

Annual Audit Letter and Inspection Letter

January 2006



Annual Audit and Inspection Letter

London Borough of Harrow

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

Contents

Key messages	5
Council performance	5
The accounts	5
Financial position	5
Other accounts and governance issues	6
Key actions needed by the Council	6
Performance	7
Direction of Travel	7
CPA scorecard	8
Other performance work	9
Performance information	10
Inspections	10
Working with other inspectorates and regulators	11
Accounts and governance	12
Audit of 2004/05 accounts	12
Matters arising from the final accounts audit	12
Financial standing	13
Systems of internal financial control	15
Standards of financial conduct and the prevention and detection of fraud and corruption	16
Legality of transactions	17
Use of resources judgements	17
Other work	18
Grant claims	18
National Fraud Initiative	18
Looking forwards	19
Future audit and inspection work	19
Revision to the Code of Audit Practice	19
Closing remarks	20
Availability of this letter	20

4 Annual Audit and Inspection Letter | Contents

Appendix 1 – Background to this letter	21
The purpose of this letter	21
Audit objectives	21
Appendix 2 – Fees	23
Inspection fee update	23
Appendix 3 – Summary of audit recommendations	24

Key messages

Council performance

- 1 Harrow is performing well and Council services are improving in line with clear priorities, including, education, planning, benefits and recycling. Fifty-five per cent of performance indicators have improved since 2002/03 and overall satisfaction with the Council is increasing. Less improvement is evident in some services, most notably adult and children's social care. The Council is negotiating a local area agreement (LAA) to contribute to community outcomes such as community cohesion. The Council's approach to value for money is adequate but there is scope for further improvement. The New Harrow Project is nearing completion and has delivered major reorganisation. The Council has ambitious plans for further improvement including its business transformation partnership to address ICT, first contact and the Harrow Corporate University. The Council has developed its performance management framework based on a scorecard approach, although this is still embedding. The Council has invested in and increased its capacity in areas such as member and staff development and tackling sickness absence. Overall, Harrow is well-placed to continue to deliver sustained improvement in services that matter to local people.

The accounts

- 2 An unqualified opinion was given on the accounts on 12 December 2005. Whilst this was earlier than last year, it was later than the deadline of 31 October 2005. The deadline will come forward a further month next year to 30 September 2005. We are meeting with officers and members to discuss what improvements can be made to the process for next year to meet this earlier deadline.
- 3 One material adjustment was required to the accounts presented to us for audit and further, immaterial adjustments were made and/or proposed.
- 4 Given the increased impact on overall CPA scores of the Council's financial management and reporting performance, we urge the Council to set itself improvement targets and new professional standards which are then properly monitored.

Financial position

- 5 The Council has managed to stabilise its finances over the last three years and manages them in a strategic manner.
- 6 The Council currently complies with the reserves policy it has set itself, although financial pressures in the year to date could cause the reserves to fall below their optimal level under the policy if the Council is unable to claw back forecast overspends during the remainder of 2005/06.

Other accounts and governance issues

- 7 The Council has made a number of improvements to its governance arrangements during 2005, but there are further areas for improvement, including agreement of arrangements for obtaining annual assurance over the effective operation of key internal controls and agreeing and implementing a new counter fraud strategy which reflects the new resources available for proactive work in this area.

Key actions needed by the Council

- Improve financial reporting.
- Improve the Council's approach to VFM.
- Improve performance in social care.
- Embed performance management throughout the Council.

Performance

Direction of Travel

What progress has London Borough of Harrow made in the last year?

- 8 Harrow is performing well and Council services are improving in line with clear priorities, including, education, planning, benefits and recycling. Fifty-five per cent of performance indicators have improved since 2002/03 and overall satisfaction with the Council is increasing. Less improvement is evident in some services, most notably adult and children's social care. The Council is negotiating a local area agreement to contribute to community outcomes such as community cohesion. The Council's approach to value for money is adequate but there is scope for further improvement. The New Harrow Project is nearing completion and has delivered major reorganisation. The Council has ambitious plans for further improvement including its business transformation partnership to address ICT, first contact and the Harrow Corporate University. The Council has developed its performance management framework based on a scorecard approach, although this is still embedding. The Council has invested in and increased its capacity in areas such as member and staff development and tackling sickness absence. Overall, Harrow is well-placed to continue to deliver sustained improvement in services that matter to local people.

