

Annual Audit and Inspection Letter

March 2006



Annual Audit and Inspection Letter

Aylesbury Vale District Council

Audit 2004-2005

External audit is an essential element in the process of accountability for public money and makes an important contribution to the stewardship of public resources and the corporate governance of public services.

Audit in the public sector is underpinned by three fundamental principles:

- auditors are appointed independently from the bodies being audited;
- the scope of auditors' work is extended to cover not only the audit of financial statements but also value for money and the conduct of public business; and
- auditors may report aspects of their work widely to the public and other key stakeholders.

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

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

Status of our reports to the Council

The Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission explains the respective responsibilities of auditors and of the audited body. Reports prepared by appointed auditors are addressed to members or officers. They are prepared for the sole use of the audited body. Auditors accept no responsibility to:

- any member or officer in their individual capacity; or
- any third party.

Copies of this report

If you require further copies of this report, or a copy in large print, in Braille, on tape, or in a language other than English, please call 0845 056 0566.

© Audit Commission 2006

For further information on the work of the Commission please contact:

Audit Commission, 1st Floor, Millbank Tower, Millbank, London SW1P 4HQ

Tel: 020 7828 1212 Fax: 020 7976 6187 Textphone (minicom): 020 7630 0421

www.audit-commission.gov.uk

Contents

Key messages	5
Council performance	5
The accounts	5
Financial position	5
Other accounts and governance issues	5
Action needed by the Council	6
Council performance	7
Direction of travel report	7
Inspection of services for young people	11
Follow up	14
Accounts and governance	15
Audit of 2004/05 accounts	15
Financial standing	15
Pension fund	17
Best value performance plan and performance indicators	17
Systems of internal financial control	18
Standards of financial conduct and the prevention and detection of fraud and corruption	18
Legality of transactions	18
Use of resources judgements	18
Other work	21
Grant claims	21
National Fraud Initiative	21
Looking forwards	22
Future audit and inspection work	22
Revision to the Code of Audit Practice	22
A new CPA framework	22
Closing remarks	23
Availability of this letter	23

4 Annual Audit and Inspection Letter | Contents

Appendix 1 – Background to this letter	24
The purpose of this letter	24
Audit objectives	24
Inspection objectives	25
Appendix 2 – Audit and inspection reports issued	26
Appendix 3 – Audit and inspection fee	27

Key messages

The Council is responding well to a challenging agenda. In the short term, the Council has to manage the transfer of its housing stock to a housing association. In the medium term, it is planning for the redevelopment of Aylesbury Town centre and the rapid growth of new housing. Each on its own would represent a significant challenge. However the Council is starting out from a sound position, it was assessed as 'good' by the CPA process, is debt free and is due capital receipts from the housing stock transfer. Revenue costs will need to be reduced as the ability to have costs absorbed by the housing revenue account is removed.

Council performance

- 1 Our assessment of your direction of travel is that the Council is focusing on key improvement areas identified from CPA. Our direction of travel review identified much progress but also some areas for further work.
- 2 Our inspection of your services for young people, carried out in June 2005, found that the Council is providing a 'fair' service with promising prospects of improvement.

The accounts

- 3 The accounts presented for audit were sound and well supported by working papers. However we did identify a number of errors in the accounts which while they did not affect the bottom line position on the income and expenditure account they did effect balance sheet valuations and impact adversely on our use of resources judgement.

Financial position

- 4 The Council's financial health is sound at the moment, but due to the issues above, how the Council uses its resources will require close monitoring.

Other accounts and governance issues

- 5 The Council is undertaking a number of significant capital schemes, but has a history of slippage in the capital programme. Not all the slippage is due to factors within the control of the Council and it would improve understanding if the capital programme identified the reasons for any slippage and what action is being taken to bring the scheme back on time. This would help to demonstrate effective management of the capital programme.

