

Annual Audit Letter

March 2006



Annual Audit and Inspection Letter

South Norfolk District Council

Audit 2004-2005

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Contents

Key messages	5
Council performance	5
Accounts	5
Financial position	5
Systems of internal financial control	5
Use of resources	6
Action needed by the Council	6
Council performance	7
Direction of travel report	7
Best Value Performance Plan and Performance Information	10
Accounts and governance	12
Audit of 2004/05 accounts	12
Financial standing	14
Systems of internal financial control	16
Standards of financial conduct and the prevention and detection of fraud and corruption	17
Legality of transactions	17
Use of resources judgements	17
Other work	21
Grant claims	21
National Fraud Initiative	21
Looking forwards	22
Future audit and inspection work	22
Revision to the Code of Audit Practice	22
A new CPA framework	22
Closing remarks	23
Availability of this letter	23
Appendix 1 – Background to this letter	24
The purpose of this letter	24
Audit objectives	24

4 Annual Audit and Inspection Letter | Contents

Inspection objectives	25
Appendix 2 – Audit and Inspection reports issued	26
Appendix 3 – Audit and Inspection fee	27

Key messages

Council performance

- 1 The Council was rated as 'Good' in its 2003 District Comprehensive Performance Assessment (DCPA) and it is striving to become an 'Excellent' council. The Council is continuing to make good progress. It has improved its corporate building blocks and is continuing to improve services for local people.

Accounts

- 2 We were unable to issue our audit opinion by the 31 October deadline as there were a number of audit queries which required resolution. Some of these were due to the specific, complex accounting entries arising from the Council's large scale voluntary transfer of its housing stock. However, as in the previous year, the draft accounts submitted for audit contained a number of errors and omissions and were not supported by adequate working papers.
- 3 We were eventually able to issue an unqualified audit opinion on 14 March 2006. A number of issues were reported to those charged with governance and the Council must, as a priority, ensure that it has the financial systems and officer capacity in place to ensure that good quality, timely draft accounts are submitted for audit and that these are properly supported by comprehensive working papers.

Financial position

- 4 The Council continues to face a challenging financial position and a number of savings opportunities have been identified to balance the 2006/07 budget. Members will need to continue to carefully monitor the budget position in the current and future years.

Systems of internal financial control

- 5 Our report to those charged with governance made reference to a number of weaknesses in key reconciliation controls. Further work is required to strengthen assurances in support of the Statement of Internal Control.

Use of resources

- 6 Overall, our use of resources assessment concluded that the Council meets minimum requirements. The Council scored well in respect of providing value for money however further work is required to improve financial reporting.

Action needed by the Council

- 7 The Council should:
- continue to progress implementation of the improvement plan agreed following the Council's Comprehensive Performance Assessment;
 - as a matter of urgency, improve and monitor the process for the preparation and quality review of the financial statements;
 - continue to carefully monitor the budget position in the current and future years; and
 - consider areas for improvement as identified in our Use of Resources work.

Council performance

The Council was rated as 'Good' in its 2003 District Comprehensive Performance Assessment (DCPA) and it is striving to become an 'Excellent' council. The Council is continuing to make good progress. It has improved its corporate building blocks and is continuing to improve services for local people.

Direction of travel report

- 8 The Council is getting better quicker. It has made significant progress in targeted areas such as planning, benefits, payment of invoices, recycling and staff sickness absence. Prospects for continued improvement are positive. Risk and performance management are improving well. The foundations for improvement to procurement and partnership working are sound. The Council is taking the necessary action to secure planned improvements to information technology.