CPA scorecard

Table 1 CPA scorecard

Element	Assessment
Direction of Travel judgement	3 – improving well
Overall	Two-star
Current performance	Out of 4
Children and young people	2
Social care (adults)	2
Use of resources	2
Housing	2
Environment	2
Culture	2
Benefits	4
Corporate assessment/capacity to improve (not reassessed in 2005)	2 out of 4

(Note: 1 = lowest, 4 = highest)

- 9 The CPA judgements this year have been made using the Audit Commission's 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. 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 two stars.
- 10 The Council's future plans are set out in the community strategy and in the corporate plan. These plans are ambitious and cover a number of cross-cutting themes such as the public realm and developing integrated children's services. The corporate plan for 2005/06 is supported by service plans for individual service areas and priorities are consistent with the community strategy. The Council launched the New Harrow Project in 2002 as an improvement vehicle for the whole organisation and has implemented improvements through this. As part of the project, the Council has restructured its senior management and reviewed its middle management structure with the objective of increasing its capacity to improve.

- 11 The Council has developed its capacity in performance management using a balanced scorecard approach. The Performance Board is now meeting regularly and similar scorecards are operating in the different directorates. However, at present, this is embedded at different levels in each directorate. Performance is reported against the Council agreed priority themes with areas of improvement identified as well as areas needing intervention. The Council and its partners have also developed Vitality Profiles which track the performance of 56 indicators in each neighbourhood of the borough. The indicators allow the Council to compare performance across the borough and often to compare Harrow's neighbourhoods with others in London and across the country. The Council is seeking to improve its capacity in terms of IT and customer service through a business transformation partnership.
- 12 The Council has invested in and increased its capacity in areas such as member and staff development through, for example, the launch of the Harrow Corporate University. The Council is improving its capacity in areas such as sickness absence but still needs to improve the payment of invoices. The Council has also recognised the need to increase capacity through ICT and is developing plans to achieve this.
- 13 The 2005 MORI Survey, found that residents perceive many of the key aspects of quality of life locally to be improving, with increased satisfaction in street cleaning, road and pavement repairs and public transport. Satisfaction with the Council is also on the rise from 45 per cent in 2003/04 to 54 per cent in 2005 with, for example, satisfaction with cleaner streets rising from 19 per cent in 2003/04 to 33 per cent in 2005. However, there are still some areas of concern with residents perceiving levels of crime, traffic congestion and affordable decent housing to be worsening over the last three years.

Other performance work

- 14 As part of the 2003/04 Audit and Inspection Plan, a review of the Council's Scrutiny arrangements was undertaken. This work was mainly performed in the autumn of 2004 and we presented a draft report in January 2005 which included our conclusions and recommendations for improvements. We subsequently extended our document review to encompass more recent scrutiny activity and issued an updated report in July 2005.
- 15 On the basis of our review of more recent information, we agreed with Members of the Overview and Scrutiny Committee that many of the concerns expressed in our first report have been addressed or were in the process of being addressed. We were pleased to find evidence of project scoping and project planning within the files we reviewed and whilst we found these completed to varying degrees of detail, we recognised the improvement since our first documentation review which looked at three reviews undertaken early in the life of the scrutiny function.

- 16 Attempts were made in 2004/05 to engage portfolio holders in the scrutiny process to a degree but the improved process for developing the scrutiny work programme for 2005/06 should have facilitated the further development of dialogue between scrutiny members and the Executive. We recommended that some key measures of success are put into place to ensure that there is 'stakeholder ownership' and an agreed systematic approach to the selection of relevant topics for scrutiny review.
- 17 We concluded that there was room for improvement in clarifying reporting arrangements once reviews have been completed and there was a need to continue to involve Portfolio holders and senior departmental officers early in the drafting of reports. In some cases there was room for improvement in the responsiveness of the Executive and senior officers, although it was recognised that this is often due to time constraints. The Overview and Scrutiny Committee is developing a more pragmatic approach to 'what can be achieved within the resources' of the Scrutiny Team and Departmental Liaison Officers and this should have been developed further through the 2005/06 Scrutiny work programme.
- 18 We recommend that the Council agree a final action plan to take forward the recommendations in our separate report and establish arrangements to monitor its implementation.

