

Government and Public Sector

October 2005

# Dartford Borough Council

## 2004/05 Audit Letter

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Ladies and Gentlemen,

**Audit and Inspection Letter 2004/05**

We are pleased to present our Audit Letter for 2004/05. We hope that the information contained in this report provides a useful source of reference for Members.

We have been the Council's auditors for many years and we regret that this is the final year that we are involved. We would therefore like to take this opportunity to thank all Members and officers who we have worked with during the course of our audits and to wish the Council every success in the future.

Yours faithfully

PricewaterhouseCoopers LLP

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**Code of Audit Practice and Statement of Responsibilities of Auditors and of Audited Bodies**

*We perform our audit in accordance with the Audit Commission s Code of Audit Practice (the Code), which was issued in March 2002. This is supported by the Statement of Responsibilities of Auditors and Audited Bodies, which was issued in April 2000. Both documents are available from the Chief Executive of each audited body. The purpose of the statement is to assist auditors and audited bodies by explaining where the responsibilities of auditors begin and end, and what is to be expected of the audited body in certain areas. Our reports and audit letters are prepared in the context of this statement and in accordance with the Code.*

*Reports and letters prepared by appointed auditors and addressed to Members or officers are prepared for the sole use of the audited body, and no responsibility is taken by auditors to any Member or officer in their individual capacity, or to any third party. A new Code of Audit Practice will be in place for the 2005/06 audit year, together with a new Statement of Responsibilities of Auditors and Audited Bodies, both of which were issued in March 2005.*

# Executive summary

## The purpose of this report

We write to you each year, usually on completion of our audit, to summarise the more important issues that we wish to bring to your attention. We will discuss the issues contained within this Letter with the General Assembly of the Council on 24 October 2005.

Our audit work during the year was performed in accordance with the original plan which was presented to the Audit and Standards Board in June 2004 and an update of this plan, which was presented in July 2005. The reports we have issued during the year are listed at Appendix B to this letter.

We summarise below two issues which merit particular attention:.

### Risk Management

Risk management has not yet been fully embedded into the decision making processes at the Council. Risk identification and management is an area of critical importance to any organisation and consequently the Council will need to undertake further work in this area to develop and implement more robust arrangements to assess and manage risks. This process should also include appropriate Member involvement.

## The Bridge

The agreement between the Council and the developers at the Bridge has now become unconditional and work has started in developing the site. The Council will need to continue to ensure that robust project management and financial reporting arrangements remain over the next phase of the development.

# Accounts and Governance

We comment on the following areas in this section:

- Accounts
- Accounting issues
- Financial Standing
- Internal control
- Standards of financial conduct and the prevention and detection of fraud and corruption
- Legality of transactions.

## Accounts

The purpose of our accounts work was to perform an audit of the financial statements of the Council, in accordance with approved Auditing Standards.

2004/05 was the first full year that the new IT finance systems were in operation. Although we identified some control points as part of our IT review which are reported in Appendix A, we are pleased to report that the overall audit process went smoothly and the accounts were adopted by Members on 18 July 2005. Our report on the audit of the accounts (SAS 610 Report) was presented to the Council meeting on 18 July and we have issued an unqualified opinion on the financial statements.

Although there were some immaterial adjustments to the financial statements that were submitted for audit, we are pleased to report that the accounting working papers were prepared to a satisfactory standard and all audit adjustments were accepted by officers; as such there were no specific issues to report in the SAS 610 document.

We draw to Members attention three accounting issues that we considered as part of our audit. Firstly, the land associated with the Bridge development was revalued to reflect its development value. Although the revaluation is based on a number of assumptions and estimates, which will need to be reviewed during the life of the development, we agreed that the change in the basis of valuation was appropriate to reflect a fairer value, given that the agreement was close to becoming unconditional.

Secondly, during the year the Council disposed of part of the Central Park land which had originally been bequeathed to the Council as part of the Kidd legacy. The Council has applied to the Charity Commission to seek additional guidance as to how the proceeds of the sale should be treated. As the Council acts as sole trustee for this trust fund and the trust is a separate legal entity from the Council, we agreed that the Council should account for this item as a current liability until the matter is resolved. In subsequent years, the trust fund should be excluded from the Council's consolidated accounts and the Council should disclose the nature and amount of the trust fund in a separate note to the accounts in line with the local authority accounting requirements.

