

Interim Annual Audit and Inspection Letter

December 2005

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Interim Annual Audit and Inspection Letter

Salisbury District Council

Audit 2004-2005

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Introduction and key messages

Introduction

- 1 This Interim Audit and Inspection Letter summarises our 2004/05 work that has been completed to date including completed inspections and our audit of the Council's accounts and governance arrangements. We are required by March 2006 to issue an assessment on the Council's use of resources and provide a commentary on your Direction of Travel in relation to your corporate performance assessment. This interim letter has been issued to ensure you receive a timely update on our work. A final letter incorporating our use of resources assessment and Direction of Travel commentary will be issued in March 2006.

Key messages

Performance and inspection

- 2 Our review of the Council's priority area of customer focus concluded that it provides good, two-star customer-focused services that have promising prospects for improvement. The Council has had a longstanding focus on improving customer services and there are high levels of satisfaction with Council services but the Council is not delivering its own targets for equality and diversity and customer access in a number of areas is weak. There is also more scope to work with partners to provide a more seamless service across the county. The Council has adopted the Customer First Action Plan and work is already underway in a number of key areas.
- 3 The Council's strategic framework for delivering its capital programme is generally sound but arrangements for monitoring progress on delivering projects should be strengthened by setting clear milestone targets and linking these to the performance management system.
- 4 The Council has made significant progress in implementing its improvement plan for development control and actual performance exceeded targets for all three indicators for 2004/05. This improvement in performance has resulted in a significant increase in the amount of planning and development grant awarded to the Council for 2005/06 and 2006/07. This is a considerable achievement by the Council.
- 5 Compliance with the Council's financial regulations on ordering goods and services has improved. A key milestone in the Council's improvement agenda will be its new procurement strategy, which has been updated and approved by Council on 12 December.

The accounts and governance

- 6 The Council's financial position is generally satisfactory although it continues to face significant pressures.
- 7 Governance arrangements have been strengthened during the year through the implementation of a number of actions arising from the corporate governance review carried out last year.

Action needed by the Council

- The Council should put in place systems to ensure that the needs and requirements of the entire community are understood and set objectives and targets for improving outcomes for the whole community across services.
- The Council should set clear milestone targets to monitor progress on delivering capital projects. These should be linked to the performance management system.
- Continue implementation of the new procurement strategy and monitor compliance with it.
- Monitor progress on the governance action plan.

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Performance

Our review of the Council's priority area of customer focus concluded that it provides good, two-star customer-focused services that have promising prospects for improvement. The Council has a longstanding focus on improving customer focus and there are high levels of satisfaction with Council services but the Council is failing to deliver its own targets for equality and diversity and customer access in a number of areas is weak. There is also more scope to work with partners to provide a more seamless service across the county. The Council has adopted the Customer Focus Action Plan and work is already underway in a number of key areas.

The Council's strategic framework for delivering its capital programme is generally sound but arrangements for monitoring progress on delivering projects should be strengthened by setting clear milestone targets and linking these to the performance management system.

The Council has made significant progress in implementing its improvement plan for development control and actual performance exceeded targets for all three indicators for 2004/05. This improvement in performance has resulted in a significant increase in the amount of planning and development grant awarded to the Council for 2005/06 and 2006/07. This is a considerable achievement by the Council.

Compliance with the Council's financial regulations on ordering goods and services has improved. A key milestone in the Council's improvement agenda will be its new procurement strategy, which has been updated and approved by Council on 12 December 2005.

Audit commission inspections

Customer Focus Inspection

- 8 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 the 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.
- 9 Improving customer focus has been highlighted as a priority for improvement by all five councils in Wiltshire. As a result, an inspection of customer focus at the Council was undertaken in May and reported in October alongside similar reports for the other councils in the county.

