

Annual Audit Letter

January 2006



Audit and Inspection Letter

Darlington 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.

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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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This Annual Audit and Inspection Letter 2005 is presented to Darlington Borough Council jointly by PricewaterhouseCoopers, as appointed auditor to the Council, and the Audit Commission.

Key messages

Council performance

- 1 The Council achieved the highest rating in CPA categorisation ('excellent') in March 2005. Under the new CPA framework the Council has retained the highest rating and is now a 'four-star' council. The framework brings together service performance, corporate assessment and use of resources. The assessment will be made annually.
- 2 Each year, from December 2005, the Audit Commission will be publishing 'Direction of Travel' statements for each single tier and county council, to describe each council's improvement progress. This year the Audit Commission assessed the Council as 'improving well'.
- 3 The Council delivered significant improvements in its priority service areas and services are of increasingly good quality. There is room for further improvement, for example in waste management and the level of absence from secondary schools.
- 4 The Council scored a three overall for use of resources. This represents a good performance: 'consistently above minimum requirements – performing well'.

The accounts

- 5 PricewaterhouseCoopers concluded its audit work on the 2004/05 statement of accounts and was pleased to be able to issue an unqualified audit opinion and a clear audit certificate.
- 6 The accounts were prepared on a timely basis and the supporting working papers were comprehensive and clear.
- 7 The Council is in a good position to meet the tighter accounts preparation timetable and the group accounts requirements in 2005/06.

Financial position

- 8 The Council's arrangements to ensure that its financial position is soundly-based are adequate.

Other accounts and governance issues

- 9 The Council's arrangements for ensuring that its affairs are managed in accordance with proper standards are adequate.
- 10 The Statement on Internal Control, published with the statement of accounts, complied with relevant guidance.

Action needed by the Council

- 11** The Council should improve underperforming services particularly those within its priority service areas, for example the amount of waste collected and the cleanliness of public areas. In waste management, it should ensure that its actions are in line with national policy and targets and are in the interests of local taxpayers.
- 12** The Council should take steps to embed and improve upon the recent improvements apparent in its approach to securing value for money.

Performance

CPA scorecard

Table 1 CPA scorecard

Element	Assessment
Direction of Travel judgement	Improving well
Overall	4 stars
Current performance	out of 4
Children and young people	3
Social care (adults)	3
Use of resources	3
Housing	3
Environment	3
Culture	4
Benefits	
Corporate assessment/capacity to improve (not reassessed in 2005 [if applicable])	4
Previous corporate assessment/capacity to improve, as included in overall CPA judgement in 2005	3

(Note: 1 = lowest, 4 = highest)

- 13 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. The Audit Commission has 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 four stars.

- 14 Services are of increasingly good quality, supporting community and Council priorities. The Council is working well with local communities and partners to meet local needs. Adult and children's social care, housing and benefits services have improved. The Council continues to help to strengthen the local economy and to make communities more inclusive. Major investment in education is delivering improvements. Electronic and multilingual access to services has improved and in 2004/05 more Council buildings became accessible to people with disabilities, but the Council employed fewer people from minority groups than average. Most environment services, including planning and recycling, have improved but in 2004/05 the amount of waste and volume of traffic increased. Absences from secondary school remained well above average and the youth service was assessed as inadequate.
- 15 The Council has robust improvement plans. It is identifying early signs of underperformance for action, strengthening partnerships and challenging the value for money of its services. The Council currently achieves good value for money in most services and is developing a more rigorous approach to procurement.

