

Report to: **Audit and Best Value Scrutiny Committee**

Date: **12 June 2007**

By: **Chief Executive and Deputy Chief Executive and Director of Corporate Resources**

Title of report: **Audit Commission's Audit and Inspection Annual Letter**

Purpose of report: **To submit to Committee the Audit Commission's Annual Audit and Inspection Letter**

RECOMMENDATION:

The Committee is recommended to consider and comment on the Audit Commission's draft Annual Audit and Inspection Letter

1. Financial Appraisal

1.1 There are no direct financial implications associated with this report.

2. Supporting Information

2.1 Attached to this report is the Audit Commission's Audit and Inspection Annual Letter, which, when finalised, will be distributed to all Members of East Sussex County Council.

2.2 The letter provides an overall summary of the Audit Commission's assessment of the Council. It draws on the findings and conclusions from the audit of the Council and from a wider analysis of the Council's performance and its improvement in 2006, as measured through the Comprehensive Performance Assessment. The letter identifies a wide range of improvements across all services and sets out the Direction of Travel report which concluded that the Council is improving adequately. Clearly there are areas where the Council needs to improve in all services and these will be addressed through the Council Plan targets. All services, apart from Adult Social Care, are now rated at 3/4 under the Comprehensive Performance Assessment giving the Council an overall "three star" rating. Members will be aware of the Business Transformation plan which is effecting improvements in Adult Social Care.

2.3 The Letter recognises that the Council has strengthened its performance in risk management and confirms that the Council has an effective Audit Committee and a strong, well regarded internal audit service which meets relevant professional standards and whose work the Commission continues to place reliance on.

2.4 The Committee is asked to consider and comment on the Audit Commission's Annual Audit and Inspection Letter.

CHERYL MILLER
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Report to: **Cabinet**

Date: **1 May 2007**

By: **Chief Executive**

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CHERYL MILLER, Chief Executive

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Annual Audit and Inspection Letter

March 2007



Annual Audit and Inspection Letter

East Sussex County Council

The Audit Commission is an independent body responsible for ensuring that public money is spent economically, efficiently and effectively, to achieve high-quality local services for the public. Our remit covers around 11,000 bodies in England, which between them spend more than £180 billion of public money each year. Our work covers local government, health, housing, community safety and fire and rescue services.

As an independent watchdog, we provide important information on the quality of public services. As a driving force for improvement in those services, we provide practical recommendations and spread best practice. As an independent auditor, we ensure that public services are good value for money and that public money is properly spent.

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.

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Our overall summary

- 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 of the Council and from a wider analysis of the Council's performance and its improvement over the last year, as measured through the Comprehensive Performance Assessment (CPA) framework.
- 2 The letter is addressed to the Council, in particular it has been written for councillors, but is available as a public document for stakeholders, including the community served by the Council.
- 3 The main messages included in this report are:
 - The Council is a 3 star (on a scale of 0 to 4 star with 4 star being the highest) and our most recent assessment of its direction of travel shows that it is improving adequately (on a scale improving strongly, improving well, improving adequately, not improving adequately, not improving);
 - the Office for Standards in Education (Ofsted) and the Commission for Social Care Inspection (CSCI) rate the Council's quality of services for children and young people as 'good' and 'excellent' respectively with 'excellent prospects' for future improvement;
 - CSCI scored adult social services as 'serving some people well' with 'uncertain prospects' for improvement;
 - the rate of improvement across all services (as measured by best value performance indicators) was lower than last year although slightly above average for all county councils (64 per cent improvement compared with 78 per cent in 2004/05). Progress against local targets is stronger, notably, work on community safety and libraries;
 - the way it uses its resources was scored as three out of four. Governance arrangements are robust and the Council delivers value for money in its services. The Council has set out a clear medium-term plan but its financial context remains challenging going forwards; and
 - the Council can demonstrate that it has an infrastructure that supports the continuing development of the services it provides, particularly in priority areas.

