

Annual Audit and Inspection Letter

Colchester Borough Council

Audit 2004-2005

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- 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.

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Contents

Key messages	5
Council performance	5
Best value plan and indicators	5
The accounts	5
Financial position	5
Other accounts and governance issues	6
Action needed by the Council	6
Council performance	7
Direction of Travel	7
Best value performance plan and performance information	10
Other Audit Commission inspections	11
Accounts	12
Financial standing	15
Systems of internal financial control	17
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
Objection: 2003/04	22
Looking forwards	23
Future audit and inspection work	23
Revision to the Code of Audit Practice	23
A new CPA framework	23
Closing remarks	24
Availability of this letter	24

Appendix 1 – Background to this letter	25
The purpose of this letter	25
Audit objectives	25
Inspection objectives	26
Appendix 2 – Audit and inspection reports issued	27
Appendix 3 – Audit and inspection fee	28

Key messages

Council performance

- 1 Colchester Borough Council continues to deliver services of above average quality at low cost. Services are generally improving although waste collection is a significant exception. The Council is performing well in financial management and the delivery of value for money, though its approach to procurement is not, as yet, fully effective. Additional performance management arrangements are focusing on the operational delivery of services but are not yet fully embedded and have not had a demonstrable impact. The Council is in the process of reviewing its strategic plan and revising its strategic objectives in order to ensure that there is an appropriate focus on customer excellence, regeneration and service delivery.

Best value plan and indicators

- 2 We issued an unqualified opinion on the Council's best value performance plan as it was materially compliant in all respects.
- 3 The Council has continued to improve its arrangements for the production and publication of accurate and reliable performance information. We were able to issue an unqualified opinion on the 2004/05 outturn indicators on 21 December 2005.

The accounts

- 4 We issued an unqualified audit opinion on the 2004/05 financial statements on 31 October 2005. We reported an improvement in working papers provided by the Council to support the entries in the accounts and these facilitated the smooth operation of the audit.

Financial position

- 5 The Council has put in place adequate arrangements to ensure that its financial standing is soundly based. The Authority has a good record in meeting financial targets and ensuring effective financial standing. Financial monitoring systems provide suitable information to budget holders and members at appropriate intervals. Members need to continue to monitor and scrutinise the financial position for both the current and forthcoming year.

Other accounts and governance issues

- 6 We have not identified any significant weaknesses in the overall control framework; we continue to be able to place reliance upon the work of Internal Audit and work closely with them throughout the year to ensure that both the internal audit programme of work and the managed audit areas are completed to a satisfactory standard.
- 7 We have not identified any significant weaknesses in your arrangements to prevent and detect fraud and corruption. A suitable ethical framework and policy documents exist to ensure good practice.

Action needed by the Council

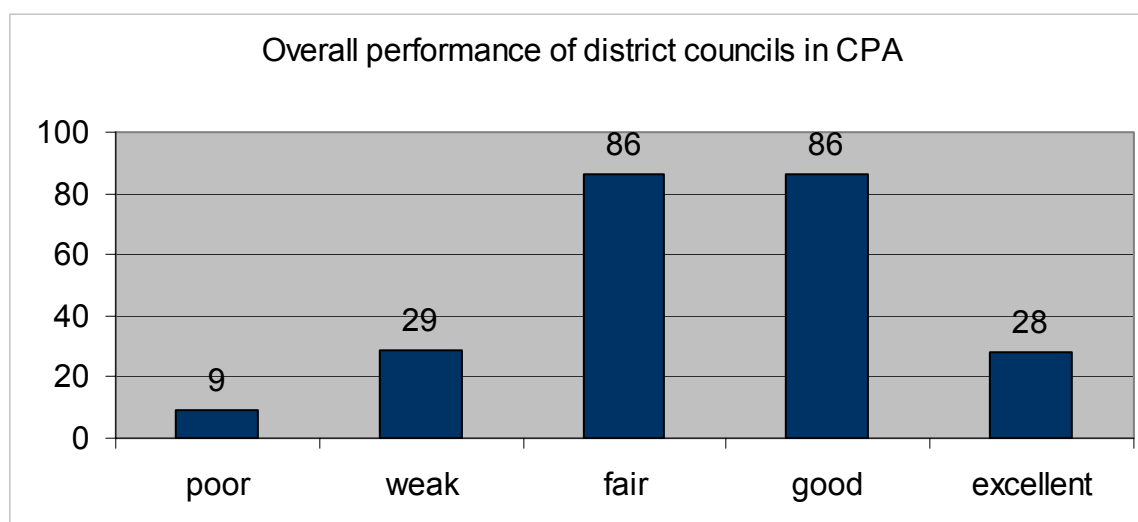
- 8 Members need to:
 - monitor the financial position closely to ensure that the balances remain at an adequate level, in particular on the general fund;
 - continue to review the budget outturn for the Council for 2005/06 and scrutinise the financial position in the medium term; and
 - continue to monitor the position with the ALMO/Inspace invoicing arrangements and controls in order to satisfy themselves that improvements are made.

