

Annual Audit and Inspection Letter

January 2006



Annual Audit and Inspection Letter

Salford City Council

Audit 2004/2005

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Key messages

Council performance

- 1 The Comprehensive Performance Assessment (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 value for money and outcomes for local people and communities. The overall CPA judgements range from zero stars to four stars. We have also added a new dimension, a 'Direction of Travel' judgement, which measures how well the Council is improving.
- 2 Under the new framework Salford City Council's overall CPA category is 'two stars' and its Direction of Travel has been assessed as 'improving well'.
- 3 One of the key elements of the CPA is the corporate assessment. Salford's corporate assessment is currently in progress and the results are scheduled to be published in Spring 2006. The Council's CPA category will also be updated, if appropriate, to take account of this.
- 4 The Council has improved outcomes over the last year. Based on its recent track record, it also has the ability to continue to significantly improve the way it works and the services it provides to local people. Access to services is improving and examples of service improvements include adult social care, educational attainment and reductions in vehicle crime and domestic burglary. An area which the Council will need to address is the Youth Service which was found to be 'inadequate' following an Ofsted inspection.
- 5 The Council is self aware and is clear on its improvement priorities, which include the following.
 - Reduce crime and improve perceptions of crime in Salford.
 - Maintain long term commitment and investment to reducing health inequalities.
 - Maintain the step change improvement in educational performance and invest in young people.
 - Maintain investment in neighbourhood management to involve local people and ensure inclusiveness amongst the city's diverse communities.
 - Maintain progress in improving local environmental quality and promoting sustainable lifestyles amongst residents and local businesses.
 - Increase access to, and, provide an appropriate supply of well-managed, decent housing for both current and future residents.
 - Ensure the investment attracted by the Urban Regeneration Company has spin off benefits for the whole city and not just Central Salford.

- Exploit the economic benefits of the Council's central position within the City region, building a strong and positive image for Salford with a range of audiences.
- 6 The Council has recognised that sickness absence is becoming a significant problem which needs to be addressed. Early indications are that the steps that are being taken to improve attendance management are proving effective and absences are reducing.
 - 7 Overall, the Council's investment in developing partnership working, encouraging community involvement and strengthening its own skills and capacity is generally paying off in delivering real service improvements. The value for money self-assessment framework which the Council has recently introduced provides an excellent opportunity for continually challenging and delivering service improvement.

Accounts and financial position

- 8 We have given your accounts for 2004/05 an unqualified audit opinion. The Council has continued to strengthen its financial standing in line with its medium term financial strategy and its overall financial position is sound.
- 9 The accounting treatment relating to treasury management matters reported last year has not yet been resolved. If the Audit Commission's favoured method of accounting treatment was used this would have resulted in an additional charge to the General Fund in 2004/05 of about £1.75 million. Members need to be aware that there is a continuing risk that this issue could adversely impact on the General Fund revenue budget.
- 10 School deficits were still running in excess of £2 million at the end of the 2004/05 financial year. Members, the LEA and relevant schools' governors need to ensure that there are clear plans in place to manage reductions in schools' deficits.

Governance issues

- 11 The Council's overall corporate governance arrangements are satisfactory in most key areas.
- 12 The Council has embraced partnership working which is to be commended because of the potential for service improvement; however partnerships need to be carefully managed due to the inherent legal and financial risks that can arise from such arrangements. The Council has acknowledged these risks and steps are being taken to improve the risk management and governance arrangements relating to partnership working.

Action needed by the Council

- 13 Based on the outcomes of our work the service improvement opportunities identified by the Council, (summarised in paragraph 5), are soundly based. The Council has been proactive in strengthening its skills and capacity and it is of vital importance that these initiatives remain focused on these priorities.
- 14 Specific actions which we would highlight for members attention based on the matters raised in this Letter are as follows.
 - Ensure that the Improvement Plan for the Youth Service is delivered.
 - Monitor that the actions being taken on attendance management continue to be effective and that sickness absence reduces to acceptable levels.
 - Ensure that the value for money self-assessment framework maximises the opportunities for continually challenging and delivering service improvement.
 - Assess the ongoing financial risks on the General Fund revenue budget, in the light of any further advice or guidance which emerges on the reported treasury management issues.
 - Strengthen risk management and performance monitoring around the governance and performance of partnerships.
 - Ensure appropriate action is being taken to reduce schools' deficits.

