

Annual Audit Letter

January 2006



Annual Audit and Inspection Letter

London Borough of Ealing

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.

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Key messages

Council performance

- 1 Ealing has made improvements in key services, particularly children's social services, education, customer access and aspects of housing. However, its track record of improvement across all services is inconsistent. It is serving most children well, with good capacity for further improvement and good exam results have been maintained. A recent inspection of Older People judged the service to be serving some people well with promising prospects for improvement. Social services for adults have improved markedly. Some performance indicators do not compare well with other councils nationally. Areas of higher spend are in line with stated priorities, especially around social services, but the Council needs to develop a more overarching value for money culture. There are some significant contributions to wider community outcomes but these are not consistent across all partnerships. Following a period of considerable uncertainty which impacted negatively on some services, the new leader, chief executive and corporate board have begun to strengthen corporate governance, performance and financial management arrangements. The Council needs to now build on this work so that improved outcomes are delivered in frontline services.

The accounts

- 2 Following their presentation to the Council on 26 July 2005, an unqualified audit opinion on the main Council accounts was provided in December 2005. The 2004/05 audit will be formally closed once a query from a local elector has been addressed.

Financial position

- 3 The Council's delivered an under spend of £1.8 million against an initial 2004/05 approved budget of £368.9 million which reflects positively on the Council's financial management arrangements. The Council also contributed a planned £5 million and a contribution from the underspend to bring year-end balances to £8.8 million.
- 4 Whilst the £6.6 million increase in reserves demonstrates significant progress it remains our view that the considerable challenges you face in implementing Response and realising the benefits of the change programme requires further efforts to increase the level of reserves. We also have concerns about the increasing pension fund liability which has risen by £109.9 million.
- 5 Our audit work on the Council's financial position is supported by our review of your systems of internal control which identified no significant weaknesses.

Other accounts and governance issues

- 6 During the year, we have conducted four key pieces of audit work. We have undertaken a review of the Response programme, a review of ICT management arrangements, a review of severance payments and the Use of Resources audit.
- 7 The key messages from our review of Response centre on the need to develop an action plan for the remainder of the programme and ensuring there are robust governance and performance management arrangements in place.
- 8 Our ICT work highlighted the many challenges you face and identified the need to define responsibilities within the Council for contract management, particularly in light of the delays experienced in delivering the ICT elements of Response and the need to formalise and test continuity plans.
- 9 In light of the work we performed on severance payments, the Council is currently reviewing all related policies and procedures. In response to this, we will perform a follow up piece of work in 2005/06 to review and assess progress made.
- 10 Key messages arising from the Use of Resources assessment focus on the developing more sophisticated financial and activity reporting.

Action needed by the Council

- 11 You have undergone significant change in the past year both in terms of Tranche 1 of Response and in management and organisational structure, and we are aware of the many developments being rolled-out regarding financial and strategic planning and risk management. We believe you are making sound progress in these areas and in order to assist in these plans, we have listed below the key actions you need to take in 2005/06.
 - Developing robust project management, governance arrangements and rigorous cost/benefit analyses for all remaining tranches of the Response programme.
 - Addressing the increased gap in the pension fund liabilities.
 - Developing effective governance arrangements to deliver the cost savings required to address the challenging budget gap.
 - Ensuring the Council Tax and Business Rates collection systems are operating effectively.
 - Incorporating risk assessments and sensitivity analysis into financial reporting.
 - Linking activity and finance data to improve and facilitate decision-making.

- Improving asset management and detailed backlog maintenance planning.
- Drawing explicit links between the risk registers and corporate objectives.
- Routinely reporting comparable information to benchmark against neighbours.
- Strengthen performance management in Environmental Health.
- Develop a systematic approach to addressing the diverse needs of local communities in relation to Environmental Health, for example consult users about service standards and publicly report performance against these.
- Address the specific areas for improvement highlighted in the ALMO inspection report.

