

## Annual Audit and Inspection Letter

### North Norfolk District Council

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## Executive summary

### The purpose of this letter

This is our audit and inspection 'Annual Letter' for members for 2003/04, and 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.

We have issued separate reports during the year. These reports are listed at Appendix 1 for information.

Appendix 2 sets out the scope of audit and inspection.

Appendix 3 provides information about the fees charged.

## Key messages

### Council performance

#### CPA and improvement

The council rated 'fair' in its 2003 District Comprehensive Performance Assessment (DCPA) and is working towards becoming a 'good' council. The council has an improvement plan, integrated within its corporate plan, which addresses the weaknesses identified in its 2003 assessment. A key issue for the council, when identifying its priorities for improvement, was that there were many areas that needed addressing, yet it did not have the capacity to tackle everything in the first year.

The council has either maintained or made small improvements in its BVPI performance during 2003/04. More importantly at this stage, it is making significant progress in its corporate management arrangements, to address the key improvement actions it agreed as part of the DCPA improvement process.

#### Other performance work

We are pleased to report that there have already been notable successes in the arena of e-Government. However, further work is necessary if the council is to meet the government's intention that, by 2005, 100 per cent of dealings with Government, including local government and the NHS, should be capable of being conducted by the public electronically.

#### Performance information

The 2004/05 Best Value Performance Plan (BVPP) is considered compliant in all significant respects with legislation and statutory guidance. However, once again this year, a number of performance indicators were either omitted from the BVPP or were materially mis-stated and an addendum to the BVPP is required. In addition, we expressed reservations on five of the performance indicators. Arrangements for the production of accurate and reliable performance information require improvement although the implementation of a new housing benefits system will assist in some areas. Following the council's publication of an addendum to the BVPP, an unqualified opinion on the BVPP was issued on 17 December 2004.

### The accounts

We gave an unqualified opinion on the council's accounts on the 24 November 2004. In future years the timetable for the publication of the audited accounts will come forward. We will be seeking to agree an action plan with your officers to improve the efficiency of the accounts closedown process and the quality of supporting working papers.

### Financial standing

The level of council tax arrears has again reduced this year, and collection rates remain above average. There has also been a marginal reduction in housing arrears, although these remain above the challenging target set.

It is essential that the council continues to identify additional income and cost savings given the increasing forecast budget gaps for 2005/06 to 2007/08.

Tight financial control must be exercised if it is to improve services where necessary, deliver expenditure plans and maintain adequate general fund balances. As the financial position of the council will be affected by the outturn of the potential Large Scale Voluntary Transfer it is important that members carefully monitor the progress on this and its financial impact.

## Other accounts and governance issues

### Systems of internal financial control

Internal financial control systems continue to develop although there are areas where further work is necessary, particularly in relation to risk management arrangements. The internal audit service is effective overall, but there are areas where this can be improved, particularly in respect of addressing resourcing issues which continue to impact on deliverability of the planned work.

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

We have not identified any significant weaknesses in your arrangements to prevent and detect fraud and corruption, but we have suggested that arrangements be strengthened in respect of training for members and staff.

### Legality of financial transactions

No significant weaknesses have been identified in the council's framework for ensuring the legality of its significant financial transactions. The constitution does require updating however to reflect the current political management arrangements.

## Action needed by the council

- Continue to work to deliver the CPA improvement priorities agreed with the council.
- Improve and embed risk management arrangements over the next 12 months.
- Address the issues arising from our review of e-Government at the council.
- Address the system issues giving rise to qualified Best Value Performance Indicators.

- Closely monitor the current and estimated future financial position for both the general and housing funds, having particular regard to the implications of the LSVT.
- Ensure that Internal Audit has sufficient resources to deliver its planned work.

