

Annual Audit and Inspection Letter

January 2006



Annual Audit and Inspection Letter

Durham County Council

Audit 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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Our reports are prepared in the context of the Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission. Reports are prepared by appointed auditors and addressed to members or officers. They are prepared for the sole use of the audited body, and no responsibility is taken by auditors to any member or officer in their individual capacity, or to any third party.

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Contents

Key messages	6
Council performance	6
The accounts	6
Financial position	6
Other accounts and governance issues	7
Action needed by the Council	7
Council performance	8
Direction of Travel report	9
Other performance work	12
Performance information	12
Other Audit Commission inspections	12
Working with other inspectorates and regulators	12
Accounts and governance	14
Audit of 2004/05 accounts	14
Report to those with responsibility for governance in the Council	14
Matters arising from the final accounts audit	14
Financial standing	15
Systems of internal financial control	18
Standards of financial conduct and the prevention and detection of fraud and corruption	19
Legality of transactions	19
Use of resources judgements	19
Other work	21
Additional voluntary work	21
Grant claims	21
National Fraud Initiative	22
Looking forwards	23
Future audit and inspection work	23
Revision to the Code of Audit Practice	23

4 Annual Audit and Inspection Letter | Contents

Closing remarks	24
Availability of this letter	24
Appendix 1 – Background to this letter	25
The purpose of this letter	25
Audit objectives	25
Appendix 2 – Reports issued	27
Appendix 3 – Audit fee	28
Inspection fee update	28

This Annual Audit and Inspection Letter is presented to Durham County Council jointly by PricewaterhouseCoopers and the Audit Commission. PricewaterhouseCoopers was the Appointed Auditor to the Council until the end of the 2004/05 audit; the Audit Commission is the Appointed Auditor from the 2005/06 audit. The letter includes reports by the Audit Commission's Relationship Manager for the Council.

Key messages

Council performance

- 1 The Council has retained the highest rating in CPA categorisation. Under the new CPA framework, the Council is now a four-star Council. The framework brings together service performance, corporate assessment and use of resources. The assessment will be made annually.
- 2 Each year, from December 2005, the Audit Commission will be publishing 'Direction of Travel' statements for each single tier and county council, to describe each council's improvement progress. This year the Audit Commission assessed Durham County Council as 'improving well'.
- 3 The Council has made improvements in all of its priority service areas and has robust plans further improvement, supported by its corporate programme, 'Embracing Change 2', and by organisational restructuring.
- 4 There are some areas which are not performing well: waste recycling rates are still low compared to other councils, access to buildings is below average, too many days are still lost to sickness, and there are low percentages of staff from ethnic minority communities and with disabilities.
- 5 The Council scored 3 out of 4 overall for use of resources. This represents a good performance: 'consistently above minimum requirements - performing well'.
- 6 However, within this overall position was a score of 2 out of 4 for value for money. Improving value for money should be a key focus for the Council; the Council should note that, under current proposals, a score of 2 will restrict the CPA rating in 2006 to three stars.

The accounts

- 7 PricewaterhouseCoopers issued an unqualified audit opinion on the 2004/05 Statement of Accounts.
- 8 The audit could not be formally concluded and an audit certificate issued because of the challenge raised by an elector related to the sale of a plot of land by the Council during 2004/05.

Financial position

- 9 The Council's arrangements to ensure that its financial position is soundly based are adequate.

Other accounts and governance issues

- 10 The Council took advantage of the transitional arrangements for the introduction of group accounts to defer full implementation until 2005/06. Officers should develop and implement a plan to identify subsidiaries and associates and to capture relevant financial information to ensure that the production of group accounts will not jeopardise the timetable for accounts production in 2005/06.
- 11 The Council's arrangements to ensure that its affairs are managed in accordance with proper standards are adequate.
- 12 The Statement on Internal Control published with the accounts complied with relevant guidance.

