

Annual Audit and Inspection Letter

March 2006



Annual Audit and Inspection Letter

Chester-le-Street District Council

2004-2005

External audit is an essential element in the process of accountability for public money and makes an important contribution to the stewardship of public resources and the corporate governance of public services.

Audit in the public sector is underpinned by three fundamental principles:

- auditors are appointed independently from the bodies being audited;
- 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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- any third party.

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Key messages

Council performance

- 1 The Council is making good progress in addressing the weaknesses identified in its CPA inspection and in delivering its improvement and recovery plan. Staff and councillors remain committed and enthusiastic and a new corporate management team is now in place. Specifically, the Council is making good progress in:
 - developing and implementing action plans for improvement;
 - strengthening strategic planning;
 - strengthening performance and financial management; and
 - promoting a culture of accountability.
- 2 There are still gaps that the Council recognises and has plans to address these, largely through its Improvement and Recovery Plan 2 (IRP2). Progress made on processes and systems has yet to systematically drive service improvement and achieve better value for money and the housing service continues to face significant challenges. Community engagement has increased but the Council still does not know enough about local communities and is therefore unclear what the communities of interest in the area are.
- 3 The Council is taking action to address the significant weaknesses in the housing service. Work is in progress and we will inspect the service in May 2006.

Accounts and governance

- 4 We gave an unqualified audit opinion on the accounts on 31 October 2005. This represents a significant improvement on recent years. Corporate governance arrangements have also improved since last year, and officers have responded positively to our recommendations.
- 5 For the first time in 2005, we carried out a use of resources assessment. This is a new judgement which focuses on financial arrangements but links to strategic management and value for money. In overall terms, Chester-le-Street scored 2 out of 4. Our work confirmed that the Council has made significant improvements in financial management, with particular strengths in risk management and internal audit. To further improve, the Council needs to develop corporate processes for assessing and improving value for money, for example by:
 - implementing strategic procurement strategies;
 - exploring alternatives to in-house service provision; and
 - undertaking benchmarking and unit cost analysis on net cost of services.It should also develop a more corporate approach to asset management.

- 6 Although most job evaluation was undertaken in 1996, single status implementation has not progressed significantly beyond this point. Experience at neighbouring local authorities suggests that this represents a significant risk and the Council needs to move forward as soon as possible.

Action needed by the Council

- Concentrate on embedding the improvements sought in IRP2 consistently across the whole organisation.
- Ensure that the investment in performance management arrangements and monitoring systems delivers sustained and systematic improvements in all service areas and against all priorities.
- Continue to implement action plans for housing services.
- Develop consultation and engagement with local communities.
- Develop corporate processes for assessing and improving value for money.
- Develop a more corporate approach to asset management.
- Progress single status negotiations and arrangements with its employees.

Council performance

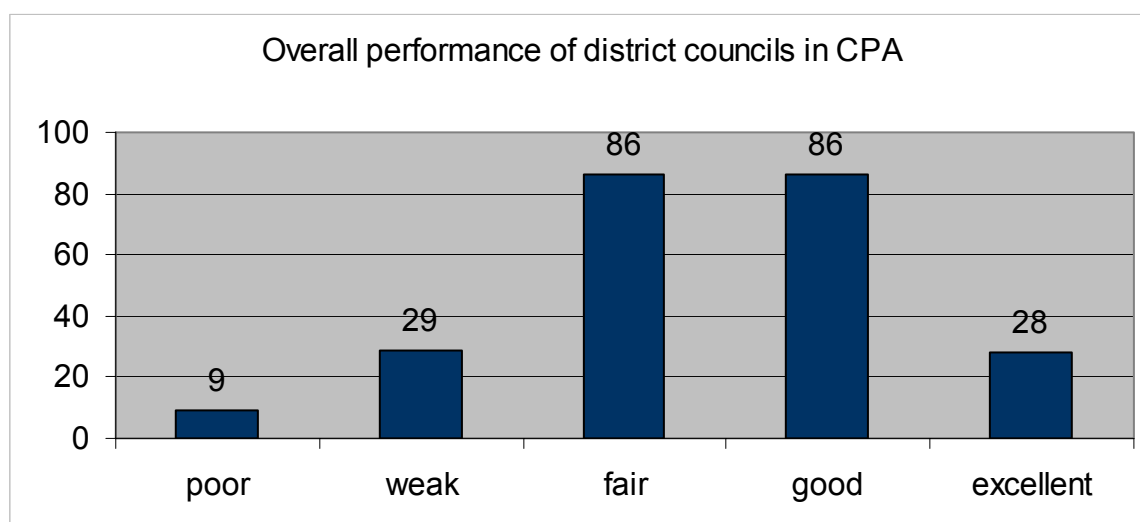
- 7 The Council is making good progress in addressing the weaknesses identified in the last Comprehensive Performance Assessment (CPA) inspection and in progressing the plans and initiatives which were at an early stage at the time of our last Audit and Inspection Letter.
- 8 The Council has made progress in each of its priority areas. It is progressing well in linking the community strategy to service plans, and in developing a culture of accountability. A key milestone was the publication of its first corporate plan in June 2005.
- 9 The Council has made extensive use of consultants to support its development. While there has been a transfer of skills to the Council, there is potential to explore other ways of enhancing the Council's capacity.

