

Report by the Director of Resources

Annual Audit and Inspection Letter

1.0 Summary

- 1.1 To receive the Annual Audit and Inspection Letter (AAIL) for 2004/05 which has recently been received from the Audit Commission, a copy of which is attached to this covering report.

2.0 Recommendation

- 2.1 The Policy and Strategy Committee is recommended to approve the Annual Audit and Inspection Letter for 2004/05 and to authorise the Officers to publish the Letter in accordance with regulations.

3.0 Background

- 3.1 The Council, at its meeting on the 21 February 2006, agreed Terms of Reference and a revision to the name of the Constitutional Panel to widen its remit to include matters relating to the various audit functions required under regulation. The Terms of Reference includes the following: *"To consider the external auditor's annual letter, relevant reports, and the report to those charged with governance"*.
- 3.2 The Audit Commission's Code of Audit Practice requires auditors to prepare an annual audit letter and issue it to each audited body. The purpose of preparing and issuing annual audit letters is to communicate to the audited body and key external stakeholders, including members of the public, the key issues arising from auditors' work, which auditors consider should be brought to the attention of the audited body. The annual audit letter covers the work carried out by auditors since the previous annual audit letter was issued. Whilst the format of the letter is not prescribed it should highlight the key issues drawn from reports to those charged with governance and auditors' conclusions on relevant aspects of the audit. It should be prepared in clear language that is concise and accessible to a wide audience.
- 3.3 Annual audit letters are addressed to all members of local government bodies and directors of NHS bodies. Although some audited bodies are not subject to a statutory requirement to publish their annual audit letters, auditors encourage the audited body to publicise the availability of the letter. The Commission's decision to publish annual audit letters on its website is part of its objective to make its findings easily accessible to everyone.
- 3.4 For those local government bodies where the Commission carries out inspections, auditors provide information to the Commission on the key issues arising from their

audit work, in a specified format, to enable the Commission to prepare and send to the audited body an annual audit and inspection letter.

- 3.5 **Publication of annual audit letter** – The Accounts and Audit Regulations 2003 contains the following regulation with regard to the publication of the Annual Audit and Inspection Letter:

Regulation 19. *As soon as reasonably possible after it is received, a relevant body shall -*

- (a) *publish the annual audit letter received from the auditor; and*
- (b) *make copies available for purchase by any person on payment of such sum as the relevant body may reasonably require.*

- 3.6 The Council's current District Auditor and Relationship Manager, Mr Chris Westwood, is hoping to be able to attend the Policy and Strategy Committee meeting to present his Letter to Members.

4.0 Proposals

- 4.1 The Annual Audit and Inspection Letter contains the following sections:

- Ø Key Messages
- Ø Council Performance
- Ø Accounts and Governance
- Ø Other Work – grant claims
- Ø Looking Forwards
- Ø Closing remarks and various appendices

- 4.2 The AAIL contains two new sections resulting from further work the Audit Commission has been undertaking in Local Authorities:

- (a) **Direction of Travel Judgements or Statements** - For 2005/06 district councils will receive a direction of travel statement (not a scored judgement). For the future this approach could continue or the approach used in relation to single tier and county councils of a scored judgement could be adapted for district councils too. The Letter contains comments on the progress made in various areas of the Council's work, without coming to a formal judgement on "direction of travel".
- (b) **Use of Resources assessments** - Use of Resources assessments are based on the work of auditors under the new Code of Audit Practice. The new methodology for these assessments has been implemented at all councils, including district councils, in 2005/06. Use of resources assessments are a key feature and should feed into a new district council CPA framework.

The framework comprises five themes:

- Ø financial reporting;
- Ø financial management;

- Ø financial standing;
- Ø internal control; and
- Ø value for money.

The Council has been awarded an overall score of 2, (Maximum 4, Minimum 1) which means that its performance in this area is adequate and meeting minimum requirements.

