

Annual Audit Letter

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# **Annual Audit and Inspection Letter**

**Harrogate Borough Council**

**Audit 2004-2005**

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

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

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

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

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

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

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

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

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

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

[www.audit-commission.gov.uk](http://www.audit-commission.gov.uk)

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## Key messages

### Performance

- 1 You have continued to improve service performance, with 48 per cent of BVPIs improving between 2002/03 and 2004/05. User satisfaction with services remains high. Significant improvement has been made in three local priority services: electronic interactions; housing benefits and visits to museums.
- 2 Three priority services have failed to improve: volume of waste recycled; time to process planning applications and the length of time spent by homeless people in bed and breakfast accommodation. You have already taken action to improve these services in 2005/06.
- 3 You have also made progress in: housing, including provision of affordable housing; access to services; corporate officer reorganisation including a new 'Corporate Policy and Improvement Directorate' and a new corporate plan. You have implemented a new performance management monitoring system which will assist in monitoring improvements in service delivery.
- 4 You provide a 'good' waste management service which has 'promising' prospects for improvement. The service contributes effectively to environmental cross-cutting issues, but there is potential for greater integration within the service and you are unable to demonstrate value for money.

### The accounts

- 5 We gave an unqualified opinion on your accounts on the 21 October 2005 and there were no matters to bring to the attention of those charged with governance.

### Financial aspects of corporate governance

- 6 Your constitution has now been reviewed and updated as required. Internal Audit continues to provide an effective function and will undertake a new risk assessment by March 2006.

### Use of resources

- 7 There is scope to demonstrate and improve the value for money of the services you provide. Understanding the impact of local factors on VFM is an important starting point, as is developing a mechanism for capturing outcomes achieved to ensure that value is delivered to justify investment in services.
- 8 You should continue to develop your arrangements for monitoring, managing and challenging how effectively resources are used. Re-introducing a programme of service reviews would be a means of driving improvements in value for money.

## Background to this letter

### The purpose of this letter

- 9 This Annual Audit Letter summarises the conclusions and significant issues arising from our recent audit.
- 10 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 1 for information.
- 11 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 in that statement. What we say about the results of our audit should be viewed in the context of that more formal background.
- 12 Appendix 2 provides information about the fee charged for our audit.

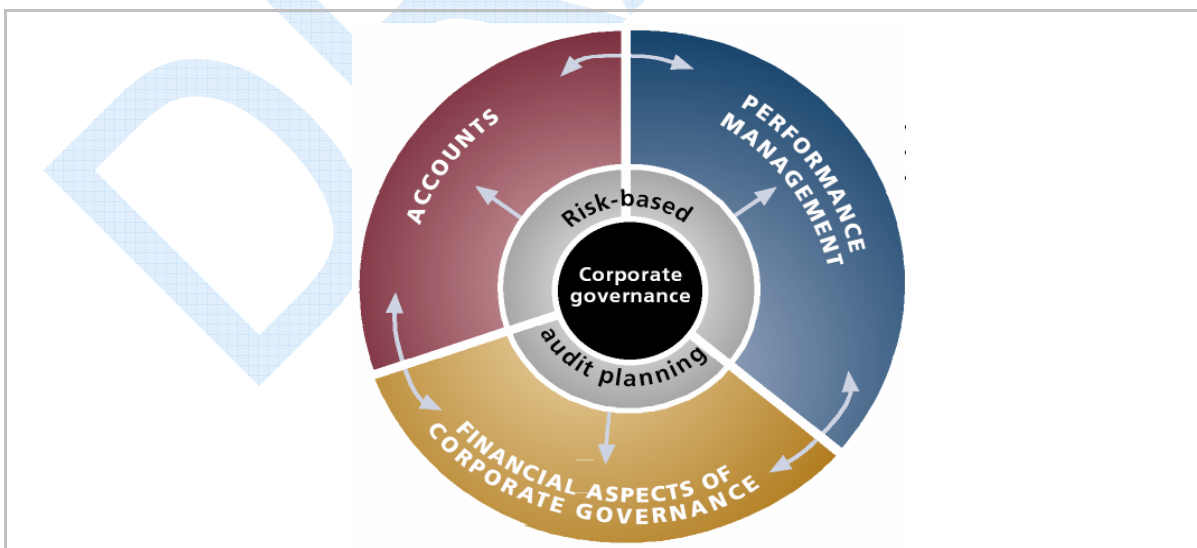
### Audit objectives

- 13 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 the significant risks that are relevant to our audit responsibilities.