Strategic Housing

- 9 We reported on our inspection of Housing Strategy and Enabling in June 2005. The service was judged 'fair' with 'promising' prospects for improvement. The Council is working hard to improve access to services and prevent homelessness. It has successfully promoted affordable housing, provides clear guidance to developers on its requirements and has secured a good number of affordable housing planning agreements. There is a good housing renewal policy in place. Housing is a high priority and improvement plans have the support of councillors. Partnership working is increasing capacity. A good performance management framework is in place, which has strong corporate support to help drive improvement.
- 10 However, the inspection team found that Council was not effectively addressing the needs of minority groups. Some housing data was out-of-date. Monitoring of registered social landlords was underdeveloped and performance on developments inconsistent. There were few service standards in place and inconsistent use of customer satisfaction to gauge performance. There was no strategic approach to temporary accommodation. Private sector renewal services are inconsistent. The Council had not yet delivered high numbers of affordable houses and budgets to foster this were under spent. The overall approach to ensuring value for money was weak.
- 11 Since the inspection, the Council has developed a comprehensive improvement plan addressing all the recommendations in the report. Some progress is evident. A housing needs and stock survey is underway and capital from land sales is earmarked for investment in affordable housing.

Information technology

- 12 We reported on our review of E-Government and User Focus in April 2005. Progress is variable and slower than planned. There is a strong commitment to consultation and e-government investments contribute to making this effective. However, the Council has not consulted on the programme itself to ensure that specific plans and priorities properly reflect citizen needs and aspirations. It has missed some opportunities for using the website as a channel for consultation.
- 13 There are many actions and plans to improve access, by the Council itself and through partnerships. But systems are not in place to oversee performance against published standards and there is slippage on some plans. The full potential for delivering a range of services electronically through the Norwich Forum Council Information Centre has not yet been realised. There is a lack of clarity about how and when the Council will meet customer expectations for more of these facilities.
- 14 The Council has made several e-government investments that are delivering, or are likely to deliver improvement in services. However, not all investments are delivering quantifiable customer benefits. While there are some examples of how it is using spending on e-government to improve social inclusion there is much more it can do.
- 15 Since the review, the on-line land search system has gone live. A new website went live in December 2005. This enables e-planning and on-line access to revenue services. The Council has tightened its management arrangements to ensure delivery of stated service standards and timely delivery of projects. It is also reviewing how it can realise the full potential of the Forum Information Centre.

Partnerships

- 16 The Council continues to seek ways to improve its partnership working. A rolling review of partnership reviews is underway. The South Norfolk Alliance is reviewing the most effective way to deliver its priorities post 2006. This will include developing a new community strategy and reviewing the benefit of existing partnerships. Key issues such as social housing now feature in the changing local area agreement for Norfolk. Effective partnership working ensured a smooth transition to the new licensing system, is securing good progress on economic strategies and is delivering economies from website developments. Groups and forums to engage young and older people have developed well.

Performance management

- 17 The Council's commitment and excellent approach to performance management is paying dividends. Performance management is leading to improved performance, both overall and in targeted areas. An increasing percentage of performance indicators are improving. The Council mainly meets its targets, especially in those areas where it seeks to match the performance of the best councils.
- 18 Poorly performing indicators in 2004/05 all improved their relative rankings. Some, such as payments of invoices, improved to match the performance of the best 25 per cent performing councils. Unaudited data for 2005/06 shows continuing and strong improvement.
- 19 Further improvements are under way. Project and risk management are being integrated into the management of performance. Service planning is connecting better with financial planning. Appraisal has improved, a skills audit has been conducted and a middle management development programme set up to enhance management skills. Staff satisfaction surveys highlight improved staff management and opportunity for staff to influence improvements.

Risk management

- 20 An Audit Commission review of risk management in September 2005 found the Council has made excellent progress to embed risk into its core business. Corporate and departmental risk champions and a risk management group are driving improvements. There are means in place for identifying, evaluating and mitigating risks effectively. Service planning incorporates risk and the Council holds managers to account for controlling risks. The Council has up-to-date policies to address reputational risk, corporate governance and legal protection for staff. It handles insurance claims effectively and competitively tests insurance contracts.
- 21 The Council is now working on developing a strong link between corporate priorities and strategic risks and measures to update risk logs more consistently. It is also working on developing councillors' capacity and responsibility for corporate risk management.

