

Annual Audit and Inspection Letter

December 2005



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Middlesbrough Council

Audit 2004-2005

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For further information on the work of the Commission please contact:

Audit Commission, 1st Floor, Millbank Tower, Millbank, London SW1P 4HQ

Tel: 020 7828 1212 Fax: 020 7976 6187 Textphone (minicom): 020 7630 0421

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Key messages

Council performance

- 1 Under the new CPA framework, Middlesbrough Council has been assessed as a council that is **improving well** and demonstrating a **four-star overall performance**. Services in most priority areas are improving and the Council delivers good value for money. This year's corporate assessment confirmed that since 2002 the Council has built on its existing strengths and made changes to address its weaknesses, with particular improvements in prioritisation, focus and investment. However, the Council recognises that there remains a need for improvement in some areas.

Accounts and governance

- 2 For the first time in 2005, we carried out a use of resources assessment. This is a new judgement which focuses on financial arrangements but links to the strategic management of the Council. It looks at how financial management supports Council priorities and delivers value for money. In overall terms, the Council scored three out of four, reflecting a performance that was consistently above minimum requirements. Particular strengths were:
 - a willingness to innovate, and take difficult decisions, to secure and improve value for money;
 - positive member engagement in financial management and service reviews;
 - extensive consultation with stakeholders on service priorities and spending plans; and
 - a prudent approach to establishing provisions and earmarked reserves.
- 3 There is scope for the Council to further improve its performance, in particular, by better financial reporting and internal control, especially in terms of:
 - internal audit coverage; and
 - system weaknesses highlighted in the Statement on Internal Control, some of which have been apparent for a number of years.
- 4 We gave an unqualified opinion on the 2004/05 accounts on 31 October 2005. The quality of working papers supporting the accounts has improved since last year, although slippage against the closure timetable truncated the time available for senior officer and member review. Our key concern was that regular bank reconciliations had not been prepared in the second half of the year, following the introduction of a new financial management system.
- 5 2004/05 also saw a significant drop in the council tax and NNDR collection rates, placing the Council's performance in the lowest quartile nationally.

Action needed by the Council

- Implement proposed new corporate standards for customer charters and service promises.
- Renegotiate key performance indicators for Service Middlesbrough, focusing on service quality and continuous improvement. Also, improve strategic direction within the partnership, and increase the level of member involvement and engagement.
- Reinstate collection fund balances, and improve collection rates for NNDR and council tax.
- Improve delivery of the project plan for the annual accounts.
- Deliver action plans set out in the Statement on Internal Control.
- Review internal audit provision.

Performance

Under the new Comprehensive Performance Assessment (CPA) framework, Middlesbrough Council has been assessed as a council that is improving well and demonstrating a four-star overall performance. Services in most priority areas are improving and the Council delivers good value for money.

CPA scorecard

Table 1 CPA scorecard

Element	Assessment
Direction of Travel judgement	Improving well
Overall	Four-star overall performance
Current performance	
Benefits	3
Children and young people	3
Culture	4
Environment	3
Housing	2
Social care (adults)	3
Use of resources	3
Corporate assessment/capacity to improve	4
Previous corporate assessment/capacity to improve	3

(Note: 1=lowest, 4=highest)

- 6 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.

- 7 Under the new framework, Middlesbrough Council has been assessed as a council that is improving well and demonstrating a four-star overall performance. Services in most priority areas are improving. Education achievement levels show sustained improvement. The crime rate continues to fall. Children's social care continues to be good. Adult services enable more people with learning or physical disabilities to live at home. Streets are cleaner but the amount of waste recycled remains below national targets. The overall performance of the benefits service has fallen. Partnership work on regeneration contributes to wider community outcomes, such as rising employment and higher life expectancy. Access for all groups is improving through one-stop-shops, where public satisfaction is high. The Council has secured significant cost reductions in recent years and delivers good value for money.
- 8 There are robust plans to improve services and the Council is generally delivering its promises. It sets ambitious targets for improvement, although not all have been met. The Council has the ability to achieve additional improvement and it is currently looking to further strengthen capacity in key areas, such as meeting minority needs. Financial capacity is good, with the Council making effective use of the external funding.