Direction of Travel report

- 16 The Audit Commission has assessed the Council's progress in improving its services and the way it works.
- 17 The Council progressed well in its objective of providing excellent services, with 73 per cent of key BVPIs in the top or second quartile, only 9 per cent in the bottom quartile and 63 per cent having improved. Overall 61 per cent of citizens were satisfied with the Council in 2003/04, a top quartile performance.
- 18 The Council has delivered significant service improvements in its priority service areas, particularly education, where attainment rose at all Key Stages and the number of pupils attaining five or more GCSE Grade A to C passes rose from 48 per cent in 2004 to 54 per cent in 2005, after a deterioration between 2003 and 2004. Ofsted/CSCI rated children's services as three out of four but Ofsted rated the youth service as inadequate. The Council's adult services continued to improve, were rated as three out of four by CSCI and enabled more older people to live at home through appropriate care packages. The Audit Commission assessed the Supporting People service as good.

- 19 Most environment services improved. The rate of recycling improved and was an above average performance in 2004/05. However, the amount of waste produced was high, in the worst quartile and increased. The cleanliness of public areas improved but was still below average. Though the planning service had a worst quartile performance for processing major and minor commercial applications in 2004/05, it is now achieving government targets, satisfaction of applicants was best quartile and the amount of housing development on brownfield land was over 80 per cent, an above average performance. Transport infrastructure was generally in good condition, serious accidents declined but the volume of traffic continued to increase. The condition of the housing stock improved with only 2.5 per cent of council houses failing to meet the decency standard, a top quartile performance. Satisfaction with the housing service increased and was best quartile. The benefits service retained its rating of four. Satisfaction with most leisure services remained high. Only for parks and open spaces was satisfaction below average.
- 20 The Council made a significant contribution to the community priorities of improving the local economy, raising educational achievement and promoting inclusive communities. It encouraged employers to invest, so strengthening and diversifying the local economy, increasing in the number of people in employment and decreasing the number of people on benefit over the last three years. Educational attainment improved and Darlington College is moving to prestige premises. However, progress on social inclusion was more mixed. More people thought they could influence local decisions, crime levels reduced and people felt safer, the new welfare rights service enabled more people to access benefits and the Council and PCT are integrating social care. However, the Council's record in employing people from ethnic minority groups was below average and in employing people with disabilities was in the worst quartile, though there was some improvement from 2003/04 to 2004/05 as the Council actively sought to recruit more people from disadvantaged groups. Absences from secondary school (which are disproportionately from disadvantaged areas) were in the worst quartile.
- 21 The Council improved access to services for people in more disadvantaged communities. It completed community appraisals in eleven deprived neighbourhoods and community partnerships increasingly influenced local services, making them more accessible and relevant to local people. The Council achieved Level 2 of the Equality Standard and completed most of the work to achieve Level 3. It improved access to services by increasing the percentage of its buildings accessible to people with disabilities from 49 per cent to 74 per cent, a top quartile performance. All interactions that legally can be carried out electronically were enabled to be so. The Council produced, with the other statutory agencies in the borough, a multilingual DVD providing information on services. The Council worked closely with the LSP to widen the Partnership's membership and make it more inclusive.

- 22** The Council improved value for money, having relatively low costs and low council tax combined with high performing and improving services as a result of performance improvements and efficiency savings, such as reducing surplus school places. However, expenditure on cleanliness, parks and open spaces was not matched by proportionately high satisfaction. Following the CPA corporate assessment in 2004/05, the Council put in place specific arrangements for managing and improving value for money. Some of these are in their early stages, for example a value for money away-day, improvements to the review process, exploration of procurement and partnerships with outside support and challenge. The arrangements have not yet demonstrated clear and significant impact on value for money.
- 23** The Council has robust improvement plans, recognised by partners and regional agencies, and embedded in its Corporate Plan/Best Value Performance Plan and tied to its medium-term financial plan. Key plans are the economic regeneration, the neighbourhood renewal and the social inclusion strategies. It has sound planning and project management procedures. Action plans have been put in place for areas of weakness identified in last year's Audit and Inspection Letter, Corporate Assessment and inspections, for example £340,000 has been allocated to implement an improvement plan for youth services, which were found to be inadequate by Ofsted in February 2005.
- 24** The Council has set up eleven Leading Edge projects to tackle strategic issues facing it. All have clear project plans that are intended to result in SMART improvement plans for their specific areas. The Council has been selected for a local area agreement, which will be focused on children and young people, and is discussing the form of this with local partners.
- 25** The Council has a good track record of implementing its improvement plans and meeting targets. It successfully delivered its Striving for Excellence programme. Key milestones in the economic regeneration and neighbourhood renewal strategies have been achieved. Continued investment in education is taking place and more funds have been agreed. Action and improvement plans resulting from previous reviews, inspections and other forms of challenge have met milestones and targets and resulted in improvement, for example development control, which now meets government standards, and housing maintenance, where satisfaction with housing management has moved from worst to best quartile, though value for money issues are still to be addressed. Leading Edge projects are on programme and the Streetscene project is testing out new ways to challenge existing practices.

