

Annual Audit Letter

January 2006



Annual Audit and Inspection Letter

Dudley Metropolitan Borough Council

Audit 2004-2005

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Key messages

Council performance

- 1 Under the new Comprehensive Performance Assessment (CPA) framework the council is improving well and its overall category is three-star. Adults' social care has improved significantly and improvements have been made to children's social care. Communities are benefiting from significant reductions in crime levels which the Council and its partners have achieved. Speed of processing benefits claims has further improved and the Council has continued to earn the best possible rating for its benefits service. Performance of the planning service is now improving and improvements have also been made in other environmental services and housing. Educational attainment has improved overall although more work is needed, especially in primary schools.
- 2 The Council has achieved some improvement in performance across all of its core service areas, and 46 per cent of core service performance indicators improved in 2004/05, compared with 2002/03. The level of improvement was particularly strong in housing and 'capacity' (which includes areas such as benefits and equalities).
- 3 The Council's performance is to be reassessed in the next few months when a new corporate assessment is carried out, alongside the joint area review of children's services. The new assessment will be measuring the Council's ability against the demanding criteria set out in 'CPA - the Harder Test' and will include a new focus on performance in cross-cutting areas such as community safety.

The accounts

- 4 We gave an unqualified opinion on your accounts on 21 October 2005.

Financial position

- 5 The Council's financial position continues to be well-managed with appropriate levels of reserves maintained whilst linking spending to council priorities. As in previous years, there continues to be a number of financial pressures which need to be monitored and managed on a regular basis.

Risk management

- 6 Effective identification and management of risks is a key part of good corporate governance arrangements. During the year, there has been some progress in formalising risk management processes across the Council. Further work is now required to more fully engage members by building on recent improvements to arrangements, such as reporting and monitoring strategic risks on a quarterly basis.

Action needed by the Council

- 7 During the year, our reports to officers have included specific recommendations, some of which are outlined later in this letter. The broad areas which we wish to highlight to members are:
 - identify and respond to the various continuing risks associated with the Customer Access to Services (CATS) project;
 - continue to respond to the findings from our inspection of cultural services, in particular by ensuring that services are provided in the context of an overall strategy;
 - ensure that members are sufficiently and appropriately involved in risk management processes; and
 - fully engage with the forthcoming corporate assessment and joint area review processes, using them to contribute towards plans for further improvement.

Performance

- 8 The Council has made improvements across all its core service areas and as a result is now a three-star council which is improving well.

CPA scorecard

Table 1 CPA scorecard

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

(Note: 1 = lowest, 4 = highest)

- 9 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 well and its overall CPA category is three-star.
- 10 The Council has made improvements across its priority services. Adults' social care has improved significantly and improvements have been made to children's social care. Communities are benefiting from significant reductions in crime levels which the Council and its partners have achieved. Speed of processing benefits claims has further improved and the Council has continued to earn the best possible rating for its benefits service. Performance of the planning service is now improving and improvements have also been made in other environmental services and housing. Educational attainment has improved overall although more work is needed, especially in primary schools.

- 11 The Council provides good value for money overall – services are generally good and costs are comparatively low. The accessibility of services to local people is being improved through the current programme to develop contact centres.
- 12 The Council has sound plans for the future, including specific plans to improve areas where performance is currently below target. It has sound arrangements for monitoring its own performance and works well with partner organisations.
- 13 The Council's capacity to improve will be reassessed early in 2006 when a new corporate assessment takes place. Its CPA categorisation and scorecard will be revised once the results of this inspection are published.

Direction of Travel report

Improving outcomes

- 14 The Council has continued its previous steady progress in improving outcomes for local people. In terms of the key service performance indicators, 46 per cent improved in 2004/05 compared with 2002/03. The following table analyses this across service areas, although this is a relatively crude measure of service performance because of the small numbers of indicators included for some services.

Table 2 Key service performance indicators

Service area	% improved	% in best quartile	% in worst quartile
Education	38	10	29
Social care	40	23	0
Environment	43	32	21
Housing	64	31	13
Community safety	50	50	0
Capacity	54	64	14
Culture	25	14	0
Overall	46	30	16

Children's services

- 15 Educational attainment has improved overall although more work is needed, especially in primary schools. For CPA purposes, education and children's social care were each scored as consistently delivering above minimum requirements, and with good capacity to improve.
- 16 The various agencies collaborate well to safeguard children, with child protection arrangements strengthened over past 12 months. There is corporate commitment to improving children's services and robust assessment of local need. Consultation with children and young people is good. Although, some aspects of services for children with special needs have deteriorated, sound improvement plans have been put in place.