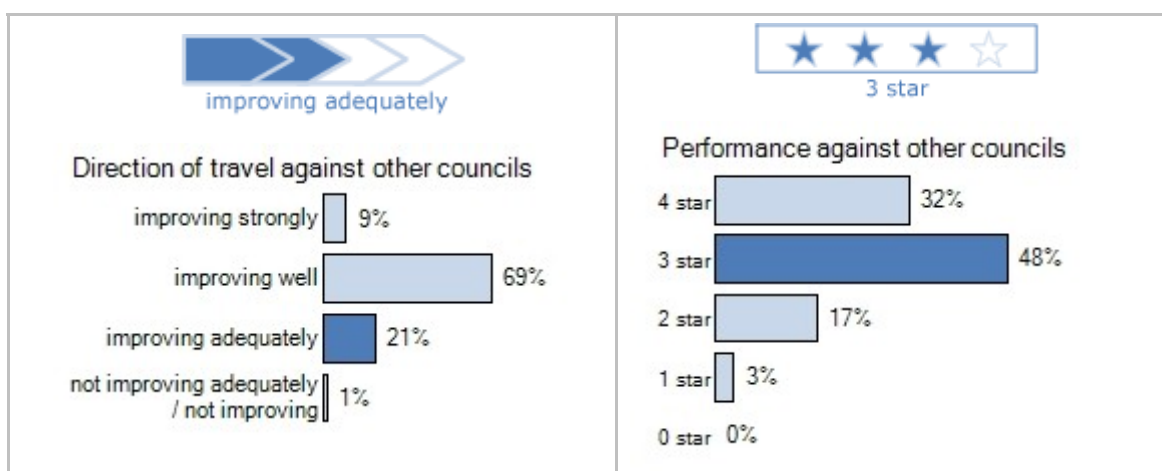
Action needed by the Council

- Continue to make improvements, working closely with the local health economy, in services for adults.
- Progress corporate actions identified from its peer review.
- Maintain its strong financial management processes to cope with the challenging financial environment.

How is East Sussex County Council performing?

- 4 The Audit Commission's overall judgement is that the Council is improving adequately and its current level of performance under the Comprehensive Performance Assessment is '3 star'. These assessments have been completed in all single tier and county councils with the following results.

Table 1



Source: Audit Commission

- 5 The detailed assessment for the Council is as follows.

Our overall assessment - the CPA scorecard

Table 2 CPA scorecard

Element	Assessment
Direction of Travel judgement	Improving adequately
Overall	3 star
Children and young people	3 out of 4
Social care (adults)	2 out of 4
Environment	3 out of 4
Culture	3 out of 4
Use of resources	3 out of 4

Element	Assessment
Previous corporate assessment/capacity to improve, as included in overall CPA judgement in 2006	3 out of 4

(Note: 1 = lowest, 4 = highest)

The improvement since last year - our Direction of Travel report

- 6 The Direction of Travel judgement summarised below measures how well the Council is improving:

East Sussex County Council is improving adequately and is a 3 star council.

It is improving services to many local people in its priority areas.

Sixty four per cent of performance indicators increased, slightly above the average rate for all councils. Progress against local targets is stronger. Pupils made good progress for most key stages and the substance misuse service for under-19s is improving lives. The library service is customer led, active membership and electronic access have increased and mobile libraries now provide other council services for rural areas. The Council's work to promote reporting of domestic violence is nationally recognised, repeated domestic violence incidents have reduced and a 'Buy with Confidence Scheme' is assisting vulnerable people. Road safety schemes are making roads safer. The Council works well with many partners, for example, improving the economic prospects for Hastings. Working relationships with health for adult services are now constructive and delayed transfers from hospital, although still high, have reduced substantially. Investment in adult care has not yet resulted in a significant improvement in services.

Resources are well managed and value for money is good. The Council faces a major challenge to further modernise services within existing resources.

- 7 The Council continues to improve the delivery of services to the public. Based on a basket of 26 performance indicators for 2005/06 (covering corporate health, sustainable communities, safer and stronger communities and healthier communities) selected by the Audit Commission to help measure the Council's absolute and relative improvement, 64 per cent improved from 2004/05 compared with the average of 62 per cent for all other county councils. The rate of improvement across all services (as measured by best value performance indicators) was slightly lower than last year although above average for all county councils (64 per cent improvement compared with 78 per cent in 2004/05). Progress against local targets is stronger, notably work on community safety and libraries, and demonstrable improvement that the public would recognise is evident.