- 26 The Council's capacity, as one of the smaller unitary councils, is limited and delivery on its ambitions will depend on it working in partnership and increasing the effectiveness of procurement. After consulting the LSP, it increased council tax at above the rate of inflation over a three year period to increase its capacity, whilst still keeping the rate comparatively low for the region. It has used good internal and external relationships, partnerships and tight management to make best use of its existing capacity and is close to completing job evaluation prior to negotiating single status with its workforce. A team is dedicated to obtaining appropriate external funding for Darlington's needs. Funds have recently been obtained from the Safer and Stronger Communities Fund in recognition of the concentrations of deprivation in the borough. The Council has built value for money specifically into service reviews, which should deliver efficiencies and savings. It is seeking to reduce expenditure on high cost services such as the arts and contain costs in areas where there are strong inflationary drivers, such as waste and older peoples' services. It has made limited use of procurement in the past but has adopted a revised procurement strategy and is looking at options of external provision as part of service reviews now taking place. It has completed a proof of concept study with Stockton on how the two councils could share support services.
- 27 Corporate governance arrangements are strong, systems of risk management are well embedded and internal controls operate effectively. The Council has a track record of improvement but recognises that past reviews could have been more rigorous, particularly in probing value for money and the advantages of external procurement. Challenge as a part of service reviews has been strengthened. The use of causal maps and associated indicators is giving early warning of potential problems and has addressed former weaknesses of performance management in not picking up problems before they impinged on outcomes.

Other performance work

- 28 In common with many other local authorities, the Council has been working on developing a new pay and grading structure to ensure that all staff are remunerated fairly. PricewaterhouseCoopers assisted the Council to complete this significant task by:
- inputting job evaluation data onto the system;
 - identifying various grade-break alternatives;
 - identifying the cost of implementing each of the various alternatives;
 - constructing appropriate pay ranges for each grade within the chosen structure; and
 - formulating the principles for progression through each grade based on performance/skill level etc.

Performance information

- 29 It is the responsibility of the Council to put in place proper arrangements to collect, record and publish performance information, in the form of best value performance indicators (BVPIs), as specified each year by the Audit Commission.
- 30 PricewaterhouseCoopers are required to audit these BVPIs, and worked jointly with the Council's Internal Audit team to do this for the 2004/05 BVPIs. On the basis of the work carried out, PricewaterhouseCoopers concluded that the Council's arrangements to collect, record and publish its BVPIs are adequate.

Best value performance plan

- 31 Under the Local Government Act 1999, the Council is required to comply with the general duty of best value which is defined as making arrangements to secure continuous improvement in the way in which their functions are exercised, having regard to a combination of economy, efficiency and effectiveness. The Council is required to publish an annual best value performance plan (BVPP) which summarises the Council's assessment of its position in relation to best value. The Council is also responsible for the information and assessments that are set out within the BVPP and the assumptions and estimates on which they are based. The Council is also responsible for putting in place the performance management system from which the information and assessments in the BVPP are derived. In order to assess how the Council met its responsibilities PricewaterhouseCoopers:
- reviewed the BVPP for compliance with the 1999 Act (including an assessment of the adequacy of the systems put in place to capture specified performance information); and
 - followed up the action taken by the Council in response to last year's audit of the BVPP.
- 32 The principal conclusions arising from this work were:
- an unqualified audit opinion on the BVPP;
 - no statutory recommendations on the procedures to be followed in relation to the BVPP; and
 - no recommendation for referral to the Audit Commission or Secretary of State.

