

Annual Audit and Inspection Letter

March 2006



# **Annual Audit and Inspection Letter**

**Cheltenham Borough Council**

**Audit 2004/2005**

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## Key messages

### Introduction

- 1 This year Annual Audit and Inspection Letters for District Councils are to be produced by 31 March 2006. This is later than the usual 31 December. This timetable has been produced so that the use of resources and direction of travel work can be included within the 2004/05 Letter.

### Council performance

- 2 Performance indicators (PIs) demonstrate that the Council is generally delivering a good housing service with performance among the top 25 per cent of councils in the country. However, the Council is struggling to maintain its good performance for the number of weeks stay in hostel accommodation.
- 3 The Council is protecting and improving the environment of Cheltenham in a number of ways. These include: protecting the built environment of the town; investing in the town's green spaces; improving standards of cleanliness across the town; improving the Council's own environmental performance through reducing the time taken to determine major planning applications and adopting a sustainable construction action plan; managing waste sustainability; and introducing a waste reduction strategy. Overall 80 per cent of environment PIs show that the Council's performance is improving. However, 71 per cent remain below average. Despite this, customer satisfaction with environmental services remains high.
- 4 The Council is working towards a reduction in the reliance on the private car and an increase in the proportion of trips made by public transport, cycling and walking. To achieve this, the Council has been working in partnership with the County Council and other key stakeholders to deliver the annual local transport plan.
- 5 The Council is making steps to enhance further the town's reputation. For example, the Arts Council for England has agreed to fund a feasibility study into options for new arts and cultural facilities in Cheltenham.
- 6 An unqualified Statutory Report on the best value performance plan has been issued, before the statutory deadline of 31 December.

### The accounts

- 7 We gave an unqualified audit opinion on the Council's accounts and sound arrangements are in place for the production of the annual accounts. This performance needs to continue as the timetable for the production of the accounts comes forward to 30 June 2006.

## Financial position

- 8 The Council's 2004/05 budget was delivered and savings of £412,000 were achieved against the revenue budget.

## Other accounts and governance issues

- 9 The Council is performing well overall in its use of resources. Our work covered financial reporting, financial management, financial standing, internal control and value for money.
- 10 The Council has adequate arrangements in place to assess its systems of internal control. Two significant internal control issues were reported in the published Statement on Internal Control (SIC). These related to the identification and management of strategic and operational risk and business continuity.

## Action needed by the Council

- 11 It is important that members ensure that sound data quality arrangements are in place across the Council and not just limited to best value performance indicators (BVPIs).
- 12 The Council should regularly review the action plans in place to address the two significant internal control issues of risk management and business continuity.

## Council performance

Cheltenham was assessed as 'good' in the Comprehensive Performance Assessment carried out in 2004. Since the assessment the Council has reviewed its corporate business plan. The updated plan now reflects its new priorities for improvement.

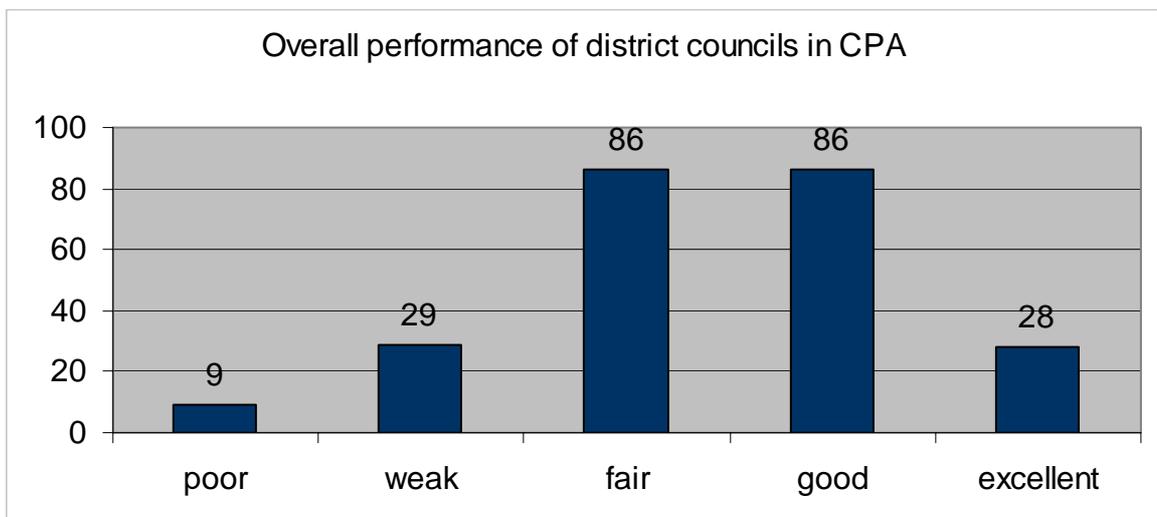
An unqualified Statutory Report on the best value performance plan has been issued, before the statutory deadline of 31 December.

