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Iain Phillips Chief Executive

12th September 2006

Dear Councillor,

I hereby give you Notice that a Special Meeting of the **POLICY AND STRATEGIC DEVELOPMENT COMMITTEE** will be held in **the COUNCIL CHAMBER, CIVIC CENTRE, CROOK** on **WEDNESDAY, 20TH SEPTEMBER 2006** at **2.00PM**.

AGENDA

- | | Page No. |
|---|----------------|
| 1. Apologies for Absence. | |
| 2. To receive a presentation from external audit representatives on the Annual Audit Letter 2004/05. A copy of the Annual Audit letter which was approved on 24 th July at a special meeting of the Committee will follow. | Copy to follow |

Yours faithfully

Chief Executive

Members of this Committee : Councillors Mrs. Brown, Ferguson, Foote Wood, Gale, Grogan, Hayton, Mrs Jones*, Kay, Kingston, Laurie, Mews, Murphy*, Nevins, Perkins, Stonehouse, Townsend and Zair.

*ex-officio, non-voting capacity.

Chair : Councillor Stonehouse

Deputy Chair : Councillor Kay

TO: All other Members of the Council for information.
Management Team.

Annual Audit and Inspection Letter

March 2006



Annual Audit and Inspection Letter

Wear Valley 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.

The duties and powers of auditors appointed by the Audit Commission are set out in the Audit Commission Act 1998 and the Local Government Act 1999 and the Commission's statutory Code of Audit Practice. Under the Code of Audit Practice, appointed auditors are also required to comply with the current professional standards issued by the independent Auditing Practices Board.

Appointed auditors act quite separately from the Commission and in meeting their statutory responsibilities are required to exercise their professional judgement independently of both the Commission and the audited body.

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Key messages

Council performance

- 1 The Council has continued to take action to achieve its priorities and has continued to develop its corporate framework. Performance overall, based on national key performance indicators (PIs), has improved. However, the Council still does not have sufficient ability to measure outcomes for local people..

Accounts and governance issues

- 2 We gave an unqualified audit opinion on the accounts on 27 October 2005.
- 3 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.
- 4 In overall terms the Council scored two out of four, with particular strengths in the arrangements for preparing the accounts, managing budgets and ensuring probity and propriety. To further improve the Council needs to:
 - ensure it has formal arrangements in place to ensure the legality of transactions. Whilst there is no evidence of decisions being unlawful the Council could improve its arrangements to reduce risk;
 - review Internal Audit arrangements to ensure they comply with the new CIPFA Code of Practice for Internal Audit;
 - review corporate aims and objectives and develop the approach to medium term financial planning, ensuring that there are clear links from the Council plan to capital and revenue resources; and
 - introduce corporate processes for assessing and improving value for money, for example, by implementing strategic procurement strategies and undertaking benchmarking and unit cost analysis on net cost of services.
- 5 The Council should also strengthen its corporate approach to asset management.

Action needed by the Council

6 The Council should:

- concentrate on developing outcome and user focused performance management processes; in particular, develop user focused outcome measures for its objectives to enable it to define clearly what it is trying to achieve on its priorities; this would help the Council to direct its resources appropriately, to assess its progress against its aims and to further embed performance management;
- focus on dialogue with disadvantaged and minority communities to identify their needs and engage more effectively with young people;
- improve partnership working by continuing to develop corporate arrangements to demonstrate that inputs to partnerships are evaluated against the benefits received;
- take forward the issues raised arising from our assessment of the Council's use of resources, in particular improving value for money;
- re-establish corporate arrangements to ensure the accuracy of performance information; and
- develop an HR strategy, to include recently agreed policies and measures to address capacity issues.

