

Annual Audit and Inspection Letter

Wiltshire County Council

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Reference:	WI007 Annual Audit and Inspection Letter
Date:	January 2005

Executive summary

The purpose of this letter

This letter summarises the conclusions and significant issues arising from our 2003/04 audit and inspection programme and comments on other issues arising from the current 2004/05 audit. It has been prepared jointly by the council's Audit Commission Relationship Manager and District Auditor.

We have issued separate reports during the year having completed specific aspects of our programme. These reports are listed at Appendix 1 for information.

Auditor's responsibilities are summarised at Appendix 2.

Audit fees information is provided at Appendix 3.

Key messages

Key messages from this letter to help the council in seeking improvements are set out below. They should be read in the context of the relevant sections of this letter.

Comprehensive Performance Assessment (CPA)

A recent corporate assessment acknowledged improvements at the council since the original CPA report in 2002 both in the way the council manages itself and in service performance. As a result the council's overall CPA rating improved from fair to good in December 2004.

The council's leadership is strong and is firmly focused on improving services important to the local community. The council is managing its performance well and is applying what it has learnt to improving its services.

Based on Wiltshire County Council's current plans, the council is well placed to further improve the way it works and the services it provides to local people.

Working with partners

The council is seen as an effective partner that is committed to working with the Wiltshire Strategic Board (WiSB) and with health organisations.

Financial standing

Continuing pressures on the children and families budgets in 2004/05 have been partly covered by corporately agreed budget reductions across departments and improved cash flow and interest rates. The predicted net overspending of £2.75 million at the year-end is likely to be met from balances. Significant spending pressures are set to continue into 2005/06 and these are being addressed in the budget setting process. As part of that process balances will need to be replenished and budget monitoring tightened.

Procurement of goods and services

Goods orders in the departments do not always comply with the council's regulations. There are diverse practices across the authority and examples of inadequate documentation. A revised corporate procurement strategy has recently been prepared but it will take considerable energy and sustained effort to implement the new strategy, develop new supporting regulations and ensure comprehensive compliance.

Internal Audit in October 2003 identified significant shortcomings in contract management in the Department of Adult Care Services. In June 2004, Internal Audit recorded that progress in implementing internal audit recommendations was slow and that problems remained at that point. We understand that the issues raised are now being addressed in DACS and the audit concerns remedied. We plan to undertake follow-up work with Internal Audit in due course.

Internal Audit

The council's Internal Audit function is due for review to comply with the new CIPFA Code of Practice for internal audit. The review should encompass capacity, audit risk and scope and the arrangements for the oversight of Internal Audit by members.

Arrangements for assuring the effective and timely implementation of audit recommendations should be strengthened.

Action needed by the council

This letter includes a range of actions either currently being taken by the council which need to be completed or which will require new initiatives. These include:

- address the improvement areas identified by CPA;
- replenish balances and strengthen budget monitoring processes;
- assure compliance with the relevant procurement regulations across the authority; and
- review the operation and member oversight of Internal Audit.

Background to the audit and inspection programme

A recent corporate assessment acknowledged improvements at the council since the original CPA report in 2002 both in the way the council manages itself and in service performance.

Our audit for 2003/04 is now substantially complete. A report to those charged with the governance of the authority was discussed with the final accounts committee on 3 November and a further update report will be issued shortly. An unqualified audit opinion is then expected to follow.

The current audit for 2004/05 is in progress and we will report most of the work in that audit in our annual letter next year. However this letter includes matters of interest for members arising from the audit so far.

Objectives of the audit and inspection programme

Your appointed auditor is required to plan and carry out an audit that meets the requirements of the Code of Audit Practice (the Code). 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.

Our inspection work seeks to comply with section 10 of the Local Government Act 1999.

Further details of our objectives are set out at Appendix 2.

Council performance

CPA improvement report

The council has made significant improvements to services and to the way it manages itself. Local residents recognise this and are now much more satisfied with the council and its services than three years ago.

