

Annual Audit Letter

January 2006



# **Annual Audit and Inspection Letter**

**Haringey London Borough Council**

**Audit 2004-2005**

External audit is an essential element in the process of accountability for public money and makes an important contribution to the stewardship of public resources and the corporate governance of public services.

Audit in the public sector is underpinned by three fundamental principles:

- auditors are appointed independently from the bodies being audited;
- the scope of auditors' work is extended to cover not only the audit of financial statements but also value for money and the conduct of public business; and
- auditors may report aspects of their work widely to the public and other key stakeholders.

The duties and powers of auditors appointed by the Audit Commission are set out in the Audit Commission Act 1998 and the Local Government Act 1999 and the Commission's statutory Code of Audit Practice. Under the Code of Audit Practice, appointed auditors are also required to comply with the current professional standards issued by the independent Auditing Practices Board.

Appointed auditors act quite separately from the Commission and in meeting their statutory responsibilities are required to exercise their professional judgement independently of both the Commission and the audited body.

### **Status of our reports to the Council**

Our reports are prepared in the context of the Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission. Reports are prepared by appointed auditors and addressed to members or officers. They are prepared for the sole use of the audited body, and no responsibility is taken by auditors to any member or officer in their individual capacity, or to any third party.

### **Copies of this report**

If you require further copies of this report, or a copy in large print, in Braille, on tape, or in a language other than English, please call 0845 056 0566.

© Audit Commission 2006

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

[www.audit-commission.gov.uk](http://www.audit-commission.gov.uk)

# Contents

<b>Key messages</b>	<b>5</b>
Council performance	5
Accounts and governance issues	5
Action needed by the Council	5
<b>Performance</b>	<b>6</b>
CPA scorecard	6
Overall performance for this Council	6
Direction of Travel report	7
Other performance work	8
Performance information	10
Other Audit Commission inspections	10
Working with other inspectorates and regulators	11
<b>Accounts and governance issues</b>	<b>12</b>
Audit of the 2004/05 accounts	12
Financial standing	12
Systems of internal financial control	14
Standards of financial conduct and the prevention and detection of fraud and corruption	15
Legality of transactions	16
Use of resources judgement	16
<b>Other work</b>	<b>18</b>
Grant claims	18
<b>Looking forwards</b>	<b>19</b>
Future audit and inspection work	19
Revision to the Code of Audit Practice	19
<b>Closing remarks</b>	<b>20</b>
<b>Appendix 1 – Background to this letter</b>	<b>21</b>
The purpose of this letter	21
Audit objectives	21
<b>Appendix 2 – Reports issued during 2005</b>	<b>23</b>

**Appendix 3 – Audit and inspection fees**

**24**

## Key messages

### Council performance

- 1 The Council is improving well and has achieved an overall comprehensive performance assessment (CPA) of three stars. In particular, this year has seen positive outcomes in services for children and young people and for vulnerable adults. Nearly 75 per cent of best value performance indicators (BVPIs) have been maintained or improved, although performance is coming from a low base in some services. The Council is developing its focus on areas where progress is less consistent.
- 2 Spend is generally high in comparison to other near neighbours. Whilst the Council can demonstrate factors affecting its spend, such as demographic mix and the need to invest for service improvement, there is a mixed picture when assessing whether costs are commensurate with performance levels.

### Accounts and governance issues

- 3 Action has been taken to address the ongoing qualification of the Council's accounts in respect of the accounting treatment adopted for the Alexandra Palace long-term debt. The general fund balance has been maintained in line with the Council's target level, although financial pressures are continuing in 2005/06 and the medium to longer-term. Standards of financial conduct and the arrangements to prevent and detect fraud and corruption and to maintain the legality of financial transactions are generally satisfactory. However, our review of overspending on the Technical Refresh project has highlighted serious failures in the Council's corporate governance arrangements in respect of that project.