Direction of Travel report

- 9 Services are improving in areas the Council has identified as priorities and that the public say are important. Performance over the past three years has improved on priorities and poorly performing services, though trends are mixed in non-priority areas.
- 10 Children's services are above minimum standards, with good capacity to improve. There is improvement across all phases of education. Middlesbrough is one of only eleven authorities nationally to have improved year-on-year across all key stages since 2002. The gap between Middlesbrough and the national average continues to narrow but achievement remains well below the national averages and that of similar authorities.
- 11 Social care services for adults continue to be good. Improvements have, for example, enabled more people with learning or physical disabilities to live at home. Delayed discharges from hospitals have been reduced to zero and the timeliness of new older client assessments has improved.
- 12 Overall, the benefits service has declined. The service was awarded a score of good by the Benefits Fraud Inspectorate which is a fall from last year. It was judged to be excellent in two sub-sections, security and resource management, but user focus was judged to be only fair.
- 13 Progress has been made in transforming the local environment. Middlesbrough's streets are cleaner as a result of action taken following a best value review with 18 per cent of streets now classified as unclean. Recycling services are improving but still below national targets. The Council has been awarded beacon status for community safety and rethinking construction.

- 14 The Council is contributing towards wider community outcomes and engages well with partners, for example in the healthy schools scheme. Employment levels are up by 1.1 per cent, the crime rate has dropped by 31 per 1,000 population and people now have a higher life expectancy. Fear of crime has been further reduced.
- 15 The Council is improving both access and the quality of service for all its citizens. There is high public satisfaction for one-stop-shops. A young people's multi-agency one-stop-shop has been established and outreach services have been developed with the NHS to bring services to local community leisure centres. However, the Council has not fully addressed the access to buildings requirements set out in the Disability Discrimination Act.
- 16 The Council has identified the need to develop culturally sensitive social care services for children and young people from black and minority ethnic communities, but there is less evidence available to demonstrate the work carried out to ensure the safety of children and young people with special needs and/or disability. Diversity Action Plans (DAPs) represent a sound approach to improve service provision for hard to reach groups. Progress is being made against the actions detailed in the DAPs, which are monitored quarterly.
- 17 The Council has secured significant cost reductions in recent years and achieves good value for money in terms of the balance between costs, service quality and operating environment. The Council has reduced base budget by £12 million over the past three years. It is extremely successful at securing external funding and has delivered significant savings and efficiency gains through innovative partnership and outsourcing arrangements. There is a clear focus on value for money and providing effective support to services. The mayor sets clear and challenging targets for improvement. Councillor led clinics and service reviews target both overspending and high-cost services.
- 18 A procurement strategy is in place and some progress is being made on embedding the strategy into everyday activities. Work on joint commissioning is developing, but at an early stage.
- 19 Progress is being made to implement robust improvement plans to sustain future improvement. The Council has a clear vision and has, for example, established a strategic direction for its work with children and young people. Plans are in place for the regeneration of Middlesbrough, some of which will be delivered in partnership with a neighbouring local authority. The Corporate Performance Plan (CPP) contains actions or commitments for delivering priorities which link to the Mayoral raising hope agenda and the community strategy.
- 20 The Council is making good progress in implementing its improvement plans. The CPP outlines 142 commitments to help achieve priorities and the Council estimates that it is currently on target to achieve 93 per cent of these. The Council sets challenging targets for service improvement but this means that currently a number are still to be met. Performance on BVPIs shows improvement in priority areas and in services the public have identified as important.

- 21 The Council has much of the capacity and skills that it needs to achieve change and further improvement in services. Its corporate assessment score has improved from good to excellent. There is strong political and corporate leadership. There is clarity over roles and responsibilities and working arrangements are effective. Service planning is good. The 2005 Corporate Assessment identified that there was more work to do to develop staff appraisals and customer charters consistently across the Authority, and significant work in these areas has subsequently been carried out. A draft minimum standard for customer charters has been circulated to key staff for comment, and a corporate minimum standard for staff appraisals has been rolled out across all service areas. The Council lacks an overarching workforce development strategy.
- 22 The Council's financial capacity is good and it makes good use of external funding to deliver against priorities. The Council has an open approach to exploring alternative methods of service delivery and the use of partnerships to provide services in areas such as social care and community safety. Discussions with HBS to renegotiate its partnership are underway, but they are some distance from reaching a conclusion.
- 23 There are no significant weaknesses in arrangements for securing continuous improvement or failures in corporate governance that would prevent improvement levels being sustained.

Corporate Assessment

- 24 In 2002, the Audit Commission carried out its initial Corporate Assessment (CA) at Middlesbrough Council, and a further assessment was carried out in the first half of 2005. Judgements were based on the Audit Commission's published key lines of enquiry, and included an update and analysis of the Council's progress against:
 - strengths and weaknesses contained in the 2002 report; and
 - the Council's own priorities for improvement.
- 25 Our overall conclusion was that Middlesbrough Council had made progress in key areas since the 2002 corporate assessment was carried out. It has built on its strengths and made changes to address its weaknesses, particularly in respect of prioritisation, focus and investment. As a result of this assessment, the Council was recategorised as 'excellent'. The summary of scores is shown in Table 2.

