

Annual Audit and Inspection Letter

March 2006



# **Annual Audit and Inspection Letter**

**Copeland Borough 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

### Governance

- 1 In last year's Audit and Inspection Letter, we included a statutory recommendation due to the seriousness of our concerns regarding the overall corporate governance arrangements in place at the Council. The Council was required to respond to this recommendation with one month of receipt of the letter.
- 2 The recommendation required the Council to 'strengthen overall corporate governance arrangements and in particular, ensure implementation of the recommendations already made in Audit Commission, Internal Audit and Overview and Scrutiny reports for such improvements'.
- 3 The Council has made significant progress in strengthening the overall corporate governance arrangements in the last year. However, not all of the audit recommendations have been implemented to ensure that the risk of fraud, corruption or other error is reduced to a minimum.

### Council performance

- 4 The Council has continued to make progress in implementing the improvement plan developed in response to the issues identified in the comprehensive performance review in 2003. The corporate plan for 2005/07 has been refreshed and provides a clear medium-term focus for the local area connected to the community strategy for the West Cumbria area.
- 5 The Council has also successfully completed a number of large projects to further improve the quality of services, including transferring the ownership and management of the Council's housing stock to a Housing Association, Copeland Homes; and has relocated its main offices to new accommodation built using a Private Finance Initiative (PFI) scheme.
- 6 As part of the Council's ongoing improvement programme further effort is required to strengthen internal quality assurance of performance information. Our review of best value performance indicators (BVPs) identified data which was unreliable or required significant amendments. Performance information is used to measure the cost and quality of council services.

## **Action needed by the Council**

- The Council needs to ensure that corporate governance recommendations are fully implemented.
- The Council should improve the accuracy of published performance information and indicators used to manage council services by strengthening the internal quality review of this data.

## Council performance

Following the CPA assessment, the Council has continued to develop its priorities for improvement and we have been working with the Council as it seeks to improve further.

### Developments in strategic planning

- 7 The corporate plan has been refreshed for 2005 to 2007, maintaining a clear medium-term focus for the local area connected to the community strategy for the West Cumbria area.
- 8 Work continues with the West Cumbria Strategic Forum as it develops a Masterplan for sustaining the communities of the area in the face of the significant impact of planned nuclear decommissioning.
- 9 The West Cumbria Partnership has continued to struggle to identify and deliver its key priorities. There is a strong desire to maximise the opportunity of neighbourhood renewal resources to ensure a robust and fit for purpose local strategic partnership (LSP) is in place as early as possible. An improvement plan for the LSP has been agreed with Government Office North West (GONW). Recent discussions between GONW and the Council have indicated that progress is being made to strengthen the partnership. There are important plans to improve the integration of the LSP with key delivery activity of the CDRP and the Furness and West Cumbria Housing Market Partnership.
- 10 Significant funds are available for housing market renewal in the Furness and West Coast area over a three-year period. Alongside this, the Council has been actively participating in joint work with other councils and social landlords on strategic housing issues for Cumbria. It is planned that this joint work will produce a Cumbria wide housing strategy for approval by Government Office North West (GONW) in July 2006, if this is assessed as 'fit for purpose' this will incorporate an approved housing strategy for Copeland itself.
- 11 A Western Lake District Tourism Partnership is in place to strengthen the tourism contribution to the local area economy.
- 12 The strategic partnership for waste management issues in Cumbria is showing improvement in the co-ordination of plans and resources across the partner organisations.