Performance

The Council's investment in developing partnership working, encouraging community involvement and strengthening its own skills and capacity is paying off in delivering real service improvements. The value for money self-assessment framework which has recently been introduced provides an excellent opportunity for continually challenging and delivering service improvement. The Council is self-aware and has identified clear improvement opportunities.

CPA scorecard

- 15 The Audit Commission's Comprehensive Performance Assessment (CPA) aims to measure how well councils are delivering services to local people and communities. A new framework for CPA has been introduced for 2005 which is acknowledged as a more stringent test with more emphasis on value for money and outcomes for local people and communities. Councils are assessed within this framework within a range from zero stars to four stars. **Salford City Council has been assessed under the new CPA framework as 'two stars'.**
- 16 Periodically the Audit Commission undertakes corporate assessments which focus on authorities' corporate ability to drive delivery of improvement in services. Such an assessment is currently in progress in Salford and the results are scheduled to be published in Spring 2006. The Council's CPA category will be updated, if appropriate, to take account of the new corporate assessment.
- 17 The Audit Commission also assesses councils' 'Direction of Travel' to indicate the progress being made towards achieving improvement. The assessment is prepared following a summary overview of performance information and the Council's improvement planning. **Salford City Council's Direction of Travel has been assessed as 'improving well'.**
- 18 Annually, the Audit Commission publishes a scorecard for all the judgements, including service assessments; Salford's is reproduced below.

Table 1 CPA scorecard

Element	Assessment
Direction of Travel judgement	Improving well (3 out of 4)
Overall CPA category	Two stars
Current performance	
Children and young people	2 out of 4
Social care (adults)	4 out of 4
Use of resources	3 out of 4
Housing	2 out of 4

Element	Assessment
Environment	3 out of 4
Culture	3 out of 4
Benefits	4 out of 4
Corporate assessment / capacity to improve (not reassessed in 2005)	2 out of 4

(Note: 1=lowest, 4= highest)

- 19 In summary, Salford City Council has improved outcomes over the last year. Based on its recent track record, it also has the ability to continue to significantly improve the way it works and the services it provides to local people. Salford's improvement programme is delivered through its seven pledges linked to the community strategy. It is making an effective contribution to wider community outcomes through community committees and the black and minority ethnic forum. The Council has a robust and successful approach to improving services to all its diverse communities with measurable and identifiable achievements against each of the pledges. Access to services is improving and examples of service improvements include adult social care, educational attainment and reductions in vehicle crime and domestic burglary. Value for money and quality of services are improving in line with the identified priorities. The Council has robust plans for further improving its corporate ability and can demonstrate it has the ability to deliver and sustain its planned improvements to the services it provides to the local community.

Direction of Travel report

- 20 The Council and its partners are working towards the clear priorities based on the seven community themes which are set out in the community plan. To ensure the Council plays its part in delivering the strategic aims of the plan it has developed seven pledges which are aligned with the community themes. To help facilitate the delivery of these pledges the Council has continued to strengthen its management arrangements, including:
- identifying priorities for improvement and annual targets against each of the pledges;
 - ensuring that priorities set out in the community plan and local priorities set out in the community action plans are consistently translated into departmental and service plans; and
 - establishing a robust planning framework which ensures that each plan is aligned with others.