### Action needed by the Council

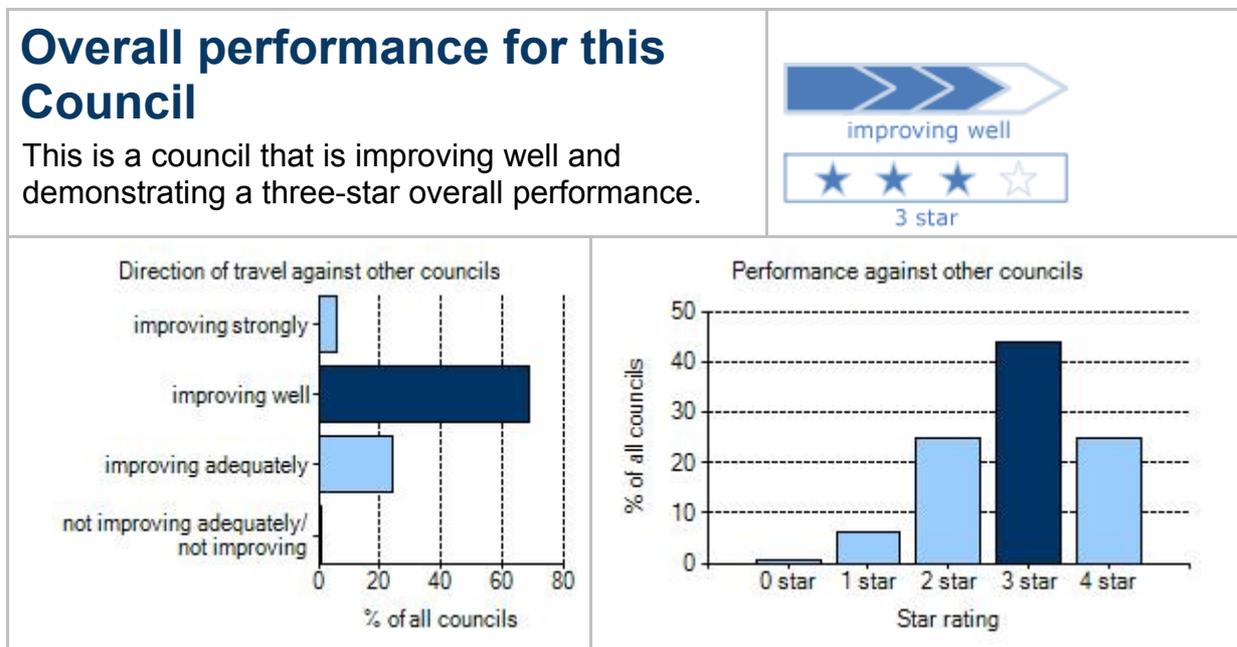
- 4 The Council needs to:
  - sustain improvement in better-performing services, whilst continuing to develop its focus on those services where progress is less consistent;
  - demonstrate that high-cost services are delivering value for money, and embed the culture of challenge for value for money Council-wide;
  - maintain tight budgetary control to deliver financial balance for 2005/06 and the medium to longer-term; and
  - as a priority, develop and implement an action plan in response to our report on the Technical Refresh project.

# Performance

## CPA scorecard

- 5 The CPA judgements this year have been made using the revised methodology: CPA - the harder test. As the title implies, CPA is now a more stringent test, with more emphasis on outcomes for local people and value for money (VFM). We have also added a new dimension, a Direction of Travel judgement, which measures how well the Council is improving. Under the new framework, the Council is improving well and its overall CPA category is three stars.

**Figure 1 CPA assessment**



- 6 Further details of the individual assessments that support the Council's overall three-star assessment are set out in Table 1.

