

Annual Audit Letter

March 2006



Annual Audit and Inspection Letter

North Norfolk District Council

Audit 2004-2005

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Key messages

Council performance

- 1 The Council is continuing to make improvements in some of its key services, but overall the pace of change is slow, particularly around the development of the corporate building blocks, which should allow it to continue to improve in the future. The Council had a large number of improvement priorities identified in the 2003 DCPA assessment and has taken steps to secure improvement in most of these areas, but it is taking longer than planned to get new corporate processes embedded within the culture of the organisation. It had been hoped that these would now be contributing to delivering sustainable improvement. The Council is aware of this and is considering how it can pick up the pace of improvement.

The accounts

- 2 We have given the Council's 2004/05 accounts an unqualified audit opinion and have certified the completion of the audit. Closedown procedures should be revisited to ensure that the earlier deadlines for 2005/06 can be achieved, including ensuring that sufficient resources are made available to prepare the necessary supporting working papers for the accounts.

Financial position

- 3 Members should remain focused on the financial position as the forecast general fund reserve remains close to the minimum level recommended by the Council. The Council has budgeted for a small surplus for 2006/07, although this is dependent on £306,000 savings being achieved.
- 4 Collection rates for both council tax and non-national domestic rates are above the district average, but have both suffered a slight decrease from 2003/04, and are slightly below the Council's upper quartile targets of 98.7 per cent and 99.3 per cent respectively. Housing rent arrears have deteriorated. However, the Council will no longer be responsible for the collection of housing rents accruing following the large scale voluntary transfer of its housing stock.

Other accounts and governance issues

- 5 The overall internal financial control framework continues to develop but further work is necessary, particularly in relation to risk management arrangements. Such issues have impacted on the use of resources judgement. Members should continue to monitor the delivery of the Internal Audit programme although we are pleased to note that earlier staffing difficulties within the Internal Audit function appear to have been resolved.

Use of resources

- 6 The Council was assessed as performing at level 2 overall by the Audit Commission in its first 'use of resources' judgement. This represents an adequate level of performance.

Action needed by the Council

- Continue to drive forward the Council's improvement agenda and address the areas highlighted by our performance work.
- Revisit closedown procedures to ensure that the earlier deadlines for 2005/06 are achieved. Ensure that sufficient resources are made available to prepare the necessary supporting working papers for the accounts.
- Address the issues raised in our report to those charged with governance.
- Closely monitor the current and estimated future financial position for the general fund.
- Develop an action plan to address the required improvements in respect of the Council's use of resources.
- Address the issues that have given rise to difficulties with the housing benefits certification following the changeover to the new housing benefits system.

Council performance

The Council is continuing to make improvements in some of its key services, but overall the pace of change is slow, particularly around the development of the corporate building blocks, which should allow it to continue to improve in the future. The Council had a large number of improvement priorities identified in the 2003 DCPA assessment and has taken steps to secure improvement in most of these areas, but it is taking longer than planned to get new corporate processes embedded within the culture of the organisation. It had been hoped that these would now be contributing to delivering sustainable improvement. The Council is aware of this and is considering how it can pick up the pace of improvement.

Direction of travel report

- 7 The Council rated 'fair' in its 2003 District Council Comprehensive Performance Assessment (DCPA). It is now working to become an 'excellent' council. These assessments have now been completed in all district councils with the following results.

Summary

- 8 The Council is continuing to make improvements in some of its key services, but overall the pace of change is slow. The Council has taken steps to secure improvement in most of the areas identified in the 2003 DCPA assessment, but it is taking longer than planned to get new corporate processes embedded within the culture of the organisation.

A vision and clear priorities

- 9 The Council has continued to refine and clarify its own and its partnerships' priorities and targets. While this remains work in progress, the Council has made some improvements while others are in train. It has adopted an integrated corporate planning framework to shape this year's budget and service planning. The Cabinet has undertaken a comprehensive priority ranking exercise, which links well with the performance breakthrough work the Council undertook earlier in the year. A revised corporate plan and associated improvement plan is under development. This plan will integrate with the new community strategy. The Council recently completed the consultation process for both this and its 2006 budget.

