

Annual Audit and Inspection Letter

March 2006



# **Annual Audit and Inspection Letter**

**St Albans City and District Council**

**Audit 2004-2005**

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- 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; and
- auditors may report aspects of their work widely to the public and other key stakeholders.

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## Key messages

- 1 The key messages arising from our audit and inspection work are outlined below.

### Council performance

- 2 The Council is addressing the weaknesses identified in its corporate performance assessment (CPA) through its three-part corporate improvement plan. Firstly, specific actions have been agreed to address the weaknesses identified during CPA and progress has been made. Secondly, service specific improvements have been addressed through improved service plans through 2005/06 and are monitored quarterly. The third part of the plan addresses broader strategic issues requiring culture change in the Council. Investments have been made in these areas and improvements made in valuing staff; better communication internally and externally; and better long-term strategic and financial planning with explicit links to a more robust performance management framework. Progress has been weaker on community leadership and, until recently, e-government.
- 3 The Council's best value performance plan (BVPP) complied in all material respects with legislation and statutory guidance and an unqualified opinion was issued. Further work is required to formalise the quality assurance arrangements to ensure accurate data is collected and published.

### The accounts

- 4 We gave an unqualified opinion on the Council's accounts on 8 November 2005. Scope remains to improve the quality of the supporting working papers in future, particularly ensuring formal review prior to Council approval of the accounts.
- 5 For 2005/06, since the implementation of the new financial management information system, a number of controls are not yet fully in place.

### Financial standing

- 6 The Council underspent against its original budget, enabling the general balance to remain at £3.3 million. The forecast for 2005/06 and 2006/07 is positive but current projections for the years thereafter show significant potential council tax rises and Cabinet is to identify efficiency savings to limit these increases. Further progress has been made to strengthen the medium-term financial planning processes, with greater integration of corporate planning, service planning and budgeting in 2006/07 and beyond.

## **Systems of internal financial control**

- 7 We have not identified any significant weaknesses in the overall control framework. However, up-to-date documentation is needed for business critical systems.

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

- 8 We have not identified any significant weaknesses in your arrangements for maintaining financial conduct and to prevent and detect fraud and corruption, but a stronger counter fraud culture is required.

## **Legality of transactions**

- 9 Overall, we concluded that the Council's arrangements for ensuring the legality of transactions continue to be appropriate.

## **Action needed by the Council**

- Continue to monitor improvement action taken, linking in recommendations made in audit and inspection work delivered during 2005.
- Formalise quality assurance arrangements in relation to BVPIs.
- Ensure controls in respect of the new financial system are put in place.
- Continue to monitor the financial position of the Council.

## Council performance

The Council is addressing the weaknesses identified in its CPA assessment through its three-part corporate improvement plan. Firstly, specific actions have been agreed to address the weaknesses identified during CPA and progress has been made. Secondly, service specific improvements have been addressed through improved service plans through 2005/06 and are monitored quarterly. The third part of the plan addresses broader strategic issues requiring culture change in the Council. Investments have been made in these areas and improvements made in valuing staff; better communication internally and externally; and better long-term strategic and financial planning with explicit links to a more robust performance management framework. Progress has been weaker on community leadership and, until recently, e-government.

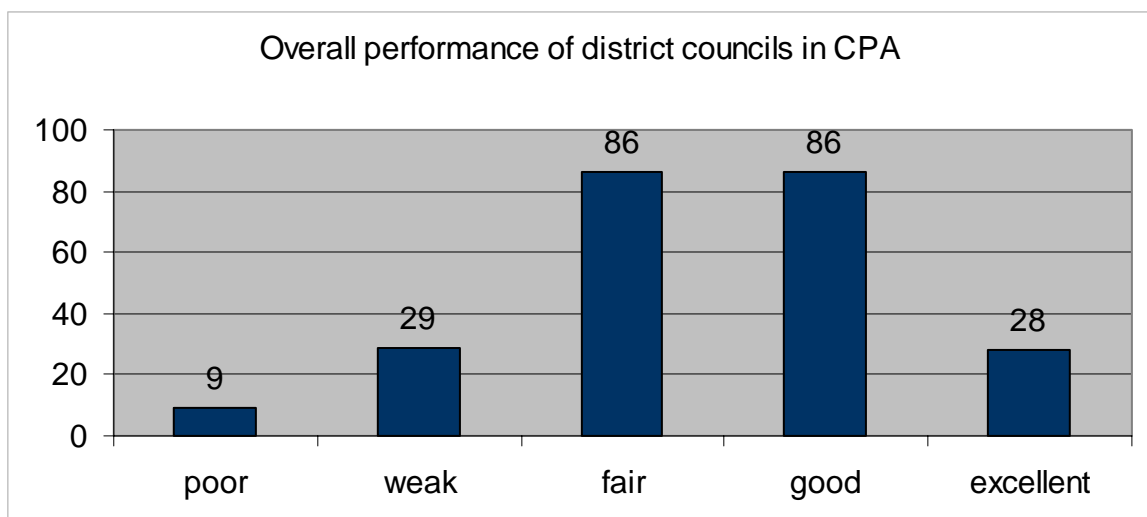
The Council's BVPP complied in all material respects with legislation and statutory guidance and an unqualified opinion was issued. Further work is required to formalise the quality assurance arrangements to ensure accurate data is collected and published.

