

Annual Audit and Inspection Letter

January 2006



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Islington London Borough Council

Audit 2004-2005

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- auditors may report aspects of their work widely to the public and other key stakeholders.

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Key messages

Council performance

- 1 The Council is improving well and demonstrating a three-star overall performance (CPA, December 2005).
- 2 Improvements have been achieved in priority areas such as social housing, education, and housing benefits, and the Council has improved in 78 per cent of key local government performance indicators. Areas for further improvement include recycling services and processing of major planning applications. Council spend is slightly above average, but this is balanced against performance improvement and below average council tax rates.
- 3 Our other performance work also demonstrates that the Council continues to improve. For example, arrangements have been strengthened by establishing strategies that link to the Council's priorities; particularly in user focus, service and financial planning, procurement and working with the voluntary sector. Good progress has also been made in implementing arrangements for the arms length management organisation, homes for Islington, although a more robust client monitoring role needs to be established. However, there is a need to continue to improve the value for money of Council services.

Financial standing

- 4 The Council's financial health continues to improve with the General Fund balance being in line with the target reserves policy. However, there is a need to regularly review the reserves policy to ensure it continues to reflect the likely risks being faced by the Council, including future funding of the Pension Fund.
- 5 Financial pressures have continued in some departments, particularly Social Services where an overspend is again being forecast for 2005/06. Continued action needs to be taken to address areas of recurrent overspending.

Accounts and governance issues

- 6 We issued an unqualified opinion on the 2004/05 accounts but were unable to conclude the audit due to the ongoing consideration of matters brought to our attention by a local elector in respect of previous year's accounts .
- 7 Accounts preparation processes were considerably improved this year although there is a need to address the write off of debt transferred from the former inner London education authority.

- 8 The overall corporate governance arrangements are satisfactory. The anti-fraud and corruption strategy under development needs to be promulgated to all staff and further action is required in investigating matches identified as part of the National Fraud Initiative (NFI). Whilst there have been improvements in the quality and timeliness of government grant claim submissions more needs to be done to meet the standards of the best councils.

Action needed by the Council


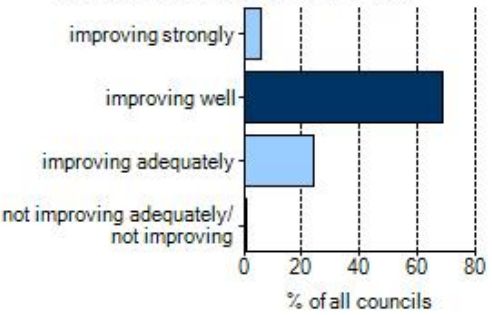

- 9 The Council needs to:
 - continue improving services with particular emphasis on developing the arrangements for improving value for money;
 - keep the reserves policy under review to ensure it continues to reflect future likely risks, including future funding of the Pension Fund; and
 - further improve its anti-fraud and corruption arrangements by revising and promulgating its anti-fraud and corruption strategy and continuing to investigate NFI data matches.

Performance

CPA scorecard

- 10 The CPA judgements this year have been made using the revised methodology: CPA - the harder test. As the title implies, CPA is now a more stringent test with more emphasis on outcomes for local people and value for money. We have also added a new dimension, a Direction of Travel judgement, that measures how well the Council is improving.

Table 1 CPA scorecard

<p>Under the new framework, the Council is improving well and demonstrating a three-star overall performance.</p>																							
<p>Direction of travel against other councils</p>  <table border="1"> <caption>Direction of travel against other councils</caption> <thead> <tr> <th>Direction of travel</th> <th>% of all councils</th> </tr> </thead> <tbody> <tr> <td>improving strongly</td> <td>~5</td> </tr> <tr> <td>improving well</td> <td>~65</td> </tr> <tr> <td>improving adequately</td> <td>~20</td> </tr> <tr> <td>not improving adequately/ not improving</td> <td>~10</td> </tr> </tbody> </table>	Direction of travel	% of all councils	improving strongly	~5	improving well	~65	improving adequately	~20	not improving adequately/ not improving	~10	<p>Performance against other councils</p>  <table border="1"> <caption>Performance against other councils</caption> <thead> <tr> <th>Star rating</th> <th>% of all councils</th> </tr> </thead> <tbody> <tr> <td>0 star</td> <td>~1</td> </tr> <tr> <td>1 star</td> <td>~8</td> </tr> <tr> <td>2 star</td> <td>~25</td> </tr> <tr> <td>3 star</td> <td>~45</td> </tr> <tr> <td>4 star</td> <td>~21</td> </tr> </tbody> </table>	Star rating	% of all councils	0 star	~1	1 star	~8	2 star	~25	3 star	~45	4 star	~21
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<p>Element</p>	<p>Assessment (out of 4)</p>																						
<p>Current performance</p> <p>Children and young people</p> <p>Social care (adults)</p> <p>Use of resources</p> <p>Housing</p> <p>Environment</p> <p>Culture</p> <p>Benefits</p>	<p>3</p> <p>3</p> <p>2</p> <p>3</p> <p>2</p> <p>3</p> <p>3</p>																						
<p>Corporate assessment/capacity to improve (not reassessed in 2005)</p>	<p>3</p>																						