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#### Figure 1 Code of Audit Practice

Code of practice responsibilities



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

### **Performance management**

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

### **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.

### **Inspection**

- 15 Inspection work is based around section 10 of the Local Government Act 1999, which requires us to carry out inspections that:
- enable you and the public to judge whether best value is being delivered;
  - enable the Government to assess how well its policies are being implemented; and
  - identify failing services where remedial action may be necessary.

## Council performance

### Direction of travel report

- 16 You have continued to improve your service performance since our Comprehensive Performance Assessment (CPA) in 2004; 48 per cent of Best Value Performance Indicators (BVPIs) improved between 2002/03 and 2004/05. However, only 53 per cent of BVPIs were above national district council average in 2004/05 compared with 60 per cent in 2002/03. Satisfaction with services remains high and a local residents' survey in June 2005 indicated further increases in satisfaction from the 2003/04 national survey.
- 17 You have taken a number of initiatives to improve the quality of life for local people. The local economy has been boosted by the completion of the Queen's Suite breakout facilities at the Harrogate International Centre, where you have exceeded your lettings targets. Further actions include the current project to restore the Royal Hall, and the sustained high quality of parks and open space, with awards won in both 2004 and 2005. The Tourist Information Centre in Harrogate also won an award in 2005. Recent statistics indicate a reduction in local unemployment from 1.9 per cent in 2004/05 to 1.7 per cent.
- 18 The high performance of your housing service has been recognised by the National Housing Network, and you continue to perform well in improving the quality of local housing. You also made progress in addressing the local priority of meeting the demand for affordable housing. In 2004/05 you provided 212 units of affordable housing with a further 153 units in 2005/06. Importantly, you recognise that the provision of an adequate supply of affordable housing remains a major issue.
- 19 You have taken action to improve access to services and employment opportunities through initiatives to reduce traffic congestion and increase take-up of the concessionary travel scheme. The opening of a new swimming pool at Pateley Bridge has been a key factor in increasing user numbers at sports and leisure centres. However, it is too early to assess the impact of these actions in terms of addressing local priorities such as improving the rural economy, providing opportunities for young people and improving health.
- 20 You improved significantly in three local priority services in 2004/05. The percentage of interactions that were electronically enabled increased to 78 per cent, which was above average performance in 2004/05, having been bottom quartile in 2003/04. The number of museum visits, a key element of your approach to tourism, increased from below average to above average performance in 2004/05. The processing of housing benefits also improved to above average performance in 2004/05.
- 21 Three priority services failed to make significant improvement in performance during 2004/05; you have recognised the issues and have taken action to improve performance during 2005/06.