Adult services

- 17 Adults' social care has improved significantly and was scored as three out of four for CPA purposes. Particular areas of improvement include successful action to improve user involvement, increased uptake of direct payments, effective use of extra care housing and improved arrangements for referral, assessment and care planning. Resources are managed effectively and there is the capacity to achieve consistent, sustainable improvement.

Culture

- 18 Our inspection of culture, carried out in March 2005, scored the service as one star 'fair' with uncertain prospects for improvement. Many of the services being provided are good and there have been some significant improvements since our previous brief inspection (Regular Performance Assessment) in 2004. There is no doubt that culture is no longer seen as bottom of the Council's priorities for investment. We were concerned, however, at the lack of a strategic vision and framework for culture within Dudley, to bridge the gap between the relevant theme in the new community plan and the management of facilities by the Council and its partners.

Other areas

- 19 The Council's benefits service again received the highest marking in the annual assessment carried out by the Benefits Fraud Inspectorate. The speed of handling claims is excellent, and accuracy levels have been maintained.
- 20 Implementation of the Customer Access to Services (CATS) project has continued in 2005. The first customer contact centre opened in Dudley, with customer-facing elements of services from the Urban Environment directorate transferring to the new corporate customer service function. This is planned to improve the customer experience and hence improve satisfaction, although it is too early for clear outcomes to be assessed.

- 21 Working with partners, the Council has achieved impressive reductions in levels of crime. Domestic burglary and robbery rates fell by 25 per cent and 20 per cent respectively, and there were similar levels of reduction in vehicle-related crime. Sexual offences did, however, increase although they remain in the lowest quartile. Reduced crime levels have occurred and there has been a large number of crime-reduction initiatives including the home security initiative, increased numbers of police community support officers and above-target numbers of anti-social behaviour orders.
- 22 Improvements have also been secured in environmental services. Recycling rates have improved and are predicted to meet the government target for 2005/06 through the extension of kerbside recycling in October 2005. Successful action has been taken on fly tipping and abandoned cars. Street lighting has been improved through the use of prudential borrowing to replace ageing columns.
- 23 Progress has been made, working with partners, on a wide range of regeneration initiatives across the Borough. These include major new road development in Brierley Hill, further progress with the Castle Hill redevelopment and various business support initiatives.
- 24 Performance in processing planning applications has improved significantly since 2004, although this is not yet reflected in the audited performance data. Council data shows that in the first quarter of 2005/06, performance was comparable with the 2004/05 best quartile authorities, a very significant improvement on the worst quartile performance in 2004/05 as a whole.

Plans for future improvement

Plans and strategies

- 25 The Council has a comprehensive set of overarching plans and has been working with partners to develop a new community plan within 2005/06. The Council plan for 2005/08, already reflects the emerging community plan themes and provides a comprehensive summary of the Council's role in delivering these. The key actions for each theme are summarised on a single page, which is then followed by the more detailed action plan for that theme. Responsibilities and timescales are stated. In most cases, there are output or outcome based targets, although in some cases while measures have been defined, precise targets have not.
- 26 There are also specific, appropriate improvement plans for services needing particular improvement, such as special needs education.
- 27 The council can demonstrate a track record in implementing its plans. In 2004/05, 77 per cent of the targets set for key performance indicators in the Council plan were met, and similar levels of performance have been reported in unaudited data for 2005/06. However, our work on the implementation of CATS identified a number of areas of difficulty, particularly around transfer of budgets, which the council needed to address.

- 28 The Council has continued to improve the way it monitors performance and drives improvement. The annual review letters for adults' and children's services both commented on the effective systems and the Council has continued to refine its approach in 2005/06.

Improving value for money

- 29 The Council already provides good value for money overall – services are generally good and costs are comparatively low. More information is given later in this letter in the section on Use of Resources.

Capacity

- 30 The Council has continued to set up new structures to deliver key agendas such as integrated children's services and services for vulnerable adults. During 2005, appointments were made to two key director posts: a director of children's services was appointed and a director for adult social care and housing. Changes to structures at lower levels are being phased in to minimise instability.
- 31 The Council works effectively with partners across a range of areas. Favourable comments on partnership working were made in both the children's and adults' services annual reviews, with the former particularly citing the improved arrangements for safeguarding children. Falling crime levels reflect effective work through the Crime and Disorder Reduction Partnership.
- 32 Overall, several external assessments have concluded that the council has good capacity to improve, including both adults' and children's annual reviews. Three of the last four Audit Commission inspections have identified promising prospects for improvement.