Risk management

- 10 We reviewed progress against this priority in July 2005 and reported to the Council in September 2005. The report found that risk management had not improved significantly since the DCPA inspection. Despite recent improvements to risk management structures and identification processes, overall risk management remained weak and lacked sufficient strategic direction, guidance and management. The links between risk and the delivery of corporate objectives and service plans were underdeveloped. Risk management lacked co-ordination across the Council. Most councillors took little interest in risk management and the Council had not ingrained risk into the organisational culture. Business continuity processes had improved but have not made an impact. The Council addressed financial risks adequately and handled insurance claims effectively. The Council's handling of health and safety risks had progressed well but there was no reputation risk strategy, it was unclear who has responsibility for overseeing risk and there was little risk management guidance. Since the report was published, the Council has taken a number of steps towards improving its approach to risk management. We will review progress in this area during 2006/07.

Procurement

- 11 In September 2004, we reviewed the Council's approach to procurement. The report was published and an action plan agreed with the Council in spring 2005. We found that the approach to, and management of procurement was weak. For example, there was no procurement strategy and a lack of full compliance with procurement law and good practice tender selection.
- 12 Effective governance arrangements for procurement were not in place. The performance management and quality assurance processes for major contracts were weak. Since the review, the Council has developed a draft procurement strategy, identified procurement champions and set up more rigorous governance arrangements. The latter includes a review of procurement by the Performance Management Board, and better scrutiny. However, progress in this area has been slower than expected and the Council now needs to tighten the deadlines for delivery in its action plan and achieve them.

Housing repairs and maintenance

- 13 The voluntary housing stock transfer was completed on 13 February 2006. It was part of the Council's improvement plan that better housing management services should be delivered by a new housing association. Whilst the Council has tried to improve the performance of its repairs and maintenance service during preparation for housing stock transfer, it has only had limited success due to the planned focus on the voluntary housing stock transfer. Although in 2004/05 performance improved slightly over the previous year in most areas, overall performance was among that of the poorest councils.

Housing strategy

- 14 We carried out an inspection of the Council's strategic housing function in May 2005. The inspection reported some good partnership working, improved customer care and good progress to address homelessness and affordable housing priorities. Partners were noticing improvements to the Council's performance. But overall the service rated 'fair'. This was due to a lack of focus on diversity, and weak engagement with users to set service standards and shape service priorities. The stock condition data was out of date and there was no private sector renewal strategy. Incompatible IT systems were hindering rather than helping performance. Improvement planning suffered from weak performance management and an inconsistent and immature approach to delivering value for money. Good leadership, enhanced capacity, new performance management systems, a willingness to learn and an emerging trend of improvement led to a 'promising' prospect for improvement judgement. Since the inspection, the Council has approved a detailed action plan, commencing September 2005, which seeks to address all the key issues raised in the report.

Performance management

- 15 The Council has been working hard to improve its management of performance. Staff, cabinet members and the senior management team embarked on a comprehensive review of how they could achieve a breakthrough in performance. Progress has been slower than originally planned. This is partly because the Council wanted to get everybody on board for change and be clear what it wanted to achieve from this work and how it could best measure success. This work is almost complete. The Performance Management Board will now see through the improvements. Some progress, for example, with regard to communications, priority and target setting, business process review, and service and workforce planning, demonstrate the Council's commitment to manage an improvement in performance.
- 16 However, the Council has not yet converted its commitment and improvement planning into strongly managing and improving its key performance indicators. It has much to do to drive performance to match that of the 'excellent' council it aspires to become. Ensuring it realigns resources to deliver its corporate plan priorities, project manages its change initiatives effectively and embeds staff use of performance data into their everyday work, will help to provide a solid foundation to achieving its goals.

Benefits Service Inspection - July 2005

- 17 The Benefit Fraud Inspectorate (BFI) found that the Council's housing and council tax benefits administration and counter fraud service was performing to a 'fair' standard. The BFI highlighted many weaknesses. The Council did not meet any of the seven functional standards and had only a few strengths in each area. It under funded counter fraud work and had not made any successful prosecutions or promoted a culture of intolerance to benefit fraud. Though the Council was generally thorough when collecting evidence to support a claim, it was not adequately protecting the gateway to benefits.