- 22** The volume of waste recycled increased to 16 per cent in 2004/05 but this remained below average performance. The subsequent introduction of an extended kerbside recycling scheme means that you are now confident of reaching your target of 21 per cent for 2005/06. There was some improvement in the processing of planning applications in 2004/05, but you remained bottom quartile in two of the three categories and the council is still a designated planning standards authority. Changes to planning committee arrangements during 2005/06 have been a key factor in improving performance in dealing with planning applications, and you expect performance on all three categories of application to exceed planning standards thresholds in 2005/06. The time spent by homeless families in hostel accommodation has not improved since 2002/03. At an average of 23 weeks in 2004/05, your performance was amongst the poorest performing quartile. Performance to date in 2005/06 has deteriorated further, due to an unexpected increase in demand. However, the launch of a new housing advice service has resulted in major reductions in the number of homelessness cases. It is important that performance in these areas is robustly monitored to ensure that you are able to sustain the improvements achieved.
- 23** You have also taken action to address a number of corporate issues. Significant progress has been made in delivering the corporate action plan which was developed as a result of the assessment.
- 24** You have undergone major organisational change to address weaknesses in corporate management capacity. A new departmental structure was introduced in April 2005 to promote a corporate focus on issues such as procurement, performance management, community engagement and corporate governance. Although the full impact of the changes is not yet clear, early internal feedback has been positive.
- 25** The restructure included the creation of a new department of Corporate Policy and Improvement which has provided a clearer focus on priorities and performance improvement. A three-year Corporate Strategy was adopted in September 2004 and was followed by a new Strategic Plan and Corporate Improvement Plan which clarified your long-term vision for the district, and set an overall organisational goal – to be assessed as an excellent authority by 2010. The new department's success in creating corporate ownership of the improvement agenda, through positive engagement of all services, will be a key issue in achieving improvement across the council.
- 26** You have also taken steps to develop your community leadership role. An initial Community Conference in July 2004 was attended by over sixty delegates. This has been followed by actions to strengthen engagement with hard to reach groups, the voluntary sector and young people. You have also adopted a new communications and media strategy which aims to improve internal and external communications and strengthen the council's corporate identity. A new Diversity Strategy is being developed to address social inclusion and equalities issues but has been delayed following the departure of your diversities officer. A baseline assessment against the Equalities Standard is currently being undertaken and a needs and impact assessment is being piloted.

This is a key issue in meeting the needs of all sectors of the community and it is important that it is given appropriate priority and resources.

- 27 You have embarked upon a Customer Services project designed to make council services more accessible and responsive to all sectors of the community. A dedicated Customer Services Unit is expected to become operational from May 2006 and a telephone contact centre for priority services is to be set up. Two new community offices have opened in Masham and Boroughbridge. As part of the future phases of your Access to Services Strategy, three more community offices are planned at Ripon, Knaresborough and Pateley Bridge. The project is supported by the development of a transactional web site allowing direct electronic access to services.
- 28 Steps have also been taken to develop the capacity of your people. A People Management Strategy and Workforce Development Plan have been adopted and actions taken to reduce time lost through staff sickness. The average number of day's sickness has fallen from 9.8 days in 2002/03 to 7.9 days in 2004/05 which was within the best performing quartile for district councils. A member development programme has also been agreed and will be implemented following the May 2006 local elections. You have revised your overview and scrutiny arrangements to provide increased opportunities for scrutiny commissions to challenge and comment on policy and budgets ahead of Cabinet decisions. You are also developing a Corporate Knowledge Management and Learning Strategy and a number of shared learning events were held in 2005. Implementation of a Single Status/pay and grading review began in 2005 and you aim to implement it by April 2007.
- 29 A new performance management information system became operational in October 2005. This allows on-line access to performance information and has enabled you to improve performance monitoring arrangements. It is important that best use is made of the improved information to drive sustained improvement in services. Your approach to risk management is being reviewed with a view to integrating it into the new performance management system. The procurement of a new financial management system was completed in September 2005 and is on schedule to go live in April 2006.
- 30 You have revised your approach to procurement and are collaborating with other authorities through the regional Centre of Procurement Excellence (COPE). A new procurement strategy is to be adopted from March 2006. This will incorporate recent COPE developments, e-procurement linked to the new financial management system and a review of sustainable procurement. It will also include the establishment of a member/partner procurement board. The success of your approach will depend on you adopting an appropriate culture to challenge current methods of service provision.
- 31 Key challenges still facing you include the need to capture the impact arising from these improvement actions and assessing how they are helping to strengthen community engagement, provide more accessible services and develop organisational capacity of the Council.

