



Committee Report

9


Rochford District Council

To the Meeting of: **AUDIT SERVICES**

On: **11 JANUARY 2000**

Report of: **CORPORATE DIRECTOR (FINANCE & EXTERNAL SERVICES)**

Title: **EXTERNAL AUDIT - MANAGEMENT LETTER 1998/99**

Author: **Mr. R. Crofts** Report Approved by: 

Introduction

Attached to this report is the Management Letter issued by the Council's new external auditor, Pannel Kerr Forster, in respect of the final accounts for 1998/99.

Members will see that, for the year in question, we will receive a qualified audit opinion in view of the fact that we do not comply fully with the Capital Resource Accounting requirements.

The former external auditor, whilst not issuing a qualified audit opinion, had expressed the view to Members and Officers that the Council should be moving to a more comprehensive system in respect of capital resource accounting.

Implications

At present, the Council does provide an annual budget of £3,000 for a rolling valuation of major buildings. In order to meet the requirements in full, eg., the inclusion of land, car parks, etc., it is estimated that the budget should be increased to £6,000. There is no provision in the budget for this increase.

With regard to other assets such as computer equipment, furniture, etc., no attempt has been made in the past to individually value these items for final account purposes. In order to provide a valuation, a sum of 15% of the building value has been included in the accounts. With regard to vehicles, no value has been shown in the accounts on the basis that they come within deminimis rules.

In order to build up a comprehensive set of records sufficient to provide the level of information required, there will be a need to devote around five weeks of one person's time to the project. This will need to be at Principal Accountant level. In subsequent years, it is estimated two weeks additional time will be needed.

During the last year, the Head of Financial Services has not committed a significant amount of time to final account preparation in order to assume more corporate duties. To provide the Principal Accountant with the time to prepare the accounts in accordance with the audit requirements, it will be necessary for the Head of Financial Services to resume his input to the final accounts process.

This may have an impact on the Corporate Director (Finance & External Services).

Conclusion

Under the provisions of the Accounts and Audit Regulations 1996, the Corporate Director (Finance & External Services) is under a mandatory and personal duty to compile the accounts in full accordance with any regulations or codes of practice in force at the time. The Council is also required to provide the necessary resources to carry out that duty.

Crime and Disorder Implications

None.

Environmental Implications

None.

Financial Implications

An additional £3,000 budget provision will be required for asset valuation. The Head of Financial Services and Corporate Director (Finance & External Services) will need to review their duties in order to provide the assistance necessary to allow the Principal Accountant to carry out the necessary additional work.

Legal Implications

It is a legal requirement to comply with the Accounts and Audit Regulations 1996.

Parish Implications

None.

Proposed that this Committee RESOLVES

1. to fully comply with the Capital Resource Accounting Requirements
2. to request the Extraordinary Council meeting on 18 January to provide an additional £3,000 for asset valuations.

Background Papers

None.

Rochford District Council
1999 Management Letter

December 1999



Pannell Kerr Forster

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The Members
Rochford District Council
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22 December 1999

Dear Member

We are writing following our audit of Rochford District Council for the year ended 31 March 1999. Our audit was planned and executed to discharge our responsibilities as set out in the Audit Commission's Code of Practice and its 'Statement of Responsibilities of Auditors and of Audited Bodies'.

The challenges of responding to the Government's modernising agenda and preparations for dealing with the Year 2000 problem have continued to place demands on your Officers and required you to make difficult decisions. The pace of change is likely to continue into the year 2000 as legislation is introduced on political management structures and Best Value moves from plans to reality.

A summary of conclusions from the audit and recommendations to the Authority is given in Section 1 of the Management Letter, followed by an account of the audit in Sections 2 to 11. If you have any questions regarding points raised, please do not hesitate to contact me or Rosemary Clarke, the Audit Manager.

May we take this opportunity to express our thanks to the Authority's staff for their help and co-operation during the course of our work.

Yours sincerely

Richard Bint
Partner
Appointed Auditor

Contents

	Page
1. Summary	1
2. Value for Money	5
3. Management Arrangements	15
4. Best Value	18
5. Performance Indicators	21
6. Financial Standing	26
7. Financial Statements	32
8. Systems Adequacy	35
9. Fraud and Corruption	38
10. Legality	39
11. Grant Claims	41
12. Issues for 1999/2000 Audit	43

1 SUMMARY

- 1.1 We are currently completing our audit of Rochford District Council for the year ended 31 March 1999. Our audit has been carried out in order to discharge our responsibilities as set out in the Audit Commission's Code of Audit Practice and its 'Statement of Responsibilities of Auditors and of Audited Bodies'.