Overpayments continued because the Council was not dealing with notified change of circumstances promptly. Internal fraud controls were weak. Service managers were not routinely reporting performance to councillors and senior managers and the significant claims backlog contributed to the long time it took to process claims. During 2005, the Council engaged Steria to undertake a comprehensive business process re-engineering exercise and to implement electronic document management. Unaudited data for 2005 shows claims and change of circumstance processing performance improving quickly and overall progress and performance compared with other councils will be reported next year. The Council has also worked with Steria and the DWP to adopt a range of performance improving initiatives such as a training needs analysis, quality assurance and the implementation of new software. We will be able to assess the impact of this investment when we review future performance.

Partnership working review - September 2005

- 18 We reviewed the Council's corporate approach to managing improvement through partnerships during 2005. This work highlighted the Council's positive leadership and active engagement with a wide range of organisations. It has contributed effectively to the establishment of the Community Partnership and is continuing to work on establishing clear lines of accountability for decision-making, focused priorities and effective performance management arrangements. Some specific partnerships are clearly delivering improvements for local people, for example, the regeneration of Cromer.
- 19 However, the Council has yet to review the number of partnerships it is involved with, what they cost or what they are delivering. Without this information, the Council will struggle to make robust judgements on whether the partnerships are worthwhile. We found that the rationalisation of partnerships had not started. The effectiveness of partnership working varied across the Council and there was no strategic direction to partnership working and what the Council wanted to achieve from it. The Council's own review of partnership working has been re-scheduled to allow for the establishment of a new community team. It is important for the Council to continue with this review without further delay, so that it can address the weaknesses reported in September 2005. The Council has now agreed an action plan with a target date for completion of June 2006.

Trends in key performance indicators 2002/03 to 2004/05

- 20 Overall, the Council has continued to make slow but steady progress in improving its overall performance for the last two years. There has been a slight improvement in the percentage of key performance indicators above the median since 2002/03, moving from 48 per cent to 50 per cent. However, 30 per cent remain in the worst quartile. While some are in low priority areas, others affect those most in need. For example, responsive housing repairs, repeat homelessness acceptances, and benefit claims processing. Improvement is also slower than the Council planned. In 2004/05 and in the first half year for 2005/06, it failed to meet 50 per cent of its targets. There are signs of an upturn in some areas of performance for 2005/06 (unaudited data), but it is too early to tell if this can be sustained.

The Council has been slow to meet the equality standard and also is performing poorly in its duty to promote race equality, as measured by the 2004/05 performance indicators. However, there has been some progress in these areas during 2005/06.

- 21 Between 2002/03 and 2004/05, the Council made good progress in some of its priority areas. Planning services have improved and are now performing strongly. Community housing and the environment have achieved some significant improvements of benefit to local people. For example, recycling rates increased rapidly (a continuing trend for 2005/06), and use of bed and breakfast, hostel and temporary accommodation for homeless people have greatly reduced. The Council is performing well in its key priority to increase the number of affordable homes in the district. The target for the period 2004 to 2009 was to provide 375 new affordable homes. To date 126 dwellings have been completed, with a further 81 expected by the end of 2005/06. This has led the Council to increase its target. Some corporate indicators have continued to perform at a high level, such as the collection of council tax and NNDR. Access to buildings has improved considerably.

Best value performance plan and performance information

- 22 Under the Local Government Act 1999 councils are required to publish annually a best value performance plan containing specified information.
- 23 Auditors are required to consider and report whether the Council has complied with the requirements in respect of preparation and publication. Auditors are not required to form a view on the completeness or accuracy of the information or the realism and achievability of the assessments published by the Council.
- 24 We have concluded that the Council has met the requirements to publish the required information once again this year, and we issued a statutory audit opinion on 15 December 2005 to certify this fact.
- 25 Our review of the 2004/05 best value performance indicators (BVPIs) followed guidance from the Audit Commission and covered certain selected BVPIs. We concluded that the Council generally had adequate arrangements in place for producing and publishing accurate and reliable BVPIs based on those tested, but we expressed a reservation on BVPI 82 (household waste recycled and composted) due to the Council's continued inability to exclude beach waste from the calculations for the indicator. It is important that the Council puts the appropriate arrangements in place to facilitate the correct calculation of this indicator.

Accounts and governance

We have given the Council's 2004/05 accounts an unqualified audit opinion and have certified the completion of the audit. Closedown procedures should be revisited to ensure that the earlier deadlines for 2005/06 can be achieved, including ensuring that sufficient resources are made available to prepare the necessary supporting working papers for the accounts.

