

Annual Audit and Inspection Letter

Herefordshire Council

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Executive Summary

The purpose of this letter

This is our audit and inspection 'Annual Letter' for Members which incorporates the Annual Audit Letter for 2003/04, and is presented by the Council's Relationship Manager and District Auditor, David Rigg. The letter summarises the conclusions and significant issues arising from our recent audit and inspections of the council.

We have issued separate reports during the year having completed specific aspects of our programme. These reports are listed at

- Appendix 1 for information.
- Appendix 2 sets out the scope of audit and inspection.
- Appendix 3 provides information about the fees charged.

Key messages

Council performance

Herefordshire has continued its performance as a good council. A recent review of the council's strategic housing function concluded that the exceptional assessment of an 'excellent' service with 'promising' prospects for improvement should be maintained.

Performance assessment in relation to Social Care has however slipped from 'two star' in 2003 to 'one star' in 2004. Although the assessment of the capacity to improve adult services moved up to 'promising' the assessment of the current children's services and its capacity to improve moved down to 'serving some children well' with 'promising' capacity to improve.

Our cross-cutting review of the health and social care systems for older people found that there is still considerable pressure being generated by delayed hospital discharges. The council is working with its health partners to reduce this.

The Local Public Service Agreement (LPSA) has been partially achieved and the Performance Reward Grant is being 'ploughed back' to support the new LPSA

Financial position

The council's agreement of a 8.9% increase in the Band D Council Tax was capped, forcing a reduction of £300,000 in the net budget. A further significant loss in Revenue Support Grant is anticipated for 2005/06 which will require the delivery of approximately £5.0m savings to contain further Council Tax increases to around 5%.

The current financial position is the most challenging the council has faced and a broad based public consultation exercise is in progress to feed in to the decision making process.

Other governance issues

During 2004 the Job Evaluation proposals have been re-worked. The negotiation process has been protracted, but it is intended to implement the revised proposals on 1 April 2005.

Putting in place effective recycling facilities as part of the waste management PFI has proved to be very challenging. The preferred solution is the use of autoclave technology in three sites in Herefordshire and Worcestershire. Negotiations with the PFI provider are continuing. The proposed Herefordshire autoclave is subject to judicial review following the granting of planning consent.

The council's joint venture with Jarvis PLC, Herefordshire Jarvis commenced on the 1 September 2003. A review of contract management controls found weaknesses. Action has been agreed to improve these controls.

The e-modernisation arrangements have been fundamentally changed and action taken to rationalise IT services. There are four key IT risk areas:

- Staffing and workload
- E-modernisation outcomes
- Project management
- Security and governance.

Council Performance

Good progress is being made with the implementation of Improvement Plan actions and the council is in the process of refreshing its future plans and actions.

CPA Scorecard

[The CPA scorecard is due to be published on 16th December 2004.]

		Assessment
Overall	Good 2003	Good 2004
Current performance	out of 4	out of 4
education	3	3
housing	4	4
use of resources	4	4
social care (children)	3	2
social care (adults)	2	2
benefits	4	4
environment	1	3
libraries & leisure	2	2
Capacity to improve (not reassessed in 2004)	out of 4 3	out of 4 3

(Note: 1=lowest, 4=highest)

As a good council Herefordshire has maintained its high performance in a number of areas and has shown improvement in environment services though performance in social care has fallen.

During the year the council was judged to have a number of top performing services including the way it utilised its resources and how it provided its housing services and made payments to those receiving housing benefit. The housing service was reviewed by the Audit Commission and found to be performing at the same high standards. Benefits Fraud Inspectorate visited the council during the year and complimented the council for its many innovative practices.

Standards in education have been maintained but progress in social care has been mixed. Although adults' services have shown some

improvement, performance in children's services has worsened. In particular the examination results of those children that are looked after by the council are not as good as last years and the council will need to address this.

Based on its current plans Herefordshire is well placed to continue to improve the services it provides to local people.

CPA Improvement Report

In this section of the Letter we comment on the progress the council has made in its priorities for improvement since its CPA in 2002.

Good progress was reported to Cabinet in June 2004. The majority of actions identified in the improvement plan have either been achieved or are on track for completion by the target dates.

Our commentary is structured around the council's five main themes.