Finally, in 2004/05 the discount rate assumption used to calculate the pension liability changed from 6.5% to 5.4%. In our opinion the new discount rate should have been used to restate the pension liability at 1 April 2004 for the purposes of calculating the interest charge to the Consolidated Revenue Account (CRA). The actuaries adopted an alternative estimation technique, which did not include a recalculation of the pension liability at 1 April 2004. We have estimated that the effect of the difference is an understatement of interest cost in the CRA of just over £600,000. This is offset by a transfer from the pension reserve, which is the approved treatment for local authorities in order to avoid unplanned fluctuations in the charge to the CRA. Management have elected not to adjust the accounts for this as there is no net effect on the reported results in the CRA or on the total liabilities of the pension fund recorded in the Balance Sheet.

### **Early closing**

We are pleased to report that the 2004/05 financial statements were approved on 18 July 2005 which is well within the deadline of the end of July. The deadline will be brought forward by a month for 2005/06 when the accounts will need to be approved by the 30 June 2006. Although the Council has always achieved comparatively early closure and adoption of accounts, bringing forward the timescale by another month is nevertheless likely to increase the pressure on officers during the closedown process. The Council will therefore need to ensure that adequate procedures are put into place to meet the earlier deadline.

## **Governance**

### **Financial standing**

#### **General Fund**

The Council budgeted for a net spend of £11.3m on the General Fund in 2004/05. The final net expenditure was £10.0m giving an overall saving of £1.3m. The reasons for this were reported in detail to the Cabinet on 30 June 2005. The main reasons were additional income from interest receivable, additional income from planning and development control, better financial performance at The Orchard Theatre and savings from staff vacancies. Due to the need to reduce net expenditure in 2005/6 vacant posts that did not

have a direct impact on service delivery to residents were held vacant pending the budget review and hence the increased saving from vacant posts.

### **Housing Revenue Account**

We are pleased to report that the Housing Revenue Account (HRA) continued to record a surplus during 2004/05 (£0.4m compared with £0.3m for 2003/04) which has resulted in the overall balance increasing to nearly £1m. The tenants have indicated a strong preference towards keeping the management of housing under direct Council control and the Council has developed plans to resource this option and to meet the Decent Homes Standard.

From 1 April 2004, the Council has been able to plan its capital expenditure under the new Prudential Framework, which focuses on the Authority's ability to afford the consequences of spending decisions from future years' revenue accounts. The Prudential Framework offers the Council greater flexibility in terms of borrowing. This increases the future funding options available to the Council, should it wish to incorporate external financing within its long-term capital strategy.

### **Internal control**

#### **Statement of internal control**

The Accounts and Audit Regulations 2003 include a requirement that the statement of accounts prepared by an authority in England should contain a Statement on Internal Control (SIC). These statements refer to much wider systems of control than purely financial systems and require the Council to have in place such systems of control. Authorities are required to conduct annual reviews of the effectiveness of the system of internal control, which will provide the findings to support the SIC.

The Council accepts that risk management is not yet embedded into the decision making processes of the Council and has disclosed this as a significant internal control issue in the SIC. A key example that was identified by internal audit when they undertook a review of this area was that 'there is no single document that can be called a risk register, just a collection of risks from various service plans'.

We understand that a report has recently been submitted to Members in respect of risk management. We recommend that the Council develops its risk management processes, in line with best practice, to meet the needs of the organisation. This should involve the development of an organisation wide register detailing risks, control activity and specific individuals to manage each risk. Key risks should be collated and considered by the management team and by the Council.

### ***The Bridge***

In January 2003 the Council signed a development agreement with ProLogis for the Bridge development. We understand that the development agreement with ProLogis has now gone unconditional as all necessary planning permissions have been obtained and land required for development has now been acquired. This has resulted in the commencement of work on the site. We welcome this as it is a significant step forward for the project. The Council will need to continue to ensure that robust project management and financial reporting arrangements remain in place over the next phase of the development.

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

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

### **The legality of financial transactions**

We have reviewed the overall arrangements developed by the Council to ensure the legality of its transactions and concluded that arrangements are satisfactory.

# Performance management

## Key issues

We have commented on the following key areas in this section:

- Progress made on balancing housing markets and homelessness.
- Update on CPA.
- Update on e government

## Balancing housing markets and homelessness strategy

As part of the 2003/04 audit we undertook a review of the Council's approach to identifying, assessing and managing risks associated with its work to understand and help balance housing markets. Within the wider context of this work we also undertook a specific review of the Council's homelessness strategy and framework for local implementation. The report recommended a series of actions around improving and defining the strategy and subsequent performance measures.