Action needed by the Council

- 6 Based on the outcome of our direction of travel review, the Council needs to continue to focus on its improvement priorities by:
- agreeing an efficiency plan to take £1 million from its base budget over each of the three years 2007/08 to 2009/10;
 - continuing to work successfully with its partners on delivering the growth agenda in the district;
 - continuing to improve its performance management arrangements to help it deliver its key aims and outcomes;
 - improving recycling rates so that it meets its statutory target and matches the improvements that other councils are making;
 - improving the timeliness of determining major and minor planning applications although we do recognise that the number and complexity of major applications being received by the Council makes achieving national targets difficult; and
 - accelerating the provision of affordable housing. Current completion rates are far lower than the Council's target of 250 units a year. The transfer of the housing stock should generate funds to facilitate improved performance.
- 7 Other areas for consideration from the wider letter are:
- review progress in the implementation of the recommendations made in our Inspection of services for young people; and
 - continue to monitor revenue and capital budgets on an in-year basis and develop longer term plans, including cash flow projections, and regular reporting on the progress of the major capital projects.

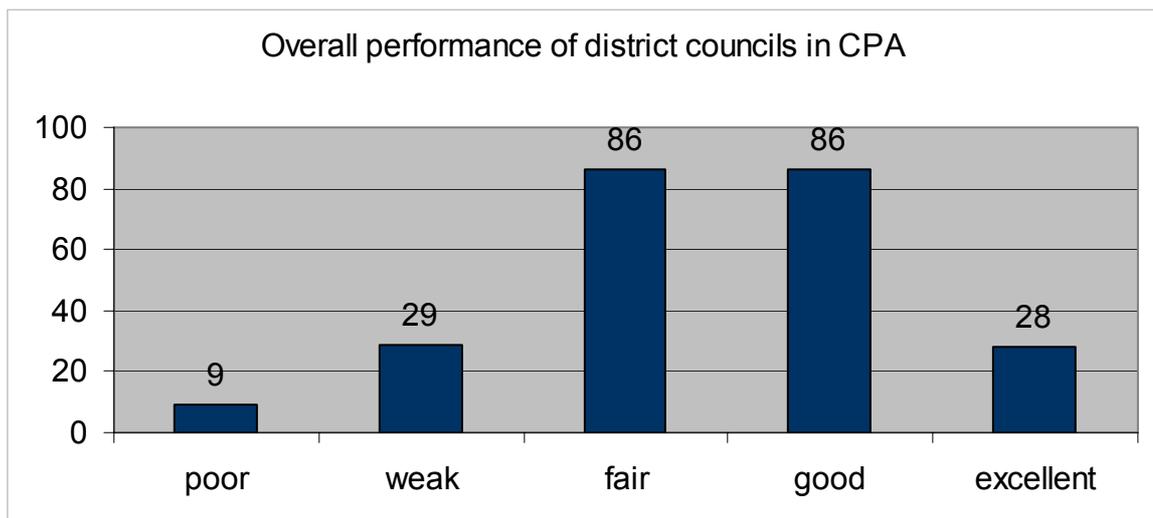
Council performance

Direction of travel report

- 8 Overall the Council has improved over half of its performance indicators. Improvement of indicators in priority areas is even greater. However the Council has failed to improve in some priority areas and needs to continue to monitor progress in these areas.
- 9 The Council was assessed as 'good' in the comprehensive performance assessment (CPA) 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

Improvement planning

- 10 In December 2003 the Council identified its improvement priorities. The three outward-facing priorities are:
- local communities - to achieve safe, active, healthy communities and provide accessible services;
 - local economy - to develop and promote the local economy and establish Aylesbury Vale as a vibrant economic centre; and
 - local environment - to manage the built and natural environments of a growing district in a sustainable way.

The Council also has a more inward-focused priority - the way it works - its organisational aspirations, culture and corporate governance framework.

- 11 These priorities are based on a good understanding of local needs and national priorities and are incorporated in the Council's medium-term work programme (MTWP) 2004 to 2007 and best value performance plan. The MTWP also details the desired outcomes and sets targets for each of the three years as well as identifying the executive Members and officers responsible for meeting them.
- 12 In 2005 the Council focused the MTWP more clearly on strategic targets to be achieved by 2008. This strategic medium-term work programme (SMTWP) includes only 16 targets for 2008 and the Council is developing detailed action plans to deliver them and annual milestones to monitor progress.
- 13 The priorities and targets set a challenging agenda. They are aimed at securing service improvements and enhanced community leadership as well as building internal capacity to provide a foundation for further improving services in an area which is experiencing rapid population growth now and until 2031.

