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# **Annual Audit and Inspection Letter**

**South Cambridgeshire District Council  
March 2006**

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### **Status of our reports to the Council**

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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## Key messages

### Council performance

- 1 The quality of services delivered by the Council is mixed. However, the decline in performance experienced in both 2002/03 and 2003/04 was halted in 2004/05 during which 49 per cent of annual indicators were above average.
- 2 The Council is on track to implement the outstanding actions within the comprehensive performance assessment improvement plan.
- 3 The Council is placing significant reliance on its Transformation project to deliver improved customer service and to release significant savings from 2007/08. A key issue for the Council will be to manage the change programme effectively and ensure it has the capacity to enable improvement.

### The accounts

- 4 The Council met the revised statutory deadline for accounts submission and the accounts were approved by Full Council on 28 July 2005. We presented our SAS 610 report on the audit accounts to the Overview and Scrutiny Committee on 10 October 2005 which highlighted only a small number of issues and presentational adjustments.
- 5 We issued an unqualified audit opinion on the Council's accounts by the statutory deadline of 31<sup>st</sup> October 2005. The Council is to be commended for meeting the earlier accounts submission and audit deadlines for 2004/05 despite a number of other challenges facing the Finance team. We received no questions or objections on the Council's accounts and therefore we have certified our 2004/05 audit as closed.

### Financial position

- 6 The Council has continued with its policy of reducing its financial reserves. As a result The Council reported a General Fund deficit of £2.443m, and a Housing Revenue Account deficit of £0.901m in the 2004-05 accounts.
- 7 Following the Council's decision to raise Council Tax levels in 2005/06 the ODPM capped the rise. This represented a significant financial challenge to the Council. As a result of capping the Council is required to achieve savings of approximately £2.6million. There are significant risks to the Council achieving this level of savings in 2005/06 and in future years.
- 8 The Council also needs to manage its financial position in a context of delivering its corporate objectives and maintaining high levels of service performance.

## Other accounts and governance issues

### Governance arrangements and Use of Resources

- 9 The Council has a largely adequate internal control environment although there is scope for improvement in a number of areas. We reported our findings on financial aspects of corporate governance in our interim audit report in Summer 2005.
- 10 The Council has achieved an overall score of 2 (out of 4) in the Use of Resources judgements recently announced by the Audit Commission. This represents adequate performance, at minimum standards. Underpinning this overall score the Council achieved:
  - A score of 2 in financial management, financial standing, internal control and Value for Money in the Use of Resources Framework, representing adequate performance in these areas and
  - A score of 3 for Financial Reporting based on the accounts production processes in place, representing strong performance, above minimum standards.

### Transformation Project

- 11 The Council is undergoing a review of its senior management structure with a view to reducing the number of chief officers from 4 to 2. A Transformation Committee has been established to take this project forward, with delegated powers to make decisions.
- 12 It is important that the Council ensures that it has taken the appropriate legal and other advice in making decisions on the future structure of the management team.
- 13 We will continue to monitor the progress with the transformation project as part of our 2005/06 audit work.

## Performance work

- 14 We have undertaken a joint audit and inspection review of the Council's Prioritisation and Performance Management. The key findings of this review were presented to the Council in October 2005. We have agreed with officers that the Council should develop a joint action plan arising from the recommendations made in this review and the recommendations from the Use of Resources Auditor Judgements and Direction of Travel statements reported in this letter.
- 15 In addition we are in the process of finalising the findings from a County-wide review of procurement undertaken as part of our 2005/06 audit plan. The findings from our review will be reported to the Council in Spring 2006 and we have held a feedback workshop in the last few weeks.

- 16 We issued an unqualified opinion on the Council's Best Value Performance Plan (BVPP). There continues to be scope for improving the Council's arrangements with regards to the accuracy of the Best Value Performance Indicators produced included in the BVPP and presented for audit.