Council performance

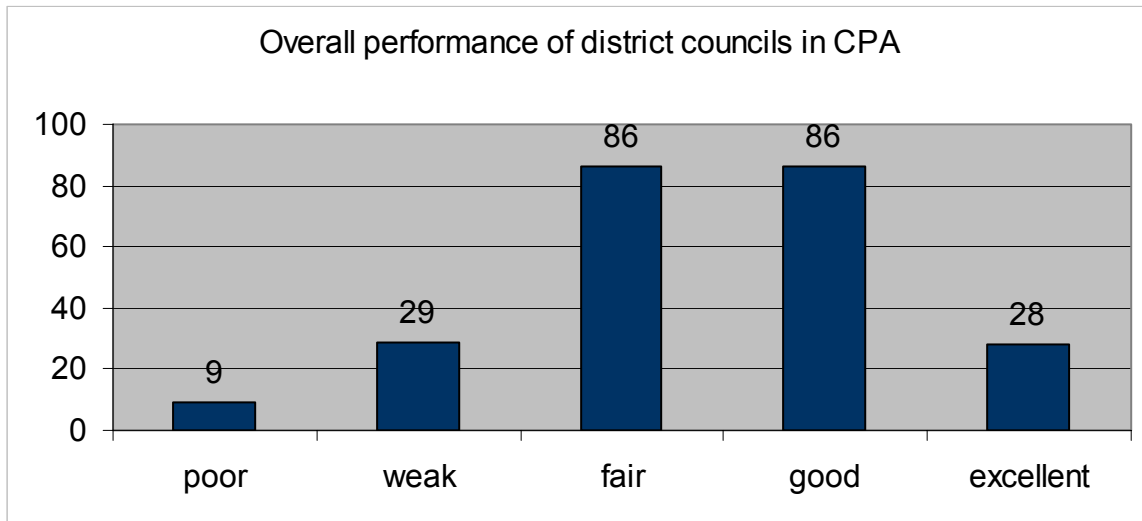
- 7 The Council has continued to take action to support its priorities, often in conjunction with partners. However, measurement of the impact of the Council's actions is hampered by a lack of outcome measures and targets. Performance overall as measured by key national performance indicators (PIs), has improved, with 50 per cent showing above average performance in 2004/05, but almost 30 per cent of these PIs were in the worst quartile compared to other councils.
- 8 The Council has continued to embed its performance management arrangements and has introduced new human resources policies, although it still does not have a human resources strategy to address capacity issues for the future.
- 9 The Local Strategic Partnership (LSP) has reviewed the terms of reference on theme groups and plans to refine its performance management arrangements in line with those of the Council. A corporate definition of partnership has been adopted and guidance on partnership working produced. The Council has developed a corporate partnerships database and is now evaluating each arrangement against the partnerships protocol.
- 10 The Council's arrangements for centrally collating and monitoring performance information were not fully applied in the year. We tested 26 high and medium risk performance indicators. Reservations were placed on two indicators and a further six were amended after testing. This raises issues about the accurate collation of data within departments. Arrangements have been improved for 2005/06.

Direction of travel report

- 11 Wear Valley DC was assessed as 'Fair' in the Comprehensive Performance Assessment carried out in 2003/04. These assessments have now been completed in all district councils with the following results.

Figure 1 Overall performance of district councils in CPA

86 out of a total of 238 district councils have been assessed as 'Fair'.



Source: Audit Commission

- 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.
- 13 The main issues raised by CPA in 2003/04 which the Council needed to address were to clarify its ambition, priorities and future plans, to improve its focus on priorities, to improve staff and councillor capacity and development, to improve internal challenge, and to develop a more community oriented focus.
- 14 Our Direction of Travel assessment in December 2004 noted good progress on some of these issues. The Council had adopted a Corporate Plan, supported by a strong performance management framework. There was a greater focus on improvement. However, the Council still did not have a human resources strategy in place to ensure that it has the skills and capacity it needs.
- 15 Key issues raised in our Direction of Travel assessment in 2004 for the Council's attention were the need to improve the delivery of corporate priorities on the economy and healthy living environment, to develop user focused outcome measures for its priorities and report progress against them, to develop and implement a human resources strategy, to continue to address poor and mixed performance, including addressing diversity issues and e-government, and to clarify future plans for leisure in delivering the Council's objectives.