Your overall corporate governance arrangements are satisfactory in most key areas, but further work is necessary, particularly in risk management arrangements.

The Council will need to exercise continued strict financial control over the coming year as reserves are close to minimum levels.

Audit of 2004/05 accounts

We gave an unqualified opinion on the Council's accounts on 28 October 2005, in advance of the 31 October statutory deadline.

Matters arising from the final accounts audit

- 26 There were no significant issues arising from our audit of the accounts, and our audit did not identify any non-trifling misstatements, although the accounts were amended during the audit for certain non-material items and presentational issues.
- 27 Statute has required that the annual accounts are closed progressively earlier. The 2004/05 accounts were required to be adopted before 31 July 2005 and those for 2005/06 need to be adopted before 30 June 2006. It is important that proactive arrangements are put in place to ensure that this revised deadline is met.

Report to those with responsibility for governance in the Council

- 28 We are required by professional standards to report to those charged with governance (in this case to the full Council) certain matters before we give an opinion on the financial statements.

29 We reported the following issues.

- Within the Government Grants Deferred reserve is approximately £418,000 of pre-1999 grants which cannot be allocated to any particular asset held by the Council. Where assets are subject to depreciation the related grant should be amortised under the matching concept. The amortisation would result in a transfer to the Capital Financing Account. As the £418,000 is unallocated it is not possible to determine whether the Government Grants Deferred and Capital Financing Accounts are misstated by all or part of this amount. The Council should determine an appropriate solution which could include the immediate amortisation of the unallocated amount.
- No impairment review was carried out in respect of non-housing stock properties prior to the preparation of the financial statements. This is not in accordance with the Statement of Recommended Practice (SORP). We requested that the s151 officer, in conjunction with the Council's internal valuer, specifically considered the assets for impairment, and we were subsequently provided with a specific representation to support the assertion that the accounts were not materially misstated. Measures should be put in place to ensure that appropriate impairment reviews are carried out when the 2005/06 accounts are prepared.
- We recognised that the format of the accounts had been improved in recent years with regard to increased compliance with the SORP. However, earlier accounts deadlines have had an impact on the timeliness and completeness of working papers supporting the financial statements. This is an area for continued attention, particularly given earlier local government accounts deadlines once again in 2005/06. Closedown procedures should be revisited to ensure that sufficient resources are made available to prepare the necessary supporting working papers as part of the accounts preparation process.

30 We will shortly be seeking to agree an action plan with the Council's officers, which will include recommendations arising from our review of the accounts, including, where appropriate, those issues included in our report to those charged with governance.

Financial standing

Members should remain focussed on the financial position as the forecast general fund reserve remains close to the minimum level recommended by the Council. The Council has budgeted for a small surplus for 2006/07, although this is dependent on £306,000 savings being achieved.

Collection rates for both council tax and non-national domestic rates are above the district average, but have both suffered a slight decrease from 2003/04, and are slightly below the Council's upper quartile targets of 98.7 per cent and 99.3 per cent respectively. Housing rent arrears have deteriorated. However, the Council will no longer be responsible for the collection of housing rents accruing after the large scale voluntary transfer.

2004/05 outturn

- 31 The net cost of services totalled £25.4 million in 2004/05, an increase of £3.6 million on the previous year. The Council had originally budgeted for a £50,000 deficit on the consolidated revenue account to be met from general reserves but events in the year saw the deficit increase to £213,000, although there were no individually significant service level budgetary overspends. The increase in the consolidated deficit resulted in a reduction in the general fund reserve to £965,000, which is below the £1 million minimum level recommended in the Council's Medium Term Financial Strategy (MTFS) although, of this, £88,000 was due to delays in receiving licence fee income. At 31 March 2005, the Council also had £3,271 of general fund earmarked reserves, primarily designated to cover the costs of the large scale voluntary transfer (LSVT) of its housing stock (£890,000 reserve) which went through in February 2006, and to allow for the completion of delayed capital projects (£952,000 reserve).
- 32 The final housing revenue account surplus at £86,000 was £29,000 below that set out in the original approved budget, but £89,000 above the £3,000 deficit envisaged in the revised budget approved by cabinet in December 2004. The main area of saving has been in management charges due to amounts being carried forward in the balance sheet where management time has related to the LSVT. The final surplus increased the housing revenue reserve to £0.72 million which is above the Council's £0.5 million recommended minimum level.
- 33 Actual capital expenditure in 2004/05 was £12.4 million, some £1.7 million below the revised budget approved by cabinet in December 2004. The main areas of slippage were in respect of the Cromer environment and streetscape works and Cromer building repairs, and also in information technology expenditure. An earmarked reserve of £0.95 million has been identified for delayed capital projects.

