

Meeting: **Audit Committee**

Portfolio Area: Resources

Date: **30th May 2006**

AUDIT COMMISSION'S AUDIT AND INSPECTION LETTER 2004/05 & AUDIT PLAN 2006/07

(Finance)

NON-KEY DECISION

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1 PURPOSE

- 1.1 To advise Members on the annual Audit Commission's Audit and Inspection Letter 2004/05 (**Appendix A** attached).
- 1.2 To advise Members on the Audit Commission's Annual Audit Plan for 2006/07 (**Appendix B** attached).

2 RECOMMENDATION

- 2.1 That the Audit Commission's Audit and Inspection Letter 2004/05 be noted.
- 2.2 That the Audit Commission's Annual Audit Plan for 2006/07 be noted.

3 BACKGROUND

3.1 Annual Audit and Inspection Letter 2004/05

- 3.1.1 Under the Code of Local Government Audit Practice each year the Audit Commission is required to issue an Audit and Inspection Annual Letter to the Council commenting on its financial, legal and management arrangements.
- 3.1.2 The Audit and Inspection Letter must be prepared as soon as practical after the end of the financial year. It should be distributed to all Members, published and made available to members of the public.
- 3.1.3 The Council's accounts were approved by the Statement of Accounts Committee on 28th July 2005.

3.2 Annual Audit Plan 2006/07

3.2.1 The Audit Commission's Annual Audit Plan sets out the audit and inspection work that they propose to undertake in 2006/07. The plan has been drawn up from their risk-based approach to audit planning and reflects:

- the Code of Audit Practice;
- audit and inspection work specified by the Audit Commission for 2006/07;
- local risks and improvement priorities; and
- current national risks relevant to local circumstances.

4 REASONS FOR RECOMMENDED COURSE OF ACTION AND OTHER OPTIONS

4.1 Annual Audit and Inspection Letter 2004/05

4.1.1 The Audit Manager, Mr N Harris, met with the Leader of the Council, the Executive Councillor (Resources), the Chief Executive and the Assistant Chief Executive (Finance) on Thursday 30th March 2005.

4.1.2 The meeting enabled a constructive exchange of views to take place between the Audit Manager and the Council's representatives concerning the Audit and Inspection Letter, which was agreed to be positive. This year, the publication of the letter had to be delayed in order to include the outcome of the new national Use of Resources judgement. In addition, the Council requested a further postponement in order to agree the accounting treatment for the repayment of £2.6million English Partnership debt from 2000/2001. This issue is still to be resolved, therefore it was agreed that the Annual Audit and Inspection Letter would be published, but the audit opinion on the statement of accounts 2004/05 would remain open.

4.1.3 The full letter is attached in **Appendix A**. The main findings and comments were as follows;

Council performance

The Council has strengthened its management capacity and performance management framework to deliver the outcomes required in its CPA improvement plan.

There is stronger leadership from councillors and senior managers on the improvement agenda and the approach to citizen and user focus is improving. Community leadership and partnership remains strength for the Council, evident through providing a wide range of well regarded statutory and discretionary services.

However, the quality of services is mixed. Performance indicators for 2004/05 illustrate that 51 per cent of indicators were above average compared with 53 per cent for 2003/04; furthermore only 47 per cent of indicators have improved since 2002/03. There is, however, evidence from the Council's own unaudited performance monitoring for 2005/06 of recent improvements.

We undertook a use of resources assessment for the Council covering a review of arrangements for financial reporting, financial management, financial standing, internal control and value for money. Across the board, the Council are performing adequately with areas of good practice. Our feedback to the Council has identified some improvement opportunities and it is encouraging to note that the senior management team have already developed an action plan to address these areas.

The Council's best value performance plan (BVPP) complied in all material respects with legislation and statutory guidance and an unqualified opinion was issued. The Council has established and strengthened robust performance monitoring arrangements for key performance indicators which is contributing to identifying and taking corrective action for areas of poor performance.

The accounts

To date; we have been unable to issue an opinion on the Council's accounts for financial year ended 31 March 2005 as the Council are considering an application for a capitalisation direction from the ODPM in respect of the accounting treatment for a repayment of £2.6million English Partnership debt in 2000/2001.