Improvements have been made to the condition of main roads and attention is now being focussed on improving minor roads. Facilities for bus users are better resulting in more people using local bus services. Vulnerable adults are better supported to live at home and more foster parents have been recruited to improve the service looked after children experience. In education, GCSE results and tests for 11 to 14 year-olds are good. However maths results for 7 to 11 year-olds are not improving.

The council's leadership is strong and is firmly focused on improving services important to the local community. The council is managing its performance well and is applying what it has learnt to improving its services. Based on the council's current plans, it is well placed to further improve the way it works and the services it provides to local people.

Introduction

A recent corporate assessment acknowledged improvements at the council since the original CPA report in 2002 both in the way the council manages itself and in service performance. As a result the council's overall CPA rating improved from fair to good in December 2004.

The council is now an organisation with greater corporate ability, which is delivering against its priorities with improvements that local people recognise. It is successfully pursuing various strands of its change programme to help it deliver. This involves – among other things – development of community consultation, profiles and plans, as well as research and analysis about what matters to local people. Directors are now working at a more strategic level and the council is working with other senior managers through the 'Make it Happen Group' to develop skills further. Other investments have also been made in corporate capacity such as the team briefing system and staff magazine. A programme of business process re-engineering has also started and the performance management arrangements have been overhauled.

Focus

The council has shown that it can stay focused on what matters, both in terms of specific high profile issues and priorities for improvement. It has shown this through service improvements as reported in performance information and also increased satisfaction of residents. Clear leadership, supported by effective processes and structures, has provided the climate for this focus. However, focus is weakened by scrutiny not consistently linking to corporate priorities.

Capacity

The council now works more as a corporate body than a collection of departments, as had been the case previously. The approach to the ethical framework has been strengthened and there is sufficient financial capacity to allow the council to deliver. This is reinforced by good partnership working, procurement and use of external expertise. Although the council is making some steps in relation to equalities, it does not yet have a co-ordinated approach. Again, although the IT agenda is being advanced the corporate approach is less well developed. In addition, the council does not yet have sufficient HR capacity in place to support specific aspects of the change programme.

Performance management

There is now clear information and processes to allow members and managers to review performance and take effective action. Linked to that, the council has a strong approach to considering value for money. The council has also developed a framework for considering risks in what it does, but its use is not yet consistent across the council.

We carried out a review of performance management earlier this year (see below). Arising from that review the council agreed an action plan for improvement and we will review progress against this action plan early in 2005.

Investment

The council has put in place a range of initiatives to enable future improvement. It has strengthened its governance arrangements following a fundamental review of its constitution in 2003 which has been cited by the Office of the Deputy Prime Minister (ODPM) as an example of good practice. A new corporate procurement strategy has resulted in savings totalling £400,000 in 2003/04. Other progress has been made on the corporate induction framework, the framework for managers' roles and competencies, the corporate appraisal framework, the learning and development strategy, communications, managing risk, and asset management. Corporate project management standards have been approved.

Achievement

Overall the council's performance is improving with 66 per cent of key performance indicators improving since last year. Improvements have been recognised by residents whose level of satisfaction has increased from 53 per cent in 2001 to 64 per cent in 2004, against a national trend of declining satisfaction.

Examples of improvements in line with improvement priorities include the following.

