

Annual Audit and Inspection Letter

South Norfolk District Council

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Reference:	NO005 Annual Audit and Inspection Letter - Final
Date:	December 2004

Executive summary

The purpose of this letter

This is our audit and inspection 'Annual Letter' for Members for 2003/04, and is presented by the Council's Relationship Manager and District Auditor. The letter summarises the conclusions and significant issues arising from our recent audit and inspections of the council.

We have issued separate reports during the year. These reports are listed at Appendix 1 for information.

Appendix 2 sets out the scope of audit and inspection.

Appendix 3 provides information about the fees charged.

Key messages

Council performance

The council is making good progress overall to address the key improvement actions it agreed as part of the District Comprehensive Performance Assessment (DCPA) improvement process and is beginning to realise services improvements in line with its corporate priorities and areas that matter to local people.

The Council's BVPP complied in all material respects with legislation and statutory guidance. The arrangements for preparing performance indicators were also improved compared to the previous year, and we have issued an unqualified opinion on the BVPP and the 2003/04 outturn BVPIs.

The accounts

Our audit of the financial statements was not completed by the 30 November statutory deadline as a number of queries remain to be resolved. With the advancing accounts deadlines it is important that a quality review process is introduced to confirm that the financial statements are properly supported and there is a clear audit trail to underlying working papers.

Financial position

Financial management has been further developed with improved monitoring and review procedures linking to the Medium Term Financial Plan. Collection rates for Council Tax and NNDR remain stable and compare well with district council averages. Budgets have been updated through the year as the full effect of the Large Scale Voluntary Transfer (LSVT), debt free status and the delivery of the building control function has become known. Identified budget gaps and cost pressures in future years require Members to continue to remain vigilant in their monitoring of the budget position.

Systems of internal financial control

Internal Audit work has been undertaken by a new contractor since April 2003. Our review found that work has generally been to a good standard and Internal Audit is well placed to make further advances.

Taxation arrangements require strengthening particularly in the light of the housing transfer and following the formation of the new building control partnership. We note that an external consultant will be used to review current arrangements and provide management with expert assurance in this complex area.

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

We have not identified any significant weaknesses in your arrangements to prevent and detect fraud and corruption.

Legality of transactions

Overall arrangements to ensure the legality of financial transactions are satisfactory. We have reminded officers of the Council's responsibility to seek appropriate legal advice in respect of arrangements associated with the housing transfer. Correspondence and questions from local electors have continued through the year and we are currently considering a number of objections to the accounts for both 2002/03 and 2003/04.

Action needed by the Council

- Continue to progress the implementation of the improvement plan agreed following the council's District Comprehensive Performance Assessment (DCPA).
- With the advancing accounts deadlines, improve and monitor the process for the preparation and quality review of the financial statements.
- Members should satisfy themselves that a robust financial strategy is in place which is achievable, and continue to monitor performance against the strategy to meet the budget gaps identified.

Council performance

The council is making good progress overall to address the key improvement actions it agreed as part of the DCPA improvement process and is beginning to realise services improvements in line with its corporate priorities and areas that matter to local people.

CPA and improvement

The council was rated 'good' in its 2003 DCPA assessment and is working towards becoming an excellent council. It has a detailed action plan which addresses all the weaknesses identified in its 2003 DCPA assessment. Detailed below is the council's progress against the key improvement actions it agreed with the Commission as part of DCPA improvement planning process.

Information technology

The council is continuing to make good progress, often with partners, in implementing the e-government agenda. The percentage of interactions with the public that are being delivered electronically is among the best in the country. New revenue and planning systems are in place and are having a major impact on the council's performance, for example with regard to housing benefit processing BVPIs. A major investment in IT facilities for parish councils has been successfully completed.

The innovative use of technology ('intelligent bins') to support the delivery of recycling targets is progressing to plan. Effective project management has driven the council's IT initiatives forward.

The council is currently exploring/progressing customer relations management and e-procurement solutions, secure data exchanges between partners, joint delivery of services via the Portal and the development of a single business directory for Norfolk. The Commission will be undertaking a piece of work to gauge the overall impact of the council's IT initiatives on users during 2004/05.