Future financial position

- 34 The budget monitoring report considered by cabinet on 5 December 2005 indicates that a balanced budget will be achieved for 2005/06 for the general fund although there were some movements between service areas. The main variances were as follows:
- residual costs previously taken up by the housing revenue account (HRA) for the two months following the transfer of the housing stock under the LSVT;
 - savings on the waste and recycling services budget now that improved information on costs is available (the service is now entering its second year); and
 - increased allocation of costs to the LSVT (to be offset against the capital receipt).
- 35 The 5 December report indicates that the HRA will be in deficit by £192,000 which is £43,000 higher than that envisaged by the revised 2005/06 budget. The HRA reserve at 31 March 2006 is envisaged to be reduced to approximately £524,000, which is approaching the £0.5 million minimum level envisaged. However, following the LSVT, the Council intends to close the HRA. This is unlikely to be before March 2007, by which time the HRA reserve will have reduced to £229,000 and approval from the Secretary of State will be required.
- 36 The Council is in the process of finalising its budget for 2006/07 and has received details of the government grant settlement, which, at 5.5 per cent, is higher than the 2.5 per cent envisaged by the medium-term financial strategy (MTFS). Budget prioritisation and savings exercises have been carried out due to the concerns included within the October 2005 MTFS that the Council had insufficient resources to meet existing and new growth demands from services. The increased government settlement and the prioritisation and savings exercises have allowed the Council to budget for a small (£4,000) surplus for 2006/07, although this is dependent on £306,000 savings being achieved. Given this, and the relatively constrained general fund reserve, estimated to be £1,005,000 at 31 March 2007, and earmarked reserves, it will be important that the Council closely monitors both the final 2005/06 outturn and the 2006/07 actuals against budget in the forthcoming months.
- 37 Interlinked with the 2006/07 budgeting process is the implementation of the Council's efficiency programme, by which the Council is required to make efficiency savings of £420,000 per year over the three years from 2005/06 to 2007/08. Current indications are that the efficiency programme is on track to produce the target savings, including those which are required to be 'cashable'. However, members will need to continue to monitor this performance carefully to ensure that progress is maintained according to plan.

Income collection and arrears

- 38 Collection rates for both council tax and national non-domestic rates remain healthy and above the district average, but have both suffered a slight decrease from 2003/04, and are slightly below the Council's upper quartile targets of 98.7 per cent and 99.3 per cent respectively.

Table 1 Collection rates

Collection rates as a percentage of net collectible debt over the last four years

Date	Council tax %	NNDR %
31 March 2002	98.3	98.8
31 March 2003	98.7	99.3
31 March 2004	98.9	99.3
31 March 2005	98.6	99.2
District average 2004/05*	97.8	98.7

Source: best value performance plans

*ODPM summary collection rates and best value performance indicators

- 39 Housing rent arrears have worsened at 4.89 per cent (2004: 3.84 per cent), and are above the Council's target of 3.5 per cent. Following the LSVT the Council will not have responsibility for collection of rents accruing after the transfer.
- 40 It is important that the Council monitors the levels of income collection to ensure the recoverability of council tax and non-national domestic rates are in line with targets.

Systems of internal financial control

The overall internal financial control framework continues to develop but further work is necessary, particularly in relation to risk management arrangements. Members should continue to monitor the delivery of the Internal Audit programme although we are pleased to note that earlier staffing difficulties within the Internal Audit function appear to have been resolved.

Internal Audit

- 41 Staffing issues during 2004/05 resulted in some slippage of the Internal Audit programme of work. Whilst all high priority audits were eventually completed, some lower priority audits were either deferred or deleted from the plan. We are pleased to note that the staffing position is now much improved and a partnership agreement operates with the Norfolk Audit Partnership. However, given the recent history of Internal Audit work failing to meet that planned, we recommend that this remains an area for member focus.

- 42 Internal Audit now reports to scrutiny on a regular basis. We welcome the Internal Audit Manager's intention to reintroduce the reporting of the implementation and non-implementation of Internal Audit recommendations to the Scrutiny Committee.