Council performance

- 9 Colchester Borough Council was assessed as 'excellent' in the comprehensive performance assessment (CPA) carried out in 2004. These assessments have now been completed in all district councils (Figure 1).

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

Direction of Travel

- 10 On an annual basis all councils are subject to a Direction of Travel Statement that, whilst not scored for district councils this year, provides assurance to the public about councils' improvement. The Direction of Travel Statement for Colchester Borough Council is set out below.

Summary

- 11 Colchester Borough Council continues to deliver services of above average quality at low cost. Services are generally improving although waste collection is a significant exception. The Council is performing well in financial management and the delivery of value for money, though its approach to procurement is not fully effective. Additional performance management arrangements are focusing on the operational delivery of services but are not yet fully embedded and have not had a demonstrable impact. The Council is in the process of reviewing its strategic plan and revising its strategic objectives.
- 12 The Council is currently reviewing its corporate objectives and strategic plan in order to ensure that there is an appropriate focus on customer excellence, regeneration and service delivery.

- 13 There are many examples of effective partnership working which extend the Council's capacity to deliver its corporate objectives. The Council is seeking to extend its partnerships, particularly within the region.
- 14 The Council's performance is generally above average and more than a third of all services compare with those in the best performing councils in England. Over the last three years 60 per cent of services have improved although a priority area, that of waste has not.
- 15 The effectiveness of performance management is variable and new systems are yet to have a demonstrable impact. The monitoring of some key aspects of performance is sometimes not fully effective.
- 16 The Council performs well with respect to financial management. Whilst delivering value for money is not an explicit corporate objective for the Council there is a clear commitment to improving service quality and efficiency. Some effective action has been taken to reduce costs but procurement is not fully effective.

Findings

- 17 The Council is currently reviewing its strategic plan, last adopted in 2004, to reflect changing circumstances such as new political leadership, a new executive management team and increasing budget constraints. Corporate priorities are being revised, for example to further focus on the effective operational delivery of services, regeneration and customer excellence. The Council has been able to demonstrate a focus on the delivery of its current priorities with resources being redirected to priority areas. In the 2006/07 budget process priority growth areas are being required to make less efficiency savings than other service areas. This will result in, for example, further investment in regeneration and waste whilst higher levels of savings are identified in financial and leisure services.
- 18 The Council is using partnership working effectively to increase some aspects of its capacity. The Local Strategic Partnership (LSP) continues to provide leadership and a long term vision for the Borough. The LSP is currently reviewing its role in light of the development of Local Area Agreements. The Council has entered into medium to long term agreements with external organisations to deliver key functions. There are plans to develop further collaborative working with other Councils. It has established a Service Partnerships Manager post, with a responsibility for investigating trading activities and partnership working with other organisations. The Council is placing increasing emphasis on raising Colchester's regional profile and status. In the future the Council identifies that regional partnerships will be a source of significant new investment and regeneration opportunities.
- 19 Some aspects of human resource management are not fully effective. Despite some recent improvements sickness absence remains comparatively high and savings in many service areas during 2004/05 were due to posts remaining vacant. The Council has taken action to resolve ongoing capacity issues with the waste service which has required the use of agency staffing.

