

Annual Audit and Inspection Letter

December 2005



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Wiltshire County Council

Audit 2004-2005

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

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

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

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Key messages

- 1 The Council has made good progress since our last letter in re-engineering its working practices in pursuit of its overall aim of providing excellent services at good value for money. Importantly the Council is building on its CPA 'good' categorisation by implementing a culture capable of providing quality services within tight financial constraints.
- 2 A key challenge facing the Council over the next 12 months is ensuring that its ongoing revenue expenditure matches funding. Specifically that action is taken as part of the 2006/07 budget setting process to ensure budgets are realistic and achievable and that any cuts to existing budgets are taken in light of the Council's new goals and priorities to 2009.

Council performance

- 3 The Council is improving strongly and is a three-star council. Service delivery is improving in most areas, and crucially in services that are most important to local people.
- 4 The Council has made progress in securing economy, efficiency and effectiveness in the way it uses its resources. However, scope now exists to develop practices further in this area to ensure financial arrangements are fully effective.

The accounts

- 5 The Council has adequate arrangements in place to produce timely, complete and accurate annual financial statements. These arrangements place the Council in a good position to achieve the earlier deadlines next year. The Council's early produced and approval of this year's accounts demonstrates that it is already capable of achieving next year's earlier deadline.

Financial position

- 6 Budget pressures in both the Department of Adult and Community Services (DACS) and the Department of Children and Education (DCE) over the last two years have resulted in the Council having to take containment action to minimise overspends. Our review of this area suggests that arrangements for identifying such pressures and implementing containment measures have historically been effective. However, the current pressures in 2005/06 are significant and we have concerns over the ability of the Council to bring the budget back into line by the end of the year.

Other accounts and governance issues

- 7 The Council's overall governance arrangements are satisfactory. The recent establishment of the Final Accounts and Audit Committee should further strengthen arrangements in this area. However, scope exists, to strengthen controls over the ordering of goods and services and risk management now needs fully embedding within the Council.

Action needed by the Council

- 8 We recommend that the Council take the following actions.
 - Develop an action plan to address the improvement areas identified in our recent Use of Resources report.
 - Continue to actively manage the ongoing revenue position ensuring in-year overspends are minimised and that in the medium term revenue budgets are achievable.
 - Implement additional controls over ordering and purchasing goods and services.
 - Ensure risk management is fully embedded within the organisational culture.
 - Implement recommendations arising from our recent review of customer focus. In particular, the need to work with partners to develop a shared long-term vision and strategy to provide a more joined up and seamless service across the county.
 - The Council could do more to understand and consider the needs of all sections of the community.

Performance

- 9 The Council is improving strongly. Service delivery is improving in most areas, and crucially in services that are most important to local people.
- 10 The Council has made progress in securing economy, efficiency and effectiveness in the way it uses its resources. However, scope now exists to develop further in this area to ensure financial arrangements are fully effective.

CPA scorecard

Table 1 CPA scorecard

Element	Assessment
Direction of Travel judgement	Improving strongly - 4 (scale 1 - 4)
Overall CPA category	3 star (scale 0 - 4)
Current performance	
Children and young people	3 out of 4
Social care (adults)	3 out of 4
Use of resources	2 out of 4
Environment	4 out of 4
Culture	3 out of 4
Corporate assessment/capacity to improve (not reassessed in 2005)	3 out of 4

- 11 The CPA judgements this year have been made using the revised methodology: '*CPA - The Harder Test*'. As the title implies, CPA is now a more stringent test with more emphasis on outcomes for local people and value for money. We have also added a new dimension, a Direction of Travel judgement that measures how well the Council is improving. Under the new framework the Council is improving strongly and its overall CPA category is three-star.

Direction of Travel summary

- 12 The Council is improving in areas that matter to local people with the majority of its services getting better. Educational standards have improved and GCSE results remain high. The number of foster homes that a child in care can expect in a year has reduced, and the number of young people committing crime has also fallen. The proportion of vulnerable adults helped to live at home has increased. Roads and pavements in the county are in better condition, and more waste is being recycled. The number of people served by a daily or better bus service is good, and more people are visiting the county's libraries.
- 13 The Council has also made improvements in the way that people can access services, with phone calls handled more efficiently and more services available via the internet. However, it has still to improve the way it considers the needs of minority communities.
- 14 The Council has really good plans for improving its services. Despite current financial challenges it has a strong history of meeting financial targets. Overall, services provide good value for money.

What evidence is there of the Council improving outcomes?

- 15 The Council has made significant improvements in the way that it manages itself and many priority services are improving well. The Council has a good track record of delivering improvement for local people. Customer satisfaction improved from 53 per cent in 2001 to 64 per cent in 2004 and is now among the best 25 per cent of councils. The majority of performance indicators show above average performance and most (70 per cent) are improving. For example, the number of vulnerable people who are helped to live at home has increased. GCSE results and most Key Stage 3 test results are high and improving. The percentage of people very or fairly satisfied with bus services has increased from 30 per cent in 2000/01 to 70 per cent (top 25 per cent of councils) in 2003/04. Access to scheduled daytime bus services has been maintained despite rising costs with 90 per cent of the rural population having access to a daily or better weekday bus service, and 65 per cent to an hourly or better weekday bus service.
- 16 The Council is improving services that have not been performing well in the past. For example, last year the Commission for Social Care Inspection was concerned about the high number of placements experienced by children in care. This year, the stability of such placements has been improved and is now in the best band of performance. The library service is making good progress towards meeting the Council's target to increase the number of library visits by 21 per cent by 2006. After visitor numbers dropped to 2.4 million in 2002/03, the Council set targets to increase the level of use to 2.9 million by 2006. Increased investment in the service including the provision of new and refurbished libraries has led to increased attendance in 2004/2005 with 2.65 million users visiting the libraries. In education, Key Stage 2 test results remain below average but are amongst the most improved this year.