Direction of Travel report

- 10 The Council was assessed as 'poor' in its 2004 Comprehensive Performance Assessment. These assessments have now been completed in all district councils with the following results.

Figure 1 Overall performance of district councils in CPA

Nine councils out of a total of 238 were assessed as 'poor'



Source: Audit Commission

- 11 The CPA report identified a number of weaknesses. The main issues which the Council needed to address were:
- the quality of corporate processes; and
 - the quality of housing services.
- 12 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. In December 2004 we published a Progress Assessment, which concluded that the Council had begun to make progress to tackle the weaknesses identified in CPA but was at an early stage in its recovery.

Progress on the Council's key priorities

- 13 The Council has made progress in each of its priority areas and overall 58 per cent of national key performance indicators were above the average compared to all councils in 2004/5, with 40 per cent in the top quartile. Forty six per cent of key PIs, performance indicators covering the core areas of service, improved over three years. Current (half-year outturn) data indicates that the Council is making further improvements and that it has now developed some areas of good performance and significant improvement including planning, benefits and electronic service delivery. The Council's own customer satisfaction survey indicates that levels of satisfaction have again increased by 3 per cent; this equals the previous year's rate of increase.
- 14 We report the Council's main achievements against its three main aims which were in place until May 2005. Comparisons are based on national performance indicator data for 2004/05, the latest year for which audited information is available.

To sustain and promote health, safety and well-being of the district with particular emphasis on developing inclusive communities

- 15 The Council has made progress on key regeneration projects and a significant amount of additional funding has been received to assist future regeneration projects in the district. Latest indicators (unaudited) show that the Council now meets all government targets for speed of processing planning applications as well as scoring maximum points on the Pendleton scores for electronically accessible planning.
- 16 In 2004/05, half of housing PIs were in the top quartile, and half were improving, although performance was poor on the achievement of the Decent Homes Standard (DHS) in the Council's housing stock. The stock condition survey 2005 now indicates that 53 per cent of housing stock is not at the DHS; however, the average SAP rating has improved almost to the median level for 2004/05.

- 17 However, the housing service continues to face significant challenges, as demonstrated by the 'mock inspection' process¹, which was commissioned by the Council to inform action plans for improvement in the service and took place in August and September 2005. We assessed the Council's housing service as 'poor' twice in 2001/02; the 'mock inspection' in 2005 found some improvements, including in customer focus, housing strategy, partnership working and arrears recovery, but continuing weaknesses including tenant access and engagement, diversity, delivery of the capital programme, gas servicing, allocation systems and some aspects of value for money. The Council is implementing an action plan to address these issues and plans a large scale voluntary transfer (LSVT) of its housing stock to provide investment for the achievement of the Decent Homes Standard.
- 18 The Council is supporting improvement in the health of local people through the Lifestyle Initiative which has been awarded the ILAM Health and Physical Activity Recognition award. Progress has been made on sport, leisure and arts development, with the construction of the Riverside Training Centre, the refurbishment of the gym at Chester-le-Street leisure centre to ensure disabled access, and attracting additional funding for the role of arts across Council services.
- 19 Performance against BVPI 156 (the percentage of authority buildings open to the public in which all public areas are suitable for, and accessible to, disabled people) remained poor in 2004/05 and progress on this since 2002/03 has been extremely limited. However, the issue is now being addressed through a project managed approach, driven through the equality and diversity working group, chaired by the Assistant Chief Executive as Equalities and Diversity Champion.