- 10 The inspection judged that Salisbury District Council provided a 'good' service with promising prospects for improvement. The Council has had a longstanding focus on improving customer focus. There are high levels of satisfaction with the Council and a generally good approach to communication and consultation, which has contributed to a high proportion of local people who feel they are kept informed by the Council. However, the Council is failing to deliver its own targets for equality and diversity and customer access in a number of respects is weak - the range of council offices is confusing, facilities are not always customer-friendly and offices are not all accessible to disabled people.
- 11 In addition, 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.
- 12 Key recommendations to the Council arising from the inspection include the following.
- Improve access to council services by:
 - ensuring that all information about council services is clear, uses plain language and is widely available in appropriate alternative formats;
 - progressing plans to adopt more customer-focused opening hours;
 - developing a robust understanding of the needs and requirements of all sections of the local community through effective monitoring systems and by engaging with under-represented groups; and
 - taking positive steps to embed equality, diversity and a customer-focused culture across the Council.
 - Improve council services to customers by:
 - developing mechanisms for ongoing consultation with a representative cross-section of the local population;
 - ensuring consultees are given feedback on how their views were taken into account in policy and decision-making; and
 - undertaking specific consultation with local people on service standards ensuring that they are easily accessible and well-publicised to customers.
 - Support change in the Council by:
 - developing a strategy to ensure effective internal communication of the vision and selling the benefits of the new approach to the delivery of customer services;
 - systematically creating milestones in the programme; and
 - ensuring that there are robust performance management arrangements to effectively monitor the delivery of the outcomes and benefits arising from the business process re-engineering programme.

- 13 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 plan to take action to improve in these areas.
- 14 The Council has adopted the Customer Focus Action Plan and work is already underway in a number of key areas.

Performance work

Review of Capital Programme Management

- 15 As part of our 2004/05 audit work, we reviewed the Council's arrangements for managing its capital programme. The value of the Council's capital programme is significant at £50 million for 2002 to 2008, and it is essential that robust programme/project management arrangements are in place if best use is to be made of financial and human resources. In previous years, there has been considerable slippage in the capital programme, although this is now beginning to improve.
- 16 We found that the Council's strategic framework for establishing and delivering its capital programme is generally sound but there was a need to establish a corporate group to oversee the delivery of the programme and its future development. The delivery of programmed projects is planned in a systematic and structured manner but the Council does not always follow its own procedures or monitor its achievements against targets.
- 17 The key recommendations from the review included:
 - strengthening the monitoring of progress on delivering projects by setting clear milestone targets and linking these to the performance management system; and
 - engaging a wider group of staff from across the organisation in the strategic management, monitoring and development of the capital programme.
- 18 A report setting out our findings and recommendations was discussed and agreed with the Head of Financial Services.

Performance information

- 19 We reviewed your 2005/06 best value performance plan (BVPP) to ensure its content complied with statutory requirements. We also reviewed a number of 'high-risk' performance indicators specified by the Audit Commission. In addition, we reviewed a small number of other indicators following discussion with officers.

- 20 The audit of the best value performance plan (BVPP) 2005/06 confirmed that:
- the BVPP was published by the statutory deadline;
 - the BVPP included all the 2004/05 actual performance information, with one exception BVPI 106, and all required targets;
 - there were no statutory recommendations; and
 - there were no reservations placed on any of the performance indicators tested.
- 21 There was one significant amendment to the Audit Commission specified indicators, relating to re-let times. This was a new indicator and not one required to be published in the BVPP this year. In addition, there were two significant amendments to other indicators, relating to BVPI 76a (number of claimants visited per 1,000 caseload) and BVPI 157 (e-government enabled interactions). The amendments were made prior to submission of the data to the Audit Commission and an addendum has been placed on the Council's website.
- 22 The findings from our review were discussed and agreed with officers. An action plan to address the recommendations from the review was agreed with the Performance Improvement Manager.

Follow-up work

- 23 As part of this year's audit, we reviewed the progress on the key issues highlighted in our previous letter. The position is summarised in Table 1.

Table 1 Follow-up to issues reported

Issue from 2003/04 reported in the Annual Audit and Inspection Letter	Action taken
Continue to monitor and update your improvement plan.	We are currently reviewing progress on your improvement plan as part of our 2005/06 work. This will be reported in our final Annual Audit and Inspection Letter in March 2006.
Implement the Local Code of Corporate Governance and monitor compliance with it.	A Local Code of Corporate Governance was approved by Council on 21 February 2005. Responsibility for monitoring compliance with the Code rests with the Policy Director (David Crook).

Issue from 2003/04 reported in the Annual Audit and Inspection Letter	Action taken
Implement the governance action plan to embed good governance arrangements throughout the Council.	Progress has been made on a number of issues and the action plan is currently being reviewed and updated. Progress on outstanding issues will be monitored by the Audit Committee.
Continue to monitor the delivery of the improvement plan for development control.	Significant progress has been made and has been referred to in the following paragraphs.
Strengthen the co-ordination arrangements for best value performance indicators.	A new Performance Improvement Manager was appointed earlier this year and the 'standard proforma' was more widely used this year.
Continue action to improve compliance with ordering and payment regulations.	Internal Audit's review in July 2005 showed that compliance had improved significantly. The Chief Executive also wrote to all service unit heads in October 2005 reminding them of the need for continued compliance.