Performance indicators

- 14 Performance as measured by a basket of national key performance indicators shows that there has been improvement in 54 per cent of key performance indicators since 2002/03. There are now more high performing indicators with 34 per cent of PIs in the top quarter of district councils and 53 per cent in the top half compared with 21 per cent in the top quarter and 38 per cent in the top half in 2002/03. Of the ten comparable PIs that were in worst quarter in 2002/03, all have improved.
- 15 Performance in the Council's priority areas has improved more strongly. Sixty six per cent of national and local performance indicators (PIs) in these areas have improved, 34 per cent have not, 26 per cent are in the top quarter of district councils and 58 per cent are in the top half. This improved performance reflects the Council's focus on improving its priority services.

- 16 The following paragraphs assess specific progress against the Council's four priorities.

Local communities

- 17 Significant improvements for local communities include:
- increasing the timeliness of its processing of new benefit claims and changes in circumstances, whilst improving accuracy;
 - improving its homelessness service. It has reduced the incidence of homelessness; reduced reliance on temporary housing for homeless households; and improved its speed of processing homelessness applications;
 - improving access to affordable housing. Working with local housing associations, the Council enabled the completion of 74 new affordable houses in 2004/05 and is on target to enable the completion of 100 in 2005/06;
 - working with partners to achieve significant reductions in the level of key crime identified to be of particular concern to local residents;
 - improving services for children and young people; and
 - improving community cohesion by improving its progress in promoting race equality and by moving towards meeting the Equality Standard for local government.
- 18 However the Council still needs to improve in the some areas such as:
- accelerating the provision of affordable housing. Current completion rates are far lower than the Council's target of 250 units a year and the transfer of the housing stock should generate funds to facilitate improved performance; and
 - increasing the usage of some of its leisure facilities.
- 19 Its performance in housing management has shown little improvement. However, in October 2005 council tenants voted to transfer the Council's housing stock to a registered social landlord, the Vale of Aylesbury Housing Trust, in July 2006. As a result the Trust will take over responsibility for housing management from the Council.

Local economy

- 20 The Council is moving ahead in this priority, especially on economic aspects of the growth agenda. Much depends on successful partnership working, for example on economic development, transport and housing. Nevertheless the Council has put building blocks in place, for example:
- with partners, it has produced an economic development strategy and action plan and is developing a marketing strategy;
 - it has appointed two business development officers to support the Council's economic development activities;
 - with partners, it has established an enterprise hub;
 - it has improved its commercial property and made small business grants to support new businesses; and
 - revising delivery arrangements for the Waterside development.
- 21 This is a difficult area for the Council to monitor its performance. Its figures (local PIs) on hits on the Council's website; tourism; business enquiries; commercial properties; and car parks are collected and reported to councillors quarterly but they are inconclusive. At the moment there is no significant trend, no national comparisons and little historical data. However there is some evidence emerging through the Council's tracking of job changes that the growth in new jobs is ahead of target.

Local environment

- 22 The Council is improving in some areas such as reducing the amount of waste generated in the district and reducing the number of missed refuse collections.
- 23 However the Council needs to improve its performance in:
- recycling, to avoid falling further behind other councils. Although the Council's recycling rate has improved, other councils have improved more and it has fallen from top half performance to just above the worst performing quarter of district councils. Furthermore it failed to meet its statutory recycling target and is making little progress toward meeting it; and
 - PIs for the timely determination of planning applications improved in 2004/05 but performance on major and minor applications is still in the bottom half of district councils. We do recognise that the number and complexity of major applications being received by the Council makes achieving national targets difficult.