Table 2 Corporate Assessment score

Key question	Theme	2002 final weighted score	2004 weighted score
What is the Council trying to achieve?	Ambition	4	4
	Prioritisation	3	4
	Focus	3	4
How has the Council set about delivering its priorities?	Capacity	3	3
	Performance management	3	3
What has the Council achieved to date?	Achievement	9	9
	Investment	4	6
In light of what has been learnt, what does the Council plan to do next?	Learning	3	4
	Future plans	3	3
Total theme score		35	40

Other performance work

Performance management

- 26 This review was a follow-up to audit work undertaken in 2004. In overall terms, we found that the Council has made progress in implementing the specific recommendations from our previous report, particularly in respect of risk management and quality of life indicators. Two key areas for further development remained in June 2005:
- ensuring that the minimum standard for staff appraisal links individual and corporate objectives - this has now been addressed with a corporate minimum standard introduced in August 2005; and
 - developing consistent standards for customer charters and service promises - a draft corporate standard has been produced and is currently with key staff for comment.

Service Middlesbrough

- 27 As part of our work each year, we track progress on Service Middlesbrough. The partnership is now half way through its ten-year contract, and has delivered undeniable benefits since its inception, most notably one-stop-shops, a new call centre and modernised IT systems. However, performance in some service areas still falls well short of the upper quartile levels initially envisaged.
- 28 There have been protracted negotiations around the key performance indicators, in an attempt to bring these up-to-date and focus on service quality and continuous improvement rather than bureaucratic contract monitoring. Officers currently estimate that these will not be rolled out until next April, one year later than originally planned.
- 29 Another concern is the lack of strategic direction in the partnership – the partnership board has not met for over two years and there is limited member involvement in the contract.

LSP governance arrangements

- 30 Middlesbrough LSP is one of the largest recipients in the country of government grant funding. This review built upon the findings of the LSP validation exercise undertaken by the Audit Commission on behalf of Government Office North East (GONE) in April 2004. The table below summarises our key findings and conclusions.

Table 3

	Key findings	Recommendations
Partnership terms and conditions	<ul style="list-style-type: none"> Comprehensive partnership handbook. Service level agreements for each project. 	<ul style="list-style-type: none"> Clarify the roles of chairs and thematic action groups.
Key systems and processes	<ul style="list-style-type: none"> Performance management system significantly improved. Project monitoring, management and reporting are robust. 	<ul style="list-style-type: none"> Agree intervention levels. Review support arrangements.
Procurement	<ul style="list-style-type: none"> Improved processes for the allocation and programming of NRF funding. 	
Consultation and engagement	<ul style="list-style-type: none"> Four stakeholder conferences each year. Partnership engagement framework in place. 	<ul style="list-style-type: none"> Develop a complaints procedure.
Leadership and accountability	<ul style="list-style-type: none"> Robust code of conduct. Investment in training and development. 	

- 31 We are pleased to note that following completion of our work, action has been taken to address all of the points raised above.

Performance information

- 32 The Local Government Act 1999 requires local councils to publish a best value performance plan (BVPP) each year, setting out an assessment of current performance and targets for improvements. At Middlesbrough Council, this information is incorporated into the annual corporate plan. As external auditors, we are required to report on whether the plan has been prepared and published in accordance with the Act, and to review the Council's arrangements for producing specified performance information (BVPIs).
- 33 Our work confirmed that this year's corporate plan complied in all significant respects with relevant legislation and statutory guidance, and our sample testing identified a very low level of errors and inaccuracies in BVPI data. We issued an unqualified certificate on the BVPP in October 2005.

Working with other inspectorates and regulators

- 34 An important aspect of the role of the relationship manager is to work with other inspectorates and regulators who also review and report on the Council's performance. These include:
- Ofsted;
 - Commission for Social Care Inspection (CSCI);
 - Benefits Fraud Inspectorate (BFI);
 - DfES; and
 - Local Government Office contact.
- 35 We share information and seek to provide 'joined up' regulation to the Council. The Council's assessments from other regulators have been included in our scorecard and Direction of Travel assessment as appropriate.

Accounts and governance

We gave your accounts an unqualified audit opinion on 31 October 2005. Arrangements are generally sound. However, our work has identified some areas that need to be addressed relating to financial reporting and internal control.