(Note: 1=lowest, 4=highest)

Direction of Travel report

- 11 Improvements are being achieved in priority areas such as social housing, education, and housing benefits. Seventy eight per cent of the key local government performance indicators show Islington improving since 2002/03, albeit starting from a low base in some areas. The Council's performance is in the worst comparative performance category for 37 per cent of these indicators. Areas for further improvement include recycling services and the processing of major planning applications.
- 12 Community-wide improvements are being delivered through partnership work addressing regeneration and sustainability issues, resulting in reduced crime levels and increased road safety.
- 13 The Council's overall spend, when compared to similar councils, is slightly above average. In value for money terms this is balanced against performance improvement and below average council tax rates. The Council has clear and detailed future plans and a good record for meeting its objectives and coupled with its increased financial capacity, by building up reserve levels and by establishing more effective human resource management arrangements, it's in a strong position to continue to improve the way it works and the services it provides to local people.

Other performance work

- 14 We undertook work in a number of areas that were identified as weaknesses in either the past corporate assessment or as part of risk-based planning. The results of these reviews are summarised below.

Value for money

- 15 As part of our use of resources judgement we undertook an assessment of whether the Council currently achieves value for money and how it manages and improves it.
- 16 We concluded that the Council's services meet the minimum requirements in relation to providing value for money. The Council spends (per head of population) at about the average level for its comparator group although there are areas of high spending, for example within housing, social services and central services. These are recognised by the Council and are either due to higher investment or are being addressed. An e-procurement strategy has been designed to help achieve efficiency savings through streamlining procurement and pay procedures. The Council has delivered savings in a number of areas including contracts for agency staff, security and energy.

- 17 Arrangements for securing value for money are being further developed with stronger links between service and financial planning and a performance management system being put in place. However, these do not explicitly link cost, activity and performance information or include comparative information. Similarly, use of benchmarking is not consistent across the Council although pockets of good practice are evident in some areas. The Council acknowledges that its main priority has been to improve the performance of services and ensuring that the systems are in place to maintain performance improvement. It now recognises the need to focus more on value for money.
- 18 Further developments needed to improve value for money include:
- improving systems for ensuring efficient effective and economical services are delivered;
 - making more use of comparator information to benchmark services;
 - successfully tackling areas identified as high-cost; and
 - monitoring targets for efficiency savings to ensure their achievement.

Review of reputation and user focus

- 19 The corporate assessment in 2002 identified customer focus as an area that required further development. Our 2004/05 review involved identifying steps taken by the Council to recognise and address reputational risk as well as noting progress made in developing its user focus.

- 20 The Council has developed a customer focus strategy which incorporates a broad range of measures to re-engineer services over a three-year period and to improve access to those services. The actions implemented have had a positive impact.
- 21 Driving up standards is a key priority and Mori survey results have indicated that satisfaction levels have improved significantly in respect of services. However, there is a recognition amongst officers that a sustained focus is required to further impact on citizen's overall satisfaction levels. In this respect the Council is committed to both setting higher expectations for service delivery, for example through its PSA targets (local area agreement targets in the future), and in communicating success in service achievements to residents.
- 22 The importance of feedback in identifying residents' concerns, including those that impact on reputation has been identified and analysis of residents' complaints has been used to identify service weaknesses. There has been a downward trend in complaints and improved performance in responding to them.
- 23 Customer standards were revised by the Council in light of customer feedback. New corporate customer care standards have been introduced and presented to staff in the form of written guidance. The standards provide the Council's baseline expectations of staff behaviour throughout the process of customer interaction. Training in the standards has yet to be provided for all staff and there is a need to communicate them on the Council's website.