Leadership and vision

Although most of the planned actions were delivered, the race equality scheme action plan was not. A revised target of full implementation by March 2005 is being worked to. Diversity issues are taking a higher profile in the CPA methodology and it is important that the council demonstrates improvement in this area.

Performance management

Priority has continued to be given to developing the performance management framework. The actions identified in the improvement plan to 'focus on performance to drive corporate and service improvement' have either been achieved or are in hand. The key measure identified for 'improving services for the community' was the delivery of the LPSA. This has been partially achieved and the council is now seeking to move forward with a new LPSA agreement. We comment on the LPSA later in this section of the letter.

Key resources

It was recognised in developing the improvement plan that the council needs to get the best out of both its physical resources; land, buildings and equipment, and from its people.

Risk management arrangements actions have been implemented; the council now has a risk management strategy, supported by training. The risk register has recently been produced and the service planning process now includes risk management.

Improvements to council-wide procurement are planned to be implemented by March 2005. The revised strategy is now in place. We intend to review progress with implementing council-wide procurement in the new year.

Strategic Monitoring Committee considered the review of the council's property portfolio in November 2004. This important exercise has slipped from its original target completion date of December 2003 due to the change in the council's political administration.

The Human Resources Strategy includes 'Promoting Flexible Working' and a target date of December 2005 for its full implementation. A pilot scheme is currently in progress in Revenues and Benefits and we understand that this will be reviewed in 2005.

Delivering a single broadband telecommunication solution for the county is central to the council's e-modernisation programme. The target is to achieve 80% coverage by December 2004 with full implementation by December 2005. The Council's ICT and e-modernisation arrangements have been through fundamental change over the last 18 months. We comment on IT risks later in this letter and intend to review progress with the implementation of the e-modernisation programme in 2005.

Organisational development and learning

The full implementation of the Human Resources Strategy has been identified as key to delivering improvements to organisational development and learning. One of the milestones identified was to reduce sickness absence to 8.5 days per fte by the end of March 2004. This target was bettered with a measure of 7.16 per fte.

Actions to 'passport' learning throughout the council have been implemented, but arrangements to manage organisational change and development are not so well advanced. An Organisation Development Group has been set up, but a formal work plan and milestones have not yet been identified.

Communication

The communications agenda has continued to be challenging for the council, both internally with job evaluation and externally with Council Tax capping and the current savings agenda.

Although most of the planned actions on internal communications are now implemented the percentage of employees agreeing with the statement that 'communications work well in the organisation' fell from 39% in 2002/03 to 32% in 2003/04. This disappointing fall in performance has been attributed to job evaluation.

The council is seeking to implement the recommendations of the Connecting with Communities project to improve external communications. Supporting this the implementation of the e-modernisation programme and the Customer Service Strategy are key. The Customer Contact Centre at Bromyard has been working since January 2004.

Other performance work

Whole systems health and social care for older people

Delayed discharges reduce capacity in the secondary healthcare system. In 2003/04 16,000 bed days were lost in Herefordshire due to delayed discharges.

We carried out a piece of work which focused on the health and social care for older people and particularly its impact on delays to hospital discharges. Our audit covered arrangements at Herefordshire Primary Care Trust and Hereford Hospitals NHS Trust as well as the council.

We concluded that the three partners have made considerable progress in addressing delayed discharges and the Operational Capacity Planning Group is key in this. However, monitoring data shows that 'awaiting local authority funding' is the biggest single factor in discharge delays at community hospitals. In 2003/04 35% of lost bed days were attributed to this. We recognise that the council started from a low base with its older people's funding and has shown significant financial commitment to improving the funding situation.

The opening of the Hillside Intermediate Care Unit has provided additional capacity and developments such as the expansion of the outreach team have helped to both avoid admissions and facilitate early discharge.

Although these are positive developments, the absence of an overarching service model and commissioning strategy means that the various initiatives are not effectively integrated with one another. Joint planning structures have recently been reviewed in the County with the aim of promoting:

- Effective joint planning
- Improved links with operational teams
- Developments in the commissioning process

Our report has been considered by the three partners and we are waiting for responses to the action plan.

