

Annual Audit and Inspection Letter

April 2006



Annual Audit and Inspection Letter

Gosport Borough Council

Audit 2004-2005

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Key messages

Council performance

- 1 The Council has made mixed progress with good achievements in some of its priority areas, such as development of the waterfront, and improvements in key services such as housing benefits and development control. Slower progress has been made on improving housing and recycling. Since 2002/03, half of the Council's performance indicators have improved, and almost a third of these were among the best performing authorities. The Council has progressed many improvement priorities related to strengthening the way it works, setting in place building blocks for performance and financial management, although it has yet to see demonstrable outcomes in some areas.

Accounts and governance

- 2 We have issued an unqualified opinion on the statement of accounts for the year ended 31 March 2005. However, a significant number of adjustments were required to the draft accounts presented for audit, to ensure they complied with statutory accounting requirements, which delayed the issuing of our opinion.
- 3 There were no significant issues arising from our audit work in relation to the Council's corporate governance and internal control arrangements other than slippage in the internal audit programme of work for 2004/05.

Use of resources

- 4 Our use of resources assessment is new and will be used to support the value for money conclusion we are required to give for the first time when concluding the 2005/06 audit. We have concluded that, in overall terms, the Council's performance is adequate in all areas except financial reporting and financial management which are currently below minimum requirements. The Council is, however, performing well in its financial standing. We have reported to officers on the areas where improvements can be made.

Action needed by the Council

- Ensure that the Statement of Accounts complies fully with statutory accounting requirements.
- Address weaknesses on equalities and diversity.
- Ensure that the Council has the staff it needs to deliver its priorities by continuing to address and improve workforce planning.
- Address the issues identified in the use of resources assessment.

Council performance

Direction of travel report

- 5 Gosport Borough Council was assessed as 'good' in the Comprehensive Performance Assessment carried out in 2004. We reported last year that the Council developed its Strategic Improvement Plan in order to respond to the issues raised in the assessment. In 2005, the Council agreed four strategic aims: Pursuit of excellence (which incorporates the CPA improvement priorities), People, Places and Prosperity. Progress against each of these improvement priorities is assessed in the following commentary.

Pursuit of excellence

Future planning and service delivery

- 6 Future planning is progressing well. The Council aimed to prepare a long-term corporate strategy and to ensure a 'golden thread' through to service plans. A new strategy was approved in October 2005 and 2006/07 service plans will reflect this, with work on track to ensure resources are better prioritised in line with corporate aims. Linked to this is the development of service delivery standards.
- 7 The membership of the local strategic partnership has been reviewed to strengthen it as it is currently perceived as too Council-led. Consultation is underway on a revised Community Strategy, and once this is agreed, the Council recognises that it will need to ensure that there are clear links between this and corporate plans and strategies.
- 8 The Council aimed to produce a consultation/communications strategy to improve co-ordination and use of information and ensure effective consultation with 'hard to reach' groups. This work has been deferred due to other priorities but it will be important to link developments to initiatives on equality and diversity.
- 9 The Council is weak on equalities and diversity. It has only achieved level one of the race equality standard and is in the lowest 25 per cent of authorities on a checklist of progress in promoting race equality. It is also among the worst performers in providing access to its facilities for disabled people. However, it has successfully implemented Disability Discrimination Act requirements within the civic offices, and developed a race equality scheme plan. The Council has recognised it needs to do more in this area and has created a new equality and diversity role to raise awareness among staff.

Human resources

- 10 The Council has recently undergone a large restructuring exercise which is helping deliver cross-cutting work and engaging staff in council-wide priorities. Since 2004, it has also refined its work/life balance policies and reviewed recruitment and retention policies. This has resulted in a reduction in the turnover of staff, and early retirement indicators are now among the best, along with sickness levels which have fallen from 9.8 days to 7.2 days in 2004/05. The Council has also recently been awarded the new Investors in People (IIP) accreditation.
- 11 The Council is on schedule in reviewing alternative ways of working, such as home working to help increase capacity. However, staff shortages continue to be an issue for the Council and have affected delivery in a number of areas. Although the Council has produced a workforce plan, this has not met its needs for succession planning and is being revisited. This means one of the highest priorities is now behind schedule.