Audit Commission inspection reports can be viewed at
www.audit-commission.gov.uk

Performance

- 12** The Council has begun to make progress in a number of areas, following a period of considerable uncertainty which impacted negatively on some services. Ealing has made improvements in key services, particularly children's social services, education, customer access and aspects of housing. However, the Council's track record of improvement is inconsistent across all services. The departure of the whole corporate board, including the Chief Executive impacted on some key services, including social services. The new political leadership, corporate board and chief executive have moved quickly in building commitment and reshaping the Council's corporate governance structures to drive improvement. This is having a positive impact on staff and the extent to which they feel valued and supported.
- 13** Overall, the Council has mixed performance against key national performance indicators. Over half of the Council's key performance indicators have improved since last year, but an increasing proportion are in the lowest quartile nationally (32 per cent in 2004/05, up from 29 per cent the previous year).
- 14** There has been a significant improvement in the responsiveness and quality of social services for adults. Clear improvement is evident in acceptable waiting times for assessment and the percentage of people receiving a statement of their needs. Children's social care services are performing well, in particular, in reviews of child protection cases and adoptions of children looked after.
- 15** Ealing has made consistent progress in improving GCSE exam results in 2005. The borough has a comparatively high number of young people leaving care with one GCSE; 11 per cent of Ealing's looked after children are now progressing onto further education, compared to a national average of only 1 per cent and the Council has one of the highest numbers of care leavers at university in England.
- 16** The performance of environmental services is mixed with improved recycling rates over the past six months. An inspection of Environmental Health highlighted areas for improvement including, non-delivery of planned inspection and sampling programmes and telephone access problems.

- 17 Service inspections over the last year have found good and fair services. The cultural services inspection in October 2004 rated the service as good, but with uncertain prospects for improvement, and satisfaction with these services remains low. The inspection of the Council's ALMO - Ealing Homes, in August 2005, gave the service a good rating with promising prospects, giving access to an initial £64 million to deliver sustainable decent homes. Some aspects of housing management and strategy still require further improvement, including tenant satisfaction with landlord services and opportunities for participation. Ealing did not meet government targets for average length of stay of homeless households in B&B accommodation in 2004/05. Its performance was 30 weeks compared to a target of no more than 6 weeks. A recent inspection of environmental health rated the service as fair with promising prospects for improvement. The housing benefits service has been assessed as providing a good service in 2005 by the BFI.
- 18 In terms of wider community concerns, the Council has made a positive contribution to health through partnership working. Ealing has achieved the biggest fall in teenage pregnancy rates in London and there has been a reduction in the number of people killed or seriously injured in road traffic collisions, contributing to the achievement of the PSA target. Burglaries have declined, but overall, there is rising crime in the borough. The Council has plans in place to address this.
- 19 The Council is transforming its accommodation applying modern office working models and consolidating existing receptions making greater use of its assets and generating capital receipts from disposals of properties. Customers are benefiting from improved access via the new customer reception centre, which also accommodates a police officer to deal with non-emergency enquiries. The Council is developing its capacity for continuous improvement. There is a high turnover of staff (currently at 20 per cent) with reliance on temporary staff, but the Council has put plans in place to address skills shortages. The Council has further work to do in embedding a culture of value for money across the organisation.

CPA scorecard

Table 1 CPA scorecard

Element	Assessment
Direction of Travel judgement	2
Overall	3 stars
Current performance	out of 4
Children and young people	3
Social care (adults)	2
Use of resources	2
Housing	2
Environment	2
Culture	3
Benefits	3
Corporate assessment/capacity to improve (not reassessed in 2005)	3 out of 4

(Note: 1=lowest, 4= highest)

- 20 The 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 outcomes for local people and value for money. We have also added a new dimension, a Direction of Travel judgement that measures how well the Council is improving. Under the new framework, the Council is improving adequately and its overall CPA category is three stars.

Direction of Travel statement

- 21 Ealing has made improvements in key services particularly children's social services, education, customer access and aspects of housing. However, its track record of improvement across all services is inconsistent. It is serving most children well with good capacity for further improvement and good exam results have been maintained. A recent inspection of Older People judged the service to be serving some people well with promising prospects for improvement. Social services for adults have improved markedly. Some performance indicators do not compare well with other councils nationally. Areas of higher spend are in line with stated priorities, especially around social services, but the Council needs to develop a more overarching value for money culture. There are some significant contributions to wider community outcomes but these are not consistent across all partnerships. Following a period of considerable uncertainty which impacted negatively on some services, the new leader, chief executive and corporate board have begun to strengthen corporate governance, performance and financial management arrangements. The Council needs to now build on this work so that improved outcomes are delivered in frontline services.