- 21 The Council has also been developing the skills and capacity it needs to achieve improvement, including:
- introducing the 'balanced scorecard' approach across the authority as part of the development of a common and consistent approach to business planning and performance management;
 - embedding the risk management framework in corporate and strategic planning;
 - implementing a revised Human Resources strategy; and
 - developing a corporate procurement strategy.
- 22 The Council has built on its 'Think Customer' initiative this year using it to drive its ambitions and priorities. Future service provision, both within the Council and with key partners, is being developed and designed around the customer to provide public services which are highly responsive, accessible and joined up at the point of delivery.
- 23 Community involvement is being encouraged, for example:
- decision-making is being devolved to local communities. In 2004/05 over £0.5 million was spent on local priorities, for example, provision of CCTV cameras;
 - themed task groups have been established which encourage members of the community to get involved and youth workers on neighbourhood teams are encouraging young people to attend community committees;
 - community development workers are linking with residents' associations and neighbourhood management teams have been holding a series of focus groups across each neighbourhood; and
 - the older people's partnership board and older people's development board have been engaged to encourage participation from older people.
- 24 Partnership working is strong in Salford. Specific initiatives that have been established this year include the following.
- Central Salford Urban Regeneration Company, comprising the Council, the North West Development Agency and English Partnerships. The Company will co-ordinate strategic regeneration interventions and oversee implementation of the vision and regeneration framework for Central Salford which is an area that has suffered from intense deprivation.
 - Urban Vision, a joint venture company comprising the Council, Capita Symonds and Morrison, which is responsible for delivering development control, highways and building services. The company is providing additional investment in highways and footway improvements and is helping to improve working processes that can be shared across the Council's services.

- 25** Joint working with the Primary Care Trust has resulted in improvements in the health of the population, for example, joint preventative initiatives such as smoking cessation have had good results. Crime reduction targets are being met and reductions have been achieved this year in robbery, burglary and vehicle crime.
- 26** Improvements are being made in line with the identified priorities relating to the life and opportunities of children and young people, for example:
- in 2005 Salford had the most improved 5A*-C GCSE results in Greater Manchester and one of the most improved nationally (from 38.3 per cent to 44.6 per cent);
 - Salford recorded the biggest national combined increases in English, Maths and Science between 2002 and 2005 at key stage 3; and
 - the number of young people not in education, training or employment has fallen from 17 per cent in 2001 to 9.5 per cent in 2004.
- 27** Adult social care services have also improved. The Commission for Social Care Inspection's annual review of performance highlighted improvements over the past year which resulted in an improved assessment that services are serving adults well and that there is excellent capacity for improvement.
- 28** Tackling housing issues has been a major challenge for the Council. Several initiatives including, undertaking a comprehensive stock option review, attracting private sector investment and utilising housing market renewal funding are all key elements in delivering the Council's housing strategy and the housing market change which is critical to the city's economic success and contributing to the City Region Development Plan.
- 29** The Council is self aware and is clear on its improvement priorities. A value for money self-assessment framework has been introduced recently which is reviewing how best value is being achieved across a range of around 80 service areas. This initiative provides an excellent opportunity for continually challenging and delivering service improvement.

Use of resources judgements

- 30** 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.

- 31 In reaching our judgements we have drawn on the work carried out on our core audit work and inspection activities and supplemented this with a review against the Key Lines of Enquiry specified by the Audit Commission. Assessments are based on the following scale.

1	Below minimum requirements – inadequate performance
2	Only at minimum requirements – adequate performance
3	Consistently above minimum requirements – performing well
4	Well above minimum requirements – performing strongly

- 32 Our assessments for Salford for each of the five elements which comprise the use of resources judgements are summarised in Table 2.

Table 2

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

- 33 The individual assessments translate into an overall 'use of resources' score for CPA purposes of '3' and reflect that the Council is performing well in many of the areas assessed. We have discussed the outcomes of the assessment with the Chief Executive and the Strategic Director of Customer and Support Services and have agreed an Action Plan aimed at further improving the Council's overall use of resources.

Performance information

Best value performance plan/performance indicators

- 34 In previous years the audit of performance indicators has focused solely on best value performance indicators (BVPIs). For the 2004/05 audit, some of the non-BVPI data contained within the CPA service blocks has also been audited. Altogether 19 BVPIs/non-BVPIs were selected to be audited by the Audit Commission.

- 35 As a result of the audit one of the PIs was 'reserved' because the data supporting the calculation had not been retained and amendments were also made to 9 of the other PIs, although these were mainly minor changes to the original reported data.
- 36 We issued a joint report with the Head of Regeneration and Improvement on the outcome of the audit to the Directors Team on 17 November 2005. The Directors Team have approved an Improvement Plan to tackle the issues arising.
- 37 We are also required to carry out an audit of the Council's best value performance plan and report any matters that prevent us from concluding that the plan has been prepared and published in accordance with the relevant statutory requirements. We issued our report on 7 November 2005 which confirmed that no such matters had been identified.