- **Waste** – the council continues to increase the proportion of waste that it recycles or composts exceeding the Government's target this year. The amount of waste generated per household is also falling.
- **Improved and safer roads** – the condition of roads in the county has improved since last year. The number of road accident casualties also continues to fall.
- **Passenger transport** – there has been a significant increase in journeys on demand responsive buses and improvements have been made to facilities and information for bus users. Passengers are now much more satisfied with the service.
- **Performance of children in schools** – GCSE results and key stage 3 results are above average and improving. Key stage 2 results are improving relatively in English but not in maths. There has been a slight increase in the number of schools in special measures since last year although this is still lower than in 2001/02.
- **Integrated health and social care services** – the Commission for Social Care Inspection (CSCI) has assessed the council's services for older people as serving most people well and for children as serving some people well. Both services have promising prospects for further improvement. Consequently, the CSCI star rating for social services has remained at two this year. There has been a reduction in delayed discharges across the county and more older people have been helped to live at home. The proportion of young people leaving care that are in higher education or employment has increased since last year. However there remains a significant proportion of looked after children experiencing a high number of placements.

- **Increasing use of information and libraries** – The council restructured its library and corporate services into one department in April 2004 to capitalise on the links between library services and the e-government programme. A one-stop information shop also opened this year in partnership with Salisbury District Council. Visits to libraries increased slightly in 2003/04 and satisfaction with the service has improved.

The council has demonstrated real improvements to services and the way it manages itself. Weaknesses that exist largely relate to the need to further embed changes that are recent or to pursue those that are planned. Examples include risk management, project management and the council's approach to equalities. The council is aware of these weaknesses and is acting to address them.

A summary of the council's progress has been published on the Audit Commission's website along with a refreshed CPA score. This is referred to as the scorecard.

Other performance work

Partnership working with WiSB

The council is seen as an effective partner that is committed to the work of the Wiltshire Strategic Board (WiSB) and is considered by its partners to lead by example. It has invested substantial time, money and effort into establishing and supporting WiSB and leads without dominating the agenda. It has cultivated a positive partnership arrangement with the partners of WiSB through its openness and inclusive approach.

Partners are confident that no barriers to partnership working exist and that the strategy is fully owned. The council has now adopted the four themes of the strategy into its own corporate objectives and work programme to ensure delivery in line with its own priorities. Resources have also been refocused to fund this related work.

The council has worked with partners on its recent Local Public Service Agreement (LPSA) bid which has demonstrated commitment and a proactive stance. If successful the bid will pump prime funding for WiSB projects.

It is too early for the WiSB strategy to be fully implemented and have impact on the public. There are limited demonstrable outcomes achieved to date for the public although WiSB has been a positive influence in raising awareness and encouraging better commitment to partnership working.

The WiSB strategy requires further refinement in terms of its measurable outcomes and targets. Some work is also needed to develop joint WiSB owned targets.

A number of other recommendations were made to assist the council in further improving its partnership arrangements and mechanisms. The implementation of these recommendations will help the council improve its partnership working further.

Partnership with health organisations

Our review of partnership arrangements between the council and health organisations this year showed that partnerships have been developed in a constructive and integrated manner. An open approach has been taken, underpinned by commitment to succeed.

The council has made good progress with service integration compared with the national picture. It has played a part in providing stability to its health partners in a climate of financial and structural instability within the health sector. However, it will need to take care that its position is not jeopardised by the instability of its partners and more work is needed to build on this sound start, given that the health sector is undergoing further changes nationally.

Performance management

The council's approach to performance management is being positively affected by its wider change management project. Staff are engaged in the change process and are keen to improve performance mechanisms and management further. Whilst good progress has been achieved to date there are some areas remaining to be addressed in order to move forward. Better communication, clarity of expectation and appropriate support and awareness of performance issues have been identified as key to progress.

We will examine the progress made in implementing agreed recommendations from our report during the course of next year and report any significant outcomes in our next year's annual letter.

Information and computing technology (ICT)

The council has taken a more focused approach to the management and communication of ICT. The corporate vision relies heavily on the development and effective support of ICT services.

During the course of the year, an external consultant was commissioned by the council to develop an ICT strategy covering technology, management and governance. IT in schools was excluded from their review. A report and suggested strategy was delivered to the council in July 2004 and implementation of the related recommendations is now in progress. The strategy seeks to determine the council's approach in the short and medium-term to delivering its ICT objectives.

