

DRAFT

Annual Audit and Inspection Letter

Southampton City Council

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

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

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

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

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

Status of our reports

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

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

Reports prepared by appointed auditors are:

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

Copies of this report

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

© Audit Commission 2008

For further information on the work of the Commission please contact:

Audit Commission, 1st Floor, Millbank Tower, Millbank, London SW1P 4HQ

Tel: 020 7828 1212 Fax: 020 7976 6187 Textphone (minicom): 020 7630 0421

www.audit-commission.gov.uk

Contents

| | |
|--|-----------|
| Key messages | 4 |
| Action needed by the Council | 5 |
| Purpose, responsibilities and scope | 6 |
| How is Southampton City Council performing? | 7 |
| The improvement since last year - our Direction of Travel report | 8 |
| Corporate assessment | 14 |
| Service inspections | 15 |
| The audit of the accounts and value for money | 17 |
| Use of Resources | 17 |
| The key issues arising from the audit | 18 |
| Looking ahead | 22 |
| Closing remarks | 23 |
| Availability of this letter | 23 |

DRAFT

Key messages

- 1 This letter provides an overall summary of the Audit Commission's assessment of the Council. It draws on the findings and conclusions from the audit and inspection of the Council for 2006/07, and from an analysis of the Council's performance and its improvement over the year to December 2007, as measured through the Comprehensive Performance Assessment (CPA) framework.
- 2 The report is addressed to the Council, in particular it has been written for councillors, but is available as a public document for stakeholders, including members of the community served by the Council.
- 3 The Council has continued to improve its priority services resulting in above average customer satisfaction. It was assessed as performing well in the 2007 corporate assessment and a good range of service scores alongside this means that it is now assessed for the first time as a four-star authority. Key achievements include:
 - three-star rating maintained for adult social care and services for children and young people;
 - education attainment improved including at GCSE level;
 - more affordable homes delivered than planned;
 - faster decision-making on benefits claims;
 - above-average recycling rates maintained and kerbside recycling improved;
 - crime levels reduced in partnership with others; and
 - continued significant progress in improving management of resources since 2005.
- 4 We provided an unqualified opinion on the 2006/07 accounts and an unqualified value for money conclusion in September 2007.
- 5 Key areas for improvement include the following which are being addressed by officers.
 - Income collection from rents and council tax is below average compared to other councils.
 - The Council is designated a Persistent Absence Authority due to high school absence figures.
 - Placements for looked after children lack stability.
 - There are weaknesses in the interface between the social care income system and the financial ledger and the benefit and revenues system is not reconciled monthly.
 - Further work is required to integrate financial and performance reporting.
 - Savings from procurement in 2006/07 were less than planned.

Action needed by the Council

- 6 We highlight below particular actions arising from our work over the last year that councillors should ensure are implemented.

| Recommendations |
|--|
| <i>R1 Increase the level of income collection from council tax and rents to the average of that of similar councils.</i> |
| <i>R2 Reduce the level of school absences so that the council is no longer designated as a Persistent Absence Authority.</i> |
| <i>R3 Improve the stability of placements for looked after children.</i> |
| <i>R4 Address the social care income system interface weaknesses and reconcile the benefit and revenues system with the financial ledger on a monthly basis.</i> |
| <i>R5 Fully integrate financial and performance reporting.</i> |
| <i>R6 Achieve planned savings from procurement.</i> |