Sickness absence

- 38 The Council has recognised that action needs to be taken on sickness absence. Average sickness was reported as 14.6 days per full time equivalent employee in 2004/05 which is considerably above the Council's target of 10.8 days. Steps have been taken to improve attendance management, including the following.
- Revising the Attendance Management Policy and Manager's Guidelines in line with best practice, including revising the 'trigger points' for actively managing both long and short term sickness and providing advice on conducting return to work interviews, dealing with stress related illness, etc.
 - Strengthening and improving support to enable staff to stay in work, for example, by increasing resources in the Occupational Health and Safety Unit so additional time can be focused on more preventative work.
 - Improving recording and reporting of attendance data to facilitate proactive monitoring by management, including regular review and scrutiny by members.
- 39 Latest monitoring reports suggest that effective action is being taken because sickness absence is reducing. The total number of days lost in the year ending September 2005 has reduced by about 8 per cent compared with the previous year. We will keep this issue under review during our current audit.

Audit Commission inspections

- 40 In last year's Annual Letter we reported the results of inspections on the following areas:
- community engagement;
 - waste management;
 - cultural strategy and leisure services; and
 - re-inspection of housing services.

- 41 This year we have followed up the progress which has been made in implementing the recommendations arising from these inspections and we are satisfied that good progress is generally being made.

Working with other inspectorates and regulators

- 42 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:

- Office for Standards in Education (Ofsted);
- Commission for Social Care Inspection (CSCI);
- Benefits Fraud Inspectorate (BFI);
- DfES; and
- Local Government Office contact.

We share information and seek to provide 'joined up' regulation to the Council.

- 43 During the last year the Council has received the following annual assessments and inspections by other inspectorates.

Education and children's social care

- 44 CSCI's and Ofsted's annual performance assessment (APA) covers the following.

- The contribution of the local authority's social care services in maintaining and improving outcomes for children and young people.
- The contribution of local authority's education services in maintaining and improving outcomes for children and young people.
- The contribution of the local authority's children's services in maintaining and improving outcomes for children and young people.
- The council's overall capacity to improve its services for children and young people.

- 45 The APA assessment for Salford City Council's education and children's social care found that the service delivers only minimum requirements for users. This equates to a CPA score of 2 out of 4. A further assessment of services for children and young people will be provided as part of the Joint Area Review which is due to be published in Spring 2006.

Youth Service

- 46 Ofsted concluded from its inspection of the Youth Service in May 2005 that the Council provided an 'inadequate' youth service and in the context of the low levels of achievement by young people, weaknesses in youth work practice, management and in the deployment and use of resources it represents unsatisfactory value for money.

- 47 The Council has responded to the inspection by producing an Improvement Plan for tackling the identified weaknesses which is being actively implemented and monitored.

Adult social care

- 48 CSCI's assessment of adult social care in Salford is that services are serving adults well and that the Council's capacity to improve these services is 'Excellent'. This equates to a CPA score of 4 out of 4. This is an improved assessment compared with last year when the Council was assessed as serving most adults well.

Benefits

- 49 In October 2005 the BFI completed an updated assessment of the benefits service provided by the Council. The assessment is based primarily on achievement against the 2005 housing benefits/council tax benefits performance standards. The overall BFI assessment is that Salford is providing an 'Excellent' level of performance. This equates to a CPA score of 4 out of 4.

Accounts and governance

We have given your accounts an unqualified audit opinion. The Council has continued to strengthen its financial standing in line with its medium term financial strategy and its overall financial position is sound. The accounting treatment relating to treasury management issues reported last year has not yet been resolved and could have an impact on the Council's future financial standing.

Your overall corporate governance arrangements are generally satisfactory in most key areas. Steps are being taken to improve the risk management and governance arrangements relating to partnership working. School deficits need to be brought under control.