To develop strong communities by enabling and enhancing the opportunities for all people in the district

- 20 Community engagement has increased, for example through the Pelton Fell regeneration project and area management pilot scheme, but the Council still does not know enough about local communities and is therefore unclear what the communities of interest in the area are.
- 21 Benefit claims are being processed much more quickly; at the same time the Council has improved the percentage of cases processed correctly.
- 22 The Council is making it easier for customers and residents to access its services by developing a customer relationship strategy, implementing a complaints, compliments and comments plan, enabling online payments to be made via its web-site, and by making physical changes to reception arrangements to create a single point reception at the Civic Centre.

¹ The Council commissioned a review of its housing service which was carried out using Audit Commission housing service inspection methodology. This 'mock inspection' was carried out by a private consultancy during the summer of 2005. A formal Audit Commission inspection of the service will take place in May 2006.

To protect enhance and promote the environment of the district and, in doing so, contribute towards the protection of the national and global environment

- 23 In 2004/05, the Council improved recycling rates slightly, from 11.76 per cent to 12.54 per cent, through a number of initiatives including implementing a recycling scheme for schools and introducing shoe banks at recycling sites, and has improved litter and dog waste bin management. It has now started sending waste for anaerobic digestion. All residents in the district are served by a kerbside collection of recyclables, and the cost of waste collection per household has reduced. In 2004/05 only 55 per cent of households were engaged in recycling, however latest indications are that this is now increasing.
- 24 Despite improving its score against the environmental health checklist the Council remained in the bottom quartile of performance in 2004/05 and although performance has improve since then progress remains slow.
- 25 The Riverside area continues to receive national recognition, retaining its Green Flag award. The Council has been nationally recognised for its biodiversity work and has been awarded the International Green Apple Award, and has also received a Silver Award at the Royal Horticultural Society Tatton Show.

Progress on addressing issues from CPA and previous Direction of Travel

- 26 The Council has made good progress in developing and implementing action for improvement. It continues to develop corporate tools and internal processes and in doing so it is addressing many of the weaknesses identified in CPA 2004. The Council has recognised the need to embed these new tools and processes and to evaluate and review their success to ensure that they help the Council deliver its agenda and this, along with addressing further issues and gaps, is the focus of the second Improvement and Recovery Plan, adopted in spring 2005.
- 27 The Council has improved its capacity through the appointment of a capable management team, and is developing both staff and councillors. It is providing leadership both internally and externally.
- 28 The Council is taking a lead role in developing the local strategic partnership (LSP). The LSP and the Council are working together to update the community strategy. The Council is refining its own service plans as part of the 2006/07 planning round. These two activities when complete will enable clear linkages from the community to individual level, essential prerequisites for good performance management.
- 29 The Council has strengthened its strategic planning and performance management framework significantly, particularly by developing its Corporate Plan. It is making progress on other strategies and plans including community engagement, equality and information management. It is much more self-aware of the issues and gaps which it faces and so is better placed to develop strategies and plans to address them.

- 30 Whilst it is too early to be able to demonstrate that performance management is systematically driving improvement, improvements which the Council has made since CPA are beginning to impact on service delivery in some areas. This is the first year for many of the changes which are being implemented and there are still gaps which the Council is addressing. Both staff and councillors are enthusiastic and committed, but the recent changes and new strategies are still embedding into the culture of the organisation. As the Council raises customer awareness and perhaps expectations through greater engagement and clarity of purpose and standards, it is important that it ensures that improvements are embedded to enable to match or even exceed expectation.

Other performance work

Performance management

- 31 The Council recognised the need to improve its corporate performance management arrangements in its improvement and recovery plan last year. Audit work during 2004/05 aimed to assess improvements in performance management by answering the following questions.
- How will the community strategy be translated into day-to-day activities?
 - How will individual members of staff be held accountable for delivering against corporate objectives?
 - How will the Council use performance management tools, such as Performance Plus and the service improvement teams to deliver improvements?
- 32 Our overall conclusion was that the Council is progressing well in linking the community strategy to service plans, and in developing a culture of accountability. A key milestone was the publication of its first corporate plan in June 2005, and the 'Performance Plus' system should provide a valuable reporting and analysis tool. However, performance management systems have not yet been extended to the LSP or partnership arrangements, and we will keep this area under review as part of next year's audit.