Partnerships

The council has addressed the lack of specific targets for the medium term identified in its DCPA assessment through its new community strategy (July 2004) and corporate plan, and is actively working through the Alliance to deliver its community strategy objectives. While the council recognise that it has some way to go to 'mature' the Alliance so that it clearly adds value as a partnership, adequate structures are now in place and progress is being made in areas such as affordable housing. Scrutiny and the Commission have both reviewed the effectiveness of the council's approach to partnership working and an action plan is being implemented to improve, amongst other things, partnership links to corporate priorities, monitoring and evaluation of existing partnerships and systems for determining engagement with new partnerships.

Performance management

While the council has more to do to fully embed its performance and project management systems it has made excellent progress to date in shaping and determining its budget and BVPI improvement priorities, focusing councillors, services and staff on performance and ensuring improved project management. For example, lessons have been learnt from past project management 'failures' and a new scheme to capture all key/high risk projects and monitor both financial performance and project delivery, via quarterly reports to Cabinet is now in place. BVPI performance for 2004/05 (covered below) shows good progress across most BVPIs and significant improvement in many key priority areas.

Risk Management

The council has improved many aspects of its approach to risk management but as it recognises it has more to do to fully embed risk management across the council. It has established a corporate risk management group, revised its risk management strategy (July 2004), clarified responsibilities at all levels, introduced risk logs and is managing action plans to reduce the likelihood and consequences of its identified risks. Refresher training has recently been implemented for leading councillors and the management team. The council has recently undertaken a strategic risk review (identifying, amongst other things, a heavy exposure to external funding streams) and the Cabinet will shortly receive the first of a planned series of updates on the risk management plan. External audit will be reviewing how well risk management is embedding at the next interim visit in March 2005.

Procurement

The council is making some progress towards integrating procurement into its corporate management arrangements. It completed a Best Value Review (BVR) of procurement in November 2003, has been acting on the results, and revised its improvement plan in March 2004 to take into account the national procurement strategy milestones. It now has the necessary procurement infrastructure and capacity in place to develop its approach and embed procurement considerations effectively into its future reviews of key services (such as support services) and its delivery of corporate objectives such as economic development. Some innovative work has been undertaken to construct a building control delivery partnership.

A report on the implications of the Gershon proposals for efficiency savings across the public sector is due to go to Cabinet shortly. Working with the East of England Centre of Procurement Excellence is in its formative stage. The IDeA will be undertaking a procurement fitness check in March 2005 and a planned Commission procurement audit will now be re-scheduled to add value to that process.

Strategic Housing

Now that its LSVT has been completed the council is able to refocus its energies and resources to fully address its strategic housing issues such as affordable homes and homelessness. The council has been working hard to identify (through scrutiny and other review mechanisms) what it needs to do, has put the necessary building blocks in place and is well placed to deliver improvements in the future. For example: the establishment of a balanced housing market group; the adoption of affordable housing policies into the local plan; the drafting of an empty homes strategy (October 2004); closer working with partners; and a revised homelessness action plan (July 2004) where methods of prevention and support were highlighted. Early indications are that the council is beginning to have a positive impact in these areas. For example, 2004/05 unaudited PI data indicate a significant reduction in the average weekly stay in bed and breakfast accommodation for homeless people (down from a poor 16.8 weeks to median level 4.46 weeks). The Commission will be undertaking an inspection of strategic housing in March 2005.

Best Value Performance Indicators (BVPI)

Overall the council has maintained positive, incremental progress on its BVPI performance during 2003/04 but early indications (half yearly figures) for 2004/05 show a significantly improving performance.

Satisfaction BVPIs results for 2003/04 showed little improvement but remain mostly above the median. Housing benefits and standards of cleanliness are best quartile. Satisfaction with sports and leisure and parks and open spaces, while improving, remains worst quartile.

Between 2002/03 and 2003/04, 61 per cent of its key non satisfaction based BVPIs improved, up from a 45 per cent improvement the previous year. After satisfaction indicators are taken into account the council saw an overall improvement in 56 per cent of its BVPIs. However, this improvement saw a slight decrease in the percentage of BVPIs above the median - 49 per cent in 2003/04 compared to 52 per cent in 2002/03.

