

Annual Audit and Inspection Letter

Lancaster City Council

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Reference:	LA007 Annual Audit and Inspection Letter
Date:	December 2004

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. 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. 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

In March 2004 the Council was assessed as a fair performing authority. It has developed an ambitious improvement plan and is demonstrating a clear focus on achieving that plan. It has achieved a lot in a relatively short space of time but much of this work will not impact immediately and it will be important to retain that strong focus, to ensure that it is a shared focus across the whole organisation and that a concentration on outcomes for the community is kept at the forefront of its thinking.

We have assessed the Council's approach to regeneration as fair, with promising prospects for improvement. The Council is addressing economic development although at present it is not sufficiently integrating its work (and the work of partners) in economic development with that in housing, community development, skills training and similar subjects. The council is now making progress in adopting a more joined-up approach and we believe progress will continue.

The Council's Best Value Performance Plan was compliant in all significant areas and followed statutory guidance. We identified a significant improvement in the quality of information provided to support some performance indicators but not across all and there is a need to continue to strengthen quality assurance arrangements for the production of performance information.

The accounts

The financial statements present fairly the financial position of the Authority. We issued an unqualified opinion on 23 November 2004. To maintain financial integrity of the accounts, there is a need to improve the recording and valuation arrangements for fixed assets.

Financial position

The Council's financial position has been strengthened in 2003/04 and this is continuing in 2004/05. Improved financial planning processes have contributed to controlling council tax increases whilst maintaining a sound financial base for the Council's future.

Arrears levels have improved across all major categories of income in the last year.

The Council's growing capital programme represents some challenges in terms of delivery and it will be important to ensure there is sufficient project management capacity available to deliver the planned programme.

Other accounts and governance issues

Governance arrangements are generally sound within the Council. Internal Audit continues to be a key and effective part of the overall arrangements for ensuring internal financial control. Work is required to further develop the implementation of effective risk management practices and the monitoring of personal and prejudicial interests.

Formal investigations into the Crinkley Bottom Theme Park are now complete and appropriate actions have been taken by the Council. As a result the audits of the accounts for 1994/95 to 2000/01 are now closed. The audit of the accounts for 2001/02 to 2003/04 remain open due to the consideration of the lawfulness of decisions surrounding granting early retirement to a former employee.

Action needed by the Council

- Maintain a concentrated focus on delivery of the Council's improvement plan.
- Implement the recommendations in our Regeneration inspection report.
- Improve the quality of performance information.
- Improve risk management arrangements over the next twelve months.

Council performance

*In March 2004 the Council was assessed as a **fair** performing authority. It has developed an ambitious improvement plan and is demonstrating a clear focus on achieving that plan. It has achieved a lot in a relatively short space of time but much of this work will not impact immediately and it will be important to retain that strong focus, to ensure that it is a shared focus across the whole organisation and that a concentration on outcomes for the community is kept at the forefront of its thinking.*

CPA and improvement

The Comprehensive Performance Assessment, (CPA), is a key element of the Government's programme to modernise public services. It is used as a basis for assessing the effectiveness of every Council in meeting their duties under the Local Government Act 1999, and provides each authority with a rating through a range of poor, weak, fair, good or excellent. In March 2004 the council was assessed as a **fair** performing authority.

Following this assessment the Council agreed an improvement plan to address the weaknesses raised within the CPA, building on improvements which were already underway and improvement areas identified from other sources. The improvement plan demonstrates a clear recognition and understanding of the improvement areas and there is a strong commitment to ensure its implementation and to achieve better outcomes for the community. The Council has already made progress in a number of areas. The following paragraphs comment on progress made under the four key questions asked within the CPA process.

What is the Council trying to achieve?

The Council has become clearer about what it is aiming to achieve. Members have revisited their priorities for both 2004/05 and 2005/06 with a view to achieving a much clearer expression of what the Council is trying to achieve and what its main priorities will be over the next few years. Early indications are that the 2005/06 corporate plan once agreed will provide a clearer expression of what the Council's priorities are and how it plans to deliver them, providing a better focus for officers and members when making decisions about the delivery of services.

The Council is developing its community leadership role. The corporate plan is now clearly linked to the Community Strategy on which there has been extensive consultation and various changes in members processes have been made to enable greater engagement with the community. Plans to develop an annual consultation plan to improve the way in which the Council consults with its community have been delayed due to a vacancy during the year but this has now been filled and work is expected to proceed.

