and modernising services to ensure they are fit for purpose and sustainable, including schools, leisure provision and adult services; and
    - delivering sustainable improvements to children's services to safeguard vulnerable children.
  10. The Appointed Auditor recommends no statutory inspections this year.

### **The Appointed Auditor's report**

#### **The Council's resources were, in all material respects, properly accounted for**

11. The Financial Statements are an essential means by which the Council accounts for its stewardship of the resources at its disposal and its financial performance in the use of those resources. The Code identifies that it is the responsibility of the Council to:
  - put systems of internal control in place to ensure the regularity and lawfulness of transactions;
  - maintain proper accounting records; and
  - prepare Financial Statements in accordance with relevant requirements.
12. As auditors we are required to audit the Financial Statements and to issue an auditor's report which includes an opinion on whether the Financial Statements present fairly the state of affairs of the Council. The auditor's report also gives an opinion on whether the Financial Statements have been prepared properly in accordance with relevant legislation and applicable accounting standards, and that its expenditure has been lawfully applied.
13. Our financial audit work covers the following areas:
  - Financial Statements
  - financial health;
  - financial management; and
  - financial systems.

#### **The Council's 2006/2007 accounts presented fairly the financial position of the Council and were properly prepared**

14. International Standard on Auditing (ISA) (UK and Ireland) 260 requires auditors to report to 'those charged with governance' the findings of our accounts audit. The Appointed Auditor's ISA 260 report was presented to the Audit Committee on 24 September 2007. A summary of the findings is set out in Exhibit 1.

**Exhibit 1: ISA 260 reporting to the Council**

Reporting requirement	Auditor's response
Modifications to the auditor's report.	No modifications to the auditor's report.
Unadjusted misstatements.	There were no material unadjusted misstatements. Adjustments made during the audit are shown in Exhibit 2.
Material weaknesses in the accounting and internal control systems identified during the audit.	There were no significant material weakness identified, however a number of areas for improvement have been highlighted and communicated to management. Key points are summarised in paragraphs 56-62.
Views about the qualitative aspects of the entity's accounting practices and financial reporting.	See paragraphs 24-42.
Matters specifically required by other auditing standards to be communicated to those charged with governance.	No matters arose.
Any other relevant matters relating to the audit.	See commentary in the remainder of this document.

15. On 30 September 2007 we issued an unqualified auditor's report on the Financial Statements.
16. Our further work auditing various grant returns, including the Whole of Government Accounts return, has not identified any significant issues.
17. Exhibit 2 reconciles the £10.8 million deficit on the Income and Expenditure Account previously reported to members, to the final deficit position of £11.5 million following a number of adjustments identified as part of the audit as well as adjustments identified by the Council.

**Exhibit 2: Summary of corrected audit differences**

Income and Expenditure Account	£'000
<b>Accounts year end deficit as originally reported</b>	10,810
Adjustment for provision for equal pay/job evaluation	1,100
Correction of bad debt provision calculation	(21)
Correction of insurance provision calculation	(141)
Adjustment for under accrual in personal services identified by the Council	68
Correction of voluntary revenue provision shown as a movement in Council fund balance identified by the Council	(305)
Other movements identified by the Council	(8)
<b>Final deficit for the year</b>	<b>11,503</b>

18. There have been a number of changes to the Statement of Recommended Practice (SORP) for 2006/2007. These included:
  - specifying the order in which the Financial Statements are presented;
  - removal of the requirement to make a notional interest charge;
  - replacing the Consolidated Revenue Account with a UK GAAP compliant Income and Expenditure account and a Statement of Movement on the Council Fund Balance, and
  - replacing the Statement of Total Movement on Reserves with a Statement of Total Recognised Gains and Losses.
19. The changes have been dealt with appropriately in the accounts for 2006/2007.
20. More changes are expected for 2007/2008, with areas of focus to include:
  - Incorporation into the SORP of Financial Reporting Standards (FRSs) 25, 26 and 29 relating to financial instruments.
  - Requirement to replace the Fixed Asset Restatement account (FARA) with a Revaluation Reserve. Balances on the FARA and Capital Financing account will be consolidated into the new Capital Adjustment Account and increased information will be required in respect of asset values going forward.

### **The Council delivered overall net expenditure in line with its budget for 2006/2007 but continues to face financial pressures**

21. We are responsible for assessing whether the Council has put in place adequate arrangements to monitor, control and report on its financial standing. Our audit was based on a review of the following areas:
  - setting the revenue budget and capital programme;
  - financial monitoring and reporting;
  - meeting financial targets; and
  - financial reserves.

### **The Council has improved its budget setting and planning process**

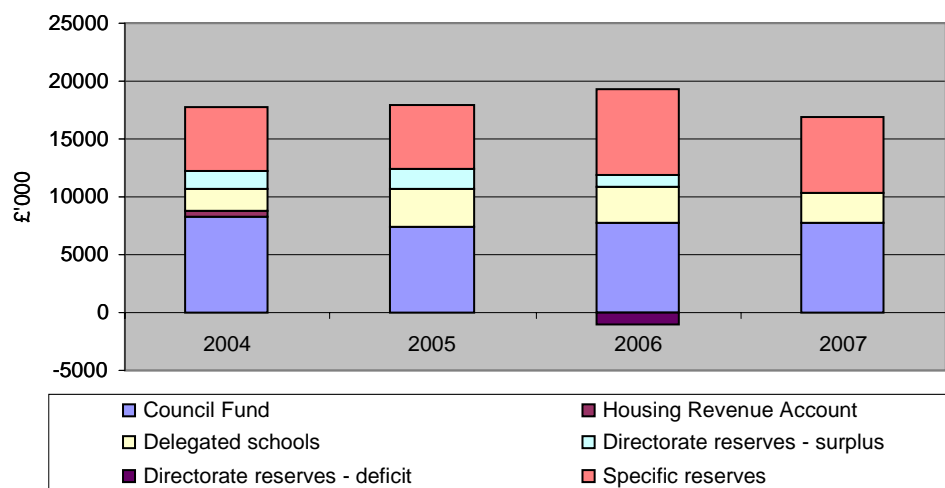
22. Improvements were made to the Council's budget setting and planning process during the year, with consistent and more focused business plan templates used, along with better linking of corporate objectives and risks through to directorate priorities and service level objectives.
23. The Council has a good track record of operating within its revenue budget and this continued in 2006/2007 with a small overall underspend of £14,000. Variances against budget by directorate are clearly explained within the Financial Statements.

24. The most recent budget monitoring reports, to September 2007, identify that the Council is projecting a small overall overspend of £45,000 for 2007/2008, although this is dependent on a number of cost savings being achieved. This is a significant improvement to the position shown in the budget monitoring report to June 2007. This report projected an overspend of almost £1.7 million and resulted in management conducting an exercise that identified a number of actions to be taken to mitigate the overspends.
25. We are satisfied that the Council has in place sound arrangements for year-end financial monitoring and reporting that should ensure any potential material misstatements and variances will be identified, however the Council could improve its reporting and monitoring procedures within the year (see Paragraph 55).