- 20 Sixty six per cent of services delivered by the Council continue to perform above average when compared to other councils in England. Since 2002/03, 60 per cent of performance indicators have improved, whilst 40 per cent have not. Some 38 per cent of performance indicators are top quartile. There are generally high levels of public satisfaction with the facilities provided by the Council. The quality of some of the Council's services has been acknowledged by external organisations, for example the achievement of Beacon status for homelessness.
- 21 The Council has invested, with variable impact, in poorly performing services. Planning services are now meeting national standards in the speed of planning applications despite an increased demand. Major issues remain with the waste collection service and the Council has committed significant further investment to deal with them. New staff accommodation has improved access with respect to the requirements of the Disability Discrimination Act although it will still only show 60 per cent compliance in 2005/06.
- 22 Progress with major projects is according to published plans but, as with many large projects, major decisions remain to be taken. The Colchester Garrison is on track and a Gateway review of the firstsite:newsite project which incorporates the Visual Arts Facility concluded that it was on target to succeed, although there continues to be some vocal public opposition. The North Colchester development is on track but decisions about key aspects of this development have yet to be made. Development of the Community Stadium has had some delays which have limited progress. Additional funding has been made available to support the achievement of the decent homes standard by 2007 well before the deadline of 2010. Colchester Borough Homes plans to achieve the decent homes plus standard by 2010.
- 23 The Council is improving some aspects of its customer focus. The Customer Service Centre has resulted in improved customer satisfaction and improved aspects of service such as customer access. Whilst performance continues to improve it is not achieving some of the Council's own challenging targets. The Council is seeking to meet the needs of the whole community although it acknowledges it still has groups that it does not always reach. The Council's future development emphasises the importance of making the Council more customer focused through a customer excellence model.
- 24 The effectiveness of performance management in service areas is variable. The Council's performance management process was revised and published in 2001. Some aspects of the process are now dated and the Council is taking action to improve operational performance monitoring. This is at an early stage and is yet to have a demonstrable impact. Service performance reviews and the customer excellence programme are at an early stage and have not yet delivered improvements. In some areas, such as support services, performance management has been identified as ineffective and whilst the Council is taking steps to improve this they are yet to have any impact. The monitoring of some key aspects of performance is in some instances such as the response to internal audit findings is not fully effective or based on clearly defined corporate systems.

- 25 The Council is performing well in terms of its financial management. There are strong links between budget management, medium-term financial planning and the delivery of corporate objectives and priorities. The Council's three-year capital plan is linked to the delivery of its strategic plan and corporate objectives. Business and activity plans are linked and councillors are actively involved in monitoring them.
- 26 The Council is performing well in terms of its ability to deliver value for money. It is comparatively low spending and despite services being delivered at average or below average costs many are achieving above average performance. However neither the Council's revised strategic plan nor its corporate objectives explicitly identify value for money as a corporate priority. Whilst there are no clear value for money targets for managers there is a clear commitment to improving service quality and efficiency. There is no process which routinely links the monitoring of costs and performance in service areas. The current procurement strategy is out of date and is not driving procurement at service level.

Best value performance plan and performance information

We issued an unqualified opinion on the Council's best value performance plan as it was materially compliant in all respects.

The Council has continued to improve its arrangements for the production and publication of accurate and reliable performance information. We were able to issue an unqualified opinion on the 2004/05 outturn indicators on 21 December 2005.

- 27 This year, the Audit Commission specified nine PIs for particular attention by auditors. For the first time this includes some non best value performance indicators (BVPIs), relating to the Housing Investment Programme (HIP) return, which do not appear in the best value performance plan (BVPP). This is to enable the Commission to obtain positive assurance in relation to this set of PIs, taking account of the Commission's requirements for CPA, in particular the proposals for service assessments. Our audit focused on these nine.
- 28 Four BVPIs were amended and we placed a reservation against one BVPI (BVPI 199; the proportion of relevant land having combined deposits of litter and detritus). The Council therefore needs to improve the robustness of data which supports this specific PIs.
- 29 We issued an unqualified opinion on the Council's best value performance plan as it was materially compliant in all respects.
- 30 The Council has continued to improve its arrangements for the production and publication of accurate and reliable performance information. We were able to issue an unqualified opinion on the 2004/05 outturn indicators on 21 December 2005.