**Table 1 CPA scorecard**

<b>Element</b>	<b>Assessment</b>
Direction of Travel judgement	Improving well
<b>Overall</b>	<b>3 stars</b>
<b>Current performance</b>	<b>3 out of 4</b>
Children and young people	3 out of 4
Social care (adults)	3 out of 4
Use of resources	3 out of 4
Housing	2 out of 4
Environment	2 out of 4
Culture	3 out of 4
Benefits	3 out of 4
<b>Corporate assessment/ capacity to improve (not reassessed in 2005)</b>	<b>2 out of 4</b>

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

## Direction of Travel report

- 7 The Council is improving well. This year has seen positive outcomes in services for children and young people and for vulnerable adults. Planning and sustainable community indicators also improved. Nearly 75 per cent of indicators have been maintained or improved, although performance is coming from a low base in some services. User satisfaction is low, but improving. The Council is developing its focus on areas where progress is less consistent, for example, in housing management, leisure facilities and community safety. Resources are targeted to priorities and reflect local demographic challenges. However, some overall service costs are amongst the highest in London. Haringey performs well against equalities and diversity targets and is working corporately with partners to secure efficiencies. Business planning, financial governance and performance management have also improved since 2004. Arrangements to strengthen information, communications and technology, procurement and commissioning are also being developed. The Council is becoming more open to challenge and needs to embrace learning opportunities and increase its focus on value for money in order to sustain improvement.

## Other performance work

8 We carried out performance management reviews in the following risk areas:

- value for money (as part of the use of resources judgement);
- IT strategy;
- children's integrated services; and
- customer services.

### Value for money

- 9 The Council's services meet minimum requirements in relation to providing value for money. The Council has a number of good initiatives and some measurable improvements are evidenced in key priority areas. Spend is generally high in comparison to other near neighbours. Whilst the Council can demonstrate factors affecting its spend, such as demographic mix and the need to invest for service improvement, there is a mixed picture when assessing whether costs are commensurate with performance levels, and over 50 per cent of best value performance indicators (BVPIs) remain in the lower quartiles. The Council needs to demonstrate that its high spend on services is commensurate with delivering quality services, and more fully engage managers in understanding cost implications. Cost and activity information needs to be more closely integrated to enable greater challenge to be made for value for money.
- 10 The Council has adequate arrangements to manage and improve value for money. The Council has introduced new arrangements recently, such as business process reviews, which need to become embedded in order to evaluate their effectiveness. The Council now needs to embed the culture of challenge for value for money Council-wide.

### IT strategy

- 11 The Council is part way through an ambitious technical IT and information management programme, which, when realised, should give the Council a good foundation from which services can improve. The Council has looked to deliver this programme through a series of work streams under the lead of programme boards. These boards need to be more closely integrated and have a greater input from service users. There also needs to be more focus on benefits realisations from the investments made in IT.
- 12 The Council has not prepared either an IT or an information strategy document. Whilst this does not mean there is not a strategic approach to these areas, the Council would gain clarity from formalising its approach.
- 13 The Council has opted not to establish a separate e-government stream of work, and instead has focused activities in this area under its customer focus workstream. The early focus on foundation and infrastructure has now evolved to encompass tactical solutions and the Council anticipates meeting its e-government targets at the close of 2005/06.

- 14 The Council has given priority to information governance. We have identified examples of good practice in this area, such as the role of the IT security officer and the Council's overall information-sharing protocol. Our survey of managers showed that there was a good understanding within the Council of the role which information plays in service provision.

### **Children's integrated services**

- 15 The Children Act 2004 requires local authorities with responsibility for education and children's social care services to develop an integrated approach to service delivery, and to involve the health service and other local providers. By 2006, councils are required to have a single director and a single lead councillor for children's services, a single joint plan and a local safeguarding children's board, with senior representation from all partner agencies.
- 16 Our review concluded that good progress was being made locally in developing integrated services for children and that the Council's arrangements were on track to meet Government requirements within the required timescale. The Council now needs to:
- develop service commissioning and demonstrate that value for money is being achieved in the way services are being purchased;
  - establish pooled budgets and embed risk assessment in partnership working;
  - develop joint workforce planning and performance management, including complaints; and
  - enhance information sharing.