Performance management

- 12 The Council has worked hard to co-ordinate a council-wide approach to performance management although progress has been somewhat slow. It has produced a comprehensive manual for managers and reviewed the provision of information to councillors and staff. It is also developing outcome-based indicators and appointing champions against each of the Council priorities, due to be agreed by cabinet shortly.
- 13 The Council also planned to address poor performance on benefits. It has reduced the time taken to process new claims from 68 to 30 days over the past two years, and processing changes has fallen from 20 to 12 days. However, the percentage of cases processed correctly has fallen slightly in this time. An inspection by the Benefits Fraud Inspectorate graded the Council as 'fair standard', concluding that it has acceptable plans in place for improving the service.
- 14 Overall, since 2002/03 50 per cent of the Council's performance indicators have improved, and in 2004/05 29 per cent of these were in the best quarter of authorities, which is above average, with only 14 per cent among the worst. Many of the improvements are in local priorities such as housing, human resources, recycling and waste, but there are still some priority areas that have not improved, such as weeks spent in bed and breakfast, and equality and access issues.

Democratic arrangements

- 15 Improving democratic arrangements was one of the Council's highest internal priorities but there are few demonstrable outcomes. The constitution has been reviewed, and is currently being reviewed again although there have been delays in progressing this due to staff shortages. Both staff and councillors report that democratic arrangements have improved, but the scrutiny process is still seen as slow and not fully effective. It is uncertain how the constitution review will further improve matters.

Financial management

- 16 Key plans were to continue to develop financial capacity for a prudent level of financial reserves and to develop a procurement strategy. Both of these aims have been met, for example, by achieving a seven per cent reserve of the general fund working balance as planned. Budget processes have been tightened with a 'clearing house' to ensure that all business cases are matched to corporate priorities. This has helped to secure a more robust financial base for the Council.

Learning and capacity

- 17 The Council aimed to prepare a learning strategy for staff and councillors and a new ICT strategy. Both of these have been delayed and so there are few tangible improvements in this area. Some councillors have had training on how to set up their own websites, but a formal training programme is not yet in place.

People

- 18 The outcomes the Council aims to deliver under this theme are: fewer instances of anti-social behaviour; less crime against people and property; improved health facilities; better leisure facilities and increased usage.
- 19 There have been delays in progressing community safety issues, mainly due to staff shortages. Crime figures are relatively high for Hampshire, although nationally well below average. However, the percentage of people who think crime is a problem is above average. The Council has recently restructured the community safety service to increase its capacity, with a new dedicated head of service. Close partnership working with the Gosport Community Partnership, has resulted in 38 new CCTV cameras, an improved night bus service and provision of graffiti-removal equipment. Work has been continuing in the deprived Rowner estate area, and many anecdotal improvements have been reported, although performance data is not available to assess whether there is less crime or anti-social behaviour there.

- 20 There have been only marginal improvements to leisure and health facilities. Satisfaction with leisure is below average, as is the amount spent on its services. The main leisure centre is dated, and a replacement is a corporate priority. In the meantime, some improvements have taken place at the centre such as a better fitness suite, and elsewhere Gosport Park pavilion has been improved and Stoke Bay paddling pool has been refurbished. The Council has also been involved in hosting major events such as Trafalgar day celebrations and the international festival of the sea. However, increased usage of facilities cannot be demonstrated.