## Direction of travel report

- 13 Cheltenham Borough Council was assessed as 'good' in the Comprehensive Performance Assessment carried out in 2004. These assessments have now been completed in all district councils with the following results.

### Figure 1 Overall performance of district councils in CPA

Three times as many district councils are rated good or excellent than poor or weak



Source: Audit Commission

- 14 Since the assessment the Council has reviewed its corporate business plan. The updated plan now reflects its new priorities for improvement and we have been working with the Council as it seeks to improve further.

- 15 The Council's priorities are: achieving a balanced and sustainable housing market; a reduction in crime and disorder and the fear of crime; a protected and improved environment; improvements to transport systems; redressing imbalances in communities; enhancing the town's reputation through culture; and an organisational priority to be an excellent and sustainable Council. The following paragraphs describe the Council's progress against each of these priorities.

## Housing

- 16 Performance indicators (PIs) demonstrate that the Council is generally delivering a good housing service with performance among the top 25 per cent of councils in the country in the following areas: percentage of unfit private sector dwellings made fit, or demolished, as a result of Council action; average number of weeks spent by homeless households in priority need in hostels; the percentage change in non-decent homes during the year; percentage of responsive repairs for which the Council made and kept an appointment; and average time taken to complete non-urgent repairs in days.
- 17 Improvement has been achieved by working with Cheltenham Borough Homes, the Council's Arms Length Management Organisation (ALMO) to increase the proportion of dwellings that meet the decent homes standard. This has resulted in an increase from 32 per cent in 2003/04 to 53 per cent in 2004/05. The ALMO is also performing well against targets for re-letting dwellings. The Council's own target of 30 days is currently being exceeded at 24 days.
- 18 The Council has improved its strategic approach to housing provision. This is complemented by its revised housing strategy which was adopted by Cabinet on 19 July 2005. The Government Office of the South West (GOSW) classified it as fit for purpose. This is providing the strategic framework for the Council's work to increase the number of affordable homes, to reduce rough sleeping and homelessness and to work to increase choice for prospective tenants. The Council has completed a review of rough sleeping and is now working with partner agencies to develop a one-stop-shop to provide housing advice and support.
- 19 The Council has successfully introduced a new loans scheme to encourage unfit private sector dwellings to be made fit or demolished. This is in addition to existing grant aid. PIs show that performance in this area is best quartile and improving.
- 20 However, the Council is struggling to maintain their good performance for the number of weeks stay in hostel accommodation. In 2004/05, no households had needed this type of accommodation and performance was therefore amongst the best councils in the country. During 2005/06 there has been an increase in need and performance is expected to fall below average.

## Crime and disorder

- 21 Overall, PIs suggest that the Council is moving in a positive direction to reduce crime and tackle anti social behaviour, with 50 per cent of 2004/05 PIs now within the best quartile.
- 22 The targets under this priority are shared with the Crime and Disorder Reduction Partnership and are also contained in the crime and disorder reduction strategy.
- 23 However, progress in achieving improvement has been hampered by a number of internal difficulties around staffing and agreement of the Council's local plan. For example limited progress has been made in addressing graffiti, fly-tipping, fly-posting and littering problems.