### **Customer services**

- 17 Our review of customer services was the third and final stage of our work on the Council's corporate performance management arrangements. We concluded that:
- the Council has a clear service vision in line with customer service industry standards;
  - corporate business plan objectives and priorities are translated into measurable customer-focused outcome-targets;
  - service plans and goals are clearly communicated to staff and there is a demonstrable commitment from staff to deliver excellent services;
  - effective performance monitoring is in place; and
  - the service is changing to meet better the needs of the diverse local population.

- 18 The service is still at a relatively early stage and we identified the following areas for the Council to develop:
- targets and timescales for the delivery of a number of business process re-engineering projects;
  - targets that reflect different customer types and demands within different localities; and
  - robust forward planning arrangements to balance demand levels.

## Performance information

- 19 Our approach to the audit of performance indicators changed during 2005/06 to reflect the new Code of Audit Practice. We audited 12 indicators identified by the Audit Commission as high-risk and contributing directly towards the CPA scorecard, as well as a further sample of indicators based on a local risk assessment. All audited indicators were assessed as satisfactory.
- 20 We have also completed our compliance audit of the Council's 2005/06 best value performance plan and issued our report on 21 December 2005. The report did not contain any statutory recommendations.

## Other Audit Commission inspections

- 21 We published the results our housing repairs and maintenance inspection in May 2005 following detailed on-site work during 2004. We concluded that the Council operated a fair, one-star service that had promising prospects for improvement. There were many good aspects to the Council's service, including:
- the service performed well against national performance indicators for appointments made and against local indicators such as speed in re-letting empty homes;
  - the formal bi-annual estate inspection programme and estate improvements programme was delivering improvements to the quality of the environment for customers;
  - services for customers, such as interpreting and translating, were improving and customer satisfaction was also improving, albeit from a low base; and
  - systems for diagnosing and ordering routine repairs are effective.
- 22 However, we also noted that:
- the service was unable to demonstrate value for money;
  - the proportion of repairs carried out correctly the first time was low, and customers faced a lengthy wait for the installation of aids and adaptations;
  - the service achieves only 95 percent gas servicing; and
  - leasehold income has not been maximised.

- 23 We considered that the Council had promising prospects for improvement because there is a strong corporate and departmental planning and performance framework. The Council has also demonstrated it has responded to issues raised in our previous inspection. However, some key challenges to further progress remain, in particular:
- making use of challenge to identify alternative service providers and to identify significant step change in delivery;
  - ensuring key strategic plans are robust and that the Council can achieve the decent homes standard by 2010; and
  - demonstrating improved progress against the Council's plans and prioritising and delivering sustainable change.

## **Working with other inspectorates and regulators**

- 24 An important aspect of the role of the relationship manager is to work with other inspectorates and regulators who also review and report on the Council's performance and with whom we share information and seek to provide 'joined-up' regulation. These include:
- Ofsted;
  - Commission for Social Care Inspection;
  - Benefits Fraud Inspectorate;
  - DfES; and
  - Government Office for London.

## Accounts and governance issues

### Audit of the 2004/05 accounts

- 25 The published accounts are an essential means by which the Council reports its stewardship of the public funds at its disposal and its financial performance in the use of those resources. Members approved the Council's annual accounts on 20 July 2005, in advance of the statutory deadline. The accounts were well prepared, with good supporting working papers, and were subject to robust member review.
- 26 We issued a qualified opinion on the Council's accounts on 31 October 2005. The qualification related to the accounting treatment adopted for the Alexandra Palace long-term debt. The Council took action during 2004/05 to review the accounting treatment for the debt by obtaining and applying a capitalisation direction. This allowed the £19.3 million outstanding debt to be charged to the consolidated revenue account as capital expenditure. This addresses the cause of the long-standing qualification of the Council's accounts. The 2005/06 accounts will not, therefore, be qualified on this issue. Our opinion remained qualified, however, for 2004/05, as the 2003/04 comparative balances were not restated on a similar basis.
- 27 We are required by professional standards to report to those charged with governance (in the Council's case, the General Purposes Committee) certain matters before we give an opinion on the accounts. We reported on 24 October 2005, highlighting the proposed qualification and the need to demonstrate in future that internal arrangements for quality reviewing the accounts of section 31 agreements are in place. Officers will also need to ensure that the accounts submitted for audit are prepared on the basis of the latest available outturn information on grants receivable, for example, for housing subsidy, from government departments.
- 28 Looking further to 2005/06, the Council needs to retain its focus to ensure the more onerous requirements of the 'whole of government accounts' initiative are met, as the deadlines again move forward, and to improve the consistency of working papers across the board. The Council should also produce an accessible and informative annual report which includes summary accounts and other important financial information.