## Council performance

*The council rated 'fair' in its 2003 District Comprehensive Performance Assessment (DCPA) and is working towards becoming a 'good' council. The council has an improvement plan, integrated within its corporate plan, which addresses the weaknesses identified in its 2003 assessment. A key issue for the council, when identifying its priorities for improvement, was that there were many areas that needed addressing, yet it did not have the capacity to tackle everything in the first year.*

*The council has either maintained or made small improvements in its BVPI performance during 2003/04. More importantly at this stage, it is making significant progress in its corporate management arrangements, to address the key improvement actions it agreed as part of the DCPA improvement process.*

## CPA and improvement

### A vision and clear priorities

The council has made significant progress in identifying and communicating its priorities for the future. It has now approved a corporate strategy, 'getting ahead' which has a vision and clear priorities. These are then taken through into improvement plans geared to driving service improvement. It is in the process of ensuring that its other plans and strategies effectively link to delivering the key priorities identified in the corporate strategy. In addition, business planning is aligned with the corporate plan, and the council will need to use this to inform its budget decisions for 2005/06 and beyond, when it faces predicted budget shortfalls.

### **Performance management**

Overall, the council has made progress in its approach to performance management. The starting point has been the identification of clear corporate priorities, which are beginning to drive the direction of the council. It has established a performance board and one of its tasks has been to look closely at all of the service plans to ensure they are focussed on addressing the corporate priorities and that the plans are clear how performance will be measured. Staff have received training on understanding the links between the corporate strategy and the work they do on the ground (the 'golden thread'), to start to address the need to embed a performance management culture. Quarterly reporting cycles have been established and a performance management computer system is being rolled out to support the monitoring and management of performance data. The council is well placed to continue to improve its approach to performance management, and to move from a system which monitors performance to one which actively manages service improvement.

### **Risk management**

The council has made limited progress in its management of risk. It has established a risk management board with three groups sitting under this board. It is starting to think more about risk in its day to day work, but has not yet set up the systems and processes to properly manage the risks it faces. It will be some time before risk management is embedded into the culture of the organisation.

### **Procurement**

Procurement remains underdeveloped within the council. The council acknowledges this is a weakness, but has not yet had the capacity to tackle this key building block. The Audit Commission has recently carried out a study into procurement at the council and expects to report shortly.

### **Housing repairs and maintenance**

The council has struggled to improve services to tenants. It has tried to pilot appointments for non-urgent repairs, but with little success. It has increased the number of post repair inspections, but it is not clear what impact this has had. Key housing staff have concentrated their efforts on working towards a stock transfer vote in 2005, and have been unable to focus fully on improving the current repairs and maintenance service.

In 2003/04 the council ensured that 100 per cent of urgent repairs were completed in government time limits, which puts the council into the top quartile. However, the average time taken to complete non-urgent repairs was 86 days, putting the council well into the bottom quartile. It is important to note that in 2003/04 the best performing councils were achieving 11 days and on average the worst performing councils, 24 days.

In addition the percentage of tenants who were satisfied with the overall service by the landlord in 2003/04, was 60 per cent, which is well below the 79 per cent predicted from deprivation. It is also below the worst quartile figure of 73 per cent. During the first six months of 2004/05 a revised appointments system has been introduced and there is some evidence of improved repairs performance and associated customer satisfaction, but a full year's monitoring will be necessary to demonstrate sustainable progress. Preparation for stock transfer includes a revamped repairs performance schedule.

### Housing strategy

The provision of affordable housing for local people is one of the council's top priorities. The council has some plans in place to increase the availability of private rented accommodation and has established a temporary accommodation plan. But it is too soon to assess what impact these will have. There are also plans to increase the provision of permanent accommodation, with a target of 375 new homes between 2004 and 2009. An ODPM funded peer review was undertaken in March 2004 to look into the council's approach to homelessness. It found a strong commitment to tackling homelessness and many of the essential building blocks in place, but that this needed to be translated into practical and measurable actions. Although improving on the previous year, for 2003/04, the council was one of the worst performing in terms of the average number of weeks spent by homeless households in priority need in bed and breakfast accommodation. However, the council has revised its policies and range of operational procedures. Un-audited data suggests that since February 2004, no homeless households in priority need have been put into bed and breakfast accommodation. The Audit Commission will be carrying out an inspection of the council's strategic housing function in May 2005.

### Best Value Performance Indicators (BVPIs)

Overall, the council has made small but steady progress in improving its BVPIs during 2003/04. It has not, however, significantly improved the percentage of its PIs above the median, or reduced the percentage of indicators in the worst quartile.