Arms length management organisation

- 24 The arms length management organisation (ALMO), Homes for Islington (HFI), was launched on in April 2004 to manage the Council's landlord function. Under the ALMO, the Council retains ownership of the housing stock and remains responsible for the HRA, its financial management and reporting. It is critical that the Council adopts a robust client role to ensure effective service and financial performance. We have, therefore, reviewed the corporate governance and performance management arrangements in place to ensure this is achieved.
- 25 At this early stage, the Council has made satisfactory progress in developing arrangements for the ALMO. The strategic direction of the ALMO is overseen by a Board of directors which includes council representation and the HFI delivery plan sets out its overall strategy. The management agreement between the two organisations enables the Council to serve an improvement notice on HFI if it fails to perform against specified standards. In addition, arrangements are in place for an annual review of the management fee payable to HFI, the HFI is required to provide an annual performance plan and a timetable of monitoring meetings has been established.

- 26 Our review noted some issues that still needed to be addressed, including ensuring members of the Board had adequate training in ethical governance standards which incorporated the code of conduct and how to deal with potential conflicts of interest. We also suggested that the Council should review and recruit to a new officer structure to ensure that a robust client role was established to monitor HFI's service and financial performance. The Council report that both these issues have now been addressed.

Summary of other performance work

- 27 The key findings of our reviews on service and financial planning, procurement, voluntary sector partnerships and the follow up of the crime, drugs and youth partnership are summarised in the table below.

Table 2 Summary of other review

Key findings from other performance work undertaken

Strengths	Areas for improvement
<p>Service and financial planning</p> <ul style="list-style-type: none"> • Clear and co-ordinated approach has been developed. • Delivering one Islington combines the former corporate plan, CPA improvement plan and best value performance plan into one document. • Risk management is integrated into service and financial planning. • Medium-term financial strategy and procurement strategy link to the corporate plan. 	<ul style="list-style-type: none"> • The Council is developing its workforce planning that feeds into service and financial planning. • The systems for comparing performance and cost over time and also to other councils need to be developed.
<p>Procurement</p> <ul style="list-style-type: none"> • A strategy has been developed that takes account of the national procurement strategy. • A procurement code has been developed that links to the strategy. • E-procurement has provided an innovative contract for the supply of agency staff. 	<ul style="list-style-type: none"> • There are officer and member champions for procurement, although their roles need to be clearly defined, as should the roles of the procurement unit and scrutiny members. • Resources needed to be identified to monitor the arrangements now in place, including compliance with the procurement code and savings achieved.

Strengths	Areas for improvement
<p>Voluntary sector partnerships - regeneration</p> <ul style="list-style-type: none"> • A clear and comprehensive compact between the Council and the independent, voluntary and community sector has been in place for a number of years. • There is a committed approach to achieving sound engagement with the voluntary and community sector within the regeneration strategy. • The Council has moved from driving and leading to a more enabling style of involvement with the voluntary sector. 	<p>A key area for further development is the agreement and incorporation of how of the voluntary sector can effectively contribute to service delivery.</p>
<p>Islington crime, drugs and youth partnership</p> <p>Our workshop for partnership participants identified key emerging issues and how these would be addressed. Strengths included:</p> <ul style="list-style-type: none"> • joint working arrangements were supported by a detailed 2004/05 partnership improvement plan; • the partnership had submitted a self assessment to GOL; and • the Council was developing the accountability arrangements of the partnership. 	<p>The partnership continues to develop further enhancements required to:</p> <ul style="list-style-type: none"> • develop an integrated and coherent consultation and engagement strategy; and • implement robust performance management arrangements.

Performance information

- 28 Our approach to the audit of performance indicators changed during 2005/06 to reflect the new Code of Audit Practice. We audited twelve indicators identified by the Audit Commission as high-risk and contributing directly towards the CPA scorecard, as well as a further sample of indicators based on a local risk assessment. Five indicators were amended and four reservations issued as a result of our audit.

- 29 We have also completed our compliance audit of the Council's best value performance plan and issued our opinion on the 22 December 2005. The report did not contain any statutory recommendations.