### Financial standing

- 29 The Council has identified target levels for reserves and balances. The actual levels have been maintained in line with those targets. The reserves' policy now needs to be updated, including a clear statement on how the Council has determined its reserves level.

- 30 The Council's financial position remains sound. The Council has taken steps in recent years to provide a strong platform for financial management. Its recent history demonstrates that overall spending generally remains within budget. The 2004/05 outturn shows that the general fund balance remains in line with its target of £10 million, after allowing for a planned reduction of £1.8m from the previous year.
- 31 The projected outturn for 2005/06 as at 31 October 2005 showed the Council forecasting overspending of £2.5 million on a net revenue budget of £345.9 million. The cost pressures arise from the delivery of only £0.2 million of anticipated savings from a £1 million target in respect of improved procurement arrangements, together with anticipated overspends within service budgets. The Council plans to draw on central contingencies to offset this overspending where necessary. In addition, the Finance and Performance report to the December 2005 Executive identifies that action needs to be taken to contain cost pressures and indicates where reviews are to be undertaken. On this basis, the Council is forecasting that the general fund balance will be maintained at the £10 million level. The Council needs to maintain tight financial control to ensure it remains within financial balance.
- 32 The Executive report of 20 December 2005 on the financial planning process for 2006/07 to 2008/09 makes it clear that the Council will continue to face a significant challenge in delivering its priorities within a tight financial environment. The report identifies key local pressures facing the Council to be addressed through the pre-business planning review process. The Council's increase for 2006/07 in the national financial settlement is expected to be two per cent, which is the floor level increase. As the increase is at the lower end of the settlement, this maintains the pressure on the Council to demonstrate it achieves value for money from its services.

### **Debt management**

- 33 Our last letter commented that the Council was implementing procedures to improve the management of debt. The Council has established a debt management working group to improve debt collection, and the group demonstrates awareness of the costs of collection and the opportunity costs of holding debt. During 2004/05, these measures have begun to lead to reductions in the overall level of Council debt. The Council's accounts contain significant provisions for bad and doubtful debts. As performance in collection is improving, the Council now needs to review the level of provisions maintained.

### **Financial management**

- 34 The Council's overall financial management arrangements are sound. The medium-term financial strategy (MTFS), annual budgets and capital programme are based on sound assumptions and are aligned to deliver strategic priorities. This provides an effective framework for the Council to identify its financial targets and reserve levels. Some significant weaknesses were identified in the operation of financial management controls on the Technical Refresh project, and the Council is seeking to learn the lessons. It should also look to strengthen its business plan, including links to partners and external stakeholders, and model cashflow and the balance sheet over a three-year period in the MTFS.
- 35 The Council's arrangements for managing its capital assets are good. It has a capital strategy which links to the MTFS and an up-to-date asset register and asset management plan. The Council has an annual programme of planned maintenance based on a rolling programme of property surveys. It has identified the level of backlog maintenance and has an approved plan to address it. The Council can enhance asset management through continuing to develop the use of performance indicators and benchmarking, identifying its stakeholders for reporting on performance and continuing to integrate asset management and mainstream financial information.

### **Systems of internal financial control**

- 36 The Council has a generally sound framework for managing internal financial control. There are good arrangements for preparing the Statement on Internal Control (SIC) and Internal Audit is effective. The Council has had an Audit Committee for several years. Training is available to Audit Committee members, although this has not been consistently taken up and has also not kept pace with the changes to the membership.
- 37 The Council has developed its risk management processes, including the recently updated risk policy and the new corporate risk register. Risk registers are in place at directorate level, and these are being extended to business unit level. These arrangements are not, however, embedded and processes for updating risks on an ongoing basis need to be developed. This is evidenced in the Technical Refresh project, which demonstrates a failure to manage and report risks effectively, resulting in a significant financial and operational impact. Risk management arrangements are not yet adequate.