Satisfaction BVPI results for 2003/04 showed little or no improvement across the majority of indicators but the majority (12 out of 19) remain above the median. Satisfaction with cleanliness of the area, the planning service, handling of complaints and service in the benefit office are best quartile. Overall satisfaction with the housing service, sports and leisure and the clarity of housing benefit forms are worst quartile.

Between 2002/03 and 2003/04 60 per cent of the council's key non satisfaction BVPIs improved. This figure was reduced to 44 per cent when satisfaction BVPIs are included. The percent of key BVPIs above the median improved slightly over the same period from 48 per cent to 54 per cent. The percentage of BVPIs in the worst quartile remained approximately the same (28 per cent in 2003/04 compared to 29 per cent in 2002/03).

2003/04 saw mostly improving BVPI performance in planning (although a key PI has been qualified), housing management services and the environment. However, the council missed its recycling target set by DEFRA, and achieved a rate of 17 per cent for 2003/04 compared with a target of 28 per cent. Early indications (from un-audited data) for the first six months of 2004/05 suggest that the current recycling rate is up to around 24 per cent. The council is still having problems with housing benefits and the service performed below average overall, worst quartile in places, and with a number of PIs qualified by the external auditor. Un-audited data for the first quarter of 2004/05 suggests that these problems are continuing.

The council has not significantly improved the performance of its worst performing BVPIs during 2003/04. All indicators in the worst quartile in 2002/03 remained in the worst quartile for 2003/04.

### Inspection update

North Norfolk District Council was part of an inspection of the effectiveness of the Crime and Disorder Reduction Partnerships (CDRPs) in Norfolk which took place in February 2004. Feedback was given specifically to individual CDRPs to highlight strengths and areas for development.

#### Strengths

- Good commitment from the police and the county council.
- Local commitment is building, for example strong partnership working with the primary care trust.
- Communication is improving.

- Clear improvement agenda – best value review drove restructuring and there is a local commitment to continuous improvement.
- Willing to examine and change the remit and role of working groups that are not productive.
- Some good examples of joint projects that have had impact eg No Drinking Zone and Operation Crackdown.
- New district council chief executive is determined to provide leadership and drive change.
- Clear terms of reference for the Responsible Authorities Partnership (RAP).
- Good understanding of patch issues and some excellent individuals who are generating good ideas.

#### *Areas for development*

- Challenge of balancing national and local priorities in a low crime area not being met.
- Lack of overall strategic leadership and shared vision.
- Lack of leadership within the working groups – maintaining consistent chair person is proving difficult.
- Attendance at work groups is inconsistent with changes in personnel and poor commitment from some agencies This is linked to a lack of clarity about the purpose of the group so that members become de-motivated seeing it as a waste of time.
- RAP is not monitoring or following up attendance of key agencies at work groups and there is a general lack of accountability.
- The work of the Crime and Disorder Reduction Partnership is too dependent on a few committed individuals.
- Little communication from the CDRP to the partner agencies or the public.
- Little evaluation of outcomes or local impact.
- Young people are not discussed routinely by the partnership nor are their opinions sought and there are poor links with local schools.

- CDRP does not appear to be monitoring/ challenging/looking for improvements in domestic violence which is identified in the audit as a priority.
- No working protocol for third party reporting of racist incidents.
- Section 17 implementation underdeveloped in district council.
- Links between CDRP and Local Strategic Partnership are weak – potential for duplication especially in consultation.
- Performance monitoring, management, evaluation, quality of planning processes are all currently weak and accountabilities not clear.
- Lack of coherent approach to commissioning.
- No CDRP communication strategy.
- Weak long-term planning and targeting of resources.

## Other performance work

### **e-Government review**

We carried out a review of the progress that the council has made in its e-Government arrangements since the review carried out in 2001/02.

We were pleased to report that there have already been notable successes in the arena of e-Government, but that further work is necessary if the council is to meet the government's intention that by 2005, 100 per cent of dealings with Government, including local government and the NHS, should be capable of being conducted by the public electronically.