Improvements have been achieved in the effectiveness of political structures and decision making. Key changes include greater roles and accountability for portfolio holders, improved focus of executive business, greater links between the executive and scrutiny roles, consultation liaison groups on specific issues, and a clearer remit for scrutiny.

There is still some resistance between members where decisions are required to reduce the Council's investment in some services, even though this is in line with the agreed corporate plan, but such decisions are nonetheless being taken. Whilst some of these changes are still relatively recent, benefits can already be seen in an improved focus on priorities and improvements, speedier decision making and more effective performance review. The way in which Full Council operates is to be developed in 2005.

An improved financial framework now exists which will assist the Council in retaining its focus on priority areas. The Council's new medium term financial strategy for the first time makes a clear statement about the levels of council tax increases Members are willing to agree to and identifies a forward forecast of the levels of savings which will be required to maintain council tax increases below 5 per cent whilst also enabling the Council to invest in the improvement of its services. The star chamber process which began in 2003 has been used more effectively in 2004 to support the development of the 2005/06 budget and to begin early work on the identification of potential savings areas for future years. Further development of the star chamber process will be needed to enable the Council to take more radical resourcing decisions to achieve the quality of services/outcomes which it desires.

How has the Council set about delivering its priorities?

The stronger financial position of the Council will help to support the delivery of its objectives although it is not yet in a position to quantify the resources needed to implement its improvement plans. The financial basis of the Council has improved again with better balances, a clear medium term financial strategy and the work of the star chamber. Delivery against the current year's budget looks good and the budget process for 2005/06 indicates that the Council is in a good position to meet its priorities for 2005/06. The Council's improvement plan includes some wide ranging changes which could have very significant resource implications for the future but it is not yet in a position to quantify these.

The Council agreed a new policy together with Lancashire County Council and the Police Authority to use the council tax increase income from those with second homes on initiatives to achieve the objectives of the Local strategic Partnership and the Community safety Partnership. This money has been successfully used in community projects for example to improve bus shelters, Lancaster bus station, projects for young people and projects dealing with victims of domestic violence. The Council has also continued its success in obtaining additional public funding for other initiatives within the area including £1 million for the Carnforth Market Town initiative.

Work is ongoing to produce an organisational and workforce development plan, the implementation of which will enable the Council to ensure that it has an adequately resourced and skilled workforce to enable it to deliver its objectives for the future. The Plan is expected to be agreed by the end of March 2005 and will be a key tool in enabling the Council to achieve the improvements it wishes for. A reduction in sickness absence from 14.5 days per fte to 12.5 days has been achieved, a 14 per cent improvement which whilst missing the target of 10 days is nonetheless significant.

The Council's approach to procurement is not yet sufficiently radical to significantly improve the Council's capacity to achieve its objectives. A new procurement strategy has been adopted by the Council which aims to help support the Council in achieving its priorities through a strong strategic approach to procurement. Work has been ongoing, developing partnering arrangements, e-procurement, encouragement of local markets and obtaining savings through a more strategic approach to various aspects of the Council's existing contractual arrangements. There remains a resistance to market test services and there is limited evidence of shared services. Such options are important to achieving the improved capacity which can be gained from effective strategic procurement.

The Council has become more focussed in the way in which it reviews performance although its approach to performance management is not yet fully effective. Review of performance at management team and cabinet level has improved through the identification of key performance indicators to achieve a more focused review of performance whilst the scrutiny function have used the more detailed performance information available to challenge individual services on their performance and to develop a programme of more detailed reviews. Work is also ongoing through the implementation of a new performance information and management system which will help the Council develop a clearer picture of how it can more effectively review performance. These developments need to be built on to ensure that the Council has a way of reviewing whether it is achieving improved outcomes for the community and to ensure that poor performance where it exists is effectively challenged and managed.

The use of risk management as a tool to ensure that the Council is able to achieve its objectives remains underdeveloped. The Council has begun to develop its approach to risk management and is reducing risks to the Council through for example, reducing insurance risks relating to vandalism and accidents. There has been work on the application of risk management to the corporate and business plans of the Council but this is limited and is not yet part of the normal planning processes of the Council to ensure that risks of non-delivery are identified early and action taken where appropriate.

What has the Council achieved/not achieved to date?