Other Audit Commission inspections

- 31 As the Council is an 'excellent' authority under CPA, and in accordance with the Audit Commission's principle of 'strategic regulation', we carried out no formal inspections during 2004/05 or 2005/06.

Accounts

We issued an unqualified audit opinion on the 2004/05 financial statements on 31 October 2005. We reported an improvement in working papers provided by the Council to support the entries in the accounts and these facilitated the smooth operation of the audit.

Matters arising from the final accounts audit

- 32 Our review of the Council's core processes assessed them as being low risk for:
- failures occurring in the main accounting systems which could lead to material errors in the financial statements;
 - failures occurring in the close down procedures leading to material misstatements in the financial statements; and
 - the budgetary control system failing to identify material misstatements.

However, the ongoing issues surrounding the validation of Inspace invoices by CB Homes together with the material amount of funds provided to CB Homes as part of the decent homes initiative increased the final accounts risk to medium.

Submission and opinion

- 33 The draft financial statements were approved by the Accounts and Regulatory Committee on 26 July 2005 (the statutory deadline was 31 July 2005), and received by us on 28 July 2005. The cashflow statement followed shortly after on 5 August 2005. An unqualified opinion was given on the financial statements on 31 October 2005 (the statutory deadline).
- 34 The Council worked well throughout the year to provide the accounts by the revised statutory deadline of 31 July. Members of the finance team liaised closely with us from early in the year to ensure that all requirements were met and that, where necessary, the basis for estimating was agreed with us prior to the draft statements being submitted. For 2005/06 the deadline will come forward to 30 June 2006, and we have already started to have detailed discussions with finance staff on the best way forward. However, provided current practices continue in 2005/06 the Council should be well-placed to meet this earlier deadline.

Working papers

- 35 The working papers produced along with the first draft statements were of a good standard. In previous years we have commented that working papers provided by the Council to support the financial statements needed to be improved and we are pleased to report that there was an improvement for the 2004/05 audit.

Liaison meetings

- 36 The regular progress meetings held between the finance team and auditor, to discuss issues identified and to agree a course of action, were very effective in identifying issues in advance and in helping both sides to focus on priority areas. We would like to continue this approach for the closure of the 2005/06 financial statements.
- 37 There were no material amendments to the accounts.

Audit amendments

- 38 During the audit, we proposed adjustments largely to clarify disclosures. Following discussions with officers, these amendments were incorporated into the final audited statements.
- As some assets had reduced in value due to a general fall in prices a disclosure note on this impairment of £1,522,000 was provided.
 - The Statement of Internal Control was amended so as to include more detail on the issues raised with the invoices submitted by the ALMO - more detail is provided on this below.

Report to those with responsibility for governance in the Council

- 39 We are required by professional standards - Statement of Auditing Standards (SAS) 610 - to issue a report to those with responsibility for governance on any non-trifling errors. This report was presented to Accounts and Regularity Committee on 18 October 2005. We had a number of issues to bring to the attention of Members and these are summarised below:

Unadjusted Misstatements

- 40 Our testing showed that depreciation had not been charged on three assets which had a net book value (NBV) at year end of £180,000.
- 41 The Council were unable to reconcile the figures between the National Non Domestic Rates system (NNDR), the Council Tax system and the ledger. Although the differences were immaterial; there was a difference of £2,219 between the ledger and the NNDR system and a net difference of £5,000 between the council tax system and the ledger, we identified that these errors are largely historical and suggested that these be written off in order to bring the systems into balance.