Action needed by the Council

- Councillors and officers should make improving value for money a key priority for the Council, with immediate effect.
- The Council should focus on areas of underperformance, particularly waste recycling, access to buildings, and sickness absence. It should continue its work to improve its performance on diversity and equalities.
- Officers should develop and implement a plan for the introduction of group accounts, ensuring that this is implemented in time for the production of accounts in 2005/06.

Council performance

CPA scorecard

Table 1 CPA scorecard

Element	Assessment
Direction of Travel judgement	Improving well
Overall	Four stars
Current performance	
Children and young people	3
Social care (adults)	3
Use of resources	3
Housing	n/a
Environment	3
Culture	3
Benefits	n/a
Corporate assessment/capacity to improve (not reassessed in 2005)	3

(Note: 1 = lowest, 4 = highest)

- 13 The CPA judgements this year have been made using the revised methodology: CPA - the harder test. As the title implies, CPA is now a more stringent test with more emphasis on outcomes for local people and value for money. The Audit Commission has also added a new dimension, a Direction of Travel judgement, that measures how well the Council is improving. Under the new framework the Council is improving well and its overall CPA category is four stars.
- 14 The Council has made improvements in its services, focusing on its priorities. Services for older people and for children are performing well. Educational achievement at GCSE has improved twice as fast as nationally. Waste recycling rates now exceed government targets although they remain low compared to other councils. The Council works with partners and local communities to improve outcomes for local people, with some success: more older people are helped to live at home and crime is falling but unemployment and teenage pregnancies are rising. The Council's priority services are high cost, reflecting investment for improvement and levels of deprivation, but value for money is adequate overall. In the Council's workforce, sickness levels are reducing but remain high and the proportions of ethnic minority and disabled staff are low.

- 15 The Council is planning well for the future, focusing on priorities and developing its organisational capacity. It has improved its consultation with local communities, including disadvantaged groups. Its priorities focus on outcomes based on local needs. Investment is carefully planned to support improvement in priorities and performance management systems are good.

Direction of Travel report

- 16 The Council is making steady progress in improving its priorities. It has 59 per cent of key BVPIs in the top or second quartile but 12 per cent are in the bottom quartile. 60 per cent have improved compared to all authorities in 2004/05. In 2004, the Council was one of the ten most improved in the country in CPA assessments. Overall satisfaction with the Council reduced from best quartile (75 per cent) in 2000/01 to second best quartile (58 per cent) in 2003/04.
- 17 The Council is delivering improvements in its four top priority service areas.
- Attainment has risen at Key Stage 4 and the number of pupils attaining five or more GCSE Grade A to C passes has risen to 51 per cent in 2005. This is more than twice the improvement nationally in the last two years. Key stages 2 and 3 are also making continued improvements.
 - Services for Older People are improving with all seven indicators being top or second quartile.
 - The Annual Performance Assessment of Education and Children's Social Care Services for 2005 rated the services overall as 3 out of 4 and each service area being considered good/ promising.
 - Waste recycling and composting has improved to a combined figure of 18.5 per cent in 2004/05; however, although this was above the government target, it was still lowest quartile performance and the amount of waste collected increased.
- 18 Satisfaction with services is varied: for planning and waste services, satisfaction has improved and is top quartile; for bus service performance it has improved but remains below average; for public transport information satisfaction remains in bottom quartile. Satisfaction with cultural facilities overall is close to average but satisfaction levels for libraries, arts activities and venues and museums and galleries have all reduced from top quartile performance since 2000/01.
- 19 The Council is generally performing well on its five corporate priorities but areas of low quartile performance include days lost to sickness, percentage of staff from minority ethnic communities and those with disabilities. Access to buildings is below average.