Organisational aspirations

- 24 The Council has made progress on:
- its planned efficiency gains are ahead of its 2.5 per cent target for 2005/06;
 - improving its ability to deliver services electronically. It has improved the proportion of electronically enabled interactions to almost 95 per cent in 2004/05 compared to 85 per cent in 2003/04 and it is in the top quarter of district councils; and
 - improving its performance management arrangements but it still has to align them with the 16 priority targets in its SMTWP and it has yet to produce plans and milestones to monitor progress in meeting the targets.
- 25 At the end of 2005, the Council had not yet identified all the savings it needed for 2006/07 and later. However it had identified a need to take £1 million a year from its base budget over each of the three years 2007/08 to 2009/10 but had no definite plans as to how it will achieve it. The Council has set up an efficiency programme to look at how these savings can best be achieved.

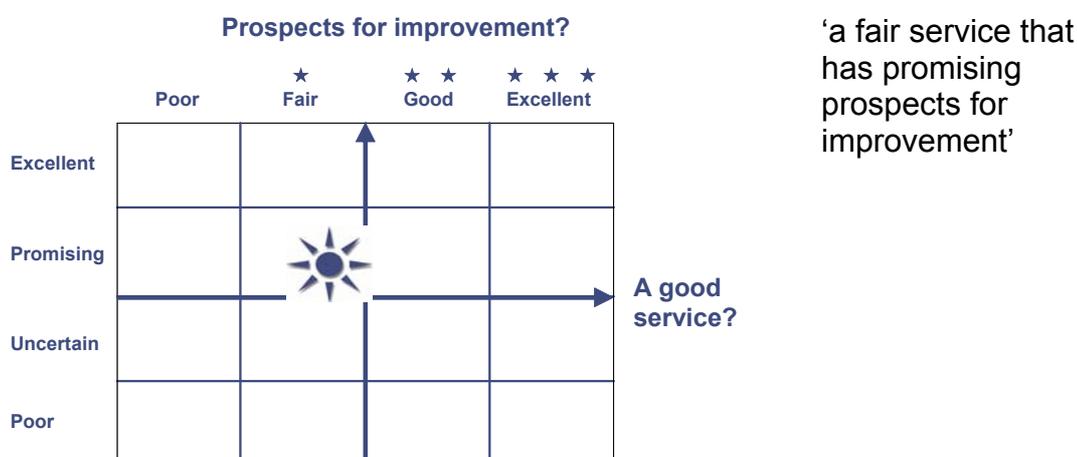
Inspection of services for young people

- 26 During June 2005 we carried out an inspection of services for younger people. This was identified as a service area that would benefit from an inspection following discussion with chief officers after the publication of our CPA assessment in 2004.

Scoring the service

- 27 We have assessed the Council as providing a fair one-star service that has promising prospects for improvement. Our judgements are based on the evidence obtained during the inspection and are outlined below.

Figure 2 Services for young people



28 The service is fair because:

- it is meeting a broad range of needs including housing and community safety;
- the facilities are generally good, and are being developed to meet local needs;
- there are some examples of good consultation with young people on specific initiatives; and
- it contributes to improvements for young people across all five themes for the *Every Child Matters* agenda.

29 However:

- the Council did not have a structured approach in place to identify the various needs of young people and has no overall understanding of local need;
- the Council's various strategies had not been integrated with the emerging community plan;
- issues facing young people in the rural parts of the district were not being fully addressed; and
- some play and sports facilities were in poor condition.

30 Prospects for improvement are promising because:

- the Council had responded positively to the 2004 CPA assessment that there was a high risk of service failure related to the work with young people;
- staff were well motivated and the Council has capacity is available to deliver the services;
- partnership working was developing well; and
- the Council was successful in attracting external funding.

31 However:

- there was a lack of co-ordination of services at the corporate level;
- performance management was not well developed for services for young people; and
- formal processes to ensure that good practice in providing services for young is shared throughout the Council were weak.