### The Council has undertaken a full of review of its reserves during the year

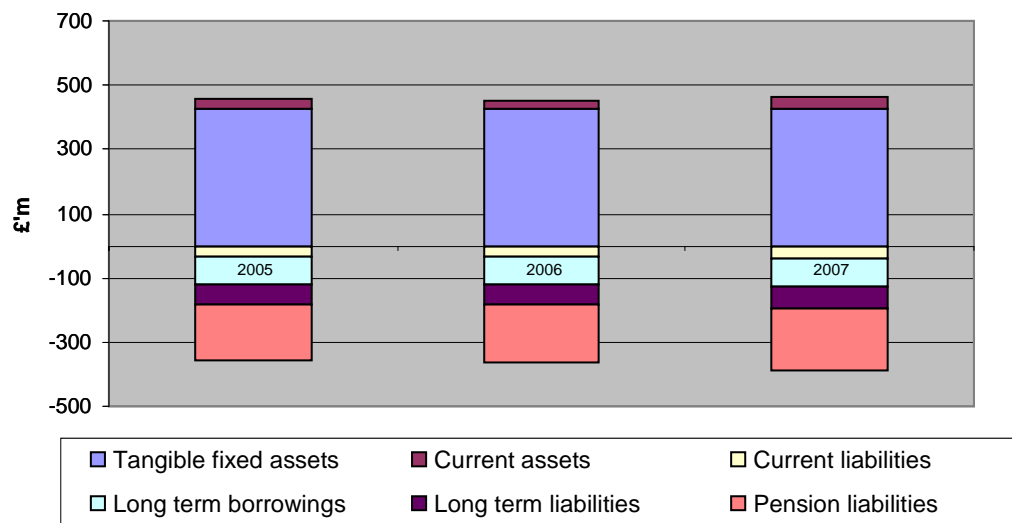
26. During the year management conducted a detailed review of earmarked reserves. The review was undertaken in order to more closely align reserves with the Council's strategy going forward. We welcome this exercise and consider it to be in line with best practice.
27. Exhibit 3 identifies that as at 31 March 2007 the Council had some £14.3 million of capital and revenue reserves (excluding school reserves) which is a £800,000 decrease compared to last year.

### Exhibit 3: Bridgend County Borough Council's revenue reserves 2004-2007



28. Earmarked reserves have been set aside for known and predicted liabilities and commitments such as insurance and capital expenditure. At year-end 2005/2006 a £750,000 reserve was held for potential equal pay and job evaluation liabilities. This was transferred to provisions during the current year in accordance with FRS 12 to reflect the change in nature of the information held (see paragraphs 35-40). As part of the approval processes for budget setting, the Council needs to continue to ensure these reserves are appropriate.
29. Directorate reserves have been discontinued. These were initially set up to carry forward directorate underspends to avoid a spending rush at year end. However, they also allowed departments to carry forward overspends. Therefore, overspend carry forwards from prior year have been written off and this practice is no longer permitted.
30. Delegated schools reserves were built up in 2004/2005 to cover costs related to the workforce remodelling initiatives. It is anticipated that the financial effect of these initiatives will impact over the next few years reducing the reserve balance. Delegated school reserves have fallen by £559,000 in line with this.
31. Exhibit 4 illustrates the council's assets and liabilities and its financial position over the last three years.

**Exhibit 4: Bridgend County Borough Council's assets and liabilities  
2004/2005-2006/2007**



32. Overall the Council's balance sheet shows a net assets position of £77 million (2005/2006: £90 million). The deficit on the pension scheme makes up the largest proportion of the Council's liabilities; this currently stands at £189 million (2005/2006: £181 million). Provisions have increased by £1.3 million, primarily due to job evaluation/equal pay.

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### **The Council is facing a number of other financial pressures over the coming year**

33. There are continuous funding pressures on budget settlements received from the Welsh Assembly Government (the Assembly Government). The Council is also facing financial pressures in relation to their main risk areas, including schools, leisure facilities, Children's Services and highways maintenance.
34. Other specific areas for consideration include potential increases in pension contributions and the costs of job evaluation and equal pay (see paragraphs 35-40). Medium-term and strategic financial planning will continue to need to consider issues that increase funding pressures and there will need to be an increased focus on the drive for achieving efficiencies. We note that the Council is aware of these pressures and has allowed for them in its medium-term financial strategy.

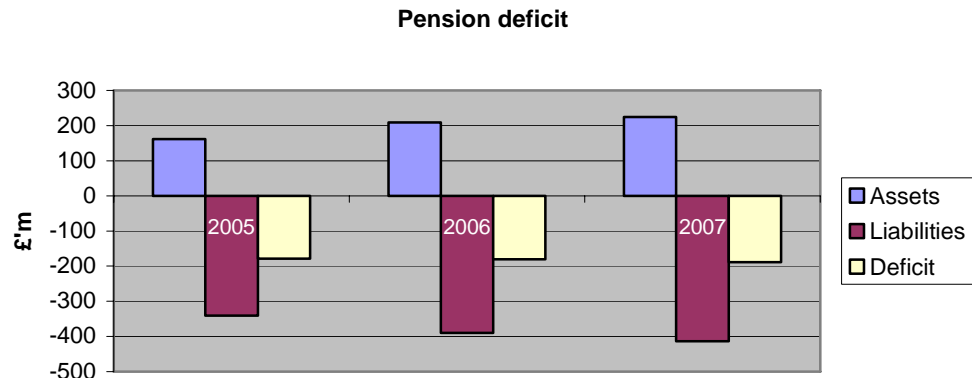
### **There is uncertainty over the Council's potential costs for equal pay and job evaluation**

35. In common with other local authorities, the Council is aware of a potential liability in respect of equal pay claims.
36. A number of grievances and claims have been received since the end of the financial year 2006/2007. Officers have considered the Council's position in regard to the number, quality, and nature of the grievances it has received to date to determine its need to make a provision under FRS 12.
37. As at the date of signing of the Financial Statements approximately 570 grievances/claims had been received but management does not consider that the quality of the information at this point in time suggests that the grievances/claims would succeed. The majority of claims arise from within the catering, domiciliary care and cleaning sectors.
38. Despite the above, if any claim were to succeed Members have already been informed that the Council's financial position is such that any payment would need to be made from the Council's existing Equal pay/Job Evaluation provision.
39. A provision of £1.1 million has been made with respect to equal pay/job evaluation to pay towards any sums that may become due with respect to this. The Council has also included a contingent liability note within the Financial Statements to reflect the uncertainty over this issue.
40. There is an ongoing evaluation and assessment of claims received. We recommend that the Council proceeds with this exercise over the next year in an attempt to resolve this uncertainty as soon as possible.

### **There continues to be a significant deficit on the Council's Pension Scheme**

41. As set out in Exhibit 5, the Actuary identified a deficit of £189 million on the Council's Pension Fund (using the methodology within FRS 17) compared with £181 million last year.

### Exhibit 5: Bridgend County Borough Council's Pension Fund valuation



Source: Council Audited Accounts 2006/2007

42. As reported last year, the employer's contribution rate has increased and the long-term aim is to achieve a fully funded position over a 20-year period. As this will impact on future revenue expenditure it will require careful planning and continued monitoring.
43. One of the key assumptions underlying an actuarial liability is the mortality of members. If people live longer, then a pension scheme will have to pay more. Current research by the actuarial profession suggests that people may be living longer than the assumptions that have historically been used in pension schemes. While this is good news for the individuals it may cause pension deficits to worsen in the future. The mortality assumption used for the Council's scheme has been adjusted during the current year to partly reflect this, and will be further updated as part of the forthcoming full actuarial valuation, due in December 2007, which could mean increased pressure on the deficit in the future. The potential implications of the new actuarial valuation should be considered by the Council.

### The Council has continued to review and improve its process for achieving, measuring and demonstrating efficiency gains

44. The Auditor General has, as part of his work on Making the Connections, assessed progress across all areas of the Welsh Public Sector. During 2005/2006, we reviewed a number of the Council's reported efficiency gains and we note that a number of improvements have been made to systems for recording and measuring such gains in 2006/2007.
45. The Council is on an inevitable learning curve in developing its systems to measure and demonstrate efficiency gains, and there are a number of areas where those arrangements are underdeveloped. The Council has developed plans for efficiency gains projects and has built efficiency savings targets into its 2008/2009 budget. Progress is reviewed in the quarterly budget monitoring reports, with any potential shortfalls identified and explained.

