

Annual Audit Letter

December 2005



# Annual Audit Letter

**Northumbria Police Authority**

**Audit 2004-2005**

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## Key messages

### Performance

- 1 The most significant issue facing Northumbria Police Authority (the Authority) is preparing for the proposed restructuring into a strategic police force for the north east, comprising Northumbria, Durham and Cleveland.
- 2 Northumbria Police Force (the Force) is among the top performing forces in the country, with high levels of performance, a strong reputation and recognition by external agencies.
- 3 Her Majesty's Inspectorate of Constabulary's (HMIC's) view is that the Force performed very well in 2004/05. They concluded that the main challenge for the Force in 2005/06 is to maintain and improve its high level of overall performance against a background of possible force restructuring on a regional basis.
- 4 Our review of performance management identified a strong and effective partnership between the Authority and the Force, with many aspects of good practice. The main areas for development were:
  - expanding quarterly reporting of performance information to include the monitoring of the main strategic risks; and
  - considering how to expand performance monitoring by the Authority to Area Command level.

### Accounts and governance issues

- 5 We have given your accounts an unqualified audit opinion. The overall standard of the financial statements and supporting working papers was high, with few amendments required to the statements.
- 6 Your overall corporate governance arrangements are sound in most key areas. Our detailed review indicated that there is scope to improve some aspects of Internal Audit. In addition, further progress is required on risk management. Officers are aware of the issues, and plans are in place to address them.
- 7 Developments in police force restructuring will have significant implications for corporate governance, and there is a key role for Members in managing the transition effectively. This will include ensuring that the existing high levels of performance and strong governance arrangements are maintained during the implementation of any changes.

## Financial position

- 8 The Authority enjoys a very healthy overall financial position, and its level of balances and reserves compares well with other authorities. The general reserve to provide for unforeseen circumstances and support future expenditure is £20.6 million, which is the highest of all police authorities. In addition, there is a further £87.2 million of reserves for specific purposes, including supporting unfunded pensions liabilities and the estates programme.
- 9 The Authority has developed a medium-term financial strategy for 2006/07 to 2008/09. This incorporates priorities for future growth, but also recognises the considerable uncertainties in respect of the impact of police force restructuring and changes to the funding formula which may impact adversely on the Authority.

## Action needed by the Authority

- 10 The key actions that need to be taken and then monitored by the Authority are:
  - working effectively with Durham and Cleveland in the development of restructuring proposals;
  - ensuring that any proposals and decisions of the Authority do not adversely fetter the position of any successor body;
  - managing the transition to gain the benefits of a strategic force whilst not impacting adversely on the current high levels of performance;
  - developing performance management by expanding quarterly reporting to include progress against key strategic risks, and expanding performance monitoring by the Authority to Area Command level; and
  - fully implementing plans to develop risk management arrangements.

## Performance

The most significant issue facing the Authority is preparing for the proposed restructuring into a strategic police force for the north east, comprising Northumbria, Durham and Cleveland.

HMIC's view is that the Force performed very well in 2004/05. They concluded that the main challenge for the Force in 2005/06 is to maintain and improve its high level of overall performance against a background of possible force restructuring on a regional basis.

Our review of performance management identified a strong and effective partnership between the Authority and the Force, with many aspects of good practice. The main areas for development were:

- expanding quarterly reporting of performance information to include the monitoring of the main strategic risks; and
- considering how to expand performance monitoring to Area Command level to the Authority.

## Police force restructuring

- 11 The most significant issue facing the Authority is the proposed restructuring into strategic police forces and authorities.
- 12 This followed the issue in September 2005 of the HMIC report, *Closing the Gap*, which identified that a revised structure was needed to address shortcomings in the protective services required to address level 2 criminality, which is the more serious and organised crime. HMIC identified that larger, strategic forces provided the best option to improve these services.
- 13 The Home Secretary strongly supported the HMIC report, and invited police forces and authorities to come forward with a shortlist of options by 28 October 2005 and a final report on a preferred option by 23 December.
- 14 At its meeting on 21 October 2005, the Authority reached the conclusion that the only viable option was a single north east strategic force comprising Northumbria, Durham and Cleveland. The Authority also identified the need for urgent guidance in respect of the governance issues arising from restructuring.
- 15 On 11 November 2005, the Home Secretary announced that the only option assessed as suitable for progression was a regional north east force. The Authority are currently developing the more detailed plans required for submission by 23 December.