## Best Value Performance Plan

- 32 Our duty under the Local Government Act 1999 is to audit your Best Value Performance Plan. This work is complete and no matters have arisen that we wish to report to Members.
- 33 A 'basket' of key performance indicators (PIs) is reported quarterly to Members. A new performance management information system, Covalent, has been recently introduced to enable corporate priorities and service plans to be monitored and linked to key PIs. Officers and Members have received training on the new system and Members have also received performance workshops from other councils. We are to provide further workshops in early 2006 with the aim of improving member involvement and understanding of the performance management framework including target setting and outcome monitoring.
- 34 Our audit work on Best Value PIs was undertaken jointly with Internal Audit and focused on those PIs 'selected' by the Audit Commission and link to the new CPA approach. The audit progressed well again this year with five minor amendments required. The recommendations made last year have been fully addressed and coupled with the new Covalent system should provide additional assurance that the performance management system is driving improved performance.
- 35 We have issued a report on the BVPP which concluded that the plan has been prepared and published in accordance with statutory requirements set out in section 6 of the Local Government Act 1999 and statutory guidance.

## Other performance reports

### Partnerships – county wide issues

- 36 This project focused on the effectiveness of partnership working across North Yorkshire, using the theme of young people and alcohol as a case tracer. District CPA highlighted services for young people as a key risk area and our NHS plan work on drug treatment services highlighted alcohol misuse amongst young people as a high risk, especially in market towns within the county. Alcohol and young people is also a national priority, as recognised by the Alcohol Harm Reduction Strategy for England published in March 2004.
- 37 This cross-cutting approach relies on effective partnership working between all levels of government, the drinks industry, the health service and other strategic and community-based partners. Although you are not the major partner in taking actions to improve health, you are responsible, through your community leadership role, for promoting effective partnership working. Healthier communities is one of the 'shared priorities' agreed by the Office of the Deputy Prime Minister's central and local government partnership.
- 38 Our review found that some aspects of partnership working on young people and alcohol are good, although other areas are underdeveloped. A number of high level issues have arisen.

- Priorities relating to young people and alcohol focus mainly on crime and disorder, with no apparent priority given to the impacts on health.
- There are examples of good partnership working through the Community Safety Partnership. However, partnership working around health related impacts is much less developed.
- Performance management in terms of assessing the impact of activities is an issue for all partners. A general lack of local baseline data makes it difficult to assess progress in tackling young people and alcohol issues.

39 We have presented the findings to the LSP, who have decided that the local PCT will lead on young people and alcohol issues. You have reviewed the effectiveness of your partnerships and plan to revisit the issue in the light of the recent Audit Commission report 'Governing Partnerships - Bridging the Accountability Gap'. We will consider how we might follow up our work on young people and alcohol following completion of these reviews.

### **Access to services and e-government**

- 40 Significant progress has been made against targets for e-delivery. Early work on developing the Web site and content management has been a key factor in the progress to date.
- 41 Review of work to produce IEG5 showed that some of the background work in service departments, required to deliver Priority Outcomes and BVPI157 targets, had been slower than expected. Delivering work on improved customer access and linking to web pages, by services, is vital to demonstrate the effectiveness of the high level of activity and resources allocated to this process.
- 42 BVPI Targets were close to the 100 per cent target, reflecting those areas where final delivery depends on systems which are planned to be delivered after the 31 December 2005 or 31 March 2006 target dates.

### **IT security and service management**

- 43 The need for well-managed and secure IT and information systems is increasingly under the spotlight as councils open up their information systems to the public to facilitate improved access to services and provide information under the Freedom of Information Act.
- 44 You have made little progress in moving towards compliance with the required security standards, but there are policies and procedures in place which would serve to support some parts:
- the ISO 17799 international IT security standard; and
  - the IT Infrastructure Library (ITIL) for Service Management.
- 45 The main reason for lack of progress on these issues has been the high level of activity required to support the e-Government and Access to Services programmes. The Council has taken action to ensure that access is restricted to minimise risk until the technical and procedural issues have been dealt with.

- 46 Obtaining a level of accreditation under the ITIL standard along with ISO 17799 compliance and use of P2 would confirm you operate as a best practice organisation in this area.