## Action needed by the Council

- 17 The key actions required by the Council to address issues arising from the events of the last year include:
- identifying detailed savings plans to address the level of savings required as a result of capping and Gershon;
  - revising the Medium Term Financial Strategy to reflect the capping decision;
  - Ensuring that the appropriate legal and other advice has been obtained around issues relating to the Transformation Project;
  - Maintaining a focus on meeting the earlier accounts submission and audit deadlines during 2006;
  - Continuing to strengthen the overall financial and performance management framework to underpin the effective use of resources;
  - Further strengthening the arrangements for the preparation of the Best Value Performance Plan and the accuracy of the various performance indicators included in the plan;
  - Focus on service improvement whilst implementing the Council's change programme, and
  - Ensure the Council has the capacity to deliver service improvement.

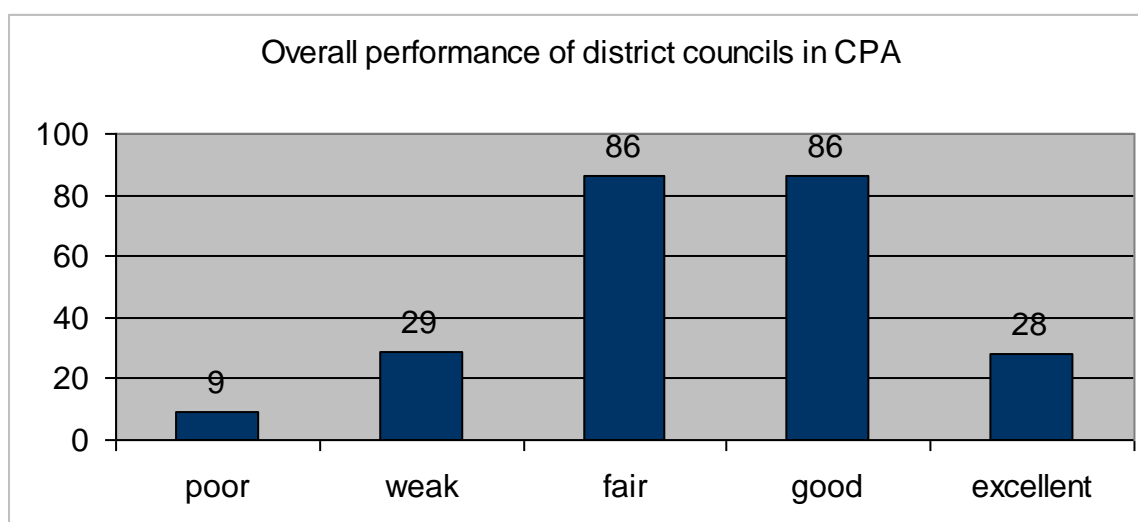
## Council performance

### Direction of travel report

- 18 South Cambridgeshire District Council was assessed as Fair in the Comprehensive Performance Assessment carried out in 2004. These assessments have now been completed in all district councils with the following results.

#### Figure 1 Overall performance of district councils in CPA

Three times as many district councils are rated Good or Excellent than Poor or Weak



Source: Audit Commission

#### Background

- 19 The Council was subject to an Audit Commission comprehensive performance assessment (CPA) in 2004 and was graded a 'fair' Council. A CPA Improvement Plan was agreed with the Council, comprising 116 items, each allocated to a particular portfolio holder and director. Where individual actions were not completed by April 2005, the outstanding actions were converted to 'milestones' and featured in the 2005/06 Performance Plan.
- 20 The Council has experienced a number of significant changes during the last two years. These include its successful transfer to new offices in Cambourne, and the opening of a contact centre which is leading to significant business process changes. The impact of the budget reduction required in 2005/06 is detailed below.