## Areas of progress and areas for further improvement

- 13** Housing and council tax benefit services were inspected by the Benefit Fraud Inspectorate (BFI) which reported delays at all key stages in the processing of claims and insufficient capacity for recovery within the existing structure. Following further support work with the BFI the Council has reported that further progress has already been achieved. A new Revenues and Benefits Manager has been appointed and additional support to address the claim backlog has been procured.
- 14** Recycling and composting rates have improved significantly from worst quartile (2002/03) to just below best quartile in 2004/05, meeting its national target a year early. The Council is continuing to expand the facilities provided, including plastic material from April. The high levels of waste generated in the district increased further in 2004/05, however the latest figures for this year indicate that waste going to landfill is decreasing and the anticipated fines at county level for exceeding landfill allocations may now not be incurred.
- 15** Copeland has been subject to increased homelessness, in line with national trends, and has allocated additional staff to work with Copeland Homes on preventative measures.
- 16** Consultation with residents and service users has been built into improvement plans. Budget consultation exercises have been used to inform decisions on resource priorities. The 'customer first' initiative has focused on identifying reasons for dissatisfaction with council services and identifying practical changes that can be made.
- 17** In response to weak performance, a street scene department has been created by merging different sections and has provided a more integrated approach with increased capacity to tackle to local environmental quality.
- 18** Planning services presented a mixed performance profile in 2004/05, with customer satisfaction and land search processing performing in the best quartile, whereas performance against the quality of service checklist, and the percentage of new homes built on previously developed land are in the worst quartile. The processing of major and minor planning applications failed to meet national minimum standards, but only by a small degree. From October 2005 a new process improvement team has been put in place to address Planning performance.
- 19** The proportions of interactions capable of electronic delivery improved further during 2004/05 achieving best quartile levels, which is a marked improvement from earlier years.

## Areas of Council performance that still require improvement

- The speed and accuracy of processing new benefit claims were in the worst quartile in 2004/05.
- Performance against the planning quality of service checklist is in the worst quartile in 2004/05.
- Percentage of new homes built on previously developed land is in the worst quartile 2004/05.
- The processing of major and minor planning applications failed to meet national minimum standards, but only by a small degree 2004/05.
- Performance against the environmental health best practice checklist is in the worst quartile.

## Future plans

- 20 The Council has completed its management reorganisation and has now established two corporate directors focused on 'quality of life' and 'economic prosperity and sustainability' respectively, supported by a team of managers heading up service areas. A secondment from DTI is providing additional support in dealing with the particular complexities of the nuclear industry presence.
- 21 Having established 'Copeland Direct' as the customer interface for council services, plans are being developed to expand the service offered to the customer and potentially integrate the services of other partners. The ACE capacity building programme is providing a forum for these planning discussions and the Connected Cumbria Partnership is supporting the infrastructure development.
- 22 The Council still has significant work ahead of it to develop and implement a grading and pay structure that meets single status and equal pay requirements. The development of workforce plans, to address the future skill needs of the organisation and its key partners, is only at an outline discussion stage. Staff absence rates remain high (worst quartile) and continue to have an impact on the capacity of the organisation.
- 23 The Council is developing its approach towards diversity.
- 24 The management of leisure services through a leisure trust will commence from 1 April 2006.
- 25 The development of a comprehensive procurement approach is being supported through connections to the North West Centre of Excellence to analyse procurement expenditure and opportunities for joint activity.

- 26 Key strategic planning frameworks have to be agreed to deal with the development of Local Area Agreement within Cumbria and the interaction between the Cumbria Strategic Partnership, Cumbria Vision, West Lakes Renaissance, West Cumbria Strategic Forum and the West Cumbria Partnership and CDRP.
- 27 Corporate governance improvements for the Council are identified and are being tackled through an action plan.

## Other performance work

- 28 In accordance with our original Audit Plan, we have carried out reviews which consider issues for which responsibility falls across a number of public sector organisation in Cumbria. Work involving organisations such as the county council, Cumbria police and the NHS bodies has looked at Safer Communities and Waste Management.
- 29 Detailed reports were issued to the Council during 2004/05, the key findings are summarised below.