LPSA

We have reviewed progress with the LPSA as 2004 is a key year for delivery of targets. Overall we have concluded that there is a mixed picture on delivery. Some targets have been affected by changes in definitions and difficulties with methodologies, most notably those relating to education. Other targets have not been met in full but there may be some Performance Reward grant received for partial achievement, for example delivery of electronic services.

If the LPSA was fully delivered the council has estimated that £3.5m of Performance Reward Grant would have been received. The partial delivery means that the amount is now expected to be £1.5m. It should be emphasised that this is a one-off payment and is being treated as a 'windfall gain'. It is not part of the £5.0m funding gap identified for 2005/06.

It is intended to use the Performance Reward Grant to invest in the next LPSA. A risk based approach is being taken to this new agreement to ensure that what is agreed is measurable, realistic and inputs lead to expected outputs and are linked to the desired outcomes.

Performance Information

The Corporate plan reports that the out turn for 42% of the Best Value Performance

Indicators reported for 2003/04 was better than the targets set. Our audit confirmed that most of the reported indicators met the requirements of the definitions. Nine indicators did not comply with the definitions.

We will issue an unqualified Best Value Opinion on the 2004/05 Best Value Performance Plan.

Other Audit Commission Inspections

Housing

The previous Audit Commission's inspection of Housing was done in 2001 and required updating. Consequently an assessment of housing was carried out in the spring with the aim of either ratifying the previous inspection score of 'excellent' with 'promising prospects for improvement' or recommending that a full inspection be carried out. This process began with a self assessment by the council which was then tested and validated by a housing inspector.

The self assessed scores were agreed by the assessor and the previous service score carried forward. A full report was sent to the Council in August 2004 which noted that:

"There is clear political and managerial support for a strong strategic housing function within the County. This role has become distinct since the stock transfer as a result of profile raising activities undertaken by the authority which have been designed to ensure a common purpose and understanding amongst officers, members and stakeholders.

Work is well under way for the new housing strategy with extensive, high quality housing needs data collected and priorities agreed. Negotiations are taking place with strategic partners to achieve equitable contributions for funding shared ambitions.

One of the greatest challenges is the increasing demand for homeless accommodation and services. This manifests itself currently in an over-reliance on bed and breakfast accommodation especially for single people, which is recognised as undesirable. There is a shortage of temporary accommodation for the homeless.

The Council is responding positively to this challenge in a number of ways including the development of an innovative partnership with Shelter to provide support and independent legal advice to the homeless throughout the process from the decision on their homelessness to the provision of settled accommodation. A proactive private sector leasing initiative is also showing positive results."

Working with other inspectorates and regulators

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.

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:

CSCI – Inspection of social care services for older people

The inspection, carried out in March 2004, assessed the council's older people's services as 'serving some people well' with 'promising prospects' for improvement.

It was noted that there had been a vigorous response to the issues raised by Joint Review reported in 2003 and in the 12 months prior to the inspection there were important developments in services to maintain and enhance older people's independence.

CSCI – Star Rating

The star ratings summarise CSCI's independent judgements of performance across all social services, on a scale of zero to three stars. Supporting this, separate judgements for services for children and services for adults are also given.

The 2004 rating is one star, compared to two star for the previous two years.

The star ratings were derived from:

- PAF performance indicators
- Monitoring meetings
- Delivery and improvement Statements completed in October 2003 and May 2004
- The reports on the older people's service inspection and Joint Review

As stated above the score for older peoples services has shown improvement from 2003 when the capacity to improve services was judged to be "*uncertain*" and in 2004 has improved to "*promising*". However the assessment of children's services has fallen back. The council was judged to be "*serving some children well*" in 2004 when it had been assessed as "*serving most children well*" in 2003 and similarly the capacity to improve has dropped from "*excellent*" to "*promising*".

This is disappointing particularly as greater impetus is now being given to Children's Services generally with the introduction of new requirements expected in the draft Children's Act.

Benefits Fraud Inspectorate (BFI) – Annual assessment

The Inspectorate carried out a Good Practice Review during 2004 and published their findings in a report dated November 2004. The report made clear that Herefordshire was chosen because of the good progress it has made and the innovative practices it has introduced.

Overall, BFI found that Herefordshire Council's Benefits service is providing a **Fair towards Good** level of performance. This assessment takes account of the changes since 2003 and is based on a full self-assessment against Performance Standards in which Herefordshire Council scored itself as 86%.