## Findings

- 21** The Council's objectives and priorities are clearly stated. There are four long term corporate objectives;
- High quality, accessible, value for money services
  - Quality village life
  - A sustainable future for South Cambridgeshire
  - A better future through partnership.
- 22** For 2005/06 the Council reduced its immediate priorities from nine to three. These comprise:
- Improvement of customer services
  - Achievement of successful, sustainable new communities at Northstowe and other major new settlements
  - Increasing the supply of affordable housing.
- 23** The Performance Plan includes 105 milestones representing actions, some derived from the CPA improvement plan, intended to help achieve the priorities. These are linked to Council portfolios and individual services.
- 24** The Council has decided to adopt the relevant aims of the Community Strategy as the Council's broad strategic vision from 2007/08. These will be supported by a small number of targeted, quantified objectives which reflect the Community Strategy or other national or local priorities, including the LAA. The Council is also considering a more standard approach to the preparation of all corporate strategies, including provision for an action plan to demonstrate how the strategy contributes to Council objectives, milestones or other strategies of the Council, and the resources required. The Management Team has also approved changes to its corporate procedures to clarify a 'golden thread' between the Council's high level objectives, and the setting of personal objectives for staff through the appraisal process, incorporating corporate milestones, service plans and performance indicators.
- 25** The Audit Commission and the Council's external auditors undertook a study of prioritisation and performance management processes which reported in December 2005. A number of strengths and weaknesses were identified and for 2006/07 the Council is seeking to develop an integrated action plan to deal with issues arising from the prioritisation and performance management study, the Use of Resources judgement and the Direction of Travel statement.
- 26** Consultation is limited in quantity and its range. Councillors do not favour focus groups and much reliance is placed upon feedback derived from the Council's magazine, delivered to every household in the District. However, this approach potentially discourages responses from some sectors of the community. The Council's website encourages questions to the Leader but these tend to concern planning issues. The Council's approach is more toward communication rather than consultation.
- 27** The Council has undertaken an effective budget reduction process during 2005/06. In July 2005, the House of Commons approved an order setting a

maximum budget for South Cambridgeshire District Council for 2005/06 and required the Council to re-bill its council tax payers for a lower council tax for 2005/06. The Council's medium term financial strategy had to be significantly revised leading to a reduction in planned spending of £2.6m or 20 per cent of the planned 2005/06 budget. The budget reduction process required councillors and officers to focus on what the Council does well and what it should do in the future. Councillors scored priority and non priority services (acknowledging resources needed to be maintained on non-priority but statutory duties) to arrive at a hierarchy and inform decision making about expenditure reduction. .

- 28 The budget reduction process has had a significant impact on the activities of councillors and officers during 2005/06, further weakening the overall capacity of the Council. The additional activity required represented 3 or 4 months work for some officers. Councillors have had to defend the difficult decisions.
- 29 There are currently very weak links between finance and performance. In 2005 for the first time the Council's budget reduction process brought together consideration of both finance and performance. The Council has previously established processes to direct new spending to priorities. These processes need to be integrated for future years.
- 30 There is limited alignment between business aims, service planning and financial planning. However improvements have been achieved in aligning business aims or objectives with service planning, but not with financial planning. There is no clarity in service plans as to how improvement is to be achieved. The management team plans to introduce an additional but voluntary process in September/October where service managers identify their future service needs and development and where additional resourcing is required. Service plans will continue to be used to mainstream corporate priorities, risk management, race equality, community safety, climate change strategy and LPSA targets.
- 31 The monitoring of service plans is currently inconsistent. In some services, service heads report to portfolio holders on a monthly basis, discussing both progress against milestones and performance indicators. Service plan monitoring is less robust in the remaining services.
- 32 The quality of services delivered by the Council is mixed. However, the decline in performance experienced in both 2002/03 and 2003/04 has been halted in 2004/05 during which 49 per cent of annual indicators were above average. During that year, 64 per cent of the annual indicators showed improvement in service whilst 27 per cent declined, compared with the performance of the previous year.
- 33 During 2004/05, the Council's performance was above average in a number of areas. For example, the provision of affordable housing, the number of houses not decent, waste recycling, processing of housing benefit claims, fraud investigations undertaken and resulting in prosecution or sanction, satisfaction with arts activities and venues, parks and open spaces.
- 34 During 2004/05, the Council's performance was below average in a number of areas. For example, unfit private sector dwellings made fit, time spent by homeless households in hostels, littered land, staff sickness levels, and

response times relating to complaints made to the local government ombudsman.