- 17 The Council has focused on identifying the key issues in the community and is putting the building blocks in place to ensure their delivery. The County Council's priorities reflect community priorities and funding is being directed towards them. Priorities are developed through extensive community consultation. Wiltshire is the only County Council to receive a Beacon Scheme award in 2005 for '*Getting Closer to Communities*'. Partnership working is strong and continues to develop and there are a number of particularly effective partnerships in place to improve the quality of life for residents in Wiltshire. These include partnerships supporting older people, conserving and enhancing the countryside and improving customer access to services. Wiltshire has a strong local strategic partnership and is negotiating a second Local Public Service Agreement (LPSA) based on the four community priorities of health, adult skills, Streetscene and waste.
- 18 Council services are being refocused to meet user needs. The Council has invested heavily in community planning which is helping to ensure there is good intelligence about the needs and aspirations of people at a neighbourhood and local community level. This has led to changes being made in how services can be accessed through the '*Transforming the Customer Experience*' programme to improve access to a variety of services, including the provision of council access points across some of the county's towns. The Council has been focused on outreach work with people in Wiltshire who have been 'hard-to-reach' or previously excluded. There are numerous examples of work being done with young people such as the Wiltshire Assembly of Youth (WAY) and an online citizen's jury of 2,000 young people that influenced changes in services for young people such as the types of resources provided in local libraries and improved street-lighting in areas that young people identified as threatening. Improvements are also being made to improve the well being of young children in hard to reach groups, through the Traveller Education Service and the Ethnic Minority Achievement Service (EMAS).
- 19 The Council has a clear focus on value for money issues, with one of its three fundamental aims being 'to provide excellent services at an affordable cost'. Overall costs and unit costs for key services are low compared to councils providing similar services, and service standards are good across the board and are likely to improve.

How much progress is being made to implement improvement plans to sustain future improvement?

- 20 Key plans are in place to improve council services. The Council has developed a new corporate plan with clear aims and priorities for improvement over the next four years up to 2009 and is ensuring that necessary funding is available by linking the plan to the medium-term financial strategy (MTFS) for the same period. The Council has supported these aims in specific areas by setting stretching targets under a Local Public Services Agreement (LPSA). The Council has a clear corporate planning framework that enables it to cascade corporate objectives into departmental service plans and the annual aims and targets of individual members of staff through its performance appraisal system.

- 21 Progress is being made against the improvement plan. Improvements have been made to the quality and variety of internal communication and this has raised staff awareness of the corporate aims. Strategic planning capacity has been increased with the appointment of a new head of information technology (IT) and a new head of human resources. Good progress has also been made against LPSA targets. The targets have been met for reducing the number of potholes in roads, the reduction in absence from school, and two out of four subjects in Key Stage 3. The LPSA targets have been exceeded for promoting independence and in providing drug treatment. Although waste recycling and composting did not meet its target, the level of sustained improvement attained qualified for the performance reward grant. However, progress on embedding equality and diversity has been slow and the Council is taking steps to improve this in future. The LPSA target for reducing road casualties has also not been met.
- 22 The Council has the capacity to deliver its future plans. All significant plans and priorities are costed, but as with most councils, financial pressures are leading to budgetary constraints. The revenue budget for social services overspent in 2004/05 and is likely to do so again in 2005/06. At a strategic level, the Council has the political and managerial leadership needed to deliver change and to drive improvement in service delivery. Staff sickness absence and retirements due to ill-health are low and the Council is in the best quartile for the number of women who are in the top 5 per cent of earners. However, employment of people of working age with disabilities is in the worst quartile and few staff from minority ethnic communities are employed. The Council improves its capacity by working well in partnership with others. It is a member of a number of fruitful partnerships although there is still scope to do more, for example, for local transport, with the health sector and a broader range of bus companies.
- 23 There are no significant weaknesses in how the Council is delivering improvement. Various inspection bodies have identified through service inspections that key council services, such as cultural services and services for older people are good and very likely to improve in the future. The Council now has comprehensive arrangements in place to manage business risks. However, these arrangements are still evolving and need to be applied consistently across the Council to ensure they become fully effective. This is also the case for the Council's proposed new arrangements for project management.
- 24 Overall, the Council has demonstrated real improvements to services and is making good progress in implementing improvement plans to sustain future improvement.

Other performance work

Customer focus

- 25 Customer focus is about refocusing services around the needs of all sections of the community. An accessible and user-focused organisation places the customer at the heart of service delivery, it knows what local people want and has organised itself to deliver this. Developing a more user-focused approach is not just a regulatory obligation; it is also part of good management and providing high-quality services.
- 26 Customer focus has been highlighted as a priority for improvement by all five councils in Wiltshire. As a result, a review of customer focus at the Council was undertaken in April and reported in October alongside inspection reports for the four district councils in the county.
- 27 The review concluded that the Council has a good track record of delivering improvement for local people. Improvements have been made in customer access including, improved call handling, the opening of the customer care unit and launch of the new corporate website. Strong partnership working is also delivering improvements, for example the 'ContactPoint' pilot in Salisbury. However, not all the Council's public buildings meet the requirements of the Disability Discrimination Act (DDA) and equalities and diversity issues are not yet fully embedded in the way the Council improves services and develops policies.
- 28 The Council's consultation strategy provides a sound framework for engaging with local people and the '*Transforming the Customer Experience*' programme has been specifically influenced by the needs and aspirations of local people. However, the Council has not set-up mechanisms for ongoing consultation with a cross-section of the population to ensure changes in the design and delivery of services meets customer expectations.
- 29 There is a clear focus in the corporate plan to improve access and satisfaction with Council services supported by good quality service level. These include plans to develop the customer care unit. However, the Council has still to develop an access strategy with clear outcomes focused on the needs of all local people and which defines the time, place and channels by which service users and citizens can contact the Council for information and services. Future plans to provide customer access points in local communities are also unclear.
- 30 The Council continues to develop its corporate capacity to deliver its change programme. There is good strategic management of the '*Transforming the Customer Experience*' programme. Overall programme management is effective, but could be strengthened further.

- 31 The Council has a clear focus on value for money issues, with one of its three fundamental aims being ‘to provide excellent services at an affordable cost’. However, it cannot demonstrate value for money in its approach to ‘ContactPoints’. Future plans for customer access points across the county need to be based on a clear and sustainable business case that strikes the right balance between service delivery and cost when compared to other available channels of customer contact.
- 32 The Council is open to working in partnership. As part of the Customer First Partnership, it has put in place a programme manager to deliver the partnership programme including the CRM system. However, the Council and its partners (particularly the other councils in Wiltshire) are not yet maximising the potential for joint working to provide a more customer-focused service that meets the needs and expectations of local people for a more joined up and seamless service across the county.
- 33 Key recommendations to the Council arising from the inspection include the following.
- To improve services to customers the Council should work with partners to develop a shared long-term vision and strategy to provide a more joined up and seamless service across the county.
 - Develop a formal access strategy with clear outcomes-focused on the needs of all sections of the local community.
 - Review the longer-term vision for customer access and overarching objectives and success criteria for the *‘Transforming the Customer Experience’* programme.
 - Identify those council buildings where there is a continuing need to provide public access to services and ensure all of these ‘public buildings’ meet the access requirements of the DDA as a matter of priority.
 - Ensure there is sufficient capacity to deliver the outcomes from the business process re-engineering programme and maximise the positive impact for local people of the overall change programme.
- 34 Key findings common to all five councils were presented to a meeting of the county-wide Customer First Partnership Board in September 2005. Each council had strengths in different aspects of customer-focus and councils were urged to learn from each other. Common areas of development were also agreed and the partnership plans to take action to improve in these areas.