Places

- 21 The outcomes the Council aims to deliver under this theme are: improved access for the Gosport Peninsula; a high quality waterfront; regenerated Rowner Village; improved recycling with less waste created; quality public areas and green spaces.
- 22 The Council is actively working with partners to help reduce congestion and improve access, which are major issues for Gosport, for example, by supporting green travel plans, encouraging the use of local facilities and implementing policies aimed at reducing congestion in determining planning applications. However, the Council does not have exact figures on congestion and so it is difficult to see what outcomes have occurred in the last two years.
- 23 The Council has been very successful at attracting external funding, for example for the recent Portsmouth Harbour Regeneration Scheme attracting £15 million to help develop waterfront and leisure attractions. It has developed the Millennium Walkway, and made improvements to Falkland Gardens, helping increase the quality of the environment.
- 24 Problems still exist in the Rowner area, although great improvements have been made by the Council working in partnership. A South East Development Agency (SEEDA) report in 2005 shows that a jointly funded project for Rowner has succeeded in getting 37 people into work, 273 onto courses, and funded 9 community events attended by 9000 people. The Council is actively seeking further improvements with other major partners such as the County Council and English Partnerships.
- 25 Recycling rates have risen to 23 per cent over the last two years but the rate of improvement has not been as fast as other authorities. Waste has decreased from 362kg to 331kg per person, placing the Council in the top 25 per cent of authorities. These improvements have been made in a context of low spending on waste collection.
- 26 With 21 per cent of land littered to a significant extent, the Council's performance on street cleaning is below average and has only marginally improved, although the Council received a green flag award in 2005. A green team has been created to target hotspots but this has been slow to be implemented. The recent management restructuring is intended to increase focus on street scene issues, create additional capacity and target resources better to this area of high corporate priority.

- 27 The costs of development control are low but performance is above average and improving a great deal. For example, the percentage of minor applications achieving time targets has risen from 54 per cent to 72 per cent in the last two years. All application times are above average. Although it is not a specific corporate priority, it is an important service and is providing good value for money.

Prosperity

- 28 The outcomes the Council aims to deliver under this theme are: improved social inclusion; better access to decent housing; improved promotion of tourism opportunities; a knowledge and skills base that matches the need of local businesses; and increased investment in Gosport's economy.
- 29 Improved social inclusion can be demonstrated in a number of different ways, for example, the Council's work in the Rowner area. Elsewhere, council kiosks have been installed, a community house has been provided and there have been significant improvements to benefits services. However, slow progress on equalities and communications as noted above are less encouraging.
- 30 About half the performance indicators for housing are below average and of ten comparable indicators from two years ago, seven have not improved, although recent unaudited figures show improvement, for example the proportion of housing meeting the decent homes standard. Housing expenditure is below average yet tenant satisfaction rates are high. However, the average length of stay in bed and breakfast accommodation is still in the worst 25 per cent of authorities, although marginally improving, since provision of a new hostel for 13 households. A choice based letting scheme is on schedule to go live in the spring, which will give better choice to tenants.
- 31 The Council continues to provide a good range of services to increase tourism and the economy and to develop a skills base to match business needs. The Audit Commission inspected 'Economic Prosperity' in 2005, rating the service as good with promising prospects for improvement. Strengths included: work on regeneration in the Borough's disadvantaged areas and partnership working beyond its traditional district council service functions. However, the Council was not explicit about how its plans will contribute towards improved economic prosperity for the borough, was weaker at identifying the needs of its black and minority ethnic groups and aligning its actions to meet these needs, and not fully exploiting the opportunities for tourism. Recent initiatives include the development and funding bids for the test-bed learning communities.

Other performance work

Local Strategic Partnership/Local Area Agreement

- 32 The Council and the Local Strategic Partnership (LSP) is part of the county wide Hampshire Local Area Agreement (LAA) and it has agreed with other key partners a shared LAA Action Plan. This aims to deliver future improvements over the next three years for the people of Hampshire in supporting children and young people; supporting older people and vulnerable adults; and in supporting the infrastructure and conditions for a prosperous and sustainable Hampshire. The details of the LAA are due to be finalised in the early part of 2006 and it is too early for us to assess its organisation, management and governance arrangements, or its potential to deliver improvement. However, it is clear that the Hampshire LAA is progressing well, and some difficult key milestones have been achieved very quickly over the past six months as a result of good cooperation and agreement from partners including Hampshire District Councils.