- 4.3 The AAIL contains various important messages on various aspects of the Council's performance, and the letter from the Audit Commission states that: *"We have reviewed the progress the Council has made in improving services, and comment below on the progress made against the council's priorities. Overall, clear progress is being made."*

Local Government Act 1972

Background Papers:

Annual Audit and Inspection Letter 2004/05

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Appendix

1.0 Council Objective

1.1 The proposals do not specifically address any of the Council's objectives.

2.0 Specific Targets

2.1 This report does not seek to achieve any particular Council target.

3.0 Sustainability Issues

3.1 There are no particular sustainability issues raised by the report.

4.0 Equality Issues

4.1 There are no particular equality issues raised by the report.

5.0 Community Safety issues (Section 17)

5.1 This report should not impact upon crime levels within the district.

6.0 Human Rights Issues

6.1 This report does not raise any particular human rights issues.

7.0 Financial Implications

7.1 There are no direct financial implications relating to this report.

8.0 Legal Implications

8.1 These are addressed in the report.

9.0 Consultations

9.1 There has been no consultation in the preparation of this report.

10.0 Risk assessment

10.1 A failure to comply with the statutory requirements would put the Council at risk of legal challenge.

11.0 Health & Safety Issues

11.1 There are no particular health & safety issues raised by this report.

Annual Audit Letter

Date

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Annual Audit and Inspection Letter

Adur District Council

Audit 2004/2005

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As an independent watchdog, we provide important information on the quality of public services. As a driving force for improvement in those services, we provide practical recommendations and spread best practice. As an independent auditor, we ensure that public services are good value for money and that public money is properly spent.

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Key messages

Council performance

- 1 The Council was rated as a fair authority in the 2003 CPA and since then it has maintained its focus on improving performance in priority areas. The challenges faced by the Council are significant, with high levels of deprivation and social hardship. Actions by the Council are targeted in response, most notably spending is aligned to priority areas and a management restructure has reduced costs.
- 2 The Council achieves value for money across most service areas. There is a generally positive relationship between the Council's costs, performance and priorities:
 - Costs per head of population are between the median and upper quartile of Adur's 'nearest neighbour' group of broadly similar authorities.
 - Performance is around the median of other District Councils.
 - Spending is higher (upper quartile) on priority areas such as environment and transport and lower in culture (lower quartile) which is not a priority.
- 3 The small size of the authority gives it more limited scope to exploit economies of scale, but this has been mitigated by pursuing joint working with other Council's, to achieve more than the Council would otherwise be able to achieve by itself.

Other accounts and governance issues

- 4 We gave an unqualified opinion on the council's accounts, however, improvements are needed in the way the Council prepares its statement of accounts for 2005/06. We would also support the Council in its recognition of the need to review elements of the Council's corporate governance arrangements.

Action needed by the Council

- 5 The Council has acted on the findings of the CPA assessment and is addressing the weaknesses identified in internal control arrangements. However, as recognised by the council, capacity - both financial and organisational - remains a key constraint.
- 6 The Council also needs to implement and embed the changes that are proposed to enhance the internal control framework, so that weaknesses that the council itself identified in its Statement of Internal Control are addressed.