Recommendations

- 32** The inspection report contained the following key recommendations which if implemented would help improve service delivery.
- Ensure that staff, councillors, partners and the community are clear about the needs of young people that require attention by:
 - bringing together the available information and statistics to build an understanding of the needs of young people in the district – by autumn 2005;
 - identifying what additional survey or research is required to fill any gaps in that understanding – autumn 2005; and
 - in the light of the above, review how this affects the county-wide youth strategy – by March 2006.
 - Ensure that staff, councillors, partners and the community have a clear understanding of the approach adopted to meeting these needs by:
 - ensuring that the youth strategy work is integrated with the rest of the Council’s work programme – by March 2006; and
 - ensuring that the emerging district community plan is reflected into the strategic objectives and work programmes of the Council as it applies to young people – by March 2006.
 - Increase the effectiveness of the service by;
 - developing a corporate framework to ensure that the work of the Council for young people is co-ordinated; and
 - identifying the relevant roles required to support the youth strategy implementation plan – by autumn 2005.
 - Ensure that performance is monitored and managed so that key outcomes are being delivered by:
 - introducing a robust performance management framework for the local youth strategy which is based on outcomes and measurable targets – by March 2006; and
 - Improve the quality of services by implementing the programme of improvements for rundown play areas.
- 33** An action plan to address the issues raised by the inspection has been prepared and approved by Members. Some actions such as the setting up of a structured learning database to help share good practice across the Council have already been taken.

Follow-up

- 34 During the year we followed up the Council's progress in implementing recommendations from our performance management review. Our main conclusion is that the Council has made good progress with its performance management framework and that it now has many features of good performance management in place. The Council is clear about what it is trying to achieve in its priority areas. Its strategic medium-term work plan (SMTWP) targets are clear, mostly Specific Measurable Attributable Realistic and Timebound and to the point - in fact the plan is good.
- 35 However the Council does not yet have implementation plans for how it intends to meet the targets or milestones so that it can monitor progress. It provides councillors and officers with information on performance against PIs in the Council's priority areas but does not assess progress towards meeting the Council's medium or strategic targets
- 36 The Council's Quarterly Performance Digest is a step in the right direction and officers plan to develop this further. A conscious decision was taken when the performance digest was introduced in 2005 to report finance and performance information separately to ensure that Members were not overloaded and proper consideration was given to both financial and performance information.
- 37 Officers are currently considering how best to bring both financial and performance information taken in a readily understandable format. The issue of the frequency of such reports was discussed with Officers who believe that quarterly reports are sufficient and this is supported by the improved Council performance against PIs.
- 38 We recommended that the Council integrates the quarterly performance digest and the quarterly financial digest as soon as practicable.

Accounts and governance

Audit of 2004/05 accounts

We gave an unqualified opinion on the Council's accounts on 31 October 2005. The Council met the earlier target for the production of its accounts and the revised deadline for issuing the audit opinion was also met. The deadline is to be brought forward in 2005/06 by a further month.

Report to those with responsibility for governance in the Council

- 39 We are required by professional standards to report to those charged with governance (in this case to the Audit Panel) certain matters before we give an opinion on the financial statements. We drew to the Audit Panel's attention the following material misstatements that management have agreed to adjust for:
- a recent re-valuation identified that a number of operational and non-operational assets were materially undervalued by £8 million;
 - a review of the Asset Management Revenue Account identified that impairment and depreciation for Housing Revenue Account properties had not been recorded in the account (£4.7 million); and
 - the amount that the Council pays over into the capital receipts pooling policy of £1.8 million should be disclosed separately in the Consolidated Revenue Account and the unapplied capital receipts account with the pooled sum.
- 40 Otherwise the accounts were compliant with guidance and generally supported by comprehensive working papers. To improve performance we recommend that officers review the accounts with greater rigour prior to sending them for Member approval and audit, paying particular attention to the valuation of fixed assets.

Financial standing

The Council's financial position is currently sound, being debt free and having investments of £60 million. However, budget pressures are emerging as the Council needs to reduce revenue costs by an average of over £1 million a year over the next three years given that costs will no longer be absorbed by the housing revenue account. The growth in the numbers of houses in the District also brings cost pressures as the increase in council tax from individual properties is currently less than that assumed by central government in their grant allocation calculation. The Council are lobbying central government on this issue at the moment.