The Council's performance in the speed of determining both major and minor planning applications within the standards set by the Government is poor. The Council has remained in the worst 25 per cent of councils during both 2003/04 and 2004/05. Whilst the comparative planning application performance of the Council remains poor, the Council is currently on track to achieve its own target for 2005/06. There has been a delay in the implementation of National Land Information on-line searches but work is currently underway to achieve this facility.

- 35** The Council experienced an inspection by the Benefits Fraud Inspectorate during 2005. The Inspectorate acknowledged that the Council gave a high priority to combating benefit fraud and the fraud team had been successful in securing several high profile prosecutions. However, several areas for improvement were identified and some of the Council's working practices gave rise to serious concerns. Forty two recommendations for action were made which the Council currently regards as 95% completed.
- 36** Considerable development work has taken place within the contact centre. However, the agreement of arrangements for the improvement in coordination of front and back office processes has yet to be achieved. This is being pursued through the Council's transformation project. In addition, the Council is seeking to maximise the potential of the contact centre through the transfer of further services to the centre. The Council has developed both its website and intranet and is currently developing a content management system to integrate the website and intranet to improve the creation and management of their content.
- 37** A robust performance management regime has yet to be established. A key corporate milestone to review and re-launch the performance management framework and provide performance management training for members and managers remains outstanding. This is awaiting the development of an action plan to implement the findings of the Prioritisation and Performance Management study and work to introduce a successor to the current performance management system. As a result, current performance reports are confined to monitoring rather than suggesting how poor performance will be managed. As part of its revision of performance management arrangements, the Council plans to rationalise the PI structure, dropping its 'priority PI's' and discarding those where the effort of data collection outweighs the benefit.
- 38** The majority of milestones arising from the CPA have been achieved or are on track to be achieved within the intended timeframe. They are monitored on a quarterly basis. The Council plans to continue to adopt milestones to ensure progress on the corporate challenges, but aim for fewer, higher level milestones covering a 2 – 3 year period. Corporate milestones will be reduced from 100 in 2005/05 to 28 in 2006/07.
- 39** Dealing with complaints effectively has become a high priority for the Council, Every department has a 'Service First' guide and effective response to complaints is championed by a management team member. The timeliness of

responses to the ombudsman remains an issue but delays are largely due to capacity.

- 40 The District continues to face significant difficulties caused by unauthorised traveller plots. The Council Leader has taken personal responsibility for dealing with traveller related issues, and resources are being invested in defending the District's interest in a planning inquiry, completing a travellers housing needs survey, identifying potential sites for authorised encampments and keeping residents informed of action being taken. The Local Development Framework requires developers to provide housing for all communities including travellers. Travellers planning issues have taken up much Council time and resourcing.
- 41 The Council is placing significant reliance on its Transformation project to deliver financial savings and improved services. The project, agreed by the Council in November 2005, aims to improve customer service and reduce the need for future cutbacks in services for residents. This is to be done through:
- streamlining the senior management structure, reducing the top-level management team from four to two and empowering 2<sup>nd</sup> level staff
  - a review of the roles and responsibilities of heads of service, integration of customer services and service areas to provide improved and customer focused services
  - application of business process reviews to all service areas to challenge what is being done and consider potential transfer to the contact centre
  - continued development of technology, including the web, to fully support an integrated customer service and ICT structure.
- 42 The project aims to release significant savings from 2007/08 amounting to £367 000, with slightly larger savings in the 3 subsequent years. A Transformation Committee has been set up with regular meetings planned. Successfully implementing these changes and focusing on service improvement represents a considerable challenge to the Council. It is important that the Council ensures it has in place the capacity to deliver sustained improvements for service users.