### **Technical refresh**

- 38 The Council is currently implementing a significant IT project to update its IT infrastructure. The Council views the project as key to achieving its business objectives. The project was planned to be implemented over a three-year period at a capital cost of £9 million. During 2005, the Council identified that significant slippages had occurred, and the projected outturn was £10 million in excess of the original budget.

- 39 Our review of the Council's arrangements for managing this project has identified two key areas - change management and variation orders - which contributed to additional costs being incurred, reflecting inadequate project specification and project management. We concluded that there was limited evidence of:
- regular attendance by some project board members at project board meetings, which impacted on continuity and ownership;
  - sufficiently senior project sponsorship;
  - adequate staffing resources being allocated to deliver the project;
  - robust challenge to additional costs arising during the project implementation;
  - adequate input from corporate finance to either budget setting or budgetary control;
  - clear thresholds for authorisation of variations to costs of the scheme;
  - application of appropriate budgetary control mechanisms, including provision of suitable financial information;
  - timely, transparent and accurate reporting of the project slippages and overspends; and
  - clear audit trails.
- 40 Our review indicates that the original budget was inadequate and therefore the Council was always likely to incur additional costs. However, the weaknesses identified above mean the Council cannot demonstrate that the full additional £10 million costs represent value for money, and also reflect significant failures in the Council's corporate governance arrangements in respect of this project.
- 41 The Council is now taking action to exercise greater control over this project. It is taking action to learn the lessons arising from our conclusions, including tightening project management and enhancing financial information. The Finance and Performance report to the December 2005 Executive suggests further potential slippage and additional costs over budget are likely to be incurred on the project in 2005/06. The Council needs to exercise tight financial control over the remaining life of the project, as well as applying the lessons arising to both this and other schemes. We will undertake a follow-up review to assess the robustness of the Council's remedial action as part of the ongoing audit.

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

- 42 The Council maintains sound arrangements to combat fraud and corruption and encourage good standards of conduct. It has appropriate codes of conduct, and registers of hospitality and interest in place. The Council is proactive in responding to potential fraud and has been effective in investigating NFI data matches. A whistleblowing policy is in place and is publicised.

## National Fraud Initiative

- 43 In 2004/05, the Council 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. Progress against the data matching is reported regularly to the Audit Committee and the Council has demonstrated its commitment to pursuing potential frauds and overpayments.

## Legality of transactions

- 44 We have not identified any significant weaknesses in the framework established by the Council for ensuring the legality of its significant financial transactions.
- 45 Our last letter identified that the 2002/03 and 2003/04 audits remained open pending the decision on an objection. That decision was issued in April 2005. The objection was not upheld and there are no issues to bring to your attention. Following the decision, the certificates on the 2002/03 and 2003/04 accounts were issued on 20 April 2005.
- 46 We have received further correspondence from members of the public during the year. Whilst there are currently no significant issues arising from this correspondence to bring to your attention, our work remains ongoing in two areas concerning expenditure on mortuaries and the New Deal for Communities Scheme for the Bridge. As a result, we have not issued a certificate to conclude our audit for 2004/05.
- 47 During our audit, we reviewed the terms of the transactions stemming from the proposed termination of employment of the Council's former Chief Executive. We formed the view at that time that we would not exercise any of our formal powers in respect of the proposed payments.

## Use of resources judgement

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

**Table 2 Use of resources**

<b>Element</b>	<b>Assessment</b>
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	2 out of 4
<b>Overall</b>	<b>3 out of 4</b>

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

- 50** In reaching these judgements, we reviewed the Council's arrangements against specific key lines of enquiry and drew on other recent audit work. Our findings are reflected in the earlier sections of this letter.