Use of consultants

- 33 The Council is using consultants extensively to bring in new skills and to support its improvement and recovery programme. Through the use of sample testing and case studies, this work sought to identify:
- whether there was a proper procurement process in relation to the appointment of consultants;
 - how well consultancy projects are being managed; and
 - how the Council's capacity was being enhanced through skills transfer.
- 34 Our overall conclusion was that the Council had, in all cases, followed a proper procurement process. In terms of option appraisal, project management and skills transfer, we identified several examples of good practice but also areas of inconsistency. An action plan has therefore been agreed with officers to bring the management of all consultancy projects up to the standards of the best.

- 35 Significant potential also exists to use alternatives to external consultants when developing capacity and improving skills, for example through:
- secondments;
 - joint/shared service provision; and
 - strategic partnering.

Performance information

- 36 The Local Government Act 1999 requires local councils to publish a best value performance plan each year, setting out an assessment of current performance and targets for improvements. At Chester-le-Street District Council this information has been included in the corporate plan. As external auditors, we are required to report on whether the plan has been prepared and published in accordance with the Act, and to review the Council's arrangements for producing specified performance information (BVPIs).
- 37 Our work confirmed that this year's corporate plan complied in all significant respects with relevant legislation and statutory guidance, and our sample testing identified a very low level of errors and inaccuracies in BVPI data. We issued an unqualified certificate on the BVPP in October 2005.

Other Audit Commission activity

- 38 During 2005 we have liaised closely with the ODPM monitoring board and submitted regular reports as follows.
- Quarterly reports evaluating the impact of IRP activities on the Council's four key themes of vision into action, decision making, people and performance, improving services.
 - Progress report on housing services, prepared by our lead housing inspector.
 - An annual assessment of progress against the four CPA headlines ie what the Council is trying to achieve, how it has set about delivering its priorities, what it has achieved to date and what it plans to do next.
- 39 Our overall conclusion has been that the Council is making good progress in addressing the weaknesses identified in the last CPA inspection and in progressing the plans and initiatives which were at an early stage at the time of our last audit and inspection letter. Specifically the Council is making good progress in:
- developing and implementing actions for improvement;
 - strengthening strategic planning; and
 - strengthening performance management.
- 40 Staff and councillors remain enthusiastic and committed to their post-CPA recovery and improvement plans.

- 41 There are still gaps, which the Council recognises and has plans to address, largely through its recently developed Improvement and Recovery Plan 2 (IRP2). Despite the progress made to date on processes and systems this has yet to systematically drive service improvement. The housing service continues to face significant challenges. As the Council raises customer awareness through greater engagement and clarity of purpose, it is important that service improvements are delivered which match or even exceed local people's expectations.
- 42 We will be continuing to work with ODPM to support the Council's recovery, and have agreed to focus on the following key areas in 2006:
- the service improvement team;
 - customer focus;
 - organisational development; and
 - community engagement.

Use of resources judgements

- 43 The Council's overall score was 2 out of 4.
- 44 The use of resources judgement is a new assessment which focuses on financial issues but links to the strategic framework of the Council. It looks at how financial management is integrated with strategic 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, and we anticipate that in future the use of resources judgements will form part of the CPA framework.
- 45 We have assessed the Council's arrangements in five areas.

Table 1 Council's arrangements

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

(Note: 1=lowest, 4=highest)

- 46 Key strengths identified were the commitment and enthusiasm with which the Council has progressed on its improvement and recovery programme to date. Through this process it has improved financial management with specific reference to:
- meeting deadlines for production of accounts;
 - medium-term financial planning;
 - new financial regulations;
 - commitment based accounting systems and financial reporting; and
 - member scrutiny of budgets and outturn reports.
- 47 The internal control framework is robust, with particular strengths in risk management and internal audit. Value for money and the arrangements to deliver it need to improve and plans are in place to tackle areas of perceived high-spend or poor service quality, and to ensure that identified savings are delivered. The Council has also set target levels for reserves and balances.