## Direction of travel report

- 10 The Council was assessed as 'fair' in the comprehensive performance assessment carried out in 2004. These assessments have now been completed in all district councils with the following results.

### Figure 1 Overall performance of district councils in CPA

Three times as many district councils are rated good or excellent than poor or weak



Source: Audit Commission

- 11 Since the assessment, the Council has identified its priorities for improvement and we have been working with the Council as it seeks to improve further. Our findings on the Council's direction of travel are outlined in the following paragraphs, incorporating the key messages from the cultural services inspection and our review of performance management arrangements.
- 12 The Council has consulted the public effectively on local needs and expectations in helping it to frame its vision and priorities and has improved its focus on short-term priorities, by identifying its five corporate aims:
  - to build a community that is open, fair and inclusive;
  - to work in partnership for the health and wellbeing of the community;
  - to cherish and promote our heritage, arts and culture;
  - to safeguard the environment; and
  - to ensure the city and district are desirable places in which to live and work.
- 13 These aims are embodied in the three-year corporate plan and underpinned by the Council's improvement plan and three-year service plans.
- 14 There is less clarity about what are not priorities, but budget constraints for 2006/07 are leading the Council to address the issue.
- 15 Focus on key issues is maintained through the 'corporate calendar' which outlines clearly what issues must be addressed, what action taken, by whom and when.
- 16 Community leadership and partnership working is mixed. There are good individual examples of partnership working. For example, work with the Tidier St Albans Group to undertake Clean and Sweep days and litter picks. However, the relationship with some key partners is not effective. For example, there continue to be tensions between the Council and Hertfordshire County Council over roads and transport. The local strategic partnership (LSP) has been effective at building relationships, but less effective at delivering outcomes. Community leadership (including strategic partnerships) is to be subject of best value review in October 2007. Joint working with health is a priority and the Council and primary care trust have recently appointed a jointly funded health promotion officer.
- 17 Governance arrangements are sound but the delicate political balance has meant that many key decisions have been 'called in' to scrutiny committees. This is entirely legitimate but it has slowed down decision-making. There are good working relationships between portfolio holders and senior managers, with a keen focus on performance and improvement.
- 18 Scrutiny is improving with some challenging questioning and investigations, particularly in areas which reflect local or personal interests. However, scrutiny review of performance is not yet fully effective and it is not demanding remedial action or action plans for improvement.