Progress on the Council's key priorities

- 16 The Council has continued to take action to support its six priorities (identified in bold type below). However, measurement of the impact of the Council's actions is hampered by a lack of outcome measures and targets; we comment further on this in paragraph 24. Against national Key Performance Indicators (PIs), overall performance has improved: 64 per cent of Key PIs improved between 2002/03 and 2004/05. However, almost 30 per cent of Key PIs were in the worst quartile.
- 17 There was an increase in the overall **Population** of the district in 2004/05. To support the achievement of this priority, the Council has facilitated housing developments. It has also implemented an Empty Homes Strategy, working with local landlords; in 2004/05 59 houses were brought back into residential use, an increase of 59 per cent over 2003/04 levels.
- 18 The Council has taken action to **Promote Lifelong Learning**. It has encouraged community capacity building through the self development of skills of tenants and residents. Within its own staff, the Council has a number of modern apprenticeships and is providing basic skills including computer training.
- 19 There has been progress on the Council's **Environment** priority. Residents have environmental services high on their agenda for improvement, and are generally satisfied with the service they receive. In 2004/05 the levels of recycling and composting improved but were still worst quartile, while the quantity of waste collected continued to reduce, improving the Council's performance on this indicator (second quartile). The Council is working in partnership and is investing through external funding to improve recycling rates. Performance on the cleanliness of the district improved slightly in 2004/05 but fell from top to second quartile compared to other councils.
- 20 The district faces significant challenges to local economic prosperity after the loss of several hundred jobs during the last few years. To support its **Economy** priority, the Council has worked with partners to encourage local businesses through co-ordinated business support, incentives and the creation of new business space. There have been relatively high levels of new business registrations and an increase in economic activity rates which is higher than in other parts of the North East region. The Council is among four Durham councils which together have been awarded £10.2 million (Local Economic Growth Initiative grant) to promote entrepreneurial activity.
- 21 The Council has made good progress on its **Community Safety** priority. While district wide results show a mixed picture with some indicators improving (for example robbery), and some getting worse (for example theft from a motor vehicle), the Council has carried out some specific actions to tackle crime and the fear of crime. It has introduced a warden scheme into three areas of the district. Residents in these areas have seen a difference and surveys indicate marked improvement across many aspects of community safety, for example, graffiti and litter; crime statistics show an improving picture in the three areas. Fear of crime has also reduced. The Council has now mainstreamed part of the warden service and additional funding has been secured to expand the provision.

- 22 The Council has worked with partners, particularly with the local Primary Care Trust, to support its **Health** priority, with some good initiatives particularly to encourage greater participation in physical activity by local people. The Wellness on Wheels mobile project has attracted national attention and significant external funding.

Progress on addressing issues from CPA and 2004 Direction of Travel assessment

- 23 The Council has made progress in addressing the key issues raised in last year's Direction of Travel statement, and it is now beginning to develop formal action plans in response to recommendations from external assessment.
- 24 The lack of user focused outcome measures for the Council's objectives remains a significant weakness. Little progress has been made in identifying or introducing user focused outcome performance indicators. The Council has still not clearly defined what it is trying to achieve on its priorities and cannot therefore be sure that it is able to direct its resources and activities to support its priorities or to measure its progress in achieving them. For example, while significant improvements in health outcomes can be measured only over the longer term, the Council and its partners have not established any proxy outcome measures (such as decreases in smoking or obesity) to assess progress on improving health and increasing life expectancy. The Corporate Plan's lack of clear measurable outcomes for the corporate priorities inhibits the Council's ability to assess its progress against its aims and to fully embed performance management.
- 25 The Council has a good performance management framework that is systematic and there has been further progress in embedding performance management into the culture of the Council. There is still room for improvement. The system is geared to driving continuous improvement but without clear measurable links to corporate priorities it is not clear whether the right things are improving; these links are not made in most services. The exception is Housing Services, where service plans have clear links to the Council Corporate plan, contain SMART targets and prioritise services to residents.
- 26 The Council continues to focus on poor performance. Poorly performing PIs are identified and reported to Management Team and Strategy Development Committee regularly; remedial action is taken either through the involvement of a Performance Improvement Team or a Director's recovery plan. This process has seen some good results: for example, housing voids performance improved from worst quartile to best quartile between 2002/03 and 2004/05. However, with the exception of housing services, performance is not considered alongside cost (see below under Value for Money, paragraphs 65-68).
- 27 There are now some good examples of planning for the future; for example, the Housing Services Department has aims and priorities for the future which are clear challenging and robust and it has a clear vision which has recently been revised in consultation with staff and residents. However, weaknesses remain: while the Council has a waste management strategy, this is not clear about how the Council will improve its performance.