- 16 The future will be extremely challenging for the Force and the Authority. Key immediate considerations include:
- working effectively with Durham and Cleveland in the development of proposals;
  - ensuring that any proposals and decisions brought forward by the Authority do not adversely fetter the position of any successor body; and
  - managing the transition to gain the benefits of a strategic force whilst not impacting adversely on the current high levels of performance.
- 17 Our ongoing 2005/06 audit will keep up-to-date with developments, and we will support the process where we can, including providing knowledge of the impact of restructuring across the country.

## HMIC's baseline performance assessment

- 18 During the past three years, a performance framework has been developed by the Home Office and HMIC, with support from the Association of Police Authorities (APA) and the Association of Chief Police Officers (ACPO). The aim is to drive up performance in policing. The baseline assessment of forces is combined with the policing performance assessment framework (PPAF) to form a joint performance assessment. This assessment comprises seven domains, which can be mapped across to the 27 baseline assessment frameworks.
- 19 In order to show force performance, assessment has been made by HMIC in seven key performance domains. The assessment is based on a combination of performance data and professional judgement. Grades are awarded for the performance delivered by a police force on an annual basis. Grades are based in part on a comparison of performance with similar forces and also on the basis of direction of travel, a comparison of year on year performance. There are four 'delivery' grades – excellent, good, fair or poor – and three 'direction of travel' grades – improved, stable or deteriorated.
- 20 On 27 October 2005, the joint PPAF/baseline assessment reports for all 43 English and Welsh forces were published. The overall position for Northumbria is shown in the table below.

**Table 1 Joint assessments for Northumbria Police**

<b>Performance areas</b>	<b>Delivery</b>	<b>Direction</b>
Reducing crime	Excellent	Improved
Investigating crime	Good	Deteriorated
Promoting safety	Good	Improved
Providing assistance	Good	Stable
Citizen focus	Fair	Improved
Resource use	Good	Improved
Local policing	Excellent	Stable

- 22** HMIC recognises that Northumbria Police covers a diverse area, combining the geographically remote rural area of Northumberland with the densely populated inner city areas along the river corridors of the Tyne and Wear. It also contains areas of relative prosperity with areas of significant deprivation.
- 23** HMIC's view is that the Force performed very well in 2004/05. Despite undertaking a significant change process the Force continued to deliver significant reductions in crime. Furthermore, the Force delivered very strong levels of performance in other operational areas. Northumbria is progressing six areas of reform over the next five years to deliver a Force which provides a 'Total Policing' service. They are: leadership, performance management, marketing, partnership, training, and strategic resource management.
- 24** HMIC has concluded that the main challenge for the Force in 2005/06 is to maintain and improve its high level of overall performance against a background of possible force restructuring on a regional basis.

## Performance management

- 25** There is a strong and effective partnership between the Authority and the Force. The main features of performance management arrangements that we noted for the Authority included development of a three year strategic plan, the annual local policing plan, quarterly monitoring of performance, best value reviews, and financial planning and control. Recent changes, including the revised committee structure and a lead Member for performance management, are promising.

- 26 There are two key areas to address:
- utilising the developments in Force risk management to expand quarterly reporting of performance information to include the monitoring of the main strategic risks; and
  - considering how to expand performance monitoring to Area Command level, but in a sensible and informative way to the Authority.
- 27 Performance monitoring focuses on policing outcomes. It is less clear how the Authority monitors new initiatives and developments, such as the Force's management of major projects and the response to national policing issues. Whilst ad-hoc reports have been noted on key topics, for example, the response to the Bichard enquiry, and the Chief Constable provides briefings on current issues, monitoring is not systematic. In our separate review of risk management, we have identified that this gap in the Authority's arrangements could be filled by the quarterly reporting on the management of the main strategic risks along with performance information. This is an important recommendation to improve overall performance management, and if this is implemented effectively, the Authority's arrangements would exhibit many elements of best practice.
- 28 Within the Force, the new Chief Constable's approach has been to recognise the achievements of the past, but seek to raise standards even higher. A number of key areas have been identified to drive further improvement, including enhancements to the Force's performance management framework. An impressive performance focus is demonstrated, and there is a substantial body of detailed performance management process and procedure in place to underpin the information considered by the Authority. There is little doubt over the Force's determination to further develop its arrangements and use performance management to drive further improvement.