During 2003/04, most of the Council's services showed an improvement within their performance indicators, with significant improvements achieved in areas of high priority. 52 per cent of performance indicators showed improvement, with 36 per cent showing deterioration and 12 per cent staying the same.

Improvements include housing where private sector dwellings made fit, tenant satisfaction and housing repairs responsiveness all increased. Various changes have been made within housing to achieve a more effective service and to deliver the Council's strategy for its own housing stock. Household waste recycling is a clear priority for the Council and significant investment has gone into this area resulting in a 50 per cent increase in recycled waste and a doubling of the proportion of waste which is composted. Improvements in the planning service have also achieved speedier decision making on planning applications and a doubling of satisfaction levels. Reductions in burglary and vehicle crimes in the area were also noticeable.

Deterioration in performance in 2003/04 was most noticeable in the area of housing benefits. Housing benefits was marked for significant investment in 2004/05 following concerns about performance in this area and the impact of that investment is now showing through in the second quarter of 2004/05 with unaudited data showing performance moving from bottom quartile to upper quartile, resulting in much quicker processing of housing benefit claims.

The Council is not yet able to demonstrate that it is effectively engaging/understanding the communities it serves. User satisfaction since the last surveys in 2001 has reduced for most services across the Council other than housing and planning and those satisfied with the Council overall have reduced from 58 per cent to 48 per cent.

In the light of what it has learnt, what does the Council plan to do next?

The Council has developed ambitious plans for improvement of its services and the area.

The Council's Access to Services Review has been recognised by the Cabinet and senior officers, as a major driver for change which will lead to the transformation of its services generally. The commitment to the completion and implementation of this review is strong and ensuring the effective involvement by all relevant staff in its development will be important in the coming year.

A masterplan to transform the west end of Morecambe has been developed following extensive consultation with the local community and in partnership with a range of public and private organisations. Advance commitment to funding some of this work from English Partnerships has been obtained and agreement by all the principal partners is expected in December. The implementation of this plan together with the existing plans for the development of the Midland Hotel in partnership with the NWDA and Urban Splash aims to significantly improve the quality of living within Morecambe. Progress has also been made in the Lancaster area where contractual arrangements now exist for the development of Luneside East.

The Council continues to actively pursue learning through a variety of means including ongoing work with IDeA and engagement with various initiatives to share practice across Councils. It has continued with its management development programme, although this has only covered a small number of managers so far, and has run workshops around change management and being risk adverse for officers and members and plans to run more of these.

There are various examples of individual services sharing good practice internally but as yet there is no systematic approach to this. A staff attitude survey is being run for the first time this year and is planned to be run annually thereafter which will be a key starting point to helping the Council to develop and change.

Regeneration and jobs inspection

During 2004 we completed an inspection following the Council's best value review of regeneration and jobs. We have assessed the Council's approach to regeneration as **fair**, with **promising** prospects for improvement.

Regeneration can be defined as the revitalisation of an area for the prosperity and wellbeing of all who live and work there. The aim of a council's regeneration activities therefore should be to make communities 'work' (again) in terms of economic viability, environmental sustainability and social cohesion.

The Council is addressing economic development. It has won EU and UK funding for a number of ambitious programmes to rehabilitate former industrial land for business and residential use, and companies praise the energy and helpfulness of its economic development service.

However, if disadvantaged residents are to benefit from the economic growth, the council must address social and environmental aspects of regeneration as well as economic ones. At present it is not sufficiently integrating its work (and the work of partners) in economic development with that in housing, community development, skills training and similar subjects. Its experience so far has been that regeneration programmes have produced mostly short term improvements in the prosperity and overall quality of life of residents in Lancaster district. It has also had little success in defining and measuring intended outcomes for residents from regeneration activity.

The Council is making progress in adopting a more joined-up approach. In Morecambe, where for some years deprivation has been concentrated, managers have learnt from the disappointing results of previous regeneration projects; new programmes cover a range of functions and are more firmly linked to the communities they serve. There is an infrastructure of employment advice, training, social enterprises and improved landscaping built up by previous initiatives, and recently announced plans to redevelop major landmarks will accelerate the process of raising morale.

The Council has experienced substantial growth in the amount of external funding it attracts for regeneration, and is actively pursuing strategies to increase that figure further. It is not updating its regeneration strategy at the same pace, or monitoring its processes, such as staff time absorbed in bidding for and managing projects.