- 24 We have also reviewed progress on previous audit reports relating to development control and procurement.

Development control - progress review

- 25 Past poor performance on Government targets for development control resulted in a review of the Council's procedures and processes. Following this review, an implementation plan was drawn up to improve the service and over the past two years the Council has been working to address the issues raised.
- 26 A key issue for the Council last year was to continue to monitor the delivery of the improvement plan for development control. Table 2 shows the Council's performance against its targets.

Table 2 Government targets for development control

BVPI 109	2002/03 actual	2003/04 actual	2004/05 target	2004/05 actual
Percentage of major applications processed within 13 weeks	20.6	57.4	60	76
Percentage of minor applications processed in 8 weeks	41.9	44.2	59	71
Percentage other applications processed in 8 weeks	69.7	70.6	80	89

Source: Best value performance indicators

- 27** The Council has made significant progress in implementing its improvement plan for development control. As can be seen from the above, actual performance exceeded targets for all three indicators for 2004/05. As a result of these improvements in performance, there have been significant increases in the amount of Planning Delivery Grant awarded to the Council for 2005/06 and 2006/07. This is a considerable achievement by the Council.
- 28** The improvement plan is a live document and action is continuing to maintain the high levels of performance achieved to date.

Procurement - progress review

- 29** An audit of the Council's arrangements for procurement was done as part of our 2002/03 audit and, in May 2003, the Council agreed an action plan to improve its procurement arrangements. Procurement was also a key priority in the Council's Comprehensive Performance Assessment (CPA) improvement plan.

- 30** Follow-up work as part of our 2004/05 audit indicates that the Council has made good progress on improving its procurement policy and practices and is implementing many of the recommendations from the previous review. Most of the actions that are still outstanding are actively being addressed. There are notable achievements in obtaining better value for money from the purchase of office supplies and from working in partnership with other councils on joint procurement initiatives and contracts. The Council is also introducing new financial systems and controls that will help to achieve higher levels of compliance with its purchasing rules. A key milestone in the Council's improvement agenda will be the adoption of its new procurement strategy, which has been updated and was approved by Council on 12 December 2005.
- 31** The detailed findings from this progress review, and the action outstanding, were summarised in a report which was discussed and agreed with officers. Progress on the actions outstanding should be monitored and reported through the Audit Committee.

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Accounts and governance

The Council's financial position is generally satisfactory although it continues to face significant pressures.

Governance arrangements have been strengthened during the year through the implementation of a number of actions arising from the corporate governance review carried out last year. We will report the outcome of our use of resources work in March 2006.

Audit of 2004/05 accounts

- 32 We gave an unqualified opinion on the Council's accounts on 31 October 2005.

Report to those with responsibility for governance in the Council

- 33 We are required by professional standards to report to those charged with governance certain matters arising from our work before we give an opinion on the financial statements. We met with the Audit Committee on 20 October and reported that there were no matters arising from this year's audit of the accounts that members needed to be aware of prior to our giving the opinion.

Matters arising from the final accounts audit

- 34 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. Cabinet approved the Council's annual accounts on 8 June 2005 and these went to full Council on 27 June 2005. The Council is therefore well-placed to meet the Government's earlier reporting deadlines next year when the requirement is to approve the accounts by the end of June 2006.

Financial standing

- 35 The Council's financial position is generally satisfactory although it continues to face significant pressures.

General fund spending and balances

- 36 The Council set its 2004/05 net budget at £11.5 million and actual expenditure was in line with the budget. The general fund balance at 31 March 2005 was £1.4 million. This was in line with the Head of Financial Service's recommended balance, based on an assessment of risk, of £1.3 million.

- 37 For the current year 2005/06, the Council has set its budget at £11.9 million. Currently, projected expenditure for 2005/06 is some £300,000 more than the budget. The potential impact of this would be that the general fund balance would fall below the guideline level set out in the Council's medium-term financial strategy (MTFS).
- 38 Looking ahead to future years there is continuing uncertainty concerning the level of Government grant, although the Government is moving toward a three-yearly announcement of grant by announcing two year's grant this December. In addition, the Council will be required to continue to respond to service pressures such as those arising from recycling targets.
- 39 The Council is currently considering proposals for future year's budgets and these provide for restoring the general fund balance to the guideline levels set out in the MTFS for 31 March 2007 and future years.