## Partnership arrangements

- 29 We are currently carrying out an overview of partnership arrangements. This review has been delayed with the agreement of officers, but we hope to complete this work shortly and issue a draft report in January 2006.

## Responding to the Civil Contingencies Act

- 30 The main elements of the Civil Contingencies Act 2004, aimed at delivering a single framework for civil protection in the UK, came into force from 14 November 2005. We intend to carry out a review of the Authority's response to the Act early in the New Year. This is a cross cutting review, which will include a review of the arrangements in other audited bodies, including local authorities, the fire and rescue authority and health bodies.

## Crime data quality and activity based costing

- 31 The Audit Commission is undertaking the third phase of reviews of crime data quality and activity based costing in partnership with the Police Standards Unit of the Home Office. These programmes are being undertaken nationally at all police authorities between October 2005 and March 2006.
- 32 The focus of these reviews will continue to be on the arrangements in place in police authorities and forces to support appropriate and sustainable practice. This will involve:
  - follow-up of the recommendations of previous reviews;
  - compliance testing; and
  - the effectiveness of management arrangements, including the role of the police authority.

## Performance information

- 33 We are required to audit the Authority's Best Value Performance Plan (BVPP). In the context of the Authority, this is our consideration of the Local Policing Plan 2005/06, incorporated in your Strategy Plan 2005/08.
- 34 We found that the performance information in the BVPP was well supported and well evidenced and it is clear that the high standards demonstrated in previous years have been maintained. We also concluded that the BVPP as a whole complied with the key statutory requirements.
- 35 Our statutory report did not identify any formal recommendations to be brought to the attention of Members.

## Accounts and governance

We have given your accounts an unqualified audit opinion. The overall standard of the financial statements and supporting working papers was high, with few amendments required to the statements.

Your overall corporate governance arrangements are sound in most key areas. Our detailed review indicated that there is scope to improve some aspects of Internal Audit. In addition, further progress is required on risk management. Officers are aware of the issues, and plans are in place to address them.

The Authority enjoys a very healthy overall financial position, and its level of balances and reserves compares well with other authorities.

Developments in police force restructuring will have significant implications for corporate governance, and there is a key role for Members in managing the transition effectively. This will include ensuring that the existing high levels of performance and strong governance arrangements are maintained during the implementation of any changes.

### Audit of 2004/05 accounts

- 36 We gave an unqualified opinion on the Authority's financial statements on 28 October 2005.
- 37 The Authority's draft accounts were approved on 6 July, well in advance of the 31 July statutory deadline. The Authority's success in meeting the shorter deadlines for producing and approving its accounts show that it remains well placed to meet next year's deadline of 30 June 2006. Final accounts working papers were of a high standard, the audit went smoothly and we appreciated the assistance provided by officers.
- 38 A few amendments were made to the statements and actions agreed for the future. All agreed amendments were incorporated into the revised financial statements approved by the Authority on 21 October 2005.