- 28 The Council is currently developing a strategy for its leisure services. It is moving resources from fixed leisure facilities to more mobile facilities with the aim of providing better services to the public, and there is much activity to develop alternative provision for leisure facilities in the district through the joint use and management of facilities.
- 29 The Council has not yet developed a Human Resources strategy, but it has agreed a number of Human Resources policies. Like many small district councils, the Council is vulnerable to insufficient staff capacity, for example when staff leave; this problem has been compounded in recent years by high sickness levels compared to other councils (third quartile in 2004/05). The Council has taken steps to address this issue; for example, it has identified contingency measures should staff leave, following a significant drop in performance when two staff left the Planning Department, and has reduced sickness levels through better management of absence. There has been progress in developing the skills and capacity of councillors: seven senior councillors have attended the ODPM's Leadership Development course to develop their skills and capacity to carry out their roles.
- 30 There has been a significant improvement in the number of potential electronic interactions; performance was top quartile in 2004/05. The Council has invested £280,000 in improvements to buildings to improve physical access (in 2004/05 only 30 per cent of buildings were accessible). It has sought specialist advice from the Disability Advisory Forum and Wear Valley Disability Group on the changes the Council and local businesses need to make to improve access for disabled people. However, the Council has not yet developed strategies for responding to the needs of vulnerable and disadvantaged residents, including young people.

Other performance work

Performance management arrangements

- 31 The Council's performance management arrangements continue to improve, but progress has slowed in some areas due to staff changes and vacancies and other initiatives taking priority.
- 32 Further advances have been made in embedding performance management within the Council. In particular action has been taken to establish stronger links between corporate priorities and service plans using the performance management framework. The Council has also taken action to address areas of poor performance.
- 33 The development of more outcome and user focused performance management is behind schedule. In particular, although balanced scorecards have been introduced at a strategic level it is likely to a further 12 months before these can be introduced at a service delivery level.

Partnership arrangements

- 34 The LSP has reviewed the terms of reference of its theme groups and is reviewing its performance management arrangements in the light of the Council's own performance management arrangements.
- 35 Theme groups are responsible for reviewing their own floor targets using a traffic light system. The LSP assesses the effectiveness of partnership working every three years to identify barriers and how these can be overcome.
- 36 The Council has adopted a definition of partnership and guidance on partnership working has been produced including advice on managing performance, inclusion, financial management and probity; it has established a partnerships database. The next step is to establish a corporate partnerships database. A clear corporate view of partnership working will allow the Council to evaluate the purpose of each partnership, identify the resources involved and monitor whether the expected outcomes are being achieved.

Performance information

- 37 Arrangements that were previously in place to collate and monitor performance information have lapsed, in particular:
 - pro formas for performance indicators (including definitions, source of data, PI calculation and acceptance of responsibility);
 - quality assurance checks of accuracy either by the management support unit or internal audit; and
 - central control file of supporting documentation.
- 38 In addition testing of 26 high and medium risk indicators identified six performance indicators which required amendment and two subject to reservation because some:
 - indicators had not been compiled as specified;
 - information submitted for audit was estimated rather than outturn information; and
 - systems in departments for gathering the required information were ineffective.
- 39 The accuracy of performance information is a key matter for the Council if it is to have an effective performance management system. Additionally our focus in future will be on the Council's corporate arrangements, including arrangements to ensure data quality.
- 40 For 2005/06 the Council has implemented a validation pro forma for all performance indicators and has introduced an audit process involving random sample checking of indicators by the management support unit.