Schools budgets

- 35 The purpose of our review of schools budgets was to assess how efficiently and effectively Wiltshire County Council monitors, regulates and supports schools in the management of their finances.

- 36 Our review concluded that the Council's arrangements for monitoring schools' budgets and providing support for schools in deficit are well developed. In addition, improvements have been made regarding the submission of schools information for consolidation in the Council's statutory financial statements and based on the small sample of schools visited the level of support that schools get is considered adequate.
- 37 The Council has recognised that the monitoring of schools in surplus needs to be improved and a number of improvements are being implemented. At the time of our fieldwork, resources for an additional staff member had been secured to assist with the monitoring of schools. In addition, the introduction of the shadow capping scheme from 2005/06 means that schools will be advised of surpluses that are considered excessive. A full scheme is to be implemented for 2006/07 under which excessive balances within individual schools can be returned to the LEA for redistribution to all schools. However, our review has highlighted some areas where the monitoring of schools in surplus should be further developed.
- 38 Internal Audit attention is effectively focused with all schools now being risk assessed thus enabling limited resources to be targeted during the year. These arrangements should be further improved by Internal Audit including in their current risk analysis information from the school support service. The LEA are currently considering how to implement the new DfES financial management standards for schools as part of this process.
- 39 The Council provides a traded financial support service that meets the needs of schools and provides flexible financial support packages. Schools rate the traded financial services highly and feel they represent value for money.
- 40 The Council needs to be assured that school resources are being effectively targeted to school improvement. This could be done more effectively if overall budgetary messages were routinely considered alongside school improvement discussions held between schools and the school support service. This requires more comprehensive links and two-way information sharing between the different services providing support to schools.

Performance information

- 41 The Council's best value performance plan (BVPP) for 2005 complies with the statutory guidance and as a result we were able to issue a clean report on its content on 31 October 2005.
- 42 The Council is required to prepare and publish its BVPP summarising assessments of its performance describing how it is making continuous improvement with regard to value for money. The BVPP includes a range of best value performance indicators (BVPIs) and associated targets, providing stakeholders with a view on past performance and future aspirations.

- 43 We are pleased to report that this year the Council has made significant improvements in the production of timely, complete and accurate BVPIs. We were therefore able to gain assurance that the information included within the BVPP provided stakeholders with an accurate reflection of the performance of the Council.
- 44 Our review of individual BVPI's produced by departmental representatives suggested that there have been improvements in arrangements for the production of complete and accurate BVPIs. In particular:
- no BVPIs were subject to qualification this year;
 - working papers and supporting evidence provided by departmental representatives were comprehensive; and
 - effective working arrangements have now been established between the PI co-ordinator and departmental representatives, facilitating timely and accurate BVPI production and reporting.
- 45 Inevitably, some scope exists to further refine arrangements. The interim testing by ourselves and IA identified a small number of errors in BVPI calculations. These errors were corrected prior to publication. However, the challenge for the Council is to now ensure that all BVPIs are accurately produced at a service level thus ultimately removing the need for such quality assurance arrangements.

Audit Commission inspections

Culture inspection

- 46 Our culture inspection concluded that the Council provides good cultural services and there are promising prospects for further improvement.
- 47 The Council is providing generally high-quality cultural services. Satisfaction with the Council's cultural services is above the national average, access to services is improving, both electronically and through improved physical access, and there is a clear focus on customers' needs in the design and delivery of services. But the Council could do more to understand the needs of all sections of the community.
- 48 Partnership working is strong and continues to develop. There is particularly effective partnership working to conserve, enhance and promote the countryside and heritage of Wiltshire. The Council uses its wider enabling role well to support voluntary and community groups who are providing cultural activity within the county. In particular, there is excellent support through the heritage services to local museums and the partnership working arrangements developed with the county's independent museums are an area of good practice.

- 49 Cultural services are making an effective contribution to local area priorities and the understanding of the contribution they can make to wider national and local priorities is developing. This is illustrated in the active role the Council has taken to support community planning and the use of community profiles to identify and then to provide locally responsive cultural services, recognised in the recent award of Beacon Status for 'getting closer to communities'. But more could be done to align the Council's cultural activity to maximise its contribution to the eight policy themes in the community strategy, particularly in the case of health where there is a very challenging ambition for Wiltshire to be the healthiest county in England by 2012.
- 50 At a strategic level, the Council has the political and managerial leadership needed to deliver change and to drive improvement in its cultural services. Individual service areas benefit from strong service and political leadership, performance management is effective and there is a clear commitment to engaging users in improving services. The Council's capacity to deliver improvements in its cultural services is further enhanced through the prioritisation of resources and the good success in securing external funding.
- 51 There are well-developed improvement plans for cultural services in most areas and the Council makes effective use of service reviews to drive improvement in its services. These include funded plans for a new record office and history centre to be built in partnership with Swindon Borough Council. The new facility is planned to open in Chippenham in 2007.
- 52 The Council's high-level ambitions for its cultural services align to the cultural ambitions of the local community. The Council has developed a cultural strategy which identifies cultural ambitions in each of the 20 community areas in Wiltshire. While the Council is making progress with the actions that fall within its responsibility, the strategy has not been considered by the Wiltshire Strategic Board and it is not clear how the remaining community ambitions will be delivered. Within the three departments that provide the Council's cultural services there are ambitions and targets in most areas, but co-ordination both within the Council and with its partners is less well-developed.
- 53 The Council is recommended to:
- give clearer strategic leadership to cultural activity within the Council,
 - provide better coordination both within the Council, between different cultural providers, within the county, and with other stakeholders to maximise the benefits of closer joint working and partnerships; and
 - continue to improve the accessibility of its cultural services.

Supporting People

- 54 'Supporting People' is the Government's long-term policy to enable local authorities to plan, commission and provide support services, which help vulnerable people live independently. The Supporting People programme brings together a number of funding streams such as Transitional Housing Benefit (THB), into a single pot to be administered by 150 administering local authorities.