46. The Council has demonstrated commitment to the efficiency gains project and we recommend that they continue to work hard to achieve measure and report the gains. This will involve the continual development of performance measures to measure the success of projects, along with a demonstration that service level or quality has been maintained.
47. The financial pressures faced by the Council detailed earlier in the report make the achievement of targeted efficiency gains particularly important going forward.

## **The Council has appropriate financial management arrangements**

48. The Council's significant financial systems are effective and the improvements being made should continue.
49. Our review identified some key improvements made in financial management. These include:
  - Improvements in risk management processes. The management of key corporate level risks are now included in the Council's objectives and linked to business plans for delivery. The Corporate Management Board and Cabinet are engaged in the risk assessment process and the Audit Committee are playing an increasingly active and challenging role within the Authority.
  - Since July 2007 quarterly budget monitoring reports are presented to Cabinet based on a comparison of forecast spend against budget. In addition more detailed Quarterly Business Reviews (QBRs) take place between Cabinet and Directors which look at performance levels and provide additional challenge.
  - The QBRs include a selection of objectives from 2007-2010 business plans. The objectives and actions have been selected on the basis that they are able to support corporate priorities.
  - Business plan templates are more focused with a clear and consistent structure. There are better links in terms of corporate objectives and risks through to directorate priorities and service level objectives.
  - The Council has prepared a three-year financial plan which indicates funding levels into the medium term and highlights potential financial pressures which need to be monitored and managed.
50. To demonstrate financial stewardship, councils need to ensure effective financial management including:
  - effective internal financial controls, such as robust standing orders and financial regulations, strong budgetary control and effective Internal Audit;
  - recognised standards of financial conduct;
  - appropriate arrangements to ensure that the Council only enters into transactions where there is specific legal provision for it to do so; and
  - effective arrangements to prevent and detect fraud and corruption.

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51. Our review of these areas at the Council identified:
- that the arrangements to maintain the systems of internal control are effective, although some areas require further improvement, as discussed in other sections of this document;
  - as in previous years, Internal Audit has met the required professional standards and our planned reliance on their work has therefore been possible;
  - the arrangements for ensuring that the Council only enters into transactions where there is specific provision for it to do so were found to be in place and had continued to operate effectively; and
  - as in previous years, the ethical framework of the Council was found to be operating effectively together with the arrangements for preventing and detecting fraud and corruption.
52. Following a number of questions from electors we carried out additional work and reported on the arrangements surrounding the retirement of the former Chief Executive Officer in March 2007. We refer readers to that report for further details.
53. The Chief Internal Auditor prepares an annual report and opinion on the Council's internal controls which is presented to Audit Committee. This report concluded that internal controls within the Authority provide a satisfactory level of assurance, which was a higher level of assurance than that provided in 2005/2006.
- Issues of lower significance have been identified as a result of internal audit reviews for 2006/2007. Where areas for concern have been identified management have been taking on board internal audit views to address these.
  - The Council conducts, at least annually, a review of the effectiveness of the system of internal control. This review includes consideration of the Head of Internal Audit's independent and objective opinion on the adequacy and effectiveness of the systems of internal control and recommendations for improvement as well as consideration of the comments made by KPMG as external auditors in management letters and other reports. The fact that annual reviews of internal controls are carried out is stated in the Statement of Internal Control (SIC).
  - There are plans for a shared service for Internal Audit across a number of Authorities in Wales. Discussions are currently in progress, led by officers of Bridgend Council, and we look forward to hearing the outcome.
  - We are pleased to observe that there is a clear intention within the Council to make a direct link between the corporate risk assessment process and the Internal Audit plan for 2008/2009.

54. Statement of Internal Control:
- A detailed exercise was performed in 2005/2006 involving consultation with CMB and Cabinet. This was a good practice approach as it enabled management to focus on key risks and controls.
  - Management performed a desktop update for 2006/2007, which was appropriate given the number of change agenda items being dealt with by the Council. However, a more active approach should be considered next year, involving a wider range of officers and members.
  - The SIC 2006/2007 includes a summary of principal risks and action plans to manage those risks. A number of action points had been completed in the year.
55. Therefore we have concluded that effective financial management arrangements are in place, although there are some less significant areas for improvement which have been reported to management.

**An examination of the Council's significant financial systems did not identify any material weaknesses in internal control; however, areas for improvement were highlighted and communicated to management**

56. Our review of the Council's financial systems has involved documenting the significant financial systems and where necessary testing the operation of the internal controls. We have concluded that the Council's significant financial systems can be relied upon to produce materially correct outputs. We have however identified there is also scope to improve controls in some areas, as follows:

**Accruals accounting**

57. Management accounts are not prepared on an accruals basis. Introducing accruals based quarterly reporting would allow more accurate figures to be calculated and reported against budget and expenditure to be monitored more closely.
58. We understand that this would be a big culture change and should only be done in a sensible structured way in order to minimise change risks. We are also pleased to see that a recent report issued by management proposed the implementation of quarterly accruals accounting procedures and that there are plans to introduce a new procurement module to the CEDAR accounting system which will facilitate accruals accounting, as well as giving the Council better opportunities to achieve procurement savings.

**High expenditure levels in March**

59. Expenditure levels recorded in the March general ledger are seasonally high. March 2007 expenditure represents 37 per cent of the last six months expenditure related to main expense categories, although further detailed work undertaken by management indicates that the actual figure is lower.

60. This is partly because directorates make an effort at the end of the year to post all expenditure. However, as a result of this there is a higher risk of errors in processing and controls potentially being by-passed, and the risk of fraud is increased.
61. There is also a risk that directorates are spending simply to use up their budgets.
62. This issue would improve if a quarterly management accounting discipline was implemented (see above). The recent report by management examined the concern over a spending rush at year end and also recommended that a strong message be given to all budget managers that the practice of spending at year end to utilise budget allocations should be discouraged.

### **Risk analysis section to be included in reports to Cabinet and Council**

63. Reports to Cabinet and Council do not currently contain a risk analysis section. Risks are important as members should understand the implications of making particular decisions. Officers should also describe the steps taken to safeguard the Authority against risks associated with any particular decision or course of action.
64. We recognise that the Council does prepare detailed reports for members on issues, and so it should be relatively straightforward to enhance them along the above lines. This would represent a big step forward to making active risk management a fully integrated part of business management.
65. We also raised the following issues with management following the audit, although we are pleased to note that steps are now being taken to resolve these:
- difficulties locating personnel files following the reorganisation of HR;
  - lack of evidence of review of payroll reports;
  - IT access controls issues;
  - capital accounting procedures, including regular updating of the fixed asset register;
  - effectiveness of Asset Management Plan;
  - formalisation and consistency of partnerships; and
  - performance of bank reconciliations throughout the year.

### **The Council has good general IT controls**

66. Recent organisational changes at the Council have placed an increased emphasis on the importance of IT in achieving its goals. This resulted in a re-budgeting exercise which proposed increased capital investment in IT, particularly in the areas of records management.
67. The Council is currently redeveloping its IT strategy and supporting IT business plan, which will include some restructuring within the IT department. There is also further centralisation of IT within the Council, with responsibility for all IT staff being transferred on 1 January 2007 and all IT spend from 1 April 2007.