Performance information

- 19 We issued an unqualified opinion to the Audit Commission on the Council's return of best value performance indicators (BVPIs). There were no significant matters arising and the Council's processes for producing performance indicators were found to be satisfactory.
- 20 We have issued an unqualified opinion on the Council's best value performance plan (BVPP).

Inspections

- 21 The inspection of the Council's Cultural Services in June 2005 judged it to be a fair, one-star service that has promising prospects for improvement. The inspection found a number of recent initiatives which have resulted in improvements for services users. Notable examples include; library opening hours extended across the borough; library book stock budget increased; the new Wealdstone Centre which opened in November 2004 and has significantly increased library membership at this library; and some parks and open spaces have been revitalised as part of the Council's environmental improvement programme. The full report can be found at www.audit-commission.gov.uk.

- 22 The inspection of Supporting People in May 2005 judged council services to be good with services for many vulnerable people in Harrow having been expanded through the implementation of the Supporting People programme and the identification of gaps in services. However, work had not been completed on a methodology to be able to quantify the outcomes for service users from the programme.

Working with other inspectorates and regulators

- 23 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. These include:
- Ofsted;
 - Commission for Social Care Inspection (CSCI);
 - Benefits Fraud Inspectorate (BFI);
 - DfES; and
 - Local Government Office contact.
- 24 We share information and seek to provide 'joined up' regulation to the Council.

Accounts and governance

Audit of 2004/05 accounts

- 25 We gave an unqualified opinion on the Council's accounts on 12 December 2005. Whilst this was earlier than last year, it was later than deadline for this year of 31 October 2005.

Matters arising from the final accounts audit

- 26 We are required by professional standards to report to those charged by governance (in this case the Audit Committee) certain matters before we give an opinion on the financial statements. We met with the Audit Committee on 10 October 2005 and again on 27 October 2005 to do this. The principal matters discussed with the Audit Committee related to the adequacy of bad debt provisions. The accounts were adjusted to increase bad debt provisions by a net £1.0 million.
- 27 We said last year that the level of provisions should be reviewed at least annually in the future, and ideally subject to more regular review through the year, with the findings reflected in the Council's statement of accounts. We repeat this recommendation. As part of that process, we recommend there is greater corporate oversight and approval of both the amount of provision made and the methodology and assumptions behind its calculation. These disciplines should be applied to all key areas of judgement relating to balance sheet items.
- 28 We also raised issues in relation to capital transactions and balances. We note that under the Prudential Code, there is a practical, as well as an accounting, reason for maintaining up-to-date and accurate asset values as these are a key input into the Council's assessment of its borrowing capacity and recommend greater attention is given to this area in the future.
- 29 The accounts were adjusted for both material and immaterial errors identified through the audit. A number of items identified during the latter part of the audit remained unadjusted, but were not material individually or in aggregate.

- 30 As last year, a significant minority of the information we requested from officers in April was not available at the start of our audit. In addition, the turnaround time for requests for further information and explanations was also a significant issue. As a result, whilst we were able to complete our audit earlier than last year, on 12 December, this was later than the deadline of 31 October. Under the Accounts and Audit Regulations, the deadline will be advanced next year to 30 September. We have scheduled meetings with officers and members to discuss the way forward. Council officers need to give the year end accounts and audit process greater priority if the accelerated deadline is to be achieved. Given the increased impact on overall CPA scores of the Council's financial management and reporting performance, we urge the Council to set itself improvement targets and new professional standards which are then properly monitored.