- 55 The Council acts as the administering authority for the Supporting People programme in Wiltshire. In commissioning Supporting People, services the Council works in partnership with the three Wiltshire primary care trusts, the National Probation Service, and the four district councils in the county.
- 56 The Council's Supporting People programme was inspected in early 2005. We assessed the Council as providing a 'good', two-star service that has promising prospects for improvement.
- 57 There is clear evidence that Supporting People has delivered a greater range of services to vulnerable people in Wiltshire and that user consultation is helping to shape service improvements. Good arrangements are in place to ensure that Supporting People funding issues and performance indicators are reported to the Council and partners. Senior officers and elected members have a good understanding of the Supporting People programme and how it can help deliver Council goals and those of their partners.
- 58 The Supporting People programme has been effectively mainstreamed within the Council linking into existing staff resources. The Council makes effective use of project planning in the delivery of the programme to ensure the focus on agreed priorities is maintained and this commitment remains in place.
- 59 However, some weaknesses were identified. A thorough understanding of the diverse needs within the Wiltshire community has not been established to fully inform the debate around what should be the future priorities for service delivery and a full understanding of customer preferences is underdeveloped. In addition, there is little understanding of Supporting People issues by customer-facing frontline staff. Telephone contact with the Council does not consistently signpost users towards Supporting People where appropriate.
- 60 The five-year strategy for the Supporting People programme had not been finalised at the time of the inspection and so priorities for the future were undetermined.

Working with other inspectorates and regulators

- 61 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);
 - Healthcare Commission,
 - DfES; and
 - Government Office South West.

- 62 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. The assessments from these other regulators have been incorporated into the overall CPA categorisation detailed earlier in the letter.
- 63 In addition, the Audit Commission took part in a joint inspection of Older People's Services across Wiltshire earlier in the year lead by the Healthcare Commission.

Accounts and governance

- 64 We have given an unqualified opinion on your 2004/05 accounts. The Council's overall governance arrangements are satisfactory.

Audit of 2004/05 accounts

- 65 Our final accounts audit concluded that the Council has adequate arrangements in place for the production of the financial statements. We issued an unqualified audit opinion on the Council's 2004/05 financial statements on 19 October 2005.

Core processes

- 66 Our opinion audit began in February with a review of your core processes (your main accounting system, budgetary control and closedown arrangements). Our work concluded that these processes are sound and provided a good basis for your 2004/05 statement of accounts.
- 67 As part of our core processes work, we made a number of recommendations to strengthen arrangements further. These recommendations along with the Council's response, are set out in our interim audit memorandum presented to the Final Accounts and Audit Committee on 26 September 2005.

Final accounts audit

- 68 The draft financial statements for 2004/05 were adopted by the old Final Accounts Committee on the 30 June 2005. A copy of these statements and the supporting working papers were submitted to us for audit on the 15 July 2005 in accordance with the agreed timetable. Our detailed final accounts work commenced on 18 July 2005.
- 69 The section 15/16 date, where members of the public can question the auditor about the accounts, took place on 9 September 2005. As with previous years, nobody sought to exercise these rights this year.
- 70 Our testing on the draft accounts identified a number of entries requiring amendment. Following the correction of these entries and the approval of the revised accounts by the Final Accounts and Audit Committee on 26 September 2005, we issued an unqualified opinion on your 2004/05 financial statements on 19 October 2005.

Report to those with responsibility for governance

- 71 We discharged our responsibilities requiring us as your external auditors to report certain matters arising from the audit of the financial statements to 'those charged with governance' (in this case, the Final Accounts and Audit Committee) on 26 September 2005. We used this opportunity to highlight the entries requiring amendment in the draft accounts and also to highlight areas requiring particular consideration as part of next year's closedown. We are due to receive a final response to all our recommendations arising from our 2004/05 final accounts audit shortly.

Final accounts external accountability

- 72 The published accounts are an essential means by which the Council reports its stewardship of the public funds at its disposal and its financial performance in the use of those resources. The Council has made its 2004/05 draft and audited accounts available to stakeholders in its main offices and libraries. The accounts have also been made available on the Council's website.

The way forward

- 73 The Council has again improved its final accounts process this year. The Council needs to maintain this impetus and ensure that further improvements are achieved next year. We are confident in your commitment to implementing the required changes and we will continue to work with your finance staff over the next 12 months to provide support wherever possible.
- 74 The ongoing dialogue and communication between ourselves and your finance staff during the closedown and final accounts processes, has in our view significantly enhanced the experience this year for all involved. The Council is to be commended for producing and approving a draft set of accounts in advance of the 31 July deadline. This early closedown places the Council in the enviable position of knowing it is already capable of meeting the earlier approval deadline of the 30 June required for the 2005/06 accounts.

Financial standing and management

Medium-term financial planning (MTFP)

- 75 The CPA report issued in December 2004 highlighted the need for the Council to strengthen its MTFP arrangements. In particular, it highlighted the need for the Council to improve the linkages between its priorities and its financial resources into the medium-term.
- 76 In response to this observation, following a request from management, we ran a half-day MTFP workshop with a group of chief officers and members on 22 June 2005. The workshop focused on examples of good practice, existing arrangements in Wiltshire and any resulting gaps requiring attention.

- 77 The workshop concluded with a discussion on how the issues raised in the workshop should be used to inform the development of the Council's next medium-term financial strategy in September 2005.
- 78 It is clear that many of the observations made during the workshop have now been acted upon. A brief review of the Council's new medium-term financial strategy 2005 to 2009 suggests it represents a significant improvement on the previous version and amongst other things, provides a clear linkage between priorities and financial allocation into the medium-term.

The Council's financial position

- 79 Budget pressures in both DACS and DCE over the last two years have resulted in the Council having to take containment action to minimise overspends. Our review of this area suggests that arrangements for identifying such pressures and implementing containment measures have historically been effective. However, the current pressures in 2005/06 are significant and we have concerns over the ability of the Council to bring the budget back into line by the end of the year.
- 80 The trend of overspending over the last few years may indicate an ongoing problem with the achievability of the annual budget in these areas. Some tough decisions may need to be made as part of the 2006/07 budget setting round to ensure all budgets are realistic and achievable whilst at the same time remaining within the overall budget totals. Clearly some difficult decisions will need to be made in terms of prioritisation over the next four months.