## Other work

### Grant claims

- 51 In accordance with strategic regulation, the Audit Commission has continued with a more risk-based approach to the certification of grant claims. We have reduced our audit of these claims, but our ability to reduce further depends on the adequacy of the Council's control environment.
- 52 The Council's arrangements for managing and quality assuring grant claims submitted for audit has improved in recent years. Our work on certifying the claims in respect of 2004/05 remains in progress. Whilst the Council has improved significantly again this year in terms of its submission of claims by the deadlines, we have noted a small increase in the number of audit reports which need to be submitted to the grant-paying departments alongside the certified claim. The Council should, therefore, consider whether its quality assurance arrangements could be strengthened to reduce the number of such reports. Other key issues arising to date are reflected below.

---

**Table 3 Key issues**

Claim	Matters arising
Housing benefits	This claim is the largest we audit, in terms of value (£205 million in 2004/05) and the audit resources required. Our previous letter highlighted problems on the audit of the claim, due in part to the implementation of a new system. The Council has worked hard to address many of those problems for the 2004/05 claim and there has been a significant improvement. Our audit, however, will not be completed by the deadline of 31 December 2005, as the Council is undertaking additional testing in response to issues arising from our sample testing and awaiting a required software update from the system supplier.
NNDR 3	The claim was required to be submitted for audit by 31 August 2005, with an audit deadline of 31 October 2005. We did not receive the claim until 24 October 2005 and we are still awaiting the provision of some supporting working papers. The audit remains in progress.

## Looking forwards

### Future audit and inspection work

- 53** 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. Our planned work, together with that of other inspectorates, is included on both the Audit Commission and Local Services Inspectorates Forum websites.
- 54** We have sought to ensure, wherever possible, that our work relates to the improvement priorities of the Council. We will continue with this approach when planning our programme of work for 2006/07. We will seek to reconsider, with you, your improvement priorities in the light of the latest CPA assessment and your own analysis, and develop an agreed programme by 31 March 2006. We will continue to work with other inspectorates and regulators to develop a co-ordinated approach to regulation.
- 55** Under the Audit Commission's CPA framework, councils will undergo a corporate assessment, combined with a joint area review (focusing on children's services), during the period 2005-2008. The Council's assessment is scheduled to be undertaken in the period between June and October 2006.

### Revision to the Code of Audit Practice

- 56** The statutory requirements governing our audit work, are contained in:
- the Audit Commission Act 1998; and
  - the Code of Audit Practice (the Code).
- 57** The Code has been revised with effect from 1 April 2005. Further details are included in our 2005/06 Audit and Inspection Plan which has been agreed with the Audit Committee in May 2005. The key changes include:
- the requirement to draw a positive conclusion regarding the Council's arrangements for ensuring value for money in its use of resources; and
  - a clearer focus on overall financial and performance management arrangements.

## Closing remarks

- 58 This letter has been discussed and agreed with the Interim Chief Executive and Director of Finance. A copy of the Letter will be presented at the Executive on 18 January 2006 and to the Audit Committee on 30 January 2006.
- 59 The Council has taken a positive and constructive approach to our audit and inspection work. I would like to take this opportunity to express my appreciation for the Council's assistance and co-operation.

### **Availability of this letter**

- 60 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.