Council performance

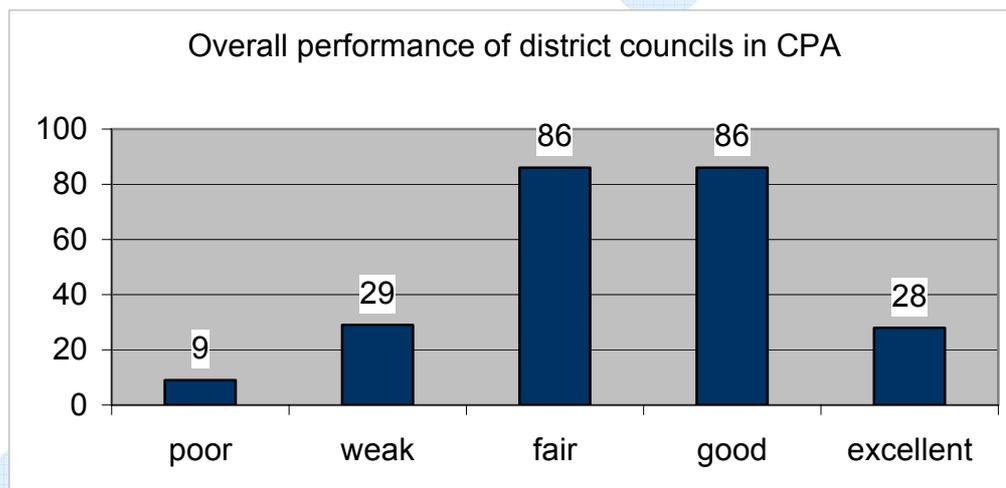
We have reviewed the progress the Council has made in improving services and comment below on the progress made against the council's priorities. Overall, clear progress is being made. Also discussed is the Audit Commission's inspection of the Council's landlord service carried out in 2005. This was scored at that time as a fair service, but since then further achievements have been noted.

Direction of travel report

- 7 Adur DC was assessed as fair in the Comprehensive Performance Assessment (CPA) carried out in 2003. These assessments have now been completed in all district councils with the following results.

Figure 1 Overall performance of district councils in CPA

The Council was rated fair in 2003



Source: Audit Commission

- 8 At Adur, CPA highlighted four main areas for improvement:
- Some facilities provided by the Council were not well maintained. Including car parks, public toilets, leisure centres and street furniture.
 - The Council was not clear about what its priorities were and what it wanted to achieve for residents.
 - The Council's future plans for services were under-developed.
 - The standard of service that residents could expect was not always clear.
- 9 Following CPA the Council agreed an action plan for improvement which was then developed into a project plan setting out the priority areas for improvement for each

member of the corporate management team. In our last audit and inspection letter we commented that the Council had developed a strong framework for monitoring progress and could demonstrate progress in some areas. In particular:

- high profile partnership arrangements with other local authorities that seek to procure better services more efficiently;
- further improvements in recycling rates and
- addressing a full housing agenda

10 We also highlighted the need for the Council to set out the areas it considered to be of highest priority and those that are less important so that financial and other resources could be directed to the areas that matter most.

11 Over the last year, the Council has continued to work hard to address its improvement priorities. In particular:

- In the summer of 2005 the Council approved its first corporate plan 2005-2008 which sets out high level objectives across five priority areas.
- Spending is being aligned to priorities. For example, the creation of a leisure trust to run Adur's three leisure centres should see reduced expenditure in this area over the medium to long term.
- The Council is implementing plans for improving the appearance of the street scene and substantial resources have been set aside over the past two years in the capital programme to invest in this area including car parks and public conveniences.
- Service planning is developing with each successive round of budget planning. The Council's latest divisional service plans include assessments of the budgets available, key activities and developments for each service cross referenced to specific Council priorities and some discussion of the factors which might hinder delivery. Relevant performance indicators are highlighted alongside three year targets. Managers are tasked with cascading the plan and actions to individual members of staff.
- The Council has published lots of advice and guidance for residents and service users on its websites. This includes information on the standards of service that can be expected in some areas, for instance in refuse collection, building control inspections and housing applications; contact details are provided for all services.

12 The Council's management team is maintaining focus on monitoring the delivery of key priorities and management of risks. A corporate performance team has been established, comprising senior officers and the Leader who review progress in achieving the Council's priorities on a monthly basis.

Wider community outcomes

13 The Council's corporate plan 2005-2008 sets high level objectives across five priority areas:

- Protect and enhance core services to the community.