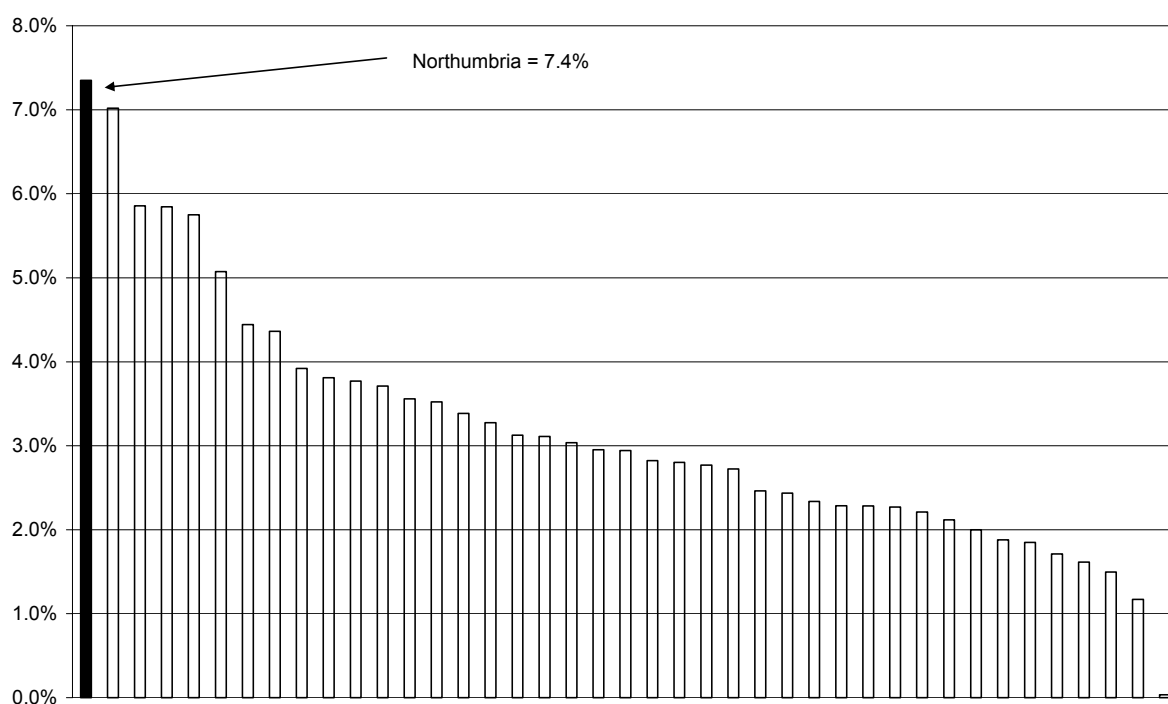
### Report to those with responsibility for governance in the Authority

- 39 We are required by auditing standards to report to those charged with governance (in this case the Authority) certain matters before we give an opinion on the financial statements. We reported to the authority under SAS 610 on 21 October 2005 that all misstatements and issues identified during the audit have been discussed and appropriate amendments made by officers. There were no significant issues to draw to the attention of Members.

## Financial standing

- 40 The Authority enjoys a very healthy overall financial position, and its level of balances and reserves compares well with other authorities.
- 41 The general reserve to provide for unforeseen circumstances and support future expenditure is £20.6 million, which is the highest of all police authorities.

**Table 2** General reserve at 31 March 2005 as a percentage of 2005/06 revenue expenditure, all police authorities



Source: Financial statements 2004/05 and CIPFA statistics 2005/06

- 42 In addition to the general reserve, there is a further £87.2 million of reserves for specific purposes:
- earmarked reserves £49.7 million: and
  - capital reserves £37.5 million.
- 43 The earmarked reserves mainly relate to unfunded pensions and insurance liabilities, and the capital reserves are largely to support the estates programme. The Authority recognises that the position on pensions reserves will need to be reviewed when the full implications of changes in pension arrangements from 2006/07 are clearer. There is also a recognition that police force restructuring may impact on the estates strategy.

- 44 The 2004/05 net revenue budget was £249.81 million, with the revenue outturn £4.9 million under the revised estimate enabling £5.9 million to be contributed to earmarked reserves. Latest reports to Members indicate that the 2005/06 revenue budget is on target to be contained within the estimated net revenue expenditure of £264.9 million, and £132.0 million after the planned use of balances and Home Office grant.
- 45 The 2005/06 capital programme is currently estimated at £21.79 million, slightly below the original estimate of £21.94 million. Capital expenditure is planned to increase significantly on the spend for 2004/05 of £9.76 million, reflecting the implementation of the estates strategy.
- 46 The Authority has developed a medium-term financial strategy for 2006/07 to 2008/09. This incorporates priorities for future growth, but also recognises the considerable uncertainties in respect of the impact of police force restructuring and changes to the funding formula which may impact adversely on the Authority.