68. The increased IT budget is anticipated to result in a far larger IT project portfolio for 2007-2010 and will be focused on improving the service delivery and resilience of processes supported by IT. The Council's current IT project resource is considered sufficient for this, however, management have some concerns regarding gaps in some technical skills.
69. We are pleased to note that IT issues identified during previous audits have been addressed by IT management, to the fullest extent possible, as and when they have occurred.
70. We recommend that the Council's disaster recovery plan should be tested during 2008/2009, as no testing was performed in 2006/2007. The Council should consider developing a recurring schedule for testing each component (individually or simultaneously) of the Disaster Recovery Plan.

### **The Council had proper arrangements in 2006/2007 to help it achieve economy, efficiency and effectiveness in its use of resources; however, there are a number of areas where the Council could achieve improvements**

71. The Public Audit (Wales) Act 2004, requires auditors to satisfy themselves that the audited body has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. This requirement is reflected in the Code.
72. Our audit work noted that the Council had made a number of improvements during the year, including:
- appointment of new senior management and subsequent restructuring;
  - introduction of QBRs;
  - new performance management framework;
  - reorganisation of HR; and
  - optimism that Children's Services may leave protocol for serious concern in early 2008 after full inspection by Care and Social Services Inspectorate Wales (CSSIW).
73. The Council also has a number of key issues which need to be addressed in the coming year, such as:
- further improvements required following HR reorganisation;
  - performance management framework has been drafted but not yet fully implemented;
  - need to link individual performance with corporate objectives;
  - arrangements to maximise use of corporate asset base; and
  - uncertainty caused by delays in the Job Evaluation Project.
74. Our conclusion has been reached as part of our annual audit of the accounts. We examined evidence of the existence of the Council's corporate performance management and financial management arrangements. In this work we do not comment on or provide assurance on the effectiveness of those arrangements during the year.

75. Separate value-for-money work does consider where arrangements or their operation could be improved. The results of such work carried out during 2006/2007 are set out later in this Annual Letter. This work informs our conclusion on the existence of arrangements but is not essential to it.
76. The auditor's report on the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources during 2006/2007 is set out in Appendix 1. The criteria used to assess this are set out in Appendix 2.
77. We have concluded that in 2006/2007 the Council had robust arrangements in place to support the achievement of its responsibility to secure economy, efficiency and effectiveness in its use of resources. The detailed results of our assessment are summarised in Exhibit 6.

#### Exhibit 6: Assessment of proper arrangements

Aspect	Arrangement	Yes or No
<b>Strategic and operational objectives</b>	Has the Council put in place arrangements for establishing, reviewing and implementing its strategic and operational objectives?	Yes
<b>Meeting the needs of users and taxpayers</b>	Has the Council put in place arrangements to ensure that services meet the needs of users and taxpayers, and for engaging with the wider community?	Yes
<b>Internal controls</b>	Has the Council put in place arrangements to ensure compliance with established policies, procedures, laws and regulations?	Yes
<b>Risk management</b>	Has the Council put in place arrangements for identifying, evaluating and managing operational and financial risks and opportunities, including those arising from involvement in partnerships and other forms of joint working or contracting?	Yes
<b>Resource Management</b>	Has the Council put in place arrangements for managing its financial and other resources, including arrangements to safeguard its financial standing?	Partly
<b>Reviewing Performance</b>	Does the Council have arrangements in place to monitor and review performance, including arrangements to ensure data quality?	Partly
<b>Standards of Conduct</b>	Has the Council ensured that its affairs are managed in accordance with proper standards of conduct and to prevent and detect fraud and corruption?	Yes
<b>Overall Conclusion</b>	Has the Council put in place proper arrangements to secure 'economy, efficiency and effectiveness' in its use of resources?	Yes, with improvements needed

## The Council's Improvement Plan has been properly prepared in accordance with regulations

78. Under the Local Government Act 1999 and subsequent guidance issued by the Assembly Government in Circular 28/2005, an Improvement Plan must be published by 31 October. We are required to audit the Improvement Plan in accordance with statutory requirements and guidance, and to report our findings, including on the completion of the joint risk assessment, our audit of the Council's Performance Indicators (PIs) and on its performance measurement arrangements.
79. Detailed responsibilities, the scope of our work and the audit certificate are set out in Appendix 3. The results of our audit are set out in Exhibit 7.

### Exhibit 7: Performance management

<p><b>Audit of the Improvement Plan</b></p>	<p><b>The Plan and the Public Summary were produced and published on time and complied fully with the guidance in Circular 28/2005</b></p> <ul style="list-style-type: none"> <li>• Both the detailed Plan and the Summary are concise, well-written documents which report a balance of good performance and areas for improvement.</li> <li>• The Council's corporate objectives and key actions for achieving them are clearly set out.</li> <li>• Successes for 2006/2007 are reported and are focused around the new set of priority themes for the Council.</li> <li>• Aims and objectives in respect of sustainability and equality issues have been documented explicitly.</li> <li>• Our review of the CIP also identified specific recommendations which are detailed below: <ul style="list-style-type: none"> <li>– There is no commentary included to explain reasons for declining performance for appropriate indicators.</li> </ul> </li> <li>• The Improvement Plan was published before the statutory deadline of 31 October 2007.</li> <li>• The 'Stage 1' Improvement Plan compiled in June 2007 complies with the guidance in Circular 28/2005.</li> </ul>
<p><b>Performance Indicators</b></p>	<p><b>The council has continued to improve the overall level attained for the majority of PIs</b></p> <ul style="list-style-type: none"> <li>• This was the second year the National Strategic Indicators (NSIs) were compiled. The Council has done well in collecting information and there have been improvements in NSI accuracy with only one NSI qualified due to a lack of data collection. The number of corrections as a result of audit procedures has also fallen.</li> <li>• Of the 57 NSIs: <ul style="list-style-type: none"> <li>– one was qualified;</li> <li>– three were qualified although we accepted that there was lack of clarity in the definitions supplied;</li> </ul> </li> </ul>

<p><b>Performance Indicators (continued)</b></p>	<ul style="list-style-type: none"> <li>– six were corrected following audit and;</li> <li>– a further three were updated when the Authority received the final statistical information from an outside party. We do not consider these to be errors.</li> </ul> <ul style="list-style-type: none"> <li>• A summary of PIs is taken to Cabinet on a quarterly basis.</li> <li>• There are differing attitudes to the management of PIs within the Council. Some directorates (eg, Legal Services, Environmental and Planning Services) have a strong focus on PIs to manage and improve performance, whilst other departments do not monitor the information or use it to manage and improve performance. There is scope for some parts of the Authority to make better use of this data as it is already being collected.</li> </ul> <ul style="list-style-type: none"> <li>• The Council fulfilled the requirements to submit all national strategic and core set indicators to the Local Government Data Unit (LGDU) in the agreed timescale.</li> <li>• The council has continued to improve the overall level attained for the majority of PIs.</li> <li>• The overall trend in performance as measured by the PI's reported in the CIP was positive. In 2006/2007 of the readily comparable PIs: <ul style="list-style-type: none"> <li>– 20 per cent improved exceeding target;</li> <li>– one per cent improved and met the target;</li> <li>– 17 per cent performance improved but not met the target;</li> <li>– nine per cent performance remained the same;</li> <li>– 16 per cent performance declined since last year;</li> <li>– 25 per cent related to new indicators; and</li> <li>– 12 per cent where comparison not appropriate/available.</li> </ul> </li> <li>• At the time of submission of the PIs to the LGDU 2006/2007 targets were yet to be set. These are normally set over the summer period.</li> <li>• We recommend that the targets are set promptly to ensure published information is comparable against other councils.</li> <li>• There is no detailed independent check on PIs, creating a risk of information being misreported during the year and bad, or partially informed, decisions being made.</li> </ul> <p><b>We recommend that the Council considers implementing some form of quality assurance process or internal review of 2007/2008 NSIs to ensure correct interpretation and adherence to definitions.</b></p>
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<b>Joint Risk Assessment</b>	<p><b>The Joint Risk Assessment process is given a high level of priority by the Council and top management are all actively involved in the exercise</b></p> <ul style="list-style-type: none"> <li>• there have been general levels of agreement between management and regulators with regards to the principal risks of the Council;</li> <li>• the Audit Committee has shown continued interest in the risk process and has received presentations from management on its operation; and</li> <li>• the risk management process has continued to evolve during the year and we will continue to review the process next year.</li> </ul>
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## **The Council has made effective use of the National Fraud Initiative to detect fraud**