### **Safer Communities, the impact of drug use – follow-up**

- 30 In September 2004, we carried out a review of the effectiveness of the public sector organisations in Cumbria in tackling the impact of drug use in their communities.
- 31 The review considered the work of the individual agencies as well as interventions delivered via the formal partnerships of primarily the Drug and Alcohol Action Team (DAAT) and Crime and Disorder Reduction Partnerships (CDRPs).
- 32 The first part of a two stage review of progress, to assess the extent to which the recommendations have been delivered so far, was carried out in the summer of 2005. A second more detailed stage is planned for 2006. The review concluded:
  - progress has been made since 2004 with improved partnership working at a local level through the CDRPs with greater commitment from some of the key agencies;
  - the quality of planning in the DAAT and the CDRPs has improved and the clarity about objectives and outcomes has helped create a more co-operative and collaborative approach;
  - agencies and their partnerships still do not have a picture of need in the county to which they can effectively target efforts and resources to address the weaknesses in equality of access to services; and

- renewed commitment to a revised Cumbria Strategic Partnership (CSP) means that this is seen as the main vehicle for taking forward Cumbria-wide aims for safer, strong and more sustainable communities. This offers the potential to provide more leadership and strategic vision around the drug misuse agenda offering a clear route for accountability and service delivery especially for the DAAT and CDRPs.

### **Waste Management – follow-up**

- 33** During 2005 we assessed the progress made against the strategic waste issues identified as part of the co-ordinated programme of inspections and reviews carried out across Cumbria in 2004. The assessment of progress was co-ordinated with scrutiny reviews across district councils and the county council. The assessment identified that:
- the amount of municipal waste generated had continued to increase within the district and the county overall (to the highest level for any English county area);
  - the amount of waste going to landfill fell marginally in the district, but rose for the county overall;
  - partnership working across the districts and with the county council had improved;
  - a framework for a waste strategy had been agreed by most parties but this was not underpinned by clear, resourced plans; and
  - the high levels of waste generated were not being addressed vigorously to minimise the risk of fines for exceeding the landfill allocation.

### **Performance indicators**

- 34** The internal quality assurance systems on performance indicator information needs to be improved in light of our best value performance indicator audit, which identified that significant amendments were required to the original documentation submitted and also resulted in five indicators being qualified.
- 35** The Council therefore needs to further strengthen its own internal quality assurance procedures to ensure that the published performance data and the information it uses to manage services is reliable.

### **Other inspections**

- 36** Housing and council tax benefit services were inspected by the Benefit Fraud Inspectorate (BFI) which reported delays at all key stages in the processing of claims and insufficient capacity for recovery within the existing structure.
- 37** A new Benefits Manager has been appointed and additional support to address the claim backlog has been procured.

## Accounts and governance

We reported in our previous Audit and Inspection Letter in December 2004 that your overall corporate governance arrangements were not satisfactory and issued a section 11 recommendation requiring the Council to review and strengthen overall corporate governance arrangements and in particular, ensure implementation of the recommendations already made in Audit Commission, Internal Audit and Overview and Scrutiny reports for such improvements.

A separate Corporate Governance report has also been issued outlining the action required in greater detail.

The Council has an action plan to address the issues raised and has already made significant improvements. However, not all of the recommendations have been implemented to ensure that the risk of fraud, corruption or other error is reduced to a minimum. Members need to ensure that strengthening corporate governance arrangements within the Council continues to be given sufficient priority.

### Audit of 2004/05 accounts

We gave an unqualified opinion on the Council's accounts in October 2005.

#### Matters arising from the final accounts audit

- 38 The deadline for preparing and signing the accounts in 2005/06 will be a month earlier than the previous year. This increases the requirement for evidence to support the accounts, the working papers and accounts presented to be as complete and free from error as possible. There were many aspects of the working papers that demonstrated good practice in 2004/05. However, there were also instances where time pressure had reduced the Council's ability to undertake an internal review of the completeness of working papers and financial statements before they were submitted for audit.
- 39 We have agreed to work with the finance department to clarify how further improvements can be made to the accounts closedown process to ensure that the earlier deadlines can be met while still leaving time for robust internal quality review procedures.