## Other performance work

### Priorities and Performance Management

- 43 This review arose from the action plan drawn up by the Council following the Comprehensive Performance Assessment in December 2004. The review focused on the way in which the Council establishes its priorities and its management of performance.
- 44 The prioritisation aspects of this review involved consideration of:
- Political processes around the council's priorities;
  - Public engagement which shapes the council's choices and decisions;
  - Examination of how the council's priorities balance national priorities;
  - How partnership objectives are incorporated into the council's priorities;

- Timetable which aligns processes; e.g. budget consultation, annual surveys;
- Degree to which the council adapts to change and redirects resources to priorities, and
- Flow through of priorities to budgets, departmental service plans and monitoring arrangements.

45 The performance management aspects of this review involved consideration of:

- The framework for performance management and how this aligns to form the council's main priorities and plans;
- The clarity and realism of the council's targets against priorities and process for agreeing targets;
- Member involvement in performance management and use of scrutiny;
- Management team role in monitoring and managing the performance of the council;
- Realism of performance management 'on the ground'. Samples of service approach to managing short term as well as long term performance, and
- Linkage of performance and financial management

46 Our findings were reported in detail to the Council in December 2005. The key issues identified in the review included:

#### *Prioritisation*

- The process of refining priorities and linking them to the Community Plan and financial planning is not complete
- The community plan is not yet fully incorporated within the corporate planning cycle;
- Whilst the Council is on target to meet key ODPM targets, integration of national targets into local priorities is incomplete;
- The Council is a key player in the local infrastructure partnership around sustainable communities, and
- The Council has a poor track record of matching resources priorities and redirecting resources to changing priorities.

#### *Performance management*

- The Council has a documented performance management framework. However this framework is not yet fully embedded;
- Whilst the Council has implemented a performance monitoring system this is not fully effective
- Target setting is undermined by a lack of suitable performance data;
- There is a lack of effective member involvement in performance management

- Whilst there is a closer link between finance and performance the integration of activity and budget data is not complete, and
  - There is no integrated reporting and scrutiny of budget and performance variances.
- 47 We will work with management in developing an action plan addressing the key recommendations arising from this review. This action plan will form part of a joint plan along with actions arising from other key areas of work including Use of Resources judgements and the Direction of Travel assessment.

### **Procurement**

- 48 We have undertaken, along with other auditors within Cambridgeshire, a County-wide review of Procurement Arrangements. The purpose of the review was to assess the progress of procurement arrangements in the Council in relation to good practice and to identify areas for improvement.
- 49 The fieldwork for this review has now been completed and we have recently provided formal feedback of our findings through a county-wide officers workshop. The next step we will be to report our findings to the Council and the development of an action plan for improvements.
- 50 This work has been undertaken as part of our 2005/06 audit and inspection plan and will be reported in detail in the Council's 2006/07 audit and inspection letter.
- 51 Our conclusion is that the Council has established strategies and processes for procurement which are in line with best practice. However there are several areas where implementation of these strategies in practice should be improved.

## **Best Value Performance Plan**

- 52 There currently remains a requirement for all Councils to produce a Best Value Performance Plan (BVPP) and for auditors to undertake a compliance audit.
- 53 We assessed the BVPP for compliance against the criteria specified in the ODPM circular 03/2003 and the related addendum as well as guidance from the Audit Commission.
- 54 Our audit confirmed that in all significant respects the Council prepared and published its BVPP in accordance with the law and regulations governing it. Accordingly we issued an unqualified audit opinion on the plan with no recommendations made to either the Audit Commission or the Secretary of State.

## **Best Value Performance Indicators**

- 55 We performed a review of the Council's Best Value Performance Indicators (BVPIs) and Audit Commission CPA indicators to ensure that they had been prepared accurately and in accordance with the guidance set out by the Audit Commission.