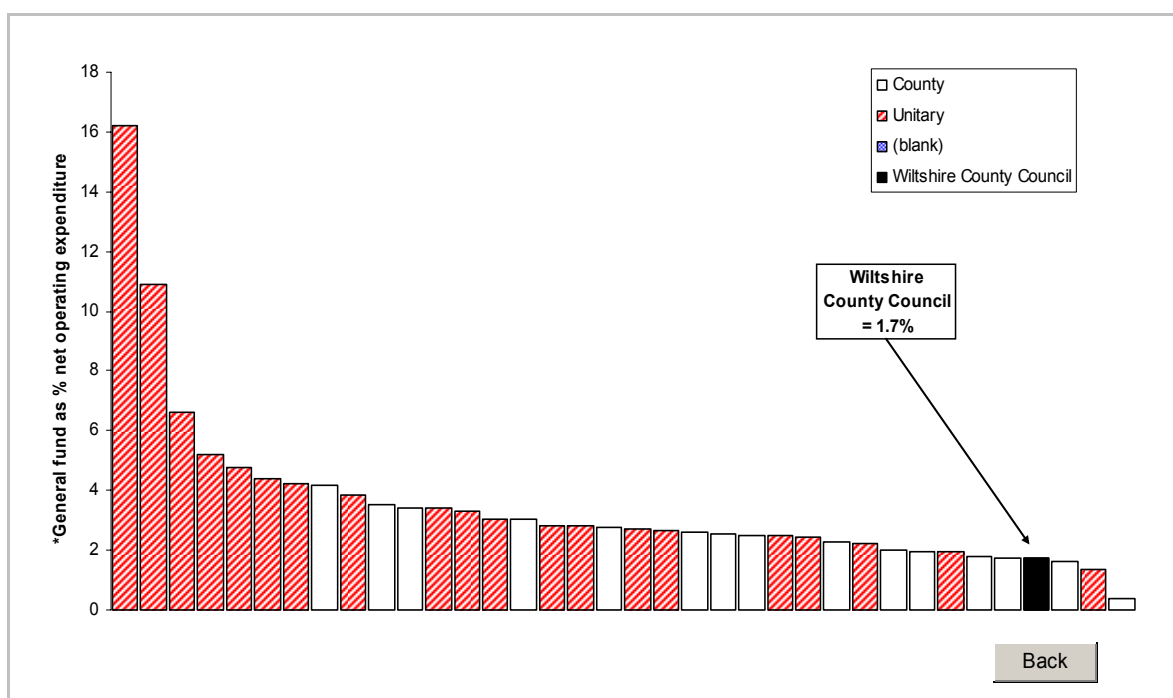
General fund spending and balances

- 81 The Council originally budgeted to spend £375.829 million in 2004/05. Actual expenditure in year totalled £377.497 million resulting in an overspend against original budget of £1.668 million for the year. The Council decided to finance this overspend from existing earmarked reserves, taking £2.875 million from the capital reserve to finance the overspend and increase the general fund balance at year-end by £1.207 million.
- 82 The overspend in 2004/05 was attributable primarily to spending pressures in DCE. In particular, DCE overspent by £2.060 million, primarily as a result of the additional foster, residential care and independent special school provision for vulnerable children. The overspend in DCE in 2004/05 was compounded by the decision to roll forward an element of the prior year overspend totalling £0.431 million into 2004/05.
- 83 Other significant budget overspends in 2004/05 included:
- pooled budgets - Council element of the mental health budget overspend by £0.643 million; and
 - central and other services - overspend of £0.295 million as procurement savings not achieved and an overspend on the coroners service.

- 84 The Council has effective arrangements in place for identifying budget pressures in year. In particular, the budget pressures in DCE and DACS were identified early on in 2004/05. This enabled the Council to take containment action in these areas during year and minimise year-end overspends.
- 85 The unplanned use of the capital reserve in 2004/05 enabled the Council to increase its general fund balance at 31 March 2005 to £6.638 million. This balance is now in excess of the £5.0 million recommended by the Treasurer to Cabinet in February 2005 but still represents only 1.7 per cent of the Council's net revenue expenditure. This is low when compared with other local authorities (see Figure 1) and the adequacy of this balance will need very careful consideration in light of current spending pressures in DACS and DCE.

Figure 1 General Fund balance

The Council has a low general fund balance



Source: Balance database 2005

- 86 Over and above the General Fund balances of £6.638 million the Council has a number of other earmarked balances totalling approximately £16.271 million (net of school balances) available to fund future expenditure. These reserves, unlike the General Fund revenue balance, have been set aside for specific purposes. It is therefore important to note that these balances are not available to meet unforeseen costs, although the Council has been forced into using them as such in 2004/05.
- 87 The Council's revenue budget for 2005/06 was set at £409.6 million. This 8 per cent increase on the 2004/05 budget included additional service demands in DCE and DACS.

- 88 Despite the additional funding to the demand-led budgets in DCE and DACS, it became apparent that further overspends were likely in both directorates in 2005/06. As at October 2005, the Council were forecasting a projected outturn of £415.3 million for the year, some £5.7 million over the original budget and £4.7 million above the current budget of £410.6 million. This predicted overspend assumes that savings will be achieved between now and the end of the year. Work is currently ongoing to assess the robustness of the savings plans within both directorates, however, concerns do exist over the achievability of all the proposed savings and there is a risk that actual year-end overspends could be considerably higher.
- 89 The current pressures in 2005/06 are significant and we have concerns over the ability of the Council to bring the budget back into line by the end of the year.
- 90 The financial implications of this projected overspend are severe, and General Fund balances would be reduced to an unacceptable level if used to fund the overspend. As such, robust and achievable recovery measures are paramount.
- 91 As a matter of priority, the Council need to continue to assess the robustness of action plans to minimise in year overspends in both directorates. Progress against these action plans need to be reported to members periodically and supplementary action taken where necessary.
- 92 Looking ahead to the medium-term, the key challenge facing the Council is ensuring that its ongoing revenue expenditure matches funding. Specifically, that action is taken as part of the 2006/07 budget setting process to ensure budgets are realistic and achievable and that any cuts to existing budgets are taken in light of the Council's new goals and priorities to 2009.

Capital programme

- 93 The Council spent £58.7 million on the capital programme in 2004/05, £4.557 million below the original budget of £63.296 million. The slippage in spend was predominantly in DCE, offset by an overspend of £0.678 million on the A350 Semington to Melksham diversion.
- 94 The 2005/06 approved capital budget totals £56.929 million and after taking into account the previous year's slippage of £4.416 million increases to £61.345 million for the year.
- 95 The Council has decided to limit its annual capital programme to the level of borrowing historically permitted under the old capital accounting regime. Under the new prudential code, applicable from April 2004 the Council now has the flexibility to vary its borrowing levels and thus its capital programme. The only stipulation imposed on the Council is that it must ensure that the cost of any borrowing is affordable and prudent. The Council has begun to utilise these new powers, however, scope exists to extend their use further in the future.

Pension Fund

- 96 The estimated assets of the Wiltshire Pension Fund at 31 March 2005 totalled £251.2 million compared with estimated liabilities of £431.2 million at year-end. This equates to a funding level of 58 per cent and an overall deficit on the Council's element of the Pension Fund of £180 million.
- 97 This level of funding is comparable with other local authorities. Following the recent actuarial revaluation, the Council has increased its employer contribution from 20 per cent to 21.5 per cent of payroll costs. This increased contribution is aimed at ultimately ensuring the fund is fully fundable in the long-term.