Financial standing

General fund spending and balances

- 31 From a low base, Harrow has managed its finances in an increasingly strategic manner over the last three years. It now has three-year integrated revenue, capital and treasury budget strategies which it updates on an annual basis. The budget strategies are integrated with corporate and service plans principally through the high level service plans which identify the key contextual changes and performance commitments and evaluate the costs of investment decisions which flow from these. The past 'stop go' pattern of spend has been replaced by three years of financial stability. Most recently, in 2004/05, the Council recorded its third successive underspend (£4.5 million), of which £2.5 million is attributable to schools balances (see below). This is a reflection of 'windfall' income from a business rates refund of £3.0 million and better than expected interest receipts, as well as improved budget setting and monitoring arrangements.
- 32 Current expectations for 2005/6 are for a net overspend of £2.9 million, before management action. For the second year, as part of this, the Council is forecasting a significant shortfall in planned procurement savings which were included as a target within the initial budget, but not fully analysed and allocated to service budgets at that time. The Council should work to ensure that savings plans are fully scoped before inclusion within the annual budget.
- 33 General fund reserves at 31 March 2005 stood at £10.2 million (excluding schools balances), compared to the minimum and optimum balances set by the Council in its reserves policy of £4 million and £7 million respectively. The Council may fall below its optimum level (to £4.3 million) if it is unable to claw back the forecast overspends referred to above.
- 34 We commented last year, that although there was some evidence of a risk assessment supporting the reserves policy, this did not appear to have involved a systematic assessment and quantification of the main income and expenditure streams, with the outcome also linked into the developing risk management framework. This remains an area for further development.

- 35 We noted two further areas for improvements in processes last year. Firstly, we highlighted that, although information on commitments is available to a varying degree within directorates, corporately the Council reports cash-based information on a monthly and quarterly basis which for non-pay information does not often enable meaningful comparison with profiled budgets, and adds uncertainty to producing and reviewing the forecast outturn position which is not derived from the accounting records and is more dependent on departments to flag issues during the year. The problems encountered with bad debt provisions as part of the audit process also underline the need to consider balance sheet information more routinely during the year. We recommend the Council agree a plan to develop its approach to in year review of balance sheet information in the short and medium-term as part of a review of its financial management arrangements.
- 36 Secondly, we drew members' attention to a report we issued in this first year of our appointment on the initial medium-term budget strategy where we made a number of recommendations for improvement. The report and its recommendations were agreed by the then Interim Director of Finance, but we did not receive a formal response until this year. We are aware that at least some of the recommendations have not been actioned. We recommend implementation of the agreed action plan is formally monitored.

Capital programme

- 37 We have reported concerns over the management of the capital programme over the last two years, in particular over significant underspends due to rescheduling of projects, slippage and other reasons. Whilst there have been improvements in control, the outturn for 2004/05 showed slippage of £14.3 million against the original budget of £50.3 million and revised budget of £55.9 million.
- 38 The Council's monitoring information show only small movements in the cost of individual schemes from estimate.

School balances

- 39 Schools balances have again increased, this year from £7.5 million to £9.9 million. Officers comment that balances have increased most for secondary schools where (a) balances were below existing recommended levels; (b) the increase in balances also coincided with an increase in the recommended levels; and (c) a lot of work has been carried out with schools over the last year on balances and most is allocated to specific projects. The Council needs to continue to monitor this area closely.

Income collection and arrears

- 40 We raised last year concerns over the delays in billing for various Council services. This continues to be an issue. At 31 March 2005, only £6.6 million out of a total sundry debtors balance of £27.6 million had been invoiced and included in the Council's debtors ledger. The arrangements to track the billing of the remaining amount of accrued income in the new year are informal and in practice there are significant delays and in some cases variances between amounts accrued and amounts invoiced. We recommend that the Council agree standards for the timely raising of bills to non tax accounts and implement arrangements to track performance against these standards.
- 41 The council tax collection rate fell by 1 per cent in 2004/05 as a result of system and management changeover. We understand that new procedures have been implemented in 2005/06 which are delivering improvements to past collection performance.

Pensions fund deficit

- 42 The pension fund deficit calculated under Financial Reporting Standard 17 and presented on the balance sheet of the Council was £140 million. The increase from last year's deficit of £96 million in part reflects the reduction in the rate used to discount pension liabilities. The Council should continue to seek and act on professional advice to make inroads into closing this very substantial gap in funding. The Council's strategic financial planning also needs to take full account of the significant cost of pension contributions involved.

Systems of internal financial control

Internal Audit

- 43 In carrying out our work we placed reliance on the findings of Internal Audit in areas where we adopted a controls reliance strategy. We remain concerned over the slow progress in implementing Internal Audit recommendations. This repeats a concern which we reported last year. One aspect of this performance appears to be delays in finalising internal audit reports which we understand relates to the effect of the management restructuring on the timeliness of management responses to audit recommendations. We recommend that the annual internal audit report to the Audit Committee is extended to summarise performance against reporting timeliness and other reporting standards.