## Environment

- 24 The Council is protecting and improving the environment of Cheltenham in a number of ways. These include: protecting the built environment of the town; investing in the town's green spaces; improving standards of cleanliness across the town; improving the Council's own environmental performance through reducing the time taken to determine major planning applications and adopting a sustainable construction action plan; managing waste sustainability; and introducing a waste reduction strategy. Overall 80 per cent of environment PIs show that the Council's performance is improving. However, 71 per cent remain below average. Despite this, customer satisfaction with environmental services remains high.
- 25 Performance against the six planning PIs shows that overall performance is improving. Eighty-three per cent of these PIs have improved and 62 per cent are comparable with the top 25 per cent of council performance nationally, including those which measure how quickly planning applications are determined.
- 26 Key environmental improvements that the public will recognise include: the completion of high street pedestrianisation; improvements to the Regent Street and Everyman Theatre area; and bus priority improvements, all as part of the Cheltenham Civic Pride initiative. Other improvements include: the creation of three new play areas and the enhancement of fifteen others ahead of the Council's own deadline; the achievement of Green Flag status for Hatherley Park; and de-silting works at Pittville Park.
- 27 The Council has experienced delays in some areas. For example, the adoption of the Gloucestershire waste strategy has stalled due to the County Council's decision to abandon its waste management private finance initiative (PFI) proposal. Also a sustainable construction action plan has not been adopted.

## Transport

- 28 The Council is working towards a reduction in the reliance on the private car and an increase in the proportion of trips made by public transport, cycling and walking. To achieve this the Council has been working in partnership with the County Council and other key stakeholders to deliver the annual local transport plan.
- 29 Improvements in transport related systems can be seen in: the installation of CCTV and new lighting in one of the Council's car parks; the replacement of 60 per cent of off-street pay and display machines; and the achievement of safe parking status for three council owned car parks. The Cabinet has recently approved a five-year business plan for Gloucester Airport.
- 30 The Council recognises that it still needs to improve accessibility to the town for disabled people. As such it is working on ways to improve the efficiency and effectiveness of its concessionary transport, shopmobility, community transport and disabled parking scheme. A report of the Access Working Group is expected by 31 March 2006.

## Community imbalance

- 31 The Council has set itself a number of key tasks to 'redress the imbalance in its communities and build strong healthy geographical communities and communities of interest'.
- 32 Overall the Council is increasing the capacity of local groups to redress these imbalances. Examples include: working with the Cheltenham Strategic Partnership (CSP) to agree and co-ordinate regeneration strategies across the town; work to encourage the three regeneration partnerships in the Borough to support their communities; and in the medium-term work towards the establishment of a single regeneration company. A Regeneration Officer has been appointed to help the Council with specific responsibility to develop the regeneration strategy of the Council.
- 33 The Oakley Regeneration Partnership has been formed to support a community with multiple deprivation. A recent review of grant funding to voluntary and community groups is aimed at empowering communities, community groups and voluntary groups in the future. There is a Lifelong Learning Officer has been appointed by the Council to help reduce learning inequalities across different groups and committees. However, it is too early to measure the impact of these initiatives.

## **Enhancing the town's reputation**

- 34 The Council aims to enhance its reputation as a national and international culture centre, promote a healthy and sustainable economy and provide opportunities to broaden and enrich sport, play and cultural experiences for all.
- 35 The Council has made positive progress in achieving these aims. For example, the Arts Council for England has agreed to fund a feasibility study into options for new arts and cultural facilities in Cheltenham. A community play development worker has been appointed to encourage young people's participation in the cultural life of the town, in accordance with the County Council's play policy. In order to promote Cheltenham as a quality tourist destination, the Council has completed a partnership project to deliver online accommodation booking through its tourism website. To secure a successful programme of cultural and entertainment activities the Council has worked with Cheltenham Festivals Ltd to deliver a secure three year funding agreement. The Council hopes that this will ensure that the Cheltenham Festival continues to attract both national and international acclaim.
- 36 Overall PIs for culture show that performance is good, with all but one PI being in the best quartile.