- 20 The Council is making a positive contribution to wider community outcomes. Its objectives and priorities have clear links with other strategic plans including The Northern Way and the County Durham Strategic vision. It is involved in a range of initiatives for regeneration and it continues to be active in a wide range of partnership initiatives that contribute to community outcomes including addressing educational needs, promoting healthy lifestyles and reducing health inequalities, and supporting older people.
- 21 Whilst the Council is contributing to the impact made by these initiatives, the general trend for wider community outcomes is mixed: more older people are helped to live independently at home, crime levels are below average and reducing, recycling volumes are increasing but are still lowest quartile, the three year average of people killed and seriously injured in road accidents remains above average although annual number of KSI has been decreasing since 2003, there is an above average and increasing level of teenage pregnancies, and unemployment is increasing.
- 22 Access to services is improving. The equalities and diversity agenda continues to be one of the Council's top corporate priorities. During 2004/05, the Council attained level 2 of the Equality Standard and is working to a revised target of achieving level 3 by March 2006. There is good electronic access to services and 95 per cent of transactions are capable of electronic service delivery.
- 23 The Council held awareness raising and consultation events with various groups to address diversity issues including gypsies and travellers, education groups, those with visual impairment and children and young people. It has established a Community Engagement Advisory Group which includes volunteers and hard to reach groups. This group will continue to meet as an advisory group to the Council.
- 24 Access schemes include an Access bus service and a mobile phone text message service for young people and the Council continues to address areas of below average performance such as access to Council buildings and the provision of dropped kerbs.
- 25 Value for money and the quality of services are improving, particularly in key priority areas although overall spend is highest quartile when compared nationally. All service areas, including central services are either highest or second highest quartile cost. However, when external factors such as deprivation and educational attainment are taken into consideration comparison with similar north east councils shows that costs for all services are lowest quartile with the exception of social services.
- 26 During 2004/05, annual efficiency savings of £6.9 million were achieved and a target for 2005/06 of £7.2 million is expected to be exceeded with a 3.89 per cent (£11.3 million) saving being achieved.

- 27 The Council has robust plans for improvement based on its corporate and best value performance plan which is linked to a medium-term financial plan. There is a comprehensive programme of monitoring and review of priorities and performance which includes partners and local people. Service planning is integrated into the corporate process to ensure there is consistency of focus and clear accountability ensures this is maintained. Target setting is generally smart and programmes are planned and resourced through a range of procurement methods. Project and Asset Management are integral parts of the performance framework. There are clear service strategies to address corporate priorities such as the Embracing Change programme for corporate services and 'Managing the Future' for Social Care and Health Services.
- 28 The Council has a number of good methods of challenging value for money in specific service areas and members are involved in budget planning through the scrutiny process. It also uses a range of procurement methods to secure competitive arrangements for its services. However, the Council does not have a formal approach to challenging and demonstrating value for money which allows councillors to measure the effectiveness of their spending decisions.
- 29 Improvement planning is being implemented effectively and the majority of the Council's key objectives and milestones are being achieved. Key projects are being completed on time and within budget. Action plans resulting from recent inspections have been implemented such as improved results at Key Stage 4.
- 30 The Council's investments and prioritisation have resulted in improvements to services. The greatest improvement is in areas that are already performing well. Since 2003/04, 60 per cent of key PIs have improved and 67 per cent of these were already above median. Of the 40 per cent that did not improve 70 per cent were already below median. The Council has decided not to improve some of these because they are not priorities, for example producing energy from waste. However, the Council is continuing to invest in priorities where performance remains comparatively low including amounts of household waste, unfilled places in secondary schools and visits to libraries. Eight of the Council's twelve Local Public Service Agreement 1 targets were fully achieved and three were partially achieved.
- 31 The Council has the potential to deliver its plans. The updated Embracing Change programme is being implemented to focus on Localism, Access, Community Engagement and Partnerships. It is being delivered with the requirements of the e-Government Agenda and an ongoing integration of work from the previous change programme. There are no significant weaknesses in corporate governance but the Council is going through a period of structural change as part of the continuing improvement agenda. The Council is being open and inclusive about the changes but there are still internal diversity issues and levels of sickness that need to be addressed.