2003/04 saw a mixed BVPI performance across most service areas. Community safety and housing management showed improvement against most BVPIs, with community housing services showing deteriorating performance against all three comparable BVPIs.

The council's focus on improving its weaker performing areas in 2003/04 saw it improve seven out of ten of its worst quartile BVPIs. However, the percentage of key BVPIs remaining in the worst quartile only decreased slightly between 2002/03 (29 per cent) and 2003/04 (27 per cent) as five other BVPIs are now showing worst quartile performance - including recovery of overpaid housing benefits and two of the three community housing service PIs.

The council's improved performance management framework has sharpened its focus on BVPIs during 2004/05 which is beginning to have a more significant impact on performance. Unaudited half year data shows 79 per cent of BVPIs improving with only nine per cent deteriorating. Improvement is in line with priorities – all targeted BVPIs, such as housing benefit PIs, community housing PIs, and PIs for major planning applications and payment of invoices show quartile shifting levels of improvement in line with the council's 2004/05 targets.

Inspection update

South Norfolk District Council was part of a county-wide community safety inspection which took place in February 2004. Feedback was given specifically to the council to highlight strengths and areas for development.

Strengths:

- open to new ideas and willing to change;
- Responsible Authorities Partnership (RAP) is well attended with a high level of commitment from partners - police and district council engagement is strong;
- RAP is beginning to hold work groups and CDRP members to account;
- attendance and participation at meetings is improving;
- work groups are becoming more structured;
- systems introduced to monitor progress;

- beginning to work with analyst to gain better focus and direction;
- Section 17 implementation is developing within the council;
- under spend last year has driven a better focus on resource allocation;
- beginning to engage local people in activities and solutions;
- good engagement of parish councils;
- focus on work with victims; and
- number of projects for vulnerable young people and joint work with county youth and communities' team - emphasis on prevention.

Areas for development:

- little contact with Youth Offenders Team (YOT);
- lack of commitment from some non statutory partners;
- evaluation of outcomes and impact is not well developed;
- performance monitoring is under developed;
- lack of co-ordination and evaluation of work with young people;
- little commitment to tackling anti-social behaviour;
- procedures for sharing data and information need to be strengthened; and
- links between the Local Strategic Partnership and Crime and Disorder Reduction Partnership need to be clarified and strengthened.

The council has begun to tackle some of the areas highlighted for development. It has increased its emphasis and commitment to tackling anti-social behaviour and has ensured that the YOT is fully engaged with the CDRP. The performance management arrangements now include a traffic light report on projects, together with an update on their financial spend, so that the RAP can monitor the work of the CDRP quarterly and ensure its effectiveness. The council is seeking to improve its work with young people. The revision of the three year strategy will include links to the Every Norfolk Child Matters agenda, and the CDRP is now actively consulting with the South Norfolk Youth Action Group.

Recommendation

Continue to progress the implementation of the improvement plan agreed following the council's District Comprehensive Performance Assessment (DCPA).

Best Value Performance Plan

The Council's BVPP complied in all material respects with legislation and statutory guidance. The arrangements for preparing performance indicators were also improved compared to the previous year, and we have issued an unqualified opinion on the BVPP and the 2003/04 outturn BVPIs.

Under the Local Government Act 1999, specified 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, efficiency and effectiveness.

The council is required to publish annually a BVPP, which summarises its assessment of performance and its plans in relation to Best Value. In line with its approach to delivering freedoms and flexibilities for better performing authorities the Government has replaced the 'one size fits all' approach with a differentiated approach that reflects CPA categorisation. 'Excellent' and 'good' authorities are now subject to more streamlined statutory reporting with the following information being required in the 2004/05 BVPP:

- outturn performance over the past year on all Best Value Performance Indicators (BVPIs);
- targets for the current year and subsequent two years for all BVPIs; and
- a brief statement on contracts.

We concluded that the council has complied with statutory requirements in respect of the preparation and publication of its BVPP.

We have therefore issued an unqualified audit opinion on the BVPP.

Performance information

We are required to review the arrangements for the production and publication of accurate and reliable performance information, and report our findings to the Audit Commission. We found that there was improvement in the accuracy of the figures reported and in general these were supported by clear audit trails.