Other performance work

- 22 The Audit Commission undertook an inspection of Environmental Health (September 2005) and judged it to be fair with promising prospects for improvement. Positive aspects of the service included some notable outcomes for new communities, based on understanding of their needs and some positive outcomes for the wider population eg reduced numbers of high-risk food premises, reductions in nuisance from licensed premises, and good success rates for prosecutions and appeals. Areas for improvement included, non-delivery of planned inspection and sampling programmes and telephone access problems.
- 23 In 2005, two housing inspections were undertaken as follows:
- Housing Management (May 2005) judged as fair and promising; and
 - ALMO (August 2005) judged as good with promising prospects.

These inspection reports can be viewed at www.audit-commission.gov.uk.

Performance information

- 24 Each year, we are required to assess whether the Council has established appropriate performance managements arrangements. This considers how the Council secures economy, efficiency and effectiveness in the use of its resources. As auditors, our overall assessment is based on three work streams.
- Mandated reviews: this incorporated three key areas; overarching performance management arrangements, review of the BVPP and BVPIs and the Use of Resources assessments.

- Management arrangements: we identified and performed three reviews that looked at the Response Programme, ICT management arrangements and HR systems regarding severance payments.
- Other work: Should we be requested, or identify a need for it, we are expected to perform other work as necessary to meet our responsibilities under the Audit Code of Practice. We did not perform any such work in 2004/05.

Mandated reviews

- 25 During July and August 2005, we performed our mandated audit of the outturn 2004/05 performance indicators as included within the Annex to the 2005/06 BVPP.
- 26 Our Performance Indicator Audit resulted in the two reservations both of which related to Housing Benefits. This represents a decrease in the number of reservations made from 2003/04 when there were seven.
- 27 Despite this fall in reservations, we do consider there to be considerable scope for improvement in terms of the systems in place to monitor and compile performance information. Our audit this year highlighted a total of 41 adjustments compared to the 26 in the previous year. We are conducting a review of performance management arrangements during the current year and will focus on accountability, the use of Performance Plus and the need to move away from year-end processes to collate and review data and toward ongoing, robust monitoring.
- 28 The final element of our management arrangements work is the issuing of our BVPP opinion. This work is ongoing and our opinion will be provided by the 31 December 2005 deadline.

Management arrangements

- 29 The Council's Response Programme was conceived two years ago to address inconsistencies in performance as highlighted by CPA and based on resident surveys. The overall objective of the programme is to transform the Council into an organisation which is much more focused on the needs of its customers. The programme is intended to change the way customers contact the Council through the development of new access channels, a new telephone system, enhanced web services and a single modern Reception Centre. The programme is also seeking to improve staff working conditions and refresh business processes in order to improve the efficiency of services. Underpinning all of this a significant investment in information technology to improve access and maximise service efficiency.

- 30 Over £22 million (capital) and close on £14 million (revenue) will have been spent by the Council on the Response Programme at December 2005. In view of the scale of this investment, the Council commissioned KPMG to extend their planned review of Response and carry out a much more detailed audit review of the financial assumptions underpinning the business case for the programme and the delivery plans that were available for each tranche of the project. This was carried out in August/September 2005.
- 31 The rationale for the accommodation element of the Response Programme appeared to be reasonable and based on modern office working methods. It was not possible to isolate the precise costs and benefits associated with consolidating all existing Reception Centres into Perceval House but it was clear that this will enable the Council to dispose of surplus property and reduce its property related overheads. Moreover, it was clear that customers and staff were welcoming the new office environment.
- 32 The planning for Tranche 2 of the project had not been started at the time of our review but it was clear that the programme management and governance arrangements around the remainder of the project were in need of substantial improvement. In particular, we recommended that the Council should create and enforce rigorous cost/benefit analyses for the remainder of the programme before committing to any further investment.
- 33 The review of ICT management arrangements focused on the investment in ICT relating to the Response Programme and the effect of this on the e-government agenda. It also reviewed your business continuity planning and IT service contract management. In relation to Response and e-government, our review highlighted the risks to the planned benefits realisation brought about by the termination of the contract. The lack of a formal, robust business continuity plan was also raised as a key issue for the Council to address alongside the need to establish a clear governance framework with defined responsibilities within the organisation in relation to IT service contract management. We will follow up all issues raised as part of our 2005/06 audit work.