Audit of 2004/05 accounts

- 36 We gave an unqualified opinion on the Council's accounts on 31 October 2005. Overall, working papers were better than in the previous year, and officers were able to respond more effectively to queries and requests for information.
- 37 Fifteen 'non-trifling' errors were identified during the course of our audit, which have been reported to members and corrected in accordance with SAS 610. These related primarily to presentational issues and disclosures and had no impact on reported outturn or levels of balances. We did not identify any significant inconsistencies in the Statement on Internal Control.
- 38 In last year's Annual Audit and Inspection Letter, we emphasised that timeliness in producing the accounts is becoming increasingly important as reporting deadlines are brought forward. The final accounts process has improved since last year, but there is a need for further work. Slippage in 2004/05 truncated the period available for senior officer and member review, and closedown processes could be more streamlined, for example in terms of:
- developing estimation processes for allocating overheads and accruing for unpaid invoices and grant claims; and
 - rescheduling activities such as confirmation of cash and stock balances.

Financial standing

- 39 The Council generally adopts a prudent approach to financial management. Council tax increases, levels of spend and balances in 2004/05 were comparable to unitary councils nationally. 2004/05 outturn reported a £0.6 million saving against budget, and all known financial obligations as at 31 March 2005 were reflected in either the balance sheet or medium-term financial plan. However, the Council's strategic risk register highlights a number of potential financial pressures for the future, which will require careful management:
- predicted falls in population figures which could impact on grant funding;
 - equal pay settlements; and
 - a deficit on the pension fund.
- 40 We reported in last year's letter that the collection fund was in deficit. This remains the case at 31 March 2005 although council tax rates for 2005/06 have been set at a sufficient level to achieve breakeven next year.

- 41 There has also been a concerning drop in council tax and NNDR collection rates. Figures of 91.9 per cent and 95.1 per cent respectively place the Council in the lowest quartile nationally and could have a significant impact on cashflow. Although early indications are that current year collection rates for council tax have improved, the picture on NNDR is less encouraging.

Systems of internal financial control

- 42 The focus of our work this year has been to review of the Council's new financial management system (SAP). This review identified a number of positive features:
- improved presentation of financial information;
 - commitment accounting introduced;
 - overall, a sound control environment; and
 - investment in user training.
- 43 Our key concern was that regular bank reconciliations had not been prepared subsequent to the introduction of SAP, and a full bank reconciliation was not undertaken until some time after the year-end.

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

- 44 The Council has an appropriate corporate governance framework, with particular strengths in risk management and the 'no hiding place' anti-fraud campaign. Where weaknesses have emerged in practice it has developed plans to address them, and has made appropriate disclosures in the Statement on Internal Control.
- 45 However, it is disappointing to note that some of these weaknesses have been apparent for a number of years. We also share the Council's concern about the capacity of Internal Audit to deliver an appropriate, risk-based work programme which provides the section 151 officer and members with the assurance they need. Thus, we welcome the decision to commission an independent review of the options for future provision of internal audit.

Legality of transactions

- 46 Our work this year has focused primarily on transactions relating to the transfer of housing stock to Erimus in November 2005, in terms of:
- option appraisal;
 - consultation with tenants;
 - quality of reports to members;
 - VAT shelter arrangements;
 - valuation and transfer of dwellings; and
 - accounting entries.
- 47 No significant issues or problems arose.

Use of resources judgements

- 48 The use of resources assessment is a new judgement that focuses on financial arrangements 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.
- 49 We assessed the Council's arrangements for use of resources in five areas.

Table 4

Element	Assessment
Financial reporting	2 out of 4
Financial management	3 out of 4
Financial standing	3 out of 4
Internal control	2 out of 4
Value for money	3 out of 4
Overall	3 out of 4

(Note: 1=lowest, 4=highest)

- 50 Particular strengths highlighted were in respect of:
- a willingness to innovate, and take difficult decisions, to secure and improve value for money;
 - positive member engagement in financial management and service reviews;
 - extensive consultation with stakeholders on service priorities and spending plans; and
 - a prudent approach to establishing provisions and earmarked reserves.
- 51 There are a number of areas where we feel that the Council should focus its attention to secure improvement. These are:
- financial reporting - the Council needs to reduce the number of presentational and disclosure errors in the annual accounts, and more consistently deliver against its closure timetable;
 - reinstate collection fund balances, and improve collection rates for NNDR and council tax;
 - implement action plans set out in Statement on Internal Control; and
 - improve scope of Internal Audit coverage and the frequency of reports to members.