- Create a clean, green, safe environment.
 - Revitalise Adur.
 - Keep council tax increases to the minimum level practicable.
 - Contribute to the implementation of the Community strategy and other partnerships where possible.
- 14 Officers and members are working hard to deliver in these priority areas. The Council has recently purchased a software package that should help with this task. In order to ensure clarity of focus, the Council recognises the need to ensure that the aims and priorities contained in the annual Best Value Performance Plan BVPP are brought into line with the corporate plan.
- 15 The Council have recognised that financial constraints and the small size of the authority mean that partnership working and a close review of internal costs are necessary.
- 16 Partnership working is being actively pursued with Worthing BC; both Councils plan to jointly procure a new refuse fleet and implement an integrated refuse and recycling service commencing in 2007. The Central Sussex (CenSus) partnership project with two other District Councils had an initial aim of providing an ICT infrastructure and then procuring a new revenues and benefits system, which has been completed. The introduction of a common Electronic Document and Records management System (EDRMS) is currently taking place. Financial and efficiency savings are expected in both areas.
- 17 A management restructure in 2005 will see savings of around £300,000 over two years. However, the restructure has left the Council stretched in some areas; for example, there will be no professional Head of Human Resource from April 2006. In addition, the Chief Executive has taken up an interim appointment as part time Chief Executive with Worthing DC. This opens up some exciting possibilities for further joint working but does further impact on capacity at Adur.

Performance indicators

- 18 We look at performance indicators in terms of the council's position at a point in time as well as over time. Comparisons are based on audited final indicators. At the end of 2004/05, 36 per cent of Adur's Best Value Performance Indicators (BVPIs) were in the best quartile nationally, placing Adur's performance just above the median of its nearest neighbour group of 16 broadly similar authorities. Our analysis of performance indicators shows a fairly strong position overall but suggests that since 2002/03 improvement has been slower than at some other councils.
- 19 Looking at the indicators over time, our analysis shows that 43 per cent of Adur's BVPIs have improved since 2002/03. This is in itself encouraging although it is a lower rate of improvement than achieved by some others in its nearest neighbour group. However, 3 of the 10 of Adur's BVPIs which were in the lowest quartile nationally in 2002/03, have moved up one quartile.

- 20 The most marked improvement has been in the 'percentage of unfit private sector dwellings made fit, or demolished, as a result of Council action' which has risen from 1.4 per cent in 2002/03 to 2.5 per cent in 2004/05.
- 21 The council will need to continue to monitor progress against key performance indicators over time.

Other performance work

- 22 We have reviewed the Council's best value performance plan and out turn performance indicators for 2004/05. The plan complies with statutory requirements and performance indicators were accurate.

Other Audit Commission inspections

The Council's Housing (landlord) Service was inspected by a team of specialist Housing Inspectors during 2005. A report was published in March 2005, which concluded that this service was fair, with promising prospects for improvement. The fair rating was based on findings that:

- tenants found it easy to access the landlord service with a good range of communication and consultation methods;
 - tenant satisfaction levels were high;
 - tenant participation was actively supported and resourced by the council;
 - there were arrangements in place to support vulnerable tenants;
 - antisocial behaviour was managed proactively;
 - the capital improvements plan which takes the council up to 2010 is published and has included the feedback from tenant consultation;
 - planned works are carried out to a standard which tenants were happy with the work;
 - housing income was being successfully collected and managed; and
 - the standard of grounds maintenance was found to be high.
- 23 But, there were some areas where improvement was required:
- the council was not fulfilling their legal responsibilities for gas servicing and could be placing tenants lives at risk;
 - the council had not progressed its diversity agenda and could not demonstrate that it is providing services equally or fairly across all services;
 - complaints management was not customer focused;
 - service standards required updating and to be agreed with tenants;
 - cleaning on estates was not of a consistent standard and in some cases poor;

- management costs were high and the service was not able to demonstrate value for money;
- the standard for newly let homes was not published and tenants were not routinely informed what repairs will be completed after they move in; and
- a high number of responsive repair work is carried out on an emergency basis which can put pressure on contractors to resource.