The Council needs to make time from day-to-day project administration to do more strategic thinking about regeneration and needs to consider how to make regeneration sustainable in the long term.

Progress is now being made on these issues through the newly created Regeneration Vision Board. The Board has attracted funding of £200k from the NWDA and is dominated by private sector members. Through the activities of the Board it is expected that an economic regeneration strategy for the district will be developed and that additional funding from the public and private sector will be obtained for the area.

Best Value Performance Plan and Performance Information

The Council's Best Value Performance Plan was compliant in all significant areas and followed statutory guidance. We have not made any statutory recommendations.

Our review of the Best Value performance Plan also includes testing of the accuracy of performance information within the plan. The systems for collecting and reporting on performance information are in place however the authority needs to continue to improve the accuracy of its performance information to ensure that it represents a sound basis for decision making.

Earlier in the year two BVPI workshops were attended by relevant personnel and introduced a new quality assurance proforma with the objective of improving the quality of information supplied and ownership. We identified an improvement in the quality of information provided to support some performance indicators but not all. There was a reduction in the number of PIs requiring amendment but the number of qualified PIs remained the same.

Issues included simple calculation errors, incorrect definitions applied, inadequate working papers and system inadequacies in extracting the required data. Of the four indicators that were qualified two were also qualified in the previous year, these were:

- adoption of local authority cultural strategy, due to insufficient information to support the PI; and
- percentage of responsive repairs, due to insufficient data recorded to support PI.

The Council should continue to strengthen its quality assurance arrangements for the production of performance information. This will support the reliability and accuracy of reported PIs throughout the year.

Accounts and governance

We have given your accounts an unqualified audit opinion. To maintain financial integrity of the accounts, there is a need to improve the recording and valuation arrangements for fixed assets.

Your overall corporate governance arrangements are satisfactory in most key areas however further work is required in relation to the implementation of effective risk management practices and the monitoring of personal and prejudicial interests.

Audit of 2003/04 accounts

We gave an unqualified opinion on the Council's accounts on the 23 November 2004.

Core processes

The accounts of the council are an essential means by which Lancaster City Council accounts for its stewardship of those resources at its disposal and its financial performance in the use of those resources. The core process review examines the controls over the main accounting system, the effectiveness of budgetary control procedures and preparations for the production of the annual accounts. These systems are fundamental to effective financial control within the Council, the achievement of financial targets and the accuracy of the accounting statements.

In overall terms we found the Council's core processes to be working satisfactorily, providing assurance for the completeness and accuracy of the Council's financial statements. We have identified some areas for improvement to tighten control processes around the main accounting system.

Financial statements

The Council's accounts were approved by the Council's Audit Committee on 28 July 2004, (a month earlier than previously). This was one month in advance of the required approval date under the Audit and Accounts Regulations 2003. Under these regulations the approval date for the 2004/05 accounts is the end of July and is not expected to cause a problem for the Council.

The most significant matters arising from the final accounts relate to the recording and valuation of fixed assets. Whilst some improvements have been made since last year, there is still a need to improve the arrangements for the maintenance of up to date and accurate asset registers to support the fixed asset values within the balance sheet.

Report to those with responsibility for governance in the council

We are required by professional standards to report to those charged with governance certain matters before we give an opinion on the financial statements. Following completion of the 2003/04 final accounts audit there were no issues that were required to be reported to members under SAS 610.

Financial standing

The council's financial position has been strengthened in 2003/04 and this is continuing in 2004/05. Improved financial planning processes have contributed to controlling council tax increases whilst maintaining a sound financial base for the Council's future.

The Council's growing capital programme represents some challenges in terms of delivery and it will be important to ensure there is sufficient project management capacity available to deliver the planned programme.

The Council's overall financial position has been strengthened in 2003/04 with general fund and HRA balances both being above the levels which the council had agreed were the prudent minimum. The table overleaf summarises the overall level of balances and reserves.

Table 1: Level of available balances

Year	General Fund	Earmarked Reserves	HRA
	£000	£000	£000
2000/01	274	1191	1107
2001/02	1312	1393	328
2002/03	1306	1938	553
2003/04	1845	1863	832
Prudent level	1000	n/a	350

A clear policy has been agreed for the use of general fund balances where they are available as one-off 'invest to save' initiatives or to phase the impact of new expenditure over a number of years.