Systems of internal financial control

Internal Audit (IA)

- 98 Our overall conclusion from our annual review of you IA function, is that they continue to provide officers with an independent assessment of the adequacy and effectiveness of the internal controls operating within the Council. However, we also conclude that continued effort will be required to ensure future working practices, coverage and reporting fully adheres to the new good practice guidance.
- 99 In particular, the new IA code published in late 2003 introduced updated guidance on what constitutes proper practice for IA sections. This code represents a fundamental shift in the role IA play in modern local government. The Head of IA has recognised that to ensure full compliance with this new code IA need to update their current working practices and coverage to reflect the changing environment in which they operate. We believe that good progress is being made in addressing these challenges but there is still considerable way to go.
- 100 The recent establishment of the Final Accounts and Audit Committee, that now includes specific responsibility within its terms of reference for promoting internal control, is a clear indication of strengthened arrangements in this area. This new committee also has responsibility for receiving and monitoring the performance of IA, including the implementation of its recommendations. This should ensure IA has the opportunity to effectively communicate the findings of their work to those that play a significant role in the decision making process within the Council.

Risk management

- 101 The Council now has comprehensive arrangements in place to identify, collate and categorise business risks. More recently, these risks have been ranked and are now being reported to chief officers and members periodically. However, this process is evolving and it is too early to determine whether the Council has effective arrangements in place to ensure that such risks are used to inform decision-making and whether risks are actually being fully managed.

- 102 The Council's risk management strategy was formally adopted in March 2003. It was prepared in response to CIPFA and the Audit Commission's report '*Worth the Risk*' and in our view clearly outlines the Council's approach to managing risk.
- 103 This risk management process is supported by:
- a corporate risk management group tasked with driving the risk management process;
 - departmental risk champions to act as risk co-ordinators and ensure consistency across the Council;
 - an annual internal audit review providing assurance on arrangements;
 - a risk register detailing both corporate and operation risks;
 - service development plans detailing service risk; and
 - training workshops for service managers.
- 104 Within the Council, all reports to members are now required to formally consider risk assessment implications. Our review of Council minutes suggests risk issues are being tabled and considered.
- 105 The challenge for the Council is now to ensure this is done in a systematic way across the Council, and in particular, that risks are discussed, a course of action agreed upon and the outcomes of such actions are reported on for each significant risk.
- 106 There is evidence to suggest that those significant risks are now being periodically monitored. A total of 12 strategic key risks have been identified of which, 3 have been categorised 'red'. All these risks have proposed action aimed at mitigating the risk where possible. This approach now needs to be extended to other corporate risks and operational risks. A key challenge is ensuring there is appropriate documented action, if any is required, to reflect the severity of risk and then to ensure this is delivered and reported upon.
- 107 The Corporate Risk Management Group (CRMG) has played an important role in driving forward the risk management agenda within the Council. The group provides an important link between departmental management teams and chief officers. The group has reviewed current risk arrangements and reported late last year to both Standards Committee and Corporate Management Board on improvements. These included the need to:
- strengthen arrangements for continuous updating of the register;
 - review the risk assessments in 2004 service plans to inform 2005 plans; and
 - report quarterly to Corporate Management Board on strategic risks.
- 108 We are pleased to report that a number of these improvements have now been actioned or are on management's agenda. In particular, CMB are now actively considering the key strategic risks on a monthly basis. Training on risk management for both members and officers is also planned for early 2006.

Ordering and purchasing

- 109** As part of 2004/05 Audit and Inspection Plan, and in light of concerns identified in your ordering and purchasing arrangements last year, we agreed to undertake a follow-up review in this area.
- 110** Last year, our work concluded that although the constitution provides clear guidance on the procedures to be followed by Council employees when ordering and purchasing, arrangements in place did not result in all orders being initiated and received in compliance with regulations.
- 111** In particular, we found:
- diverse procedures and ineffective documentation of ordering;
 - a lack of formal training for officers; and
 - poor monitoring of compliance with Council regulations.
- 112** Our overall conclusion from this year's follow-up work is that arrangements for ordering and purchasing remain weak.
- 113** Our sample testing targeted payments in risk areas within the Council. This testing indicated that a significant number did not comply with guidance in the form of financial and contract regulations. Adherence to controls is generally poorest in the practice and documentation of choosing a supplier. Examples of non-compliance in this year's sample include officers:
- breaking down orders into multiples of less than £3,000 and thus avoiding the need to obtain three quotes;
 - ordering from previous suppliers and not testing the market, nor applying to the Corporate Procurement Unit (CPU) for an exemption;
 - approving payments over £10,000 not being reported to CPU;
 - paying an invoice not addressed to the Council; and
 - allowing contracts to be carried over without retesting or gaining an exemption.
- 114** As a result, the Council is still unable to demonstrate and ensure that it is achieving best prices or that risks of abuse of the system are minimised.
- 115** We recommended that the Council:
- review current ordering and purchasing guidance to ensure regulations are appropriate to current and future circumstances;
 - reinforce to management the need to adhere to procurement regulations;
 - provide further training on procurement activities; and
 - introduce effective monitoring to ensure compliance with regulations and in particular adherence to market testing requirements are achieved.

- 116 Since our review, the Council has implemented a new corporate procurement strategy that includes an action plan to address existing weaknesses. This has been supplemented with secondments into risk areas aimed at improving compliance with guidance. The Council are also currently looking to implement a new procure to pay system that aims to ensure it is able to demonstrate best consideration whilst strengthening the overall controls over procurement across the organisation.

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

- 117 The Council has a fraud and corruption policy and a whistleblowing policy both of which have recently been updated. However, there is now a clear need to communicate these documents to stakeholders. We understand the Council is currently looking to provide better links internally through the intranet and externally through the internet and is also planning to raise these documents profile through awareness training, briefings and emails.

Legality of transactions

- 118 The Council has good overall arrangements to ensure the legality of transactions that might have significant financial consequences.
- 119 There have been no successful challenges to significant transactions of the Council in recent years and the Council is happy to seek expert legal opinions on occasions when the legality of a course of action is in doubt.
- 120 Our review indicated that scope exists to highlight and promote the legal powers of the Council by:
- developing a specific intranet section on legal services, thus providing a single source of information for officers and members;
 - providing more detailed legal training to all members as part of the induction process; and
 - extending induction session to all relevant staff not just managers.
- 121 As a result of this recommendation, the legal department have been involved in providing training following the May 2005 elections to members of the regulatory committee on legal issues. We understand the other recommendations remain on their agenda and will be acted upon over the next 12 months.