To address the main concerns the council should:

- produce an up to date vision for the e-Government programme;
- establish cross cutting working parties to review alternative delivery options and business process re-engineering after the front/back office split at the council has been achieved;

- produce a single programme plan which incorporates all e-Government projects and the staff resources required. Use this to monitor progress on the Implementing Electronic Government programme;
- investigate how new ways of working could benefit both the council and its staff. Produce a strategy to implement these;
- consider establishing a corporate change group with representatives from all services and levels of staff;
- develop and implement a corporate information management strategy; and
- develop and implement a customer access strategy.

## Performance information

### Best Value Performance Plan

*The 2004/05 BVPP is considered compliant in all significant respects with legislation and statutory guidance. However, once again this year, a number of performance indicators were either omitted from the BVPP or were materially misstated and an addendum to the BVPP is required. In addition, we expressed reservations on five of the performance indicators. Arrangements for the production of accurate and reliable performance information for these indicators require improvement although the implementation of a new housing benefits system will assist in some areas. Following the council's publication of an addendum to the BVPP, an unqualified opinion on the BVPP was issued on 17 December 2004.*

Under the Local Government Act 1999, specified local government bodies are required to comply with the general duty of best value, which is defined as making arrangements to secure continuous improvement in the way in which their functions are exercised, having regard to a combination of economy, efficiency and effectiveness.

The council is required to publish annually a BVPP, which summarises its assessment of performance and its plans in relation to best value. The council is responsible for preparing the BVPP and for the information and assessments that are set out within it, and the assumptions and estimates on which they are based. It is also responsible for putting in place appropriate performance management and internal control systems, from which the information and assessments in the BVPP are derived.

Auditors consider and report on whether the council has complied with statutory requirements in respect of the preparation and publication of its BVPP.

Auditors are not required to form a view on the completeness or accuracy of the information or the realism and achievability of the assessments published by the audited body in its BVPP.

### Publication of the 2004/05 BVPP

Our compliance review concluded that the council's BVPP contains all the key elements required by legislation and statutory guidance, and we have formed a positive assessment of the BVPP as a whole.

### Performance information

Once again this year, a number of performance indicators were either omitted from the BVPP or were materially misstated and an addendum to the BVPP is required.

Additionally, we expressed reservations on five of the performance indicators. This is a slight deterioration on the prior year where we reserved four indicators. We continue to recommend that arrangements are improved for the production of accurate and reliable performance information. We note that the council is taking steps towards this by the implementation of a new housing benefits system during 2004/05 which should help to address some of the problems regarding benefits indicators. However, it is important that the council also considers the other reserved indicators and puts the appropriate systems in place.

Following the council's publication of an addendum to the BVPP, we issued an unqualified opinion on the BVPP on 17 December 2004.

## Other Audit Commission inspections

There have been no specific service inspections this year. A housing inspection is to be carried out as part of the 2004/05 Audit and Inspection Plan, and the results of this will be reported in the 2004/05 Annual Letter.

## Accounts and governance

### Audit of 2003/04 accounts

*We gave an unqualified opinion on the council's accounts on the 24 November 2004. In future years the timetable for the publication of the audited accounts will come forward. We will be seeking to agree an action plan with your officers to improve the efficiency of the accounts closedown process and the quality of supporting working papers.*

#### Review of core processes

We examined the council's core processes to assess the basis on which the accounts are prepared. The work included a review of:

- the main accounting system;
- the budgetary control process; and
- the year-end closedown process.

We concluded that there was a low risk of any of these processes leading to material misstatements in the financial statements, although we note that relatively high staff turnover within the accounts department impacted on the efficiency of the year-end closedown process. In addition there are areas where controls can be further strengthened. These include:

- carrying out and reviewing key reconciliations on a more timely basis;
- improving controls over the review and authorisation of journals prior to posting to the general ledger;

- improvements to the segregation of duties within the creditors section, particularly in respect of the set up of new supplier accounts; and
- instigating a process for regularly monitoring and reporting progress against prudential indicators to the responsible financial officer and members.

We will formally report these findings to your officers and seek to agree an action plan in respect of our recommendations in the near future.

#### Matters arising from the final accounts audit

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 24 August 2004, in advance of the 31 August statutory deadline.