Procurement

- 22 The Council invited the Improvement and Development Agency (IDeA) to 'fitness check' its approach to procurement in March 2005. The IDeA judged the Council's approach to be sound and that it was improving within the principles of the national procurement strategy. Strengths identified include early staff involvement, contracts awarded on a balance of cost and quality, and some openness to joint provision.

- 23 The IDeA recommended several improvements. These included the need to develop a governance structure, formally name procurement champions, consider the scope for strategic partnering and undertake a skills analysis and further training. IDeA also tasked the Council to develop an e-procurement strategy, put together a 'selling to the Council' guide on the internet, carry out a spending analysis, and develop an efficiencies gains plan. Cabinet approved an improvement plan in June 2005. Some progress has already been made. A selling guide has been published on the Council's website and the e-procurement strategy was approved by Cabinet. The first version of a corporate contracts register is in place.

Key performance indicators 2002/03 to 2004/05

- 24 Since 2002/03, the Council has secured steady improvement in performance. The percentage of indicators performing above the median has risen from 49 to 62 per cent. Half of those in the worst performing 25 per cent of councils in 2002/03 improved their relative rankings. There are now only 18 per cent among the worst performing 25 per cent of councils. An increasing pace of improvement is breaking through. Since 2002/03, 64 per cent of performance indicators improved over this period with a decreasing percentage deteriorating. Latest unaudited Council data shows 79 per cent of its priority performance indicators on target with 76 per cent of these performing above the national median (as determined in 2004/05).
- 25 Planning and the Council's corporate health indicators have improved significantly, as have parts of community housing and housing management. Previously high sickness absence rates have fallen. Performance across other services has been steady overall. However, some performance has remained weak for three years. For example, the checklist of best enforcement practice for environmental health, and the percentage of the population served by the kerbside collection of recyclables. The Council has plans in place to improve these weaker areas of performance.

Best Value Performance Plan and Performance Information

- 26 Under the Local Government Act 1999, councils are still required to publish annually a best value performance plan (BVPP) containing specified information. For the authorities assessed as better performing under CPA it is accepted that this requirement can be met by producing the information required within the published annual corporate plan.

- 27** Auditors are required to consider and report whether the Council has complied with the requirements in respect of preparation and publication. 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 Council.
- 28** We concluded that the Council met the requirements to publish the required information and issued a statutory audit report on 10 December 2005 to certify this fact. From the work that we undertook on the 2004/05 best value performance indicators (BVPIs) we concluded that the Council continues to have adequate arrangements in place.

Accounts and governance

We were unable to issue our audit opinion by the 31 October deadline as there were a number of audit queries which required resolution. Some of these were due to the specific, complex accounting entries arising from the Council's large scale voluntary transfer of its housing stock. However, as in the previous year, the draft accounts submitted for audit contained a number of errors and omissions and were not supported by adequate working papers.

We were eventually able to issue an unqualified audit opinion on 14 March 2006. A number of issues were reported to those charged with governance and the Council must, as a priority, ensure that it has the financial systems and officer capacity in place to ensure that good quality, timely draft accounts are submitted for audit and that these are properly supported by comprehensive working papers.

Audit of 2004/05 accounts

- 29 We were unable to issue our audit opinion by the 31 October 2005 deadline as there were a number of audit queries which required resolution. At that time, the audit of the 2003/04 financial statements was also outstanding, the key unresolved issue being the requirement to reflect the LSVT valuation. For LSVT authorities, where a positive ballot had been achieved during the year, the valuation for the properties to be transferred is Tenanted Market Value (TMV). The valuation basis was adjusted by officers and resulted in a £240 million reduction in the balance sheet value as at 31 March 2004. Additional narrative was also included in the notes to the accounts to aid the reader's understanding of the revised position. We issued our audit opinion on the 2003/04 accounts on 16 December 2005.
- 30 Our work on the 2004/05 financial statements was further delayed due to the consideration of representations from a local elector. However, no formal notice of objection was received and our audit opinion was issued on 14 March 2006.