Other Audit Commission inspections

- 33** The Audit Commission carried out a corporate assessment of the Council during the winter of 2004/05. As a result of this and of improvements in delivering key services, such as social care and housing and council tax benefits, the Council gained 'excellent' status under the CPA model used at that time. The main findings of the corporate assessment were:
- strengthened corporate leadership and capacity;
 - good prospects for making even more improvements;
 - strong, clear and widely owned community strategy, which sets out the long-term vision for Darlington;
 - effective partnership working, with strong business and community involvement; and
 - considerable success in attracting inward investment in the borough to secure better jobs for the future.
- 34** The assessment also found some room for improvement. The Council had not demonstrated that it had the ability to use IT and procurement to increase capacity and was not able to clearly show that it achieves value for money.
- 35** The Audit Commission also carried out a Supporting People inspection during the spring of 2005. The inspection assessed the Council's Supporting People services as 'good', with 'promising prospects for improvement'. The main findings were:
- good consultation with and information for service users;
 - a range of high quality services to meet the needs of some of the most disadvantaged groups;
 - a comprehensive five-year strategy for Supporting People services and clear service plans;
 - clear support from councillors and good partnership working with providers; and
 - good governance and budget monitoring mechanisms.
- 36** The inspection also found a number of areas for improvement:
- more needed to be done to improve access to services through clearer information;
 - the approach to procurement needed to be more open and transparent;
 - the involvement of service providers other than the Council needed to be improved; and
 - service reviews needed to be more effective as drivers for improvement.

Working with other inspectorates and regulators

- 37 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.
- 38 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.
- Commission for Social Care Inspection (CSCI) annual performance assessments:
 - adult social care services are serving most people well with promising prospects for improvement; and
 - children's social care services are serving most people well with excellent prospects for improvement.
- The Council's overall CSCI rating is two stars (out of possible three).
- Ofsted/CSCI annual assessment of children's services: score three (out of possible four).
 - Ofsted carried out an inspection of the Council's youth service in the spring of 2005; it found that the Council's provision of these services was inadequate.

Accounts and governance

PricewaterhouseCoopers have given your accounts an unqualified audit opinion. Your overall corporate governance arrangements are satisfactory.

Audit of 2004/05 accounts

- 39 It is the Council's responsibility to prepare a statement of accounts that presents fairly the financial position of the Council.
- 40 PricewaterhouseCoopers undertook a risk-based audit of the accounts, placing reliance on management controls over revenue and capital income and expenditure. As a result of the work undertaken, PricewaterhouseCoopers were pleased to issue an unqualified opinion on the Council's statement of accounts. on the 30 September 2005 - a month ahead of the current statutory deadline.

Report to those with responsibility for governance in the Council

- 41 Auditors are required by professional standards to report to those charged with governance (in this case to members of the cabinet) certain matters before an opinion is given on the financial statements.
- 42 PricewaterhouseCoopers presented this report to cabinet in September 2005. There were no significant issues arising.

Matters arising from the final accounts audit

- 43 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.
- 44 In last year's Annual Audit and Inspection Letter, PricewaterhouseCoopers 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 central government requirements. PricewaterhouseCoopers are pleased to report that the 2004/05 Statement of Accounts was prepared on a timely basis. PricewaterhouseCoopers would like to commend the Council on the quality of the working papers supporting the statement of accounts and its adherence to a challenging closedown timetable.
- 45 The statutory deadlines for the preparation and publication of the 2005/06 accounts will be advanced once again and will require early planning and thoughtful scheduling of key meetings.