- 48 To further improve, the Council needs to develop a corporate approach to assessing and improving value for money by:
- implementing strategic procurement strategies;
 - exploring alternatives to in-house service provision;
 - undertaking benchmarking and unit cost analysis on net cost of services; and
- It should also develop a corporate approach to asset management.
- 49 Other action points have been identified as follows:
- demonstrate a proven track record of delivering general fund spending within available resources;
 - embed new financial and performance management processes; and
 - improve project management of annual accounts, and the quality of working papers.

Accounts and governance

We gave an unqualified audit opinion on the accounts on 31 October 2005. Corporate governance arrangements have significantly improved since last year, and officers have responded positively to our recommendations.

Audit of 2004/05 accounts

- 50 We gave an unqualified opinion on the Council's financial statements on 31 October 2005. Accounts were produced and audited in accordance with the statutory timetable, and were subject to challenging and constructive councillor scrutiny. This represents a significant improvement upon recent years, but officers acknowledge that in order to meet the earlier deadlines next year, and the requirements of Whole of Government Accounts, the Council will need to improve even further its:
- closedown processes and project management; and
 - the quality of working papers provided to support the accounts.
- 51 We are required by professional standards to report to those charged with governance (in this case, full council) certain matters before we give an opinion on the financial statements. In respect of the 2004/05 financial statements, a number of errors were identified during the course of our work which were reported to Councillors and corrected in accordance with SAS 610. These related primarily to presentational issues and disclosure notes and had no impact on reported outturn or levels of balances. We did not identify any significant inconsistencies in the Statement on Internal Control.

Financial standing

- 52 The Council overspent by £0.2 million in 2004/05, this was the combined effect of relatively small overspends in 10 to 12 separate areas. The most significant of these will be subject to more detailed review through the member-led scrutiny process.
- 53 To ensure that the situation does not recur, budget setting processes were much improved for 2005/06, and action plans have been developed following the half-year budget review to:
- tackle both actual and predicted overspending;
 - ensure that anticipated savings are delivered; and
 - ensure that in overall terms the Council delivers against budget.

- 54 A medium-term financial strategy has also been developed which looks forward three years and links corporate priorities to the annual budget setting process. This has been informed by risk assessment and makes realistic assumptions about costs, income, sources of funding and future financial commitments. Growth bids for capital and revenue are now assessed using an appraisal system which scores against pre-set criteria.
- 55 2004/05 overspending had a negative impact on levels of general fund reserves and balances, which totalled £1.5 million at 31 March 2005 compared with £1.9 million two years ago. On the other hand, the housing revenue account managed a small underspend and has reinstated working balances at the agreed level of £1 million. The Council has set target levels for balances and reserves in accordance with CIPFA guidance, and the medium-term financial plan assumes that the general fund will be self-financing, with no further contributions from balances in the future.

Systems of internal financial control

Our work this year has focused on two key aspects of Chester-le-Street DC's internal control framework, namely its constitution and main accounting system.

Council constitution

- 56 A new council constitution was approved in May 2005, with the twin objectives of increasing officer accountability and focusing member attention on strategic issues. The main changes made were:
- exception based scheme of delegation for officers;
 - improved citizen participation;
 - revised financial regulations;
 - more proactive role for scrutiny function; and
 - clearer definition of key decisions.
- 57 This new constitution was modelled on notable practice observed elsewhere, and officers have responded positively to our suggestion that further training was necessary so that service managers could own the new arrangements and properly understand how to apply them. Next year we intend to review the following areas as these new arrangements develop:
- agenda management;
 - key decisions; and
 - the role of overview of scrutiny.

Main accounting financial system

- 58 The main accounting system forms the basis not only of the Council's annual accounts but also of its systems for financial management and control. The Council implemented a new IT system (Agresso) during 2004/05, which introduced the concept of commitment accounting and is viewed by staff as a major improvement in terms of functionality and reporting capabilities.
- 59 A review of the general IT environment, coupled with testing of key modules, did not raise any significant concerns, but we identified scope for improvement in three key areas:
- a regular programme to perform and evidence systems reconciliations;
 - procedural documentation for users; and
 - clearly defined system administration and ownership.
- 60 We are pleased to note that since our initial work all of these areas have been addressed.