- 19 The management structure is in a state of change but has worked hard to deliver both service improvements and some key organisational developments. The loss of one strategic director has reduced capacity but the two other directors and heads of service have responded to the challenge. A new chief executive has now been appointed. There is a rolling management development training programme for all managers. Modules on attendance management and recruitment and retention reflect recognised local pressures.
- 20 The Council has addressed recruitment and retention problems which were affecting performance, especially in Planning, Environmental Health and Technical Services. There has also been effective use of consultants to bridge gaps in skills or capacity.
- 21 Appraisal is improving. The scheme was revised in February 2005 to emphasise individual's links to corporate aims and objectives, identify training needs and provide robust performance review and target setting. The Council has a comprehensive training programme prioritised against the corporate vision and aims, and achieved Investors in People (IIP) accreditation in December 2005.
- 22 Performance management has become more effective. An improved performance management framework has been established to support the identified priorities. There are still some weaknesses in target setting. Specific actions have been agreed to address CPA weaknesses relating to: economic development; tourism which has been brought back in-house, planning; leisure; cleanliness; recycling; community safety; affordable housing; and the local development framework. These have been mainstreamed in service plans.
- 23 Risk management and business continuity plans (BCPs) are developing within the Council. Departmental business continuity plans have been completed, and reviewed by the County Council's Risk Manager, who has been asked to assist. Proposals for improvements are to be made and training will follow. A community resilience manager was appointed in November 2005. Consideration of risk management has been integrated into service planning and risk management software has been implemented within the performance management system.
- 24 There is effective budget monitoring and good overall control of finances. There is monthly review between portfolio holders and service heads and a quarterly review by cabinet.
- 25 The Council has linked the three-year service plans to a three-year revenue forecast and there are explicit links to priorities.
- 26 The approach to procurement is not fully effective. Many services are outsourced and procured on a quality and cost basis but there has been little innovation in procurement practice and better understanding, and application, of concepts like whole life costing is now developing. There is no complete understanding of the value for money provided by services, but there is some information on relative costs and the Council participates in benchmarking across Hertfordshire.

- 27 Communication with the public is improving. There was a revised communication strategy in May 2005 and culture change is underway to ensure that staff communicate more effectively. A 2005 MORI poll reflected that 52 per cent now feel informed, an increase of eight percentage points since 2002.
- 28 Access to services is improving. The Customer Service Centre (CSC) opened in April 2005, on time and within budget. The CSC is running a pilot exercise to use multi-skilled customer service staff during Saturday openings, to provide a more complete service and better resolution of customer queries. Early customer surveys indicate 83 per cent satisfaction with staff of staff to deal with queries. Ongoing performance monitoring, includes a cost of £2.50 per transaction in November 2005. Cabinet has approved further investment of £250,000 to support its 'Customer First' programme, including delivering e-government targets and establishing a new customer relationship management system.
- 29 Progress on e-government and electronic interaction has been weak until recently and amongst the worst twenty five percent of district councils. However, unaudited data for 2005/06 charts a dramatic improvement with 95 per cent of interactions with the public now being capable of electronic delivery. Planning Services also achieved the top e-planning 'Pendleton' score in Hertfordshire. The Council has experienced capacity problems in computer services and only agreed a way forward in its September 2005 IT strategy. Government funding has been secured for e-government capacity building, and major projects developed with the Improvement and Development Agency.
- 30 Leisure provision and quality of facilities has remained an area of poor satisfaction and contention. A new contract started on 1 March 2006 which carries high expectations, but it is too early to judge.
- 31 Investment in weaker areas has improved customer experience and service performance. Especially in planning and street cleaning, recycling and the refuse contract to bring in wheelie bins. However, expenditure on highways and transport is not providing the expected improvements and levels of public satisfaction are low. Prime responsibility for this service area lies with the county.
- 32 The use of complaints to improve services is not well evidenced. Complaints monitoring takes place and there is a corporate complaints officer but the focus is on responding within set timescales rather than learning form complaints.

### **Quality of service**

- 33 The Council delivers generally good quality services and overall public satisfaction is above average and there is a positive relationship between costs and the quality of services provided. Performance indicators to 2004/05 show that 63 per cent of indicators are above average and, since 2002/03, 59 per cent of all indicators have improved. Unaudited figures for 2005/06 reflect continuing strong improvement.