General fund spending and balances

- 41 The Council was subject to capping in 2005/06. However the amount involved at £138,000, in relation to the Council's overall charge (£9.5 million), was not significant. In 2004/05 the Council achieved an underspend of £1.4 million mainly due to additional income. Whilst it may not always be possible to predict income levels precisely the Council has regularly made underspends; £417,000 in 2002/03 and £1.2 million in 2003/04. These underspends have allowed the Council to build up its General Fund balances from £2.2 million at 31 March 2002 to £5.3 million at 31 March 2005. The Council should keep under review the level of balances to ensure that they are appropriate for its needs. The Council has developed a strategy for the use of balances

Housing revenue account (HRA)

- 42 The HRA made a surplus of £218,000 in 2004/05 and held balances of £651,000 at 31 March 2005. Following the recent ballot result, the Council will transfer its housing stock to a housing association. The planned date for this is sometime in July 2006.
- 43 Given that this will, in all probability, be the biggest transaction the Council has ever undertaken, the timescales are tight. The work involved even if well planned and managed will be significant. We have shared with internal audit and finance staff some guidance on how to manage LSVT. We will monitor progress during the year.

Capital programme

- 44 The Council has a significant capital programme planned for the next five years that totals £138 million. Its ability to meet the programme will be dependent on upon resources being available. The programme includes £100 million of committed expenditure with the remainder to be committed when funding is secured.
- 45 In 2004/05, the Council spent £12 million out of a forecast budget of £17 million on capital projects. Slippage on capital projects can be a problem and often expenditure can depend on a number of variables. However with the Council embarking on a number of significant schemes action needs to be taken to improve programme management and monitoring.
- 46 Large town centre redevelopments often take a time to come to fruition and may change significantly during the planning process, reflecting the trends in the wider economy and interest from developers. The redevelopment of Aylesbury town centre has not proved an exception to this and the scheme has changed significantly since it was first announced.

- 47 It is now envisaged that the project will be delivered in three separate developments:
- retail;
 - housing; and
 - civic centre/theatre replacement.
- 48 The first two will involve the Council in negotiating with private sector partners to ensure that the risks and rewards are shared equitably and for the third the Council will be responsible for ensuring that the benefits are achieved and the risks managed.
- 49 The evidence to date is that the Council is managing these projects appropriately, for example it is undertaking risk assessment of each project and has set up project management groups.
- 50 Particular risks relate to the Council having sufficient project management skills and resources to successfully manage projects. This has been managed to date but needs to be kept under review as the projects move beyond the planning stage.
- 51 It is also important that Members are kept up-to-date with progress and have sufficient and appropriate evidence to make decisions. This can be difficult to achieve given the sensitive nature of the negotiations with potential partners but we would recommend that as much information as possible is made available.
- 52 As projects develop it is important that both the capital and revenue implications are taken into account, full option appraisals are undertaken. Projects once started can be difficult to stop and the Council should build into the review process consideration whether to continue with the project. Regular progress reports should be made to Members.

Pension fund

- 53 The Council disclosed an increase in the pension fund deficit from £32 million to £50 million as at 31 March 2005. The majority of the increase was due to a change in accounting practice. The Council had already increased contributions to reduce the deficit over a 20-year period.

Best value performance plan and performance indicators

- 54 We issued an unqualified opinion on the best value performance plan and performance indicators.
- 55 In respect of the performance indicators we have reserved two non-BVPI indicators, and one BV indicator, due to unsatisfactory systems to support them. We also identified that one indicator had been omitted. However, none of these issues breach our qualification threshold.

- 56 Our review of your best value performance plan found it to be compliant with guidance.
- 57 We recommended that the Council:
- ensures that all performance indicators and figures in returns made to central government departments are supported by robust data collection systems; and
 - communicates to all managers responsible for Performance Indicators and returns the Audit Commissions revised policy for the selection of indicators and returns for audit.

Systems of internal financial control

We have not identified any significant weaknesses in the overall control framework.

Internal Audit

- 58 We have assessed Internal Audit (IA) and confirmed that we can place reliance on their work where appropriate. IA also contributes to our work on specific grant claims such as NNDR and Housing Benefits.

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

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

Legality of transactions

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

Use of resources judgements

- 59 The use of resources assessment is a new assessment which focuses on financial management but links to the strategic management of the Council. It looks at how the financial management is integrated with strategy and corporate management, supports council priorities and delivers value for money. It will be carried out annually as part of our audit.
- 60 Our use of resources assessment builds on the previous work we did under the Auditor Scored Judgements but represents a harder test. Though not for this year, we anticipate that future the use of resources judgements will form part of the CPA scoring system.