Report to those with responsibility for governance in the Council

- 31 We are required by professional standards to report to those charged with governance certain matters before we give an opinion on the financial statements.
- 32 In November 2005 we provided an interim report to Members of the Final Accounts Committee outlining the key issues arising from our audit. This was updated by a final report issued in February 2006. Matters that were reported to Members included the following.

Material weaknesses in accounting and internal control systems

- 33 Our audit of the 2004/05 financial statements identified a number of material misstatements that management subsequently adjusted.

- The net book value of fixed assets was understated by £8.7 million and the Fixed Asset Restatement Account was overstated by the same amount. This error was identified by officers when they compared the property terrier with the fixed asset register and noted a number of discrepancies. This issue was referred to in our interim report of November 2005.
- The Council has assessed the cost of bringing the sewage treatment plants to adoption standard as £3.9 million which is to be funded from capital receipts. This gives rise to a provision which was not reflected in the accounts provided for audit.
- Officers agreed to adjust the Consolidated Revenue Account by £1.1 million for a notional payment to the pension fund and a further £1.1 million for a notional payment from the Registered Social Landlord (RSL) toward the pension fund deficit which were not originally reflected within the financial statements following the housing transfer.

Material weaknesses in accounting and internal control systems

- 34** We noted that although the net book value of fixed assets at the year end was not materially misstated, the supporting note to the balance sheet did not correctly disclose the cumulative amount of provisions for depreciation or impairment at the beginning of the financial period and at the balance sheet date. We also noted that following the departure of a temporary staff member responsible for maintaining depreciation records, fellow officers were unable to replicate the depreciation figures. Officers are aware of these issues and are taking steps to rectify the situation for 2005/06.
- 35** There were no working papers to support the calculation of the bad debt provision on the general fund and officers were unable to produce an aged debtors listing for the balances totalling £960,000 on the sundry debtors ledger. Officers should produce aged debtor listings to assist in the calculation of the bad debt provision and provide working papers which justify the basis of the provision.
- 36** A full audit trail to agree the general ledger to the financial statements was not in place. A full trial balance which nets to zero and demonstrates that all ledger codes have been included in the statement of accounts was not available for audit. Alternative audit procedures were undertaken to gain assurance that the financial statements were accurately derived from the general ledger and include all relevant ledger codes.
- 37** Regular reconciliations 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. We noted from both our interim and final accounts visits that there are still significant weaknesses in this area.

Qualitative aspects of accounting practices and financial reporting

- 38** The value of vehicles, plant and equipment may be overstated. The Council has capitalised £342,000 of IT related items during 2004/05 and in total the Council has capitalised £1.7 million of IT spend. It is unclear whether all this expenditure can be justified as capital. The Council did not conduct a review of its fixed asset categorisation following changes to the 2004 Statement of Recommended Practice (2004 SORP). We recommend that the Council conducts a review of the capitalised IT expenditure to ensure that it meets either the definition of a tangible fixed asset or can be categorised under the new intangible asset heading.
- 39** The 2004 SORP was amended to strengthen the provisions in relation to the definition and measurement of finance leases in line with relevant accounting standards. The Council should conduct a review of all existing and future lease arrangements to ensure they are correctly identified as operating leases and should not be accounted for as finance leases.
- 40** The Building Control Partnership established on 1 April 2004 between South Norfolk DC, Broadland DC and Norwich City Council has been set up as a joint committee. As such, it is subject to the Accounts and Audit Regulations 2003 and is required to produce a separate set of SORP compliant financial statements. Although the outturn position has been identified for reporting to the Partnership Board, SORP compliant accounts have only recently been prepared for Board approval.
- 41** The Council has not prepared an assessment of whether it needs to prepare group accounts. Consideration should be documented by reference to Chapter 5 of the SORP.

Financial standing

The Council continues to face a challenging financial position and a number of savings opportunities have been identified to balance the 2006/07 budget. Members will need to continue to carefully monitor the budget position in the current and future years.