## Systems of internal financial control

- 47 The Authority's overall arrangements for securing good governance remain sound in key areas. We have not identified any significant weaknesses in the overall control framework. However, our detailed review indicated that there is scope to improve some aspects of Internal Audit. In addition, the need to underpin corporate governance arrangements and to fully embed a risk management culture is recognised and work continues to address this.

### Internal Audit

- 48 Our review identified that Internal Audit (IA) generally meets the standards set out in the CIPFA Code and Manual, and is taking action on those areas where further improvement is needed.
- 49 Despite IA's ongoing commitment to improvement, there remains scope for strengthening IA's approach against CIPFA's operational standards. This applies in particular to managing audit assignments, reporting and quality assurance. Recognised areas for improvement include the need to:
  - update the IA Manual to reflect the latest version of the CIPFA Code, and changes to IA processes resulting from the introduction of a computerised system;
  - establish and maintain up-to-date systems documentation, showing a clear evaluation of controls and associated risks. This should be clearly linked to subsequent testing;
  - adopt a consistent approach to sample selection, which reflects risk and considers the value and volume of transactions through systems; and
  - improve the quality of documentation to support IA judgements;

- improve IA reports by summarising the potential impact of issues identified on the control environment. Recommendations should also be reviewed to ensure they are more specific; and
  - develop a programme of periodic quality reviews, which are clearly documented and reported to members.
- 50 The Chief Internal Auditor has recently introduced a computerised audit software package (Galileo) which records all stages of the audit process, and will help address many of the issues identified in our work. Steps are being taken to address these improvement areas and IA is well placed to make further advances.

## **Risk management**

- 51 The Authority has developed a corporate framework for the management of risk by adopting much of the arrangements developed during 2002 for Gateshead Council under the Director of Finance & ICT and the Head of Financial Services. However, these arrangements primarily address the risks impacting on the support services provided by the Authority to the Force.
- 52 The Force has a history and reputation for good performance, and has established operationally focussed arrangements for risk but has acknowledged the need to formalise the process and expand the scope to cover corporate and strategic planning. The recent appointment of a Corporate Risk Management Advisor has allowed the Force to progress the risk agenda and encouraging progress has been made to date. However, the arrangements have yet to be fully implemented and there is much work still to do to demonstrate an effective framework for risk.
- 53 The key areas for development of risk management include:
- ensuring the lines of accountability between the Authority and the Force are clarified, and processes fully integrated;
  - ensuring that the Force sees through its plans to implement effective risk management by March 2006;
  - ensuring that appropriate staff are engaged within the proposed training and future development of risk registers in order to provide a sustainable embedded process for the long term; and
  - clarifying the role of Members and ensuring that robust monitoring arrangements are in place through the Audit and Service Improvement Committee.

## **ICT management arrangements**

- 54 Overall, we concluded that there is a professional approach and that effective arrangements are in place for the management and delivery of Information and Communication Technology (ICT) projects. There are some areas for development, most of which are already being actively considered and pursued by senior management.

- 55 The Force's Information Systems and Telecommunications (IS&T) department demonstrate an adherence to national strategy at a local level and the Director of IS&T's lead role in helping to develop the new national police IT strategy strongly positions the Force to be able to address the new national requirements. IS&T manage a programme plan for all known projects with ICT. The development of corporate and business planning should help to ensure that all projects identified to deliver corporate and business objectives will be appropriately prioritised, resourced and monitored throughout their delivery.
- 56 Project management in the form of PRINCE2 is adhered to where appropriate for all projects of high complexity or financial spend. The resources within IS&T are in place and it is acknowledged that the Force needs to make use of non-IS&T project managers and this is to be progressed by the Corporate Development department.