## **An excellent and sustainable council**

- 37 The Council has incorporated its three main CPA areas of improvement into an organisational priority of becoming 'an excellent and sustainable Council delivering high standards of service'. These areas of improvement are resolving the dispute with the Managing Director, building Council capacity and improving performance management.
- 38 The Managing Director's contract has been terminated, a new job description has been developed and a recruitment process is underway for a new Chief Executive.
- 39 To improve capacity the Council has introduced programme boards for major projects, improved its medium-term financial strategy (MTFS) to match priorities and resources more clearly, introduced a number of key strategies (human resources, communications and procurement) which are being monitored and reported on regularly and developed a corporate training programme which includes management development.
- 40 There are a number of PIs that measure the Council's performance in terms of capacity. These include processing transactions, people related issues and housing benefit. These PIs show that overall performance is improving and is largely above average or best quartile.

- 41 The Council has made progress in putting in place a number of structures to enhance performance management, such as: improvements to the Council's computerised performance management system (TEN), additional explanatory text included in the 2005/06 Business Plan to make it clearer for readers, ongoing work to make clearer linkages between Council strategies and plans, community consultation planned to revisit the Council's overall vision as part of the community strategy in 2007, roll-out of the Customer Relationship Management Programme (CRM) in key front line services such as pest control and bulky waste and partnership working with other Gloucestershire councils to explore organisational cultures in relation to performance management.

## Best value performance plan

- 42 The Local Government Act 1999 (the Act) requires best value (BV) authorities to publish a best value performance plan (BVPP) each year, setting out an assessment of current performance and targets for improvements. The Act requires the external auditors of BV authorities to audit the BVPP and report whether it has been prepared and published in accordance with the Act and statutory guidance.
- 43 We have concluded that the Council has complied with the requirements for preparing and publishing its BVPP and therefore have made no statutory recommendations.

## Performance information

- 44 In response to the new Code of Audit Practice, we have changed our approach to auditing performance information. Specifically, whereas in previous years auditors risk assessed all of the Council's best value performance indicators (BVPIs) and sample tested those deemed to be higher risk, this year the Commission specified twelve performance indicators (PIs) for particular attention by auditors. For the first time this also included some non best value performance indicators, which do not appear in the Council's BVPP.
- 45 The non-BVPIs selected by the Commission are all derived from statutory and other returns made by authorities to third parties. The latter are typically returns to government departments.
- 46 This approach was developed to provide positive assurance on the specified PIs. It also reflects the fact that data quality arrangements should be sufficiently comprehensive to ensure good quality data across the Council, rather than being limited to ensuring the quality of BVPIs.
- 47 Only one of the specified non-BVPIs applied to the Council, 'private sector homes vacant for more than six months'. It was noted that this indicator was not calculated in accordance with required definition. This does not impact on our assessment of the BVPP, however it has been reported to the Audit Commission centrally.

- 48** Data quality is key to informing decision-making and is an area receiving increasing audit attention across the public sector. The Council should ensure that it has sound data quality arrangements in place across the Council and not just limited to BVPIs.

## Accounts and governance

We gave an unqualified audit opinion on the Council's accounts and sound arrangements are in place for the production of the annual accounts. This performance needs to continue as the timetable for the production of the accounts comes forward.

The Council has adequate arrangements in place to assess its systems of internal control. Two significant internal control issues were reported in the published Statement on Internal Control (SIC). These related to the identification and management of strategic and operational risk and business continuity.

- 49 The Council is performing well overall in its use of resources.

### Audit of 2004/05 accounts

- 50 We gave an unqualified opinion on the Council's accounts on 27 October 2005.

#### Matters arising from the final accounts audit

- 51 No significant issues were noted during the course of our audit.
- 52 The Council is aware of the continuing pressure to prepare financial statements earlier each year. For the year ended 31 March 2006 the accounts need to be approved by 30 June 2006 and the opinion issued by 30 September 2006. In order to achieve these deadlines it will be critical to have complete and comprehensive working papers made available at the commencement of the audit.
- 53 The Council has sound arrangements in place to assess its systems of internal control. The arrangements include internal control assurance statements, signed by the assistant directors, which are considered good practice. Two significant internal control issues relating to risk management and business continuity were identified. The Council will need to regularly review the action plans to ensure that planned actions are implemented to address the weaknesses identified.