Other performance work

Risk management

- 33 You continue to make some progress in formalising the risk management process. Identification and analysis of risks across all directorates is now complete and there is opportunity to review and update this information in the future. A training programme for officers and members is being implemented. Report formats have been amended to ensure that implications relating to risk management are now considered in all corporate reports.
- 34 Further work is now required to more fully engage members in the risk management process, to identify corporate and cross-cutting risks, and to develop procedures for management to periodically review and confirm the effectiveness of controls in place. More recently arrangements for reporting strategic risks on a quarterly basis have been implemented to assist members to take action where appropriate.

Customer Access to Services (CATS)

- 35** Creating an access strategy is closely linked to the Authority's policies and targets on both community engagement and customer services. The CATS team was established in March 2004, and key areas of development are process mapping and business process re-engineering (BPR). The former involves identifying the steps that must be taken when a customer makes contact with the Council and how queries can be dealt with most effectively. The outcomes of the BPR process are being used to identify the elements of individual departmental budgets that will be transferred to the new corporate customer services budget head in 2005/06. This will be a continual process across the life of the programme as BPR is applied across the Authority
- 36** We have worked closely with the Council on its response to the various risks identified at an early stage in the project. We have identified a number of key issues and risks which need to be resolved to ensure that the budget transfer process is effective. Whilst the BPR process is robust, the council recognises that realising the projected efficiency gains is a challenge, made more complex by the budget transfer issues identified. These are as a consequence of handing over customer contact from back office services to the new Customer Services Team 'Dudley Council Plus' at its contact centre in Dudley.
- 37** In particular, because service transfers to the new centre have not progressed at the anticipated rate, there is a substantial gap of approximately £750,000 between the costs of the centre and the budgets which have been transferred from directorates. If this gap remains, there is a risk that the customer services team will be under funded, and unable to provide the required level of service. There are plans in place to fund the shortfall in funding as identified from existing resources.
- 38** You are in the process of responding to these issues. However, it is important that you continue to assess and monitor the risks in this area and take action where necessary to ensure improvements continue.

Procurement

- 39** Procurement activity is very well managed by Dudley MBC, with clear lines of accountability, innovation encouraged and best practice in place in the procurement projects examined. Our review focussed on your progress in implementing the Council's procurement strategy. It also assessed the Council's approach to e-procurement and other opportunities as well as how effectively procurement processes are used to secure value for money.
- 40** Effective leadership and commitment has enabled the Council to implement its strategy in a systematic and logical manner. The process is being carefully project managed and progress is as forecast. It has identified areas where application of e-procurement practices can offer most benefits.

- 41 The Council has a range of different procurement arrangements in place, from traditional supply contracts to Private Finance Initiatives (PFIs) and partnership arrangements. Procurement is seen as a key tool in providing efficient and effective services and there is a high proportion of spend in corporate contracts. There is however some scope to assess the viability of extending partnering arrangements to similar operational activities.

Developing partnership arrangements

- 42 In our 2003/04 audit we reviewed the Council's overall arrangements for working in partnership and its engagement with Brierley Hill Regeneration Partnership. The Council has acted on the recommendations of that work by putting in place a cross departmental corporate group 'Partnership Working and Consultation' which has initiated significant developments in the council's partnership working policies and practices. We are currently in the process of carrying out a further review 'Working with regeneration and other partners' with a diagnostic review of corporate governance and probity in partnership working, to support future Use of Resources (value for money) assessments. We will also assess the effectiveness of these arrangements in practice and in particular how the Council minimises risk and ensures the effectiveness of key partnerships, such as Brierley Hill, the Castle Hill development and town centre developments. We will discuss our findings with officers on completion of our review.

Other Audit Commission inspections

Cultural services

- 43 In July 2005, the Council's cultural services was assessed as providing a 'fair', one-star service that has uncertain prospects for improvement.
- 44 The inspection identified that services are generally well-run by committed staff with satisfaction rates for libraries amongst the best performing councils. However, satisfaction rates for sport and leisure facilities, arts and parks are below average compared to similar councils with quality user information not routinely available.
- 45 The profile of cultural services within the council is increasing with developing community leadership and there has been recent significant investment. The challenge for the Council now is to fully develop and put in place a strategic framework and shared vision for the service. Without this, it is unclear whether the improvements already made are achieving most impact for local people and can be sustained.