Since the 2003 assessment, the Council have made the following improvements by:

- introducing initiatives to increase benefit take-up
- processing changes of circumstances more quickly
- implementing fraud awareness training for all employees at induction

- defining a strategy for reducing the level and age of debt
- relocating its main customer enquiries office to a building that meets the access requirements of the Disability Discrimination Act.

Herefordshire Council identified some key areas where it still needs to develop to meet Performance Standards. These include:

- ensuring overpayment decision letters meet Standard
- classifying overpayments correctly
- training its staff to assess the needs of all customers, in working customers and ethnic minorities to ensure equal access for all
- ensuring that all recruitment and vetting procedures are annually reviewed by an independent body
- developing an action plan for HB and CTB administration that sets out how it will meet its duties under the Race Relations Act.

Accounts and Governance

We have given your accounts an unqualified audit opinion

Your overall corporate governance arrangements are satisfactory in most key areas.

Audit of 2003/04 accounts

The accounts were approved by the Statutory Accounts Committee on 2nd August 2004 and there were no issues arising from our audit that required us to report to the Committee under Statement of Auditing Standard 610.

The 2003/04 accounts were the first requiring:

- the full reporting of pension liabilities under Financial Reporting Standard 17
- a Statement on Internal Control

Pension liability

The accounts report that the council has a pension fund deficit of £58m. Although this amount is not directly financed by Council Tax it does indicate that there is significant under

funding that needs to be addressed. The actuary is re-valuing the pension fund and it is anticipated that there will need to be a significant increase in the council's contributions to reduce the deficit.

Statement on Internal Control

The purpose of the statement is to document how the council's controls, and in particular its risk management function, has operated to manage risks to a reasonable level. 2003/04 was the first year that this statement was required and it was recognised that a transitional disclosure would be required.

The council's statement identifies four significant internal control issues that need action during 2004/05:

- The full operation of the risk management strategy across the council
- Improvements to the process for the verification of performance data
- Rectification of weaknesses in controlling the Herefordshire Jarvis contract
- Improvements to arrangements to prevent and detect fraud and corruption

The council needs to ensure that the control weaknesses identified in the Statement on Internal Control are adequately addressed in 2004/05

Financial standing

2003/04 General fund spending and balances

The final out turn for 2003/04 was an under spend of £3.5m. Schools under spending accounted for £1.2m with the remaining £2.3m largely attributable to Policy and Finance.

We noted that overall reporting of the forecast financial position to Cabinet anticipated a small under spend in March 2004 and it was not until July that the full under spend was reported.

The main reason for the Policy and Finance under spend were delays in projects. We understand that the expenditure was committed and has been carried forward into 2004/05.

The affect of this under spend was that a larger than anticipated increase in balances was reported in the financial statements. However, as most of this expenditure was committed at the year end the underlying

position with revenue balances has not changed.

2004/05 Budget setting

The initial 2004/05 budget would have resulted in a band D equivalent Council Tax increase of 10.4%. Following discussions with the Local Government Minister the council's Cabinet decided to recommend an 8.9% Council Tax increase, requiring an £890,000 of savings. This was agreed by Council.

In June 2004 the Government informed the Council of its decision to cap the Council Tax increase requiring a further £300,000 of savings to be made.

The reduction from the original budget has reduced overall spending plans by £1.2m.

2005/06 Budget outlook

Updating the medium term financial plan has identified a funding gap of approximately £5.0m if the band D equivalent Council Tax increase is to be held at 5.5%. The most significant financial pressures are:

- Increased pension fund contributions
- Job evaluation costs
- Additional waste management PFI costs

The council is seeking to engage in a broad based public consultation exercise to inform the debate on closing the funding gap. It is clear that difficult decisions will need to be made and the role of the Budget Panels will be important in informing these.

Systems of internal financial control

Weaknesses in the overall control framework, were reported in the Statement on Internal Control. Internal audit reported significant weaknesses in controls over the council's contract with Herefordshire Jarvis.

We assessed the council's systems of internal financial control as adequate overall. We are however concerned that weak controls have been identified in managing the Herefordshire Jarvis contract.