Working with other inspectorates and regulators

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

Accounts and governance

Audit of 2004/05 accounts

- 31 We gave an unqualified opinion on the Council's accounts on 31 October 2005. We were unable to issue a certificate due to consideration of matters brought to our attention by a local authority elector in respect of the accounts for prior years.
- 32 In last year's letter we noted that the Council had not implemented sufficiently robust processes for preparing its accounts and ensuring that they were of an adequate quality. Arrangements have improved this year with the introduction of a quality assurance process which has reduced the number of audit queries and amendments to the accounts.
- 33 In addition, our review of the Council's core processes for the preparation of the accounts namely; the main accounting system, year-end closedown; and budgetary control, concluded that mainly processes could be relied upon to identify and correct material misstatements. Further improvements are needed, however, in the processing of journals and control account reconciliations.
- 34 During the course of the audit we noted that the Council had not set aside sufficient funds from revenue to finance the repayment of loans taken out in respect of the debt transferred from the demise of the inner London education authority (ilea) in 1992/93. There is an outstanding balance of £15.1 million due to be repaid, of this £6.9 million should have been written out of the accounts by 31 March 2005. The Council should review its accounting policy in relation to the write off of ex-ilea debt and ensure that amounts are written out over a time scale in line with the life of the relevant loans.
- 35 Whilst the Council promotes external accountability by publishing its financial statements and the Audit and Inspection Letter it does not publish summary accounts or an annual report. The Council may wish to consult with stakeholders on the requirements for summary accounts and an annual report.
- 36 In line with the Whole of Government Accounts (WGA) agenda the deadlines for preparing and auditing the accounts continue to move forward. Whilst the accounts had been prepared a month earlier this year, by the due date, the deadline will become increasingly challenging to achieve and require even earlier planning and careful scheduling of key meetings next year. We will continue to work with officers to improve closedown and accounts preparation arrangements, in order to assist the Council in achieving the advanced deadline.

Report to those with responsibility for governance in the Council

- 37 We are required by professional standards (SAS 610) to report to those charged with governance (in this case to the Corporate Services Committee) certain matters before we give an opinion on the financial statements. The matters reported this year are summarised in Table 3.

Table 3 SAS 610 report issues

Area	Issue
Expected modifications to the audit report	A certificate could not be issued due an objection relating to previous years.
Qualitative aspects of accounting practices and financial reporting	Rental income was not calculated to match the accounting period, resulting in an overstatement of housing revenue account income by £290,000.
Material weaknesses in accounting and internal control systems	A robust review of fixed assets against other sources (eg legal and property terriers) had not been undertaken. This weakness led to an understatement of assets on the balance sheet, which was corrected in the audited accounts.
Other matters	A batch of cheques posted to the incorrect year in 2003/04 had yet to be corrected.

Source: Report on the 2004/05 financial statements to those charged with governance (SAS 610)

Financial standing

General fund spending and balances

- 38 The Council has achieved a surplus in the last two years which has contributed to an improved general fund balance which now stands at £19.3 million (5 per cent of gross expenditure). This is consistent with the target reserves policy set in 2002/03 and the medium-term financial strategy. It is important that the policy on the level of balances is reviewed regularly to ensure that it appropriately reflects agreed policies and financial risks faced by the Council.
- 39 The Council achieved a surplus of £860,000 in 2004/05. There was a net overspend in social services of £1.3 million offset by underspends on corporate budgets, law and public services and environment and conservation.

- 40 The financial position in 2005/06 as at month 6 reveals financial pressures have continued in some individual departments particularly in environment and regeneration and social services. There is a shortfall of £1.4 million of income within environment and regeneration. This is being managed by release of provisions and use of the contingency budget. The projected overspends in social services are mainly in two areas; looked after children (LAC) (£0.5 million) and domiciliary care contracts (£0.9 million). The social services department is proactively addressing the overspends by establishing a board to review LAC placements and developing a detailed action plan to address the care contract overspends.
- 41 The Council have been notified of its 2006/07 and 2007/08 revenue settlements, which are 2.2 per cent and 2.7 per cent respectively. This increase is below the inner London average and also lower than the average for local authorities nationally. The education settlement figure is slightly higher than anticipated.
- 42 The medium-term financial strategy (MTFS) is effective and linked to overall objectives and service plans. However, further development is needed to integrate the MTFS with other strategies such as in respect of human resources and capital. Also, to date, limited use of non-financial information is made as part of the budget monitoring process.