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

- 54 We are required by professional standards to report to those charged with governance (in this case the Economic and Business Improvement Overview and Scrutiny Committee) This year no issues were required to be reported.

## Financial standing

The Council's budget was delivered and savings of £412,000 were achieved against the revenue budget.

### General fund spending and balances

- 55 The Council achieved savings of £412,000 against the 2004/05 budget. This was largely as a result of overachievement of income across a number of areas. The Council's General Reserve stood at £1.4 million as at 31 March 2005.
- 56 The Council has previously resolved to aim to maintain its General Reserve at approximately 10 per cent of net operating expenditure, or a level between £1 million and £1.5 million. Based on current assumptions the General Reserve is projected to be at the middle of this range during the course of 2006/07.

### Housing revenue account

- 57 The Council showed a £0.4 million surplus on the account for 2004/05 with a retained revenue reserve of £1.5 million.

### Capital programme

- 58 The Council spent £15.2 million on capital projects and grants during the year ended 31 March 2005. This was £ 0.2 million less than the original budget largely as a result of a delay in implementing schemes.

### Income collection and arrears

- 59 Council tax and business rates collection rates improved in 2004/05 (Table 1) and the Council collects more council tax and business rates in-year than do similar authorities.

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**Table 1      Collection rates**

Collection rates improved in 2004/05

	<b>2004/05</b> %	<b>2003/04</b> %	<b>All shire district</b> <b>average percentage</b>
Council tax	97.9	97.7	97.8
Business rates	99.1	97.9	98.7

*Source: Office of the Deputy Prime Minister (ODPM)*

## **Medium-term financial strategy**

- 60 The budget proposals for 2006/07 include an updated medium-term financial strategy. Within this it is understood that the assumed rate of increase in government grant of 2.5 per cent per annum, coupled with a projection of income from increases in council tax projected at 4 per cent per annum, do not cover the annual increase in pay and prices which face the Council on an annual basis. As a result, the Council continues to find itself in a position of having a funding gap. The latest prediction of this funding gap shows an improved position on 2005/06. However, as more and more savings are made, the task of identifying further savings will become ever more challenging for the Council.

## **Systems of internal financial control**

We have not identified any significant weaknesses in the overall financial control framework.

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

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

## **Legality of transactions**

- 62 We have not identified any significant weaknesses in the framework established by the Council for ensuring the legality of its significant financial transactions.
- 63 During the year we have monitored and provide informal advice on the position of the former Managing Director and also on the proposed management restructuring.

## **Use of resources judgements**

- 64 The use of resources assessment is a new assessment for 2005/06 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.
- 65 We have assessed the Council's arrangements across five elements. These five elements supplement our work on the Council's accounts and governance arrangements. Table 2 shows the definition of the scores. Table 3 shows the scores for each element.

**Table 2 Use of resources**

Level 2 represents adequate arrangements

Level of performance	Description
4	Well above minimum requirements – performing strongly; VFM demonstrates innovation and best practice.
3	Consistently above minimum requirements – performing well; VFM criteria embedded and operating effectively.
2	At only minimum requirements - adequate performance; 'best fit' for VFM criteria.
1	Below minimum requirements – inadequate performance.

*CPA: the harder test*

- 66 The use of resources assessments were issued to the Council on 13 March 2006, as follows.

**Table 3 Council's arrangements**

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

*(Note: 1 = lowest, 4 = highest)*

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

- 68 The Council is performing well however further improvement could be achieved by the Council:
- benchmarking its services against comparator providers regularly in addition to one off exercises during BPR/service reviews;
  - embedding VFM into its culture by including the achievement of VFM in its senior managers' appraisal system;
  - extending its scrutiny and focus on VFM by comparing costs of core corporate functions as well as those of services;
  - publishing summary annual accounts;
  - putting in place an assurance framework that maps the Council's strategic objectives to risks, controls and assurances which provide officers and members with information to support the Statement on Internal Control; and
  - adopting, supporting and promoting a strong counter fraud culture.