Pensions fund deficit

- 40 In common with other authorities, the Council's pension liability has increased from £9.7 million at 31 March 2004 to £19.2 million at 31 March 2005. This increase is a result of the change in estimating the future liabilities of the pension fund, as required by the guidance contained in the statement of recommended practice. The rate of employer's contribution to the fund is being increased, following the Actuarial valuation carried out at 31 March 2004, to reduce the liability over a number of years. This will place increased pressure on revenue budgets which will add £0.125 million to the 2006/07 budget. This has been recognised in the medium-term financial strategy.

Income collection and arrears

- 41 Council tax (98.2 per cent) and non-domestic rates (98.9 per cent) collection levels remain high and are in the top quartile of all district councils.

Systems of internal financial control

- 42 In considering the Council's systems of internal financial control, we work closely with Internal Audit. We review Internal Audit every year and found that we could rely on their work and that they considered relevant controls within key financial systems.
- 43 During 2004/05, the Council reviewed its corporate governance arrangements against the recommended CIPFA/SOLACE good practice framework and a Local Code of Corporate Governance was approved by the Council on 21 February 2005. An action plan arising from the review was also approved. Responsibility for implementing, monitoring and reviewing the operation of the code has been delegated to David Crook (Policy Director) and an annual report will be made to members on the operation of the Code.

- 44 Governance arrangements have been strengthened during 2005 through the implementation of a number of actions arising from the review carried out last year. The Council has established an Audit Committee with overall responsibility for ensuring that the Council's corporate governance arrangements are adequate and operating effectively in practice.
- 45 The Council has also set up a Risk Management Group to oversee progress in implementing measures to ensure the concept of risk management is embedded throughout the organisation. A work programme has been developed to ensure that actions are implemented.
- 46 The governance action plan is currently being reviewed and updated.

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

- 47 Based on our work to date, we have not identified any significant weaknesses in your arrangements to prevent and detect fraud and corruption.

Legality of transactions

- 48 Based on our work to date, we have not identified any significant weaknesses in the framework established by the Council for ensuring the legality of its significant financial transactions.

Use of resources judgements

- 49 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. Specifically, we will be required to assess the Council in five areas:
 - financial reporting;
 - financial management;
 - financial standing;
 - internal control; and
 - value for money
- 50 In reaching these judgements, we will draw on the accounts and governance work that has already been completed. We will also be required to review the Council against specified 'key lines of enquiry' which set out a wide range of criteria. We have shared these key lines of enquiry with officers. We will share the scores with the Council and publish the overall score in the final Audit and Inspection Letter in March 2006.

Other work

Grant claims

- 51 In accordance with strategic regulation, the Audit Commission has continued with a more risk-based approach to the certification of grant claims. The main focus of our work on grant claims at Salisbury is the work we do to certify the housing benefit grant claim. We are currently working on this claim and are following recent guidance issued by the Audit Commission aimed at reducing our input. Our ability to reduce our work depends on the adequacy of the Council's control environment.

National Fraud Initiative

- 52 In 2004/05, the Council 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 housing benefits, pensions, tenancy, payroll fraud and right to buy scheme. Additional pilot work is being undertaken to further extend the scope of the initiative.
- 53 The Council provided the required data to the Audit Commission and allocated appropriate resources and priority to processing the resulting matches. Although there were few significant matches for follow up by the Authority, one successful prosecution was brought reclaiming over £4,000 for the Council. A number of other cases are currently being investigated. The appropriate returns to the Commission have been made and an update should be submitted once the work in hand has been concluded. The exercise provides the Council with a degree of assurance about its arrangements for the prevention and detection of fraud and corruption.

Voluntary improvement work

- 54 We carried out a review of the Council's proposals for a new office, under section 35 of the Audit Commission Act 1998. The purpose of the review was to assess the Council's approach to planning the project and establish whether it had put in place sound processes and mechanisms to demonstrate value for money.

- 55 We found that the Council has a robust basis for the need to centralise its offices and has fully explored the various options available to it. The Council has made appropriate use of external consultants to inform its decisions on the development of the scheme and the project is being managed through a clearly defined project structure with key roles, accountabilities and reporting lines. The Council has also identified the funding sources necessary for the project and is maintaining tight financial control on the cost of the project to date.
- 56 The review identified areas the Council can develop to help ensure that the scheme delivers best value, for example there is scope to achieve greater efficiency in the use of space. There will also be the opportunity, at the procurement of the construction stage of the project, for the Council to adopt a procurement route that demonstrates the principles of achieving best value.