- 61 We have assessed the Council's arrangements in the five areas set out in Table 1.

Table 1 Councils arrangements

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

(Note: 1=lowest, 4=highest)

- 62 In reaching these judgements we have drawn on the above work and supplemented this with a review against specified Key Lines of Enquiry.
- 63 The most significant area where improvement is needed is for the Council to produce financial statements free from material error. The question behind this judgement is weighted and a poor score on this one has pulled the overall score down. Apart from this failure the Council scored well on the remainder of the questions.
- 64 To ensure the required improvement is made we would recommend that the Council review the accounts with greater rigour prior to sending them to us.
- 65 We have discussed our findings with officers and given them details of actions that could be taken to move onto the next level. Key actions identified are as follows.

Table 2

Key line of enquiry	To achieve the next level the Council needs to:
<p>Financial reporting The Council produces annual accounts in accordance with relevant standards and timetables, supported by comprehensive working papers.</p>	<p>Produce accounts that are free from material error and misstatement.</p> <p>Publish summary accounts that are accessible to members of the public and stakeholders.</p>

Key line of enquiry	To achieve the next level the Council needs to:
<p>Financial management</p> <p>The Council's medium-term financial strategy, budgets and capital programme are soundly based and designed to deliver its strategic priorities.</p>	<p>Describe in financial terms plans agreed with partners.</p> <p>Model balance sheets and cash flow over three years.</p> <p>Devise a system to capture and report efficiency savings.</p> <p>Introduce a traffic light system for identifying key variances.</p> <p>Profile savings over the year.</p> <p>Introduce performance measures and benchmarking to show how the Council's asset base contributes to the achievement of corporate and service objectives, including improvement priorities are developed.</p>
<p>Financial standing</p> <p>The Council manages its spending within the available resources.</p>	<p>Ensure Members monitor key financial health indicators and set challenging targets.</p> <p>Monitor the opportunity costs of maintaining the current levels of reserves and balances.</p>
<p>Internal control</p> <p>The Council manages its significant business risks.</p>	<p>Embed risk management in corporate business processes including performance management, strategic planning, policy making and review.</p> <p>Ensure all Members have received risk management awareness training.</p> <p>Put in place an assurance framework that maps the Council's strategic objectives to risks, controls and assurances.</p> <p>Ensure procedure notes/manuals for those systems identified by the Council as being business-critical are reviewed and updated at least annually.</p> <p>Review at least annually standing orders, standing financial instructions and scheme of delegation.</p>
<p>Value for money</p> <p>The Council currently achieves good value for money.</p> <p>The Council manages and improves value for money.</p>	<p>Ensure that the Council achieves the cost savings arising from the LSVT of its housing stock.</p> <p>Improve planning performance so that it justifies its high costs.</p> <p>Better understand the make-up of the costs of waste collection.</p> <p>Embed the new service planning process to ensure that it identifies and delivers efficiency gains.</p> <p>Combine reporting and discussion of finance and performance reports.</p> <p>Produce a robust efficiency plan and then implement it.</p>

Other work

Grant claims

- 66 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. We also work closely with IA and they undertake testing on the NNDR and Housing Benefit claim to help reduce our time.

National Fraud Initiative

- 67 In 2004/05, the local authority took part in the Audit Commission's National Fraud Initiative (NFI). 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.
- 68 We reviewed procedures that the Council had put in place to investigate data matches and found them to be effective.

Looking forwards

Future audit and inspection work

- 69 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 our next Annual Letter.