80. The National Fraud Initiative (NFI) is a biennial computerised data matching exercise conducted across England and Wales. The Audit Commission is responsible for the exercise in England and the Auditor General is responsible for the exercise in Wales through his appointed auditors at local government bodies.
81. The exercise is designed to identify overpayments to suppliers and benefit claimants and to detect fraud perpetrated on public bodies. The referrals from the 2006/2007 exercise were released in January 2007 to participating bodies. Participants included the Assembly Government, Welsh unitary, police, fire and probation authorities, local health boards and NHS trusts.
82. In addition, a further NFI module is currently being progressed in Wales to match electoral register information to claims for council tax single person discounts. The purpose of this exercise is to identify fraudulent or erroneous claims for single person discount and follows highly successful pilot exercises in England. The referrals from this exercise will be released to participants in early 2008.
83. The Council is participating actively in the exercise, which is being co-ordinated by Internal Audit and involves a number of different departments, and is in the process of investigating a number of matches, although a limited amount of overpayments have been identified to date.

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## The Relationship Manager's report on behalf of the Auditor General for Wales

### There are indications that Council performance is improving but there are corporate and service areas where further action is required

84. In last year's Annual Letter the RM identified that there had been significant changes to the Council's corporate arrangements but that it was too early to determine the effects upon staff and service delivery. Over the past year, there are indications that the changes the Council made are starting to make a difference to both staff and services.
85. A survey of managers and head teachers undertaken earlier this year indicated that they recognise improvements in leadership, management processes and internal communication. However, they felt that these changes are yet to deliver improvements in services to the public. Nevertheless, the overall trend in the Council's performance, measured by the 2006/2007 PIs reported in the Corporate Improvement Plan, is positive, with 60 per cent of the readily comparable PIs showing improvement.
86. The Council recognises that it faces major challenges to deliver significant further improvements in services to citizens that involve reorganising itself, remodelling services and collaborating with partners within a climate of increasing financial pressures. This will involve taking and implementing difficult decisions. We found that the Council is better placed to make such decisions in an informed and considered way. The Council has also improved its external communications, which will be important in keeping the public informed about changes that may be sensitive or unpopular in the short-term.
87. To ensure that changes involving complex projects are implemented, the Council has put in place arrangements for managing the programme of corporate improvements to deliver its agreed priorities, as set out in the Council's Corporate Improvement Plan. These new arrangements have reduced the level of risk associated with delivery of many corporate projects compared with 2006/2007. We have also welcomed improvements in the timeliness and thoroughness of the Council's responses to audit and inspection recommendations.

## **Strengthened leadership and business processes are starting to bring about the changes in culture necessary to deliver improvement**

- 88.** As part of the Council's Regulatory Plan, we agreed to follow-up the inspection of corporate culture undertaken in 2005. We found positive progress has been made to address the barriers to improvement identified in the original review:
- the way the Council operates is starting to change, with clearer direction supported by improving management processes;
  - more team working and a greater sense of optimism are contributing to developing a culture of improvement;
  - key people are starting to make a difference but delivering significant improvement needs wider change; and
  - communication is improving but needs to be used systematically to share learning and manage the Council's reputation.
- 89.** These conclusions were based on positive findings from separate reports produced in relation to:
- progressing the three corporate projects established in response to the inspection report of 2005 covering procurement, human resources and performance management;
  - addressing fraud and electoral irregularity issues in Electoral Services;
  - taking corporate responsibility for delivering sustainable improvements in Children's Services;
  - demonstrating leadership and governance through the processes of making difficult decisions concerning the Ynysawdre swimming pool refurbishment project; and
  - undertaking a survey of managers and head teachers.
- 90.** To sustain progress and meet future challenges, the Council plans to embed recent and planned cultural change as part of a coherent corporate improvement programme. This will need to include:
- supporting delivery of corporate priorities by identifying and addressing training and resource needs; and
  - strengthening links between financial and performance management systems.
- 91.** The Council is now planning responses to these issues and is already taking action on many detailed report recommendations, co-ordinated within the corporate improvement programme. We will continue to monitor progress through audit and inspection work during 2007/2008.

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**The Council is continuing to implement and refine its Performance Management Framework (PMF) and arrangements for managing performance provide some assurance about the delivery of corporate priorities**

92. The Wales Audit Office is undertaking a series of linked reviews to support implementation of the Council's new performance management framework. We reviewed:
- whether managers are being held accountable for delivering corporate improvement priorities?
  - whether managers are being trained and developed to successfully implement the performance management framework?
93. We found:
- At a corporate level the Council is putting in place a number of mechanisms which if implemented successfully will enable it to assess whether it is delivering its priorities.
  - The Council's arrangements have improved over the last year and a clear corporate approach now exists.
  - The Council has developed its performance management framework and is in the process of implementing and improving elements of the framework.
  - Corporate directors are held to account for delivery of corporate priorities through QBRs and individual appraisal, underpinned by a variety of directorate based processes. However, formal appraisal of service managers against business plan objectives is not undertaken consistently in all service areas.
  - Senior managers receive some targeted training. However, staff development programmes are still being developed and are not yet in place throughout the organisation.
94. We recommended:
- ensuring that all managers are appraised formally against agreed, measurable targets that are derived from business plans and which have a clear line of sight to corporate priorities and themes;
  - aligning the PMF and Ffynnon pan-Wales performance management systems with the Council's new organisational structure and applying corporate programme management processes to their implementation; and
  - devising and introducing a management development programme to develop management skills and competencies necessary to support delivery of corporate priorities.
95. This work is continuing and we are currently examining links between operational management information and delivery of business plan objectives within services and also evaluating and supporting the QBR process.

### **Reviewing the effectiveness of the Council's corporate approach to managing its building assets**

96. On local government reorganisation in 1996, the Council inherited property assets from the previous County and District including schools, leisure facilities, care homes and offices. Now, many of these buildings may not be appropriate for the Council's present and future needs. They are also deteriorating and generating high maintenance costs.
97. Our review is examining whether the Council is addressing these issues and improving asset management. At present, fieldwork has been completed and feedback to the Council is being prepared.

### **Reviewing the effectiveness of the Council's corporate approach to managing its highways assets**

98. Highways maintenance is a high profile service which has suffered from long-term under-investment. Although indicators of residual life of Bridgend's highways are above the average in Wales, this is a result of spending prior to 1996. Other indicators of condition and annual insurance related costs are worse than average. However, a £240,000 indicative budget increase was earmarked for 2007/2008 but this did not materialise due to other financial pressures.
99. Our review is an overview of the current position to identify the risks and what further work needs to be done. Fieldwork is ongoing and is focused on the arrangements for:
- managing the asset infrastructure through the Asset Management Plan, including the information base that underlies planning; and
  - addressing highways maintenance risks including financial impact.