A second tier ICT officer has recently been appointed as part of the strategy implementation. This will mean that the ICT strategy will be directly represented at a higher level in the organisation and should help to make implementation and updating the strategy more effective.

We will monitor progress with the ICT strategy over the next year, bearing in mind its importance to the council's overall change and improvement programme. We will report any significant outcomes from the work in our next year's annual letter.

Performance information

The council's Best Value Performance Plan (BVPP) for 2004 complies with the statutory guidance and sets out the council's key values and priorities in an accessible and effective manner.

The process of producing and publishing performance indicators has benefited from auditors being involved at an early stage. In particular, audit testing before publication of the indicators has helped to achieve required levels of accuracy.

In future, however, changed Audit Commission requirements and earlier audit deadlines required by the accounts and audit regulations mean that we are unlikely to be able to undertake pre-publication testing.

It will therefore be important for the council to strengthen its internal quality assurance processes for the production and publication of performance information.

Other performance work in progress

Some of our audit work was necessarily planned to avoid the period covered by and leading up to CPA. As a result, a number of projects for the 2004/05 audit are in progress or soon to be commenced. These include the following.

- **Customer focus** – planned to follow CPA, this work will review the council's approach to access to services by the public.
- **Cultural and libraries inspection** – planned for early 2005, our review will consider the whole cultural service provided by the council but will focus particularly on the library service.
- **Supporting people inspection** – this inspection is fully funded by ODPM. An initial report is expected early in 2005.
- **Project implementation review** – we plan to consider in the near future the extent to which consistent and effective project management is applied to the significant projects now in hand, with particular reference to risk assessments, and business plans for the council's change management project.

- **Schools finances** – a review of schools finances, including supporting schools, and schools accounts and balances, has recently commenced.

We will report the outcomes of this work to members as appropriate and will provide summarised outcomes in our next audit and inspection annual letter.

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);
- DfES; and
- Local Government Office contact.

We share information and seek to provide 'joined up' regulation to the council.

Performance Ratings for Social Services from CSCI were received in November 2004 and are referred to earlier in this letter. This rating constitutes the social services component of the CPA.

Accounts and governance

Accounts

Our audit of the council's accounts for 2003/04 has been delayed but is now substantially complete. An unqualified opinion on the accounts is expected shortly.

Audit of 2003/04 accounts

Our audit of the accounts for 2003/04 is substantially complete. We plan to issue an unqualified opinion on the accounts in the near future. The accounts were published subject to audit on 30 November 2004.

Earlier deadlines for closing the accounts and completing the audit will apply from next year, as follows.

EXHIBIT 1

Accounts	Adoption deadline	Publication of audited accounts deadline
2003/04	31 August 2004	30 November 2004
2004/05	31 July 2005	31 October 2005
2005/06	30 June 2006	30 September 2006

In view of the delays and difficulties experienced in the closedown process this year, improvements will be needed in future years if the earlier deadlines are to be achieved. In particular, internal quality assurance processes should be strengthened.

Statement on Internal Control (SIC)

The council is required to conduct a review at least once a year of the effectiveness of its system of internal control and must include a statement on internal control with its published accounts each year, following guidance set out by the Chartered Institute of Public Finance and Accountancy (CIPFA). The SIC is signed by the Chief Executive and the Leader of the Council.

The SIC for 2003/04 complies with the transitional requirements permitted for the first year of its introduction. Earlier action through the current year is advised to ensure that control systems are effective through the year and that any weaknesses are clearly identified and addressed.

Reporting to the council

The Statement of Auditing Standard (SAS) 610 'Reporting to those charged with governance' requires us to report selected issues arising from our audit to members, before we give our audit opinion on your accounts. Last year our SAS 610 report was considered by the council. This year, our report was discussed with the newly formed final accounts committee on 3 November. A further SAS 610 update report for members' attention will be issued shortly.