- 34 Work in relation to the HR systems looked at a sample of severance payments made in the year. From the audit work performed, some inconsistencies in approach were identified which has led to a review at the Council of the current policies and procedures in place. We will perform the second strand of this work in the current year which will focus on lessons learned and improvements implemented.

Working with other inspectorates and regulators

- 35 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:
- Ofsted;
 - Commission for Social Care Inspection (CSCI);
 - Benefits Fraud Inspectorate (BFI);
 - DfES; and
 - Local Government Office contact.
- 36 We share information and seek to provide 'joined up' regulation to the Council. During the last year, the Council has received the following assessments from other inspectorates:
- Older People Inspection (June 2005) - one-star (serving some people well) with promising capacity for improvement; and
 - BFI (October 2005) - three – Good.

Accounts and governance

KPMG has given your accounts an unqualified audit opinion.

Our overall assessment is that the Council has established adequate standards of control associated with financial aspects of corporate governance.

Audit of 2004/05 accounts

- 37 We received a draft set of accounts on 14 July 2005 and issued our audit opinion on the Council's accounts in December 2005.

Report to those with responsibility for governance in the Council

- 38 We are required by professional standards to report to those charged with governance (in this case to the Director of Finance) certain matters before we give an opinion on the financial statements. We provided this within our SAS 610 and Management Representation letter.
- 39 Within this correspondence, we detailed:
- unadjusted misstatements within the financial statements;
 - qualitative issues surrounding the accounting or internal control system - no such issues were highlighted;
 - weaknesses identified in the accounting or internal control system - no such issues were highlighted; and
 - expected modifications to the auditors' report - we have yet to issue our audit certificate due to an ongoing enquiry which we expect to be resolved in January 2006.
- 40 Within our SAS 610 letter, we also provided a declaration concerning our independence and objectivity when performing your audit work in accordance with Audit Commission standards.

There were two significant unadjusted audit differences outlined within our SAS 610 neither of which is material to the financial statements. These were:

- the calculation of LOBO interest costs. The Council accounted for interest when actual payments are made, rather than accruing for interest costs over the term of the loan which is the prescribed treatment. The difference calculated was approximately £349,000; and
- the provision for Social Services s.117 liabilities was excluded from the accounts in error. This totalled £400,000.

Matters arising from the final accounts audit

- 41 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 26 July 2005, five days in advance of the 31 July 2005 deadline.
- 42 In last year's Annual Audit and Inspection Letter, we emphasised that timeliness in producing the accounts will become increasingly important over the next few years as the deadline for completion of the accounts is brought forward in line with the Government's requirement. Whilst the accounts have been prepared to meet the requirements this year, the deadlines will become increasingly more difficult to achieve and will require early planning and thoughtful scheduling of key meetings next year.
- 43 In addition, we encountered significant difficulties in gaining documentation to support figures in the accounts particularly the in relation to information from Ealing Homes (the Council's ALMO). You must ensure that a clear protocol is in place regarding the provision of information to the Council from the ALMO and more notably that key controls are performed on a suitably regular basis.
- 44 Overall, the Council needs to draw up plans to deal with issues that have caused delays in the current year to ensure the earlier WGA deadline is met.
- 45 As a result of our audit work, we identified a significantly higher number of adjustments in comparison to prior years. These included the omission from the HRA stock valuation and analysis of 18 properties re-purchased by the Council as part of the South Acton Regeneration Scheme, with a total value of £2.8 million. These adjustments were agreed with your Head of Financial Control and have been made to the accounts.
- 46 We are always trying to improve the way we work with you are we will arrange a full debrief process with the finance team. As part of this process, we will work together improve the process and help you meet the future challenging deadline for the accounts. Key areas that we will focus on will include:
 - the provision of detailed variance analysis from across the Council; and
 - the movement of working papers towards an 'exemplary' standard. The quality of the working papers presented for audit was generally adequate. Housing (excluding the ALMO) were highlighted as being of particular quality whilst the Council Tax and Collection Fund could be further developed and improved. In these instances we were required to contact the relevant officers in order to gain greater clarity over the figures and explanations provided.