## Grant claims

- 69 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.
- 70 The Council's arrangements for managing and quality assuring grant claims submitted for audit is considered adequate.

## National Fraud Initiative

- 71 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. Additional pilot work is being undertaken to further extend the scope of the initiative.
- 72 The Authority submitted the required data to the Audit Commission and appropriate resources and priority were given to addressing the resulting matches. On this occasion no significant matches were identified and a nil return was sent to the Commission. The exercise therefore provides the Authority with a degree of assurance about its arrangements for the prevention and detection of fraud.

## Looking forwards

### Future audit and inspection work

- 73 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.
- 74 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

- 75 The statutory requirements governing our audit work, are contained in:
- the Audit Commission Act 1998; and
  - the Code of Audit Practice (the Code).
- 76 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

- 77 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.

## Closing remarks

- 78 This letter has been discussed and agreed with officers. A copy of the letter will be presented at the Economic and Business Improvement Overview and Scrutiny Committee on 30 March 2006.
- 79 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

- 80 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.

Richard Lott  
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.

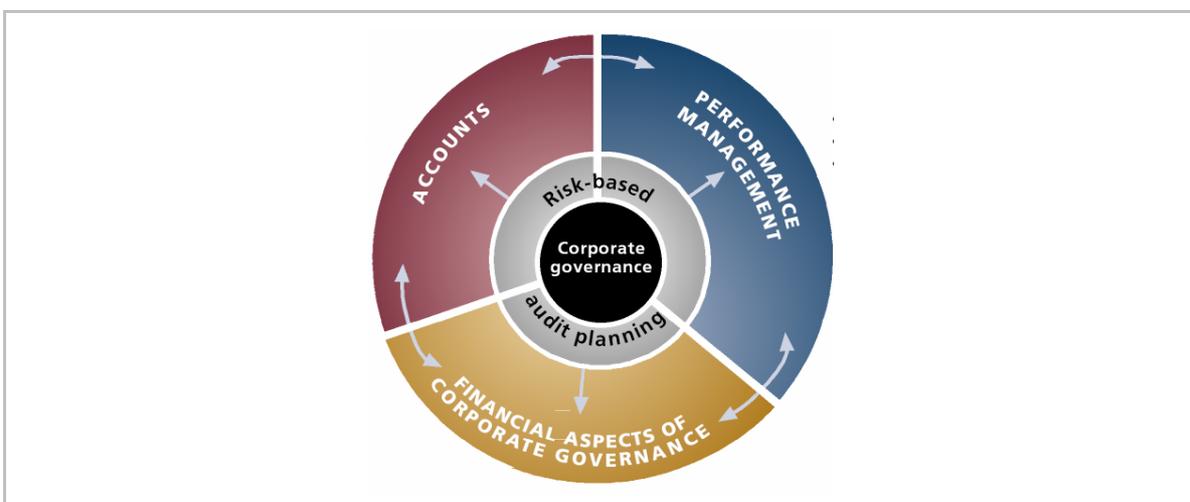
### Audit objectives

- 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 2.

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#### Figure 2 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

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**Table 1**

<b>Report title</b>	<b>Date issued</b>
Audit Plan	March 2005
Interim memorandum	June 2005
Report on the 2004/05 Financial Statements to those Charged with Governance (SAS 610)	October 2005
Statutory Auditor's Report on the Best Value Performance Plan	November 2005
Final Accounts Memorandum	March 2006
Use of Resources Report	March 2006

## Appendix 3 – Audit and inspection fee

**Table 2      Audit fee update**

<b>Audit area</b>	<b>Plan 2004/05</b>	<b>Actual 2004/05</b>
Accounts	30,642	30,642
Financial aspects of corporate governance	44,725	44,725
Performance	44,843	44,843
<b>Total Code of Audit Practice fee</b>	<b>120,210</b>	<b>120,210</b>
Additional voluntary work (under section 35)	0	0
<b>Total</b>	<b>120,210</b>	<b>120,210</b>