Wiltshire pension fund accounts

We audit the Wiltshire pension fund and the provision by the actuary of pension assets and liabilities information for the accounts of admitted bodies. A number of changes were made to the pension fund data provided to the actuary after the accounts were adopted by the council and following errors identified in the actuary's report. A number of changes to the accounts were required as a result. A late revised actuary's report in November 2004 was one of the reasons for the delay in completing the audit.

Pension fund financial health

A triennial valuation of the fund as at 31 March 2004 was provided by the actuary in November 2004. This indicates that the financial health of the fund has deteriorated a little since the last valuation, as a result of market falls. The council continues to make high employer contribution rates to the fund. Capital payments amounting to almost £5 million have been made in the three years to March 2004. We plan to undertake a review of the financial health of the fund in 2005.

Financial standing

Outturn 2003/04

The final outturn for 2003/04 showed a total net spending of £365.919 million against a budget of £365.242 million which includes £1.487 million rollovers and £1.432 million planned contributions to balances. This represents a net underspending of £0.677 million.

Financial standing

The council approved a budget for 2004/05 amounting to £375.829 million. An overspending for the current year was predicted at the end of December 2004, of the order of £2.75 million, largely resulting from significant volume and cost increases for care of children and care of the elderly as experienced by other councils. Responses to these pressures in Wiltshire include specific action in the departments concerned, a specific officer group assessing placements, and corporate action in the application of unexpected income.

In his report to Cabinet on 21 January 2005 the County Treasurer stressed the need to achieve all the agreed budget reductions for 2004/05 if the predicted overspending is not to be exceeded.

Significant spending pressures continue into 2005/06 for members to take into account in the current budget setting process.

Our review of the recovery plan to address the overspending found that it was produced late and was insufficiently robust to meet its original aim. However it did contribute towards addressing the spending pressures.

For 2004/05, spending pressures in the Department of Adult Care Services (DACS) are being managed by using one-off grant funding. The county treasurer has advised that this level of grant funding will not be available in 2005/06 and the impact of this on service provision will need to be considered in agreeing the 2005/06 revenue budget.

Balances

General Fund balances at 31 March 2004 amounted to £4.385 million after roll-overs. This sum was enhanced during the year by savings from capital financing largely as a result of improved cash flow and interest rates (£1.6 million), and budget reductions for departments (£1.5 million). After taking account of invest to save and other adjustments, and overspending of £2.75 million, balances predicted for 31 March 2005 amount to £3.720 million. We understand that balances will be replenished to a more acceptable level from a combination of rollover (and recovery plans) and a revenue contribution from the budget for 2005/06.

Financial settlement 2005/06

The provisional formula grant settlement for 2005/06 is favourable to the council, with an increase of 9.4 per cent. This is the largest increase for a county council this year. It reflects in part the removal of barriers to past grant increases. We understand that this will mean increased funds available to the council for 2005/06 of the order of £4 million for 2005/06. Grant levels for future years remain uncertain as this year's settlement includes additional unexpected funds released by government, possibly for 2005/06 only.

Conclusion

Continuing pressures on the children and families budgets in 2004/05 have been partly covered by corporately agreed budget reductions across departments and savings from improved cash flow and interest rates. The predicted net overspending of £2.75 million at the year-end is likely to be met from balances. Significant spending pressures are set to continue into 2005/06 and these are being addressed in the budget setting process. The council has benefited from a favourable government grant settlement for 2005/06. As part of the budget setting process balances will need to be replenished and budget monitoring should be tightened.

Procurement of goods and services

Our audit sought to assess the extent to which goods ordering across the departments complies with council regulations and provides value.

Poor compliance levels would expose the council to a risk of poor value and poor cost control. Our sample included a number of payments for provision of personal care for children and for adults.