Other performance work

- 32 During the year, PricewaterhouseCoopers worked with Service Direct Management to carry out a high-level assessment of alternative service delivery options for the divisions within the organisation.
- 33 This work will be used by the Council to determine whether there is scope under the Local Government Act 2003 to put some or all of these activities on a commercial footing.

Performance information

- 34 The Audit Commission issued an unqualified opinion on 26 October 2005 on the Council's 2005/06 best value performance plan which was prepared and published in accordance with legislation.
- 35 As a result of the detailed testing of BVPIs, one was amended as a result of the audit and two non-BVPIs required amendment prior to submission. A number of control points were detected during the course of the audit and these have been reported to officers.

Other Audit Commission inspections

- 36 The Council is exempt from Audit Commission service inspections as a result of its CPA four-star category. The Audit Commission has not carried out a corporate assessment inspection of the Council during the year.

Working with other inspectorates and regulators

- 37 An important aspect of the role of the Relationship Manager is to work with other inspectorates and regulators who also review and report on the Council's performance. These include:
 - Ofsted;
 - Commission for Social Care Inspection (CSCI);
 - Benefits Fraud Inspectorate (BFI);
 - DfES; and
 - Local Government Office contact.

- 38** We share information and seek to provide 'joined up' regulation to the Council. During the last year the Council has received the following assessments from other inspectorates:

Commission for Social Care Inspection (CSCI) annual performance assessments:

- adult social care services are serving most people well with excellent prospects for improvement; and
- children's social care services are serving most people well with promising prospects for improvement.

- 39** The Council's overall CSCI rating is two stars (out of possible three).

- 40** Ofsted/CSCI annual assessment of children's services: score 3 (out of possible 4).

Accounts and governance

- 41 PricewaterhouseCoopers have given your accounts an unqualified audit opinion.
- 42 Your overall corporate governance arrangements are satisfactory in most key areas.

Audit of 2004/05 accounts

- 43 PricewaterhouseCoopers gave an unqualified opinion on the Council's accounts on the 25 October 2005.
- 44 PricewaterhouseCoopers were unable to formally conclude the audit and issue an audit certificate because of an issue raised by an elector related to the sale of a plot of land by the Council during the financial year 2004/05. This is still under investigation and we will report on this in due course. However, we are content that this issue will not have a material effect on the Statement of Accounts.

Report to those with responsibility for governance in the Council

- 45 Auditors are required by professional standards to report to those charged with governance (in this case to Members of the Cabinet) certain matters before we give an opinion on the financial statements.
- 46 PricewaterhouseCoopers presented this report to Cabinet on 27 October 2005. Other than the details of the objection set out above, there were no significant issues arising.

Matters arising from the final accounts audit

- 47 The published accounts are an essential means by which the Council reports its stewardship of the public funds at its disposal and its financial performance in the use of those resources. Members approved the Council's annual accounts on 28 July 2005.
- 48 In last year's Annual Audit and Inspection Letter, we emphasised that timeliness in producing the accounts will become increasingly important over the next few years as the deadline for completion of the accounts is brought forward in line with the Government's requirement. PricewaterhouseCoopers are pleased to report that the 2004/05 Statement of Accounts was prepared on a timely basis and was presented for audit complete and with good quality working papers. However, the deadlines for the preparation and audit of the 2005/06 accounts will again be more difficult to achieve and will require early planning and thoughtful scheduling of key meetings.

- 49 2004/05 was the first year in which new requirements were in place for authorities to prepare full group accounts. These are aimed at capturing, within authorities' accounts, relevant financial information on those bodies that are under the control of, or that may be influenced by, the authorities. Durham County Council took advantage of the transitional arrangements in relation to the introduction of group accounts to defer full adoption until 2005/06.
- 50 Our experience at other authorities indicates that identifying the bodies that fall into the scope of group accounts and establishing accurate figures for consolidation into the authorities' accounts is a difficult process. PricewaterhouseCoopers therefore recommends that officers should begin these tasks without delay to minimise the risk that group accounts will delay the preparation of the Council's 2005/06 Statement of Accounts.