- 56 Our audit of the Council's BVPIs identified two indicators which were reserved.
- 57 Amendments were required to 24 of the Council's indicators. Of these amendments three were material misstatements, that is, an error in excess of 15% was identified during the audit indicating a lack of checks being performed on the information being submitted. This compared to 22 amendments (of which 8 were materially misstated) in the previous year.
- 58 Guidance and definitions for the preparation and calculation of BVPIs had not been followed in all cases, leading to the amendment of indicators.

## **Other Audit Commission inspections**

- 59 There were no other Audit Commission inspections undertaken during the year.

## Accounts and governance

- 60 We issued an unqualified audit opinion on the Council's 2004/05 accounts.
- 61 The Council's overall corporate governance and financial management arrangements are adequate in most key areas subject to the comments below.

### Audit of 2004/05 accounts

- 62 We gave an unqualified opinion on the Council's accounts on 28 October 2005 ahead of the statutory deadline.
- 63 The accounts were approved by full Council on the 28 July 2005 and presented for audit on the 19 August 2005.
- 64 We received no questions or objections from members of the public in relation to the 2004/05 accounts.

### Report to those with responsibility for governance in the Council

- 65 We are required by professional standards to report to those charged with governance (in this case the Audit Panel) certain matters before we give an opinion on the financial statements. Our report was presented to the Audit Panel on 17 October 2005.
- 66 There were no significant matters arising as a result of our audit which we wish to highlight for your attention in this letter.
- 67 We identified a number of presentation adjustments and additional disclosures during the course of the audit, which we agreed with officers. None of these items resulted in a material adjustment.
- 68 In addition our report highlighted a small number of items which had not been adjusted by officers. The Audit Panel agreed that amendment was not considered necessary for these items.

### Financial standing

- 69 The Council has continued with its policy of reducing its financial reserves. As a result the Council reported a General Fund deficit of £2.443m, and a Housing Revenue Account deficit of £0.901m in the 2004-05 accounts.
- 70 Whilst the financial position reported in 2004/05 indicated that the Council's financial position remained strong, the decision by the ODPM to cap the Council's level of Council tax has placed significant pressure on the financial position during 2005/06.
- 71 As a result of the capping announcement, the Council has been required to identify approximately £2.6million of savings in order to balance the 2005/06



budget and financial position. The Council has accordingly been required to revise its Medium Term Financial Strategy significantly during 2005/06.

- 72** We will formally assess the impact of capping on the financial standing of the Council as part of our 2005/06 audit and report our findings in due course.
- 73** 2006/07 and beyond represents a significant financial challenge to the Council and we recognise that the Council faces a variety of factors that could impact on the financial position in the medium to long-term, including:
- the success of the DLO recovery plan;
  - the need to increase Council Tax levels in future years and possible central government intervention over levels of council tax increases;
  - future spending pressures;
  - the success of the transformation project in achieving savings which will assist the council in:
    - meeting the requirement to find cashable and non-cashable efficiency savings to comply with the findings of the Gershon review, and
    - identifying cuts and efficiency savings in addition to Gershon in order to meet the Council's financial strategy;
  - the outcome of the housing stock options appraisal;
  - implementation of E-government requirements, and
  - increased employer contributions to the Cambridgeshire County Council Pension Scheme as a result of the current deficit in this scheme.

## Systems of internal financial control

- 74** Our findings in relation to financial systems should be viewed against a background that the Council has:
- a small accounting function leading to some inherent control weakness as proper segregation of duties cannot be maintained in certain areas, in particular in payroll;
  - centralised budget monitoring and control within the accountancy team which means that, due to resource constraints and sickness, certain controls are not undertaken on a timely basis;
  - new NNDR system which was implemented during the year, and
  - a new payroll system. We understand that pay slips were generated on the new system in March 2005. While this is not relevant to our audit of the 2004/05 accounts, this new system should automate many of the controls on which we would look to place reliance.
- 75** Our work has indicated that the Council's control environment could be enhanced in a number of areas. In many cases, the issues noted through completion of our procedures are the same as those raised by Internal Audit, or

those that we have previously communicated to the Council. A number of these weaknesses have remained extant throughout 2004/05.