Audit of 2004/05 accounts

- 50 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 14 July 2005 which is well within the deadline of 31 July 2005 required by the whole of government accounts initiative. The Council is commended for its early closure.
- 51 Timeliness in producing the accounts will continue to be important as the deadline for completing the accounts is again being brought forward. In 2006 the accounts will need to be approved by members by the end of June 2006 and audited by the end of September 2006. We are aware that a closure programme has been produced which plans to fulfil these requirements.
- 52 We are required by professional standards to report to 'those charged with governance' certain matters before we give an opinion on the accounts. In accordance with this requirement we reported the matters arising from our audit to the Accounts Committee on 24 October 2005.
- 53 The Strategic Director of Customer and Support Services issued a report in response to these issues and the Accounts Committee agreed with his recommendation to make several amendments to the accounts. These amendments did not impact on the reported balances in the Council's general fund reserve or the housing revenue account.
- 54 We gave an unqualified opinion on the Council's accounts on the 26 October 2005.

Matters arising from the final accounts audit

- 55 Last year we drew attention to treasury management issues which are of national relevance and apply to other authorities as well as Salford, concerning the accounting treatment of LOBO (lender offer/borrower option) loan interest and amortisation of premiums on debt rescheduling.

- 56 The Strategic Director of Customer and Support Services has presented a report to the Cabinet which explains the background to these issues and quantifies the financial effects and risks relating to the alternative accounting treatment that are currently being recommended. As indicated in his report, if the Audit Commission's favoured method of accounting treatment was used this would have resulted in an additional charge to the General Fund in 2004/05 of about £1.75 million. This is made up of the following:
- £0.75 million additional interest on LOBO loans; and
 - approximately £1 million additional amortisation of premium.
- 57 In determining our opinion on the accounts we adopt a concept of materiality and an unqualified opinion may not be given if there are material misstatements in the accounts. We are satisfied that although there are differences of opinion in the favoured accounting treatment for LOBO interest and amortisation of premiums on debt rescheduling the Council's preferred method is within our materiality guidelines.
- 58 Looking ahead, it is not clear when the uncertainties relating to this issue will be resolved and we will keep this matter under review at our regular liaison meetings with the Strategic Director of Customer and Support Services.

Financial standing

General fund spending and balances

- 59 The Council budgeted to contribute nearly £0.5 million from its general fund reserve to its spending in 2004/05. The outturn at 31 March 2005 showed a net underspend of £0.9 million for the year which arose due to a number of variances, including debt rescheduling savings and dividend income in excess of budget.
- 60 The £0.9 million underspend resulted in the general fund reserve increasing from £7 million at 31 March 2004 to £7.9 million at 31 March 2005. This level of balances is slightly higher than the minimum identified as being needed by the Council to cover its financial risks. The Council's budget monitoring for 2005/06 indicates that overall spending is currently projected to be within budget.

Housing Revenue Account

- 61 The Housing Revenue Account (HRA) had a reported deficit of £1.9 million in 2004/05 which had been budgeted for. Budget monitoring for 2005/06 indicates that spending will remain within budget and that the estimated balance on the HRA at 31 March 2006 will cover the financial risks that have been identified.

School balances

- 62 Last year we reported that there were over 30 schools with deficit balances which totalled around £2 million. The overall position as at 31 March 2005 has not materially changed. We would therefore again urge members, the LEA and relevant schools' governors to ensure that there are clear plans in place to reduce the schools' deficits.