Working with other inspectorates and regulators

- 46 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
 - Government Office for the West Midlands.
- 47 We share information and seek to provide 'joined up' regulation to the Council. We have already commented on assessments from other inspectorates in our Direction of Travel statement.

Accounts and governance

- 48 Once again we have given your accounts an unqualified audit opinion. Your overall corporate governance arrangements continue to be satisfactory.

Audit of 2004/05 accounts

- 49 We gave an unqualified opinion on the Council's 2004/05 accounts on 19 October 2005. You continue to respond well to tighter statutory deadlines for the annual production of accounts. There is a clear and effective commitment to improve the closedown process to help ensure tighter opinion deadlines will be met in 2005/06.

Matters arising from the final accounts audit

- 50 The published accounts are an essential means by which the Council reports its stewardship of the public funds at its disposal and its financial performance in the use of those resources. Members approved the Council's annual accounts on 21 July 2005.
- 51 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 difficult to achieve and will require early planning and thoughtful scheduling of key meetings in 2006 and 2007. Your previous performance means you are well placed to ensure this happens. These earlier requirements present a challenge to us, which we are gearing up to meet.
- 52 Corporate and directorate finance staff continue to seek to improve closedown arrangements. Changes have already been put in place to build on improvements demonstrated in previous years.

Financial standing

- 53 The Council's financial position continues to be well managed with appropriate levels of reserves maintained whilst linking spending to Council priorities. As in previous years there continues to be a number of financial pressures which need to be monitored and managed on a regular basis. The Council continues to respond to this by improving its medium-term financial planning processes.
- 54 Whilst the capital programme shows some slippage the position has improved compared to the previous year.

General fund spending and balances

- 55 The general fund balance increased by £0.6 million during 2004/05 to £3.8 million (see Table 3 below). It is planned to use £2 million of this balance to support expenditure in 2005/06. Consequently, a minimum working balance continues to be set aside in line with good practice. Earmarked reserves were increased by £4.7 million and as in previous years, most of this increase has been set aside to fund the Council's capital programme. The level and use of these earmarked funds continue to be reviewed as part of the medium-term financial strategy. The overall level of school balances which are earmarked reserves available solely for schools' use increased from £9.2 million to £9.9 million.

Table 3 Council reserves

	2004/05 £m	2003/04 £m	2002/03 £m
General fund balances	3.8	3.2	3.8
Earmarked reserves	37.7	33.0	26.3
Total	41.5	36.2	30.1

- 56 Robust budgetary control has once again resulted in an outturn position in line with forecasts. The Council continues to demonstrate proactive management of performance against budgets. Revenue monitoring arrangements continue to be robust with improved member access to information and appropriate member involvement. Consequently the year end outturn, at £328.6 million, reflected a small (£0.5 million) favourable variance compared to your approved budget. This reflects a well-managed position.
- 57 The Council continues to ensure its financial planning processes incorporate the impact of changes in ongoing contribution rates to the West Midlands Pension Fund. The impact of the latest actuarial valuation (as at 31 March 2004) has resulted in increased future contribution rates which continue to be taken into account in medium-term financial planning.

Housing Revenue Account

- 58 The ring-fenced Housing Revenue Account showed an in-year deficit of £1.1 million. This was after making contributions to repairs expenditure, which increased from £20.1 million to £21.4 million as the Council moves forward in delivering the Decent Homes Standard by 2010.

Capital programme

- 59 Whilst the capital programme shows some slippage the position has improved compared to the previous year. Capital outturn was £69.7 million compared to an approved budget of £74.3 million, equating to slippage of just over 6 per cent against budget. Whilst this slippage was across several schemes, it demonstrated an improvement on the previous year when the rate of slippage was 9.4 per cent. The relative level of borrowing to fund the programme is unchanged from 2003/04. The latest reported position as at December 2005 shows that the £86.5 million budgeted outturn for 2005/06 is forecast to be met and the capital programme continues to be well-monitored.

Income collection and arrears

- 60 Council tax and NNDR collection rates continue to be very high, although there was a slight reduction in the latter at 97.6 per cent (98.4 per cent in 2003/04). The proportion of council tax collected in 2004/05 was consistent with previous years at 97.5 per cent (97.7 per cent in 2003/04). Targets for 2005/06 have been adjusted to reflect the impact of replacing key revenues computer systems during 2005.
- 61 Whilst the overall level of housing rent arrears fell from £4.7 million to £4.5 million, current tenant arrears increased by £87,000 to just over £1.6 million. Whilst the overall level remains comparatively low, care needs to be taken to ensure that the level of current tenant arrears is monitored closely and action taken where necessary.