The joint venture with Jarvis PLC commenced in September 2003. Internal Audit reviewed the operation of controls over the council's contract monitoring arrangements in the Spring of 2004. They concluded that they were unsatisfactory because:

- Lack of clarity and consistency of interpretation of the contract conditions.
 - Inadequate evidence to support the performance of works invoiced and paid monthly.
 - Poor control of workflow and programming.
- An action plan has been agreed and progress will be reviewed in the first quarter of 2005.

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

We have again assessed the council's arrangements to prevent and detect fraud and corruption as 'adequate with some weaknesses'. There is a continued need to raise the profile of fraud and corruption prevention across the council.

IT Risks

The Council's ICT and e-modernisation arrangements have been through fundamental change over the last 18 months. These include:

- the ICT service being brought back under direct Council control in April 2003
- a new Head of ICT appointed in summer 2003
- a internal review of the e-modernisation programme that led to a change in its management
- a major restructure of the ICT department.

All this occurred whilst the Council was attempting to deliver an ambitious programme of e-modernisation and ICT projects that included commitment to meeting the Government's electronic delivery targets one year early (by end March 2004).

We found that the council had taken decisive action to rationalise ICT-related roles and services and to address weaknesses and risks. In particular, it was:

- strengthening governance by making the Information Policy Group the sponsor for all ICT and e-modernisation initiatives
- setting up an Information Management Group as a focus for security and legislative compliance

- restructuring and enhancing the skills of ICT Services to meet the needs of service users
- committing investment to address long standing problems with the network and the lack of business continuity arrangements
- applying PRINCE 2 standards and controls to all projects, including those run in partnership
- starting to tackle ICT procurement weaknesses.

Security policies had also been produced and are in force; Internal Audit has found these policies are generally compliant with the BS7799 standard.

We concluded that there were the following risks:

Staffing – the new initiatives, plus the e-modernisation and operational projects have increased IT staffs' workload. Vacant posts make this position worse.

E-modernisation progress – due the changes that were taking place we were unable to follow up the recommendations from our 2002/03 e-government review. For 2005/06 we are proposing to assess what the investment in e-modernisation has meant for the council's service users.

Project management - Internal Audit and in-house reviews highlighted that PRINCE 2 project management standards were not being complied with. Particular issues related to organisational weaknesses, poor control over scope changes and lack of documentation. New arrangements are now in place to ensure all ICT-related projects are run in line with PRINCE 2. A Project and Programme Support Office is being set up to co-ordinate standards and assurance arrangements.

Security and governance - Although security policies have been agreed and are in force, we found that the arrangements for compliance monitoring are informal. Spot checks by the Information Security Manager showed that security weaknesses were common. We agreed that Internal Audit's review of IT would include security and governance issues.

Legality of transactions

Waste Management PFI

In 1998 Herefordshire Council, in partnership with Worcestershire County Council, entered into a joint waste management PFI contract over 25 years. The contract transferred ownership of all existing waste management facilities from the councils to the contractor (Mercia Waste) and in turn, required the contractor to invest in new facilities and technologies in order to achieve specified government targets for recycling. The contractor planned to achieve this by constructing and operating a waste to energy incineration facility. However, planning consent for this facility was declined by the Secretary of State in 2002.

Since the planning permission for the waste to energy plant was refused, both councils have worked with the contractor to seek alternative solutions which will allow new targets to be met while remaining affordable and providing value for money. The proposed solution involves engaging a sub-contractor who will operate a number of steam sterilisation treatment facilities using the autoclave process which will recover recyclable materials and also produce a residual fibre which can be used in the manufacture of other products.

Since the PFI contract was signed in 1998, government targets for recycling at a higher level than specified in the contract have been introduced and also targets for diversion of waste from landfill sites have been announced. Variations to the contract are therefore required to ensure that these targets are reflected in the contract. Variations are also required to reflect the proposed autoclave solution and, in particular, to protect the councils' interests in connection with the viability of the sub-contractor and their funding banks. In July 2004, both Herefordshire Council's and Worcestershire County Council's cabinets authorised officers to enter into these variations, although the contract has not been changed, pending the outcome of further negotiations with the contractor.