- 34 Performance is good in priority areas with high usage and satisfaction figures for cultural activities and parks and open spaces. Street cleaning is above average. Payment of invoices within 30 days is amongst the best and improving.
- 35 Planning services have improved markedly and will no longer be a planning standards authority in 2006/07. Performance on housing management and decent homes is improving, and the Council has put in place a housing improvement plan following tenants overwhelming vote to stay with the Council as landlord. However, the number of affordable homes provided is below average and the time that homeless households spend in hostel accommodation is amongst the worst.
- 36 The Council has had some good local achievements; including:
- the benefits service was inspected by the Benefits Fraud Inspectorate in December 2003 and judged to provide a service that was 'fair towards good, with potential for improvement'. This reflected the best score achieved by a district council. Performance improvement has since been maintained;
  - the tenants vote to stay with the Council as landlord following the housing options appraisal; and
  - the Council's culture services were inspected in 2005 and judged to be a 'fair', one-star service that has promising prospects for improvement. There is strong councillor and officer support and leadership for the service but performance information is poor and it will be some time before the Council has accurate baseline data.
- 37 The Council has established its future plans to deliver both improved services and cultural change in the organisation. These include:
- corporate plan and annual improvement plan;
  - consultation and communication strategy;
  - medium-term financial strategy linked to three-year service plans and the improved performance management framework;
  - housing improvement plan;
  - playing pitch strategy; draft green spaces strategy; draft arts strategy;
  - recycling strategy;
  - community safety strategy;
  - local development scheme submitted to Go-East by deadline of March 2005;
  - working party for local housing assessment established;
  - economic development strategy; and
  - sport and recreation facilities strategy.
- 38 However, there is still no explicit plan for engaging with elderly people or a plan to engage young people. Both areas will be subject to a best value review commencing in April 2006.

- 39 Maintaining focus and performance improvement as well as delivering these plans with continuing cultural change will be important to achieve better outcomes for residents and stakeholders.

## Other performance work

- 40 Under the Local Government Act 1999, specific local government bodies are required to comply with the general duty of best value, which is defined as making arrangements to secure continuous improvement in the way in which their functions are exercised, having regard to a combination of economy, efficient and effectiveness.
- 41 The Council is required to publish annually a BVPP which summarises its assessment of performance and its plans in relation to best value. The Council is responsible for preparing the BVPP and for the information and assessment that are set out within it and the assumptions and estimates on which they are based. It is also responsible for putting in place appropriate performance management and internal control systems, from which the information and assessments in the BVPP are derived.
- 42 Auditors are not required to form a view on the completeness or accuracy of the information or the realism and achievability of the assessments published by the audited body in its BVPP.
- 43 We concluded that the Council's 2005/06 BVPP contains all the key elements required by legislation and statutory guidance and we issued an unqualified opinion on 16 December 2005.
- 44 In terms of the best value performance indicators (BVPIs), the approach this year, under the new Code of Audit Practice, focused more on the arrangements that the Council has put in place to ensure accurate data is collected and published. In addition, we were required to assess whether the eight high-risk indicators selected by the Audit Commission, including housing investment programme (HIP) indicators, were valid from the initial point of data entry to the final calculation of the indicator. This is in preparation for these indicators to be included within the district CPA framework.
- 45 Our work found that the quality assurance arrangements in place for BVPIs were informal. This is a key area to develop to ensure consistency in the approach to monitoring and reporting BVPI outturns throughout the Council. Controls in relation to the eight indicators tested were found to be working adequately, with calculation amendments being required in relation to two indicators. Recommendations to strengthen arrangements for collecting BVPI data are being considered by officers.

## Accounts and governance

### Audit of 2004/05 accounts

We gave an unqualified opinion on the Council's accounts on 8 November 2005. Scope remains to improve the quality of the supporting working papers in future, particularly ensuring formal review prior to Council approval of the accounts.

For 2005/06, since the implementation of the new financial management information system, a number of controls are not yet fully in place.

### Review of core processes

- 46 We examined the Council's core process to assess the basis on which the accounts are prepared, namely:
- the main accounting system;
  - the budgetary control process; and
  - the year-end closedown process.
- 47 We concluded that there was generally a low risk of any of these processes leading to a material misstatement in the financial statements. However, whilst reconciliations were undertaken to ensure that cash receipting and payment records agreed to bank statements, it was noted that overall bank reconciliations were not being prepared on a monthly basis towards the end of the financial year.

### Audit of financial statements

- 48 The draft financial statements were approved by the Council on 20 July 2005, in advance of the statutory deadline of 31 July 2005. Our initial review of the supporting working papers identified that these were focused on cost centres as opposed to the disclosures required within the accounts themselves. Following further work on these working papers, a number of amendments were made to the financial statements prior to the detailed audit work commencing.
- 49 During the course of the audit, significant issues were identified with aspects of the accounts and supporting working papers, particularly in relation to the year end bank reconciliation and debtor and creditor balances. A number of amendments were required prior to the opinion being issued, including adjusting the debtor and creditor balances by £1.1 million as a result of an error found. These problems resulted in additional audit time being required to enable sufficient and appropriate audit evidence to be obtained for the opinion.