24 The prospects for future improvement were assessed as promising because:

- there was a clear vision for the service which linked through to the Council's corporate objectives. There was leadership at a strategic level within the service and there has been some progress made on implementing corporate recommendations highlighted in previous inspections and consultants' reports;
- there has been improved performance in some areas and there was strong evidence of consultation with service users and some examples of service users driving change such as estate maintenance;
- corporate improvement plans were reflected in divisional plans and there was increasing evidence of a joint approach across the council and external partners. The council had ambitious plans in relation to the implementation and use of ICT to improve service delivery both at a corporate and service level;
- since the inspection the Council had made changes to the PDR (performance development review) which linked training and corporate objectives to the appraisal process;
- since the inspection the Council was implementing changes to the way that performance management was being used at a service level; and
- the Council had recently produced a unified improvement plan for the landlord service which included actions to tackle all the key weaknesses identified in that report.

25 Since the inspection the Council has responded swiftly to the issues raised and improvements are already in place. In particular:

- Two gas contracts have been let and performance is much improved. Currently 95% of safety inspections are completed on time. Officers anticipate that there will be none overdue by more than a month by the end of 2005/06
- A new customer complaint procedure is in place and all complainants now receive a satisfaction survey on completion of the complaint.
- A new tenant's compact was agreed in August 2005.
- Officer's report that the cleaning of estates has reached a good standard with very few complaints now received.
- Management costs have been reduced through restructuring and further staffing reductions are planned.

- Standards for newly let homes are now published and given to tenants at the sign up of a new tenancy.
- A review of emergency repairs has been undertaken and officers report that efforts are being made to reduce the numbers.

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Accounts and governance

We have given your accounts an unqualified audit opinion and would like to thank those staff involved in the audit.

Some elements of the Council's corporate governance arrangements have not kept pace with the higher levels we are now looking for in our Use of Resources assessment.

Audit of 2004/05 accounts

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

Matters arising from the final accounts audit - report to those with responsibility for governance

- 26 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.
- 27 The accounts presented to members on 14th July 2005 did contain some misstatements and inconsistencies. These were amended and the presentation of notes and disclosures was improved where necessary. The accounts were resubmitted to members for approval in November. At the same meeting we submitted a report to those charged with governance (in this case to the Policy and Strategy Committee) which set out issues including:
 - accounting for the treatment of premia on the redemption of debt.
 - Accounting for interest on long term lender option borrower option loans. LOBO's.
- 28 The Council undertook to consider these matters further and to respond to our concerns. Following recent discussions with Council officers, it has been agreed that the Council will continue its current accounting treatment for interest on LOBOs pending the publication by CIPFA of guidance on accounting for financial instruments further to FRS 25 and FRS 26. Officers also agreed to make a written response to the concerns detailed in the report in relation to the treatment of the premia paid on debt restructuring. We are working to improve arrangements to ensure quality in financial reporting by repeating the workshop for accountants in Sussex that we ran last year, by agreeing timetables for audit and providing guidance to officers.

Financial standing

- 29 The Council continues to face financial pressures for 2006/07. Spending is tightly controlled, but even minor variations to budget can have significant effects on the demand on Council Tax due to the small size of the tax base over which the council tax is spread.

- 30 The Council identified the need to make savings in 2004 and agreed revised staffing structures to achieve this. Over the past year the restructuring programme has been implemented reducing staffing levels and management costs. Further reductions have been identified as necessary as the Council faces additional cost pressures. The cost pressures are planned to be met through a combination of cost reductions, increasing fees and charges and increase in Council tax within the level indicated as acceptable by Government.

General fund spending and balances

- 31 The Local government Finance Act 1992 requires Councils to consider the level of revenue reserves before approving the General fund budget requirement for the year. This should involve a formal exercise to determine the level of reserves required to sustain the Council in the event of an economic downturn, major incident or other risk factors. The Council has recently made an assessment as part of the 2006/07 budget setting process, which is based largely around the Council's past good record in respect of financial management in meeting the challenges that the Council faces.
- 32 The Council has reported that its reserves are marginally above the minimum safe level, as approved by members, and are consequently not available to support the Council's budget. The Council's increased exposure to risks is acknowledged in the report. The level of reserves and balances is summarised below.