During the audit, we proposed a number of adjustments to correct disclosure and other errors which, following discussions with officers, were incorporated in the final audited statements. These included:

- corrections in respect of grossing up errors within the creditors note and the capital financing reserves note;
- corrections to the cash flow and associated disclosures; and
- corrections to the notes to the Statement of Total Movements in Reserves statement.

We recommend that, prior to approval of the 2004/05 financial statements, a number of accounting policies and disclosures in the accounts should be further improved to ensure they provide sufficient information for all relevant areas.



There were issues regarding staffing constraints within the accounts department. This had an impact on the efficiency of the closedown process, and also resulted in a failure to provide all the requested working papers for audit on time. We are aware that progress has been made in respect of accounts staffing, including appointing to the key post of Chief Accountant, but efforts should be made to ensure that the department is appropriately staffed to deal with accounts closedown in 2004/05.

In last year's Annual Letter we emphasised that timeliness in producing the accounts will become increasingly important over the next few years as the deadline for completion of the accounts is brought forward in line with the government's requirement. Whilst the accounts have been prepared to meet the requirements this year, the deadlines will become increasingly more difficult to achieve and will require early planning and thoughtful scheduling of key meetings next year.

#### **Report to those with responsibility for governance in the council**

We are required by professional standards to report to those charged with governance (in this case the full council) certain matters before we give an opinion on the financial statements.

Statement of Auditing Standard (SAS) 610 'Reporting to those charged with governance' requires auditors to report to those charged with governance (as distinct from management) the following matters before they give an opinion on the financial statements:

- expected modifications to the auditor's report;
- unadjusted misstatements;
- material weaknesses in the accounting and internal control systems identified during the audit;
- their views about the qualitative aspects of the entity's accounting practices and financial reporting;
- matters specifically required by other auditing standards to be communicated to those charged with governance; and
- any other relevant matters relating to the audit.

We reported to council under SAS 610 on 15 November 2004. Our report included the following matters:

- a recommendation for further refinement of the council's financial statements as referred to earlier in this letter;
- a comment that the financial statements inherently include a number of accounting estimates. One such estimate is the amount recoverable from government in respect of housing benefit payments, as preparation of the associated grant return is not complete by the time the accounts are drafted. The latest benefits grant submitted to us for audit indicated that the claim is for £111,000 more than the amount included within the 'government departments' debtor in the balance sheet. We concur with the Head of Corporate Finance's consideration that it is prudent to maintain the lower debtor in the accounts on the basis that the audit of the grant return could result in a reduction to the claim; and
- a statement that we are still dealing with a formal objection made by a local elector to the 1999/2000 accounts. As a result, the last four years' audits and the current year audit cannot be formally concluded and audit certificates issued until the objection has been decided. Oral representations are due to be heard on 14 December 2004 and we plan to conclude the matter shortly thereafter.

We will shortly be agreeing an action plan with your officers, which will include recommendations arising from our review of the financial statements, including, where appropriate, those issues included in our SAS 610 report.

#### **Financial standing**

*The level of council tax arrears has again reduced this year, and collection rates remain above average. There has also been a marginal reduction in housing arrears, although these remain above the challenging target set.*

*It is essential that the council continues to identify additional income and cost savings given the increasing forecast budget gaps for 2005/06 to 2007/08. Tight financial control must be exercised if it is to improve services where necessary, deliver expenditure plans and maintain adequate general fund balances. As the financial position of the council will be affected by the outturn of the potential Large Scale Voluntary Transfer it is important that members carefully monitor the progress on this and its financial implications.*

### Income collection and arrears

Collection rates continue to compare very favourably to other district councils. Council tax collection rates have improved over the previous year as shown in Exhibit 1, with non-national domestic rates remaining at the 2002/03 level. Both the council tax collection percentage and that for non-domestic rates exceed the district council averages of 97.8 per cent and 98.6 per cent respectively.

#### EXHIBIT 1

**Collection rates as a percentage of net collectible debt have improved over the last three years**

Date	Council tax %	NNDR %
31 March 2002	98.3	98.8
31 March 2003	98.7	99.3
31 March 2004	98.9	99.3

Housing rent arrears have improved marginally to 3.84 per cent, but are slightly above the more challenging target set for the year of 3.77 per cent. It is important that the council continues to closely monitor the action being taken to further reduce rent arrears levels given the increasingly challenging targets that the council has set.