- 50 It is evident from our work that supporting working papers are not reviewed by a senior officer prior to the accounts being approved. This is a key weakness that will need to be addressed in future years, together with ensuring that the working papers link clearly to the disclosures made in the accounts. We will work with finance staff to facilitate improvement and we understand that working papers review arrangements have been identified for the 2005/06 closedown process.
- 51 In October 2005, the new financial management information system went live. Early discussions with officers have indicated that a number of control mechanisms, primarily bank and control account reconciliations are not yet fully in place. This increases the risk of material errors and misstatements not being detected when preparing the 2005/06 financial statements and needs to be addressed as a matter of urgency, particularly as the statutory deadline for approval is another month earlier for this year.

### **Report to those with responsibility for governance in the Council**

- 52 We are required by professional standards to report to those charged with governance (in this case to the Overview and Scrutiny Committee – Corporate Services) certain matters before we give an opinion on the financial statements, particularly in relation to unadjusted non-trifling errors. At the conclusion of the audit, no matters were identified that required such reporting as:
- concerns with the bank reconciliation process had already been highlighted to the committee by Internal Audit; and
  - all amendments identified during the course of the audit were actioned prior to the opinion being issued.

## **Financial standing**

The Council underspent against its original budget, enabling the general balance to remain at £3.3 million. The forecast for 2005/06 and 2006/07 is positive but current projections for the years thereafter show significant potential council tax rises and Cabinet is to identify efficiency savings to limit these increases. Further progress has been made to strengthen the medium-term financial planning processes, with greater integration of corporate planning, service planning and budgeting in 2006/07 and beyond.

- 53 General fund expenditure for the year was £16.735 million which was £0.808 million (4.8 per cent) below the original budget and the balance on the general fund balance increased by £26,000 to £3.321 million. As explained in the foreword to the accounts, there were a number of minor variances that resulted in this position.
- 54 The housing revenue account (HRA) reported a surplus of £0.977 million. This is an improvement over the prior year deficit of £0.740 million and results in a balance carried forward of £1.694 million.

## Future financial position

- 55 The Council considered, on 22 February 2006, the current position in relation to the 2005/06 budget and proposed budget for 2006/07 together with the financial strategy to 2008/09.
- 56 For 2005/06, the projected year position on the general fund is that the demand on the collection fund of £15,823 million will be achieved. In terms of the HRA, a slightly lower net cost is forecast of £42,000 in comparison to budget net cost of £126,000.
- 57 Leading up to the budget setting round for 2006/07, the Council agreed an updated corporate plan which covers 2006/07 to 2008/09. This has enabled the Council to integrate further corporate planning, service planning and budgeting, resulting in the budget and strategy for 2006/07 to 2008/09 being allocated across the Council's revised aims. This is clearly set out in the report by the head of finance on the budget and capital plan for these three years.
- 58 For the general fund, the demand on the collection fund is set at £16.950 million which equates to a council tax increase of 2.25 per cent. The forecast increase for 2007/08 and 2008/09 is 10.8 per cent and 7.7 per cent respectively which the Cabinet intends to limit by identifying and implementing efficiency savings during the year.
- 59 The impact on the projected level of balances is shown in Table 1 which shows that there is less funding available in 2007/08 and 2008/09 to cover approved once-off/time limited new items.

**Table 1 Use of balances**

	<b>2006/07 £000</b>	<b>2007/08 £000</b>	<b>2008/09 £000</b>
Balance brought forward	2,442	1,466	1,114
Use of balances to cover one-off new items	976	352	92
General fund balance carried forward	1,466	1,114	1,022
Working balance required	913	950	995
Balance for new items or to increase reserves	553	164	27

- 60 The proposed rent increases for dwellings and garages in the HRA are 5 per cent and 2.5 per cent respectively which is in line with the guidance issued by the Office of the Deputy Prime Minister.

## Systems of internal financial control

We have not identified any significant weaknesses in the overall control framework. However, up-to-date documentation is needed for business critical systems.