Legality of transactions

- 61 Arrangements for ensuring legality were somewhat disjointed during 2004/05, with four different monitoring officers and three section 151 officers in post. Consequently we needed to undertake additional testing to confirm the legality of significant transactions.
- 62 We also reviewed the Council's approach to implementing new and recent legislation. Our main concern was the current position on job evaluation and single status. Although most job evaluation was undertaken in 1996, single status implementation has not progressed significantly beyond this point.
- 63 Our experience at neighbouring local authorities suggests that this represents a significant risk to the Council and we have stressed to the Director of Resources that there is a need to move forward on single status implementation as soon as possible.

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

- 64 The Council has a statutory duty to mitigate the risk of improper conduct, fraud and corruption. As part of this year's work we completed a fraud and corruption risk assessment in conjunction with Internal Audit. This confirmed that all of the expected arrangements are in place.

- 65 To build on existing good practice, potential exists to:
- use the CIPFA/SOLACE framework, entitled '*A Cornerstone for Local Government*', to consolidate existing policies and procedures into a local corporate governance code; and
 - communicate and reinforce arrangements through awareness training on culture, corporate values, and commitment to integrity.

Value for money assessment

- 66 Compared with other district councils, the net cost of services per head of population is above average and discretionary expenditure on leisure services is high. The Council has undertaken limited benchmarking and has not recently undertaken best value reviews. Most services are delivered in house and strategic procurement strategies are still being developed. The Council is committed in principle to housing stock transfer, but options appraisal for leisure services is still at an early stage.
- 67 Whilst our assessment is that the Council does not currently have robust corporate processes in place for assessing and improving value for money, it is now showing commitment and enthusiasm for improvement in the future. Building blocks to address internal weaknesses have been put in place, such as improved corporate systems for financial and performance management. The quality of management information is much improved, and the Council has consulted on budget priorities. There is now a clear focus on value for money (VFM) as part of the next stage of the Council's recovery.
- 68 Plans are now in place to tackle areas of perceived high spend or poor service quality, and to ensure that identified financial savings are delivered. The Council can already identify a number of areas where it is making financial savings and improving use of resources, for example, through joint procurement, improved staff management and partnership working. Partnering contracts are being negotiated in line with 'rethinking construction' principles.

Other work

Additional voluntary work

E-government

- 69 The ODPM has defined 54 separate outcomes required from local authorities as part of its e-government initiative. A traffic light system, based on self-assessment, has been put in place to measure progress. As voluntary improvement work additional to our audit, we assisted the Council with this agenda by:
- reviewing the Council's self-assessment position as at 30 September 2005;
 - comparing the Council's position with that of neighbouring shire districts; and
 - providing examples of notable practice observed elsewhere.
- 70 In overall terms, the Council has made considerable progress on e-government since last year, and the launch of its new website in January 2006 represented a major step forward. Although 30 out of 54 outcomes were marked as either amber or red, the Council is now on track to deliver all of the required outcomes by the due dates.

PI workshop

- 71 Council officers also took part in an Audit Commission workshop for County Durham councils which looked at good practice in developing local performance indicators and targets.

Grant claims

- 72 In accordance with Strategic Regulation, we have continued with a more risk-based approach to the certification of grant claims, based upon our assessment of the control environment. The Council's arrangements for managing and quality assuring grant claims submitted for audit has been satisfactory during 2004/05.

National Fraud Initiative

- 73 In 2004/05, the local authority 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 The Council was assessed as low risk for NFI and we are satisfied that all data matches identified have been adequately followed up.

Looking forwards

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.
- 77 We will seek to reconsider, with you, your improvement priorities and develop an agreed programme by 31 March 2006. Initial discussions have indicated that work is likely to focus on:
- service inspections in Environment and Housing;
 - continuing to support the ODPM Monitoring Board; and
 - preparations for LSVT.

The Council is also keen to progress towards CPA recategorisation, which would if appropriate require a further corporate assessment.

Revision to the Code of Audit Practice

- 78 The statutory requirements governing our audit work are contained in:
- the Audit Commission Act 1998; and
 - the Code of Audit Practice (the Code).
- 79 The Code has been revised with effect from 1 April 2005. Further details are included in our Audit and Inspection Plan for 2005/6. 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

- 80 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

- 81 This letter has been discussed and agreed with the Council's corporate management team. A copy of the letter will be presented to full council in April 2006.
- 82 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 your assistance and co-operation.