Best value performance plan (BVPP)

- 33 We have completed our audit of the 2005/06 BVPP and issued our statutory report on 16 December 2005. On the basis of our audit work, we were satisfied that in all significant respects the BVPP was prepared and published in accordance with statutory requirements.

Performance information

- 34 Our audit work undertaken in relation to a selection of key best value performance indicators (BVPIs) in 2005 confirmed that, in overall terms, the Council's arrangements for the collection and reporting of performance information are working well. However, in reporting to the Audit Commission on the BVPIs, it was necessary for us to qualify two indicators where the stated performance was partly based on an estimate and to report minor amendments to a further two indicators published in the BVPP.
- 35 We concluded that the inaccuracies identified were not material to the overall understanding of the performance of the Council as reported in the BVPP and, therefore, we did not make any formal recommendations in our statutory report. The detailed matters have been reported to managers and action is being taken to ensure the problems do not re-occur.

Accounts and governance

We have given your accounts an unqualified audit opinion. However, a significant number of adjustments were required to the draft accounts, which delayed the issuing of our opinion.

Your overall corporate governance arrangements are satisfactory in most key areas however the internal audit timetable was allowed to slip during 2004/05 which impacted on the amount of work required by the external auditors.

Audit of 2004/05 accounts

Matters arising from the final accounts audit

- 36 We gave an unqualified opinion on the Council's accounts on 29 November 2005. The opinion was delayed due to the fact that the draft accounts presented for audit did not comply fully with the Statement of Recommended Practice (SORP). A significant number of adjustments were required, which involved additional audit work.

Report to those responsible for governance

- 37 We are required by professional standards (Statement of Auditing Standard [SAS] 610) to report to those charged with governance (the Audit and Risk Sub-Committee for your Council) certain matters before we give an opinion on the financial statements. Misstatements identified in the draft accounts and other instances of non-compliance with the SORP were reported to members on 15 November 2005.

Accounts 2005/06

- 38 The timetable for the preparation and audit of the 2005/06 financial statements is one month earlier than for 2005/06 - with the accounts requiring members' approval by 30 June 2006. This earlier deadline will put further pressure on closedown procedures and we will continue to work with officers to address the accounts issues as they arise during the year to minimise the pressure at the year-end.

Financial standing

2004/05 financial performance

- 39 Financial performance in 2004/05 was closely in line with the budget and the Council has been able to demonstrate a continuation of effective financial control. Details of the outturn position for the year were reported to the Policy and Organisation Board on 20 June 2005. The key points are highlighted overleaf.

General fund spending

- 40 The Council had budgeted for a surplus of £190,000 on general fund spending in 2004/05, of which £169,000 was to be added to the general fund working balances and £21,000 to a Revenue Financing Reserve. However, an additional surplus of £240,000 was achieved in the year, due to a combination of factors as reported to the Policy and Organisation Board. This enabled a further £219,000 to be transferred to the Revenue Financing Reserve and £17,610 to the Building Control Partnership.
- 41 At 31 March 2005, the Council's general fund working balance stood at £765,000, which is in line with the Council's reserves policy, with earmarked revenue reserves of £257,000.

Housing Revenue Account

- 42 The Council had budgeted for an overall deficit of £47,000 for 2004/05 on the Housing Revenue Account. The actual position at the year end was a deficit of £40,300, leaving a year-end reserve balance of £896,800.

Capital programme

- 43 Capital expenditure in 2004/05 amounted to £5.84 million, compared to a budgeted spend of £7.75 million. The majority of the net underspend of £1.91 million resulted from slippage in the capital programme which is expected to be completed in 2005/06. As at 31 March 2005, the Council had funds of £6 million available for financing future capital expenditure.