Until the discussions with the contractor are finally concluded, there remains a risk that the contract could terminate. Contract termination could have a significant impact on the financial standing of the councils, because:

- Termination clauses in the original contract will require the councils to repay the contractors shareholder equity in exchange for bringing waste management assets and facilities back in-house.
- The councils are likely to have to enter into a new contract in order to achieve the objectives of the Waste Management Strategy. Re-procurement costs are likely to be significant and the councils would be unlikely to secure the level of government PFI funding that was made available for the existing contract.
- The inherent delay in putting new contract arrangements in place would expose both councils to potential future financial penalties under the Waste Emissions and Trading Act for failing to meet landfill diversion targets.

Members need to be mindful of these significant financial risks in particular, in considering the council's medium term financial strategy.

We have agreed to hold a further joint meetings with officers from both councils and Worcestershire County Council's external auditors to discuss progress and the resolution of outstanding issues, prior to the finalisation of the variations to the contract that are currently being negotiated.

Public Rights to Challenge the Accounts

A Local Government elector has objected to the 2003/04 accounts on the grounds of loss of income. He contends that the council's policy with respect to planning consent to 'poly tunnels' is inappropriate and results in a loss of income. The elector has exercised his right to object on the grounds that this matter should be the subject of a Report in the Public Interest. We have yet to consider the grounds for objection which were only received in November 2004.

We have previously received correspondence from an elector relating to the disclosure of rights of way on the council's definitive map. An objection to the 2002/03 accounts was withdrawn following agreement to annotate the map with a form of words agreed by the objector and the County Solicitor. Unfortunately this agreement was not

implemented and the elector exercised his rights with respect to the 2003/04 accounts. Following implementation of the agreement the objector agreed not to pursue the matter in relation to the 2003/04 accounts.

A local group, Herefordshire Waste Watchers have also contacted us regarding the proposed variations to the waste management pfi. They contend that the proposed changes breach EU procurement regulations and do not provide value for money. This issue has not been pursued as an objection to the accounts, but the Group are currently engaged in a Judicial Review of the council's decision to grant planning consent.

Other work

Grant Claims

Over recent years the number of claims requiring audit certification has grown and audit fees have risen in line with this growth. In accordance with Strategic Regulation, the Audit Commission has adopted a more risk-based approach to the certification of grant claims. With effect from 2003/2004 the smaller claims have not been subject to audit or have received a lighter touch. The approach to larger claims has been determined by risk and the adequacy of the Council's control environment.

The Council's arrangements for managing and quality assuring grant claims submitted for audit has improved in recent years and we appreciate the efforts that have been made. However there are areas where further improvement could be made including the standard of supporting information for European Development Fund (ERDF) claims. Although the delivery of ERDF claims is timely the council needs to improve the accessibility of information provided to support ERDF claims.

National Fraud Initiative

The Council took part in the Audit Commission's national fraud initiative (NFI) 2002/03. The NFI, which is undertaken every two years, brings together data from local

authorities, NHS bodies, government departments and other agencies, to detect a wide range of frauds against the public sector. Total savings from the 2002/03 exercise exceeded £83m.

The Commission are repeating the exercise this year and will again collect payroll, pensions, housing benefits, student loan and housing rents data from Authorities. Alongside the core exercise a number of pilot initiatives are being undertaken at selected sites. These are focused on risk areas that were highlighted by Authorities and include payments made to privately run care homes, abuse of blue badge parking permits, serial insurance claimants and duplicate payments to suppliers. These pilot areas, if they prove effective, will be incorporated into future NFI exercises.

Looking Forwards

Future audit and inspection work

We have an agreed plan for 2004/05 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 2004/05 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.

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 2005/06. 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 2005. 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

The Audit Commission has consulted on a revised Code of Audit Practice for application to the audit of the 2005/06 accounts. The new Code, which will be laid before Parliament in January 2005, is designed to secure:

- a more streamlined audit, which is proportionate to risk and targeted on areas where auditors have most to contribute to improvement;
- a stronger emphasis on value for money, focussing on bodies' corporate performance and financial management arrangements (rather than individual services and functions); and
- better and clearer reporting of the results of audits.

Further details will be provided in the Audit and Inspection Plan 2005/06.