As part of the 2004/05 audit, we have reviewed the Council's response to the issues we raised and subsequent developments. We note the following developments:

## Joint working

The Council has consolidated its joint working and can demonstrate it is working with stakeholders including registered social landlords, housing developers and with other services within the Council. There are examples of effective working across authorities, such as the homelessness officers countywide forum arranging training for homelessness officers, from the Chartered Institute of Housing. However the Council recognises that there should be improved partnership working with the Primary Care Trust, but this could be more difficult to progress in view of the proposed changes to the structure of PCTs.

## Service performance

Performance has generally been good across the relevant indicators. For example, the percentage of lettings within the borough has been higher than anticipated and this can be seen as "good" performance as it has provided a greater number of lettings to existing Dartford residents.

Performance in securing affordable homes has slipped against the target in 2004/05 but this is following a strong performance in the previous year, resulting in a higher than targeted number of homes secured over the two year period.

### **Performance management**

The Council has responded to the improvement recommendations made in our earlier review such as including specific objectives, identifying evidence upon which policy is based and including links to other strategies. However, the Council could further improve the information used to monitor and improve the service. The Council acknowledges that at present there is limited collation of information held by organisations which could be used to evaluate the effectiveness of work with individuals on reducing homelessness. The service would be better placed to contribute to the current focus on efficiency and value for money if it collected and used this information. Similarly, although some targets are appropriate and represent good measures of success, there is scope for better definition to provide more specific and measurable targets such as for those which use the success criteria of “improvement”.

In addition, the Council has recognised in its service plans that there are risks in the lack of capacity. A prominent concern is that although existing staff will provide additional capacity on enabling the delivery of affordable housing, such as through negotiations with developers, the required training has yet to take place. However this is acknowledged and is addressed in the action plan.

### **Conclusion**

In overall terms we concluded that the response has adequately addressed the issues we raised. The service has responded to the challenges identified in order to ensure the framework and plans are in place to deliver high quality services. The challenge going forward for the Council is to deliver these plans, using performance information and monitoring procedures to drive for improvements in services.

### **CPA**

As part of the 2004-05 audit we have assessed action planning and performance management arrangements the Council has introduced to respond to the CPA inspection reported in July 2004, which rated the Council as “good”.

### **Prioritising and performance management**

Although for the most part, the Council’s priorities align with government priorities, there are some areas such as recycling, where the Council recognised that additional funding could not be provided in 2004/5. Additional resources have been provided in 2005/6 to help meet the Government targets.

The Council initially produced a CPA improvement plan with lead officers assigned to specific projects. This plan identified milestones and completion dates for the actions proposed. Against the majority of these actions the Council has made significant progress. Where some activities have not been completed, these are being incorporated into the corporate plan and a recently reconfigured performance planning and monitoring system. This means that the actions required to deliver the improvements will be mainstreamed into operational management.

The new performance management framework involves a clear thread from corporate objectives and targets through to service plans and individual performance assessment. Progress reporting is to both the Council’s senior Management Team and the Cabinet.

### **Tackling specific areas for improvement**

Housing was identified as the weakest performing service and there have been a number of steps made to improve Housing services following the self-assessment and inspection. A management restructure and review of a number of policies relating to housing and homelessness demonstrate the attention given to this area, and improved results such as decreases in rent arrears have ensued. The introduction of Choice Based Lettings has proved popular and the Council has used the interest from tenants as a means of driving performance elsewhere. For example, the requirements of the bidding process for Choice Based Lettings has resulted in an increase to the number of tenants whose rent payments are up to date.

Some activities have been delayed; in particular the capital programme, which is largely due to the need to ensure value for money is achieved. In addition waste, and recycling actions to reduce waste, are in place but the Council is unsure whether it will meet 2005/06 targets.

Customer satisfaction and responsiveness to the public were also areas noted as requiring improvement by the CPA inspection. The Council has ambitious plans to develop the Customer Contact Centre as a means of improving performance in these areas. In addition the Council is responding to the requirement to build capacity through staff and Member training and, separately, is also working with the Kent Centre of Excellence in improving procurement practice. Implementation of a new performance management system is also underway.

These are large scale programmes, which involve a significant investment and will require close monitoring to ensure their effective delivery.

### **E Government**

Local Authorities are expected to make all services available electronically by December 2005. The Council calculated that it achieved 95.55% e-enablement at the end of 2004/05 and that this figure has continued to rise and is now at 99%. Consequently the Council is confident of achieving this target and can also demonstrate good progress against the related Priority Outcomes set by Government.