#### Report to those with responsibility for governance in the Council

- 40 We are required by professional standards to report to those charged with governance, in this case to the Overview and Scrutiny Committee, certain matters before we give an opinion on the financial statements.

- 41 We reported to Overview and Scrutiny that there were some material adjustments required to the way in which information was disclosed within the accounts, but the amount of income, expenditure, assets and liabilities contained within the primary statement was not changed. There was also an additional disclosure required to give further detail of the PFI lease costs to enable a user of the accounts to clearly see a contractual liability in the accounts that will last 25 years. Members agreed to make these amendments before the opinion was given.

## Financial standing

- 42 Overall, the Council's financial standing is satisfactory. The Council set a balanced revenue budget and a capital budget that was fully costed and funded. Reserves are considered to be adequate. Key financial health indicators are monitored and reported to members. The Council is addressing financial pressures for savings to ensure long-term financial balance is achieved.

## General Fund spending and balances

- 43 The Council has been able to maintain working balance on the General Fund in 2005. At 31 March 2005, the balance was £2.8 million (£2.5 million 2004) which represents 27 per cent (21 per cent 2004) of the net operating expenditure. The General Fund balance is supplemented by earmarked reserves amounting to a further £4.1 million (£3.3 million 2004) which equal a further 40 per cent of the net cost of services.
- 44 It is not our role to specify an acceptable level of reserves, however, taking in to consideration the risks identified by your Director of Finance, these balances appear adequate. Members will need to have regard to the level of balances in the light of future commitments and development requirements.
- 45 The Council has a medium-term financial strategy (MTFS) but this now needs to be further developed to incorporated clear links with all other strategies and plans that the Council has in place to ensure the longer-term affordability of corporate priorities.

## Housing revenue account

- 46 The Council transferred its entire housing stock on 7 June 2004 to Copeland Homes. As part of the transfer agreement, the Council will receive a significant capital receipt from the first 250 Right to Buys. The accounts for 2004/05 reflected sales to the end of the financial year resulting in a receipt of £1.5 million. This has been earmarked to fund future private sector renovation grants.
- 47 The Council also entered into a VAT sharing agreement with Copeland Homes and received a first payment of £1.4 million during the year. The Council needs to ensure that should there be any changes to the VAT or accounting regulations that these arrangements remain compliant.

- 48 As part of the housing transfer to Copeland Homes, 166 employees also transferred across. The pension deficit relating to these employees was fully funded by Copeland Homes.

### **Capital programme**

- 49 The revised capital programme for 2005/06 was £4,699,000 (£4,965,000 2004/05). The Council recognise the need to update the capital strategy produced in 2003 and work is in progress. This means the MTFs and capital strategy are currently slightly out of step and the new capital strategy needs to be aligned to the overall MTFs.

## **Systems of internal financial control**

- 50 Overall the Council still needs to strengthen its arrangements for Internal Control. We issued an interim audit report during the year that identified specific weaknesses in internal controls operating within the main accounting system, in particular the need for control account reconciliations to be completed on a timely basis and for procedure notes for some key financial systems to be updated. These have been incorporated within the Council's risk register maintained by Internal Audit and officers will be required to ensure that these recommendations have been implemented.

### **Internal Audit**

- 51 We have been working closely with your Internal Audit provider in respect of the documentation of the major financial systems, to ensure that we can comply with the new International Standards on Auditing for our 2005/06 opinion work.
- 52 We can confirm that we have no issues to raise with members regarding the Internal Audit. However, as reported within our corporate governance report the Council need to implement audit recommendations in a timely manner.

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

- 53 The weaknesses already referred to in respect of the Council's overall governance arrangements increases the risk of fraud and corruption. However, during our work we have not identified any specific instances of fraud or corruption but internal control procedures do need to be tightened to ensure that the Council actively promotes good probity and propriety in the conduct of its business.

## Legality of transactions

- 54 Following the recent reorganisation the Council has had to make various severance arrangements. These are often complex and technical in nature and while these appear compliant with the powers of the Council, it is important that members and officers continue to take advice as considered necessary to ensure that these decisions can not subsequently be open to successful challenge on financial or legal grounds.