### 2003/04 outturn

The final outturn for the 2003/04 general fund was a £4,000 deficit. This compares to an original budgeted surplus of £40,000 which was subsequently revised to a break-even position. Overspends in a number of services were compensated for primarily by a net under-spend in the benefits service. The General Fund year-end balance remains at £1.2 million which is above the council's agreed minimum level of £1.0 million. There has been no significant movement in total earmarked reserves in the year.

The final Housing Revenue Account surplus at £41,000 was £49,000 in excess of that set out in the original approved budget, but £128,000 below that estimated in the revised budget approved by cabinet in December 2003. The main variances were in respect of a reduction in the level of rent rebate subsidy received together with increased provision for asbestos survey costs. The final surplus increased the Housing Revenue reserve to £0.71 million.

The total revised capital budget of £14.4 million was under spent by £2.6 million. The under-spend was primarily due to delays in the timing of expenditure in respect of the Fakenham Community Leisure Centre and the Cromer Seafront Enhancement Scheme.

### Future financial position

The council approved the initial budget for 2004/05 in February 2004, following cabinet approval of a three year Treasury Management Strategy and consideration of the relevant Prudential Code indicators.

Revised budgetary figures presented to cabinet in December 2004 indicate that a balanced budget will be achieved for 2004/05 in respect of the general fund. This has been informed by the monitoring report taken to cabinet in November 2004 (which indicated a net under-spend of £139,000 for the six months to 30 September 2004) together with estimated variances expected in the second half of the year. Despite cost savings being delivered as part of the restructuring programme, budgetary pressures remain strong particularly in certain directorates where spend is estimated to exceed budget.

A revised Housing Revenue Account 2004/05 budget has not yet been taken to cabinet. The initial budget for the Housing Revenue Account indicated a surplus of £186,000 would be achieved. The monitoring report taken to cabinet in November 2004 indicated under-spends of £254,000 in the first six months of the year, but these are primarily in respect of the timing of payments for repairs and maintenance and supervision and management, and the impact of these is anticipated to be eroded in the second half of the year. It appears likely that the surplus initially budgeted for will be reduced partly due to a reduction in income credited from Housing Revenue Account subsidy which is a reflection of the debt rescheduling which occurred in 2003/04.

The council has procedures in place to manage its future financial position, but recognises the severe pressures it is under. Work is currently in progress to complete the 2005/06 budget which is to be taken to members in January 2005. The council's Medium-Term Financial Plan was updated in October 2004. This sets out its key priorities and likely resources for 2005/06 to 2007/08. The plan highlights that, even with council tax increases of three per cent annually, there are estimated cumulative general fund budget gaps of £0.45 million for 2005/06, £0.69 million for 2006/07 and £0.96 million for 2007/08.

This would put significant pressure on the forecast level of general reserves, which are relatively close to the minimum level of £1 million, unless these gaps are met from additional resources or cost savings. This will require careful consideration, together with the preparation and monitoring of action plans.

The financial position of the council will be affected by the outturn of the potential Large Scale Voluntary Transfer. The impact of the potential LSVT will not form part of the 2005/06 base budget, but will be considered separately. It is also excluded from the Medium-Term Financial Plan. There are significant costs associated with progressing the options appraisal of a LSVT of the council's housing stock. If the tenant vote were to be unsuccessful then these costs would fall to the general fund rather than being offset by any capital receipt.

It will be important for members to carefully monitor the financial implications of the LSVT as the proposal proceeds.

## Systems of internal financial control

*Internal financial control systems continue to develop although there are areas where further work is necessary, particularly in relation to risk management arrangements. The Internal Audit service is effective overall, but there are areas where this can be improved, particularly in respect of addressing resourcing issues which continue to impact on deliverability of the planned work.*

Internal financial controls are the arrangements put in place to ensure good financial stewardship.

In assessing internal financial control, we have taken account of reviews undertaken by internal audit. The main focus of our work has been to:

- review the council's arrangements for internal financial control, including a follow up of relevant issues in our report on the council's arrangements in 2002/03;
- review the council's tax arrangements; and
- review Internal Audit's work in 2003/04, including a follow up of the recommendations we made in 2002/03.