Systems of internal financial control

Overall framework for internal financial control

- 44 There are no significant weaknesses in the overall framework for internal financial control which require to be drawn to the attention of members.

Internal Audit

- 45 As part of our work, we have considered the quality and scope of the Council's internal audit function. The work of the Internal Auditors was generally of a good standard and accorded with the relevant auditing guidelines. However, there were a number of areas where we consider that action should be taken to improve the arrangements currently in place. In particular, there was slippage in the 2004/05 audit programme in relation to key financial systems, which required us to undertake additional work to gain assurance over the adequacy of systems controls for the purposes of our audit of the statement of accounts.

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

- 46 We have not identified any significant weaknesses in your arrangements to prevent and detect fraud and corruption.

Legality of financial transactions

- 47 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 assessment

- 48 The use of resources assessment focuses on how the Council's financial management is integrated with its strategy and corporate management approaches, supports Council priorities and delivers value for money. The assessment builds on the 'auditor scored judgements' which formed part of the comprehensive performance assessment in 2004, but is recognised as being a harder test as it focuses on the extent to which arrangements are embedded within an organisation. It is anticipated that the assessment will be carried out annually in the future, as part of each council's external audit, and we anticipate that the use of resources judgements will form part of the new CPA framework for district councils.
- 49 We have assessed the Council's arrangements in five areas, as set out in the following table.

Table 1 Use of resources assessment

Element	Assessment
Financial reporting	1 out of 4
Financial management	1 out of 4
Financial standing	3 out of 4
Internal control	2 out of 4
Value for money	2 out of 4
Overall	2 out of 4

(Note: 1=lowest, 4=highest)

- 50 In reaching these individual assessments, we have drawn on our audit outcomes and supplemented this with a review against specified Key Lines of Enquiry. Summary conclusions are as follows:

Financial reporting

- 51 There were a significant number of instances where the accounts produced for audit did not comply with the Statement of Recommended Practice (SORP) and required significant adjustment and additional disclosures. The Council needs to ensure that SORP compliant accounts are produced in future.
- 52 The Council should consider consulting with stakeholders to establish their requirements with respect to the publication of summary accounts and an annual report.

Financial management

- 53 The Council does not have a medium-term financial strategy in place to inform the budget setting process, although we understand this is currently being drafted.
- 54 The Council has well established budget setting and monitoring processes and budgets are produced in line with an agreed timetable.
- 55 The Council should consider updating its corporate capital strategy and asset management plan documents.

Financial standing

- 56 The Council has set balanced budgets over recent years and has maintained spending without excessive rises in council tax. A reserves policy is in place and is actively monitored.
- 57 The Council has demonstrated that it has good budget setting and monitoring processes.

Internal control

- 58 The Council's risk management arrangements have developed considerably in recent years, but there is a need to ensure that these are reviewed regularly.
- 59 The Council's arrangements for preparing and approving the Statement on Internal Control should be improved and officers should identify the sources of assurance for discussion by members.
- 60 The Council has a strong anti-fraud and corruption culture, supported by appropriate policies and procedures, and adequate arrangements for ensuring compliance with members and staff codes of conduct.

Value for money

- 61 Officers demonstrated a good understanding of the areas of low and high spending and the areas of high spending reflect the Council's priorities. Officers understand the external factors that impact on costs and performance and spending patterns are reflected in the Council's policies and strategies. There is a need to improve the linkages between corporate and financial strategies.
- 62 Officers have highlighted a number of development areas required such as reviewing the success and failure of procurement activity. There have been some resourcing issues at the Council which have resulted in areas such as risk management not being regularly followed up.

Other work

Grant claims

- 63 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 work on these claims but our ability to reduce further depends on the adequacy of the Council's control environment.
- 64 The Council's arrangements for managing and quality assuring grant claims submitted for certification was adequate and there are no matters that require to be drawn to the attention of members.