The 2003/04 budget highlighted that the Council faced a 20 per cent rise in council tax in 2004/05. Following a review of services through the newly adopted "Star Chamber" process together with the normal budgetary processes the council tax increase was reduced to 6.8 per cent in the finally agreed budget for 2004/05.

The latest corporate monitoring reports indicate the spending against the 2004/05 budget is on target which will support the continuation of a prudent level of reserves. The Council has a number of ambitious plans for improvement over the next few years and a solid financial base will be helpful to achieving delivery of those plans.

In addition a medium term financial strategy has been adopted which provides a clear financial framework within which the Council can plan its services over the next two to three years.

The Council's capital programme is expanding over the next few years following its success in obtaining additional grant support for economic development schemes and sea/river defence work. In 2003/04 capital expenditure was £7.9 million, whilst the 2004/05 programme is over £20 million. The 2003/04 capital programme was underspent by approximately £3 million due to delayed starts to major schemes which will be carried into 2004/05. Given the growing nature of the capital programme it will be important to ensure that there is sufficient project management capacity available to deliver these major schemes within the planned time frames.

Currently the Council has chosen not to use the new freedoms afforded to it, to use unsupported borrowing to finance capital investment.

Debt recovery

We had previously raised issues regarding the debt recovery arrangements for the council's main categories of income. This year we have reviewed the council's current performance on debt recovery in more detail for its main income areas and any action taken to improve performance.

Significant improvements in performance have been achieved in arrears levels for NNDR, and sundry debtors together with a smaller improvement achieved in housing rent and council tax arrears.

The corporate monitoring reports to members/management team include factual information on the current position in relation to each category of debt however they do not provide any contextual information to help with the assessment of whether performance is good, bad or indifferent.

We have recommended that these monitoring reports be enhanced to include contextual information about debt collection to assist with a more meaningful evaluation of debt collection performance.

Systems of internal financial control

Internal Audit continues to be a key and effective part of the overall arrangements for ensuring internal financial control. Work is required to further develop the implementation of effective risk management practices.

Internal Audit

The service provided by Internal Audit continues to be a key and effective part of the overall arrangements for ensuring internal financial control. In our assessment of Internal Audit we have found their coverage and quality of work to be of a good standard. In particular they take a strong risk based approach to their work to ensure resources are targeted most effectively.

Prudential Code

The Local Government Act 2003 received royal assent in September 2003. One key aspect of the Act is the introduction of the prudential regime for capital finance from 1 April 2004.

The prudential code provides the framework for the self regulation of an authority's borrowing and capital investment plans and the financing and other revenue costs flowing from them.

The authority has taken the initial steps in setting the required indicators and establishing a system of control for the new regime. Further work is ongoing to develop the systems to ensure effective ongoing monitoring is in place, risk assessments for individual capital projects are occurring, option appraisals are developed and procurement processes are updated.

Statement of internal control

Authorities are required to produce and publish a statement of internal control in the 2003/04 accounts. The Council have stated within this statement that they are currently not fully compliant with the regulations but have detailed as required the action to be taken to comply in 2004/05. This complies with the transitional arrangements for 2003/04. The main difficulty in achieving compliance this year is due to an underdeveloped risk management approach.

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

The council has appropriate policies and procedures in place to promote high standards of conduct and to prevent and detect fraud and corruption. However further improvements are required in relation to the collation and monitoring of personal and prejudicial interests.

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. A number of good practice areas have previously been identified however these arrangements are only effective if they are adhered to by members and officers. For 2003/04 we focused our work on the arrangements for registering personal and prejudicial interests.

A register of pecuniary and prejudicial interests is maintained for all staff with declarations of interests sought on an annual basis via service heads. However whilst this request for declarations is made, the completion and return of registers is not monitored. The authority is currently reviewing its procedures for this in the light of the nation review that is underway for the update of the existing officer's Code of conduct. This should ensure that all registers are recorded as returned and action should be taken for any registers that are not returned.

Legality of transactions

The Council's overall arrangements for ensuring legality demonstrate most of the expected practices.

Formal investigations into the Crinkley Bottom Theme Park are now complete and appropriate actions have been taken by the Council. As a result the audits of the accounts for 1994/95 to 2000/01 can now be closed. The audit of the accounts for 2001/02 to 2003/04 remain open due to the consideration of the lawfulness of decisions surrounding granting early retirement to a former employee.