Housing revenue account

- 43 The financial position of the housing revenue account (HRA) is in line with expectations. The balances have improved, moving from a £1 million surplus at 31 March 2000 to £7.9 million at the end of 2004/05. This balance is projected to increase to £8.1 million at the end of 2005/06. The medium-term financial plan is to maintain balances at £7.9 million until 2007/08.

Capital programme

- 44 The Council has revised its arrangements for developing and monitoring its capital programme. A corporate capital team has been established along with two working groups; the strategic capital group, and the capital working group; charged with developing and managing the capital programme across the Council. There is also a Property Resources Group (PRG) in place, which is the key forum for controlling and monitoring the disposal of assets. However, there is a need to develop clear direction and lines of communication between the two capital working groups and the PRG. Whole life costing is used in some areas, and its use should be broadened to encapsulate all capital projects.
- 45 There has been significant slippage on the capital programme in 2005/06. At month six capital expenditure totalled £36 million, which is equivalent to 19 per cent of the budget, this is significantly lower than the equivalent figure of 31 per cent in the previous year. In addition the Council predict that it is unlikely to achieve the level of capital receipts anticipated. The position is being monitored and action plans to address the issue have been developed.

Income collection and arrears

- 46 The Council has made a concerted effort to improved debt collection rates and reduce the level of old debt in the last few years. The debt forum, formed by departmental credit managers, has helped to provide focus for driving through improvements in debt collection and taking action on old debt. There has yet to be an evaluation of costs associated with debt collection and the cost of not collecting debts promptly.
- 47 The level of sundry debt reduced from £27 million in March 2003 to £15 million in December 2005. This was achieved through improved collection levels and the write-off of £2.4 million deemed to be uncollectible. However, whilst sundry debtors have decreased there has been an increase in the public sector debtors which have increased from £9 million in 2003/04 to £19.6 million in 2004/05.

Pensions fund

- 48 We have noted previously that the Council's pension fund, like many defined benefits schemes, is in deficit as a consequence of equity market decline over the recent past. An interim valuation has been undertaken which indicates the shortfall in funding has increased from £80 million to £143 million since the last triennial valuation. This represents a funding level of 79 per cent, against a national average of 73 per cent.
- 49 Review of performance of the fund indicates that over a ten year time period performance is in line with the local authority benchmark. More recent returns, however, show that performance is slightly lower than average return of 17.6 per cent against a benchmark return of 18.7 per cent. Plans are in place to address this shortfall in the MTFs.

Systems of internal financial control

- 50 Overall, although arrangements have been improved, the Council still needs to further strengthen its monitoring of financial systems. In particular, the Council should:
- define the key financial controls to be monitored;
 - put arrangements in place to collate and report on key controls; and
 - implement arrangements for senior managers to monitor this information on a regular basis.

- 51 An effective internal audit (IA) is a key element of an organisation's internal control system. The Council changed its IA provider to PricewaterhouseCoopers (PwC) in November 2004. Since that date some improvements have been noted, significantly a comprehensive three-year strategic plan has now been developed which appears to be adequately resourced. This should help to reduce the number of rescheduled jobs which has been a problem in the past. However, reporting of the performance of IA still needs to be developed. This should include the production of performance indicators to monitor the performance of both the in-house and external IA provision.
- 52 Council wide assurance and risk management arrangements have been developed, and whilst good are not yet fully embedded. The arrangements need to be enhanced through training relevant staff and members to ensure risk management is effective. In addition, the assurance and risk management arrangements in relation to partnerships need to be further developed. The executive have now taken on responsibility for risk management but reporting arrangements need to be enhanced further.

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

- 53 The Council has arrangements in place for financial conduct and arrangements to prevent and detect fraud and corruption. An independent Standards Committee is in place, along with a code of conduct and well-maintained registers of interests and gifts and hospitality. However, there is potential to improve the effectiveness of the code of conduct, with the provision of comprehensive training to key staff.
- 54 The anti-fraud and corruption strategy is currently being revised and has yet to be approved by members. The various fraud initiatives currently under consideration need to be implemented as soon as possible so as to ensure an anti fraud and corruption culture is fully embedded within the Council. In particular, the Council should renew emphasis on reporting arrangements, such as the whistleblowing policy, to encourage staff to contact key officers if a fraud is suspected.