Financial standing

General fund spending and balances

- 51 The Council set a net revenue budget for 2004/05 of £476.8 million, an increase of £11.5 million (2.5 per cent) compared to 2003/04.
- 52 Actual net expenditure for 2004/05, £474.3 million, was within budget. The main reasons for the £2.5 million underspend were:
- unanticipated fee income and slippage of works related to Highways and Transportation;
 - higher than budgeted investment income; and
 - a surplus on the insurance account.

Capital programme

- 53 Capital expenditure in 2004/05 amounted to £86.6 million, compared with the budgeted figure of £72.5 million - an overspend of £14.1 million. The main reasons for the overspend were:
- net effect of slippage on the capital programme between years;
 - expenditure on additional and extended projects, predominantly in Education and on the Sedgfield NetPark; and
 - capitalisation of equal pay compensation payments.
- 54 The Treasurer has reported separately on the Council's outturn position.

Prudential framework for capital expenditure

- 55 The capital expenditure outlined above was funded through ‘traditional’ sources of capital finance, principally:
- capital grants;
 - capital reserves; and
 - supported borrowing.
- 56 The Council did not engage in any unsupported (prudential) borrowing during 2004/05. Nevertheless, the Council has established a local framework for prudential borrowing and prudential indicators are in place which have been approved by Members. These may be tested in future years as there are plans to finance the capitalised equal pay settlements through prudential borrowing.

Reserves and balances

- 57 The Council estimated in the original budget that £7.5 million would be required to be drawn from its earmarked reserves during 2004/05 to fund the budgeted level of expenditure. In fact, because of the underspend outlined above, only £5.3 million was applied from earmarked reserves and the surplus of £2.5 million was transferred to the general fund reserve. This is illustrated below:

	Schools revenue reserves £m	County fund revenue reserve £m	Earmarked reserves £m	Total revenue reserves £m
Balance as at 1 April 2004	10.2	7.4	19.0	36.6
Net Transfer to/(from) during 2004/05	0.7	2.5	(6.0)	(2.8)
Balance as at 31 March 2005	10.9	9.9	13.0	33.8

- 58 In addition to the revenue reserves set out above, the Council has a total of capital reserves of £42.9 million, comprised of £27.2 million of usable capital receipts, £14.7 million of capital grants and £1.0 million of capital contributions unapplied. These capital resources have been earmarked and are included in the capital strategy to fund future capital expenditure.

- 59 PricewaterhouseCoopers' view is that the Council continues to adopt a prudent approach to determining its level of reserves, taking into account the budgetary pressures it faces.

Pension funds deficit

- 60 The Council participates in two defined benefit arrangements:
- the Local Government Pension Scheme; and
 - the Teachers' Pension Scheme.
- 61 The Local Government Pension Scheme is administered by the Council on behalf of itself and other local government and admitted bodies. It is a funded scheme, meaning that the Council and its employees pay contributions into a fund, calculated by the actuary to ensure a long-term balance between the pension liability and invested assets. The most recent actuarial valuation of the local government scheme had an effective date of 31 March 2004.
- 62 The Teachers' Pension Scheme is an unfunded scheme managed by the Department for Education and Skills. Routine pension payments to teachers are met and accounted for by the scheme. The only liabilities that fall to the Council are discretionary retirement benefits awarded to teachers by the Council. There are similar, unfunded, liabilities in the local government scheme arising from discretionary enhancements and awards made by the Council.
- 63 The Statement of Accounts discloses the total long-term liabilities falling to the Council from its participation in these schemes. This information is summarised in the following table:

	Estimated Net Liability (£m)	
	31 March 2004	31 March 2005
Funded elements of the Local Government Scheme	223.3	303.1
Unfunded liabilities falling to the Council arising from discretionary awards in connection with the Local Government Scheme and the Teachers' Pension Scheme	47.7	44.2
Total	271.0	347.3

- 64 The net liabilities across the two schemes increased in 2004/05. The main causes of this were:
- the additional liabilities arising from employing staff for an additional year;
 - the unwinding of the discounting on the value of existing long-term liabilities; and
 - technical changes to the discount rate used to determine the present value of existing liabilities which had the effect of increasing their total present value.