Material weaknesses in accounting and internal control systems

- 42 Our 2003/04 audit highlighted weaknesses in the scrutiny of invoices submitted by Inspace to the ALMO. Following this observation, the Council's Internal Audit service performed a detailed review of the management arrangements in operation at the ALMO. This review concluded that there were a number of issues which needed to be addressed and an action plan was agreed. In June 2005, and at our request, Internal Audit performed further detailed testing on invoices submitted by Inspace. The transactions reviewed were directly related to the figures in the accounts for Council Dwellings and charges to the housing revenue account. The initial results of this testing were that queries were raised on 160 of the 483 transactions examined.
- 43 The queries covered the following areas:
- explanation for calculation of invoice unclear (1);
 - missing timesheet (4);
 - invoice missing from file (13);
 - over claiming of time (11);
 - handover and completion paperwork not present (105);
 - file missing (1);
 - order for works missing (1); and
 - part completion of works (15).
- 44 More generally, looking ahead, the new Code of Audit Practice, which incorporates the use of International Standards on Auditing (ISAs), came into affect from 1 April 2005. The requirements of the ISAs place much greater emphasis upon the adequacy of controls and systems that support the material figures in the accounts. The ALMO will have received an estimated £21 million of funding during the 2005/06 financial year. This funding is primarily for the decent homes standard, and will be included in the Council's accounts as capital enhancements to council dwellings and as repairs and maintenance expenditure in the Housing Revenue Account. These are material figures in the Council's accounts. The lack of controls found with the Inspace invoicing as detailed above combined with the increased emphasis upon controls will mean that increased scrutiny will be given to the ALMO/Inspace invoicing relationship in the audit of the accounts for 2005/06. The Council have worked hard over the past year to develop a way forward, in conjunction with the ALMO and internal audit. We will continue to review this area, together with all parties involved and report to members on the progress as part of the 2005/06 audit.

Financial standing

The Council has put in place adequate arrangements to ensure that its financial standing is soundly based. The Council has a good record in meeting financial targets and ensuring effective financial standing. Financial monitoring systems provide suitable information to budget holders and members at appropriate intervals. Members need to continue to monitor and scrutinise the financial position for both the current and forthcoming year.

- 45 The Council has a good record in meeting financial targets and ensuring effective financial standing. Financial monitoring systems provide suitable information to budget holders and members at appropriate intervals.
- 46 The Council has established proper arrangements to monitor its financial position and take appropriate remedial action. This has been achieved through clear delegation of budgetary responsibilities and the timely production of information to these staff with regular reporting to senior management and the Finance and Audit Scrutiny Panel. However, the Council faces significant challenges in the future, as the efficiency savings, including those required by the Gershon review, will need to be delivered.

General fund spending and balances

- 47 Both revenue and capital budgets have been based on well founded assumptions. They have also provided a good balance between meeting service expectations and the availability of funds. The net revenue budget for 2004/05 was set at £20.2 million. To achieve this level the Authority had to make savings of £110,000 throughout the year, mainly met from service budgets.
- 48 In total, at year end, services reported a net underspend of £356,000. This did, however include a large overspend by waste services of £542,000. Waste services continues to be an issue in the current year and a detailed review of the waste service has taken place with full member cooperation and input. The service will be redesigned in 2006/07 incorporating a change in the type of vehicles used. It is anticipated that this will address the financial problems experienced in the last two years.
- 49 Cabinet have agreed that revenue balances should be maintained at a minimum of £1.6 million for the future. At the end of 2004/05 the balance was £2.193 million, of which £355,000 is planned to support the 2005/06 budget.

Housing revenue account (HRA)

- 50 The Council was able to increase the HRA balance by £618,000 to £2.638 million at the year-end.

Capital programme

- 51 The agreed capital programme for 2004/05 was £29.49 million. Against this budget, there was an underspend of £1.51 million. The majority of this was due to slippage on projects such as the enabling funds for the St Botolphs regeneration (£250,000); the accommodation project (£306,100); the personal computer upgrade (£127,900); the decent homes initiative (£576,000) and delays in the move to Rowan House which resulted in a knock-on effect to work on Angel Court (£306,100). All of these funds have been fully committed in 2005/06 and the delays did not have an effect upon the Council's ability to deliver its corporate objectives.

Pensions fund deficit

- 52 2004/05 is the second year in which the impact of Financial Reporting Standard 17 *Retirement Benefits* (FRS 17) has been fully recognised on the face of local authority balance sheets. The current position is that the Council's share of the Essex-wide pension fund deficit is £49.3 million.
- 53 The effect of the change in the actuarial assumptions as at 1 April 2004 in accordance with CIPFA guidance has been to increase the value of future liabilities. The net change in the year arising from actuarial gains and losses amounts to £22.6 million.
- 54 Whilst this is significant, it is taken into account by the pension fund actuary in determining future contribution rates and reflects the current cost of retirements, which will not be borne at any one point in time.