# Appendix A: Information systems control issues

## Introduction

The following issues were noted in our review of the implementation of the new financial management IT system (Cedar) and the associated general IT security controls. These have been discussed with officers and we have noted the management responses, which address the recommendations we have made. We have included a summary of the points raised as an appendix to our Audit Letter for completeness of reporting.

Ref.	Observation	Risk	Recommendation	Priority	Management Response
<b>Change Management Cedar</b>					
1.	<p>Changes are occasionally implemented onto the live Cedar system that have not been assessed in a test environment, due to the fact the current test / training system is not in-line with the live system.</p> <p>It is recognised the changes typically implemented are small bug fixes or patches.</p>	<p>There is a risk of untested changes being implemented on the live environment which could adversely affect the ongoing confidentiality, availability and integrity of the system and its data.</p>	<p>All changes should be tested in a separate environment and the results of the testing recorded and signed off as evidence that the test was successful.</p>	High	<p>The occasions when changes were implemented directly onto live were carefully controlled e.g. a reporting tool was upgraded before being rolled out to end users, a piece of bespoke budget programming had a fault for which a fix was provided - this was applied directly to live on cost codes that are not affected by budgets.</p> <p>DBC will be working to bring the live and test systems in line as a matter of course before the next major patch or upgrade is undertaken.</p>

Ref.	Observation	Risk	Recommendation	Priority	Management Response
<b>IT Security Policy</b>					
2.	<p>We identified that although the IT security policy is presently being updated, the current one is out of date. In addition, the current policy is not widely available and has not been distributed throughout the Council.</p>	<p>There is a risk of users undertaking inappropriate activity that could affect the confidentiality, availability and integrity of the Council's systems and data.</p> <p>This could be because users are not discouraged from undertaking inappropriate activity or they do not realise the potential impact of their actions.</p>	<p>The process of updating the current security policy should be completed and it should be circulated to all staff. An ongoing measure of compliance should be implemented, potentially through internal audit or self-certification, whereby staff sign a declaration to state they will adhere to the policy.</p> <p>A copy should be made available to all Council employees via the intranet so they can be made aware of its existence and easily refer to its guidance.</p>	High	<p>The IT security policy is being updated to ensure that it is both understandable and usable whilst providing sufficient detail.</p> <p>It will be available on the Intranet and brought to the attention of both existing members of staff and in future new starters.</p> <p>Adherence to the policy is not optional and it is not considered necessary to require a signed declaration.</p>
<b>Cedar Security</b>					
3.	<p>There is no periodic review of existing Cedar user accounts to ensure that only appropriate users have privileged access rights.</p> <p>It is recognised that a process is in place for Human Resources to notify administrators of leavers. However, due to the frequency of the notification varying considerably, Cedar administrators will be requesting leaver reports from the Payroll Department as an additional check.</p>	<p>There is a risk of users may retaining inappropriate access to the Council's key systems, which could be used to make inadvertent or deliberate changes to critical data. This may compromise the confidentiality, availability and integrity of the Council's systems and data.</p>	<p>Inactive users should be identified on a periodic basis, by reviewing the list of privileged users. This will help identify user accounts that should be removed / disabled or access rights that are inappropriate.</p>	Medium	<p>In addition to the HR leaver notifications, a comprehensive quarterly review of system users has been introduced. This will act as a "catch-all" for any missed notifications, in addition it will pick up any amendments that may be required where access needs may have changed (e.g. change of role of an officer within the council.)</p> <p>Also as from September the Payroll section will forward a list of leavers to the general ledger team for reviewing - this will be included on the monthly general ledger checklist.</p>