Risk management

- 43 We reviewed progress against this corporate priority in July 2005 and reported to the Council in September 2005. Our conclusions are summarised in the Direction of Travel statement earlier in this letter.

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

- 44 We have not identified any significant weaknesses in your arrangements to prevent and detect fraud and corruption although there are some recommendations made in earlier years which have not yet been implemented. We will shortly be seeking to agree an action plan with the Council's officers, which will include recommendations arising from our work.

Legality of transactions

- 45 We have not identified any significant weaknesses in the framework established by the Council for ensuring the legality of its significant financial transactions. Again, however, there are some recommendations made in earlier years which have not yet been implemented. These include:
- fully updating the Council's constitution to reflect the single party cabinet arrangements;
 - improving the level of progress to ensure compliance with the Race Relations Act; and
 - including a summary of the s151 officer and monitoring officer roles in the staff induction pack.
- 46 In July 2005 a formal objection made by a local elector to the 1999/00 accounts was determined. Having examined the matter, the District Auditor decided not to:
- issue a report in the public interest under section 8 of the Audit Commission Act 1998 (the Act);
 - apply to the Court for a declaration that an item of account is contrary to law, under section 17(a); or
 - exercise his powers to certify a sum due pursuant to section 18 (1) of the Act.

Use of resources judgements

The Council was assessed as performing at level 2 overall by the Audit Commission in its first 'use of resources' judgement. This represents an adequate level of performance.

- 47 The use of resources assessment is a new assessment which focuses on financial management but links this to the strategic management of the Council. It looks at how 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 that the use of resources judgements will form part of the CPA framework.
- 48 We have assessed the Council's arrangements in five areas.

Table 2 Council's arrangements

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

(Note: 1 = lowest, 4 = highest and a score of 2 indicates adequate performance)

- 49 In reaching these judgements we have drawn on the work referred to above and have supplemented this with a review against specified key lines of enquiry.
- 50 The overall score of a 2 indicates that the Council is performing adequately overall, but that elements of internal control are below minimum requirements, particularly in respect of risk management arrangements.
- 51 In respect of internal control, the Council needs to bring its risk register up-to-date and link it to the Council's strategic business objectives with full assignment of the ownership of the risks. Improvements are also required to the annual effectiveness review of the system of internal control which is reported on in the Statement on Internal Control (SIC) in the annual accounts. Full documentary evidence regarding the sources of assurance should be available to, and be considered by, senior officers and councillors in advance of their approving the SIC, and a clear trail of how the risks and controls have been assessed should be prepared. We understand that officers are already proposing improvements to this process for the 2005/06 SIC. The Council should also consider establishing an Audit Committee, or alternatively, ensure that the functions that such a committee would carry out are covered by other committees within the Council.

In particular, this should include consideration of the adequacy of internal controls and approval of the external audit plan.

- 52 Other areas where internal control should be improved are in ensuring that procedure notes/manuals are available and up to date for all key financial systems. We are aware that the Council has been carrying out work on this as part of the preparation for the 2005/06 audit. The Council should also ensure that partnership agreements and appropriate governance arrangements are in place for all significant partnerships.
- 53 An additional priority is for the Council to further develop its arrangements for the financial management of its asset base where arrangements are currently inadequate. The Council currently does not have an up to date corporate capital strategy linked to its current corporate objectives and medium-term financial strategy. The latest strategy is dated July 2002.
- 54 At the time of our work an asset management plan was under development. Arrangements for reporting to councillors need to be put in place to ensure that they fulfil their responsibility in relation to the Council's land and buildings portfolio at both a strategic and service level. Updating/finalising of the capital strategy and asset management plan should help to facilitate this. An annual programme of planned maintenance based on a rolling programme of property surveys should be prepared and an assessment of the level of backlog maintenance needs to be carried out. Whilst there is information on maintenance requirements in the individual property records there is no comprehensive annual programme at present.
- 55 The Council should also consider additional improvements in other elements assessed in order to progress to a level where it could be considered to be performing well.
- 56 Financial reporting arrangements would be strengthened by the Council demonstrating consideration of stakeholders' needs regarding the Council's publication of an annual report.
- 57 Preparation of a comprehensive three-year corporate business plan which drives the medium-term financial strategy (MTFS) and the service improvement plans would strengthen financial management arrangements. In addition, the MTFS should be clearly linked to the Council's other strategies and plans such as those for IT and human resources once they are fully developed. Whilst the MTFS is published on the Council's website, its existence should be better publicised to staff and other stakeholders. The comprehensiveness of project appraisals, business plans and affordability considerations for all new policy and capital developments could be improved. This would also assist the Council in demonstrating value for money.