- 76 The key areas requiring management attention include the need to ensure that regular reconciliation and independent review of all control accounts is undertaken on a regular and timely basis.

### **Financial systems – 2005/06 update**

- 77 We are concerned to note that internal audit reporting to date during 2005/06 has identified an increased number of systems where internal audit have provided only limited assurance. These include a number of systems which in 2004/5 provided substantial assurance. Internal audit reporting has also identified an increased number of recommendations during 2005/06. It should be noted that the internal audit programme, at the time of writing this letter, has not been fully completed and reported for 2005/06.
- 78 Internal audit reporting to date in 2005/06 indicates that there is an increased level risk around systems of financial control which the Council will need to keep under close review to ensure that controls are not compromised in the future.

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

- 79 We have not identified any significant weaknesses in your arrangements to prevent and detect fraud and corruption which we wish to highlight for your attention.
- 80 We are pleased to note that the Council is taking steps to comply with the recommendations raised in the BFI counter fraud inspection, through preparing an action plan and monitoring this action plan regularly.

## **Legality of transactions**

- 81 We have not identified any significant weaknesses in the framework established by the Council for ensuring the legality of its significant financial transactions which we wish to highlight for your attention.

## **Use of Resources judgements**

- 82 The use of resources judgement assesses how well councils manage and use their financial resources. The assessment focuses on the importance of having sound and strategic financial management to ensure that resources are available to support the council's priorities and improve services.

- 83 The Use of Resources judgements 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.
- 84 We have assessed the Council's arrangements in five areas as set out in the table below.

**Table 1 Council's 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	2 out of 4
<b>Overall</b>	<b>2 out of 4</b>

(Note: 1=lowest, 4=highest)

- 85 In reaching these judgements we have drawn on the above work and supplemented this with a review against a detailed set of specified Key Lines of Enquiry.
- 86 Overall the Council has scored 2 out 4. According to the definition on the scale established by the Audit commission this means that the Council is *"At only minimum requirements which equates to adequate performance. A level 2 would be achieved where appropriate arrangements were considered to be in place but could not yet be demonstrated to be embedded in the culture of the Council and operating effectively."*
- 87 The most significant areas where further development would lead to improved scores under Use of Resources include:
- The MTFs should be enhanced by including clearer links to the Council's business and corporate planning processes, joint plans with other stakeholders and incorporating balance sheet items and cashflow projections;
  - The Council would need to ensure that the financial position is maintained without significant over/under spends being incurred in individual areas;
  - The Council needs to strengthen arrangements around risk management in a number of areas. Many of these arrangements are already under review and we understand that from 2005/06 the Council will be continuing to strengthen its risk management arrangements;

- The Council has not developed an assurance framework which maps the council's strategic objectives to risks, controls and assurances;
  - Enhancing proactive counter fraud measures, including enhancement of NFI and fraud investigation arrangements in response to BFI recommendations.
- 88** However it is important that the Council considers the costs and benefits of making the improvements required to enhance scores under the Use of Resources judgments, against any impact on services and the resources available.
- 89** The Council will be developing an integrated action plan to address the recommendations arising from our work on Use of Resources, Priorities and Performance Management and the Direction of Travel Assessment set out in this letter.

## Other work

### Additional voluntary work

- 90 We have not been requested by the Council to carry out any additional voluntary work.

### Grant claims

- 91 In accordance with Strategic Regulation, the Audit Commission has continued with a more risk-based approach to the certification of grant claims. We have reduced our audit of these claims but our ability to reduce further depends on the adequacy of the Council's control environment.
- 92 We have certified six grant claims, of which five were amended as a result of our work. Two of those claims which were amended have also been subject to a qualification letter.

### National Fraud Initiative

- 93 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.
- 94 There are no significant issues arising from the NFI which we wish to highlight for your attention.