### **Support services**

- 57 As part of the Authority's own modernisation agenda, it is carrying out a review of its functions as an Authority, the support services it provides to the Force, and the way it demonstrates best value in these services. This review has been given added importance given the proposals for police force restructuring.
- 58 We are currently carrying out reviews of estates management and procurement, which are two areas where functions previously carried out by the Authority have been devolved to the Force to some degree. We hope to report on these areas in January 2006.
- 59 As part of the agreed audit plan for 2005/06 we will also assess the outcomes of the Authority's review of other support services. Members received a report from officers on these support services in December 2005, and this will provide a starting point for our review.

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

- 60 We have not identified any significant weaknesses in your arrangements to prevent and detect fraud and corruption.
- 61 However, we did note the identification by Internal Audit of a fraud relating to misappropriation of funds seized by the police. The fraud totalled some £11,000, and there was a successful prosecution in this case. We also noted from our review of Internal Audit work that issues in respect of the operation of internal controls relating to police seized funds were not uncommon. We thought the action taken by Internal Audit to issue a bulletin to police establishments, to highlight common weaknesses in internal controls, is a positive innovation and should be continued. Given the fraud, this is an area where we would expect to see a clear response to Internal Audit recommendations emerging from future work.

## **Legality of transactions**

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

## Other work

### Grant claims

- 63 The Home Office have recently confirmed that they have removed the requirement for audit certification for police grants for 2004/05 and beyond.
- 64 This follows a review of arrangements to obtain adequate assurance about grant monies in accordance with a request from HM Treasury. The key principle from the HM Treasury request is that the audit for grants should be carried out in a way proportionate to the amounts involved and the associated risks. Recipients will need to account for their claims but further certification through formal audit is not always necessary.
- 65 The Home Office have concluded that taking all factors into account they are content to proceed from and including 2004/05 on the basis of annual assurance from the Chief Financial Officer and the Chief Constable.

### National Fraud Initiative

- 66 In 2004/05, the Authority took part in the Audit Commission's National Fraud Initiative (NFI 2004/05). 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 payroll and housing benefit fraud, with the details of housing benefit fraudsters being passed back to the employing body to allow them to consider the implications and take action as appropriate.
- 67 Our initial risk assessment concluded that the Authority was low risk for NFI, there were relatively few matches and we were satisfied with the arrangements to investigate data matches.

## Looking forward

### Future audit work

- 68 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 and the delivery of the police data quality audit, will be reported in next year's Annual Letter.
- 69 We have sought to ensure, wherever possible, that our work relates to the improvement priorities of the Authority. We will continue with this approach when planning our programme of work for 2006/07. We will continue to develop our relationship with HMIC to ensure a co-ordinated approach to regulation.

### Revision to the Code of Audit Practice

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

### Working with HMIC

- 72 HMIC currently undertakes a baseline assessment of every police force. The methodology is similar to that of the Comprehensive Performance Assessment (CPA) for local authorities and it includes an assessment of financial management and financial standing.
- 73 In the past, this assessment has been undertaken by a member of HMIC staff. To reduce potential for overlaps and secure greater consistency in reporting it is proposed that in future the Audit Commission would develop and produce a Use of Resources judgement for all police forces and that HMIC would rely on this judgement and incorporate it into the baseline assessment.
- 74 Negotiations are at an early stage but we would aim to have the new arrangements in place for the 2006/07 audits which would mean that a Use of Resources judgement would be given in July/August 2006 to feed into the HMIC baseline assessment reports which are published each October.

## Closing remarks

- 75 This letter has been discussed and agreed with the Authority and the Force. A copy of the letter will be presented at the Authority meeting on 18 January 2006.
- 76 This is my final Annual Audit Letter to the Authority. Lynne Snowball is taking over responsibility as District Auditor for the 2005/06 audit. I would like to take this opportunity to express my appreciation for the assistance and co-operation provided during my time as your District Auditor. Our aim is to deliver a high standard of audit which makes a positive and practical contribution to support your own agenda.
- 77 The Authority has taken a positive and constructive approach to our audit and I would like to take this opportunity to express my appreciation for the Authority's assistance and co-operation.