- 8 Pupils have made good progress in most key stages of educational attainment reflecting the Council's priority on education. Standards in key stage 1 (pupils aged 5 to 7 years) in reading, writing and mathematics are in line with those seen nationally, but below those of similar councils. In key stage 2 (pupils aged 7 to 11), standards in English and mathematics are average and slightly below average for science. In key stage 3 (pupils aged 11 to 14), standards in English and mathematics are average and in science, the standard is lower than the national average and similar councils. Overall, Ofsted and CSCI rate the Council's quality of services for children and young people as 'good' and 'excellent' respectively with 'excellent prospects' for future improvement (paragraphs 19 and 20).
- 9 The Council has developed services that the public want. Its library services continue to be customer led and choices are made to ensure that this service is available to all residents. For example the Council has retained and improved its mobile libraries ensuring that rural residents have access to library services. A mobile office has also been set up which provides contact points and other services. As part of the Council's wider e-Government Strategy, electronic access to libraries has improved; contact via the library web pages is predicted to increase by 50 per cent at the end of 2006/07 and e-library renewals and reservations have increased by 79 and 65 per cent respectively. Trading Standards continue to develop a range of services and schemes to support people. The 'buy with confidence' scheme is attracting more traders wishing to be accredited and a cold calling free zone has been established in a rural area again with the aim to protect vulnerable older people from rogue traders.
- 10 The Council's work with others is helping to improve community safety. It has brought together alcohol and substance misuse services with crime reduction and domestic violence services to provide a more streamlined and comprehensive provision. In the year, 926 people with drug problems were treated and better than target, 331 completed their treatment programme. Substance misuse services for under 19s are showing effective interventions which improve the lives of young people as well as reduce the potential for drug related crime. The Council and its partners have targeted domestic violence in Hastings over the past three years. There has been promotion of the reporting of such violence which has resulted in increased reporting of them. Multi agency remedies and intensive support to victims have reduced the levels of repeated violence. This work has been nationally recognised by the Home Office. Road safety schemes are making roads safer. Over the past year, four major traffic calming schemes and two new signalised crossings have been completed and the speed limits in four villages have been revised. The number of people killed or seriously injured and the number slightly injured in road traffic accidents have both reduced, whilst the number of children killed or seriously injured in road traffic accidents increased from 28 to 41 in 2005/06.

- 11 The Council continues to work in a wide range of partnerships with the aim of achieving its overall priorities. For example the Council has worked with Lewes District Council, the French authorities, the current owners of the Newhaven port and the ferry service operators based there to facilitate and influence the sale of Newhaven port to the private sector for development. One essential element of this development will be a significant business park which has the potential to generate 1,000 new jobs and develop 30,000 square meters of land to increase employment opportunities. The Council's work as part of the Hastings and Bexhill Taskforce is contributing to increasing the average weekly earnings in Hastings, narrowing the economic gap with the rest of East Sussex. The 'Access East Sussex' partnership (between the Council and the county's boroughs and district councils) has provided eight community help points and 50 electronic kiosks across the county, which allow free access to email and the internet in addition to those online services provided by the county, borough and district councils.
- 12 Adult social care services continue to be assessed as '1 star' with 'uncertain prospects' of improvement. The Council is in the middle of a major business transformation programme which involves the reengineering of processes and systems to support future long-term improvement. This programme is on target, but it has not yet produced demonstrable outcomes for adults and older people requiring support from social care services. It is acknowledged by the Council and its partners that reconfiguring older people's social care will require a longer term view before delivering value for money. Some service improvement has been achieved, most notably a substantial reduction in delayed transfers of care from hospital, with more people being moved on to appropriate accommodation or services. Delayed transfers of care have occupied over 7,000 less bed days compared to 2005/6 releasing the equivalent of 26 beds for other purposes. Bed occupancy at the acute hospitals is now down to around 82 per cent compared to 105 per cent in 2005/6. This success has been achieved through increased funding by the Council in its services and improved joint working with health – each partner is committed to working together, sorting out difficult issues, rather than blaming each other as in the past. Joint work with Age Concern has led to an increased take up of welfare benefits for vulnerable older people and this work was commended by the Municipal Journal awards in the community leadership category. The Council has also secured funding from central government's Invest to Save Programme for a three-year project on improving engagement with black and minority ethnic communities.
- 13 The Council has a vision of where it would like to be, developed through consultation with partners and stakeholders and has agreed priorities. Its well established and effective business planning and prioritisation process - 'Reconciling Policy and Resources' - ensures that resources are aligned with priorities. It has been instrumental in allowing the Council to continue to make service improvements within a difficult financial environment. The Council has reduced operational costs by 8 per cent over the last four years and it has plans to increase this to 11 per cent over the next 3 years. To increase service provision external funding to support improvements has been sought and there has been a successful bid for 50 extra care housing units with a second bid progressing for 450 units.