DRAFT

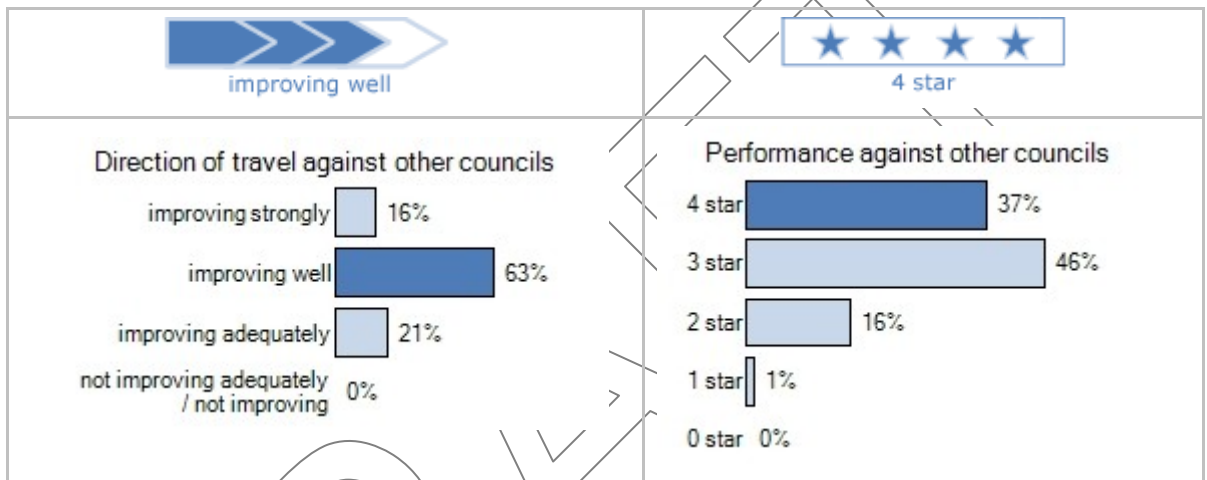
Purpose, responsibilities and scope

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

How is Southampton City Council performing?

- 13 The Audit Commission's overall judgement is that Southampton City Council is improving well and the Councils classification under the Comprehensive Performance Assessment has increased to four stars this year. These assessments have been completed in all single tier and county councils with the following results.

Figure 1



Councils with a CPA star rating under review or with a direction of travel judgement that is subject to review are excluded from this analysis

Source: Audit Commission

- 14 The detailed assessment for Southampton City Council is as follows.

Our overall assessment - the CPA scorecard

Table 1 CPA scorecard

| Element | Assessment |
|--|----------------|
| Direction of Travel judgement | Improving well |
| Overall | 4 star |
| Corporate assessment/capacity to improve | 3 out of 4 |
| Current performance: | |
| Children and young people* | 3 out of 4 |
| Social care (adults)* | 3 out of 4 |
| Use of resources* | 3 out of 4 |
| Housing | 3 out of 4 |
| Environment | 3 out of 4 |
| Culture | 4 out of 4 |
| Benefits | 3 out of 4 |

*(Note: * these aspects have a greater influence on the overall CPA score)
(1 = lowest, 4 = highest)*

The improvement since last year - our Direction of Travel report

Overall Performance

- 15 The Council's overall performance across a range of services is good and improving and the judgement following last year's corporate assessment is that the Council is well managed. The combination of these factors reflects a four-star assessment for the first time.
- 16 The Council has a consistent track record in improving outcomes for its residents and communities. Based on a basket of national performance indicators (PIs) relating to shared priority and service areas, 69 per cent showed improvement in 2006/07 which shows an above average level of improvement compared to similar councils. Twenty-seven per cent of the selected PIs were within the best 25 per cent of all councils, which was slightly below the average for similar councils. The Council is performing well in improving outcomes for local people across its five priority areas plus other issues as summarised below.