Goods orders

Our tests concluded that goods orders in the departments do not always comply with the council's regulations. We found diverse practices across the authority and examples of inadequate documentation. Typically officers ordering goods were not fully aware of their responsibilities or the procedures to follow. There was poor monitoring internally of the levels of compliance. Internal Audit work in the last year has covered payment of invoices but not the underlying procedures for committing expenditure.

Examples of non-compliance included:

- official order forms not used;
- open orders used;
- market testing not undertaken where required;
- required exemptions not sought; and
- the benefit of corporate purchasing contracts not taken.

An example was the failure to use a corporate purchasing contract for the hire of temporary staff.

Following our audit, a great deal of work has been done by the council and significant progress achieved, including:

- completion of the new corporate procurement strategy with chief officer endorsement and owned by the procurement portfolio holder;
- clear targets and responsibilities for implementation of the strategy, and agreement on a monitoring process;
- agreement to establish robust procedures; and
- commitment to suitable levels of procurement training.

The delivery of progress in meeting the council's targets will be monitored by a cross-departmental virtual procurement team, the Cabinet member for procurement and chief officers. It will take considerable energy and sustained effort to implement the new strategy, develop new regulations and ensure comprehensive compliance. We expect this to be an important area for control development for the purposes of the SIC for 2004/05.

Department of Adult Care Services (DACS)

Our work on procurement considered examples of contracts for the supply of personal care. Personal care contracting is a significant and sensitive area of the council's activity. Personal care contracts are deemed to be exempt from the council's procurement and contracting regulations. A revised procurement strategy for the council is being developed for members' consideration and we understand that specific guidance for the procurement of social care related services is being produced.

Our work indicated that there was a significant incidence of staff not being fully aware of procedures. However, a number of DACS personnel are undergoing specific procurement training to help remedy this. We plan to discuss with the department the supervision and quality assurance arrangements in place for procurement.

Internal Audit in October 2003 identified significant shortcomings in contract management in DACS which in our view required an urgent response. In June 2004, Internal Audit recorded that progress in implementing internal audit recommendations was slow and that problems remained at that point. We understand that the issues raised are now being addressed in DACS and the audit concerns remedied. We plan to undertake follow-up work with Internal Audit in due course.

We are currently reviewing further aspects of procurement in the department and will report again to members at a later date if there are relevant matters arising.

Internal Audit review

As stated in our last year's letter, and to comply with the new CIPFA Code and reflect changing audit roles and practices, the council's Internal Audit function is due for review. The review should consider how Internal Audit's impact on the council can be increased. The review should encompass capacity, audit risk and scope.

We have recommended that the council establishes an appropriate, delegated, politically balanced committee of members (which could include relevant senior officers) to monitor the performance of Internal Audit, including the implementation of its recommendations. This would need to take account of the existing overview of audit maintained by the Standards Committee.

More rigorous priority classifications for Internal Audit reports would be helpful, together with revised processes for reporting high priority matters.

Financial management

Our review this year of three areas of financial management shows that sound foundations have been laid. Further development is in prospect in each area.

Medium-term financial plan

The medium-term financial plan (MTFP) for the period 2004 to 2007 presented to members in the summer of 2003 provides an effective outline of financial commitments and prospects, including the likely pressures on council tax over the next three years. In effect, it tells the council the extent to which resources are available to achieve their objectives and improvement priorities.

In our view, the MTFP provides a sound basis for the longer-term and will help to better integrate service and financial planning. We have highlighted areas for improvement to ensure that the overall aims and benefits of the MTFP are achieved. These include better links with service plans and greater involvement in the process on the part of budget managers. The council is committed to producing a new MTFP each year.

Implementing the Prudential Code

We have reviewed the council's response to the Prudential Code for capital finance in local authorities effective from 1 April 2004. The Code provides the framework for the self-regulation of a council's borrowing and capital investment. The Code aims to ensure that councils' capital investment plans are affordable, prudent and sustainable. This is a significant change to the capital investment regime which presents both an opportunity and a potential risk to the council.