- 14 The continued focus on productivity and efficiency has delivered benefits in a number of other areas. For example sickness absence has been a Council priority and this has reduced from 8.93 days in 2003/04 to 8.61 days in 2005/06 and is amongst the better performing councils. Scrutiny is a model of good practice as recognised by the Centre of Public Scrutiny. Scrutiny reviews target areas of poor performance; there is robust monitoring of performance and use of data to target areas for improvement through improvement plans. The Council provides good value for money in the delivery of its services.
- 15 In September 2006 the Council invited the Improvement and Development Agency (IDeA) to review its arrangements as a 'critical friend'. A specific focus was put on: leadership and governance; customer focus and community engagement; resource and performance management; and organisation and people. Key strengths identified in addition to those noted above included: strong political leadership and a strong officer team; the Council is prepared to make difficult decisions; external communications have improved and the community understands the financial pressures faced by the Council; and staff value personal development opportunities. The Council has put in place an action plan to deal with all the key improvement areas identified by IDeA which included:
- the quality of customer care is patchy;
 - more emphasis is needed on community cohesion and equalities;
 - further improvement in public consultation and engagement can be achieved;
 - partnerships with the voluntary sector and external contractors could be enhanced;
 - the performance management process should drive improvement more proactively;
 - more work should be done on income generation; and
 - organisational capacity should be reviewed to see if it is sufficient to meet the Council's vision and fulfil its change agenda.

Service inspections

- 16 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:
- CSCI undertook an inspection of services for older people in June 2006 and made its annual judgement on the quality of adult services in November 2006; and
 - in November 2006, Ofsted and CSCI made an annual performance assessment on the Council's services for children and young people.

- 17 CSCI judged the provision of older people's service as 'serving some people well' (on a scale of not serving people well, serving some people well, serving most people well, and overall serving people well). While there were good examples of care management and social care practice, there was variability in practice and management oversight which is of particular concern when an individual needs safeguarding. The arrangements for ensuring effective social inclusion and well-being need developing. High cost service areas were recognised by the Council but remain to be addressed. A range of good services were found and the care practitioners were well regarded by service users. However more focus is needed on those with mental health needs and for those from the black and minority ethnic communities. Some gaps in service provision were identified, for example, services for early onset dementia and residential and nursing care for older people with mental health needs.
- 18 The prospects for improvement of services are uncertain (on a scale of poor, uncertain, promising and excellent). Performance is improving but from a low base. Services are at the beginning of a major change process which is mapped clearly. Previous change plans have not been successful consistently and strong performance management is needed to ensure this is not repeated. The commitment from the Council to achieve the change is recognised. Good work is being done on consulting with service users including carers although there is scope to improve particularly by dealing with a more diverse range of people. Linkages between staff at the front line and the department and corporate objectives had not been firmly established. Joint commissioning needs to be developed and the engagement with independent sector providers needs improving.
- 19 Ofsted and CSCI concluded that the Council consistently delivers children and young people's services above the minimum requirements and has an excellent capacity to improve services further.
- 20 The majority of services were performing well and there is good partnership working. The Children's and Young People's Plan describes a clear vision which is supported by strategic goals that are driven by service users. Recommendations made in the previous year have been subject to action and there has been regular review of progress. Key strengths include, a range of anti bullying initiatives; high standards of child protection; excellent services for looked after children; and helping young people prepare for working life. The Council knows what it does well and where it can improve. Key improvement areas include: raising educational attainment in science at key stages 2 and 3; increasing A level attainment at some schools; increasing support to young people (and their parents) of dual heritage.