Table 1 Reserves

Reserves	31 March 2004	31 March 2005
	£million	£million
General fund	0.7	0.8
Earmarked funds	0.6	0.7
Housing revenue account	1.1	1.1
Other housing reserves	0.4	0.8
Usable capital receipts	2.0	0.9
Total	4.8	4.3

Capital programme

- 33 The Council's capital programme for 2004/05 was £6.9 m which was partially funded by increased borrowing. The revenue cost of this borrowing was included in the revenue budget as required by the prudential code.
- 34 Capital receipts from right to buy sales of council houses were also used to fund capital expenditure. However income generated from the sale of council houses

has been decreasing from year to year and as 75% of these receipts are now transferred to the government under the pooling arrangement.

- 35 There was just over £1m of slippage on the delivery of the 2004/05 capital programme, including over £90,000 on housing grants. Reports to members during 2005/06 have highlighted the difficulties of recruiting and retaining suitably qualified surveyors and the capacity to deliver the Council's programmes continues to be a challenge. Slippage of £688,000 on the Housing Investment Programme is anticipated in 2005/06.

Pensions fund deficit

- 36 The accounts incorporate the Council's share of the net liability (£20 million; 2004 £12.4 million) of the West Sussex County Council pension scheme. The increase in shortfall is the result of an actuarial loss of £7m in the year. The costs of addressing the shortfall are approximately £270,000 pa. in additional employers contributions.

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Systems of internal financial control

Some elements of the Council's internal control framework have needed to be developed - for example the audit committee and risk management.

Statement on Internal Control (SIC)

- 37 The Statement on Internal Control is an important statement, although it is published alongside the Statement of Accounts its application goes beyond the finance function. The purpose of the SIC process is to provide a continuous review of the Council's internal control and risk management systems, to give assurance on their effectiveness and produce a management action plan to address any weaknesses. The Council's SIC for 2004/05 identified a number of areas where action is required to improve controls:
- Develop a robust and systematic approach to the assurance framework to enable the Council to examine and review the internal control mechanisms of the Council.
 - Continue to Develop and embed risk management across the Council
 - Formalise Joint working arrangements with Worthing Borough Council.
- 38 A partnership agreement with Worthing BC has now been signed and the Council's risk management strategy has been approved. The risk register has recently been reviewed and is shortly to be approved. There is still however a need to develop the assurance framework.

Internal Audit

- 39 In November 2004 the Council awarded a three year contract to Deloitte to deliver all the Council's internal audit function. A risk based internal audit plan covering the three years 2004 - 2007 was submitted to members. We have been informed that progress in completing the work scheduled for 2005/06 has been delayed as a number of significant systems changes have occurred in the year (financial ledger, revenues and benefits). However, It is still intended to complete the planned audits before the end of the financial year
- 40 We have liaised with Internal Audit to enable us to rely on their work where possible. This will be of particular importance for the 2005/06 financial year where the introduction of International Auditing Standards requires a fully documented understanding of all material accounting systems.
- 41 We have noted that the Council has now taken forward changes to committee terms of reference to embrace the audit committee functions. Reviewing the SIC and the evidence which underpins it is one of the key functions of an audit committee and this should be an integral part of the Council's assurance framework.

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

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

Legality of transactions

- 43 We have not identified any significant weaknesses in the framework established by the council for ensuring the legality of its significant financial transactions.

Use of resources judgements

- 44 The use of resources assessment is a new assessment which focuses on financial management but links to the strategic management of the Authority. It looks at how the financial management is integrated with strategy and corporate management, supports council priorities and delivers value for money. It will be carried out annually, as part of each Council's external audit.
- 45 We have assessed the Council's arrangements in five areas.[Scores are to be released to Authorities on 13th March].