Other Audit Commission inspections

Planning Service

- 41 Our inspection of the Council's planning service in September 2004 found a 'good' service with promising prospects for improvement. The service had a good understanding of the area, and ensured that developments were appropriate to local needs. Stakeholders felt that the service made a positive contribution to the regeneration of the district. The Council had resourced the development of the Local Development Framework at the same time as improving the speed of planning decisions. However, the Council lacked a framework of key strategic objectives, particularly around population growth, it lacked a formal approach to quality assurance, there were barriers to accessing the service, and little use of protocols by councillors.

Community Safety

- 42 We inspected the Council's contribution to Community Safety in February 2005, and found it to be 'good' with promising prospects for improvement. The Council had identified how its services impacted on community safety and had excellent relations with partner agencies; it was using its enforcement powers and a range of initiatives to reduce crime and disorder in the district. Improvements were needed to ensure that all service plans aligned to the corporate plan and that decision-making took community safety into account and to evaluate value for money from expenditure.

ALMO

- 43 We carried out an 'indicative' inspection of the Council's Arms Length Management Organisation (ALMO) for its housing services in October 2005. We assessed the Council as providing a fair, one-star service that had promising prospects for improvement. Residents could access the housing service in a range of convenient ways and there were service standards which had been agreed with tenants. The Council was responding to the needs of a diverse community. It was using effective assessment of the condition of houses to plan for improvements.
- 44 Weaknesses in the service included poor handling of complaints and insufficient analysis of customer satisfaction results to identify service improvements, insufficient information on the standard of accommodation that should be available, insufficient involvement of residents in agreeing priorities for local areas and limited assessment of housing service delivery costs, so that the Council was unable to compare with other providers to assess value for money.
- 45 The Council has implemented an action plan to address the areas for improvement.

Use of resources judgements

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

Table 1 Councils arrangements

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

(Note: 1=lowest, 4=highest)

- 48 In reaching these judgements we have drawn on the above work and supplemented this with a review against specified key lines of enquiry.
- 49 Key strengths were identified in the Council's arrangements for preparing the accounts, managing budgets and ensuring probity and propriety
- 50 The most significant areas where further development is needed are:
- corporate processes for assessing and improving value for money, for example, by strategic procurement strategies and benchmarking and unit cost analysis on net cost of services;
 - Internal Audit continue to work towards complying with CIPFAs Code of Conduct for internal audit;
 - improve arrangements for the consideration of legal issues within Committee reports;
 - the links between corporate aims and objectives and medium term financial planning for both capital and revenue resources; and
 - further strengthen the corporate approach to asset management.

The Council is recommended to draw up an improvement plan to address each of these areas.

Accounts and governance

We have given the Council's accounts an unqualified audit opinion.

Your overall corporate governance arrangements are satisfactory in most key areas. However, Internal Audit do not fully comply with the new CIPFA Code of Practice for Internal Audit and arrangements to ensure legality should be formalised.

Audit of 2004/05 accounts

- 51 We gave an unqualified opinion on the Council's accounts on 27 October 2005.

Report to those with responsibility for governance in the Council

- 52 We are required to report to those charged with governance (in this case to Overview and Scrutiny Committee) certain matters before we give an opinion on the financial statements.
- 53 Our work on the financial statements did not identify any issues of sufficient significance to require a formal report. We have written to the members of Overview and Scrutiny to this effect.

Systems of internal financial control

- 54 We have not identified any significant weaknesses in the overall control framework. However, we have suggested that the Council review Internal Audit arrangements to ensure they are able to comply with the operational standards of the new CIPFA code.