2004/05 outturn

- 42** The Council's 2004/05 financial outturn position is summarised below.
- Net general fund spending was £740,000 less than the revised budget of £12.4 million.
 - The original capital programme of £7.8 million was reduced to £6.6 million during the year to reflect the re-profiling of capital schemes. At the year end £4.5 million had been spent with capital schemes valued at £1.7 million being delayed until 2005/06.
 - The balance on the General Fund was maintained at £1 million. This has been earmarked to finance the approved carry forward of unspent budgets and to support the Medium Term Plan in future years.

- The Housing Revenue Account (HRA) showed a surplus for the year of £641,000 increasing the year end balance to £982,000. Following LSVT it is intended to keep the HRA open for 2006/07 to receive any outstanding subsidy from 2004/05, any arrears collected or written off, and to write off premia incurred on the early redemption of debt.

2005/06 forecast and beyond

- 43 The latest budget monitoring reports indicated that for 2005/06:
- revenue expenditure will underspend by £0.3 million on the revised net budget of £13.5 million.
 - expenditure in respect of capital projects is projected to be £4.9 million, approximately £2 million less than the revised capital programme of £6.9 million. The main contributors to the current underspend are the two principle schemes; the Sewage Treatment Works and the Affordable Housing Project, which have incurred little spend in the period.
- 44 The Council's budget strategy for 2006/07 was approved by Cabinet in July 2005, and update reports were provided in October and December. The October 2005 Cabinet report projected a budget deficit in 2006/07 of approximately £0.5 million. Savings opportunities were put forward taking consideration of the Best Value Review of Support Services, a corporate review of fees and charges and rationalisation of the grant administration process. By December 2005, following identification of further savings opportunities, the Medium Term Plan was projecting a potential budget shortfall of £102,000.
- 45 Since then further savings have had to be made to finance additional cost pressures for 2006/07, particularly in respect of waste management. Following the final notification of Revenue Support Grant a balanced budget has been set for 2006/07 and council tax increases are likely to be around 3.9 per cent in future years. The revised Medium Term Plan, incorporating current assumptions, projects marginal surpluses in 2007/08 and 2008/09 therefore management of the Council's financial position remains challenging.

Income collection and arrears

- 46 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 four years. Collection rates for both council tax and NNDR exceeded the 2004/05 district council average (Table 1).

Table 1 Collection rates for Council Tax and Non-domestic rates 2001/02 - 2004/05

Year	Council Tax %	NNDR %
2001/02	98.3	99.3
2002/03	98.3	98.2
2003/04	98.2	98.6
2004/05	98.3	99.0
District average 2004/05	97.8	98.7

ODPM Summary Collection Rates

Systems of internal financial control

Our report to those charged with governance made reference to a number of weaknesses in key reconciliation controls. Further work is required to strengthen assurances in support of the Statement of Internal Control.

Internal Audit

- 47 2004/05 was the second year that the internal audit function was provided by ACIT Services Ltd. A detailed review of internal audit was undertaken as part of our 2003/04 audit therefore our focus this year was to follow up our previous recommendations. Overall we found that arrangements are in place to ensure that there is an adequate internal audit function. We are pleased to note that progress has been made in implementing our recommendations in particular in linking the 2005/06 internal audit plan to strategic risks and documenting an internal audit strategy and terms of reference.

Statement of Internal Control

- 48 Although there are system controls and performance indicators in place, there is no evidence that key controls on which assurance is to be given in the annual Statement of Internal Control have been identified and agreed by management. The Council should ensure that key controls are identified and that there is a process in place for managers to provide assurance on these in support of the Statement of Internal Control.

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

- 49 We did not detect any significant weaknesses in the Council's overall arrangements to maintain proper standards of financial conduct and to prevent and detect fraud and corruption.

Legality of transactions

- 50 We did not detect any significant weaknesses in the Council's overall arrangements to ensure the legality of transactions which might have significant financial consequences.
- 51 Although we again encountered a significant volume of correspondence from local electors during the course of our audit we did not receive any valid, formal notices of objection in respect of the 2004/05 accounts.