### Internal financial control

Our work identified the following key issues:

- Internal Audit's review of the payroll function found, as in the prior year, a lack of evidence supporting identification and verification of new staff, and this concurs with our own findings regarding a lack of appropriate references being obtained, particularly in respect of temporary staff. These issues should be addressed in conjunction with the development of the council's recruitment policy currently taking place; and
- further development is needed of the council's risk management strategy, as referred to earlier in this letter.

### Internal audit

Our assessment is that internal audit provides an effective service overall. However there are areas where performance could be further improved:

- delivery of the audit plan - although there was some improvement in completion of the 2003/04 Internal Audit plan compared with previous years, firm plans should be put in place in respect of how the Internal Audit plan can be fulfilled in 2004/05 and beyond given current staffing constraints. We understand that officers have recently made arrangements for the 2004/05 work on core financial systems to be delivered under an arrangement with the Norfolk Audit Partnership, but further arrangements are necessary in order that the remaining planned work for 2004/05 can be delivered; and
- some updating of, and improvement to, the Internal Audit procedures manual is required.

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

*We have not identified any significant weaknesses in your arrangements to prevent and detect fraud and corruption, but we have suggested that arrangements be strengthened in respect of training for members and staff.*

The council must ensure that its affairs are managed in accordance with proper standards of financial conduct, and to prevent and detect fraud and corruption.

As part of our work this year we followed up recommendations made in last year's Interim Report. We concluded that adequate arrangements are in place but that, in particular, the following recommendations centred on training remain to be implemented.

- Whilst Internal Audit is responsible for dealing with disclosures under the Public Information Disclosure Act (PIDA), no specific training has been provided. Training needs should be assessed and addressed as necessary.

- The arrangements for ensuring that appropriate training is provided to members and staff in respect of fraud and corruption and corporate governance should be further improved.

### Legality of transactions

*We have not identified any significant weaknesses in the council's framework for ensuring the legality of its significant financial transactions. The constitution does require updating however to reflect the current political management arrangements.*

During the year we have reviewed the council's overall arrangements for ensuring the legality of its financial transactions. We have the following recommendations to make in this area:

- a summary of the s151 and monitoring officer roles should be included in the staff handbook and induction pack;
- the constitution has not yet been updated to reflect the single party cabinet arrangements and therefore does not reflect the current structure of the council. Appropriate amendments should be made to the council's constitution; and
- address the slow progress the council has made to ensure it complies with the Race Relations Act.

There have been no occasions this year when the Monitoring Officer or S151 Officer have needed to exercise their formal powers associated with unlawful or potentially unlawful action.

As discussed earlier in this letter, we are still dealing with a formal objection made by a local elector to the 1999/2000 accounts.

Audits from 1999/2000 to 2003/04 cannot be formally concluded or an audit certificate issued until the objection is decided.

We will shortly agree an action plan with your officers in respect of our recommendations on internal financial controls and standards of financial conduct, the prevention and detection of fraud and corruption and the legality of transactions. We will follow up the council's progress as part of our 2004/05 audit work.

## Other work

### Grant claims

Over recent years the number of claims requiring audit certification has grown and audit fees have risen in line with this growth. In accordance with Strategic Regulation, the Audit Commission has adopted a more risk-based approach to the certification of grant claims. With effect from 2003/04 the smaller claims have not been subject to audit or have received a lighter touch. The approach to larger claims has been determined by risk and the adequacy of the council's control environment.

The council's arrangements for managing and quality assuring grant claims submitted for audit requires improvement. The current arrangement for putting appropriate controls over grants in place, together with ensuring grant claims are prepared on time and to the appropriate quality standards, has rested with a variety of individuals across the council. They are involved in a large number of schemes with no overall co-ordination by the finance department. Consequently the standard of grant claims presented for audit has been variable and the council does not currently have a complete listing of which claims are applicable. We understand that the Head of Corporate Finance is reviewing the need for a grant claims co-ordinator and the preparation of a grants register, and we welcome this.

The council is currently implementing a new housing benefits system. Previous benefits claims have been qualified, in part due to a lack of appropriate audit trails and the council is confident that the new system will address these problems. Again, we welcome this development.