- 65 The contribution rates increased in 2004/05 on the advice of the actuary. We anticipate that they will increase further over the next few years to reflect the impact of increased life expectancy on the financial position of the pension fund.
- 66 The Council has an earmarked pension reserve to help meet the initial capital cost of the future unfunded pension liabilities. A balance of £0.5 million was on this reserve at 31 March 2005.

Systems of internal financial control

- 67 PricewaterhouseCoopers have not identified any significant weaknesses in the overall control framework.
- 68 The opinion of the Council in the 2004/05 Statement on Internal Control (SIC) is that reasonable assurance can be taken that the developing arrangements are working effectively. PricewaterhouseCoopers reviewed the SIC and consider that it complies with issued guidance and the contents are consistent with our understanding of the Council.
- 69 The Council has taken steps to build on the improvements to the risk management processes which were initiated in 2003/04. In particular:
- Risk Management Champions have been appointed;
 - Risk Management Improvement Programme has been implemented;
 - strategic risk registers are in place,
 - risk management training has been rolled-out widely throughout the Council; and
 - a corporate risk manager has been appointed.
- 70 PricewaterhouseCoopers welcomes these developments which have strengthened the risk management processes in operation.
- 71 During the course of the audit, PricewaterhouseCoopers issued separate reports on financial controls and on the Council's IT controls environment.

Internal Audit

- 72 PricewaterhouseCoopers continued to work closely with internal audit to effectively manage work and reduce any potential duplication, and maximise the extent to which it could rely on that work.
- 73 In last year's Annual Audit and Inspection Letter, PricewaterhouseCoopers raised concerns regarding the complex reporting lines for the Head of Internal Audit and noted that these were not formally documented in the Council's Constitution. This remains the case. There is mounting pressure on local authorities to establish an audit committee. This pressure arises from the Use of Resources exercise and recent guidance issued by CIPFA. PricewaterhouseCoopers' view is that the establishment of such a Member committee at Durham County Council, in addition to many other benefits, would clarify the reporting lines for the Head of Internal Audit.

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

- 74 PricewaterhouseCoopers has not identified any significant weaknesses in your arrangements to prevent and detect fraud and corruption, but has suggested following its work on the use of resources (see below) that there is scope for the Council to publicise its Confidential Reporting Code more widely.

Legality of transactions

- 75 PricewaterhouseCoopers has not identified any significant weaknesses in the framework established by the Council for ensuring the legality of its significant financial transactions.
- 76 There have been some significant developments in the Council's requirements as a Local Government Pension Scheme administrator arising from the Pensions Act 2004 and the Local Government Pension Scheme (Amendment) Regulations 2004.
- 77 The Pensions Act 2004 imposes a duty on the Council to report breaches of law which are of material significance to the Pensions Regulator. The Local Government Pension Scheme (Amendment) Regulations 2004 requires the Council to:
- prepare a Funding Strategy Statement; and
 - provide certain members with Annual Benefits Statements.
- 78 PricewaterhouseCoopers has reviewed the arrangements that the Council has put in place to comply with these and found that they are sound.

Use of resources judgements

- 79 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. For single tier and county Councils, the use of resources assessment forms part of the CPA framework.
- 80 For the purposes of the CPA PricewaterhouseCoopers assessed the Council's arrangements for use of resources in five areas.