Use of resources judgements

Overall, our use of resources assessment concluded that the Council meets minimum requirements. The Council scored well in respect of providing value for money however further work is required to improve financial reporting.

- 52 The use of resources assessment is a new assessment which focuses on financial management but links to the strategic management of the Authority. 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.
- 53 We have assessed the Council's arrangements in five areas.

Table 2 Council's arrangements

Element	Assessment (1 to 4)
Financial reporting	1
Financial management	2
Financial standing	2
Internal control	2
Value for money	3
Overall	2

(Note: 1=lowest, 4=highest)

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

Financial reporting

- 55 The most significant area for further development is in respect of financial reporting. This assessment is principally dependent on having complete and accurate draft statements of account and related working papers. We have commented earlier in this Letter about the findings of our work on the 2004/05 accounts which directed this UoR assessment. The statutory deadline for approval of the statement of accounts moves forward another month to 30 June 2006.

Financial management

- 56 In terms of financial management we note that much progress has been made over the last year or so in strengthening arrangements at the Council and providing better monitoring information and support to officers. We found many strengths including comprehensive budget setting taking into account all cost pressures and growth bids, service planning and financial processes are linked and inform the Medium Term Financial Plan, quarterly reporting to Members of financial and non-financial information, prioritised revenue and capital growth bids, a capital strategy linked to corporate objectives and a recently approved Asset Management Plan which includes a maintenance programme.

We noted the following key areas for improvement:

- develop the Medium Term Financial Plan to include a sensitivity analysis and make clearer links to other internal plans and strategies;
- develop the asset register to ensure that depreciation charges are correctly included;
- use financial indicators and a formal risk assessment to inform budget monitoring arrangements;
- further develop of a set of local performance measures which link asset use to corporate objectives; and
- embed whole life costing in all of the Council's investment and disposal decisions.

Financial standing

- 57 From our review of financial standing we found that:
- budget setting is balanced, takes account of cost pressures and is accompanied by the relevant statement from the chief financial officer;
 - the Council maintains its overall spending within budget and regular reports are presented to Members; and
 - the Council's Treasury Management Strategy reflects the requirements of the CIPFA code.

- 58 The level of reserves and balances are set out in budget setting papers however there is opportunity for the rationale/policy for the level of reserves and balances to be enhanced to explain the need for each reserve, target levels and the link with the Treasury Management Strategy. There is also scope to improve the reporting of the effectiveness of debt recovery action to Members.

Internal control

- 59 Our assessment of internal control was based on the extent to which operational arrangements embrace risk management, whether the Council has arrangements in place to maintain a sound system of internal control and whether the Council has arrangements that are designed to promote and ensure probity and propriety in the conduct of its business. We found the following positive arrangements:
- good progress has been made in embedding risk management into South Norfolk's core business. Risk is considered at strategic level and within service/team planning and as part of the decision-making process on new projects and partnerships;
 - an annual review of the effectiveness of Internal Control was conducted by Internal Audit and wider governance issues have been considered by Cabinet; and
 - the Council has in place the relevant constitutional documents and arrangements to ensure that probity and propriety form part of the normal conduct of business.
- 60 Of the three areas reviewed, arrangements for internal control were considered the weakest. The areas where further development is needed by the Council are:
- to consider introduction of an Audit Committee to ensure that there is effective leadership on audit and governance issues;
 - to enhance the assurance framework to map strategic objectives to risks, controls and assurances;
 - to ensure that procedure notes/manuals are in place for all business critical systems and that these are reviewed and updated annually;
 - to raise the profile of anti-fraud arrangements and implement proactive work across the authority based on a formal risk assessment. Reporting to Committee on anti-fraud arrangements and activities also needs to be undertaken on a regular basis; and
 - to provide quarterly reporting on risk management to Members.

Value for money

- 61 Review of this area considered what the Council does to improve value for money and the impact this has over time. We have considered whether the Council has good processes, uses them effectively and what impact they have.