- 122 Our work also commented that current legal arrangements do not provide assurance that authors of reports to members have sought legal advice or if legal issues are identified where this legal guidance has come from. In particular, there is currently no legal implications paragraph within reports to members confirming firstly that legal issues have been considered, secondly appropriate legal advice has been sought and thirdly this advice is based on appropriate guidance. We commented that the addition of such a section would help contribute to effective governance by formalising the legal advice received. This observation was considered by officers and members of the Final Accounts and Audit Committee and a decision was taken that current arrangements were adequate. However, the Council has now agreed to ensure reports that involve decisions that are more susceptible to legal risk are explicit about the source and basis on any legal advice.

Use of Resources judgements

- 123 The Use of Resources assessment is a new assessment which focuses on financial management but links to the strategic management of the authority. It looks at how the financial management is integrated with strategy and corporate management, supports council priorities and delivers value for money. It will be carried out annually, as part of each council's external audit. For single tier and county councils, the use of resources assessment forms part of the CPA framework.
- 124 For the purposes of the CPA we have assessed the Council's arrangements for use of resources in five areas.

Table 2

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

(Note: 1=lowest, 4=highest)

- 125 In reaching these judgements, we have drawn on the above work and supplemented this with a review against specified key lines of enquiry.

126 The most significant areas where further development is needed are:

- financial management - managing performance against budget:
 - ensuring all budgets are loaded onto the ledger in a timely manner;
 - implementing a formal scheme of budget delegation;
 - improving the timeliness of financial monitoring to Cabinet;
- internal control - ensuring arrangements are in place that promote and ensure probity and propriety in the conduct of the Council's business:
 - implementing fully effective arrangements for monitoring compliance with standards of conduct across the organisation; and
 - raising awareness amongst all stakeholders of the revised whistleblowing and fraud and corruption policies.

Other work

Additional voluntary work

Review of transport

- 127** The Audit Commission was due to carry out an inspection of transport in the spring of 2005. However, changes due to strategic regulation meant that councils like Wiltshire that had been assessed as 'good' in their CPA would not receive service inspections unless there was particularly poor performance. Therefore, the inspection for transport was no longer required.
- 128** The Council had undertaken various reviews of transport services and wanted some assurance that it was progressing well. As a result, we agreed to undertake a review of transport under our section 35 powers. The review covered transport in its widest sense, including passenger transport, transportation planning, highways and other related services. However, it did not cover the overall transportation policy and strategy, as this will be dealt with in the development of the next local transport plan.
- 129** Our overall conclusion is that the Council's transport service has a number of key strengths that compare favourably with typical descriptors of a good service used in the Audit Commission's key lines of enquiry (KLOE) for a formal transport inspection.
- 130** It has a strong focus on how it contributes to corporate aims and objectives, and is aided by a clear corporate planning framework. It is good at community engagement and uses a range of measures to gain a good understanding of the views of the local community. It takes a strategic approach to consultation and communication, though it lacks a proactive approach to improving publicity. The Service understands the needs of different groups of transport users and is targeting improvements to different sectors such as young and older people, disabled people and those who live in remote rural areas.
- 131** Outcomes for users are improving. The condition of roads and footways in Wiltshire is improving and is reasonably good compared to the national average. It provides a responsive and flexible highway maintenance service in rural areas through the parish lengthsman scheme. It has established a well-regarded service centre, Clarence, to enable the public to easily report faults.
- 132** The Council has a good record on road safety. It takes an evidence-based approach to decisions and has shown willingness to pilot new ideas. It has introduced imaginative transport services such as the Wigglybus and has invested in providing high-quality bus shelters on key bus routes. The Council is showing community leadership in implementing a green travel plan and working with others to try to reduce the need to travel and provide alternatives to the car.

- 133 The Council's transport costs are broadly in line with its priorities and reflect the local context. The Service uses effective procurement and it can demonstrate successful results from its procurement of highway services in achieving better value for money by working in partnership with others.
- 134 However there are some aspects of the service that currently fail to satisfy specific descriptors of a good service. For example, some key plans are missing or out-of-date such as an asset management plan and a highway network plan. The service has not established a quality assurance system and accessibility planning has only recently started. The Council's progress against its local transport plan (LTP) is assessed as 'average'.
- 135 The service has not been making best use of ICT. There is significant scope for improvement in the use of the Council's website and it has been missing opportunities to be more efficient due to slow communication links to area offices and the continued use of manual ordering systems. The Council is, however, now investing significant resources in ICT and is confident arrangement will soon improve.
- 136 The service has good prospects of improving in the future. It has already recognised most of the issues that require attention and has firm improvement plans in place to deal with them. The service has demonstrated a good track record of delivering improvement, especially in areas that are identified as corporate priorities. It also has a good track record of innovation, such as the Student Advisory Network, and new approaches to road safety.
- 137 It has been investing in key building blocks that increase the service's capacity. These include implementing an effective performance management system and a modern approach to risk management. It is also carrying out a business process re-engineering initiative to further improve the efficiency of services, resulting in for example the set up of a centralised customer service centre to improve response to customer enquiries.
- 138 The service has well-trained, motivated and experienced staff and has a constructive relationship with its main contractor/consultant. The service has a culture that is open and receptive to change. It has demonstrated that it is good at learning from others, and from its own experiences.
- 139 The Council is developing clear aims and priorities for improvement over the next four years up to 2009 and is ensuring that necessary funding is available by linking the corporate plan to the medium-term financial strategy (MTFS) for the same period. It has shown its support for transport by allocating extra resources to deliver improvement, notably to support passenger transport subsidies and improve highway maintenance. It has also been successful in attracting external funding to improve services.
- 140 The Council improves its capacity by working well in partnership with others but there is still scope to do more with the health sector and a broader range of bus companies.

- 141 The service has yet to draw up a resourced plan to systematically replace its stock of lighting columns when they reach the end of their design life and become unsafe. It also will have to agree a resourced plan for the Wigglybus after 2007 when the current external funding comes to an end.

Grant claims

- 142 In accordance with strategic regulation, the Audit Commission has continued with a more risk-based approach to the certification of grant claims. We have reduced our audit of these claims but our ability to reduce further depends on the adequacy of the Council's control environment.
- 143 The Council's arrangements for managing and quality assuring grant claims submitted for audit has improved in recent years, however, scope exists to develop arrangements further for the those claims where expenditure is passported to other bodies.