- 61 The Council is responsible for ensuring that systems of internal control are in place, and that there are robust arrangements to monitor their adequacy and effectiveness. Our responsibility is to consider whether the Council has put in place adequate arrangements to satisfy itself that its systems of internal financial control are both adequate and effective in practice.
- 62 The internal audit function is a fundamental part of the Council's governance arrangements. Our review of Internal Audit's work confirmed that they were generally compliant with the CIPFA Code of Practice for Internal Audit. During 2005, a new Head of Internal Audit was appointed who is raising the profile of this function.
- 63 The Statement of Internal Control (SIC) included in the financial statements for the year highlights that the system of internal control has been in place for the year. The arrangements for monitoring effectiveness are clearly documented, together with areas for further action. We reviewed the content of the SIC and were satisfied that the disclosures provided and actions necessary to address weaknesses in internal control were consistent with our knowledge.
- 64 Our overall review of arrangements for internal financial control did not identify any issues that need to be brought to councillors' attention. However, our use of resources judgement highlighted that up-to-date procedure notes and manuals are not in place for all business critical systems (paragraph 70).

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

We have not identified any significant weaknesses in your arrangements for maintaining financial conduct and to prevent and detect fraud and corruption, but a stronger counter fraud culture is required.

- 65 The Council has an appropriate governance framework in place of standing orders, financial regulations and a scheme of delegation. Good practice is evident in relation to the prevention and detection of fraud and corruption with appropriate policies and procedures being in place. However, our use of resources judgement (paragraph 70) highlights that a counter fraud culture needs to be developed.

## Legality of transactions

Overall, we concluded that the Council's arrangements for ensuring the legality of transactions continue to be appropriate.

- 66 The Council is responsible for ensuring that it has appropriate arrangements to ensure the lawfulness of transactions with a financial consequence. We have reviewed these overall arrangements and there are no issues arising that we need to report.

## Use of resources judgements

- 67 The use of resources assessment is a new assessment which focuses on financial management but links to the strategic management of the Council. It looks at how the financial management is integrated with strategy and corporate management, supports council priorities and delivers value for money. It will be carried out annually, as part of each council's external audit. We anticipate in future the use of resources judgements will form part of the CPA framework.
- 68 We have assessed the Council's arrangements in five areas, as shown in Table 2.

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**Table 2 Council's arrangements**

Element	Assessment
Financial reporting	1 out of 4
Financial management	2 out of 4
Financial standing	2 out of 4
Internal control	2 out of 4
Value for money	3 out of 4
<b>Overall</b>	<b>2 out of 4</b>

*(Note: 1=lowest, 4=highest)*

- 69 In reaching these judgements we have drawn on the above work and supplemented this with a review against specified key lines of enquiry.

70 The most significant areas where further development is needed are:

- improving the quality of working papers provided to support the accounts, ensuring that they are free from material error and misstatement;
- publishing an annual report, following consultation with stakeholders on the content, that incorporates summary financial statements;
- clearly demonstrating that the medium-term financial strategy is driven by the corporate plan – which we understand has been addressed as part of the 2006/07 budget round;
- basing Council budget monitoring needs on risk assessments, enabling focus to be on large high risk or volatile budgets;
- developing local performance measure for assets and link these to corporate objectives;
- embedding risk management throughout the organisation, as well as improving reporting thereon to councillors;
- ensuring up-to-date procedure notes and manuals are in place for all business critical systems;
- developing a strong counter fraud culture;
- developing unit costing for all key services and use appropriate comparator analysis to develop an understanding of unit costs of these services; and
- developing and monitoring a set of value for money targets.

## Other work

### Grant claims

- 71 In accordance with the principle of strategic regulation, the Audit Commission has continued with a more risk-based approach to the certification of grant claims. This means:
- for claims and returns under £50,000, no certification is required;
  - between £50,000 and £100,000 perform only part A tests (ie agree form entries to underlying records); and
  - over £100,000 perform part A or parts A and B tests depending on a risk assessment of the control environment (part B is the undertaking of transactional testing).
- 72 The Council had two claims below £50,000 which did not require certification and a further six over £100,000 for certification. We were able to rely on the control environment and therefore only undertake part A testing in respect of four of these claims. However, whilst we are generally aware of the officers preparing working papers to support the various claims and returns submitted for certification, this is not always evident on the working papers themselves. In addition, there is limited, formally evidenced, review of such working papers by an officer senior to the preparer. Addressing this in future will strengthen the control environment.