Tackling deprivation and inequality

- 17 The Council's regeneration of the inner-city continues to deliver economic and other benefits to local residents. Major developments completed in the last year are providing new jobs, for example at Charlotte Place. The Council is tackling skill shortages and unemployment through increased targeted NVQ training linking skills to job opportunities. Residents of the most disadvantaged areas of the city, such as the Thornhill neighbourhood, are benefiting from continuing investment which is delivering increased day and after school childcare provision, employment and training advice.
- 18 The Council has achieved level 3 of the local government equality standard and it continues to perform well in taking action on reported racial incidents. Disabled access to council buildings has improved with 62 per cent accessible and the Council increased the representation of disabled people and residents from black and minority ethnic (BME) communities in its workforce and as top earners.
- 19 More residents have access to affordable housing. Considerably more affordable homes were completed than planned by April 2007, 589 in total and the proportion of empty private sector homes reduced. Seventy-five per cent of Council owned homes now meet the government's decent homes standard and the Council is on track to meet the 2010 target. The time taken to carry out urgent repairs and re-let council homes improved although relet-times remain below average compared to other councils. Tenant satisfaction with the housing service remains above average and homelessness has reduced. Rent collection deteriorated in 2006/07 and although performance has improved recently it remains in the worst 25 per cent of councils. The Council is currently implementing an action plan which includes a review of charges.
- 20 Improvements in the benefits service are helping to tackle deprivation. New benefits claims and appeals are being processed more quickly and the service was assessed as 'good' by the Benefit Fraud Inspectorate (BFI) in 2006/07 - an improvement from 'fair' in the previous year. Change of circumstances decisions on benefits are also made more quickly. The percentage of claims assessed correctly has not improved and remains in the worst 25 per cent of councils. The level of council tax collected increased with a significant improvement in the rate of collection although the percentage collected remains within the worst 25 per cent of councils. Non domestic rate collection has also increased and is above average.
- 21 The Council is improving its performance in most areas with regard to the care of looked after children. More children are adopted and more are involved in education, employment or training post-16. The percentage of looked after children receiving final warnings or convictions reduced significantly. Performance on providing stable placements has worsened and plans are in place to address this with measures such as increasing placement choice.

Promoting independent living

- 22 The Annual Performance Assessment (APA) by the Commission for Social Care Inspection (CSCI) for adult social care concluded that the Council is delivering good outcomes with excellent capacity to improve. It has sustained the progress made last year and improved outcomes for residents. More people are helped to live independently especially those with a physical disability or mental health problem and people with learning disabilities are supported into employment. Waiting times for assessments improved and there is prompt provision of services to older people following assessment. The number of people receiving intensive home care improved and waiting times for equipment and adaptations improved although this is below average. However, for those requiring residential care there was no improvement in the availability of single rooms. Delays in discharge from hospital reduced in 2006/07 and the Council continues to work with its health partners to minimise delays. Working in partnership the Council is developing new facilities to enable independent living. A new facility is being developed for older people with dementia which will replace out of city places and include respite and day centre provision. New community day services were opened for people with learning disabilities.

Promoting lifelong learning for all people

- 23 The Council has improved in most areas relating to schools and satisfaction with leisure opportunities is improving. The Office for Standards in Education's (Ofsted) Annual Performance Assessment (APA) for children and young people concluded that the Council is achieving improved outcomes in education. Attainment has continued to improve at key stages 2, 3 and 4 and at GCSE level, with good progress made in 2006 from key stage 2 through to key stage 4. This performance is comparable with similar authorities, although lower than the national average. Attainment also improved for looked after children achieving five or more GCSEs at A-C grade. Primary schools in the Thornhill priority neighbourhood are improving faster than the national rate of improvement between key stages 1 and 2. The Council is taking action to reduce surplus secondary school places with its decision to close four schools and select a provider to run two new secondary schools. School attendance has worsened since April 2007 and the Council has been designated as a Persistent Absence Authority by the government. Plans to improve school attendance, assessed by the Department for Children, Schools and Families, are being implemented.
- 24 Involvement in adult learning activities increased, with more residents of priority neighbourhoods participating, and 'Train to gain' initiatives are enabling people in jobs to improve their basic and job skills. Resident satisfaction with sport and leisure facilities is high and participation in sport and active recreation increased. Satisfaction with libraries, museums and galleries has improved significantly over the last three years.

Improving community safety and tackling crime, disorder and antisocial behaviour

- 25** The number of violent crimes, robberies, burglaries and vehicle crimes has decreased over the last year and the Community Safety Partnership (CSP) has improved its ranking relative to other CSPs. Working with its partners to target crime hotspots, the Council has expanded the city patrol team, increased enforcement action taken by the patrols and strengthened its focus on tackling alcohol reduction. Reported domestic violence incidents increased by 26 per cent since April 2007, mainly due to improved reporting arrangements for victims. The Council and its partners are targeting more resources to the most serious domestic violence cases with help from additional Home Office funding. In 2006, a majority of residents reported feeling safe in the city and fewer residents were concerned about antisocial behaviour.
- 26** A 2007 Ofsted inspection assessed the Youth Service as good. Young people are engaged in a wide range of activities, such as gaining youth achievement awards and volunteering in the community, and are well supported by the Council's youth workers. The 2007 APA for children and young people reported a reduction in the number of young people who are not in employment, education or training and an improvement in continuing education post-16.