Ref.	Observation	Risk	Recommendation	Priority	Management Response
<b>Disaster Recovery Planning</b>					
4.	<p>A contract exists between the Council and NDR with respect to disaster recovery, which is for the provision of replacement Windows servers. However, the majority of the Council's systems now operate on a Sun (Unix) server platform.</p> <p>Formally documented disaster recovery procedures are in place for the Windows environment that have been tested, however, the IT Department is heavily dependent upon one member of staff to use existing documentation to recover the Sun (Unix) based systems.</p>	<p>There is a risk of prolonged delays being incurred in the event of a disaster that requires the replacement of the Sun (Unix) servers.</p> <p>The loss of the member of staff with Unix/Sun skills, through illness or a change in personnel, may inhibit the ability to resume computer processing effectively and efficiently following a computer failure or disaster. Ineffective recovery procedures could lead to critical information not being available which may have an adverse impact on the Council.</p>	<p>We recommend that a comprehensive disaster recovery plan be developed to help ensure that the computer systems across all platforms can be effectively restored in the event of an emergency. This plan should allow for more than one member of staff to be able to recover the Council's critical systems.</p> <p>The plan should encompass the main computer systems that are used to process key transactions, as well as any other systems that are critical to the operation of the Council. As a minimum the plan should include the following:</p> <ul style="list-style-type: none"> <li>• Assessment of the business impact of the various computerised applications, and identification of applications which are critical to the continued operation of the Council;</li> <li>• A list of specific recovery tasks, including those required to re-establish network capabilities;</li> </ul>	High	<p>The council has an IT disaster recovery contract that can be invoked in the event of the IT systems not being available. Historically the Council's key systems ran on the mainframe and replacement machines were not readily available as they were built to order with a significant lead time. The Council's newer systems run on computers that are much more readily sourced.</p> <p>As part of the service review process in autumn 2004 consideration was given whether it was necessary or desirable to arrange a new contract to cover all platforms. The Council does not have an overall business continuity plan and it is likely that, in the event of a major catastrophe, that replacement IT equipment could be procured and considerable progress made towards the recovery of the systems in the time that it would take the Council to arrange premises from which to operate. However, in less dramatic circumstances, there are realistic risks that all or part of the computer suite could be unavailable and the organisation could lose its IT capability. The conclusion of the review was that some contingency arrangements are required. It was considered that the Sun Unix Servers need not be included as they could be procured and rebuilt from scratch in less than a week. The result led to an ongoing annual saving of £17000.</p>

Ref.	Observation	Risk	Recommendation	Priority	Management Response
			<ul style="list-style-type: none"> <li>• Assignment of responsibilities of key individuals involved with the recovery effort;</li> <li>• Identification of an alternative location where computer operations can continue;</li> <li>• A list of key Council personnel and vendor contacts, along with their respective telephone numbers.</li> </ul> <p>In addition, periodic tests of the plan should be performed to ensure that the plan will be successful and that it remains up-to-date.</p> <p>The Council should ensure there are adequate plans in place for the provision of replacement Sun (Unix) servers.</p>		<p>The contents of the review were included in the budget process for the current year.</p> <p>A test was recently undertaken of the disaster recovery facilities leading to changes to the plan and confirmation that the contract DR are able to recover to recover the systems when provided with the appropriate backup tapes (stored offsite) and a small amount of key information, known by a number of staff in IT.</p> <p>Further work is being carried out to ensure that the dependency upon one individual to lead recovery of the Sun servers is reduced.</p>

Ref.	Observation	Risk	Recommendation	Priority	Management Response
<b>Business Continuity Planning</b>					
5.	<p>There is no formal business continuity plan in place for the Council.</p> <p>Responsibility for ensuring the continuity of key systems and processes lies with each department. However, there is no formal plan in place that has been communicated to staff which can be put into effect to ensure continuity of the Council's operations.</p>	<p>There is a risk of serious delays being encountered, when restoring key systems and business processes, in the event of a disaster that significantly disrupts the Council's operation.</p> <p>This could mean the Council is unable to provide key systems and services for a prolonged period of time.</p>	<p>The Council should ensure that co-ordinated plans exist to ensure that all key systems and business processes can be restored following a disaster or significant disruption.</p> <p>Plans should include the identification of key systems and staff, and guidelines on how systems will continue to operate following a loss of hardware, software, premises or other key assets.</p> <p>Any plans should be tested on an annual basis to ensure that systems and processes can be restored to the required level.</p>	Medium	<p>This will be considered corporately as part of the review of key corporate risks later this year.</p>

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

- Initial and updated audit service plans
- Audit opinion for 2004/05 financial statements
- Report on the audit of the 2004/05 financial statements (SAS 610 report)
- Review of IT controls at the Council.

*In the event that, pursuant to a request which Dartford Borough Council has received under the Freedom of Information Act 2000, it is required to disclose any information contained in this report, it will notify PwC promptly and consult with PwC prior to disclosing such report. Dartford Borough Council agrees to pay due regard to any representations which PwC may make in connection with such disclosure and Dartford Borough Council shall apply any relevant exemptions which may exist under the Act to such report. If, following consultation with PwC, Dartford Borough Council discloses this report or any part thereof, it shall ensure that any disclaimer which PwC has included or may subsequently wish to include in the information is reproduced in full in any copies disclosed.*

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