CPA 2005 and beyond

The Audit Commission has also consulted on a new framework for CPA in 2005 and beyond. The main changes proposed are as follows:

- Rationalization of service blocks.
- 'Achievement' assessment element of Corporate Assessment to be driven by review of Community Plan and shared priority themes.
- Move away from rigid numerical model, to one based on rules.
- Corporate Assessments to be undertaken on rolling programme, integrated with Joint Area Reviews of children and young people.
- Stronger focus on service delivery for users and customers.
- More robust and explicit view of vfm and cost-effectiveness.

Closing remarks

This letter has been discussed and agreed with the Chief Executive's Management Team.

A copy of the letter will be presented at the cabinet on 23rd December 2004.

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

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



David Rigg
District Auditor and Relationship Manager

17th December 2004

Status of our reports to the council

Our annual audit and inspection letter is prepared in the context of the Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission. Annual audit and inspection letters are prepared by relationship managers and appointed auditors and addressed to members and officers. They are prepared for the sole use of the audited and inspected body, and no responsibility is taken by the Audit Commission or its appointed auditors to any member or officer in their individual capacity, or to any third party.

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Audit & Inspection reports issued

Audit and Inspection Plan 2004/05	May 2004
Internal Audit Compliance with the New Code of Practice	May 2004
IT Risk Assessment	July 2004
Housing Regular Performance Assessment	August 2004
Whole Systems Health and Social Care for Older People	September 2004
Financial Management	October 2004
Housing Benefit Fraud Inspection	October 2004

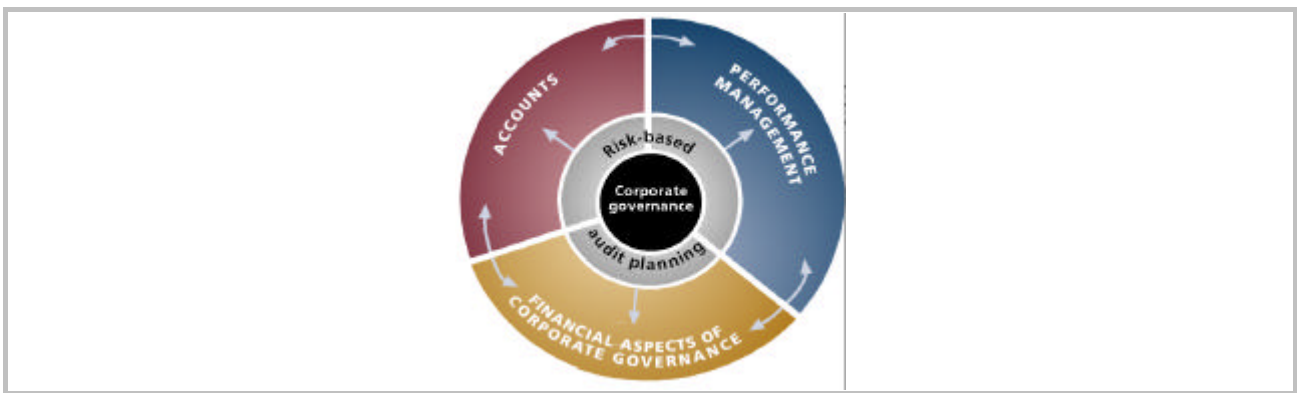
Scope of audit and inspection

Audit

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.

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 Exhibit 1.

The three main elements of our audit objectives



Accounts

- Opinion.

Financial aspects of corporate governance

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

Performance management

- Use of resources.
- Performance information.
- Best Value Performance Plan.

Inspection

Inspection work is based around section 10 of the Local Government Act 1999, which requires us to carry out inspections and deliver reports that will:

- enable the Council and the public to judge whether best value is being delivered;
- enable the Council to assess how well it is doing;
- enable the Government to assess how well its policies are being implemented; and
- identify failing services where remedial action may be necessary.

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.

Audit and Inspection fee

Audit fee update

		Actual 2003/04
	£	£
Accounts and financial aspects of corporate governance	155,190	155,190
Performance	57,400	57,400
TOTAL CODE OF AUDIT PRACTICE FEE	212,590	212,590
INSPECTION (1)	70,270	57,270
TOTAL AUDIT AND INSPECTION FEE	282,860	269,860
Grant Claim certification (2)	150,000	150,000

Notes

- (1) Inspection fee was reduced by £15,000 due to less inspection activity than originally anticipated.
- (2) Grant claim certification is still in progress and expected to show a reduction, although this has not yet been quantified.