This arose following our review of the Council's calculation of the capital financing requirement for the financial year ended 31 March 2005. We are considering the actions being taken by the Council; in liaison with consultants employed by Sector, to resolve the accounting treatment of this liability before forming a view on the nature and timing of our audit opinion. We will report any further matters to those charged with governance prior to issuing our opinion.

We completed our audit of the Council's financial statements by 31 October 2005 and; with the exception of the reconciliation difference noted above, agreed adjustments to the financial statements and reported no other significant matters to those charged with governance.

2004/05 has been a challenging year for the Council with the implementation of a new suite of financial systems, resource requirements to address fire at Harrow Court in February 2005 and the advanced requirements for publication of financial statements. Whilst we recognise that the Council responded positively to the challenges and prepared draft financial statements within the publication timetable, there remains scope to improve the quality of working papers submitted for audit which were noted during our audit and as part of the Council's use of resources assessment. The Council have developed a project management process to address these issues and meet the advanced publication timetable for 2005/06 financial statements.

Financial standing

The Council continues to retain an adequate level of general fund balances at £11.3 million as reported in last year's letter. During the past year, the Council have strengthened financial management arrangements through an annual budget review process and medium term financial strategy which are contributing towards ensuring a sustainable financial position, annual balanced budgets and retention of a prudent level of reserves and balances.

The revisions to the budget setting process involve difficult financial decisions for the Council, particularly in shifting resources out of non-priority areas and in correcting historical under spending. However, there is evidence of a clear commitment at all levels to preserve financial standing and ensure financial planning aligns with strategic aims and objectives of the Council.

Systems of Internal Financial Control

Aside from our use of resources assessment findings, we have not identified any further significant weaknesses in the overall control framework.

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

Aside from our use of resources assessment findings, we have not identified any further significant weaknesses in your arrangements for maintaining financial conduct and to prevent and detect fraud and corruption.

Legality of transactions

Overall, we concluded that the Council's arrangements for ensuring the legality of transactions continue to be appropriate.

Key actions needed by the council

The council should:

- Continue to address the improvement plan objectives for the Council, particularly in demonstrating improved service delivery through performance indicators; strengthening arrangements for allocating resources to priority areas and evidencing that learning is shared systematically;
- Develop the project management approach for closedown of 2005/06 financial statements, ensuring sufficient ownership and accountability throughout the process by members and officers;
- Enhance the effectiveness of internal control by developing an assurance framework for the production of the Statement on Internal Control (SIC) and establishing an Audit Committee which is independent of executive and scrutiny;
- Ensure that the Council's future plans directly align with ongoing financial planning to preserve the actions being taken to preserve financial position and retain balance budgets, including a prudent level of reserves and balances;
- Introduce unit cost comparative data as part of key budget setting and performance management processes to improve the understanding of value for money from Council's services; and
- Monitor progress implementing all of the improvement actions arising from the Council's use of resources assessment.

4.2 Annual Audit Plan 2006/07

4.2.1 The full Annual Audit Plan 2006/07 for Stevenage Borough Council is attached in **Appendix B**.

4.2.2 The Plan covers the following key areas :

- CPA and Inspections
- Value for Money Conclusion
- Use of Resources Judgement
- Performance Information / Review
- Best Value Performance Plan
- Financial Statements
- Whole of Government Accounts

- Claims and Returns Certification
- Voluntary Improvement Work

4.2.3 The Council's Strategic Management Board have reviewed the draft Annual Audit Plan and their comments have been incorporated into this final version presented to Members.

5 IMPLICATIONS

5.1 Financial Implications

5.1.1 For 2006/07 the Audit Commission has changed its fee scale structure and details are set out in the Commission's Work Programme and Fee scales 2006/07. Audit fees are based on a number of variables, including the type, size, location and complexity of the audited body and the national and local risks.

5.1.2 Inspection fees are based on the actual number of days included in the plan for each programmed activity. The total fee estimate for the audit work planned for 2006/07 is £126,110 and the total fee estimate for inspection work planned for 2006/07 is £4,753. This compares with a total audit and inspection fee of £126,557 in 2005/06. In addition, a charge of approximately £60,000 is estimated for the certification of claims and returns.

5.1.3 A provision of £197,000 has been made for the 2006/07 budget.

5.2 Legal Implications

None identified at this time.

BACKGROUND DOCUMENTS

- None

APPENDICES

- **Annual Audit and Inspection Letter 2004/05**
- **Audit and Inspection Plan 2006/07**