## Use of resources judgements

- 55 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. We anticipate in future the use of resources judgements will form part of the CPA framework.
- 56 Scoring is based on the following scale.

|   |   |
|---|---|
| 1 | Below minimum requirements – inadequate performance       |
| 2 | At minimum requirements – adequate performance            |
| 3 | Consistently above minimum requirements – performing well |
| 4 | Well above minimum requirements – performing strongly     |

- 57 We have assessed the Council's arrangements in five areas or themes.

**Table 1 Council's arrangements**

| Theme                | Assessment |
|----------------------|------------|
| Financial reporting  | 2          |
| Financial management | 2          |
| Financial standing   | 2          |
| Internal control     | 2          |
| Value for money      | 2          |
| <b>Overall</b>       | <b>2</b>   |

- 58 In reaching these judgements, we have drawn on the above work and supplemented this with a review against specified key lines of enquiry (KLOEs). Further details are provided in a separate report on use of resources.
- 59 Although the Council has been judged as meeting the minimum standard on each of the themes there are some areas for further development and improvements particularly within internal control. Areas for improvement across all themes include:
- updating the MTFS to provide clear links with the Council's other strategies and plans and demonstrate the continued affordability of corporate priorities;
  - specifically include responsibility for risk management within a Council Committee terms of reference;
  - ensure the accounts presented for audit are free from material errors or misstatement and comply with all disclosure requirements;
  - procedure notes are introduced for all business critical systems; and
  - introduction of controls to monitor aggregate spend with suppliers to ensure compliance with tendering requirements.

## Other work

### Grant claims

- 60 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.
- 61 The Council has undergone a restructure at a time when other changes such as the Housing Transfer and PFI scheme have resulted in substantial changes for a number of the more significant grants. The Council's arrangements for managing and quality assuring grant claims submitted for audit during this period has therefore suffered as a consequence of changes in staffing.
- 62 The Council therefore needs to be further developed its internal procedures to ensure that grant claims are submitted for audit with full working papers on a timely basis following a robust internal quality assessment.

### National Fraud Initiative

- 63 In 2004/05, the local authority took part in the Audit Commission's National Fraud Initiative (NFI). The NFI, which is undertaken every two years, aims to help identify and reduce fraud by bringing together data from NHS bodies, local authorities and government departments and other agencies, to detect a wide range of frauds against the public sector. These include housing benefit fraud, occupational pension fraud, tenancy fraud and payroll fraud as well as, new for 2004/05, right to buy scheme fraud and providing new contact details for former tenants with arrears in excess of £1,000.
- 64 The Council has contributed positively to the NFI work and has procedures in place to follow up any data matches picked as part of the testing.
- 65 Copeland also obtained DWP funding to assist in the review and have worked closely with Job Centre Plus in reviewing data matches. Although no savings have been identified as yet by Copeland Borough Council, there have been cases referred to the DWP for further investigation in relation to income support and job seekers allowance.

## Looking forwards

### Future audit and inspection work

- 66 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.
- 67 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.

### Revision to the Code of Audit Practice

- 68 The statutory requirements governing our audit work, are contained in:
- the Audit Commission Act 1998; and
  - the Code of Audit Practice (the Code).
- 69 The Code has been revised with effect from 1 April 2005. Further details are included in our Audit Plan which has been agreed with the Director of Finance on 24 May 2005:
- 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

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

## Closing remarks

- 71 This letter has been discussed and agreed with the Chief Executive. A copy of the letter will be presented to an appropriate committee to which all members will be invited.
- 72 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

- 73 This letter will be published on the Audit Commission's website at [www.audit-commission.gov.uk](http://www.audit-commission.gov.uk) and also on the Council's website.