## Availability of this letter

- 78 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 Authority's website.

David Jennings  
District Auditor  
December 2005

# Appendix 1 – Background to this letter

## The purpose of this letter

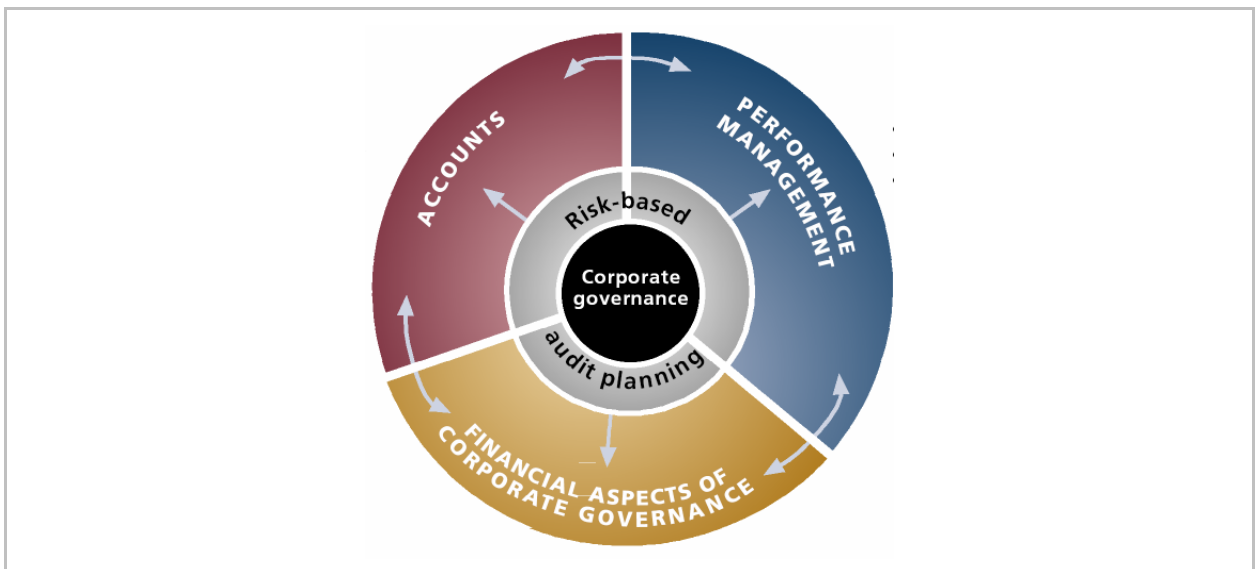
- 1 This Annual Audit Letter summarises the conclusions and significant issues arising from our recent audit of the Authority.
- 2 We have issued separate reports during the year setting out the findings and conclusions from the specific elements of our programme. These reports are listed at Appendix 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.

## 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 the significant risks that are relevant to our audit responsibilities.

**Figure 1 Code of Audit Practice**

Code of practice responsibilities



- 6 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 3**

<b>Report title</b>	<b>Date issued</b>
Audit Plan	April 2004
Review of ICT Management Arrangements	August 2005
Core Process Review Memorandum	September 2005
Financial Aspects of Corporate Governance Memorandum	September 2005
Performance Management	September 2005
Review of Risk Management	September 2005
Review of Internal Audit	October 2005
Report on the 2004/05 Financial Statements to Those Charged with Governance (SAS 610)	October 2005
Report on the Best Value Performance Plan (2005/06 Audit)	October 2005
Final Accounts Memorandum	November 2005

## Appendix 3 – Audit fee

**Table 4      Audit fee update**

<b>Audit area</b>	<b>Plan 2004/05</b>	<b>Actual 2004/05</b>
Accounts	16,000	16,000
Financial aspects of corporate governance	35,000	35,000
Performance	35,000	35,000
<b>Total Code of Audit Practice fee</b>	<b>86,000</b>	<b>86,000</b>
Additional voluntary work (under section 35)	0	0
<b>Total</b>	<b>86,000</b>	<b>86,000</b>