Financial standing

- 47 The external auditor's duty is to consider whether the Council has appropriate arrangements in place to ensure that its financial standing is soundly based. This assessment draws on our review of:
- the Council's available reserves and balances;
 - actual performance against budget during the year; and
 - management of previously highlighted financial risks.
- 48 The Council's financial position has improved, with reserves at 31 March 2005 increased to £8.8 million, a £6.6 million increase from 31 March 2004. This represents the achievement of the planned £5 million contribution to non-earmarked reserves, together with a contribution from the general fund underspend.
- 49 We are pleased to note the return of non-earmarked reserves to a level more appropriate for a Council of Ealing's size but would note the need for you to continue to monitor existing and emerging financial pressures closely (eg Implementation of Tranche 2 of Response, Social Services spending and pension fund liabilities) to ensure that appropriate levels of reserves are maintained.

General fund spending and balances

- 50 Overspends within Social Services (£1.8 million), Housing Benefits (£1 million) and Human Resources (£1 million) have been offset by underspends in Housing and Environmental Health (£2.1 million) and in other services to result in an overall £1.8 million underspend against the 2004/05 revenue budget of £368.9 million.
- 51 As at 31 March 2005, your audited accounts show you to have total balances and reserves of £55.6 million, an increase of £9.8 million since last year. After taking into account earmarked balances, the Council's available general fund balance at 1 April 2005 was £8.8 million.
- 52 Looking forward into 2006/07, the Council is currently identifying cost savings measures to meet the projected £16 million budget gap.

Capital programme

- 53 During 2004/05 the Council spent £115 million as part of the capital programme an increase of £43.4 million over the previous year. This increase is primarily due to the purchase of the Council's main office building, Perceval House (£34.8 million) and subsequent refurbishment and ICT enablement works. During the current year you must ensure that the ICT elements of Response and associated capital costs are robustly managed and appropriately accounted for.

- 54 Capital expenditure also includes £1.3 million of eligible revenue expenditure capitalised in accordance with the budget strategy and redundancy costs of £1 million charged to the capital account following approval from the Office of the Deputy Prime Minister.
- 55 The 2004/05 capital programme overspent by £1.2 million. The main area of overspend was within Housing, which was £3.7 million overspent, of which £2.8 million related to buying back Right to Buy properties on the South Acton estate. The Council regards this cost as temporary and to be recovered during 2005/06 from the development partnership. This overspend was offset by underspends in Education and Universal capital projects.

Income collection and arrears

- 56 The Council tax collection rate declined from 95.4 per cent in the prior year to 93 per cent with net arrears as at 31 March 2005 of £6.3 million (£3.1 million as at 31 March 2004). Business rates collection also declined to 97.4 per cent (98.9 per cent in 2003/04), with net arrears as at 31 March 2005 of £1.9 million (£1.2 million as at 31 March 2004).
- 57 This decline in performance is attributed to difficulties experienced in implementing a new IT system in December 2004. We understand that these issues have been addressed and highlight the need for the Council to ensure the systems are operating effectively in for 2005/06.
- 58 There has been considerable effort directed towards the Council's rent collection processes which has resulted in a collection rate of 94.5 per cent and represents a 1.2 per cent increase in performance from the previous year.
- 59 We have reviewed the level of arrears collection as part of our financial accounts audit together with a review of the provision in place and have concluded that this is adequate.

Pensions fund deficit

- 60 The Council's Pension Fund is revalued every three years by an independent actuary. The 2004/05 accounts reflect the most recent valuation updated to 31 March 2005 where net liabilities for retirement benefits at 31 March 2005 were estimated at £233.1 million, an increase of £109.9 million from the previous update disclosed in the 2003/04 accounts (£123.2 million). The Council must ensure actions are put in place in the current year to address this increased liability and whilst these will be subject to actuarial review in 2007 we consider this to represent a significant ongoing financial pressure.