Fiona Daley  
District Auditor and Relationship Manager  
March 2006

## Appendix 1 – Background to this letter

### The purpose of this letter

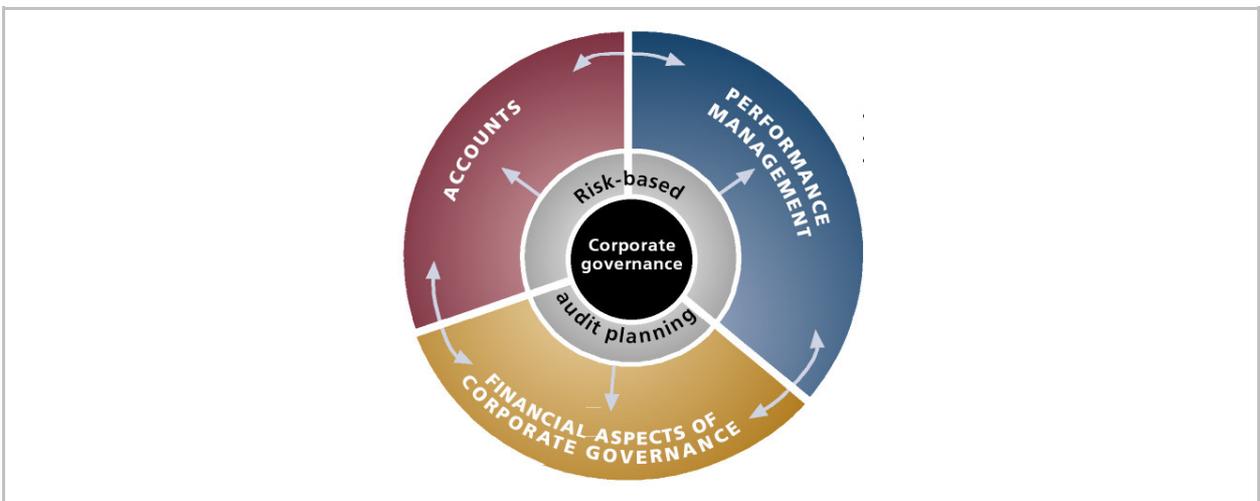
- 1 This is our audit and inspection 'Annual Letter' for members which incorporates the Annual Audit Letter for 2004/05, which is presented by the Council's Relationship Manager and District Auditor. The letter summarises the conclusions and significant issues arising from our recent audit and inspections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



## **Accounts**

- Opinion.

## **Financial aspects of corporate governance**

7 Reviewing how effectively the Council ensures:

- financial standing;
- systems of internal financial control;
- standards of financial conduct and the prevention and detection of fraud and corruption; and
- legality of transactions with significant financial consequences.

## **Performance management**

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

## **Inspection objectives**

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

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

## Appendix 2 – Audit and inspection reports issued

**Table 2**

| <b>Report title</b>   | <b>Date issued</b> |
|---|--------------------|
| Audit Plan  | March 2005         |
| Interim Memorandum  | July 2005          |
| Follow-up Report on Waste Management  | June 2005          |
| Report on the 2004/05 Financial Statements to Those Charged with Governance (SAS 610) | October 2005       |
| Final Accounts Opinion  | October 2005       |
| Follow-up Report on Safer Communities   | November 2005      |
| Final Accounts Memorandum   | December 2005      |
| Best Value Performance Plan (Statutory Report)  | December 2005      |
| Use of Resources Judgement  | March 2006         |
| Road Safety Review  | March 2006         |

## Appendix 3 – Audit and inspection fee

**Table 3      Audit fee update**

| <b>Audit area</b>                         | <b>Plan 2004/05<br/>(£)</b> | <b>Actual 2004/05<br/>(£)</b> |
|---|-----------------------------|-------------------------------|
| Accounts                                  | 43,300                      | 43,300                        |
| Financial aspects of corporate governance | 25,600                      | 25,600                        |
| Performance                               | 43,300                      | 43,300                        |
| <b>Total Code of Audit Practice fee</b>   | <b>112,200</b>              | <b>112,200</b>                |