### National Fraud Initiative

The council took part in the Audit Commission's National Fraud Initiative (NFI) 2002/03. The NFI, which is undertaken every two years, brings together data from local authorities, NHS bodies, government departments and other agencies, to detect a wide range of frauds against the public sector. Total savings from the 2002/03 exercise exceeded £83 million.

The Commission are repeating the exercise this year and will again collect payroll, pensions, housing benefits, student loan and housing rents data from authorities. Alongside the core exercise a number of pilot initiatives are being undertaken at selected sites. These are focused on risk areas that were highlighted by authorities and include payments made to privately run care homes, abuse of blue badge parking permits, serial insurance claimants and duplicate payments to suppliers. These pilot areas, if they prove effective, will be incorporated into future NFI exercises.

## Looking forwards

### Future audit and inspection work

We have an agreed plan for 2004/05 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 2004/05 accounts, will be reported in next year's Annual Letter.

We will seek to ensure, wherever possible, that our work relates to the improvement priorities of the council when planning our programme of work for 2005/06.

### Revision to the Code of Audit Practice

The Audit Commission has consulted on a revised Code of Audit Practice for application to the audit of the 2005/06 accounts.

The new Code, which will be laid before Parliament in January 2005, is designed to secure:

- a more streamlined audit, which is proportionate to risk and targeted on areas where auditors have most to contribute to improvement;
- a stronger emphasis on value for money, focussing on corporate performance and financial management arrangements (rather than individual services and functions); and
- better and clearer reporting of the results of audits.

Further details will be provided in the Audit and Inspection Plan 2005/06.

## Closing remarks

This letter has been discussed and agreed with the Chief Executive and the Head of Corporate Finance. A copy of the letter will be presented at the cabinet on 7 February 2005.

The council has taken a positive and constructive approach to our audit and inspection and we would like to take this opportunity to express our appreciation for the council's assistance and co-operation.

## Availability of this letter

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.



**Sue Jewkes**  
Relationship Manager



**Andy Perrin**  
District Auditor

23 December 2004

## Status of our reports to the council

*Our annual audit and inspection letter is prepared in the context of the Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission. Annual audit and inspection letters are prepared by relationship managers and appointed auditors and addressed to members and officers. They are prepared for the sole use of the audited and inspected body, and no responsibility is taken by the Audit Commission or its appointed auditors to any member or officer in their individual capacity, or to any third party.*

## Audit and inspection reports issued

Reports issued	Date
2002/03 Interim Audit Memorandum	January 2004
2002/03 Financial Statements Report (draft)	February 2004
2003/04 E-Government Follow-up	May 2004
2004/05 Audit and Inspection Plan	July 2004
2003/04 Interim Audit Memorandum (draft)	December 2004*
2003/04 Annual Audit and Inspection Letter	December 2004
2003/04 Financial Statements Report (draft)	January 2005*

\* *Expected date at the time of drafting the Annual Audit and Inspection Letter.*

## Scope of audit and inspection

### Audit

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.

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 Exhibit 2.

**EXHIBIT 2 THE THREE MAIN ELEMENTS OF OUR AUDIT OBJECTIVES**



#### 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.



## Inspection

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.

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.

## Audit and inspection fee

### Audit fee update

Audit area	Plan 2003/04 £	Actual* 2003/04 £
Accounts	24,000	24,000
Financial aspects of corporate governance	24,200	24,200
Performance	37,000	37,000
<b>TOTAL CODE OF AUDIT PRACTICE FEE</b>	<b>85,200</b>	<b>85,200</b>
Grant claim certification	29,000	29,000
Additional voluntary work (under Section 35)	Nil	Nil

*\* Elements of these areas of work are currently being finalised and these figures should be viewed as estimates. In particular, a significant amount of the grant certification work is currently in progress. We envisage that the final grants fee may be in excess of that envisaged when the 2002/04 Audit and Inspection Plan was drawn up, due to an increased number of grants requiring an audit certificate, although we are seeking to minimise the impact of this by applying a risk-based approach where possible.*

### Inspection fee update

The full year inspection fee is £15,800.