Both the number of amendments and the reservations have decreased when compared with last year and we were able to issue an unqualified opinion on the 2003/04 outturn indicators. An action plan to further enhance arrangements has been agreed with officers.

Accounts

Our audit of the financial statements was not completed by the 30 November statutory deadline as a number of queries remain to be resolved. With the advancing accounts deadlines it is important that a quality review process is introduced to confirm that the financial statements are properly supported and there is a clear audit trail to underlying working papers.

Review of core processes

Our core process review examined the council's main accounting system, budgetary control arrangements and year-end closedown procedures to assess their effectiveness for the production of the annual statements. We concluded that although progress has been made during 2003/04 to improve the controls there remain a number of recommendations from our 2002/03 regularity report that have yet to be fully implemented, including:

- developing a procedure manual covering all finance functions to act as a reference point for all staff; and
- introducing formal procedures for creating and authorising journals.

We did note that during 2004/05 the following improvements in budget monitoring have been implemented:

- the requirement to regularly confirm establishment listings; and
- monthly reporting of variances to managers and Management Team, with quarterly reporting through Management Team to Cabinet.

We will review the effectiveness of these arrangements during our 2004/05 audit.

Matters arising from the final accounts audit

Our work on the financial statements is currently in progress. A number of queries have arisen during the course of the audit which are being resolved by officers. These have largely arisen as a result of incomplete working papers to support the financial statements and/or a weak audit trail in some key areas. We note that with the transfer of staff following LSVT and the requirement for officers to calculate new prudential indicators under two potential scenarios (with/without LSVT) officers have been placed under additional resource pressure and this has had an impact on the final accounts process. The new Integra accounting system has also not been used to full effect during the period and will require further embedding into financial management arrangements.

With the earlier audit deadline this year, preparation and audit of the outstanding information by the 30 November statutory deadline was not achieved. We are working closely with officers to further progress the audit and clear outstanding issues. We hope to issue our audit opinion early in the new year but this will be dependent on prompt receipt of further information to support the financial statements.

In last year's Annual Audit and Inspection Letter we emphasised that timeliness in producing the accounts will become increasingly important over the next few years as the deadline for completion of the accounts is brought forward in line with the Government's requirement. Whilst the council approved the accounts in advance of the 31 August deadline, the quality of supporting documentation has deteriorated compared with previous years.

As the deadlines continue to be brought forward and become increasingly more difficult to achieve, it is important that a quality review process is introduced to confirm that the financial statements are properly supported and that there is a clear audit trail to underlying working papers.

Report to those with responsibility for governance in the council

We are required to comply with the Statement of Auditing Standard (SAS) 610 – reporting to those charged with governance certain matters before we give an opinion on the financial statements.

Our interim report was issued for consideration at the 29 November full council meeting and indicated our intention to issue a standard report on the council's financial statements subject to the satisfactory resolution of a significant number of outstanding audit queries.

At that stage, there were no unadjusted non-trifling misstatements reported to Members. Matters that were reported covered:

Adjusted misstatements: We noted that a local elector has submitted a significant insurance claim against the council and that officers will need to ensure that an appropriate contingent liability is disclosed within the 2003/04 accounts.

Material weaknesses in accounting and internal control systems: We noted that regular reconciliations did not take place during the year in respect of rent allowances, rent rebates and VAT. Regular reconciliations should form a key financial control within the council. It is important that systems are reconciled with the general ledger on a regular basis to ensure that any differences are highlighted promptly for investigation and action.

Qualitative aspects of accounting practices and financial reporting: A meeting was held with the Head of Financial Services to agree changes to the Statement on Internal Control to ensure that it reflected CIPFA's reporting requirements.

Other matters which we wish to draw to your attention: We have received three valid notices of objection from local electors in respect of the 2002/03 accounts. We have also exchanged correspondence with electors in respect of the 2003/04 accounts. During the year we have requested further written submissions from the electors to clarify the issues raised. In addition, we have requested further documentary evidence from both the electors and the council to help us decide these objections. Consideration of these objections is still ongoing. We will take a view as to whether any, or all of the objections taken together, could have a material impact on the financial statements. If this is the case then we cannot give our opinion until these issues have been satisfactorily resolved.