Other work

Grant claims

- 52 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 and the Council's arrangements for managing and quality assuring grant claims has improved during 2004/05.

National Fraud Initiative

- 53 In 2004/05, the local authority took part in the Audit Commission's National Fraud Initiative. 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.
- 54 Middlesbrough has a proactive approach towards preventing and detecting housing benefit fraud, in particular through its 'No hiding place' campaign. The Council was assessed as low risk for NFI and we are satisfied that all data matches identified have been adequately followed up.

Looking forwards

Future audit and inspection work

- 55** 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.
- 56** 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

- 57** The statutory requirements governing our audit work, are contained in:
- the Audit Commission Act 1998; and
 - the Code of Audit Practice (the Code).
- 58** 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 Chief Executive and Director of Resources. 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

- 59 This letter has been discussed and agreed with officers, and will be presented to the Council's executive and scrutiny function in February 2006.
- 60 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

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

Steve Nicklin
District Auditor and Relationship Manager
December 2005

Appendix 1 – Background to this letter

The purpose of this letter

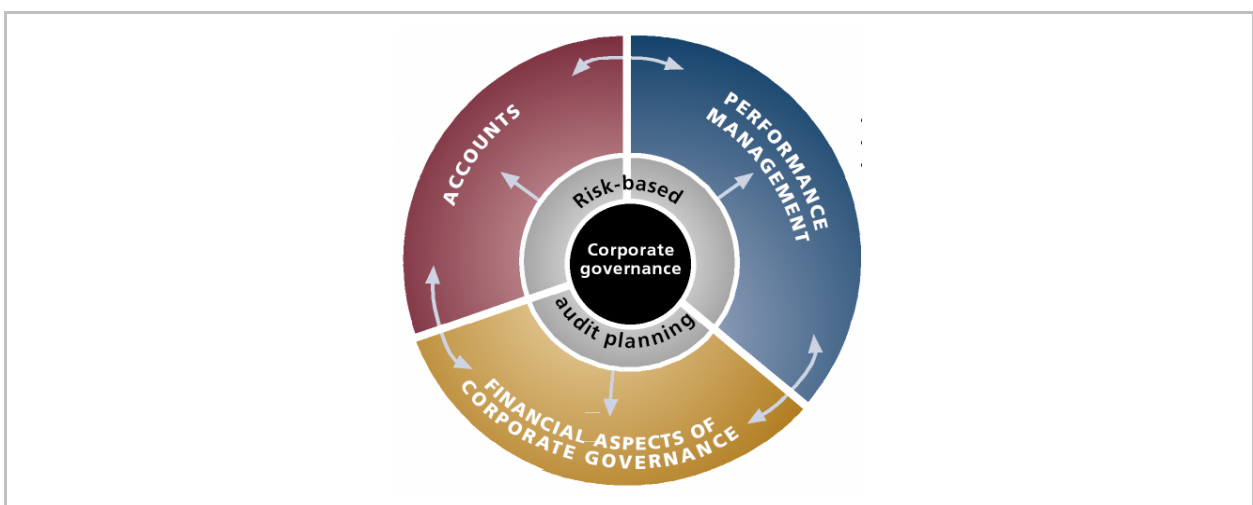
- 1 This is our Audit and Inspection ‘Annual Letter’ for members which incorporates the Annual Audit Letter for 2004/05, which is presented by the Council’s Relationship Manager and District Auditor. The letter summarises the conclusions and significant issues arising from our recent audit and inspections 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 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 and inspection reports issued 2005

Table 5

Report title	Date issued
Audit Plan 2005/06	March 2005
LSP Governance Arrangements	April 2005
2005 Corporate Assessment	May 2005
Performance Management	June 2005
BVPP Memorandum and Certificate	September 2005
2004/05 Interim Memorandum	September 2005
Report on the 2004/05 Financial Statements to those Charged with Governance (SAS 610)	October 2005
Final Accounts Memorandum	October 2005
Use of Resources Judgement	October 2005
Direction of Travel Report	November 2005

Appendix 3 – Fee update

Table 6 Audit fee update

Audit area	Plan 2004/05	Actual 2004/05
Accounts	£75,000	£75,000
Governance	£75,000	£75,000
Use of resources	£55,000	£55,000
Total - audit	£265,000	£265,00
Section 35 work	0	0
Grant certification	£90,000	£90,00

- 8 The full year inspection fee, net of ODPM grant, included above in use of resources, is £17,000.