Financial management and value for money

- 21** As your appointed auditor I issued an Annual Governance Report to the Governance Committee on the issues arising from the 2005/06 audit in September 2006. This summarised audit work undertaken at that time and highlighted that I had given:
- an unqualified opinion on your accounts including the pension fund; and
 - an unqualified value for money conclusion on your arrangements to secure economy, efficiency and effectiveness was issued;
 - a report on the Best Value Performance Plan confirming that the Plan has been audited.
- 22** 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).
- 23** For the purposes of the CPA, the Council's arrangements for the use of its resources have been reviewed in these five areas as follows.

Table 3 Use of resources

Element	Assessment
Financial reporting	3 out of 4
Financial management	3 out of 4
Financial standing	3 out of 4
Internal control	3 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)

- 24 The Council has good arrangements in place - it has strengthened its performance in a number of areas within the Use of Resources, particularly risk management and we agreed that your reconciling policy and resources process is notable practice. The challenge for the Council to improve its future scoring is to set out clearly any other aspects of its arrangements that could be assessed as notable practice to share with other councils.
- 25 The Council has an effective Audit Committee and a strong, well regarded internal audit service that we have assessed as meeting the relevant professional standards and upon whose work we continue to rely.
- 26 The Council's financial standing as at 31 March 2006 was sound. It continued to maintain its working balance in line with its target level as agreed with members. The Council has reported that its financial outlook is challenging given that in recent years it has received low levels of annual funding increases from central government and expects to continue to receive such levels in the coming years. In seeking to address the impact of this, the Council is undertaking forward financial planning over a four-year period that sets out funding allocations to services based upon key priorities and the impact that these have on council tax. The budget setting process for financial year 2007/08 recognises that there are significant risks which include expenditure on services which are demand led, such as adult and children's services, as well as that on waste services and business transformation projects and plans have been put in place to manage these. It also recognises that the achievement of planned savings will be important. Whilst the budget report to Cabinet dated 30 January 2007 notes that general reserves, albeit at a minimum level, do provide reasonable risk protection for the Council, it is essential that the Council continues to manage its financial position effectively in 2007/08 and beyond.

Other audit work

Planning primary school places

- 27 The level of surplus places in East Sussex primary schools is six per cent, which is below the national average. However, this figure disguises wide variations within the county with some areas having surpluses of over 25 per cent whilst others have a shortage of places. Primary rolls were expected to fall by over three per cent between 2004 and 2007 which, without action, will lead to further increases in surplus places. The Council's primary class size, although falling, is higher than both the regional and England averages. At key stage 2 some classes have more than 30 pupils and, whilst the Council is not happy with this position, it has concluded that it is not always possible to reduce them.

- 28 Based on our initial work undertaken in 2005 we concluded that the Council has been proactive in dealing with the issue of surplus places in its primary schools. Its plan for addressing the issue through a series of area reviews meant that it had a clear process for assessing and amending provision on an area-by-area basis. Early indications suggested that this would have a positive effect. Additionally, the Council was proactively supporting schools in improving budget management and medium-term forward planning for a maximum of 30 pupils per class at key stage 2. Three recommendations were subsequently agreed in August 2006 and we have established progress on these in early 2007.
- 29 Overall, progress on the recommendations has been limited due to delays in staff reorganisation. There is a defined policy to guide the planning of primary school places in East Sussex. This provides a clear and consistent framework for surplus capacity planning. The Council has embarked on reviews of primary places in Hastings. In Rye, where there has been notable over-capacity, the issue has been addressed through a reorganisation programme. The Council has also had some success in reducing surplus places by the re-designation of places and the removal of mobile classrooms.
- 30 The Council's process for predicting pupil numbers by considering factors such as the construction of new homes within the county is still developing. The Council has moved responsibility for this to Children's Services and there are plans to revise the way in which the forecasting is undertaken by use of improved corroboration of their sources of data on children numbers.
- 31 The Council has made progress by achieving a higher take up by schools of financial training packages to assist them in dealing with the financial consequences of reducing pupil numbers. There has been significant success in engaging with schools through the use of a financial planning template that helps develop financial plans for between 3 to 5 years forward. The Council estimates that this action has reduced the number of schools going into deficit as a result of falling numbers.