There are a number of audit queries which require resolution by officers before we are able to issue our audit opinion. The most significant issues are in respect of the Housing Revenue Account, FRS 17 disclosures, cash, external borrowing and fixed assets. Further queries may arise as audit work progresses and additional supporting documentation is provided for audit.

We hope to clear any issues arising and agree any audit adjustments with officers.

Recommendation

With the advancing accounts deadlines, improve and monitor the process for the preparation and quality review of the 2004/05 financial statements.

Financial standing

Financial management has been further developed with improved monitoring and review procedures linking to the Medium Term Financial Plan. Collection rates for Council Tax and NNDR remain stable and compare well with district council averages. Budgets have been updated through the year as the full effect of the LSVT, debt free status and the delivery of the building control function have become known. Identified budget gaps and cost pressures in future years require Members to continue to remain vigilant in their monitoring of the budget position.

Review of arrears

The council's collection rates as a percentage of net collectable debit for council tax and national non domestic rates (NNDR) have remained stable over the last three years. The collection rate for NNDR is in line with the district council average for 2003/04 whilst the council tax collection rate exceeds the district council average (Exhibit 1). This is supported by Exhibits 2 and 3 which confirm that council tax and NNDR arrears are below average when compared with other district councils.

EXHIBIT 1

Collection rates for Council Tax and Non-Domestic Rates 2001/02 – 2003/04

Year	Council Tax %	NNDR %
2001/02	98.3	99.3
2002/03	98.3	98.2
2003/04	98.2	98.6
District average: 2003/04	97.8	98.6

EXHIBIT 2

Council Tax arrears are below the district average

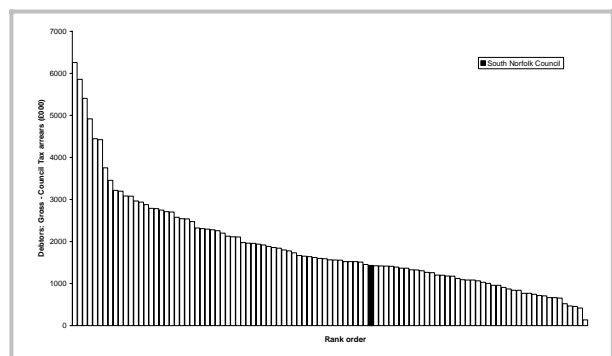
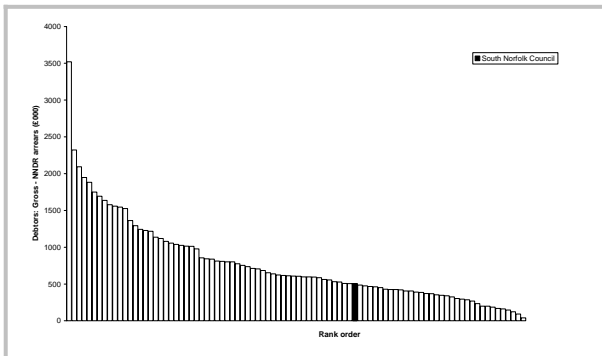


EXHIBIT 3

NNDR arrears are below the district average



2003/04 outturn

The council's 2003/04 financial outturn position is summarised below.

- Net general fund spending was £765k less than the budget of £12.2 million.
- The Housing Revenue Account showed a net underspend of £21k, reducing the outturn deficit to £36k and producing a year end balance of £341k.
- The original capital programme of £7.1 million was revised during the year to reflect slippage from 2003/04, additional funding to build a new hostel at Costessey and adjustments relating to two specific projects. The revised budget of £9.3 million was underspent by £2.7 million. It was originally envisaged that the underspend would contribute towards the council becoming debt free, however new regulations issued in March meant that this was no longer required.
- The year end balance on the General Fund was maintained at £1 million. This been earmarked to finance the approved carry forward of unspent budgets and to support the Medium Term Plan in future years.

Future financial position

In February 2004, Members considered the Council's proposed budgets and treasury management strategy for 2004/05 and future years. These have since been revised and updated as the full financial effect of LSVT, debt free status, the prudential code and the delivery of the building control function has become known.