### National Fraud Initiative

- 73 In 2004/05, the Council took part in the Audit Commission's National Fraud Initiative (NFI). The NFI, which is undertaken every two years, aims to help identify and reduce fraud by bringing together data from NHS bodies, local authorities and government departments and other agencies, to detect a wide range of frauds against the public sector. These include housing benefit fraud, occupational pension fraud, tenancy fraud and payroll fraud as well as, new for 2004/05, right to buy scheme fraud and providing new contact details for former tenants with arrears in excess of £1,000.
- 74 Investigations of the data relevant to the Council by officers have identified savings of £29,803 which is consistent with the level found previously (2002/03 £27,619).

## Looking forward

### Future audit and inspection work

- 75 We have an agreed plan for 2005/06 and we have reported in this letter those aspects that have already been completed. The remaining elements of that plan, including our audit of the 2005/06 accounts, will be reported in next year's annual letter.
- 76 We have sought to ensure, wherever possible, that our work relates to the improvement priorities of the Council. We will continue with this approach when planning our programme of work for 2006/07. We will seek to reconsider, with you, your improvement priorities and develop an agreed programme by 30 April 2006.

### Revision to the Code of Audit Practice

- 77 The statutory requirements governing our audit work, are contained in:
- the Audit Commission Act 1998; and
  - the Code of Audit Practice (the Code).
- 78 The Code has been revised with effect from 1 April 2005. Further details are included in our Audit Plan which has been agreed with the Overview and Scrutiny Committee – Corporate Services in April 2005. The key changes include:
- the requirement to draw a positive conclusion regarding the Council's arrangements for ensuring value for money in its use of resources; and
  - a clearer focus on overall financial and performance management arrangements.

### A new CPA framework

- 79 The Audit Commission is currently considering the results of the consultation on the proposals for revising the CPA framework for district councils. The revised framework will be published in the early part of 2006 with implementation from April 2006.

## Closing remarks

- 80 This letter has been discussed and agreed with the corporate management team. A copy of the letter will be presented at the Overview and Scrutiny Committee – Corporate Services on 28 March 2006.
- 81 The Council has taken a positive and constructive approach to our audit and inspection I would like to take this opportunity to express my appreciation for the Council's assistance and co-operation.

## Availability of this letter

- 82 This letter will be published on the Audit Commission's website at [www.audit-commission.gov.uk](http://www.audit-commission.gov.uk) and also on the Council's website.

Rob Murray  
District Auditor and Relationship Manager  
March 2006

## Appendix 1 – Background to this letter

### The purpose of this letter

- 1 This is our audit and inspection 'Annual Letter' for members which incorporates the Annual Audit Letter for 2004/05, which is presented by the Council's District Auditor and Relationship Manager. The letter summarises the conclusions and significant issues arising from our recent audit and inspections of the Council.
- 2 We have issued separate reports during the year setting out the findings and conclusions from the specific elements of our programme. These reports are listed at Appendix 2 for information.
- 3 The Audit Commission has circulated to all audited bodies a statement that summarises the key responsibilities of auditors. Our audit has been conducted in accordance with the principles set out in that statement. What we say about the results of our audit should be viewed in the context of that more formal background.
- 4 Appendix 3 provides information about the fee charged for our audit and inspections.