- 46 2004/05 was the first year in which new requirements were in place for authorities to prepare full group accounts. Local authority group accounts consolidate relevant financial information on those bodies that are under the control of, or that may be influenced by, the authorities. The Council took advantage of transitional arrangements which allow deferment of full adoption of group accounts until 2005/06.
- 47 Our experience at other authorities indicates that identifying the bodies that fall into the scope of group accounts and establishing accurate figures for consolidation into the accounts is a time consuming process. However, in the case of the Council, PricewaterhouseCoopers are aware that considerable preliminary work has been undertaken to minimise the risk that group accounts will cause delays in the preparation of the 2005/06 Statement of Accounts.

Financial standing

- 48 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.
- 49 PricewaterhouseCoopers' detailed findings and recommendations in this area will be included in a report on financial aspects of corporate governance to be issued to officers in January 2006 (see Appendix 2). PricewaterhouseCoopers have concluded that the Council's arrangements to ensure that its financial position is soundly based are adequate.

General fund spending

- 50 In 2004/05, the amount to be met from government grants and local taxpayers was £98.5 million and the resources available to the Council from central government and taxpayers were £105.6 million. This gave rise to a general fund surplus of £7.1 million. The surplus position at the year-end was due mainly to the one-off impacts of two accounting decisions.
- £3.8 million related to the write-out of a provision for potential costs arising from the single-status issue. This provision was no longer required following a direction from the Office of the Deputy Prime Minister that the costs could be capitalised.
 - £1.0 million related to the decision to extinguish the pensions contribution reserve that had been built up to meet employer's pension contributions. Based on the latest actuarial advice, the balance on this reserve was not required over the life of the medium-term financial plan.
- 51 With the £7.1 million surplus generated in the year, the balance on the general fund increased from £4.9 million at 31 March 2004 to £12.0 million at 31 March 2005.

- 52 In 2005/06, the Council set a budget totalling £111.9 million based on a Council tax rise of 4.8 per cent. The budget assumed that contributions from general fund balances would be £1.2 million. The position at September 2005, based on the Council's routine budget monitoring reports, is that a projected underspend of around £0.6 million is expected which is due mainly to lower than anticipated financing costs.
- 53 Other general fund reserves increased from £2.9 million at 31 March 2004 to £5.0 million at 31 March 2005 as illustrated below.

Table 2

Description	31 March 2004 (£m)	31 March 2005 (£m)
Revenue contribution to capital outlay	0.6	0.0
Schools revenue balances	1.1	2.6
Insurance fund	0.3	0.9
PFI Reserve	0.0	1.0
Pensions contribution reserve	0.6	0.0
Other	0.3	0.5
Total	2.9	5.0

- 54 The Council's trading operations generated an internal trading surplus of £1.5 million on a turnover of £34.6 million (excluding FRS17 adjustments), compared to a surplus of £1.6 million on a turnover of £32.4 million in 2003/04. The average net profit margin, therefore, declined from 4.9 per cent in 2003/04, to 4.3 per cent in 2004/05.

Pension fund deficit

- 55 The Council participates in two defined benefit arrangements:
- the local government pension scheme; and
 - the teachers' pension scheme.
- 56 The teachers' pension scheme is an unfunded scheme managed by the Department for Education and Skills. Routine pension payments to teachers are met and accounted for by the scheme. The only liabilities that fall to the Council are additional, discretionary, retirement benefits awarded to teachers by the Council. These were valued at £3.5 million at 31 March 2005 (£3.4 million at 31 March 2004).

- 57 The Local Government Pension Scheme is a funded scheme, meaning that the Council and its employees pay contributions into a fund, calculated by the actuary to ensure a long-term balance between the pension liability and invested assets. The most recent actuarial valuation of the local government scheme had an effective date of 31 March 2004.
- 58 The table below sets out the value of the Council's share of the assets and liabilities of the scheme as at that date.