In addition, amendments have been made as a result of improved monitoring and review procedures. The base budget for 2004/05 has therefore been increased to £10.8 million. The latest projections show that an £18k net overspend will be incurred at the year end.

The Cabinet report presented to Members on 6 December in respect of the 2005/06 budget strategy shows a budget deficit of £243k based on the latest financial information and assumptions.

Predictions indicate considerable pressure to raise council tax levels or find savings from service budgets. This situation could be exacerbated by government criteria for budget 'capping', generally, in 2005/06 and whether additional savings are expected from each authority as a result of the Gershon review which seeks efficiency savings across the public sector.

The council is likely to have to face tough decisions in fixing its budget for 2005/06 and future years. We note that consultation with businesses and the public is already underway to help inform those decisions.

Recommendation

Members should satisfy themselves that a robust financial strategy is in place which is achievable, and continue to monitor performance against the strategy to meet the budget gaps identified.

Systems of internal financial control

Internal Audit work has been undertaken by a new contractor since April 2003. Our review found that work has generally been to a good standard and Internal Audit is well placed to make further advances.

Taxation arrangements require strengthening particularly in the light of the housing transfer and following the formation of the new building control partnership. We note that an external consultant will be used to review current arrangements and provide management with expert assurance in this complex area.

Internal Audit

A new Internal Audit partnership was formed with Breckland and Broadland Councils with effect from 1 April 2003, which involved internal audit work being undertaken by a new contractor. Therefore, we carried out a review of the arrangements to assess the extent to which the council's internal audit service meets the standards of good practice set out in the CIPFA *Code of Practice for Internal Audit in Local Government in the United Kingdom 2003* (CIPFA Code).

From our discussions with officers and our review of a sample of internal audit files we concluded that Internal Audit were generally compliant with the CIPFA Code. A new requirement this year was for Internal Audit to provide an independent and objective opinion on the internal control environment of the organisation. This was provided to Members in May, however we identified that there is potential to further develop arrangements.

Our review found that the working papers and supporting documentation provided by the new contractor were generally of a good standard, with only minor issues arising.

Our IT specialist also provided feedback on Internal Audit's computer audit needs assessment. The majority of issues raised were addressed in the revised version of the assessment although we note that a review of the scoring mechanism and consideration of previous IT audit work needs to be addressed when completing the next computer audit needs analysis.

We understand that steps are being taken to address these improvement areas and Internal Audit is well placed to make further advances.

Prudential Code

The Local Government Act 2003 introduced the prudential regime for capital finance from 1 April 2004. However authorities should have been preparing actively for the implementation of the code in 2003/04. The six aspects of preparation we reviewed were:

- keeping up to date with developments;
- implementing local arrangements;
- agreeing the capital program;
- training and briefing;
- changes to financial management frameworks; and
- enhancing procurement processes.

The council has demonstrated that it has been actively preparing for the new code and we found that arrangements in place will form a sound basis for successful implementation of the prudential regime.

Taxation arrangements

During our review of taxation arrangements we noted a number of areas where controls were not in place or where arrangements had not yet been formally documented following LSVT and the formation of the new building control partnership. In particular we noted that:

- VAT reconciliations had not been performed during the year;
- the effect of the housing stock transfer and other large transactions on the partial exemption limit has not been calculated;
- there is a need to revisit the building control partnership arrangements to ensure that HMCE advice has been incorporated into procedures; and
- explanation of the accounting treatment for the LSVT VAT shelter has yet to be provided for audit review. This is a particularly complex area and we would encourage early referral to our Legal and Technical Unit for consideration so that the 2004/05 accounts process and submission of the LSVT levy return is not delayed.

We note that taxation arrangements (excluding the VAT shelter) have recently been subject to an independent consultant's review. We will monitor the outcome of this review and assess whether the results will impact on our proposed 2004/05 audit work.

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

We have not identified any significant weaknesses in your arrangements to prevent and detect fraud and corruption.

The council is required to ensure that its affairs are managed in accordance with proper standards of financial conduct, and to prevent and detect fraud and corruption.

We have concluded that arrangements are satisfactory and there are no matters to draw to the attention of Members.