The county treasurer has presented reports to members introducing the code and appropriate controls and procedures are being developed. A highways maintenance scheme has already been approved using the provisions of the Code. Strategic planning, asset management plans and project appraisal processes now all need to be strengthened in the light of the Code.

Linking the council's objectives to its budgets

The council's performance and improvement plan (PIP) provides high level links from the council's objectives to its budgets. This is a key feature of a successful PIP, together with the MTFP, as it demonstrates the council's commitment to achieving its targets and sets out what resource are committed to meet those targets. It will be important to engage budget managers more effectively in the budget process.

More needs to be done to link the council's wider planning processes, including revenue budgeting, MTFP, capital budgeting and service planning. There is, in particular, a need to link service plans and capital planning.

Risk management

A corporate risk register is in place and a corporate risk management group has been established. An assessment of risk is a requirement of reports to Cabinet. We understand that risk assessment is being addressed explicitly in service plans. An action plan has been agreed by the corporate risk management working group to develop the risk management process further.

Risks have not yet been mapped to internal controls (other than reference in service plans), budgets and resource allocation and this would be a valuable development for the future. Comparisons with other authorities might also prove helpful.

There are examples of resources allocation in response to identified risks (eg implementing the complaints system to reflect risk of adverse public perception) and a range of key indicators is in place.

Members are not yet fully involved in risk management but will be increasingly involved as the risk management strategy is developed.

Implementing audit recommendations

Implementing audit recommendations is an important area to help controls, compliance, and effectiveness in achieving the council's objectives. Implementation of recommendations in our audit and inspection annual letter is monitored and progressed effectively and all our recommendations from the 2002 annual letter have been implemented. Recommendations from our 2003 letter are in the process of being implemented. There is however scope for earlier implementation, as is the case for internal audit recommendations.

We understand that suitable action is now being taken by the Standards Committee to ensure more effective and timely implementation of audit recommendations in the future.

Future audit and inspection work

We have an agreed audit plan for 2004/05. Most of the work will be reported in our next year's annual letter. Our planned work, together with that of other inspectorates, is available on the Audit Commission website. We will continue to work with other inspectors and regulators to ensure a co-ordinated approach to regulation.

From the 2005/06 audit, the Audit Commission is seeking to bring forward the audit planning process to ensure that every client has a fully approved audit plan in place by the beginning of the relevant financial year.

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, due to be laid before Parliament in early 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.

Members' input to the planning process is invited.

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.

- Rationalisation 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 a three-year 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 value for money and cost-effectiveness.

Closing remarks

This letter will be discussed with the standards committee and a copy of the letter will be provided to all members. The letter will then be included on the agenda for a full council meeting.

Finally, we would like to take this opportunity to express our appreciation for the assistance and co-operation provided during the course of the work. Our aim is to deliver a high standard of audit and inspection which makes a positive and practical contribution to support the council's improvement agenda.

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.



Richard Lott
District Auditor



Melanie Watson
Relationship Manager
28 January 2005

Status of our annual audit and inspection letter

Our annual letter is prepared in the context of the Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission. The letter is prepared by the Relationship Manager and District Auditor and is addressed to members and officers. It is prepared for the sole use of the audited body, and no responsibility is taken by auditors to any member or officer in their individual capacity, or to any third party.

Audit and inspection reports issued during 2004

Report title	Date issued
Audit Plan 2004/05	June 2004
Grant Claims 2002/03	April 2004
Review of Internal Audit	July 2004
Partnership Working with the Local Strategic Partnership	July 2004
Financial Management Arrangements	August 2004
Performance Management	August 2004
External Auditor's Report to Members on the Annual Statement of Accounts	October 2004
Partnership Working with Health Organisations	October 2004
Best Value Performance Plan 2004/05 (Draft)	November 2004
CPA Improvement Report and Scorecard	December 2004
Corporate Assessment	December 2004
Audit Opinion and Certificate on the Council's Accounts for 2003/04	December 2004
Best Value Statutory Opinion and Certificate	December 2004