The Council generally has appropriate arrangements in place to ensure the legality of its financial transactions through the review by relevant officers of ongoing decisions and actions being taken by the Council and through the pro-active response to new legislation and case law which could impact on the Council.

Our previous years' letters have referred to the investigations into formal objections raised by electors to previous years accounts in relation to Crinkley Bottom Theme Park. Last year's letter reported the outcome of that investigation and the need for us to consider the Council's response and actions in respect of the former Town Clerk with immediate payment of enhanced pension which the District Auditor had decided to be unlawful.

The Council has taken in its own legal advice and has agreed to a different pension provision for the former Town Clerk. The District Auditor has now concluded his work in this respect. As a result of the resolution of this issue the audits of the accounts for the years 1994/95 to 2000/01 have now been closed.

The Council is currently considering the lawfulness of decisions surrounding the granting of early retirement to another former employee. Until this matter is resolved the audits for the years 2001/02 to 2003/04 will remain open.

Other work

Grant claims

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 are pleased to report that no major issues have been raised.

The new approach taken to certification particularly given the good control environment which exists for most claims in Lancaster City is resulting in a reduced fee of approximately £11,000.

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 £83 million of which £36,118 savings were identified at Lancaster City.

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 forward

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.

We will seek to ensure, wherever possible, that our work relates to the improvement priorities of the council when planning our programme of work for 2005/06. We will seek to reconsider, with you, your improvement priorities in the light of the CPA assessment and your own analysis, and develop an agreed programme by 31 March 2005.

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 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.

Closing remarks

This letter has been discussed and agreed with the Chief Executive and other senior officers. A copy of the letter will be presented to the next meeting of the Audit Committee.

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.



Mike Thomas
District Auditor
Relationship Manager

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.

Audit & inspection reports issued

Report issued	Date
Audit plan	March 2004
Regeneration and jobs inspection	April 2004
Draft interim regularity report	August 2004
SAS 610 letter	November 2004
Draft Final Accounts report	January 2005
Draft Best Value Performance Plan and performance indicators report	December 2004

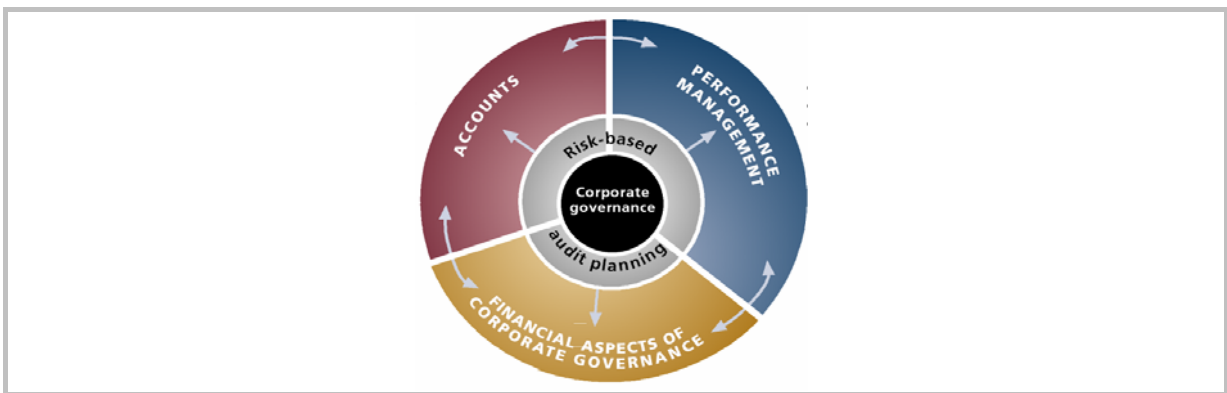
Scope of audit and inspection

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

Audit area	Plan 2003/04 £	Actual 2003/04 £
Accounts	27,880	27,880
Financial aspects of corporate governance	22,970	22,970
Performance	36,330	36,330
TOTAL CODE OF AUDIT PRACTICE FEE	87,180	87,180
Additional code work related to legality issues for previous years	-	132,100
Grant Claim certification	47,000	36,000*
Additional Voluntary work (under Section 35)	-	-

**grant claim fee is an estimate since this work is not yet complete*

Inspection fee update

The full year inspection fee is £14,000. The work reported in this audit and inspection letter has been funded by an element of the fee covering 2003/04 and by an element of the fee covering 2004/05. In both years the actual fee will be in line with that planned.