62 The Council has performed well in this area and we found the following key strengths:

- the Council performs well in priority areas with generally good performance and low cost. The Council also recognised areas of high costs/poor performance and taken appropriate action to review and address them;
- performance management is a strength and the Council's approach is resulting in a steady improvement in performance;
- the Council has undertaken a recent review of support services which has identified an improvement plan to secure over £900,000 of savings over the next three years;
- consideration is given to the likely impact on users on changes in spending levels. However, consultation through groups representing older people and the youth is relatively recent and is still developing; and
- The effective use of technology to improve services and the Council is on target to provide 24 hour one-stop opening to all services by April 2006.

63 Areas where further improvement is required are as follows:

- there is some evidence of benchmarking and cost comparisons (eg in planning and revenues and benefits), but this is not yet uniform across the organisation;
- the presentational format for performance management and budget monitoring reports does not allow Members to easily compare performance and budget. Plans are in hand to better integrate performance and financial monitoring information;
- £10 million is committed over the four year period 2005-09 in respect of affordable housing, a top priority for the Council. Approval has been given for £2.4 million of spend in the first two years. However spending the balance depends on a review of the Council's overall financial position, identification of appropriate schemes and possible land sales;
- quality forms a key element of service reviews and there are examples of quality being assessed alongside performance. However, there is no routine assessment of quality as part of performance or budget monitoring;
- experience from the first year of operation of the Building Control Partnership identified some shortcomings in respect of the business planning process that have still to be rectified, such as the need for a business plan to be created, agreed and implemented that achieves a cost neutral position within an acceptable timeframe - no greater than the next two to three years.

64 Our Direction of Travel assessment earlier in this Letter has also informed our use of resources judgement in this area.

Other work

Grant claims

- 65 In accordance with Strategic Regulation, the Audit Commission has continued with a more risk-based approach to the certification of grant claims. We have reduced our audit of these claims but our ability to reduce further depends on the adequacy of the Council's control environment, which we were unable to place reliance on in 2004/05.
- 66 Our review of 2004/05 grant claims concluded that there are inadequate arrangements in place to ensure that grants and returns are completed accurately and in accordance with the scheme terms and conditions. We found the quality of supporting documentation to be variable, in particular for those claims to be submitted to the Office of the Deputy Prime Minister, all of which were subject to amendment, and/or qualification letter.
- 67 We did however find that quality assurance arrangements in respect of the Housing Benefits claim had improved. Quality checks were undertaken on a regular basis throughout the year, and also prior to submission of the final claim, to help identify any systematic errors for correction prior to audit. These arrangements have helped to identify and correct any potential claim errors prior to our visit and have resulted in fewer reporting issues and only minor amendments being required to the Housing Benefit claim this year.
- 68 The Council has now nominated a grant claims co-ordinator providing a central point for the control and management of grant claims.

National Fraud Initiative

- 69 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.
- 70 The Council has appropriate arrangements in place to review any potential data matches highlighted through the NFI exercise. There have been no instances of fraud identified from matches investigated by Internal Audit to date.

Looking forwards

Future audit and inspection work

- 71 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.
- 72 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 31 March 2006.

Revision to the Code of Audit Practice

- 73 The statutory requirements governing our audit work, are contained in:
- the Audit Commission Act 1998; and
 - the Code of Audit Practice (the Code).
- 74 The Code has been revised with effect from 1 April 2005. Further details are included in our Audit Plan which has been agreed with Cabinet in July 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

- 75 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 Autumn 2006.

Closing remarks

- 76** This letter has been discussed and agreed with the Chief Executive and Head of Financial Services. A copy of the letter will be presented to Cabinet in spring 2006.
- 77** The Council has taken a positive and constructive approach to our audit and inspection and we would like to take this opportunity to express our appreciation for the Council's assistance and co-operation.