Improving the street scene and environment

- 27** The Council is improving outcomes in most areas including significant improvements in customer satisfaction over the last three years with waste collection, recycling and parks and open spaces. Above average recycling performance is being maintained and the Council reports that the provision of kerbside recyclables, which was below average in 2006/07, has improved significantly since April 2007 from 74 per cent to above 90 per cent of residents who receive this service. The Council is in the best 25 per cent of councils for waste going to landfill. There is less littering and fly posting and the Council increased its Green Flag awards for its parks.
- 28** Increased investment in highways is resulting in improved outcomes. The condition of roads and footpaths improved although road condition remains below average compared to similar councils. Plans are in place to secure further investment to improve road condition through enhanced partnership working. Temporary traffic controls or road closures reduced and the Council maintained a high level of pedestrian crossings with disabled facilities. There was a reduction in the proportion of adults and children killed or seriously injured in road traffic accidents.

- 29 The Council is addressing sustainability effectively through improvements in transport and carbon reduction measures. The Town Quay travel and transport information centre is contributing to above-average customer satisfaction with bus services, and significantly improved satisfaction with the introduction of real time bus information since April 2004. A new bus service was introduced linking disadvantaged communities to key employment, health and retail facilities. The use of alternative energy sources is being piloted in homes and the Council was highlighted as a top performing Council on green issues, for its energy-efficient use of heating and cooling systems.
- 30 The speed of processing major planning applications improved and remains in the best 25 per cent of councils but processing other types of applications took longer, due to more applications received. The relatively high number of planning appeals allowed is starting to reduce and the level of customer satisfaction is below average compared to similar councils. Plans are agreed for further major developments of the inner-city, at West Quay sites and Northern Above Bar.

Healthier communities

- 31 The Council and its partners are making some progress in reducing health inequalities between the priority neighbourhoods and the rest of the city but not for all health outcomes. The Local Area Agreement (LAA) sets clear targets aimed at closing the gap and the Council works effectively with health organisations to tackle health inequalities. This partnership approach includes strengthening strategic relationships through the jointly appointed Public Health Director attending the Council's weekly senior management team and joint working in developing an assessment of health needs across the city. Better health outcomes are evident in Sure Start areas in dental health for example, but improving health outcomes at a faster rate in the priority neighbourhoods remains a challenge.

Access

- 32 Access to services for vulnerable communities continues to improve and the Council consults effectively with these groups. The Council is effective in addressing the social exclusion of children and young people including preventing children having to be looked after, reducing school exclusions of pupils with learning and/or physical disabilities and engaging BME children and parents/carers in early years' programmes. Access to adult social care services has improved with better signposting and self-assessment offered. The Council took account of the views of vulnerable residents in developing the LAA, for example consultation with the older persons' Senior Council which includes representatives of BME communities. The Council has updated its information on BME communities in response to increased migration from Eastern Europe and is implementing actions such as increasing English as a second language provision. Other plans to improve community cohesion include providing a transit site for gypsies and travellers.

- 33 Overall satisfaction with the Council remains above-average relative to similar councils. Response times to Ombudsman complaints improved as did customer satisfaction with complaints handling. The Council set equality targets for 2007/08 across its services and reports that it is on track to achieve level 4 of the equality standard by March 2008.

Value for money

- 34 The Council continues to perform well on achieving value for money. Costs are low overall and most high-cost services are delivering well, for example environment. Management of the capital programme has improved but it was too early to assess its impact for the 2006/07 use of resources assessment. The Council is continuing to improve its arrangements for managing and improving value for money. It is on course to exceed its Gershon efficiency savings target and value for money improved in some services with better performance in benefits and education in 2006/07. However, the Council has only just started to integrate performance and financial reporting and procurement savings of £220,000 achieved fell short of the Council's original target of £1.125m for 2006/07.