Table 3

Description	31 March 2004 (£m)	31 March 2005 (£m)
Value of liabilities	(194.0)	(191.8)
Value of assets	120.4	109.5
Net deficit	(73.6)	(82.3)

- 59 The net deficit increased in 2004/05. The main causes of this were:
- the additional liabilities arising from employing staff for an additional year;
 - the unwinding of the discounting on the value of existing long-term liabilities; and
 - technical changes to the discount rate used to determine the present value of existing liabilities which had the effect of increasing their total present value.
- 60 The contribution rates increased in 2004/05 on the advice of the actuary. PricewaterhouseCoopers anticipate that they will increase further over the next few years to reflect the impact of increased life expectancy on the financial position of the pension fund.

Housing revenue account (HRA)

- 61 The Council planned to increase the HRA balance by £0.1 million during 2004/05, however, due mainly to lower rental income than anticipated, balances were reduced by £5,000 over the year. The balance carried forward on the HRA as at 31 March 2005 was £0.5 million. This equates to 3.6 per cent of the budgeted level of expenditure on the HRA for 2005/06. This balance is deemed adequate by the Director of Corporate Services.
- 62 In 2005/06, the Council budgeted to make a surplus on the HRA of £0.6 million, based on an average rent increase of 3.51 per cent. The projected year-end position as at September 2005 indicated that the Council would make a surplus of only £0.5 million. The shortfall is due mainly to:
- higher than anticipated rent rebate subsidy limitation; and
 - a shortfall in rental income.

Capital programme

- 63 The Council's capital programme for 2004/05 totalled £29.9 million. This was fully funded as follows.

Description	£000
Supported borrowing	6.9
Unsupported borrowing	5.0
Capital grants	13.8
Capital/revenue contributions	0.4
HRA – capital receipts	1.6
General fund – capital receipts	2.2
Total	29.9

- 64 The total capital resources available for the year were £45.6 million. £15.7 million of these resources were carried forward to be applied to projects that have slipped from the 2004/05 capital programme into 2005/06. There was a small balance of available capital resource (£11,000) that was not utilised and which could not be carried forward.

Prudential framework

- 65 The table above indicates that the Council funded £5 million of the 2004/05 capital programme through unsupported (prudential) borrowing. PricewaterhouseCoopers has followed up the work it performed in 2003/04 on the implementation of the prudential code, including the processes for setting limits and indicators, and found that they continue to meet all of the relevant requirements.

Collection fund

- 66 The total income on the collection fund in 2004/05 was £60.3 million against expenditure of £60.2 million. The net position therefore was a surplus of £0.1 million. The following table sets out the Council's performance at collecting council tax and national non-domestic rates (NNDR) in 2003/04 and 2004/05 and compares the 2004/05 results with the average for all English unitary authorities in 2004/05.

Table 4

	The Council - 2003/04	The Council - 2004/05	All unitary authorities - 2004/05
Council tax	97.2%	96.4%	95.8%
NNDR	99.1%	98.2%	98.1%

- 67 From the table above it is clear that the collection rates have fallen in 2004/05. However, both are above the average for all English unitary authorities.

Systems of internal financial control

- 68 It is the responsibility of the Council to develop and implement systems of internal control, including systems of internal financial control, and to put in place proper arrangements to monitor their adequacy and effectiveness in practice, encompassing:
- the overall control environment, including Internal Audit;
 - the identification, evaluation and management of operational and financial risks; and
 - documentation of control procedures.
- 69 PricewaterhouseCoopers has reviewed these arrangements and concluded that they are adequate.
- 70 The Council's own review of the framework of internal control is documented in the Statement on Internal Control (SIC) included in the accounts. PricewaterhouseCoopers has reviewed the SIC and found that it complies with issued guidance and that the contents are consistent with its understanding of the Council.
- 71 During the course of the audit, PricewaterhouseCoopers has issued separate reports on the Council's overarching IT controls environment and on the council tax and NNDR systems. Overall, PricewaterhouseCoopers concluded that the operation of the Council's systems was sufficiently robust to support its planned audit approach.