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Looking forwards

Future audit and inspection work

- 57 We have an agreed plan for 2005/06 and we have reported in this letter those aspects that have already been completed. The remaining elements of that plan, including our audit of the 2005/06 accounts, will be reported in next year's Annual Letter.
- 58 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 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

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

A new CPA framework

- 61 The Audit Commission is currently considering the results of the consultation on the proposals for revising the CPA framework for district council's. The revised framework will be published in the early part of 2006 with implementation from April 2006.

Closing remarks

- 62 This letter has been discussed and agreed with Management Team. A copy of the letter will be presented to the Audit Committee on 10 January 2006.
- 63 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

- 64 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

December 2005

Appendix 1 – Background to this letter

The purpose of this letter

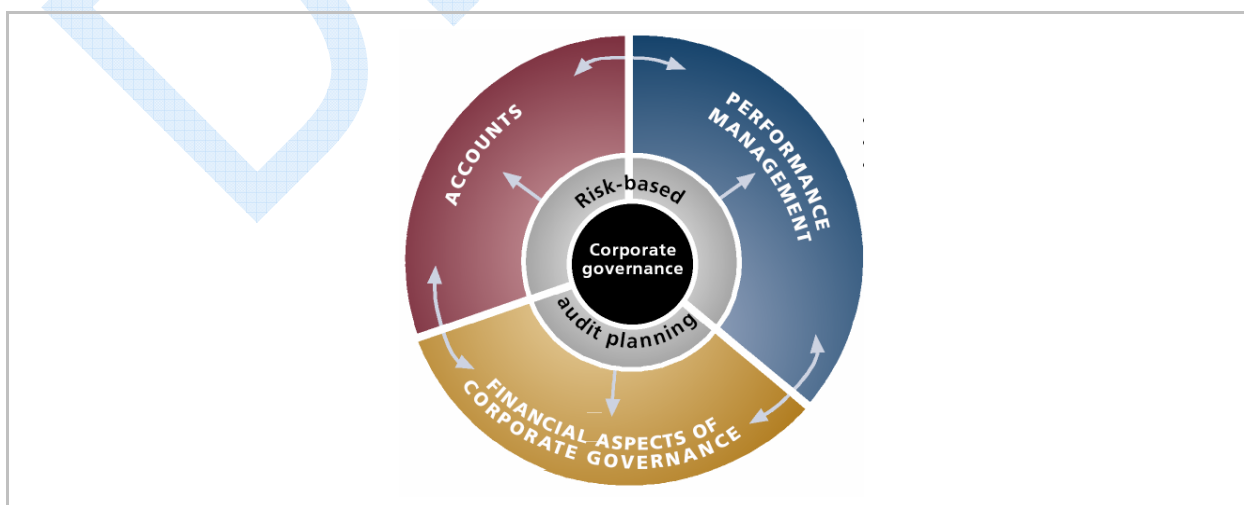
- 1 This is our Audit and Inspection 'Annual Letter' for members which incorporates the Annual Audit Letter for 2004/05, which is presented by the Council's Relationship Manager and District Auditor. The letter summarises the conclusions and significant issues arising from our recent audit and inspections 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 1 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.

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Appendix 2 – Audit reports issued

Table 3

Report title	Date issued
Audit Plan 2005/06	May 2005
Review of Capital Programme Management	February 2005
Review of Proposals for a New Office	August 2005
Customer Focus Inspection	October 2005
BVPP Statutory Report	October 2005
BVPI Summary Report	November 2005
Procurement - Progress Review	November 2005
Regularity Report	December 2005
Interim Annual Audit and Inspection Letter	December 2005

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Appendix 3 – Audit fee

Table 4 Audit fee update

Audit area	Plan 2004/05 (£)	Actual 2004/05 (£)
Accounts	28,380	28,380
Financial aspects of corporate governance	8,478	8,478
Performance		
• Improvement	28,231	28,231
• Assessment	9,157	9,157
• Use of resources	21,584	21,584
Total Code of Audit Practice fee	95,830	95,830
Additional voluntary work (under section 35)	3,800	3,800
Total	99,630	99,630

Inspection fee update

- 8 The full year inspection fee is £9,157. The work reported in this Audit and Inspection Letter has been funded by an element of the fee covering 2004/05 and by an element of the fee covering 2005/06. In both years the actual fee will be in line with that planned.