## Other Audit Commission inspections

### Waste management

- 47 You provide a 'good' service which has 'promising' prospects for improvement. You have invested effectively in extending the kerbside recycling service resulting in increases in the level of waste recycled. Composting performance is low, although home composting has been encouraged. Waste volumes are low, refuse collection is effective and streets and open spaces are generally cleaned to a high standard, although there are a few localised cleanliness problems. You have an effective approach to litter enforcement which is supported by a programme of educational activities. Public satisfaction surveys are generally positive although the quality of written and electronic information about the service is limited.
- 48 You are committed to improving waste management and have invested in the service with a view to achieving further increases in recycling. Staff are involved in decision-making at an operational level and have identified improvements. Individual improvement is supported through training and development opportunities. The service contributes effectively to environmental cross-cutting issues, but there is potential for greater integration within the service and you are unable to demonstrate value for money. Further investment will be required to achieve your long-term goals for waste management, and despite your commitment to partnership working, difficulties in agreeing a county-wide strategy may result in long-term proposals not being met within the required timescale. A report was made to Council on 1 February 2006 to address the issues raised in this inspection.

## Accounts

We gave an unqualified opinion on your accounts on the 21 October 2005 and there were no matters to bring to the attention of those charged with governance.

### Audit of 2004/05 accounts

- 49 The published accounts are an essential means by which you report your stewardship of public funds and financial performance in the use of those resources. Members approved the accounts on 28 July 2005, meeting the 31 July statutory deadline.
- 50 Since 2003/04, the move towards Whole of Government Accounts has meant that you have been required to meet earlier deadlines for the production of your accounts year on year, mirrored by earlier deadlines for the audit opinion. The ultimate goal, from 2005/06, is for the accounts to be approved by 30 June and the audit opinion to be given by 30 September. In 2004/05, you were required to produce and approve the accounts by 31 July with the audit opinion issued by 31 October 2005.
- 51 You used the 2004/05 accounts production process as a 'dry run' for 2005/06 and produced a full draft set of accounts by 17 June. This shows that you are in a good position to meet the revised deadline in 2005/06.

### Matters arising from the final accounts audit

- 52 The professionalism, availability and helpfulness of finance officers made a significant contribution to the successful and timely completion of the audit. Only one significant amendment was made to the accounts in relation to a post balance sheet event relating to council house valuation. A number of minor errors were also corrected during the course of the audit.

### Report to those with responsibility for governance in the Council

- 53 We are required by professional standards to report to those charged with governance (in this case the General Purposes Committee) certain matters before we give an opinion on the financial statements.
- 54 There were no matters arising that we needed to formally report under SAS610 and a letter was issued to those charged with governance to this effect.

# Financial aspects of corporate governance

## Financial standing

It is the responsibility of the Council to conduct its financial affairs and to put in place proper arrangements to ensure that its financial standing is soundly-based. Our work has not identified any significant weaknesses in your arrangements. Your revenue reserves increased following the budget underspend in 2004/05.

### Revenue

- 55 A £0.4 million contribution to general reserves was made in 2004/05 following an underspend which was mainly attributable to increased income from additional planning delivery grant and an exceptional rate refund. This additional income has also enabled an increase in contribution to the break out space project (completed in 2004/05), capital reserves and other earmarked business reserves. General reserves now stand at £2.3 million and earmarked reserves at £16 million.
- 56 The Housing Revenue Account (HRA) made a surplus of £1.3 million against an original budget of £0.9 million surplus. The increase is attributable to higher rent and investment income. Current tenant arrears are only 0.7 per cent of total rent due. The balance on the HRA now stands at £2.47 million.
- 57 The 2005/06 net budget of £20 million (net operating expenditure) was set with a 4.75 per cent increase in Council Tax with no planned contributions to general reserves. The budget was achieved through £0.52 million of efficiency gains and a £300,000 saving from the restructuring has been earmarked as a 'single status' reserve. The position against the budget is reported to Cabinet quarterly. Latest budget monitoring reports (as at December 2005) forecast a £137,000 underspend against original estimates and an £88,000 underspend against revised estimates.
- 58 The Director of Resources undertakes an annual review of reserves, which are approved to ensure they meet corporate priorities. In addition, the medium term financial strategy is being developed further. Current budget pressures include a provision for implementing Single Status by April 2007, planned to be met from the savings following the corporate restructuring exercise.