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

- 72 It is the responsibility of the Council to ensure that its affairs are managed in accordance with proper standards of financial conduct and to prevent and detect fraud and corruption. Therefore, appropriate arrangements should be put in place to:
- implement and monitor compliance with appropriate standards of corporate governance;
 - articulate and promote appropriate values and standards;
 - develop, promulgate and monitor compliance with codes of conduct;
 - develop, promulgate and monitor compliance with standing orders and financial regulations;
 - develop and implement strategies to prevent and detect fraud and corruption; and
 - receive and investigate allegations of breaches of proper standards of financial conduct and fraud and corruption.
- 73 PricewaterhouseCoopers have reviewed these arrangements and concluded that they are adequate.
- 74 Members should be aware that this does not mean that fraud within the Council is impossible: even the best internal control systems can be overridden through collusion and/or management override of controls.

Legality of transactions

- 75 It is the responsibility of the Council to act within the law and to put in place proper arrangements to ensure that its financial affairs are conducted in accordance with the law and relevant regulations.
- 76 PricewaterhouseCoopers has reviewed these arrangements and has concluded that they are adequate.

Use of resources judgements

- 77 The use of resources assessment is a new assessment which focuses on financial management but links to the strategic management of the Council. It looks at how the financial management is integrated with strategy and corporate management, supports Council priorities and delivers value for money. It will be carried out annually, as part of each Council's external audit. For single tier and county Councils, the use of resources assessment forms part of the CPA framework.

- 78 For the purposes of the CPA PricewaterhouseCoopers has assessed the Council's arrangements for use of resources in five areas.

Table 5

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

(Note: 1 = lowest, 4 = highest)

- 79 In reaching these judgements PricewaterhouseCoopers drew on the above work and supplemented this with a review against specified key lines of enquiry.
- 80 The most significant areas where further development is needed are:
- the Council should consider the processes for member review of the draft accounts and the Statement on Internal Control to evidence the level of scrutiny of the accounts prior to adoption;
 - a formalised reporting process should be established to monitor progress in achieving planned savings and efficiency gains;
 - the Council should aggregate disparate guidance on reserves into a comprehensive policy;
 - the Council should improve the monitoring and reporting of debt recovery and the costs associated with not recovering debt promptly;
 - officers should report to cabinet on risk management at least quarterly;
 - the Council should consider establishing a member group which has audit and governance as its principal responsibility;
 - the Council should consider making closer links between costs and performance in the same reports;
 - the Council should demonstrate a stronger link between investment and improvement in services over time; and
 - the Council should consider applying costed business cases and/or policy proposals more consistently.

Other work

Grant claims

- 81 In accordance with strategic regulation, the Audit Commission has continued with a more risk-based approach to the certification of grant claims. PricewaterhouseCoopers has reduced its audit of these claims but its ability to reduce further depends on the adequacy of the Council's control environment.
- 82 The Council's arrangements for managing and quality assuring grant claims submitted for audit has improved in recent years. However, there remains scope to improve the arrangements for high-level review of the claims to identify minor errors in compilation prior to submission for certification.

National Fraud Initiative

- 83 In 2004/05, the Council 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 forward

Future audit and inspection work

- 84** 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.
- 85** 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 programmes 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

- 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 Cabinet in 10 May 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

- 88 This letter has been discussed and agreed with Council officers. A copy of the letter will be presented to Cabinet on 7 February 2006.
- 89 The Council has taken a positive and constructive approach to our audit and inspection. We would like to take this opportunity to express our appreciation of the Council's assistance and co-operation.