Systems of internal financial control

Governance of partnerships

- 63 The Council currently delivers a wide range of services which often involve working in partnership with others, many of which involve considerable levels of funding. These practices are commended because of the potential for service improvement. However, they need to be carefully managed due to the inherent legal and financial risks that can arise from such arrangements. It is against this background that we have been jointly reviewing the Council's partnership management arrangements with the Deputy Director of Customer and Support Services.
- 64 Our review found that the Council has embraced partnership working as a way of improving services and has acknowledged the risks which are inherent in such operations. Steps are being taken to improve the governance arrangements relating to partnership working. On the basis of our joint review to date it has been agreed that further action is needed on the following key issues.
- Completing the compilation of a database of all partnerships that the Council is involved with.
 - Drawing up a set of procedures/protocols to govern the process of establishing partnerships and the roles of partner bodies.
 - Reviewing arrangements for routinely reporting back to the Council on partnership achievements and meeting objectives.
 - Developing a competency framework for members and officers involved with partnerships and aligning this with an appropriate training programme.
 - Embedding risk management arrangements at all levels of partnership activity.
- 65 Taking action on the areas identified above should considerably strengthen the Council's corporate governance arrangements relating to partnership working. For our part we will continue to monitor and review the Council's progress on these matters. It is important that the Council makes effective use of the partnerships database when it is completed. Sharing the information within the Council should help to strengthen its risk management arrangements. The data can also be used, for example, to help inform the statutory disclosures that the Authority makes in its financial statements and assist Internal Audit to prioritise its risk-based plans.

- 66 Looking ahead, the Council could also usefully develop a self regulatory framework whereby lead members/officers carry out a self-assessment of the risks faced by each of the partnerships with which they are involved. We will further discuss the potential for introducing such a framework with the Deputy Director of Customer and Support Services and the value this could add.

Statement on Internal Control

- 67 The Accounts and Audit Regulations now require authorities to carry out an annual review of internal control arrangements together with the provision of a signed assurance statement in the published accounts. The Council fulfilled these requirements for 2004/05 and an appropriate Statement on Internal Control was included with its financial statements. An issue which we have discussed with officers, and is being addressed, is for an appropriate member group to scrutinise the arrangements for carrying out the annual review of internal control and to review the content of the Statement prior to it being approved as part of the financial statements by the Accounts Committee.

Internal Audit

- 68 We are required as external auditors to utilise and rely on Internal Audit's work as far as possible. To this end we undertake an annual assessment of Internal Audit to determine the effect on our role and ensure that we co-ordinate the work we do for the Council. Periodically, our annual assessment is supported by a more detailed review of Internal Audit's work to ensure compliance with professional standards. We have completed such a review during this year's audit.
- 69 Our overall conclusion is that Internal Audit is meeting professional standards. A key strength identified is that Internal Audit is playing an increasingly significant role in the development of the Council's overall control environment and risk management arrangements.
- 70 Our conclusion drew significantly on the results from a clients' survey which were very encouraging. Positive comments were generally made with regard to all the operational issues, including the following:
- professionalism and independence;
 - reports, being evidence based and timely;
 - recommendations, being clear and generally followed up; and
 - audit work is worthwhile and adds value.
- 71 We have suggested a few areas where we feel Internal Audit could continue to strengthen its arrangements and appropriate action has been agreed with the Strategic Director of Customer and Support Services.

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

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

National Fraud Initiative

- 73 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.
- 74 The Council is committed to playing its part in this initiative and is currently actively investigating its data matches. We recently reviewed the progress which is being made on the 2004/05 data matches and agreed the actions which need to be undertaken to draw this to a conclusion. The Strategic Director of Customer and Support Services has reported on the progress of this exercise to the Budget and Audit Scrutiny, Audit Sub Committee.

Legality of transactions

- 75 We have not identified any significant weaknesses in the framework established by the Council for ensuring the legality of its significant financial transactions.

Grant claims

- 76 In accordance with Strategic Regulation, the Audit Commission has continued with a more risk-based approach to the certification of grant claims. This approach, together with the improvements that the Council has made in managing and quality assuring the grant claims submitted for audit is resulting in a significant reduction in the time we are spending on certifying claims and the amount of fees that the Council pays for this work.
- 77 The current programme should be completed in February 2006. We will then, again, undertake our joint annual review of the process with the Strategic Director of Customer and Support Services to see if any further improvements can be made.

Looking forwards

Future audit and inspection work

- 78 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. Our planned work, together with that of other inspectorates, is included on both the Audit Commission and LSIF (Local Services Inspectorates Forum) websites.
- 79 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 in the light of the latest CPA assessment and your own analysis, and develop an agreed programme by 31 March 2006. We will continue to work with other inspectorates and regulators to develop a co-ordinated approach to regulation.