### Royal Hall restoration project

- 59 No annual audit letter for Harrogate would be complete without a reference to the Royal Hall restoration project. Since my last letter, you have drawn up a plan for a partial restoration scheme costing £8 million. This will be funded by a £6 million grant from the Heritage Lottery Fund and £2 million from your own capital reserves. I understand that the construction contract is to be let in March 2006. A project group continues to manage and monitor the scheme.

## Systems of internal financial control

It is the Council's responsibility to ensure that your systems of internal financial control are effective. Our work has not identified any significant weaknesses in your framework. Your constitution has been reviewed and updated. Internal Audit continues to provide an effective function and will undertake a new risk assessment by March 2006.

### Internal Audit

- 60 Internal Audit (IA) plays an important role in providing assurance to management that the systems of internal control are effective. This year we have undertaken a detailed review of IA against the standards set out in the CIPFA, Code of Practice for Internal Audit in Local Government and to assess whether IA:
- provides sufficient assurance to management on the operation of your internal control framework; and
  - provides work of a standard that we can then place reliance on in respect of key financial systems.
- 61 Overall we found that IA provides an effective service that complies with the CIPFA standards as a whole. IA provides management with sufficient assurance on your control framework, although there is scope to improve the link between this and your Statement on Internal Control. We were able to rely on the work undertaken by IA. There is scope to improve the approach to undertaking a full audit risk and needs assessment when producing the audit strategy, including specific fraud and corruption risks. IA will undertake a new risk assessment by March 2006.
- 62 Since my 2003/04 letter your Resources Overview and Scrutiny Commission has been designated as an 'audit committee', as recommended by the CIPFA code for Internal Audit. The 'audit committee' receives progress on the Audit Commission's and IA work and Members were involved in our 2006/07 audit planning process. It will take some time for the Audit Committee to develop its role fully and we have provided a good practice checklist to assist.

### Standing orders and financial regulations

- 63 In last year's letter, I reported that standing orders and financial regulations had not been fully reviewed or updated since 2001. I am pleased to report that the financial regulations and standing orders have now been updated and were approved in October and November 2005 respectively.

## Project management

- 64 In last year's letter, following issues around the breakout space project, I recommended that you improve project management arrangements for non-IT projects. Again, I am pleased to report that you have now approved:
- revised contract procedure rules (October 2005) and
  - a 'project management code of practice' (August 2005).
- 65 The project management code includes checklists to help ensure that the required processes are actioned. Both will be used on the Royal Hall project. IA is part of the project group for the Royal Hall and it plays a key advisory role.

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

The primary responsibility for the prevention and detection of fraud, and taking reasonable steps to limit the opportunity for corrupt practices, lies with the Council. It is also the Council's responsibility to ensure that it has arrangements in place to make sure that proper standards of conduct are maintained. Our work has not identified any significant weaknesses in your framework. Internal Audit is to arrange for specific fraud probes to be undertaken in liaison with the Audit Commission.

### Overall arrangements

- 66 From our work we note that you have procedures in place designed to ensure that proper standards of conduct are maintained. We have not identified any significant weaknesses in your arrangements to prevent and detect fraud and corruption.
- 67 Since last year's letter, you have updated your anti-fraud and corruption policy and whistle blowing policy. Both have now been re-launched to raise staff awareness.
- 68 I have commented above on the need for IA to include fraud and corruption issues when assessing audit risk and have recommended that specific fraud and corruption probes are undertaken where risks emerge. IA is to arrange for specific fraud probes to be undertaken in liaison with the Audit Commission.

### National Fraud Initiative

- 69 In 2004/05, you took part in the Audit Commission's National Fraud Initiative (NFI 2004/05). 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 payroll and housing benefit fraud, with the details of housing benefit fraudsters being passed back to the employing body to allow them to consider the implications and take action as appropriate.