Current and future year forecasts

- 55 The Council face one of its most financially challenging periods over the coming year. The net General Services budget for 2005/06 was set at £19.622 million. The council have used general fund reserves to fund the financing of carry forwards from the previous year of £255,000 and for the review of the leisure trust of £100,000.
- 56 In November 2005 the Head of Financial Services was predicting a year-end outturn overspend of £413,000. The latest monitoring report provides an update on this position and incorporates improvements as identified by the Senior Management team. Street services continues to be a problematic area and the forecast outturn for this particular service is an overspend of £900,000.
- 57 As part of the Senior Management team review a number of cost improvement initiatives have been analysed by Service Heads. As a result of this the net forecasted outturn is an overspend of £209,000. Naturally there are risks attributed to the achievement of this figure given that some services are likely to overspend and cannot increase savings any further. It is therefore essential that the budget position is monitored closely at the close of the financial year.

- 58 At the beginning of 2005/06 the reserves balance was £2.193 million. The Council have continued to utilise reserves throughout 2005/06 and this usage amounts to 2 per cent of the net budget requirement for the year. The 2006/07 estimates state that there will be a further call on balances of a £30,000 to support the best value satisfaction surveys and £100,000 for one off funding requirements during the year. A further £100,000 has been specifically earmarked for potential items of unplanned expenditure such as new statutory requirements and requirements as per the revised strategic plan.
- 59 As a result of this usage, the general fund reserve balance should stabilise at £1.708 million by the end of 2006/07. If the balance remains at this level it will amount to 8 per cent of the net budget requirement for 2006/07.
- 60 Whilst we recognise that the Council are being prudent in their approach to the medium-term financial position the Council should continually review the level of reserves to confirm that the level of reserves is adequate.

Systems of internal financial control

We have not identified any significant weaknesses in the overall control framework. We continue to be able to place reliance upon the work of Internal audit and work closely with them throughout the year to ensure that both the internal audit programme of work and the managed audit areas are completed to a satisfactory standard.

- 61 The arrangements for identifying and managing risks are considered satisfactory. There is a clear and strong commitment to effective risk management at both member and officer levels, with accountability being assigned and accepted by those concerned.
- 62 We note that our reports issued throughout the past year have sometimes taken a lengthy amount of time to finalise. The Council have acknowledged that this has been an issue and are endeavouring to improve this for the forthcoming year. We would suggest that external audit recommendations are routinely reported to the Finance and Audit Scrutiny Panel to ensure that they receive appropriate scrutiny and the impact of recommendations are not lost.

Internal Audit

- 63 We continue to be able to place reliance upon the work of Internal Audit. Internal Audit consistently deliver work against the agreed timetable and risk-based plan throughout the year.
- 64 We are in the process of reviewing the management arrangements of internal audit as part of a three year rolling programme of review. Although this work is yet to be completed, early findings would suggest that there are sound arrangements and practices in place.

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. A suitable ethical framework and policy documents exist to ensure good practice.

- 65 A suitable ethical framework exists within the Council concerning the expected standards of behaviour. The Finance and Scrutiny Panel's operation effectively contributes to the creation and maintenance of standards.
- 66 Suitable policy documents and procedural guides exist to ensure that good practice is disseminated down to officers of the Council. Any failures to maintain these standards are covered by procedures.
- 67 A suitable treasury management policy has been adopted by the Authority.
- 68 The Fraud and Corruption policy does need to link instances of fraud and corruption with the risk management process. Although instances or suspicion of fraud and corruption are rare, they would serve well to inform the risk management process. We would suggest that the Authority include provision of this in the Fraud and Corruption policy.

Legality of transactions

- 69 We have not identified any significant weaknesses in the framework established by the council for ensuring the legality of its significant financial transactions. Procedures exist to ensure that all legality issues are addressed and that advice is sought when required. Responsibility for ensuring legality is assigned and support for officers is readily available.