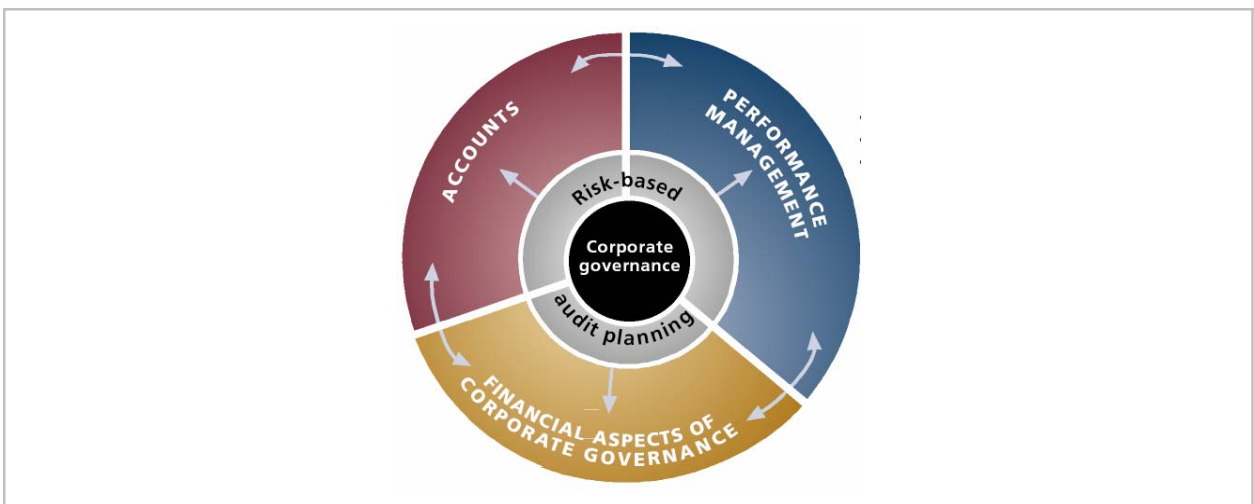
### Audit objectives

- 5 Our main objective as your appointed auditor is to plan and carry out an audit that meets the requirements of the Code of Audit Practice. We adopt a risk-based approach to planning our audit, and our audit work has focused on your significant financial and operational risks that are relevant to our audit responsibilities.
- 6 Central to our audit are your corporate governance arrangements. Our audit is then structured around the three elements of our responsibilities as set out in the Code and shown in Figure 2.

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#### Figure 2 Code of Audit Practice

Code of practice responsibilities



## **Accounts**

- Opinion.

## **Financial aspects of corporate governance**

### **7** Reviewing how effectively the Council ensures:

- financial standing;
- systems of internal financial control;
- standards of financial conduct and the prevention and detection of fraud and corruption; and
- legality of transactions with significant financial consequences.

## **Performance management**

- Use of resources;
- Performance information; and
- Best value performance plan.

## **Inspection objectives**

### **8** Inspection work is based around section 10 of the Local Government Act 1999, which requires us to carry out inspections and deliver reports that will:

- enable the Council and the public to judge whether best value is being delivered;
- enable the Council to assess how well it is doing;
- enable the Government to assess how well its policies are being implemented; and
- identify failing services where remedial action may be necessary.

## Appendix 2 – Audit and inspection reports issued

- 1 Table 3 details the reports that have been issued since the last annual audit and inspection letter was issued in November 2004.

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**Table 3**      **Reports issued**

<b>Report title</b>	<b>Date issued</b>
Audit Plan	April 2005
Audit Plan 2005/06	April 2005
Cultural Services Inspection	July 2005
Audit Opinion	November 2005
Performance Management	December 2005
Statutory Opinion on 2005/06 BVPP	December 2005
Review of BVPP and BVPIs 2005/06 (Draft)	March 2006
Accounts and Governance (Draft)	March 2006
Certification of Claims and Returns (Draft)	March 2006
Use of Resources Audit Score Feedback 2005/06	March 2006
Annual Audit and Inspection Letter	March 2006

## Appendix 3 – Audit and inspection fee

- 1 The proposed audit and inspection fee was set out in the plan agreed at the start of the audit. Table 4 compares the planned and actual fee for the year.

**Table 4 Audit fee update**

<b>Audit area</b>	<b>Plan 2004/05 £</b>	<b>Actual 2004/05 £</b>
Accounts (including planning and control)	49,800	52,900
Financial aspects of corporate governance	9,800	6,700
Performance	58,200	58,200
<b>Total Code of Audit Practice fee</b>	<b>132,800</b>	<b>132,800</b>
Grant claim certification	45,400	52,100
<b>Total</b>	<b>178,200</b>	<b>184,900</b>

- 2 The movement between the planned and actual fee results from:
- accounts – additional time was taken to deliver the opinion due to issues with the year end bank reconciliations and the quality of the supporting working papers. We were able to incorporate this additional time within in the existing audit fee due to the skill mix used in relation to the financial aspects of corporate governance; and
  - grant claim certification – primarily as a result of the matters reported in the qualification letter in respect of the 2003/04 benefits claim, as additional time was required to ensure that the areas previously qualified were effectively addressed in 2004/05.

### Inspection fee update

- 3 The full year inspection fee is £15,000. The work reported in this audit and inspection letter has been funded by an element of the fee covering 2004/05 and by an element of the fee covering 2005/06. In both years the actual fee will be in line with that planned.