Availability of this letter

- 78** 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

March 2006

Appendix 1 – Background to this letter

The purpose of this letter

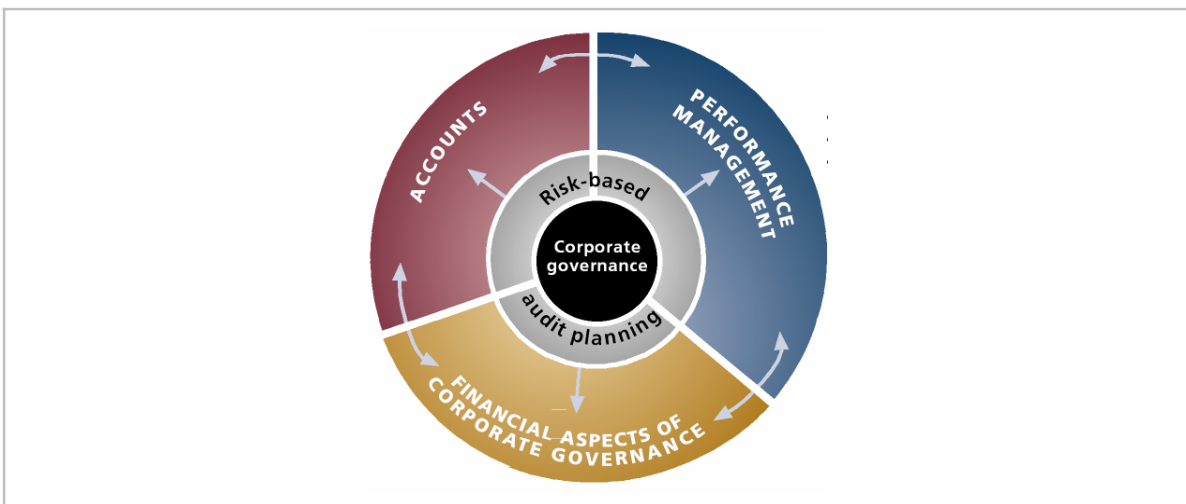
- 1 This is our audit and inspection 'Annual Letter' for members which incorporates the Annual Audit Letter for 2004/05, which is presented by the Council's Relationship Manager and District Auditor. The letter summarises the conclusions and significant issues arising from our recent audit and inspections 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 1.

Figure 1 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
- legality of transactions with significant financial consequences

Performance management

- use of resources
- performance information
- 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

Table 3

Report title	Date issued
Audit Plan	July 2004
E-govt and User Focus	April 2005
Housing Strategy and Enabling	June 2005
Interim Audit Report	August 2005
Risk Management Review	September 2005
Report on the 2003/04 financial statements (SAS610)	November 2005
Interim Report on the 2004/05 financial statements to those charged with governance (SAS 610)	November 2005
Final accounts exception report	December 2005
Opinion on the 2003/04 statement of accounts	December 2005
Opinion on the BVPP	December 2005
Report on the 2004/05 financial statements to those charged with governance (SAS610)	February 2006
Opinion on the 2004/05 statement of accounts	March 2006
Annual Audit and Inspection Letter	March 2006

Appendix 3 – Audit and Inspection fee

Table 4 Audit fee update

Audit area	Plan 2004/05 (£)	Actual 2004/05 (£)
Accounts	35,000	45,000*
Financial aspects of corporate governance	26,000	26,000
Performance	28,000	18,000*
Total Code of Audit Practice fee	89,000	89,000
Inspection	10,000	10,000
Additional voluntary work (under section 35)	nil	nil
Total	99,000	99,000

* A review of procurement was included in the original plan under 'performance' however since this has been subject to IDEA review the fee relating to this work has been transferred to 'accounts' help cover additional the work required in respect of the financial statements.

Our aim is to charge the Council in line with the estimate included within the Audit Plan. However, this is pending our final review of the audit time charged to the Council and any additional work as a result of:

- reviewing a number of technical issues with respect to the 2004/05 accounts; and
- representations received from members of the public that we are obliged to consider as part of our audit work;

If an additional charge is required, we will update the Head of Financial Services accordingly.