Other issues

- 44 In addition to matters reported by Internal Audit, some of the issues identified during our accounts audit raise concerns over financial reporting practices, in particular, the extent of review processes. We have prepared a separate report which summarises recommendations for improvement in financial reporting arrangements and recommend that an action plan is agreed and its implementation monitored.
- 45 Risk management arrangements have been developing steadily over the last two to three years. The corporate risk register received its third annual update review and directorate risk registers have been established during 2004/05. Member involvement in the developing arrangements has until this year been limited and informal with officers in the past working to an annual plan in developing arrangements. In summer 2005, the members agreed its first risk management strategy document. Cabinet have been given a specific role in the process and now receive quarterly reports. Annual reporting to full Council should also be considered.
- 46 The Council drafted a transitional Statement on Internal Control for 2004/05. The main remaining gap is the Council's arrangements for gaining assurance over the operating effectiveness of internal controls. We recommend that the Council ensure that current work is finalised by 1 April 2006 so that the Council is able to give a full Statement in its 2006/07 accounts.
- 47 At a lower level, there is no oversight over the preparation and maintenance of procedure notes for business critical systems and in practice this is patchy. We recommend steps are taken to ensure current procedure notes are in place for all business critical systems which are annually reviewed and agreed by senior management.

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

- 48 Member have approved additional resources in the area of counter fraud work some while ago, but implementation has been slow and activity has remained largely reactive. However, the Head of the Corporate Counter Fraud Team is now in post and resources have been agreed to expand counter fraud work from 1 April 2006, including proactive detection work. The counter fraud strategy needs updating for the new arrangements which have been agreed and are in the process of implementation and we recommend that this is done.
- 49 The Council demonstrates high ethical standards and is in the process of reviewing and updating its arrangements for ensuring continuing compliance in the light of a recent issue concerning a past chief officer, in particular, arrangements over the review and monitoring of officer interests.

Legality of transactions

- 50 We do not have any concerns to report over the framework established by the Council for ensuring the legality of its financial transactions.

Use of resources judgements

- 51 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. For single tier and county councils, the use of resources assessment forms part of the CPA framework.
- 52 For the purposes of the CPA we have assessed the Council's arrangements for use of resources in five areas.

Table 2

Element	Assessment
Financial reporting	1
Financial management	2
Financial standing	2
Internal control	2
Value for money	2
Overall	2

(Note: 1 = lowest, 4 = highest)

- 53 In reaching these judgements, we have drawn on the above work and supplemented this with a review against specified key lines of enquiry (KLOE).
- 54 We have prepared a separate report summarising the actions which the Council will need to take in order to improve its score in each area to the next level. Key issues have been raised and discussed in the relevant sections above.

Other work

Grant claims

- 55 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.
- 56 The Council's arrangements for managing and quality assuring grant claims submitted for audit have improved over the last two years.

National Fraud Initiative

- 57 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.

Looking forwards

Future audit and inspection work

- 58 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 LSIF (Local Services Inspectorates Forum) websites.
- 59 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.

Revision to the Code of Audit Practice

- 60 The statutory requirements governing our audit work, are contained in:
- the Audit Commission Act 1998; and
 - the Code of Audit Practice (the Code).
- 61 The Code has been revised with effect from 1 April 2005. Further details are included in our Audit Plan which has been agreed with the Audit Committee in 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

- 62 This letter has been discussed and agreed with Paul Najsarek and Myfanwy Barrett.
- 63 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