### **A range of improvement priorities have been identified for the Personal Services Directorate. Children's Services continue to be monitored by the Care and Social Services Inspectorate Wales under the serious concerns protocol**

**Care and Social Services Inspectorate Wales identify positive changes both across the Council and within the senior management team of the Directorate. It is to the credit of the senior management team that they have continued to develop and reshape services as well as improving performance over the past year**

100. The Council will be facing further significant changes over the next year as the plans for a major corporate restructure are implemented. The continuous improvement of Adult Services and the sustaining and improving of Children's Services will remain challenging. The Council will need to ensure that the role and responsibilities of the Director of Social Services are clear, to enable the post-holder to provide strong professional leadership and retain clear accountability for social services in line with statutory guidance.

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- 101.** Care and Social Services Inspectorate Wales have identified strengths and achievements within Children's Services including progress against improvement project plans, improvements in performance against PIs and:
- successful recruitment and retention initiatives which resulted in 93 per cent occupancy of social work posts as at April 2007;
  - improving office accommodation with additional telephony and access to computers;
  - developing 'online' reports for managers to assist monitoring of work, accessed via desktop PCs;
  - introducing electronic recording (direct input) by social work staff in the assessment team, in preparation for implementing the Integrated Children's System;
  - implementing reliable performance information and data capture arrangements; and
  - establishing Bridgend's local Safeguarding Children Board and progressing its work programme.
- 102.** However, a range of improvement priorities have been identified and these are:
- reducing numbers of looked after children and children on the child protection register and increasing numbers of children placed for adoption;
  - improving family support and preventative services and family placement services;
  - improving the quality and capacity of assessment and care management services and strengthening the staff and management development programme;
  - improving partnership working and developing and implementing a commissioning strategy;
  - developing a strategy for children with disabilities within the corporate agenda;
  - implementing the Integrated Children System; and
  - ensuring that the action plans developed to meet the requirements of the regulators in relation to the fostering service are implemented fully over the coming year.
- 103.** Children's Services are scheduled for re-inspection by CSSIW in February 2008 and will need to demonstrate sustainable improvements in performance and reduced levels of risk for the protocol to be lifted.
- 104.** Care and Social Services Inspectorate Wales highlight continuing improvement in performance within Adult Services, especially in relation to:
- reducing delayed transfers of care and the increased percentage of adults supported to live at home;
  - improving day opportunities and the integration of health and social care for people with mental health needs;
  - delivering the joint disability strategy and service;
  - improving day care and respite for people with dementia in partnership with the voluntary sector; and
  - establishing a Joint Planning Team for services for older people.

105. However, a range of improvement priorities have been identified and these are:
- developing more formal integration between Health and Social Care and preventative strategies by engagement with the voluntary and independent sectors;
  - refocusing Care Management and reshaping Day Opportunities;
  - redesigning residential care and also supporting independence away from and in the home; and
  - ensuring that residential and day care establishments meet the requirements of the regulators and best practice.

### **The quality of community-based learning for adults was found to demonstrate good features with no important shortcomings**

106. Community-based learning for adults in Bridgend was inspected in May 2007 by Estyn (Her Majesty's Inspectorate for Training and Education in Wales) as part of a six-year 2004-2010 national programme of inspections. The purpose of the programme is to identify good features and shortcomings of adult community-based learning in order that the providers may improve the quality of education and training offered and raise the standards achieved by learners. The outcomes of the inspection are intended to give learners more information about the quality of providers of adult community-based learning.
107. Estyn inspectors graded all of the adult community-based learning inspection areas as Grade 2 defined as 'good features and no important shortcomings.' Grade 1, the highest is defined as 'good with outstanding features.' The areas of community learning inspected were:
- Adult Basic Education;
  - Welsh for Adults;
  - English for Speakers of Other Languages;
  - Adult Learning; and
  - Community Development.
108. The inspection identified some improvement recommendations and these included:
- improving course attendance and completion rates;
  - increasing opportunities for language learners to practise oral skills and for bilingual learning and understanding of Welsh language and culture; and
  - improving joint planning, targeting and co-ordination of support to meet additional learning needs.

## **The Wales Audit Office is providing external challenge to discussions following a strategic review of leisure services**

109. Risks in relation to the economic sustainability and fitness for purpose of current leisure service provision have been identified through the annual Joint Risk Assessment process. The Council has commissioned external consultants who have undertaken an independent strategic review and produced a report, outlining a range of options which are being considered by the Council. As part of this process, the Wales Audit Office is facilitating discussion and challenge to support decision-making. This work is ongoing.

## **The Council is reducing carbon emissions and energy use in private housing stock but has not put in place sufficient resources to deliver effectively the targets under the Home Energy Conservation Act**

110. In 2004, the Assembly Government introduced a set of policy agreements with councils for the allocation of the Performance Incentive Grant (PIG). One of which relates to the percentage reduction in carbon dioxide emissions in the housing stock, reflecting the requirements of The Home Energy Conservation Act (HECA). The current policy agreements expire in 2007; the Assembly Government has yet to put in place further arrangements beyond this date.
111. Because they have had no public housing since stock transfer in 2003, the Council's approach is one of facilitation and awareness-raising in the private sector. Our review examined whether in the light of progress made so far, the Council is likely to achieve further reductions in carbon dioxide emission levels across the housing sector beyond 2007.
112. The Council has identified energy use reduction as a priority through its links with fuel poverty and affordable warmth. They have a clear policy on energy and it is a common theme across most key Council documents. Advice and information to private homeowners and landlords is provided through the Energy Advice Centre (EAC) under a Service Level Agreement. The EAC puts enquirers in touch with the various bodies able to help them with funding assistance for carbon reduction measures.
113. However in practice the Council's approach lacks resources and co-ordination. The officer responsible for HECA is severely overstretched and has no financial resources to work with. Line management resource problems prevent the development of a meaningful prioritisation of HECA work and the Council's Energy Policy Action Plan 2006-2007 remains unfinished and unimplemented. Whilst the emerging Affordable Warmth Strategy offers an opportunity to prioritise and deliver the Council's aspirations towards fuel poverty and carbon reduction, there are doubts about the availability of resources to complete the Strategy.

114. Nevertheless, the Council's reported HECA figure for 2007 is likely to be around 10 per cent which is below the target of 12 per cent but likely to be a considerable underestimate of the actual reductions achieved. This is due to inaccurate HECA information because of staff resource constraints and because the figures take no account of non-assisted private sector improvements which should be included.

**Bridgend County Borough Council is effectively managing the provision of its own transport to support its front line services although attention is needed in a number of areas surrounding the detailed arrangements and some aspects of performance**

115. In 2005/2006 the Council spent £7.25 million on transport to support the delivery of its front line services. Since 2002 the Council carried out reviews of different aspects of the transport operation and concluded that establishing a single Integrated Transport Unit (ITU) would be the most efficient way to arrange transport across the authority. The ITU has been introduced in stages commencing in 2004, located within the Transportation and Engineering Division of the Directorate of Environmental and Planning Services.
116. The Fleet Manager and his staff are also located within the Transportation and Engineering Division. Previous reviews of the operation and maintenance of the Council's internal fleet of approximately 200 vehicles had concluded that internal provision was competitive and that there were no perceived advantages in combining fleet management with the ITU since they are closely linked within the existing management structure.
117. They also identified the issues of vehicle fleet age and unreliability which ultimately, could lead to restrictions in the Council's Operators Licence and affect delivery of Council services. This has been addressed by a planned Fleet Replacement Programme, introduced in 2004.
118. We examined whether the current arrangements enable transport services to provide a co-ordinated and effective service and found that the Council has:
- adopted a corporate approach to the provision of transport in advance of its neighbours;
  - established an ITU to coordinate transport procurement however, service level agreements have still to be finalised with client directorates;
  - invested in a Fleet Replacement Programme which has improved the condition and availability of vehicles but management information on their utilisation is not available; and
  - enabled the Fleet Manager to concentrate on improving the management and advisory services offered to fleet users.
119. These findings have led us to recommend the following:
- ensuring service level agreements are in place between the ITU and client directorates;
  - reviewing procedures for transport procurement;
  - requiring directorates to monitor vehicle utilisation; and
  - preparing and circulating guidance to ensure operation of school minibuses does not compromise the Council's operators licence.