Data quality

- 32 Good quality data is the essential ingredient for reliable performance and financial information to support decision making. Each year the Audit Commission conducts an independent audit of the national Best Value Performance Indicators (BVPIs), Public Library Service Standards and Trading Standards. The audit was broadened last year to include a check on data quality systems.

- 33 The Council is performing well (based on a scale performing strongly, performing well, performing adequately and performing inadequately) in the way that it manages and uses its data. Three aspects of the Council's arrangements were highlighted as notable practice including:
- the Make a Difference awards that recognise good work by officers and promote the importance of data quality; and
 - the Pocket Book Guide to Performance Management, which has an introduction from the Leader of the Council and the Chief Executive, promotes performance management as the business of all officers and members of the Council and stresses the need for good quality data for decision-making.
- 34 The Council has put in place arrangements at a senior level to secure the quality of data used to manage and report on performance. Where a performance indicator is a corporate priority or has been assessed as high risk, it was concluded that systems are robust and reliable.
- 35 There are a range of data quality policies in place across the Council. There is a plan to bring these together and to develop an overall data quality strategy. The Council realises that it needs to work to agree both the strategy and policies with its partners if it is to be successful in having systems in place to support its agreed joint objectives.
- 36 The investment in developing the skills of a number of officers to promote better data quality across the Council is a positive step and reports prepared for managers and members showed good use of comparative and trend data. Additionally some indicators were subject to verification prior to external reporting in order to improve quality. However detailed testing of a sample of indicators at audit showed some opportunities to improve data quality exist and recommendations have been agreed with officers to address the matters raised.

Information management

- 37 The Bichard Inquiry examined the effectiveness of relevant intelligence-based record keeping, vetting practices and information sharing with other agencies following the Soham murders. The Bichard Inquiry drew conclusions on these matters and made recommendations that were relevant to a number of organisations including police forces, social services departments and education establishments to protect children and the vulnerable nationally.
- 38 The Council's senior officers identified a potential risk for the Council after considering the report's findings. The Council undertook a review of its arrangements and found that substantial work has been done to support information sharing within children's services and that the arrangements had been externally evaluated for their ability to share appropriate information.

- 39 The Council recognises that other vulnerable groups within social services should also have good information sharing practices in place and before CSCI's older people's inspection (see paragraphs 18 and 19) we worked with the Council to develop a comprehensive self-assessment tool so it could identify any gaps in information sharing for vulnerable adults and older people. This was shared with CSCI and used as part of its inspection.
- 40 The self-assessment showed that the Council was aware of the key issues, had a comprehensive plan in place to address the risks identified and was working well with partners on implementing the learning from the project in children's services. The Council wanted to use similar information management systems as they have in place for children to ensure that the transition into adult services did not require comprehensive reviews of information held or changes in protocols. We concluded that this was a sound approach and we made no recommendations for action from the review.

Pooled budgets

- 41 In last year's Annual Audit Letter, we noted that the Council needed to ensure that the pooled budgets involving the NHS are appropriately controlled. This year we assessed the Council's management of the pooled budgets. Governance arrangements have improved. Specifically, there is more clarity in the accounting arrangements between the members of the pools with up-to-date agreements in place and quarterly reporting of pool transactions. This has been achieved mainly through closer working relationships with its health partners. The improved governance arrangements should help reduce the risk of adverse financial outcomes.

Conclusion

- 42 This letter has been agreed with Chief Officers and will be presented to Cabinet and Audit, Best Value and Scrutiny Committee.
- 43 The Council has taken a positive and constructive approach to our audit and inspection and I would like to take this opportunity to express my appreciation for its assistance and co-operation.

Availability of this letter

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

Darren Wells

Relationship Manager and District Auditor