Systems of internal financial control

- 61 We have not identified any significant weaknesses in the overall control framework, but scope remains to improve the project management of key system reconciliations during the year to ensure that they are completed on a timely basis, with all significant variances promptly investigated and resolved. We consider such practices to be key to a robust internal control environment and the Council should continue its efforts in improving this area.
- 62 The Council's Statement on Internal Control (SIC) reported that the system of internal control had been in place for the year ended 31 March 2005 and up to the date of the approval of the annual accounts.
- 63 The Council's annual review of the effectiveness of the system of internal control identified the following areas where there is scope to enhance the internal control environment:
- timely rectification of weaknesses identified in audit reviews;
 - Business Continuity Planning for the Council's key financial systems; and
 - Social Services: the SIC identifies a number of areas requiring improvement, including ensuring that performance standards are set and monitored across all service areas.
- 64 Action plans have been agreed to address the issues raised in the SIC, and will be monitored on an ongoing basis by management and Audit and Investigation.

Internal Audit

- 65 We have continued to co-ordinate our work with the Council's Audit and Investigation function through the managed audit process, and were able to place reliance on their work for our 2004/05 audit. Looking forward, we have agreed a managed audit protocol with Audit and Investigation to further clarify expectations increase the reliance we can place on their work.

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

- 66 We have not identified any significant weaknesses in your arrangements to prevent and detect fraud and corruption.
- 67 During the year, several fraud investigations have been undertaken. You have a central intelligence team within Audit and Investigation and are supported by a seconded Police Officer who you are looking to recruit alongside a financial investigator.

- 68 The Counter Fraud and Corruption policies and protocols were updated during 2004/05 and a new fraud awareness campaign is currently being rolled-out across the Borough which has seen an increase in the number of investigations undertaken. You are also planning to provide details of your policies to all potential contractors and suppliers as part of the procurement process.

Legality of transactions

- 69 The Code of Audit Practice requires us to review the arrangements in place to identify whether transactions undertaken that might have a significant financial consequence are legally sound. We draw on the Cabinet minutes, responses to our management representations on legal issues and the Council's own arrangements to satisfy itself of the legality of the transactions it enters into.
- 70 We have confirmed that the Council's legal arrangements rely on certain key directors and senior managers. These arrangements appear reasonable given the responsibilities of these officers.
- 71 Whilst in overall terms the Council's arrangements appear adequate, we are will follow up our review of severance pay procedures and policies in 2005/06.

Use of resources judgements

- 72 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.
- 73 For the purposes of the CPA we have assessed the Council's arrangements for use of resources in five areas.

Table 2

Element	Assessment
Financial reporting	2
Financial management	2
Financial standing	2
Internal control	2
Value for money	2
Overall	2

(Note: 1=lowest, 4=highest)

- 74 In reaching these judgements, we have drawn on the above work and supplemented this with a review against specified Key Lines of Enquiry.
- 75 The most significant areas where further development is needed in order to both consolidate and build on the current position are:
- improvements to the quality of your working papers to bring consistency across the organisation;
 - enhancements to your Medium Term Financial Strategy by reporting activity and finance data alongside sensitivity analysis and risk assessments which outline best, worst and most likely scenarios;
 - refinement of Asset Management processes which should include monitoring of backlog maintenance and embedding the local performance measures that were introduced in July 2005;
 - improvements to the Risk Management process by explicitly linking your corporate objectives to your risk register; and
 - further increasing the level of reserves to demonstrate robust and sustainable improvement to your financial standing over a longer timeframe.

Other work

Additional voluntary work

- 76 We have not undertaken any additional voluntary work under section 35.

Grant claims

- 77 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.
- 78 The Council's arrangements for managing and quality assuring grant claims submitted for certification have generally improved in recent years, although some difficulties have been encountered in 2005 in identifying all claims due for certification, and scope exists in most service areas to increase the robustness of the quality assurance process.
- 79 We agreed a Grants Certification Protocol with officers in spring 2005 and will revisit this in early 2006 as part of our commitment to working with the Council to improve this process.

National Fraud Initiative

- 80 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.