Revision to the Code of Audit Practice

- 80 The statutory requirements governing our audit work, are contained in:
- the Audit Commission Act 1998; and
 - the Code of Audit Practice (the Code).
- 81 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 Council in March 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

- 82 This letter has been discussed and agreed with the Chief Executive and Strategic Director of Customer and Support Services. A copy of the Letter will be presented to the Cabinet on 24 January 2006.
- 83 The Council has taken a positive and constructive approach to our audit and inspection I would like to take this opportunity to express my appreciation for the Council's assistance and co-operation.

Availability of this letter

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

Clive Portman
District Auditor and Relationship Manager

January 2006

Appendix 1 – Background to this letter

The purpose of this letter

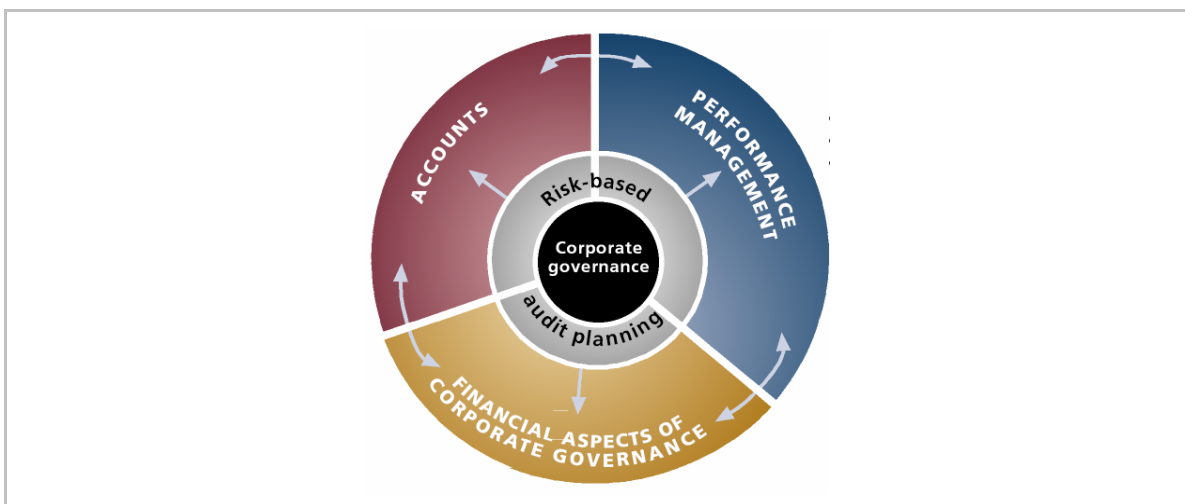
- 1 This is our Audit and Inspection ‘Annual Letter’ for members which is presented by the Council’s Relationship Manager. The letter summarises the conclusions and significant issues arising from our recent audit and inspections of the Council.
- 2 We have issued separate reports during the year setting 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



- 7 Central to our audit are your corporate governance arrangements. Our audit is then structured around the three elements of our responsibilities as shown below.

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 – Audit reports issued

Table 3

Report title	Date issued
Audit and Inspection Plan	March 2005
Probity in partnerships - summary report	May 2005
Review of Internal Audit	August 2005
Interim report and key tasks remaining	August 2005
Report on the 2004/05 financial statements to those charged with governance (SAS 610)	October 2005
Best value performance plan	November 2005
Audit of performance data 2004/05 (joint report)	November 2005
Final accounts memorandum	January 2006

Appendix 3 – Audit and inspection fees

Table 4 Fee update

Audit area	Plan 2004/05 (£,000)	Actual 2004/05 (£,000)
Accounts and financial aspects of corporate governance	193	193
Performance	130	130
Total Code of Audit Practice fee	323	323
Additional voluntary work (under section 35)*	-	12
Total	323	335

* The additional voluntary work (under section 35 of the Audit Commission Act, 1998) related to work undertaken on 'Excellence in ICT' which the Council used to help inform its best value review of this topic.

Inspection fee update

The full year inspection fee is £81,000. 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.

Grant claims certification fee update

Work is still ongoing in relation to the 2004/05 grant claims. The latest estimate of the total fee is £90,000. This is likely to vary if the number of grant claims presented for audit is more or less than the number planned.