Internal Audit

- 55 We carried out a detailed review of Internal Audit against the new CIPFA Code of Practice for Internal Audit. We found that Internal Audit are working towards complying with the new CIPFA standards but raised concerns that the level of resources in Internal Audit restricts their ability to fully develop arrangements for the operational standards.
- 56 We also identified three areas where arrangements could be strengthened:

Area	Council Response
Although the majority of recommendations made by Internal Audit are accepted by officers, a significant number are not actioned.	Part of the internal audit process involves visits to Directors regarding recommendations introduced. The percentage of recommendations introduced is also a local PI within the department. In order to strengthen this further, a report is being produced for Overview and Scrutiny which covers this issue.
Potential conflicts of interest are notified to the Audit Manager but there is no formal declaration on a regular basis.	A form of declaration for staff to complete will be introduced on a six monthly basis.
There has historically been a general lack of IT audit expertise in Internal Audit.	Resources have been directed to this area as part of the 2006/07 budget process.

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

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

Legality of transactions

- 58 The Council should formalise the arrangements in place for ensuring the legality of transactions to ensure there is evidence that all reports have been formally considered for legal issues before presentation to members.

Financial standing

- 59 Arrangements for financial standing and financial management meet minimum requirements. Work is currently being done to develop a comprehensive approach to medium term financial planning.

General fund spending and balances

- 60 The general fund balance stood at £1.5 million at 31 March 2005 which represents 13 per cent of net operating expenditure. In addition the Council hold £5.9 million of usable reserves (£1.3 million usable revenue reserves and £4.5 million unapplied capital receipts) which represents 54 per cent of net operating expenditure. This is comparable to other districts nationally.
- 61 For 2005/06, based on figures to the end of December 2005, there is a small projected under spend of £62,000.

Housing Revenue Account

- 62 The housing revenue account (HRA) balance stood at £561,000 at 31 March 2005, which represents 5 per cent of HRA expenditure. This is relatively low compared to other districts nationally.
- 63 For 2005/06, based on figures to the end of December 2005, there is a small projected under spend of £63,000. This will bring the HRA to a projected balance of over £1 million, a significant improvement on previous years.

Medium term financial planning

- 64 The Council has recently developed a medium term financial strategy but this does not yet link clearly to the Council's overall key objectives or annual budgets. The capital strategy is in draft format but does not link to the medium term financial strategy or corporate objectives. It is therefore difficult to see how the corporate business plan drives the medium term financial strategy for revenue and capital resources.

Value for money

- 65 The Council's arrangements to demonstrate value for money need strengthening, although there are some pockets of good practice most notably for housing.
- 66 Generally service costs are higher than those of other district councils on a cost per head basis. This has been recognised by the Council and is gradually being addressed by minimising council tax increases, reducing spending on services and reducing growth budgets. Three years ago the Council carried out an exercise to determine how spending aligned with corporate priorities. As a result of this and ongoing public consultation the Council has started to change the emphasis of spending, for example by diverting money away from leisure and into community safety.
- 67 There is no evidence to show how the Council regularly reviews performance and finance to achieve improved value for money and this is not being dealt with strategically by the Council. Despite the lack of strategic arrangements there are areas that can demonstrate improved value for money, for example housing repairs and refuse collection.
- 68 The Council has started to improve the arrangements in place, for example a procurement officer has been appointed. However, there are areas that the Council need to address:
- review the growth bid matrix weightings so that they are more effective in delivering the Council's requirements;
 - introduce and embed the balanced scorecard with its emphasis on value for money;
 - continue focus on realigning spending with corporate priorities and taking a strategic view of external funding including appropriate exit strategies; and
 - develop success criteria for the procurement officer post to assist long term decision making.

Other work

Additional voluntary work

- 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;
 - comparing the Council's position with that of neighbouring shire districts; and
 - providing examples of notable practice observed elsewhere.
- 70 In overall terms we found that the Council is making good progress towards meeting the priority outcomes by the required dates. The programme is managed by the IEG Group which consists of champions from each service area.
- 71 The Council recognises that the achievement of targets and priority outcomes must be accompanied by:
- re-engineered business processes;
 - benefits and efficiencies;
 - a raised level of awareness among citizens as to the benefits of e-enabled service delivery; and
 - the promotion of new access channels.