Looking forwards

Future audit and inspection work

- 81 We have an agreed plan for 2005/06 and we have reported in this letter those aspects that have already been completed in relation to the Use of Resources Assessment and our review of the Response Programme. The remaining elements of that plan, including our audit of the 2005/06 accounts, will be reported in next year's Annual Audit and Inspection Letter. All planned inspections have been delivered in 2005. Our planned work, together with that of other inspectorates, is included on both the Audit Commission and LSIF (Local Services Inspectorates Forum) websites.
- 82 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

- 83 The statutory requirements governing our audit work, are contained in:
- the Audit Commission Act 1998; and
 - the Code of Audit Practice (the Code).
- 84 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 Director of Finance in September 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

- 85 This letter has been discussed and agreed with Chief Executive and Director of Finance. A copy of the letter will be presented at the Executive on 31 January 2006.
- 86 The Council has taken a positive and constructive approach to our audit and inspection work. We would like to take this opportunity to express our appreciation for the Council's assistance and co-operation.

Availability of this letter

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

Jackie Barry-Pursell: Relationship Manager

Neil Williams: Appointed Auditor, KPMG LLP

January 2006

Appendix 1 – Background to this letter

The purpose of this letter

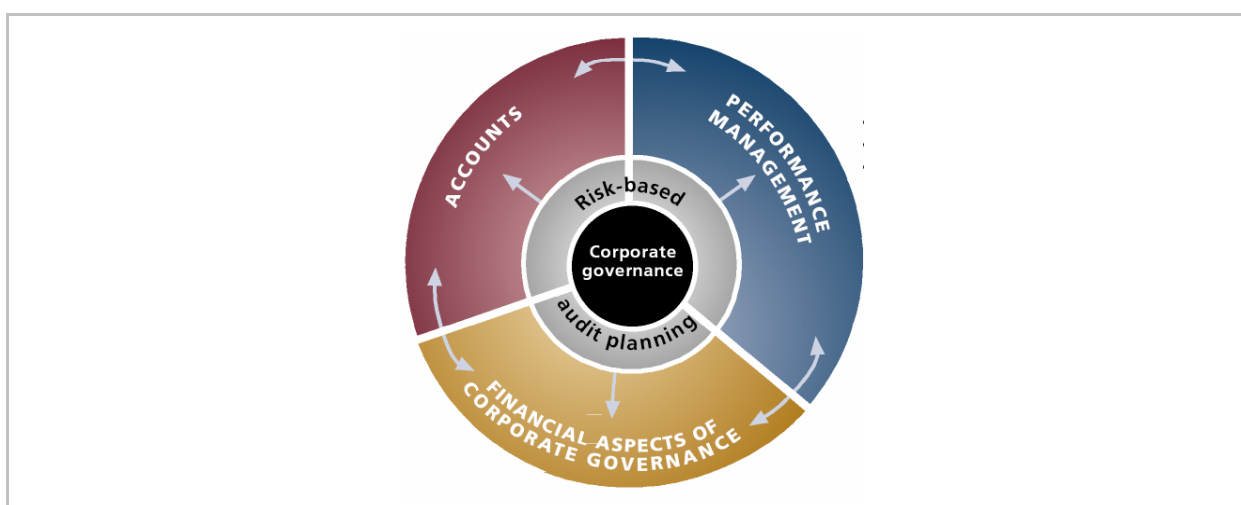
- 1 This is our Audit and Inspection ‘Annual Letter’ for members which incorporates the Annual Audit Letter for 2004/05, which is presented by the Council’s Relationship Manager and District Auditor. The letter summarises the conclusions and significant issues arising from our recent audit and inspections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

Table 3

Report title	Date issued
Housing Management inspection	May 2005
ALMO inspection	August 2005
Environmental Health Inspection	September 2005
Response Review	September 2005
ICT Management Arrangements	September 2005
Audit Plan	November 2005
2004/05 Systems and Governance Report	July 2005
Auditors Report to the Audit Commission on the Best Value Performance Indicators	September 2005
Report on the 2004/05 Financial Statements to Those Charged with Governance (SAS 610)	August 2005
Audit Opinion	December 2005
Joint Annual Audit and Inspection Letter	December 2005
Auditor's Statutory Report on the Corporate Performance Plan	December 2005

Appendix 3 – Audit fee

Table 4 Audit fee update

Audit area	Plan 2004/05	Actual 2004/05
Accounts	116,000	116,000
Financial aspects of corporate governance	111,000	111,000
Performance	135,000	135,000
Total Code of Audit Practice fee	362,000	362,000
Additional voluntary work (under section 35)	-	-
Total	362,000	362,000

Inspection fee update

- 1 The full year inspection fee for 2005/06 is £89,000.