Systems of internal financial control

- 62 We have not identified any significant weaknesses in the overall control framework. Audit Services continue to meet key responsibilities with work complying with CIPFA standards.

Audit services

- 63 Once again our review of Internal Audit found that the service is meeting key responsibilities and the quality of work performed continues to meet CIPFA standards as in previous years. Where necessary we continue to place reliance on Internal Audit work.
- 64 2004/05 was the first year of the new four-year audit strategic plan. Despite a shortfall in available resources, 94 per cent of the planned work had been completed by the end of the year (compared with 93 per cent in 2003/04). Once again this was well above the 90 per cent level recognised as good practice. We will continue to work closely with Audit Services in delivering the annual audit.

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

- 65 We have not identified any significant weaknesses in your arrangements to prevent and detect fraud and corruption. Overall, arrangements are in place to ensure that the council's affairs are managed in accordance with proper standards of financial conduct, and prevent and detect fraud and corruption.
- 66 During the year, we noted good progress in publicising the Anti-Fraud and Corruption Policy and the issues it addresses in an effort to increase fraud awareness across the Council.

Legality of transactions

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

IT arrangements

- 68 We are in the process of reviewing key elements of your IT arrangements. There are additional risks arising from the number of changes you are currently making. The overall objectives of this audit work are to:
- assess ICT governance and management arrangements;
 - review business continuity and disaster recovery plans;
 - review progress being made with the implementation of the e-Government agenda with specific reference being made to change management and service improvement; and
 - provide a status report on the progress being made with the implementation of the new main accounting and revenue and benefit systems.
- 69 We will discuss our findings with officers by the end of February 2006.

Use of Resources judgements

- 70 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.
- 71 For the purposes of the CPA we have assessed the Council's arrangements for use of resources in five areas.

Table 4

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

(Note: 1 = lowest, 4 = highest)

- 72 In reaching these judgements we have drawn on our other audit work and supplemented this with a review against specified key lines of enquiry (KLOE). Our detailed findings have been discussed with officers and an action plan produced to take forward improvement areas. Some key findings are summarised below

Financial reporting

- 73 The accounts were produced in accordance with relevant standards and time tables and this has been a consistent approach over previous years. The authority has produced summary accounts for 2004/05 and previous years and considered consultation carried out by other authorities. Good use continues to be made of the Council's website. Whilst supporting working papers for the accounts continue to be of a good standard, officers are working to make further improvements.

Financial management and financial standing

- 74 The need to produce a more robust medium term financial strategy which will identify the impact of likely spending pressures over a three-year period has been recognised by the Authority and is currently being addressed as part of the 2006/07 budget cycle. We have commented on your budgetary control arrangements under the financial standing section of this letter.
- 75 The authority has arrangements in place to manage its asset base. However, there is no specific document that outlines a plan for reducing the level of backlog maintenance. The Authority has recognised that a more explicit plan is required and is in the process of addressing this issue.

Internal control

- 76 Dudley MBC has maintained a sound system of internal and financial control over a number of years. However, the Council has not yet put in place an assurance framework that maps the Council's strategic objectives to risks, controls and assurances. The corporate risk process which should feed in to the assurance framework is still developing. We have commented on your progress in relation to risk management earlier in this letter.
- 77 The Council has arrangements in place which are designed to promote and ensure probity and propriety in the conduct of its business. Further improvement is planned by continued use of NFI and more pro active anti-fraud and corruption work.

Value for money

- 78 The Council's performance and achievements in terms of value for money (VFM) are consistent with its policies: levels of expenditure in different services are consistent with Council plan policies, taking into account external factors such as levels of deprivation. The Council produces reliable information on its costs. Detailed capital appraisal systems allocate resources to the Council's key priority areas. Additional revenue spending is allocated to key priorities as appropriate. Long-term partnership arrangements are rigorously appraised for affordability and funding.
- 79 There is a well-organised approach to the management of VFM with ambitious plans for improvement. You can demonstrate improvements in some areas identified as weaker in previous external assessments, eg procurement. Efficiency targets over two years up to March 2006 are forecast to be exceeded and have resulted from real improvements eg reduced sickness levels and improved working practices. External funding continues to be attracted and improvements in bidding for and managing external funds are planned.