Table 2 Councils arrangements

Element	Assessment
Financial reporting	1
Financial management	2
Financial standing	1
Internal control	2
Value for money	2
Overall	Overall score notified by the Audit Commission on 13th March.

(Note: 1=lowest, 4=highest)

- 46 In reaching these judgements we have drawn on the above work we have carried out previously and supplemented this with a review against specified Key Lines of Enquiry.
- 47 A summary of our most significant findings, including areas where further development is needed is reported below.

- Financial reporting in 2004/05 was found to be below the required standard. The errors identified were agreed with officers and were corrected before the accounts were re-presented to councillors. I would like to highlight for councillors that this is against a track record of having fairly few significant difficulties in external financial reporting. Officers and members have responded positively to our report on the problems experienced and we have jointly embarked on dialogue to resolve outstanding issues
- Financial management is adequate overall. Strategies and budgets are linked to the Council's priorities. Capital projects in particular have a clear process by which they are assessed. Monitoring by officers has kept the Council's expenditure in line with budgets, but, budget reporting to committees appears weak. Budget reports tend to be in narrative form reporting on exceptions without control totals. We struggled to reconcile these reports back to the Council's underlying financial system and it is difficult to gain a full understanding of the Council's overall financial position from the committee reports produced.
- Financial Standing has been assessed as below standard. In part this was due to there being a lack of a documented and reasoned basis for the minimum level of reserves that the Council had set. Although the current budget setting reports now largely address this by commenting on the various factors which could impact on the council. The judgement also took into account departures from the Council's own treasury management policy these have since been reported on.
- Internal Control has been assessed as adequate but with some areas to improve. The issues have been identified by the Council in its own SIC and are commented on in the letter above.
- The Council provides value for money across most of its services. There is a generally good link between the Council's costs, performance and priorities.
 - Costs per head of population are between the median and upper quartile of Adur's 'nearest neighbours' group of broadly similar authorities.
 - Performance is around the median of other District Councils.
 - Spending is higher (upper quartile) on priority areas such as environment and transport and lower in culture (lower quartile) which is not a priority.
- Considering the size of the Council it has an inherent lack of economies of scale, but has re-prioritised and focused its spending.
- The Council has a culture of watching what it spends; costs and performance are kept under review by members and officers with performance monitoring and reporting in place.
- The Council has been at the forefront of working in partnership with other authorities, to the extent of investigating a possible merger with Worthing BC and has plans to further joint working with Worthing around procurement of a joint refuse fleet and recycling service. Attention is now required on day to day procurement activity to secure savings and improve value for money.

- 48 We anticipate in future the Use of Resources judgements will form part of the CPA framework.

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Other work

Grant claims

- 49 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, by £7,000 over 2003/04, but our ability to reduce further depends on the adequacy of the Council's control environment.
- 50 The Council has a number of regular annual grants and arrangements for these are well defined. We will continue to work with officers to ensure that grant claims are submitted on time for their certification and comply with the terms of the grant.

National Fraud Initiative

- 51 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.
- 52 The Council undertook the NFI exercise and identified a small number of cases for further investigation. The Council's arrangements were reviewed by our local fraud team and were assessed as being sound. On that basis no further work was undertaken.

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.
- 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 and develop an agreed programme over the next month.

Revision to the Code of Audit Practice

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

A new CPA framework

- 57 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 spring of 2006 with implementation expected from August 2006.

Closing remarks

- 58 This letter has been discussed and agreed with senior officers and councillors at the Corporate Performance Team on 13 March 2006.
- 59 The Council has taken a positive and constructive approach to our audit and inspection programme. This is the last letter that I will present to the council and so I would like to take this opportunity to formally express my appreciation for the council's assistance and co-operation over the last 4 years. My successor, Helen Thompson, will be liaising with the council shortly to develop our plans for the next year and beyond.