Table 2

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

(Note: 1=lowest, 4=highest)

- 81** In reaching these judgements, PricewaterhouseCoopers drew generally on the work conducted under the Code of Audit Practice and supplemented this with a review against specified Key Lines of Enquiry.
- 82** The most significant area where further development is needed is in relation to the value for money theme. The current score of 2 out of 4 will restrict the Council's overall CPA assessment to 'three-star' if it does not improve in 2006. To address this, the Council should:
- consider how it can improve value for money in those services which are expensive compared to other authorities and which do not achieve appropriate levels of performance;
 - consider how to develop, implement and embed an approach to VFM which allows Members and officers to demonstrate, monitor and challenge value for money. This should include:
 - clearer linkage between performance and budget monitoring and reporting;
 - scope to make meaningful comparisons with other authorities; and
 - comparisons with past trends within the Council.

Other work

Additional voluntary work

- 83 The Audit Commission carried out an 'e-government health check' on the Council's progress towards meeting the government's priority service outcomes and e-enabling of services, at the Council's request. The Council is making good progress towards meeting the priority service outcomes by the required dates. The e-government programme is being well-managed by the e-delivery board which is chaired by the Deputy Chief Executive and supported by a full-time e-government programme manager. Officer and member e-champions are in place.
- 84 The e-government programme is seen as an integral part of the Council's overall Change Programme which is designed to improve the accessibility, efficiency and effectiveness of services. The Council is also an active partner in the County Durham e-government Partnership - comprising the County Council and the District Councils within Durham - which is co-operating on e-government developments such as the implementation of Customer Relationship Management software.
- 85 The Council's performance assessment of e-enabled service interfaces with citizens as indicated by BVPI 157 is estimated to be 96 per cent (the ODPM target is for 100 per cent of transactions to be e-enabled by 31 December 2005). Despite this rapid progress and the strong likelihood that the target will substantially be met, the County recognises that persuading citizens to use these service channels and process transformation will take longer.

Grant claims

- 86 In accordance with Strategic Regulation, the Audit Commission has continued with a more risk-based approach to the certification of grant claims. PricewaterhouseCoopers reduced its audit of these claims but the ability to reduce further depends on the adequacy of the Council's control environment.
- 87 The Council's arrangements for managing and quality assuring grant claims submitted for audit has improved in recent years. However, the administration of the process could be improved further if the Council appointed a grants coordinator to oversee claims and returns, acting as a single point of contact and expertise within the Council.

National Fraud Initiative

- 88 In 2004/05, the Council 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.

Looking forwards

Future audit and inspection work

- 89 The Audit Commission is the Appointed Auditor to the Council from 2005/06. It has a plan for 2005/06 agreed with the Council and has reported in this letter those aspects that have already been completed (the audit of best value performance indicators and the Direction of Travel statement). The remaining elements of that plan, including the audit of the 2005/06 accounts, will be reported in next year's Annual Letter. The Audit Commission's planned work, together with that of other inspectorates, is included on both the Audit Commission and LSIF (Local Services Inspectorates Forum) websites.
- 90 The Audit Commission has sought to ensure, wherever possible, that its work relates to the improvement priorities of the Council. It will continue with this approach when planning its programme of work for 2006/07. The Audit Commission will seek to consider, with you, your improvement priorities in the light of the latest CPA assessment and your own analysis, and develop an agreed programme by 31 March 2006. The Audit Commission will continue to work with other inspectorates and regulators to develop a co-ordinated approach to regulation.

Revision to the Code of Audit Practice

- 91 The statutory requirements governing our audit work, are contained in:
- the Audit Commission Act 1998; and
 - the Code of Audit Practice (the Code).
- 92 The Code has been revised with effect from 1 April 2005. Further details are included in our Audit Plan which was agreed with Cabinet on 29 September 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.