National Fraud Initiative

- 144 In 2004/05, the Council again took part in the Audit Commission's National Fraud Initiative (NFI). The initiative, which is undertaken every two years, aims to help identify and reduce fraud by bringing together data from local authorities, NHS bodies, government departments and other agencies, to detect a wide range of frauds against the public sector. These include frauds involving benefits, pensions, tenancy, payroll and the right to buy scheme. Additional pilot work is being undertaken to further extend the scope of the initiative. The initiative provides the authority with a measure of assurance about internal arrangements for preventing and detecting fraud.
- 145 The Council applies appropriate priority and resources to the National Fraud Initiative. Staff undertake investigations in a suitably managed and timely manner. They provide appropriate internal reports where needed and the required returns to the Audit Commission. Recording and evidencing follows the Audit Commission guidance. The Council's Internal Audit could consider preparing a protocol or job specification, as for other major audit tasks, setting out the agreed approach to the work adding resourcing and timing details to the Commission's guidance. As the NFI initiative scope extends, this will assist co-ordination and effectiveness in future years.
- 146 As part of this year's initiative, the Council participated in a pilot module comparing care home residents data with Department for Work and Pensions records. This resulted in savings to the Council in excess of £33,000 and will help to enhance systems and data processing within the Council and beyond.

Looking forwards

Future audit and inspection work

- 147 We have an agreed plan for 2005/06 and we have reported in this letter those aspects that have already been completed. The remaining elements of that plan, including our audit of the 2005/2006 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.
- 148 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 2006/07. We will seek to reconsider, with you, your improvement priorities in the light of the latest CPA assessment and your own analysis, and develop an agreed programme by 31 March 2006. We will continue to work with other inspectorates and regulators to develop a co-ordinated approach to regulation.

Revision to the Code of Audit Practice

- 149 The statutory requirements governing our audit work, are contained in:
- the Audit Commission Act 1998; and
 - the Code of Audit Practice (the Code).
- 150 The Code has been revised with effect from 1 April 2005. Further details are included in our Audit and Inspection Plan which has been agreed with the Cabinet on the 15 April 2005. The key changes include:
- the requirement to draw a positive conclusion regarding the Council's arrangements for ensuring value for money in its use of resources; and
 - a clearer focus on overall financial and performance management arrangements.

Closing remarks

- 151 This letter has been discussed and agreed with chief officers. A copy of the letter will be presented to Cabinet on the 20 January 2005.
- 152 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

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

Brian Bethell
District Auditor

Melanie Watson
Relationship Manager
16 December 2005

Appendix 1 – Background to this letter

The purpose of this letter

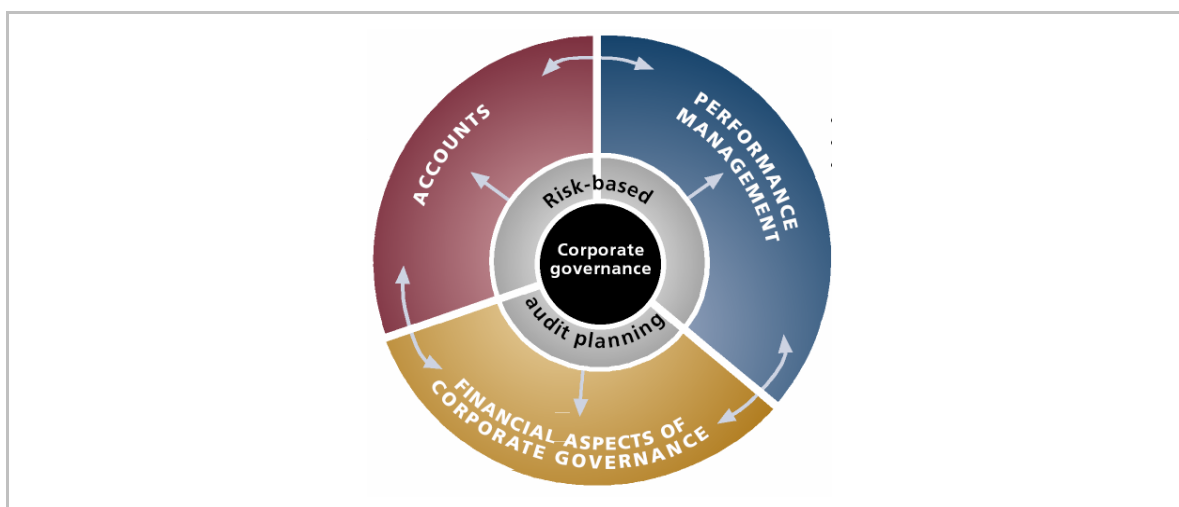
- 1 This is our Audit and Inspection ‘Annual Letter’ for members which incorporates the Annual Audit Letter for 2004/05, which is presented by the Council’s Relationship Manager and District Auditor. The letter summarises the conclusions and significant issues arising from our recent audit and inspections of the Council.
- 2 We have issued separate reports during the year setting out the findings and conclusions from the specific elements of our programme. These reports are listed at Appendix 2 for information.
- 3 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.
- 4 Appendix 3 provides information about the fee charged for our audit and inspections.

Audit objectives

- 5 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.
- 6 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 Figure 1.

Figure 2 Code of Audit Practice

Code of practice responsibilities



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

Accounts

- Opinion.

Financial aspects of corporate governance

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

Performance management

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

Appendix 2 – Audit reports issued

Table 3

Report title	Date issued
2004/05	
Audit and Inspection Plan	16 June 2004
Interim Audit Report	4 July 2005
Report on the Financial Statements to Those Charged with Governance (SAS 610)	26 September 2005
Schools Budgets	28 November 2005
Customer Focus Review	6 October 2005
Comprehensive Performance Assessment	6 December 2005
Cultural Services Inspection	26 May 2005
BVPP - Statutory Report	23 December 2004
BVPP- Audit Report	21 February 2005
Grant Claims	23 May 2005
Annual Audit and Inspection Letter	16 December 2005
2005/06	
Audit and Inspection Plan	6 April 2005
BVPP - Statutory and Audit Report	27 October 2005
Medium-Term Financial Planning Workshop	23 June 2005
Use of Resources Report	18 November 2005
Review of Transport - Section 35 Work	26 October 2005

Appendix 3 – Audit fee

Table 4 Audit fee update

Audit area	Plan 2004/05	Actual 2004/05
Improvement	£63,350	£63,350
Assessment	£28,300	£28,300
Assurance - Accounts	£54,200	£54,748
Assurance - Governance	£56,300	£56,300
Assurance - Use of Resources	£59,200	£59,200
Planning and reporting	£60,700	£60,700
Total	£294,600	£295,148
Additional voluntary work (under section 35)	£0	£12,000