Legality of transactions

Overall arrangements to ensure the legality of financial transactions are satisfactory. We have reminded officers of the Council's responsibility to seek appropriate legal advice in respect of arrangements associated with the housing transfer. Correspondence and questions from local electors have continued through the year and we are currently considering a number of objections to the accounts for both 2002/03 and 2003/04.

We have not identified any significant weaknesses in the council's overall framework for ensuring the legality of its significant financial transactions.

There have been no occasions during 2003/04 when the Monitoring Officer or s151 officer have been required to exercise their powers associated with unlawful or potentially unlawful action.

Following a delay to resolve a number of outstanding issues, the Council transferred its housing stock to South Norfolk Housing Partnership on 17 May 2004. We have exchanged correspondence during the year and reminded officers that it is the Council's responsibility to seek appropriate legal advice with regards to retention of the sewage treatment works and the proposed VAT shelter arrangement, and that this should be available to support the accounting treatment.

As noted within our SAS610 report we have continued to deal with correspondence and

questions from a number of local electors during the year.

Other work

Grant claims

Over recent years the number of claims requiring audit certification has grown and audit fees have risen in line with this growth. In accordance with Strategic Regulation, the Audit Commission has adopted a more risk-based approach to the certification of grant claims. With effect from 2003/04 the smaller claims have not been subject to audit or have received a lighter touch. The approach to larger claims has been determined by risk and the adequacy of the council's control environment.

The council has generally completed and submitted the required grant claim returns in a timely manner. However there is scope to improve the standard of supporting documentation and quality control processes.

We submitted a qualification letter with the auditor certificate on the Housing subsidy base data return, as the council did not provide appropriate documentary evidence to support a number of entries in the claim. Therefore, we were unable to undertake any testing or conclude that these entries were fairly stated and in accordance with the relevant terms and conditions. The ODPM requested further work be undertaken by officers to enable submission of a revised claim; however following additional audit testing our certificate remained qualified.

Although the council has transferred its housing stock, evidence and documentation to support future housing subsidy claims should be maintained until such time as consent is given to close the council's HRA.

National Fraud Initiative

The council took part in the Audit Commission's national fraud initiative (NFI) 2002/03. The NFI, which is undertaken every two years, brings together data from local authorities, NHS bodies, government departments and other agencies, to detect a wide range of frauds against the public sector. Total savings from the 2002/03 exercise exceeded £83 million of which £11,000 savings were identified at this council.

The Commission are repeating the exercise this year and will again collect payroll, pensions, housing benefits, student loan and housing rents data from authorities. Alongside the core exercise a number of pilot initiatives are being undertaken at selected sites. These are focused on risk areas that were highlighted by authorities and include payments made to privately run care homes, abuse of blue badge parking permits, serial insurance claimants and duplicate payments to suppliers. These pilot areas, if they prove effective, will be incorporated into future NFI exercises.

Looking forwards

Future audit and inspection work

We have an agreed plan for 2004/05 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 2004/05 accounts, will be reported in next year's Annual Letter.

We will seek to ensure, wherever possible, that our work relates to the improvement priorities of the council when planning our programme of work for 2005/06. We will seek to reconsider, with you, your improvement priorities in the light of the CPA assessment and your own analysis, and develop an agreed programme by 31 March 2005.

Revision to the Code of Audit Practice

The Audit Commission has consulted on a revised Code of Audit Practice for application to the audit of the 2005/06 accounts. The new Code, which will be laid before Parliament in January 2005, is designed to secure:

- a more streamlined audit, which is proportionate to risk and targeted on areas where auditors have most to contribute to improvement;
- a stronger emphasis on value for money, focussing on corporate performance and financial management arrangements (rather than individual services and functions); and

- better and clearer reporting of the results of audits.

Further details will be provided in the Audit and Inspection Plan 2005/06.

Closing remarks

This letter has been discussed and agreed with the Head of Financial Services and Chief Executive. A copy of the letter will be presented at the Cabinet in early 2005.

The council has taken a positive and constructive approach to our audit and inspection. We would like to take this opportunity to express our appreciation for the council's assistance and co-operation.