Use of resources judgements

- 70 The use of resources judgement 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 each council's external audit. We anticipate in future the use of resources judgements will form part of the CPA framework.

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

Table 1 Colchester Borough Council arrangements

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

(Note: 1=lowest, 4=highest)

72 In reaching these judgements we have drawn on the above work and supplemented this with a review against specified Key Lines of Enquiry (KLOE's).

73 Those areas where the Council were assessed at performing well are listed below. Within these areas are some which were given a score of 4 against individual KLOEs:

- the accounts were prepared in accordance with Statutory Guidelines, they were provided for audit on time and presented to Council with a clear explanatory paper;
- the medium-term financial strategy is clearly linked to strategic objectives, business planning, and to joint plans with stakeholders and partners;
- a comprehensive revenue budget has been set along with an affordable capital programme;
- consideration has been given to future developments such as the museum stores and initiatives with other neighbouring councils;
- the council monitors, manages and sets targets for the level of reserves;
- there is detailed monitoring information provided to review overpayment recovery and debt recovery. Furthermore, performance indicators and monthly reconciliations assist this process;
- a risk management strategy is in place, which is reviewed and updated and includes risks relating to partnerships. Risk management has both officer and member support;
- there is an embedded assurance framework incorporating weaknesses identified in the statement of internal control and a plan to address these; and
- a counter fraud and corruption policy exists and the counter fraud culture within the council includes whistleblowing.

74 The most significant areas where further development is needed are:

- the Council does not produce summary financial statements or an annual report and consultation with stakeholders is yet to become embedded;
- links need to be made clearer between asset performance measures, benchmarking and strategic priorities;
- financial systems testing needs to include user input and clear consultation with these users;
- monitoring of opportunity costs and benefits needs to become embedded throughout the council;
- fraud and corruption needs to be considered in both the risk management strategy and risk registers;
- financial procedures need to be reviewed at least annually;
- systems documentation needs to be updated annually; and
- improvements need to be made to the risk management process including staff and member training, the introduction of operational risk registers, and more frequent reporting to members.

Other work

Grant claims

- 75** 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.
- 76** The Council's arrangements for managing and quality assuring grant claims submitted for audit has improved slightly this year (Table 2).

Table 2 Grant claim certifications

Claim	Qualified	Amended
Housing Benefits (2004/05)	Yes	Yes
Housing Subsidy (2004/05)	No	No
Housing Subsidy - Advance Base Data (2006/07)	No	Yes
National Non-Domestic Rates (2004/05)	No	No
Pooled Housing Capital Receipts (2004/05)	No	No
Disabled Facilities Grant (2004/05)	No	No
Discretionary Housing Payments	No	No
Commutation calculation	No	No

- 77** The Council need to continue to review the working papers supplied for the audit of grant claims and fully implement the recommendations made in the 2003/04 grant claim report.

National Fraud Initiative

- 78** In 2004/05, the Council 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.

- 79 The Council has carried out the exercise in an effective manner, starting with investigating the high priority matches and then moving on to lower priority matches. Regular, required returns have been made by the Council.

Objection: 2003/04

- 80 In my annual audit and Inspection to you in 2003/04, I explained that we were in the process of investigating an objection raised on the 2003/04 accounts. At the time of writing that letter, I was not in a position to report a conclusion as the investigation had not been concluded.
- 81 Since that time, we have undertaken a detailed review of the issues raised within the objection and following this, we concluded our investigation on 27 October 2005 in a letter to the objector. I have summarised the main issues and our response, below.
- **Transactions relating to St James' House, Roman House and the Kwik-Fit premises, Osborne Street. the site at Vineyard Street** and the sale of council owned land at the foot of the 'Jumbo'water tower; I concluded that I was satisfied that the Council discharged its responsibility under section 123 of the Local Government Act 1972 and that transactions were made in accordance with the Council's Standing Orders and Financial Regulations.
 - **Appointment of Space Syntax as a Development Consultant;** I concluded that the Council evaluated tenders by reference to relevant factors – price and qualitative factors, it did not take into account irrelevant factors and that the decision was not one that no reasonable Council could make.
 - **EEDA Grant Aid Support;** I concluded that grant funding was provided with the objective of acquiring the St James' House site to enhance access, visibility and the general environment of the Visual Arts Facility, rather than the provision of the actual site for construction.