Availability of this letter

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

Paul Woolston
PricewaterhouseCoopers
Appointed Auditor

Sarah Diggle
Audit Commission
Relationship Manager
January 2006

Appendix 1 – Background to this letter

The purpose of this letter

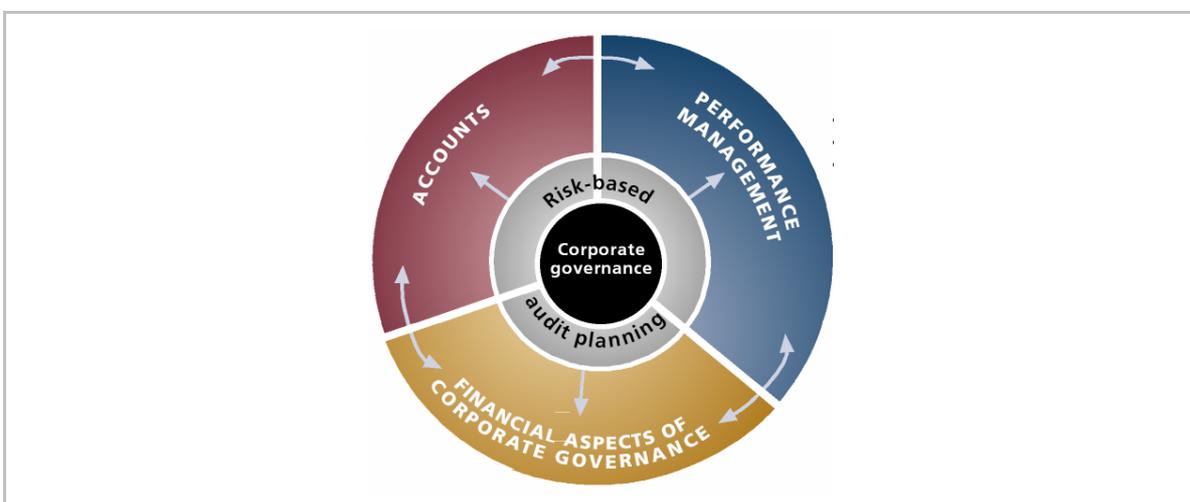
- 1 This is our Audit and Inspection ‘Annual Letter’ for members which incorporates the Annual Audit Letter for 2004/05, which is presented jointly by the Council’s Relationship Manager and Appointed Auditor. The letter summarises the conclusions and significant issues arising from our recent audit and 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 programmes. 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. PricewaterhouseCoopers audit has been conducted in accordance with the principles set out in that statement. What PricewaterhouseCoopers 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 fees charged for our audit and inspections.

Audit objectives

- 5 PricewaterhouseCoopers’ main objective as your appointed auditor is to plan and carry out an audit that meets the requirements of the Code of Audit Practice. PricewaterhouseCoopers adopts a risk-based approach to planning the audit, and its audit work has focused on your significant financial and operational risks that are relevant to its audit responsibilities.
- 6 Central to the audit are your corporate governance arrangements. The 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



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 and inspection reports issued

Table 6

Report title	Date issued
Audit and Inspection Plan (Audit Commission and PwC)	March 2005
CPA corporate assessment report (Audit Commission)	March 2005
Supporting People inspection (Audit Commission)	May 2005
Report on IT Environment (PwC)	August 2005
Audit Clearance Issues Summary (PwC)	October 2005
Review of Council Tax and NNDR Systems (PwC)	October 2005
SAS 610 Report (PwC)	September 2005
Opinion on the 2005/06 Best Value Performance Plan (PwC)	December 2005
Use of Resources findings (PwC)	November 2005
Performance Management (PwC)	November 2005
Direction of Travel statement and CPA Scorecard (Audit Commission)	December 2005
Financial Aspects of Corporate Governance (PwC)	January 2006

Appendix 3 – Audit fee

Table 7 Audit fee update

Audit area	Plan 2004/05	Actual 2004/05
Accounts	£72,000	£72,000
Financial aspects of corporate governance	£40,000	£40,000
Performance	£45,000	£45,000
Audit Commission top slice	£15,500	£15,500
Total Code of Audit Practice fee	£172,500	£172,500

Inspection fee update

- 7 The full year inspection fee is £14,210 in 2005/06. 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.