National fraud initiative

- 55 In 2004/05, the Council took part in the Audit Commission's National Fraud Initiative (NFI). The NFI, which is undertaken every two years, aims to help identify and reduce fraud by bringing together data from NHS bodies, local authorities and government departments and other agencies, to detect a wide range of frauds against the public sector. These include housing benefit fraud, occupational pension fraud, tenancy fraud and payroll fraud as well as, new for 2004/05, right to buy scheme fraud and providing new contact details for former tenants with arrears in excess of £1,000.

- 56 Progress with investigating the NFI 2004 data matches has been modest with £114,000 of fraud being identified at this stage. Officers have also recently completed their investigations of ten outstanding cases which has resulted in an additional £34,000 saving. More effort is required in this area, particularly with regard to housing tenancies, right to buy schemes and former tenant's arrears.

Ethical governance

- 57 The findings from our recent work of the Council's arrangements for maintaining high standards of ethical behaviour were discussed at the Standards Committee in January. We reported that, based on an online questionnaire, Islington members and officers considered that the Council had strong ethical governance arrangements in place and that ethical behaviour amongst members was good.
- 58 The Council scored particularly well against other councils in relation to member and officer behaviour and leadership, to integrating the requirements of the code of conduct into the Council's schemes, policies and procedures and on the requirements to register a potential personal or prejudicial interest. However, there is still work to do to disseminate more widely the existence of the code of conduct amongst officers and to develop the Council's approach to the diversity agenda. The Council is now developing an action plan to address the issues raised in our report.

Legality of transactions

- 59 We have not identified any significant weaknesses in the framework established by the Council for ensuring the legality of its significant financial transactions. Roles and responsibilities are clearly established and laid down in the constitution. Key documents, such as the Standing Orders and the Financial Regulations are reviewed annually and the legal department keep up-to-date with developments and technical changes.

Objections to the accounts

- 60 During the year we have concluded our consideration of the outstanding objection in relation to the 2001/02 and 2002/03 accounts in relation to budget virements. We issued a statement of reasons turning down the objection and certified the audits closed in December 2005.
- 61 We are now considering a further objection in respect of the 2003/04 accounts on a similar issue and as a result the audit of that, and the 2004/05 years, cannot be completed.

Use of resources judgements

- 62 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.
- 63 For the purposes of the CPA we have assessed the Council's arrangements for use of resources in five areas.

Table 4 Use of resources assessment

Element	Assessment (out of 4)
Financial reporting	2
Financial management	2
Financial standing	2
Internal control	2
Value for money	2
Overall	2

(Note: 1=lowest, 4=highest)

- 64 In reaching these judgements we have drawn on the above work and supplemented this with a review against specified key lines of enquiry. Key messages from this work have been included in the relevant headings earlier in this letter.

Other work

Grant claims

- 65 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.
- 66 The submission of timely grant claims was an area of improvement included within the Council's improvement plan. There has been some slippage on the timeliness of submission of grant claims, with 56 per cent of claims submitted by the deadline compared to 60 per cent in the previous year.
- 67 A grants co-ordinator monitors the submission of claims. However, not all claims requiring submission were identified at the start of the year by service departments, thereby weakening monitoring arrangements. This was further exacerbated by limited monitoring information reported to management.
- 68 The quality of working papers has improved in all areas. However supporting documentation for education and regeneration claims requires further improvement, particularly in respect of monitoring arrangements for money spent by third parties.
- 69 The Council have made some improvements on the housing and council tax benefits grant claim. This has been evidenced in the reconciliations and in our testing of cases, however there is still scope for implementing further improvements. A number of errors that have been identified during the previous year, had been repeated in relation to backdated benefit, rent officer referrals and overpayments.

Looking forward

Future audit and inspection work

- 70 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.
- 71 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

- 72 The statutory requirements governing our audit work, are contained in:
- the Audit Commission Act 1998; and
 - the Code of Audit Practice (the Code).
- 73 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 Corporate Services Committee in 26 May 2005. The key changes include:
- the requirement to draw a positive conclusion regarding the Council's arrangements for ensuring value for money in its use of resources; and
 - a clearer focus on overall financial and performance management arrangements.