Availability of this letter

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



Sue Jewkes
Relationship Manager



Andy Perrin
District Auditor
December 2004

Status of our reports to the council

Our annual audit and inspection letter is prepared in the context of the Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission. Annual audit and inspection letters are prepared by relationship managers and appointed auditors and addressed to members and officers. They are prepared for the sole use of the audited and inspected body, and no responsibility is taken by the Audit Commission or its appointed auditors to any member or officer in their individual capacity, or to any third party.

Audit and inspection reports issued

e-Government	June 2004
Audit and Inspection Plan 2004/05	July 2004
Review of Partnership Working	October 2004
Interim Audit Report	October 2004
SAS610 – Interim Report	November 2004
Review of Best Value Performance indicators	November 2004
Statutory report on the BVPP	December 2004
Annual Audit and Inspection Letter	December 2004

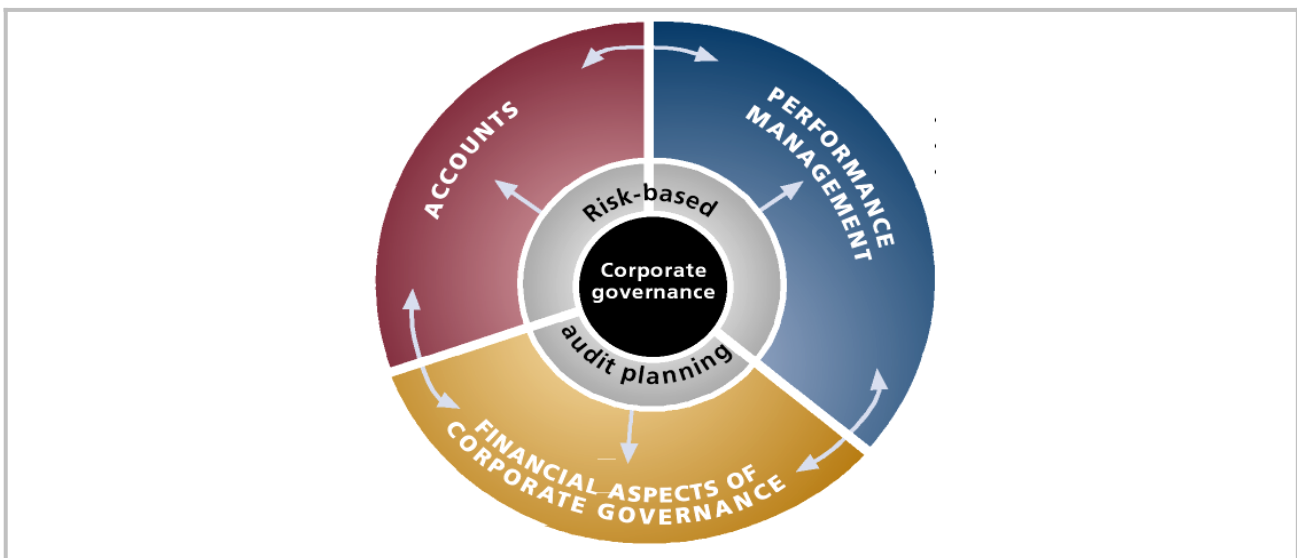
Scope of audit and inspection

Audit

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.

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 Exhibit 4.

EXHIBIT 4 THE THREE MAIN ELEMENTS OF OUR AUDIT OBJECTIVES



Accounts

- Opinion.

Financial aspects of corporate governance

- Financial standing.
- Systems of internal financial control.
- Standards of financial conduct and the prevention and detection of fraud and corruption.
- Legality of transactions.

Performance management

- Use of resources.
- Performance information.
- Best Value Performance Plan.

Inspection

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.

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.

Audit and inspection fees

Audit fee update

Accounts	25,000	* 25,000
Financial aspects of corporate governance	31,200	31,200
Performance	30,000	30,000
TOTAL CODE OF AUDIT PRACTICE FEE	86,200	86,200
Grant Claim certification	40,000	* 40,000
Dealing with objections		* 3445

** Actual fee yet to be determined as this work is in progress. Note that additional work has been required in respect of the audit of the financial statements. The impact of this additional work will be calculated and notified to the Authority once the audit opinion has been issued.*

Inspection fee update

The full year inspection fee is £15,800.