- 70 Internal Audit and the Benefit Fraud Investigation team have been working through the matches identified by the NFI to determine what, if any, further action should be taken in each case. Relevant returns in relation to the NFI have been submitted to the Audit Commission. You have identified housing benefit overpayments of £12,000, with one prosecution and three cautions.

## Legality of transactions

It is the Council's responsibility to ensure that you have arrangements for ensuring the legality of your transactions. Our work has not identified any significant weaknesses in your framework.

- 71 We have not identified any significant weaknesses in your framework established for ensuring the legality of its significant financial transactions. These arrangements could be strengthened further if you adopted a protocol for considering and then communicating new legislation to officers and Members.

## Use of resources judgements

- 72 The use of resources assessment is a new annual assessment which focuses on financial management but links to strategic management. It looks at how the financial management is integrated with strategy and corporate management, supports your priorities and delivers value for money. We anticipate in future the Use of resources judgements will form part of the CPA framework.
- 73 We have assessed your arrangements in five areas and the scores are set out in Table 4.
- 74 Previously, 'adequate arrangements' were sufficient to score 3, but under the new approach meeting 'adequate performance' will score 2. Scoring is based on the following scale:

1	<b>Below minimum requirements – inadequate performance</b>
2	At minimum requirements – adequate performance
3	Consistently above minimum requirements – performing well
4	Well above minimum requirements – performing strongly

## Table 1 Use of Resources judgement

The Audit Commission gave you an overall rating of 2.

Element	Assessment
Financial reporting	3
Financial management	3
Financial standing	2
Internal control	2
Value for money	2
<b>Overall</b>	<b>2</b>

(Note: 1=lowest, 4=highest)

- 75** In reaching these judgements we have drawn on the above work and supplemented this with a review against specified Key Lines of Enquiry.
- 76** The most significant areas where further development is needed to reach the next levels include:
- a clearer understanding of the financial impact of local factors to enable clearer assessments of value for money to be made;
  - mechanisms for capturing outcomes achieved to ensure that value is delivered to justify investment in the service;
  - performance monitoring processes to integrate financial and operational performance, including feedback from service users;
  - continue to develop processes for Members to monitoring, managing and challenge value for money;
  - re-introduce a programme of service reviews as a means of improving value for money. The programme should target high spending services linked to your revised corporate priorities;
  - a corporate procurement strategy which complies with the National Procurement Strategy for local government and ensure that it is applied to challenge value for money across all services;
  - providing financial and non-financial information together, including operational activity indicators, to assist in budget monitoring;
  - approval of working balance risk register by Members and to be embedded in working practices;
  - monitor and report the cost effectiveness of sundry debt collection procedures;

## 20 Annual Audit and Inspection Letter | Financial aspects of corporate governance

- an annual review and update of risk management, but more importantly the Audit Committee should be given training and provided with quarterly reports for review, as is planned for 2006;
- undertake formal assessment of standards of conduct and document action taken to address; and
- more proactive counter fraud and corruption work should be developed via a formal risk assessment.

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## Other work

### Civil Contingencies

- 77** The Civil Contingencies Act 2004 outlines the requirements necessary for authorities to better plan for and deal with emergencies that cause severe disruption to services at all levels. It looks at building 'service resilience', not just improving emergency planning, but including business (or service) continuity arrangements, including ICT. The Act draws attention to arrangements with partner and local organisations, and the testing of emergency and service continuity plans.
- 78** We found that you are making good early progress in establishing the arrangements required. You have recently approved a Civil Contingencies Corporate Strategy, and work is ongoing in developing such as an overall recovery plan, a guide to Members role in an emergency, and an influenza pandemic management plan.
- 79** You identified a number of issues that need to be addressed and further work undertaken. These include;
- developing an internal communications plan;
  - investigating alternative locations for off-site storage;
  - consideration of risk specifically in relation to the Civil Contingencies Act;
  - investigation and analysis of alternative resilience/recovery options;
  - developing a service resilience framework;
  - an explicit process for closing the crisis response and returning to normal;
  - a need to raise awareness and consult with the local community, local businesses, stakeholders, and the supply chain;
  - identifying strategic partners, mutual aid providers, supply chain, and external providers and discussing all of the service resilience plans;
  - investigating alternative resources through mutual aid agreements;
  - requesting all strategic partners, businesses, supply chain bodies and other external suppliers to meet a suitably acceptable standard around service resilience; and
  - clarity with NYCC about their role and your role.
- 80** A recent follow up of the work above has shown that progress continues to be made and a number of the areas identified have been addressed. We will continue to monitor the implementation of the Act during the 2005/06 audit.