Other improvements include:

- ensuring that the financial performance of partnerships is regularly reviewed, linked to outputs, and the results shared with partners and acted upon;
- relating budget monitoring to operational activity indicators that are lead indicators of spend; and
- developing and monitoring action plans to review progress in achieving planned savings and efficiency gains.

58 Financial standing arrangements are generally sound and minor improvements to the evidencing of arrangements should result in the Council being able to attain a higher score in this area in the future.

59 Our Direction of Travel assessment, which is included earlier in this letter, has indicated some of the areas of improvement which influence our assessment of the value for money (VFM) theme. Required improvements to the Council's procurement processes are a key issue. Additional comments are as follows:

- managers do not routinely use information to review VFM and report this to members, nor is there any consistent evaluation of VFM across services. The focus is currently on performance and budget monitoring rather than wider VFM issues;
- benchmarking to identify areas of high spending and then subjecting these areas to review and scrutiny in terms of VFM requires further development at the Council; and
- whilst the scope for improving cost effectiveness is kept under review, and the Council has made some significant savings in some areas, implementation of some actions has been relatively slow (such as procurement and partnership actions).

Other work

Grant claims

- 60 In accordance with strategic regulation, the Audit Commission has continued with a more risk-based approach to the certification of grant claims. We have reduced our audit of these claims where possible but our ability to reduce certification time further depends on the adequacy of the Council's control environment.
- 61 The Council's arrangements for managing and quality assuring grant claims submitted for audit is variable and requires further improvement if audit costs are to be reduced. Arrangements for ensuring appropriate controls are in place, and that grant claims are produced on time and to the appropriate quality standards, have rested with a variety of individuals at the Council, and there has previously been no overall review or coordination by the finance department, although we are pleased to note that this area is currently being reviewed and would suggest that this be made a priority.
- 62 The Council implemented a new housing benefits system in the year. The housing benefits audit is currently not complete as there have been a significant number of issues with the claim produced from the new system, and this will have cost implications for the Council in terms of the fee for certification. The claim is likely to be subject to a qualification letter in respect of a number of issues. On completion of the audit we will prepare a report of the issues and it will be important for the Council to address these, with the software company where appropriate, if similar issues are not to recur in future audits.

National Fraud Initiative

- 63 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.
- 64 Our work has indicated that the Council has sound arrangements in place for producing the required data and for following through investigations of data matches.

Looking forwards

Future audit and inspection work

- 65 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.
- 66 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.

Revisions to the Code of Audit Practice

- 67 The statutory requirements governing our audit work, are contained in:
- the Audit Commission Act 1998; and
 - the Code of Audit Practice (the Code).
- 68 The Code has been revised with effect from 1 April 2005. Further details are included in our 2005/06 Audit Plan which was agreed with the Council in April 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

- 69 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 August 2006.

Closing remarks

- 70 This letter has been discussed and agreed with the Chief Executive and Head of Corporate Finance. A copy of the letter will be presented at the Cabinet.
- 71 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 of the Council's assistance and co-operation.