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## The Wales Audit Office is undertaking a review in the Environmental and Planning Services Directorate

### A regional review of waste management covering the six south west Wales local authorities, including the Council

120. Most authorities are facing very similar issues for waste management, reflecting significant challenges in meeting targets for recycling and particular, to reduce the amount of waste that is sent for disposal at landfill. If authorities do not meet stringent targets set in the EU Landfill Directive then the Assembly Government has stated that it will start to levy fines against failing authorities, possibly as early as 2008.
121. There are several options available including mechanical and biological processes to separate out more recyclables and components that should not go to landfill through to treatment processes involving burning waste and recovering energy.
122. All possible options will require significant capital investment and will take in the region of four to eight years to procure and become operational. Because of the scale of these projects all options are likely to need partnership working and external funding. Landfill taxation and landfill costs are also set to double the cost of waste disposal by about 2010, putting even more pressure on authority budgets.
123. The six authorities in south west Wales have all agreed to reconstitute an existing Waste Forum that has already begun to bring authorities together to explore the potential for joint solutions. The new Regional Joint Committee (RJC) will comprise senior council officers and members and aims to identify opportunities for joint research, procurement and service delivery for waste management. A bid for 'Making the Connections' funding to support the RJC has been successful and it will also be closely advised by Value Wales.
124. In addition, each authority has also committed resources within their Regulatory Plan for Wales Audit Office to support the RJC by providing specialist support and undertaking specific work for the authorities in the group. This work is ongoing.

## **The Council has engaged positively with the Wales Audit Office initiatives to promote improvement through shared learning and the Good Practice Exchange**

- 125.** Promoting improvement across public services through the capture, evaluation and dissemination of good practice, is a long-term approach the Wales Audit Office embarked upon during the year. Web-based facilities to support improvements in sickness absence management have been launched and the ability to access Wales Audit Office case studies and facilities to share learning across public services have been developed.
- 126.** As part of the Improvement Study on Good Practice in Sickness Absence, the Council was provided with assistance to consider the opportunities around sickness absence management good practice linked to the Wales Audit Office Good Practice Exchange. The Council engaged positively with this approach. Our work, which is still ongoing, is focused on working with the Council's departmental managers to identify the current barriers to managing sickness absence. These findings will then be used to inform the development of the Council's new policy.
- 127.** As sickness absence continues to be a significant issue across Welsh public services the Wales Audit Office will be maintaining its focus in this area, developing the approach of promoting improvement through the use of good practice. The sickness absence theme will be developed into the wider area of attendance management during 2007/2008 and we will build upon the relationships developed with the Council to assist with the implementation of good practice in this area.

## **We are continuing to review the Council's progress on Making the Connections**

- 128.** We reported in March 2007 that the Council is making adequate progress in implementing the Making the Connections agenda and:
- has a culture that supports meaningful joint working and a track record of good practice, involving taking brave decisions including housing stock transfer and service outsourcing;
  - is developing its customer service approach to improving services delivered to citizens;
  - is committed to public engagement with many examples of meaningful consultation but recognises the need to develop a co-ordinated corporate approach; and
  - recognises the need to prepare the workforce through a programme of staff development, to meet the challenges of Making the Connections.
- 129.** We propose to build on this by undertaking a study into the use of assets across the Welsh public service. The potential efficiency gains from reviewing the configuration and use of assets are significant and the potential gains from joint working in this area are also significant. There is a unique opportunity to:
- promote better use of assets at the institutional and broader community level; and

- identify and share good practice.
130. We intend to examine asset management across the Welsh public services over a three-year period. Initially we will review whether Welsh public services are collectively ensuring that their approach to fleet and vehicle asset management makes the best use of resources to support improvements in service delivery.

## **The Council and the regulators agreed the Joint Risk Assessment and identified some areas for further work**

131. The Council has undertaken the WPI Annual Risk Assessment and agreed it with regulators in line with the guidance in Circular 28/2005. We confirm that the annual assessment was undertaken robustly. The results of the Annual Risk Assessment are included in the Council's Corporate Improvement Plan.
132. The areas where further work is required identified through the Joint Risk Assessment for 2006/2007 will be reflected in the Regulatory Plan for 2007/2008. These include:
- implementing and embedding the performance management framework, including improving performance and financial management information;
  - developing management capacity and capability to support a new directorate structure and deliver corporate priorities;
  - integrating economic, environmental and social sustainability and equalities into strategic planning and decision-making processes;
  - providing effective development and support for members to make and scrutinise decisions, maintain an overview of overall direction, challenge financial and service performance;
  - co-ordinating an approach to achieving planned efficiency savings of 2.5 per cent and identifying and delivering efficiencies across as well as within services;
  - remodelling, rationalising and modernising services to ensure they are fit for purpose and sustainable, including schools, leisure provision and adult services; and
  - delivering sustainable improvements to children's services to safeguard vulnerable children.
133. During the year we have undertaken a programme of work based upon last year's Joint Risk Assessment and nationally identified risks (as set out in the 2006/2007 Regulatory Plan) aimed at improving performance. Our key conclusions and findings are set out above.

## **We recommend no statutory inspections this year**

- 134.** The Appointed Auditor is required each year to recommend whether, on the basis of audit work undertaken, the Wales Audit Office should carry out a Best Value Inspection of the Council or whether the Assembly Government should recommend a course of action, referred to as 'a direction' under Section 15 of the Local Government Act 1999 (the 1999 Act).
- 135.** On the basis of audit work undertaken:
- the Appointed Auditor does not recommend that the Auditor General should carry out a Best Value Inspection of the Council under Section 10 of the 1999 Act; and we do not recommend that the Assembly Government should give a direction under Section 15 of the 1999 Act; and
  - the Appointed Auditor has not made any statutory recommendations for improvement this year.