Sustaining future improvement

- 35 The Council has robust corporate and service plans and strategies to enable it to deliver future improvement. The new sustainable community strategy sets out an ambitious 20-year vision for the city and links to the new LAA and regional strategies. The LAA includes three-year 'stretch' targets for securing additional improvement in key priorities for the Council and its partners, such as education and community safety. The LAA is supported by other effective Council plans with clear priorities and measurable targets. Plans for adult social care were assessed as excellent, the children and young people's plan was assessed as good and the 'raising attainment' strategy accurately targets the key areas for improvement. The 2007 Medium Term Service and Financial Plan reflects the key challenges facing the Council and links resource allocation to the five corporate priorities. The Council has a new waste strategy and energy plan to enable it to address sustainability issues such as carbon emissions. Working with partners in the Partnership for the South Hampshire (PUSH) the Council has produced a three-year plan for housing growth in the sub-region.
- 36 The Council has a good track record on implementing its plans and delivering improved outcomes for residents. The Council achieved 92 per cent of planned service improvement objectives in its Corporate Improvement Plan (CIP) for 2006/07 and implemented a range of other improvement plans which contributed to the improvements across its corporate priorities. Six-monthly progress on implementing the LAA showed 66 per cent of reported measures on target in the first year.

- 37 The Council continues to improve its capacity to implement its future plans and strategies. Partnership working is very effective as demonstrated by the improved outcomes for older people and children and young people achieved through multi-agency working. The Council and its partners have strengthened performance management of the LAA with a new system of reporting and joint assessment of performance. Governance arrangements were improved for some key partnerships including the Southampton Partnership and this included clarifying the role of councillors and partners.
- 38 The Council is enhancing its overall capacity through a ten-year partnership agreement with an external provider aimed at modernising customer and support services, achieving procurement savings and securing £26m investment in IT. The Council plans to address weaknesses in its IT disaster recovery arrangements through this partnership. Services were transferred to the new provider in October 2007 and planned improvements are mostly on track. Procurement savings for 2007/08 are on track to meet the £1.2m target. The Council is developing a long-term strategy to maintain investment in highways improvements.
- 39 Top managerial leadership to drive improvement in the Council is strong overall and was assessed as effective for adult social care, children's services and benefits. Workforce capacity is improving with reduced sickness levels.
- 40 Councillor capacity is improving further. Action plans are being implemented including personal development planning for all councillors and mentoring for Cabinet members. The Council is using external funding to work with councillors and partners to develop effective scrutiny challenge of partnerships.
- 41 As there are no significant weaknesses in these arrangements, the Council is well placed to deliver further service improvements.

Corporate assessment

- 42 The corporate assessment reported in October 2007 assessed the Council as three-star overall, performing well and consistently above minimum requirements. The assessment included a joint area review by Ofsted of children and young people's services which contributed to the score of 3 for the achievement theme. This year's direction of travel report includes some key improvements identified in the corporate assessment report. The scores for the corporate assessment themes and overall score are shown below.

| Headline questions | Theme | Score* |
|---|------------------------|----------|
| What is the Council, together with its partners, trying to achieve? | Ambition | 4 |
| | Prioritisation | 3 |
| What is the capacity of the Council, including its work with partners, to deliver what it is trying to achieve? | Capacity | 3 |
| | Performance management | 3 |
| What has been achieved? | Achievement | 3 |
| Overall corporate assessment score** | | 3 |
| *Key to scores | | |
| 1 – below minimum requirements – inadequate performance | | |
| 2 – at only minimum requirements – adequate performance | | |
| 3 – consistently above minimum requirements – performing well | | |
| 4 – well above minimum requirements – performing strongly | | |

Service inspections

- 43** An important aspect of the role of the Relationship Manager is to work with other inspectorates and regulators who also review and report on the Council's performance. Relationship Managers share information and seek to provide 'joined up' regulation to the Council. During the last year the Council has received the following assessments from other inspectorates.