Other work

Grant claims

- 80 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.
- 81 The Council's arrangements for managing and quality assuring grant claims submitted for audit continues to improve and we will continue to work with key officers to ensure this continues.

National Fraud Initiative

- 82 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, occupational pension, tenancy 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. Action is currently being taken on potential matches identified through the process.

Looking forwards

Future audit and inspection work

- 83** We have an agreed plan for 2005/06 and we have reported in this letter those aspects that have already been completed. The remaining elements of that plan, including our audit of the 2005/06 accounts, will be reported in next year's Annual Letter. Our planned work, together with that of other inspectorates, is included on both the Audit Commission and LSIF (Local Services Inspectorates Forum) websites.
- 84** 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. Given the timing of your forthcoming corporate assessment, however, we will need to keep our plans flexible and rework them in the light of any new improvement priorities which emerge. 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

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

- 87 This letter has been discussed and agreed with the Director of Finance and Chief Executive. A copy of the letter will be presented at the Audit Committee and Cabinet in February 2006. Once again 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

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

John Gregory
District Auditor
Relationship Manager
January 2006

Appendix 1 – Background to this letter

The purpose of this letter

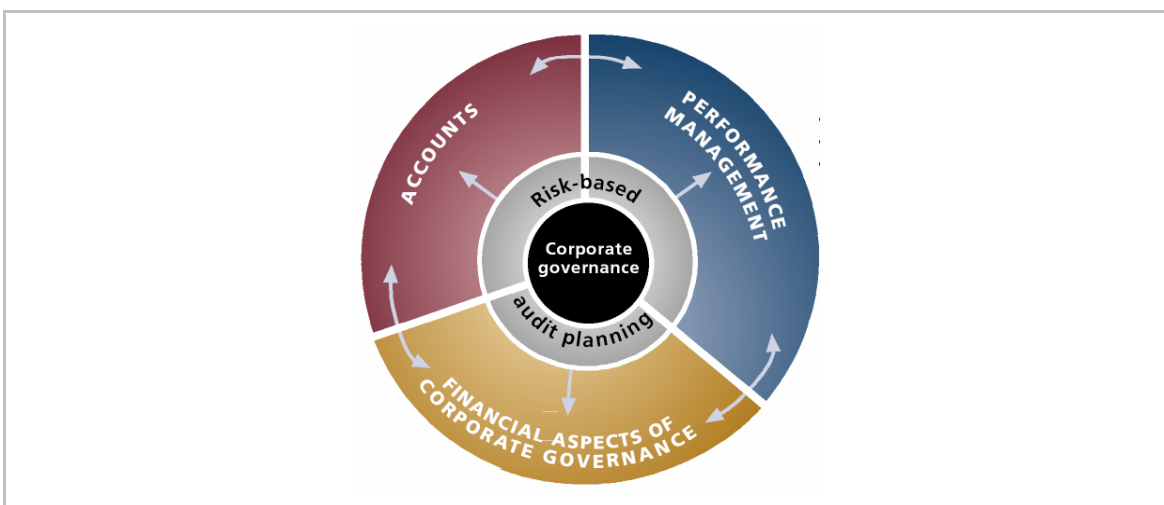
- 1 This is our Audit and Inspection ‘Annual Letter’ for members which incorporates the Annual Audit Letter for 2004/05, which is presented by the Council’s Relationship Manager and District Auditor. The letter summarises the conclusions and significant issues arising from our recent audit and inspections of the Council.
- 2 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.
- 3 Appendix 2 provides information about the fee charged for our audit and inspections.

Audit objectives

- 4 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.
- 5 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



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

Accounts

- Opinion.

Financial aspects of corporate governance

- Financial standing.
- Systems of internal financial control.
- Standards of financial conduct and the prevention and detection of fraud and corruption.
- Legality of transactions.

Performance management

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

Appendix 2 – Audit fee

Table 5 Audit fee update

Audit area	Plan 2004/05	Actual 2004/05
Accounts	81,340	81,340
Financial aspects of corporate governance	51,702	51,702
Performance	131,672	131,672
Total Code of Audit Practice fee	264,714	264,714

Inspection fee update

- 7 The full year inspection fee is £67,106. The work reported in this Audit and Inspection Letter has been funded by an element of the fee covering 2004/05 and by an element of the fee covering 2005/06. In both years the actual fee will be in line with that planned.