Closing remarks

- 93 This letter has been discussed and agreed with the Council's Chief Executive and the County Treasurer. A copy of the letter will be presented to the Council's Cabinet on 26 January 2006.
- 94 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

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

Paul Woolston
PricewaterhouseCoopers
Appointed Auditor

Sarah Diggle
Audit Commission
Relationship Manager
January 2006

Appendix 1 – Background to this letter

The purpose of this letter

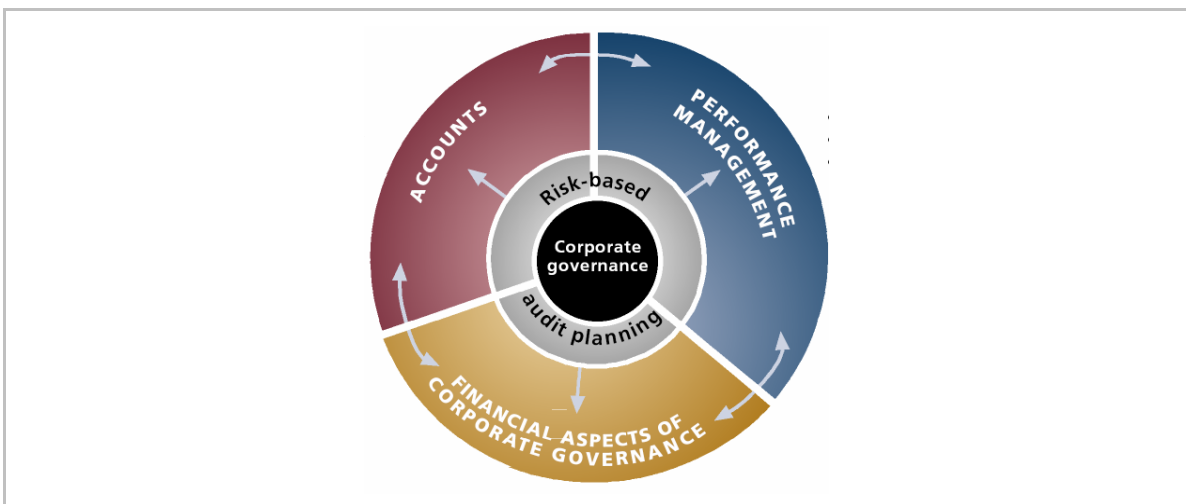
- 1 This is the Audit and Inspection ‘Annual Letter’ for members which incorporates the Annual Audit Letter for 2004/05, which is presented by the Council’s Relationship Manager, the District Auditor and by the Council’s former Appointed Auditor. The letter summarises the conclusions and significant 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 The main objective of your appointed auditor is to plan and carry out an audit that meets the requirements of the Code of Audit Practice. PricewaterhouseCoopers adopt a risk-based approach to planning their audit, and its audit work has focused on your significant financial and operational risks that are relevant to its audit responsibilities.
- 6 The audit was 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

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

Performance management

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

Appendix 2 – Reports issued

Table 3

Report title	Date issued
Audit Plan (Audit Commission)	March 2005
Report on IT Controls (PWC)	July 2005
Audit Clearance Report (PWC)	October 2005
Report on the 2004/05 Financial Statements to Those Charged with Governance (SAS 610) (PWC)	October 2005
Opinion on the 2005/06 Best Value Performance Plan (Audit Commission)	October 2005
Report on Use of Resources Findings (PWC)	November 2005
Report on Financial Controls (PWC)	December 2005
Direction of Travel Statement and Scorecard (Audit Commission)	December 2005

Appendix 3 – Audit fee

Table 4 Audit fee update

Audit area	Plan 2004/05	Actual 2004/05
Accounts	£148,400	£124,300
Financial aspects of corporate governance	£105,900	£105,900
Performance	£29,500	£50,000
Total Code of Audit Practice fee	£283,800	£280,200

Inspection fee update

- 7 The full year (2005/06) inspection fee is £7,750. The work reported in this Audit and Inspection Letter has been funded by an element of the fee covering 2004/05 and by an element of the fee covering 2005/06. In both years, the actual fee will be in line with that planned.