Availability of this letter

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

Sue Jewkes
Relationship Manager

Andy Perrin
District Auditor
March 2006

Appendix 1 – Background to this letter

The purpose of this letter

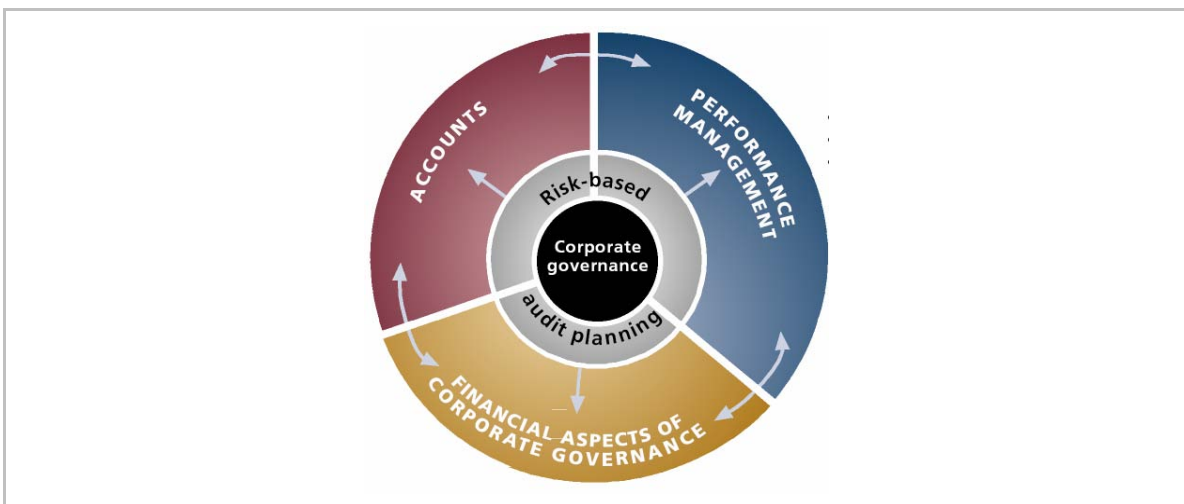
- 1 This is our audit and inspection 'Annual Letter' for members which incorporates the Annual Audit and Inspection Letter for 2004/05, which is presented by the Council's Relationship Manager and District Auditor. The letter summarises the conclusions and significant issues arising from our recent audit and inspections of the Council.
- 2 We have issued separate reports during the year setting out the findings and conclusions from the specific elements of our programme. These reports are listed at Appendix 2 for information.
- 3 The Audit Commission has circulated to all audited bodies a statement that summarises the key responsibilities of auditors. Our audit has been conducted in accordance with the principles set out in that statement. What we say about the results of our audit should be viewed in the context of that more formal background.
- 4 Appendix 3 provides information about the fee charged for our audit and inspections.

Audit objectives

- 5 Our main objective as your appointed auditor is to plan and carry out an audit that meets the requirements of the Code of Audit Practice. We adopt a risk-based approach to planning our audit, and our audit work has focused on your significant financial and operational risks that are relevant to our audit responsibilities.
- 6 Central to our audit are your corporate governance arrangements. Our audit is then structured around the three elements of our responsibilities as set out in the Code and shown in Figure 1.

Figure 1 Code of Audit Practice

Code of practice responsibilities



Accounts

- opinion

Financial aspects of corporate governance

Reviewing how effectively the Council ensures:

- financial standing
- systems of internal financial control
- standards of financial conduct and the prevention and detection of fraud and corruption
- legality of transactions with significant financial consequences

Performance management

- use of resources
- performance information
- best value performance plan

Inspection objectives

- 7 Inspection work is based around section 10 of the Local Government Act 1999, which requires us to carry out inspections and deliver reports that will:
 - enable the Council and the public to judge whether best value is being delivered;
 - enable the Council to assess how well it is doing;
 - enable the Government to assess how well its policies are being implemented; and
 - identify failing services where remedial action may be necessary.

Appendix 2 – Audit and Inspection reports issued

Table 3

Report title	Date issued
2005/06 Audit and Inspection Plan	April 2005
Procurement Review	May 2005
Inspection of Strategic Housing	August 2005
Report on the 2004/05 Financial Statements to Those Charged with Governance (SAS 610)	October 2005
Audit opinion on the 2005/06 financial statements	October 2005
Risk Management Review	November 2005
Partnerships Review	November 2005
Opinion on the 2005/06 Best Value Performance Plan	December 2005
Scored Judgement on the Use of Resources	March 2006
2004/05 Annual Audit and Inspection Letter	March 2006
2004/05 Governance Memorandum	March 2006*

* *Expected date at the time of drafting the Annual Audit and Inspection Letter*

Appendix 3 – Audit and Inspection fee

Table 4 Audit fee update

Audit area	Plan 2004/05	Actual 2004/05
Accounts	£29,500	£29,500
Financial aspects of corporate governance	£28,150	£28,150
Performance	£40,210	£40,210
Total Code of Audit Practice fee	£97,860	£97,860
Additional voluntary work (under section 35)	£0	£0
Total	£97,860	£97,860

Inspection fee update

The full year inspection fee is £13,140.