Looking forwards

Future audit and inspection work

- 82** 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.
- 83** 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 discuss your improvement priorities with you and develop an agreed programme.

Revision to the Code of Audit Practice

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

A new CPA framework

- 86** The Audit Commission is currently consulting on the proposals for revising the CPA framework for District Councils. The consultation period ends in May 2006, and the Commission plans to publish the final framework in July 2006 along with a detailed methodology for underlying elements and a report on the analysis of consultation responses.

Closing remarks

- 87 This letter has been discussed and agreed with the Chief Executive and officers. A copy of the letter will be presented at the Cabinet meeting on 24 May 2006.
- 88 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

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

Paul King
District Auditor and Relationship Manager
March 2006

Appendix 1 – Background to this letter

The purpose of this letter

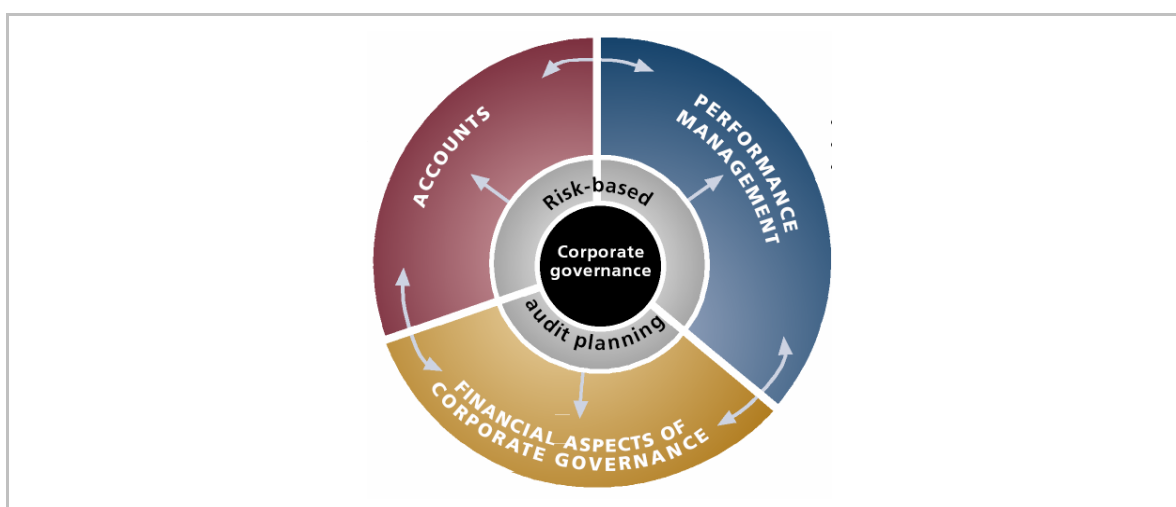
- 1 This is our audit and inspection 'Annual Letter' for members which incorporates the Annual Audit Letter for 2004/05, which is presented by the Council's Relationship Manager and District Auditor. The letter summarises the conclusions and significant issues arising from our recent audit and inspections 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 2.

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

Table 3

Report title	Date issued
Audit Plan	March 2005
Interim Audit Report	May 2005
Report on the 2004/05 Financial Statements to Those Charged with Governance (SAS 610)	October 2005
Final Accounts Memorandum 2004/05	December 2005
Report on the Best Value Performance Plan	December 2005
Review of 2004/05 Outturn BVPIs	December 2005
Use of Resources	March 2006

Appendix 3 – Audit and inspection fee

Table 4 Audit fee update

Audit area	Plan 2004/05	Actual 2004/05
Accounts	£39,500	£39,500
Financial aspects of corporate governance	£35,400	£35,400
Performance Management	£24,823	£24,823
Total Code of Audit Practice fee	£99,723	£99,723
Additional voluntary work (under section 35)	£0	£0
Total	£99,723	£99,723