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

Nigel Johnson
Deloitte and Touche LLP
Appointed Auditor

Jackie Barry-Pursell
Relationship Manager
January 2006

Appendix 1 – Background to this letter

The purpose of this letter

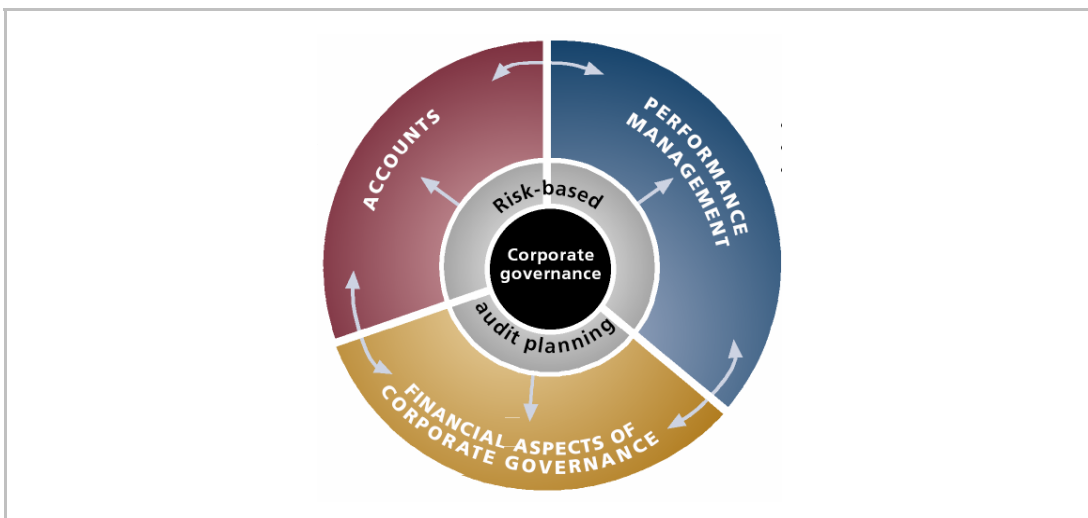
- 65 This is our Audit and Inspection ‘Annual Letter’ for members which incorporates the Annual Audit Letter for 2004/05, which is presented by the Council’s Relationship Manager and Appointed Auditor. The letter summarises the conclusions and significant issues arising from our recent audit and inspections of the Council.
- 66 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.
- 67 Appendix 2 provides information about the fee charged for our audit and inspections.

Audit objectives

- 68 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.
- 69 Central to our audit are your corporate governance arrangements. Our audit is then structured around the three elements of our responsibilities as set out in the Code and shown in Figure 1.

Figure 1 Code of Audit Practice

Code of practice responsibilities



- 70 Central to our audit are your corporate governance arrangements. Our audit is then structured around the three elements of our responsibilities as shown below.

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 – Fees

Table 3 **Audit fee update**

Audit area	Plan 2004/05 (£)	Actual 2004/05 (£)
Accounts	93.0	93.0
Financial aspects of corporate governance	96.0	96.0
Performance	101.0	101.0
Total Code of Audit Practice fee	290.0	290.0
Additional voluntary work (under section 35)	-	7.5
Total	290.0	297.5

- 71 Actual fees above for our Code of Audit Practice work reflect amounts billed to date in respect of 2004/05. We will be discussing additional costs incurred on the accounts and review of scrutiny audits and will include final fees billed in our audit plan.

Inspection fee update

- 72 The full year inspection fee for 2005/06 is £59,000.

Appendix 3 – Summary of audit recommendations

Section reference	Recommendation
22	Agree an action plan to take forward the recommendations made in our separate report on member scrutiny and establish arrangements to monitor its implementation.
30	Review the level of bad debt provisions at least annually in the future and, ideally regularly through the year, reflecting the findings in the Council's statement of accounts.
30	Give greater corporate oversight to the calculation of the amount of bad debt provision made and the methodology and assumptions behind its calculation. Apply the same discipline to all other key areas of judgement relating to the balance sheet.
33	Set improvement targets and new professional standards for financial management and reporting performance which are then properly monitored.
35	Ensure that savings plans are fully scoped before inclusion in the annual budget.
37	Carry out a systematic assessment and quantification of the main income and expenditure streams.
38	Agree a plan to develop the Council's approach to in year review of balance sheet information in the short and medium term as part of a review of the Council's financial management arrangements.
39	Formally monitor recommendations coming out of our review of the Council's Initial Medium-Term Budget Strategy.
46	Extend the annual internal audit report to the Audit Committee to summarise performance against reporting timeliness and other reporting standards.
47	Agree and monitor an action plan to address financial reporting arrangements contained in our Use of Resources Letter of Recommendation.
48	Consider annual reporting to full Council on risk management.
49	Ensure that current work on developing a controls assurance framework is completed by the end of the year.

Section reference	Recommendation
50	Take steps to ensure current procedure notes are in place for all business critical systems which are annually reviewed and agreed by senior management.
51	Update the counter fraud strategy for the new resources available for proactive work.