Revision to the Code of Audit Practice

- 70 The statutory requirements governing our audit work, are contained in:
- the Audit Commission Act 1998; and
 - the Code of Audit Practice (the Code).
- 71 The Code has been revised with effect from 1 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

- 72 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

- 73 This letter has been discussed and agreed with the Chief Executive. A copy of the letter will be presented at the Resource and Corporate Performance Scrutiny Committee on 19 April 2006.
- 74 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

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

Andy Burns
District Auditor and Relationship Manager
March 2006

Appendix 1 – Background to this letter

The purpose of this letter

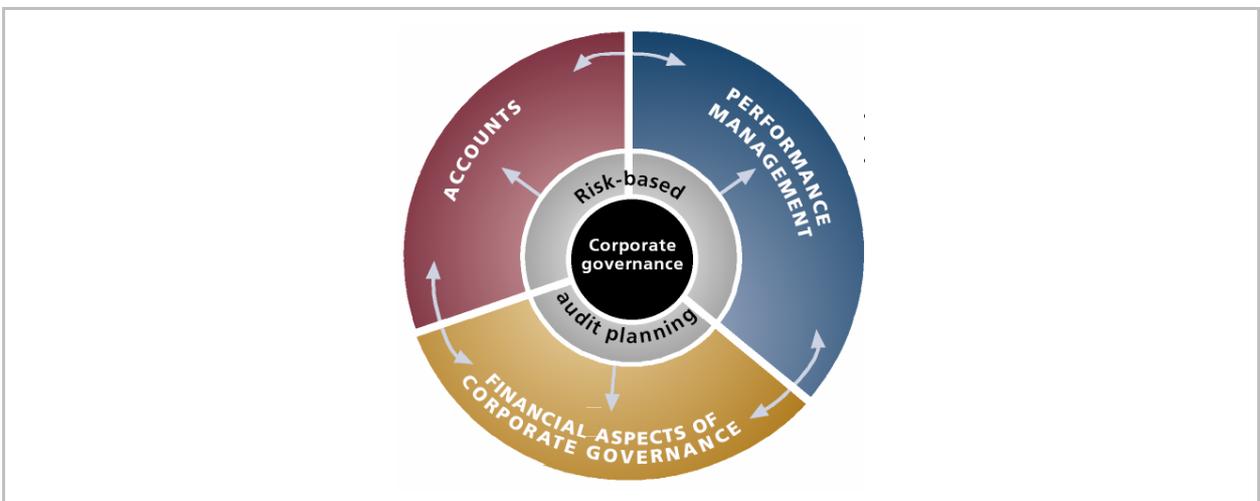
- 1 This is our audit and inspection 'Annual Letter' for Members which incorporates the Annual Audit Letter for 2004/05, which is presented by the Council's Relationship Manager and District Auditor. The letter summarises the conclusions and significant issues arising from our recent audit and inspections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

Audit objectives

- 5 Our main objective as your appointed auditor is to plan and carry out an audit that meets the requirements of the Code of Audit Practice. We adopt a risk-based approach to planning our audit, and our audit work has focused on your significant financial and operational risks that are relevant to our audit responsibilities.
- 6 Central to our audit are your corporate governance arrangements. Our audit is then structured around the three elements of our responsibilities as set out in the Code and shown in Figure 3.

Figure 3 Code of Audit Practice

Code of practice responsibilities



Accounts

- Opinion.

Financial aspects of corporate governance

7 Reviewing how effectively the Council ensures:

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

Performance management

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

Inspection objectives

8 Inspection work is based around section 10 of the Local Government Act 1999, which requires us to carry out inspections and deliver reports that will:

- enable the Council and the public to judge whether best value is being delivered;
- enable the Council to assess how well it is doing;
- enable the Government to assess how well its policies are being implemented; and
- identify failing services where remedial action may be necessary.

Appendix 2 – Audit and inspection reports issued

Table 3

Report title	Date issued
Audit Plan	March 2005
Interim Memorandum	July 2005
Report on the 2004/05 Financial Statements to Those Charged with Governance (SAS 610)	October 2005
Inspection of Services for Young People	October 2005
Direction of Travel	March 2006
Use of Resources Judgements	March 2006
Annual Audit and Inspection Letter	March 2006

Appendix 3 – Audit and inspection fee

Table 4 Audit fee update

Audit area	Plan 2004/05 (£)	Actual 2004/05 (£)
Accounts	35,000	35,000
Financial aspects of corporate governance	25,000	25,000
Performance	48,000	48,000
Total Code of Audit Practice fee	108,000	108,000
Inspection fee	9,355	9,355
Total	117,935	117,935