Availability of this letter

- 60 This letter will be published on the Audit Commission's website at www.audit-commission.gov.uk and also on the Council's website.

Signature

District Auditor and Relationship Manager

March 2006

Appendix 1 – Background to this letter

The purpose of this letter

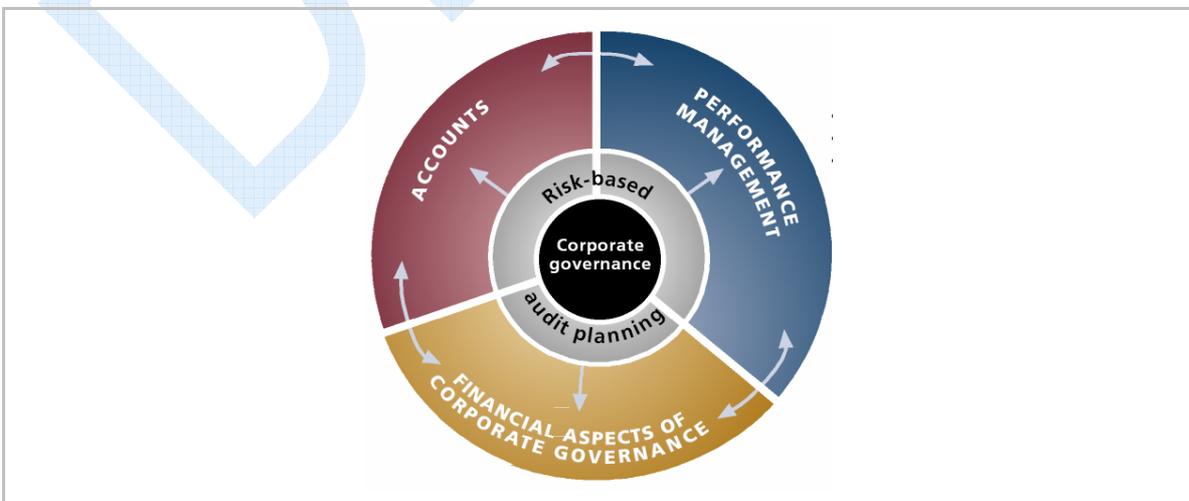
- 1 This is our audit and inspection 'Annual Letter' for members which incorporates the Annual Audit Letter for 2004/05, which is presented by the Council's Relationship Manager and District Auditor. The letter summarises the conclusions and significant issues arising from our recent audit and inspections of the Council.
- 2 We have issued separate reports during the year setting out the findings and conclusions from the specific elements of our programme. These reports are listed at Appendix 2 for information.
- 3 The Audit Commission has circulated to all audited bodies a statement that summarises the key responsibilities of auditors. Our audit has been conducted in accordance with the principles set out in that statement. What we say about the results of our audit should be viewed in the context of that more formal background.
- 4 Appendix 3 provides information about the fee charged for our audit and inspections.

Audit objectives

- 5 Our main objective as your appointed auditor is to plan and carry out an audit that meets the requirements of the Code of Audit Practice. We adopt a risk-based approach to planning our audit, and our audit work has focused on your significant financial and operational risks that are relevant to our audit responsibilities.
- 6 Central to our audit are your corporate governance arrangements. Our audit is then structured around the three elements of our responsibilities as set out in the Code and shown in Figure 1.

Figure 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

Table 3

Report title	Date issued
Audit Plan	March 2005
Regularity memorandum	January 2006
Report on the 2004/05 financial statements to those charged with governance (SAS 610)	November 2005

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Appendix 3 – Audit and Inspection fee

Table 4 Audit fee update

Audit area	Plan 2004/05	Actual 2004/05
Accounts	32,400	32,400
Financial aspects of corporate governance	14,200	14,200
Performance	37,800	37,800
Total Code of Audit Practice fee	84,400	84,200
Additional voluntary work (under section 35)	0	0
Total	84,400	84,400

Inspection fee update

The full year inspection fee is £11,400. 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.