Michael Haworth-Maden  
District Auditor and Relationship Manager  
January 2006

# Appendix 1 – Background to this letter

## The purpose of this letter

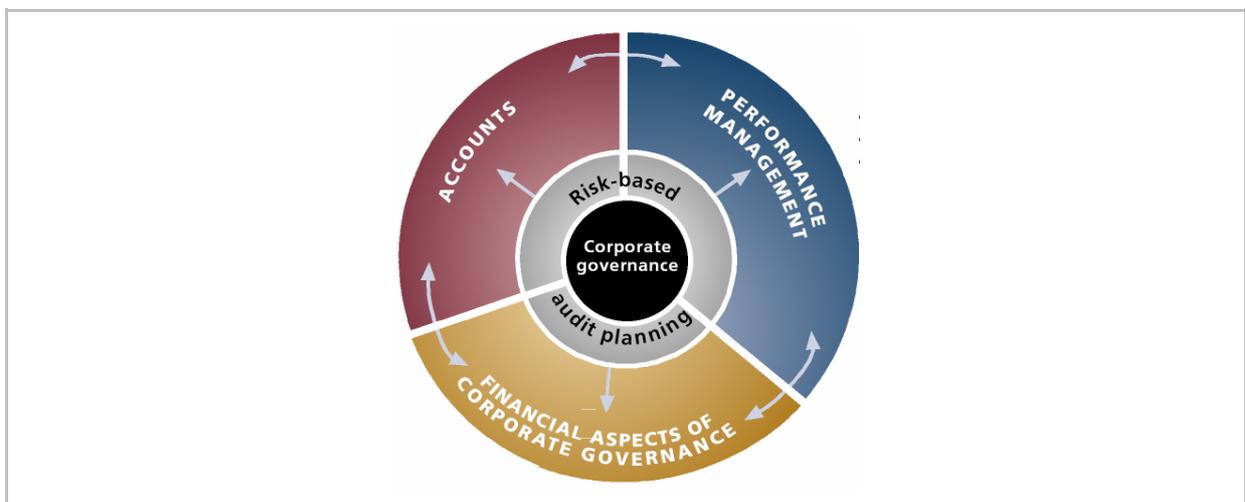
- 1 This is our Audit and Inspection ‘Annual Letter’ for members, incorporating the Annual Audit Letter for 2004/05, which is presented by the Council’s Relationship Manager and District Auditor. The letter summarises the conclusions and significant issues arising from our recent audit and inspection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

**Figure 2 Code of Audit Practice**

Code of practice responsibilities



7 Our work in the three elements of these responsibilities comprises:

**Accounts**

- Opinion.

**Financial aspects of corporate governance**

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

**Performance management**

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

## Appendix 2 – Reports issued during 2005

**Table 4**

<b>Report title</b>	<b>Date issued</b>
Audit Plan 2005/06	March 2005
Certificate on the 2002/03 and 2003/04 Accounts	April 2005
IT Strategy	May 2005
Housing Repairs and Maintenance Inspection	May 2005
Report on the 2004/05 Accounts to Those Charged with Governance (SAS 610)	October 2005
Opinion on the 2004/05 Accounts	October 2005
Customer Services	November 2005
Children's Integrated Services	November 2005
Use of Resources	November 2005
Direction of Travel	December 2005
CPA Scorecard	December 2005
Report on the Audit of the Accounts	December 2005
Best Value Performance Plan	December 2005
Project Management (Technical Refresh)	December 2005

## Appendix 3 – Audit and inspection fees

**Table 5      Audit fee update**

<b>Audit area</b>	<b>Plan 2004/05</b>	<b>Actual 2004/05</b>
Accounts	£133,000	£133,000
Financial aspects of corporate governance	£201,000	£201,000
Performance*	£204,000	£204,000
<b>Total Code of Audit Practice fee</b>	<b>£538,000</b>	<b>£538,000</b>

\* - including planned £11,500 additional fee work (re Social Services PAF Data Quality reported in last year's Annual Letter)

### Grant fee update

- 8 Our 2004/05 Audit and Inspection Plan included an estimate of £250,000 for the certification of grant claims. Our work in the area remains in progress, in particular concerning the completion of the housing benefits and NNDR claims. As at the end of November, we had invoiced the Council approximately £103,000. We currently estimate that the final fee will be significantly lower than the original estimate.

### Inspection fee update

- 9 Our 2004/05 Audit and Inspection Plan included £63,000 covering inspection work. This included work relating to the Council's comprehensive assessment and an inspection identified as regeneration. We have not undertaken the inspection and have offset the related fee of £33,000 against additionally incurred costs of the 2002/03 Alexandra Palace objection to the accounts and other ongoing work regarding questions from members of the public.