## Appendix 1

## Auditors' report on the arrangements for securing economy, efficiency and effectiveness in its use of resources in 2006/2007

<b>Conclusion on the Council's arrangements for the year ended 31 March 2007 for securing economy, efficiency and effectiveness in its use of resources</b>	
<b>The Council's responsibilities</b>	
<p>The Council is responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources, and to ensure proper stewardship and governance. The Council is also responsible for regularly reviewing the adequacy and effectiveness of these arrangements.</p>	
<b>Auditors' responsibilities</b>	
<p>We have a responsibility under Section 17(2) of the Public Audit Wales Act 2004, to conclude from our audit of the Council's annual accounts and other relevant information whether we are satisfied that it has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. For the purposes of our work in this area, we have assessed 'proper arrangements' as principally comprising an organisation's corporate performance management and financial management arrangements, significant elements of which are defined in Paragraph 48 of the Auditor General's Code.</p> <p>We report if significant matters have come to our attention which prevent us from concluding that the Council has made such proper arrangements. In carrying out our work, we have not considered whether the arrangements in place represent all those that could be in place. We are also not required to consider, nor have we considered as part of this aspect of our work, the effectiveness of the arrangements in place in securing value for money during the year under review.</p>	
<b>Conclusion</b>	
<p>The following conclusion has been based on, and limited to, work carried out as part of our audit of the 2006/2007 accounts, together with any other information that we have considered to be relevant to our examination, to establish, in all significant respects, what arrangements the Council had in place during the year to support the achievement of its responsibility to secure economy, efficiency and effectiveness in its use of resources.</p> <p>Based on the Council's SIC and as a result of the work carried out, as described above, as part of our audit of the 2006/2007 accounts, and all other information that we have considered to be relevant, we are satisfied overall as to the existence of the arrangements that the Council had in place during the year to support the achievement of its responsibility for securing economy, efficiency and effectiveness in its use of resources. We have also raised various issues with the Council, and made recommendations to improve its arrangements. These matters are further discussed and explained in the Annual Letter.</p>	
<p>KPMG LLP Appointed Auditor 28 September 2007</p>	<p>KPMG LLP Marlborough House Fitzalan Court Fitzalan Road Cardiff CF24 0TE</p>

## Appendix 2

## Criteria for assessing the Council's arrangements during 2006/2007 for securing economy, efficiency and effectiveness in its use of resources

Corporate performance management and financial management arrangements	Questions on arrangements
<b>Establishing objectives, determining policy and making decisions</b>	1. Has the Council put in place arrangements for setting, reviewing and implementing its strategic and operational objectives?
<b>Meeting needs of users and taxpayers</b>	2. Has the Council put in place channels of communication with users and taxpayers, and other stakeholders including partners, and are there monitoring arrangements to ensure that key messages about services are taken into account?
<b>Compliance with established policies</b>	3. Has the Council put in place arrangements to maintain a sound system of internal control, including those for ensuring compliance with laws and regulations, and internal policies and procedures?
<b>Managing operational and financial risks</b>	4. Has the Council put in place arrangements to manage its significant business risks?
<b>Managing financial and other resources</b>	5. Has the Council put in place arrangements to evaluate and improve the value for money it achieves in its use of resources?
	6. Has the Council put in place a Medium-Term Financial Strategy, budgets and a capital programme that are soundly based and designed to deliver its strategic priorities?
	7. Has the Council put in place arrangements to ensure that its spending matches its available resources?
	8. Has the Council put in place arrangements for managing and monitoring performance against budgets, taking corrective action where appropriate, and reporting the results to senior management and the Council?
	9. Has the Council put in place arrangements for the management of its asset base?
<b>Monitoring and reviewing performance</b>	10. Has the Council put in place arrangements for monitoring and scrutiny of performance, to identify potential variances against strategic objectives, standards and targets, for taking action where necessary and reporting to the Council?
	11. Has the Council put in place arrangements to monitor the quality of its published performance information, and to report the results to Council members?
<b>Proper standards of conduct etc</b>	12. Has the Council put in place arrangements that are designed to promote and ensure probity and propriety in the conduct of its business?

## Appendix 3

## Audit of the 2007/2008 Improvement Plan

### Certificate

We certify that we have audited the Council's Improvement Plan in accordance with Section 7 of the 1999 Act and the Auditor General's Code. We also had regard to supplementary guidance issued by the Assembly Government such as Circular 28/2005.

This report is made solely to the Council, in accordance with Section 7 of the 1999 Act. Our audit work has been undertaken so that we might state to the Council, to the Wales Audit Office and (where necessary) to the Assembly Government those matters we are required to state to them in such an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Council, the Wales Audit Office and the Assembly Government for our audit work, for this report, or for the opinions we have formed therein.

### Respective responsibilities of the Council and the auditors

Under the 1999 Act the Council is required to prepare and publish a Best Value Performance Plan summarising:

- its assessments of performance; and
- its position in relation to its statutory duty to make arrangements to secure continuous improvement to the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness.

This was supplemented by further guidance on how the WPI will be implemented under sections 3, 5 and 6 of the 1999 Act as set out in the National Assembly for Wales' Circular 18/2002. Under this guidance, the statutory Best Value Performance Plan has been replaced by a statutory plan.

Assembly Government circular 28/2005 superseded Circular 18/2002 and requires the Plan to be published no later than 31 October of the financial year to which it relates.

The Council is responsible for the preparation of the Plan and for the information and assessments set out within it. The Council's future work programme set out in the Plan should connect to the outcomes of the updated risk assessment.

The Council is also responsible for establishing appropriate performance management and internal control systems from which the information and assessments in its Plan are derived, and for ensuring that it provides sufficient capabilities and capacity needed to manage change and improvement. The form and content of the Plan are prescribed in Section 6 of the 1999 Act and the statutory guidance issued by the Assembly Government.

As the Council's appointed auditors, we are required under Section 7 of the 1999 Act to carry out an audit of the Plan, to certify that we have done so, and to report whether we believe that the Plan has been prepared and published in accordance with statutory requirements set out in Section 6 of the 1999 Act and statutory guidance and, where appropriate, recommending how the Plan should be amended so as to accord with statutory requirements; and to recommend:

- Where appropriate, procedures to be followed in relation to the Plan.
- Whether the Wales Audit Office should carry out an inspection of the Council under section 10 of the 1999 Act.
- Whether the Assembly Government should give a direction under Section 15 of the 1999 Act – eg, directing the Council to amend its Plan, carry out a review of a specific function or hold a local inquiry. Details of all possible directions can be found in the 1999 Act.

### **Scope of the Improvement Plan audit**

We planned and performed our work to obtain all the information and explanations that we considered necessary in order to report and make recommendations in accordance with Section 7 of the 1999 Act.

For the purposes of our report, we have interpreted compliance with the statutory guidance issued by the Assembly Government in the document, *Wales Programme for Improvement: Guidance for Local Authorities*, as being sufficient to meet the statutory requirements under Section 6 of the 1999 Act.

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

For the purpose of determining whether or not to make recommendations on procedures to be followed in relation to the Plan, our work included:

- a review and assessment and, where appropriate, examination on a test basis of evidence relevant to the adequacy of the systems set in place by the Council for collecting and recording specified performance information; and
- the testing of specific NSPIs selected on the basis of criteria set out by the Wales Audit Office.

The work we have carried out in order to report and make recommendations in accordance with Section 7 of the 1999 Act cannot be relied upon to identify all weaknesses or opportunities for improvement.

We planned our work so as to collect sufficient evidence to satisfy ourselves that the Plan includes those matters prescribed in legislation and statutory guidance, and the arrangements for publishing the Plan, complied with the requirements of legislation and statutory guidance.

## Appendix 4


## Audit and inspection fees

Your 2006/2007 audit and inspection fees were based on the risks identified and an assessment of the work needed to address those risks. They are currently expected to be in line with those set out in your Regulatory Plan as summarised below.

### Audit and Inspection fees 2006/2007 (excluding VAT)

	2006/2007 planned (£)	2006/2007 expected actual (£)
Accounts	154,500	154,500
Performance audit	144,500	144,500
Performance inspection	87,660	87,660
<b>Total</b>	<b>386,660</b>	<b>386,660</b>

In addition to the fee above, we are required to certify your government grant claims and returns for which we must charge the actual time taken to undertake the work at skill related fee rates. This work is not complete: at this stage we anticipate this work will cost approximately £80,000-£100,000 plus VAT. There were additional costs of £37,500, calculated under the Auditor General scale rates, to deal with the arrangements surrounding the retirement of the former Chief Executive Officer (see Paragraph 52).



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