Inspections carried out by regulators

Table 2 Service inspections

| Service inspection | Inspectorate | Assessment |
|--|--|--|
| 2007 Annual Performance Assessment of Services for Children and Young people | Office for Standards in Education (Ofsted) | 3 star Good, excellent capacity to improve |
| 2007 Annual Performance Assessment of Adult Social Care Services | Commission for Social Care Inspection (CSCI) | 3 star Good services and management of services |
| 2007 Assessment of Benefits Service | Benefit Fraud Inspectorate (BFI) | 3 star Good |
| 2007 Assessment of Youth Service | Office for Standards in Education (Ofsted) | Good services providing good value for money |

DRAFT

The audit of the accounts and value for money

- 44 As your appointed auditor, I have reported separately to the Standards and Governance Committee on the issues arising from our 2006/07 audit and have issued:
- my audit report, providing an unqualified opinion on your accounts and a conclusion on your vfm arrangements to say that these arrangements are adequate, on 28 September 2007; and
 - my report on the Best Value Performance Plan confirming that the Plan has been audited.

Use of Resources

- 45 The findings of the auditor are an important component of the CPA framework described above. In particular the Use of Resources score is derived from the assessments made by the auditor in the following areas.
- Financial reporting (including the preparation of the accounts of the Council and the way these are presented to the public).
 - Financial management (including how the financial management is integrated with strategy to support council priorities).
 - Financial standing (including the strength of the Council's financial position).
 - Internal control (including how effectively the Council maintains proper stewardship and control of its finances).
 - Value for money (including an assessment of how well the Council balances the costs and quality of its services).
- 46 For the purposes of the CPA we have assessed the Council's arrangements for use of resources in these five areas as follows.

Table 3

| Element | Assessment |
|--|------------|
| Financial reporting | 3 out of 4 |
| Financial management | 2 out of 4 |
| Financial standing | 3 out of 4 |
| Internal control | 2 out of 4 |
| Value for money | 3 out of 4 |
| Overall assessment of the Audit Commission | 3 out of 4 |

(Note: 1 = lowest, 4 = highest)

The key issues arising from the audit

Financial statements

- 47 We issued an unqualified audit opinion on the Council's financial statements on 28 September 2007. The quality of the supporting documentation for the accounts had significantly improved again this year and we identified no errors of any significance in the financial statements. This is a commendable achievement, particularly when viewed against the standard we found only two years ago.
- 48 We raised concerns about two key financial systems, which the Council had been unable to reconcile. Whilst these concerns were reported to the Council, we were also able to gain sufficient assurance that the issues did not undermine the integrity of the accounts in a material way.
- There was a problem with the social care income system and its links to the main accounting system. This meant the Council could not have full confidence that it was collecting and accounting for all of the income due for services provided to its social care clients.
 - The Council was reconciling the benefits and revenues system data to the main accounting system annually, which made it difficult to resolve the differences identified. Officers are working to simplify procedures so that it is possible to complete monthly reconciliations without undue impact upon staff resources.

VFM conclusion

- 49 We issued our VFM conclusion on 28 September 2007, stating we were satisfied that the Council had made proper arrangements to secure value for money in its use of resources during 2006/07.
- 50 We had qualified our conclusion for the previous year in relation to arrangements to maintain a sound system of internal control and to manage significant business risks. Since that time the Council has taken appropriate action to resolve these weaknesses. In particular it has:
- strengthened its risk management arrangements. Business plan key priorities are risk assessed and the processes for reviewing and updating risk registers are working effectively. Responsibility for risk management has been formally assigned to the Audit Committee;
 - made some significant improvements in the systems of internal control. The new Audit Committee is helping to raise the status of the audit function. Stronger management and enhanced audit processes are improving Internal Audit effectiveness.
 - significantly improved the management of housing benefits, and is resolving the problems that have beset the service in recent years; and
 - taken action to strengthen capital project management.

- 51 The Council had also sustained or improved its performance in other areas since our 2005/06 assessment. In particular it has:
- further strengthened its culture of performance management through more comprehensive monitoring reports;
 - enhanced its approach to achieving value for money through its use of cost and performance benchmarking and targeting of resources to poorly performing services; and
 - begun to improve its procurement arrangements.

CPA use of resources assessment

- 52 The Council has made commendable progress in the last two years and the improved assessment scores for 2006/07 reflect this. There are some areas in need of further improvement, to ensure that new processes are working effectively, but the Council is taking action on these.
- 53 There are still some significant problems with systems of internal control, for example in relation to the social care income system. However, there is evidence of continuing improvement and we concluded that the problems are not representative of the Council's overall standards of internal control, which are otherwise sound.