## Looking forward

### Future audit and inspection work

- 95 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.
- 96 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

- 97 The statutory requirements governing our audit work, are contained in:
- The Audit Commission Act 1998; and
  - The Code of Audit Practice (the Code).
- 98 The Code has been revised with effect from 1 April 2005. Further details are included in our Audit Plan, which has been agreed with the Audit Panel on 17 October 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

- 99 The Audit Commission is currently considering the results of the consultation on the proposals for revising the CPA framework for District Councils. The revised framework will be published in the early part of 2006 with implementation from April 2006.

## Closing remarks

- 100 This letter has been discussed and agreed with the Chief Executive and Finance and Resources Director. A copy of the letter will be presented at the Audit Panel on **xx June 2006**.
- 101 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

- 102 This letter will be published on the Audit Commission's website at [www.audit-commission.gov.uk](http://www.audit-commission.gov.uk) and also on the Council's website.

Signature

Appointed Auditor:

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 [or Appointed Auditor – delete as appropriate]. 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.

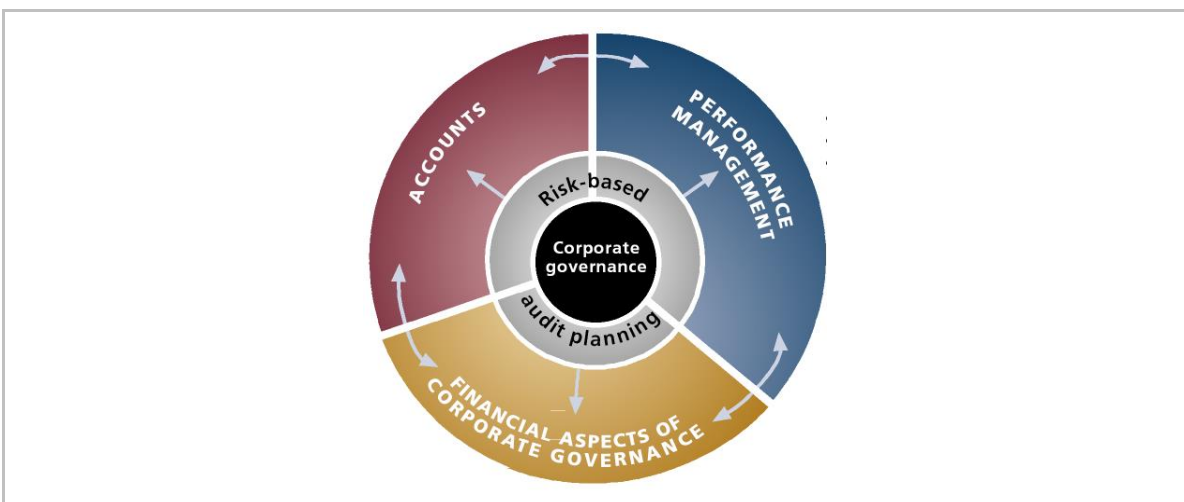
### Audit objectives

- 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.

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#### 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

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<b>Report title</b>	<b>Date issued</b>
Audit Plan	June 2004
Interim Audit Report	October 2005
Best Value Performance Indicator Report	October 2005
BVPP Opinion	November 2005
Report on the 2004/05 financial statements to those charged with governance (SAS 610)	October 2005
Audit opinion on Financial Statements	October 2005
Review of Priorities and Performance Management	December 2005
Annual Audit and Inspection Letter	March 2006

## Appendix 3 – Audit and Inspection fee

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<b>Audit area</b>	<b>Plan 2004/05</b>	<b>Actual 2004/05</b>
Accounts	16,000	16,000
Financial aspects of corporate governance	37,250	37,250
Performance	46,450	46,450
<b>Total Code of Audit Practice fee</b>	<b>99,700</b>	<b>99,700</b>
Additional voluntary work (under section 35)	0	0
<b>Total</b>	<b>99,700</b>	<b>99,700</b>

### Inspection fee update

The full year inspection fee is £15,786. 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.