Closing remarks

- 74 This letter has been discussed and agreed with the Leader of the Council and the Chief Executive. A copy of the letter will be presented at the Executive on the 9 February 2006 and the Corporate Services Committee on 2 March 2006.
- 75 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

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

LJ Kidner
District Auditor and Relationship Manager
January 2006

Appendix 1 – Background to this letter

The purpose of this letter

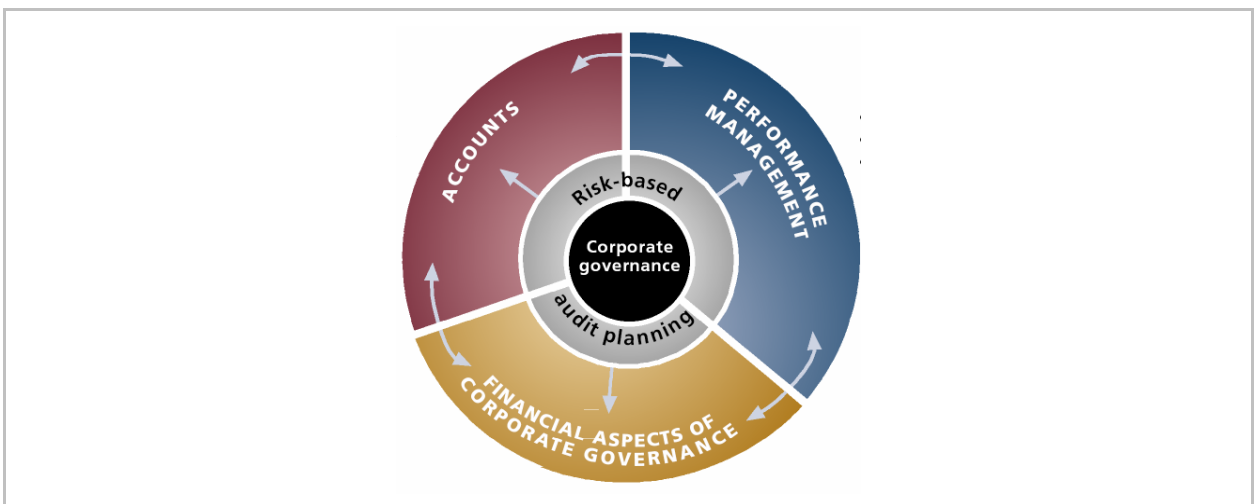
- 1 This is our Audit and Inspection ‘Annual Letter’ for members which incorporates the Annual Audit Letter for 2004/05, which is presented by the Council’s Relationship Manager and District Auditor. The letter summarises the conclusions and significant issues arising from our recent audit and inspections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

Audit objectives

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

Figure 1 Code of Audit Practice

Code of practice responsibilities



- 7 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 – Audit reports issued

Table 5 **audit reports issued**

Report title	Date issued
Audit Plan	March 2004
Review of Reputation and User Focus	May 2005
Core Process Review Report	July 2005
Financial Aspects Of Corporate Governance	December 2005
Report on the 2004/05 Financial Statements to Those Charged with Governance (SAS 610)	October 2005
Audit of Financial Statements	December 2005
Service and Financial Planning	July 2005
Procurement	July 2005
Voluntary Sector Partnerships	December 2005
ALMO	July 2005
Islington Crime, Drugs and Youth Partnership	April 2005
BVPI Report	December 2005
BVPP Statutory Opinion	December 2005
Independent Auditors Report on the Financial Statements	October 2005
CEA Contract Review	June 2005
Arsenal Development	December 2005

Appendix 3 – Audit fee

Table 6 Audit fee update

Audit area	Plan 2004/05 £000	Actual 2004/05 £000
Accounts	224	224
Financial aspects of corporate governance	102	102
Performance	203	203
Total Code of Audit Practice fee	529	529
Additional voluntary work - ethical governance (under section 35)	4	4
Total	533	533

Inspection fee update

- 8 The full year inspection fee is £175,600. The work reported in this Audit and Inspection Letter has been funded by an element of the fee covering 2004/05 and by an element of the fee covering 2005/06. In both years the actual fee will be in line with that planned.

Grant claims

- 9 The fee for the certification of grant claims, to date, has been £196,000 (£247,000 in 2003/04). Work is ongoing in this area.

Other additional work

- 10 We have undertaken additional work on an objection to the 2001/02 and 2002/03 accounts. The fee, to date, for this work is £30,500.