National Fraud Initiative

- 65 In 2004/05, the local authority took part in the Audit Commission's National Fraud Initiative. 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.

Looking ahead

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 Both the Audit Commission and Mazars 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 within the next month.

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. 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

- 70 Following consultation in 2005, the Audit Commission is currently developing a revised framework for CPA for district councils. This will be published in summer 2006 with implementation planned for 2007.

Closing remarks

- 71 A copy of this letter will be discussed with members on 19 June 2006.
- 72 The Council has taken a positive and constructive approach to our audit and inspection we would like to take this opportunity to express our 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 and also on the Council's website.

Mazars LLP
Appointed Auditors
April 2006

Linda Krywald
Relationship Manager

Appendix 1 – Background to this letter

The purpose of this letter

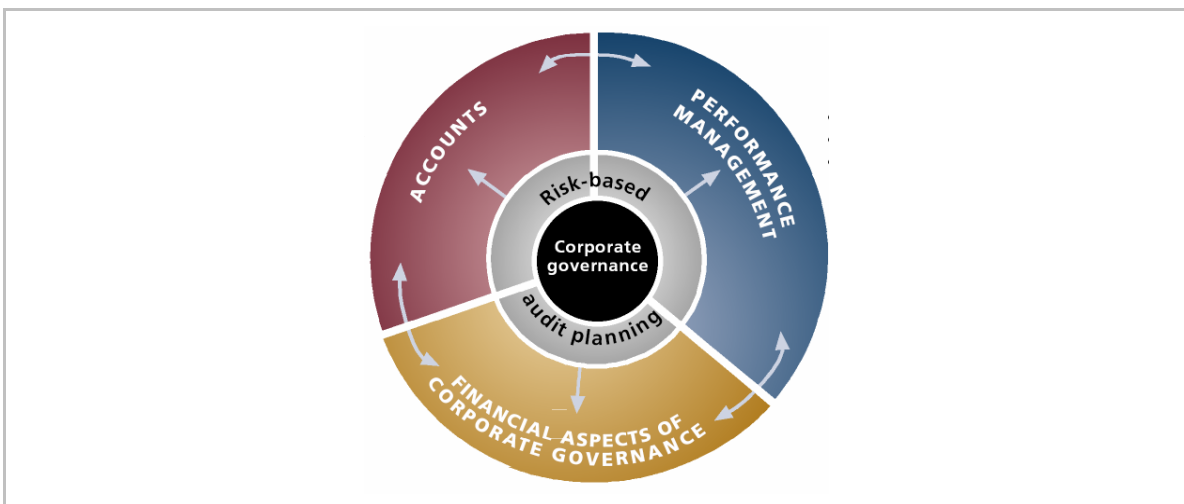
- 1 This is our audit and inspection 'Annual Letter' for members which incorporates the Annual Audit Letter for 2004/05, which is presented by the Council's Relationship Manager and Appointed Auditors. The letter summarises the conclusions and significant issues arising from our recent audit and inspections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

Financial aspects of corporate governance

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

- 7 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

Report title	Date issued
Audit and Inspection Plan 2005/06	March 2005
Report to management: Financial Aspects of Corporate Governance 2004/05	July 2005
Opinion and Report on the Financial Statements	November 2005
Report to management: Final Accounts audit 2004/05	November 2005
Statutory Report on the Best Value Performance Plan	December 2005
Report to management: Best Value Performance Plan 2005/06 and Best Value Performance Indicators	December 2005

Appendix 3 – Audit and Inspection fee

Table 3 Audit fee update

Audit area	Audit Plan 2004/05 (£)	Actual fee 2004/05 (£)
Accounts	35,500	52,500
Financial aspects of corporate governance	22,500	22,500
Performance	21,000	21,000
Total Code of Audit Practice fee	79,000	96,000
Certification of grant claims	60,671 (2003/04 actual)	44,264

Inspection fee update

- 1 The full year inspection fee is £8,975. 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.