Financial reporting

- 54 The Council produced its 2006/07 financial statements within the statutory deadlines. We were able to issue an unqualified audit opinion.

Financial management

- 55 The Council is strengthening its financial management by better integration of its three-year service and financial plans. Budget monitoring processes are robust but integration of financial and performance reporting would enhance them further. The Council has continued to improve its asset register and property management database, and both are now working effectively.

Financial standing

- 56 The Council has effective budgetary reporting arrangements and consistently maintains spending within budget. There is scope to improve performance on income collection, particularly council tax and housing rents. There are target levels for financial reserves and balances, although these are often exceeded.

Internal control

- 57 The Council's processes for managing risks have continued to improve and internal Audit has continued to strengthen its arrangements assisted by the new Audit Committee. The Council promotes probity and propriety, but needs to ensure that its register of gifts and hospitality and associated guidance are comprehensive.

- 58 The Council does not have comprehensive plans for maintaining priority services and recovering key information systems in the event of a disaster. It is important that it develops appropriate plans, and that it reviews and tests them regularly.

Value for money

- 59 The Council's overall costs are low, compared with similar councils, and it achieves good value for money. In the main, where service costs are relatively high, they relate to the Council's priorities and the services perform well. The Council continues to improve its arrangements for managing and improving value for money but some improvements are not yet fully effective.

Your Business at Risk - web based survey

- 60 A web based self assessment survey has been carried out with the Council inviting IT staff and users to help to comment on a range of issues that were designed to:
- raise awareness of the risks associated with increasing use of technology;
 - gauge the level of knowledge within organisation knowledge of such risks within the Council;
 - highlight areas of risk; and
 - facilitate positive action to address those risks
- 61 The overriding messages from the 27 ICT staff and 824 users who replied were that they are confident that systems, policies and procedures are generally in place to minimise IT risks. There is still scope for improvement in some areas, for example respondents understanding of disaster recovery procedures. An action plan has been agreed with officers to address each of the issues that were highlighted by the survey.

Health inequalities

- 62 Our review of health inequalities in Southampton has confirmed that the Council and Primary Care Trust are working well together on the health inequalities agenda and have secured some positive arrangements to develop and monitor strategies to address the underlying health inequality issues. However, progress in reducing the health inequalities gap in the City remains mixed between electoral wards and across work streams. We have made some recommendations for improvement and agreed an action plan with the Council and PCT to ensure that the health inequalities agenda can be progressed in the City.

Data quality

- 63** We carried out our annual assessment of the arrangements that the Council has for ensuring the quality of performance information. We concluded that the Council is performing well in relation to its overall management for data quality and it provides effective leadership. Performance data is of a high quality and is used to improve services. Since last year the Council has introduced a data quality policy and strategy and new arrangements with partners for reporting on the Local Area Agreement.

DRAFT

Looking ahead

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

DRAFT

Closing remarks

- 67 This letter has been discussed and agreed with the Chief Executive, the Director of Resources, the Council's Solicitor and the Head of Corporate Policy and Performance. A copy of the letter will be presented at Council on 19 March 2008. Copies need to be provided all Council members.
- 68 Further detailed findings, conclusions and recommendations on the areas covered by audit and inspection work are included in the reports issued to the Council during the year.

Table 4 Reports issued

| Report | Date of issue |
|------------------------------------|-----------------------------|
| Audit and inspection plan | March 2006 |
| Interim audit memorandum | June 2007 |
| Annual Governance Report | September 2007 |
| Opinion on financial statements | September 2007 |
| Value for money conclusion | September 2007 |
| Final accounts memorandum | October 2007 |
| Corporate Assessment Report | October 2007 |
| BVPP report | December 2006 |
| Data quality report | January 2007 |
| Performance reports - SSP | September 2006 & March 2007 |
| Annual audit and inspection letter | March 2008 |

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

Availability of this letter

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

Stephen Taylor
Relationship Manager and District Auditor

March 2008