## Grants

- 81 We have adopted a more risk-based approach to the certification of grant claims. With effect from 2003/2004, claims with a value of less than £50,000 no longer require auditing and those between £50,000 and £100,000 have received a lighter touch audit. The approach to larger claims has been determined by risk and the adequacy of your control environment.
- 82 We have no significant issues to report on this year's work.

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## Looking forward

### 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 Letter.
- 84** We have sought to ensure, wherever possible, that our work relates to your improvement priorities. We will continue with this approach when planning our programme of work for 2006/07. We will continue to work with other inspectorates and regulators to develop a co-ordinated approach to regulation.
- 85** I would welcome the opportunity to discuss your emerging risks and priorities at the meeting scheduled to discuss this Annual Audit and Inspection Letter. Current risks identified include:
- new financial management system in 2006/07 and others in subsequent years;
  - emerging financial pressures, including single status;
  - the Royal Hall project;
  - Customer Relationship Management and
  - Local Area Agreements.

### Revision to the Code of Audit Practice

- 86** The statutory requirements governing our audit work, are contained in:
- the Audit Commission Act 1998; and
  - the Code of Audit Practice (the Code).
- 87** 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 Audit Committee in June 2005. The key changes include:
- the requirement to draw a positive conclusion regarding your 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

- 88** The Audit Commission is currently considering the results of the consultation on the proposals for revising the CPA framework for District Councils. Proposals will be available in April followed by a further brief consultation period.

## Closing remarks

- 89 This letter has been discussed and agreed with chief officers. A copy of the letter will be presented at the audit committee meeting on 10 April 2006.
- 90 The Council has taken a positive and constructive approach to our audit and I would like to take this opportunity to express my appreciation for your assistance and co-operation.

## Availability of this letter

- 91 This letter will be published on the Audit Commission's website at [www.audit-commission.gov.uk](http://www.audit-commission.gov.uk).

Mark Kirkham  
District Auditor and Relationship Manager  
March 2006

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# Appendix 1 – Audit and inspection reports issued

**Table 2** Reports issued

<b>Report title</b>	<b>Date issued</b>
Audit plan	March 2004 Nov 2004
Waste management Inspection	May 2005
Civil Contingencies	June 2005
Partnership working - Young people and Alcohol	July 2005
Interim audit memorandum	August 2005
Review of Internal Audit	August 2005
IT security and service management	September 2005
Report on the 2004/05 financial statements to those charged with governance (SAS 610)	October 2005
Final accounts memorandum	November 2005
BVPP report	December 2005
Interim Annual Audit letter	December 2005
E-government progress	December 2005
Grant claims Report	January 2006
Use of Resources feedback	March 2006
Final Annual Audit and Inspection Letter	March 2006

## Appendix 2 – Audit and Inspection fees

**Table 3      Audit fee update**

<b>Audit area</b>	<b>Plan 2004/05</b>	<b>Actual 2004/05</b>
Accounts	27,000	27,000
Financial aspects of corporate governance	36,100	36,100
Performance	32,000	32,000
<b>Total Code of Audit Practice fee</b>	<b>95,100</b>	<b>95,100</b>
Inspection	9,400	9,400
<b>Total</b>	<b>104,500</b>	<b>104,500</b>

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