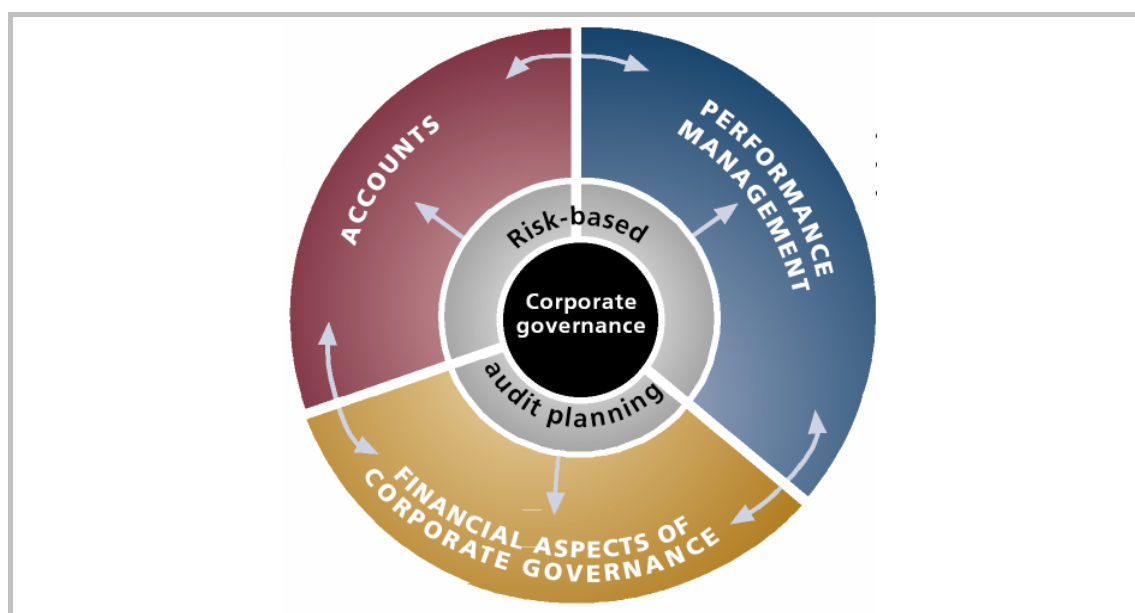
Objectives of the audit and inspection programme

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 (the Code). 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 2.

EXHIBIT 2 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 and the prevention and detection of fraud and corruption.
- Legality of transactions.

Performance management

- Use of resources.
- Performance information.
- Best Value Performance Plan (BVPP).

Inspection

Our inspection work reflects the provisions of section 10 of the Local Government Act 1999. The Act 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 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.

Audit and inspection fees

The table below sets out the audit fee for 2004/05, together with our latest estimate of the actual fee for 2003/04 on the basis that work remains in progress.

Audit fee update

Audit area	Fee (£) 2003/04	Fee (£) 2004/05
Improvement	63,350	35,900
Assessment		28,300
Assurance:		
• Accounts	37,000	54,200
• Governance	54,000	56,300
• Use of resources	72,000	59,200
Planning and reporting	66,000	60,700
Total	292,350	294,600

Notes:

1. The supporting people inspection in November 2004 is fully funded by Office of the Deputy Prime Minister (ODPM) and not included in the fee above. Other inspections are part funded by ODPM and the council's portion of the cost is included in the fee set out above.
2. The fees shown are estimated fees as shown in the agreed audit plans. The actual fee for 2003/04 is likely to be in line with the estimated fee, but this will reassessed at the close of the audit.
3. The fees shown do not include additional fees for the audit of actuary for the purposes of reporting pensions fund assets and liabilities.
4. The fees shown do not include the costs of grant claims audits of the order of £45,000 per year.