Availability of this letter

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

Steve Nicklin
District Auditor

Sarah Diggle
Relationship Manager

March 2006

Appendix 1 – Background to this letter

The purpose of this letter

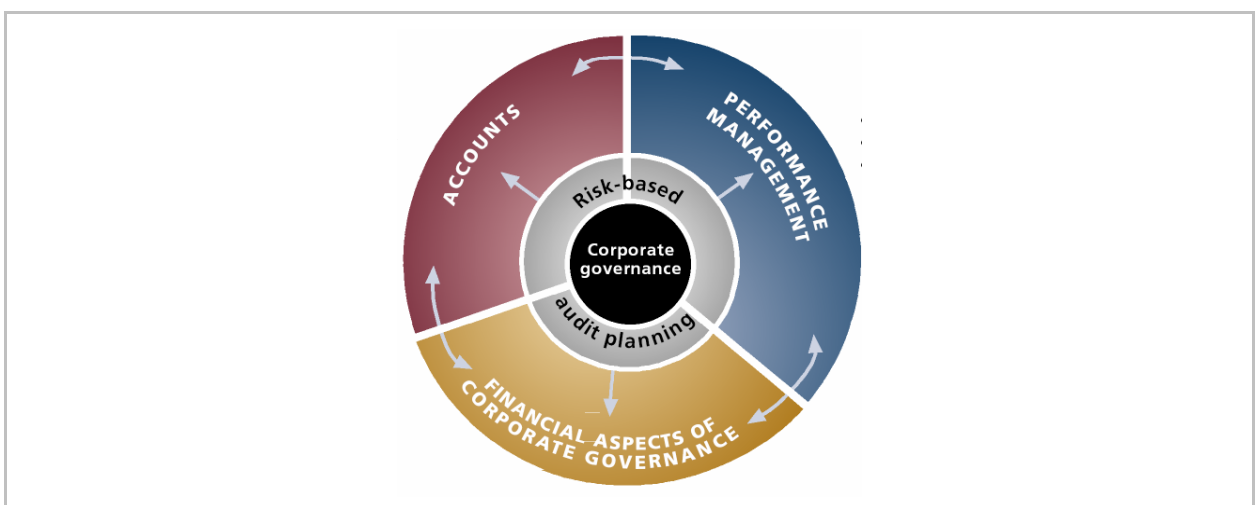
- 1 This is our audit and inspection 'Annual Letter' for members which incorporates the Annual Audit Letter for 2004/05, which is presented by the Council's Relationship Manager and District Auditor. The letter summarises the conclusions and significant issues arising from our recent audit and inspections 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 2.

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.
- 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 2

Report title	Date issued
Audit and Inspection Plan	March 2004
Progress Assessment	December 2004
Reports to ODPM Monitoring Board	October and November 2004; March, July, September and November 2005
Review of Performance Management - Phase 1	May 2005
Review of Agresso IT Controls	June 2006
Interim Memorandum	July 2005
Review of Democratic Arrangements	August 2005
Housing Progress Reports for ODPM	May and September 2005
2004/05 Final Accounts Memorandum	October 2005
Report on the 2004/05 Financial Statements to Those Charged with Governance (SAS 610)	October 2005
BVPP Report and Memorandum	October 2005
E-Government Healthcheck	November 2005
Use of Consultants	December 2006
Review of Performance Management - Phase 2	January 2006
Progress Assessment	March 2006
Use of Resources Judgements	March 2006
Direction of Travel Report (within Annual Audit and Inspection Letter)	March 2006
Annual Audit and Inspection Letter	March 2006

Appendix 3 – Audit and inspection fee

Table 3 Audit fee update

Audit area	Plan 2004/05	Actual 2004/05
Accounts	£35,000	£35,000
Financial aspects of corporate governance	45,000	45,000
Performance	20,000	20,000
Total Code of Audit Practice fee	£100,000	£100,000
Additional voluntary work (under section 35)	0	3,300
Total	£100,000	£103,300

Inspection fee update

The full year inspection fee net of ODPM grant is £15,000.