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.
- 73 The Council's arrangements for managing and quality assuring grant claims submitted for audit have improved during 2004/05 and we have reduced our audit on the majority of claims.

National Fraud Initiative

- 74 In 2004/05, the local authority took part in the Audit Commission's National Fraud Initiative. 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.
- 75 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

- 76** 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.
- 77** 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

- 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 Plan which has been agreed with Central Resources Committee 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

- 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 late spring 2006.

Closing remarks

- 81 This letter has been discussed and agreed with the Chief Executive and Director of Central Resources. A copy of the letter will be presented at the Central Resources Committee in May 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 the Council's 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

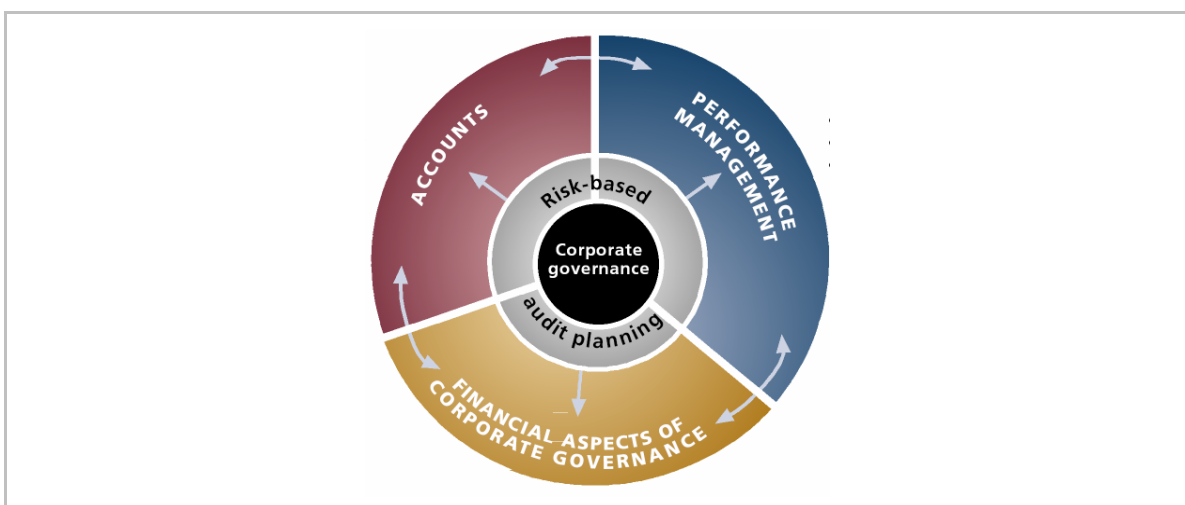
- 1 This is our audit and inspection 'Annual Letter' for members which incorporates the Annual Audit Letter for 2004/05, which is presented by the Council's Relationship Manager and District Auditor. The letter summarises the conclusions and significant issues arising from our recent audit and inspections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

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
Planning inspection report	February 2005
Community Safety inspection report	March 2005
Core process review letter	June 2005
Best value performance indicator letter	July 2005
Review of internal audit letter	August 2005
Agresso IT controls	August 2005
Auditors report on the best value performance plan	October 2005
Report on the 2004/05 financial statements to those charged with governance (SAS 610)	October 2005
e-government healthcheck	October 2005
ALMO inspection report	December 2005
Durham partnerships	January 2006
Performance management	January 2006
Final accounts memo	January 2006
Use of resources feedback	March 2006
Direction of Travel report 2005 [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	34,500	34,500
Financial aspects of corporate governance	26,500	26,500
Performance	30,145	30,145
Total Code of Audit Practice fee	91,145	91,145
Additional voluntary work (under section 35)	0	2,500
Total	91,145	93,645

Inspection fee update

The full year inspection fee is £10,220, in line with that planned.