THE FOCUS OF OUR AUDIT

- 1.2 The focus and rationale underpinning this, our first year of auditing the Authority, was set out in our Outline Audit Plan which we issued in March 1999 following discussions with your Chief Officers. The audit seeks to focus on the key issues for the Authority whilst ensuring that the audit objectives and requirements of the Audit Commission are fully addressed. It includes comments on some areas of performance in 1998/99 and considers how well you are dealing with current issues as and when they arise.

OUR OVERALL CONCLUSIONS

- 1.3 We have concluded that the Authority continues to face a challenging agenda with the management restructuring, the implementation of new IT systems and the development of a framework for Best Value.
- 1.4 We have two key concerns which we wish to bring to your attention where action is required to strengthen your overall arrangements:
- As at the end of September 1999, the Authority had not met six of the key Audit Commission Best Value milestone indicators. Recently work in a number of areas has reached a conclusion and progress against the milestones is improving. However, there is still a lot to be achieved if the Best Value Performance Plan is to be drafted, considered and approved by Members, and physically published by 1 April 2000. We are concerned that a consultation strategy needs to be developed for corporate as well as service objectives.
 - The Authority has not fully implemented the requirements of capital accounting. The service expenditure in the accounts has not fully reflected the cost of the assets used in providing those services and the valuation of certain assets has not been done on a systematic basis. We are concerned that the asset records for equipment, fixtures and vehicles are not sufficiently comprehensive and accurate to enable proper asset management and to safeguard the property of the Authority. We are planning to issue a qualified audit opinion on the Statement of Accounts as the Authority has not complied with the capital accounting requirements. It is important that the fixed asset records and capital accounting procedures are improved in future years and we have been discussing with Officers the steps that will need to be taken to address these issues.
- 1.5 Key issues for the forthcoming year will include continuing to make preparations for Best Value and reviewing the political and management structure of the Authority in response to the legislation on Local Government Organisation and Standards.
- 1.6 We have summarised the results of our work in respect of the audit objectives and the key recommendations for consideration by Members in Figure 1 overleaf. A detailed account of the audit is given in Sections 2 to 11 which follow.

Figure 1: Our audit conclusions


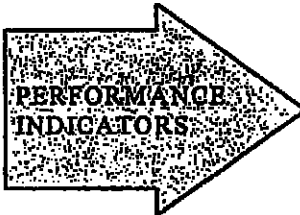
<i>Audit objective</i>	<i>Our conclusions</i>	<i>Member action points</i>
	<p><i>Our VFM work identified both good practice and opportunities for improvement.</i></p> <ul style="list-style-type: none"> • <i>The arrangements in respect of Community Safety are broadly sound. Suggestions have been made for improvement in Service and Financial Planning and Income and Charging.</i> • <i>Significant progress is required if the Authority is to be in a position to ensure the Best Value Performance Plan is underpinned by robust service plans. Many initiatives are in progress but not yet meeting all milestones.</i> • <i>There were significant resource issues with Internal Audit during the year which are in the process of being addressed.</i> • <i>Your process for ensuring that external audit recommendations are implemented could be improved.</i> 	<p><i>There should be a more comprehensive process of monitoring the achievement or otherwise of corporate and service objectives.</i></p> <p><i>A review to ensure the Authority's policies are fully reflected in service charging structures should be undertaken.</i></p> <p><i>Officers should be asked to provide regular updates on progress on Best Value during the critical phase through to April 2000.</i></p> <p><i>Internal Audit coverage should continue to be monitored to ensure that appropriate resource is available.</i></p> <p><i>A process should be introduced for monitoring the progress of external audit recommendations and reporting this to Members.</i></p>
	<p><i>Arrangements for producing the indicators are broadly sound, although some reservations have been noted and some changes will be made to previously reported indicators.</i></p> <ul style="list-style-type: none"> • <i>Most of the Authority's services are in line with similar authorities, although a number of indicators have deteriorated from previous years.</i> 	<p><i>The arrangements should be reviewed in the light of the reservations and changes noted this year.</i></p> <p><i>Members should monitor why performance has changed significantly from previous years.</i></p>

Figure 1: Our audit conclusions (continued)



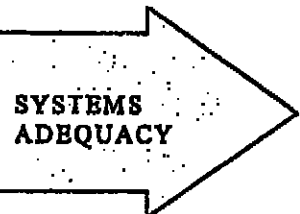
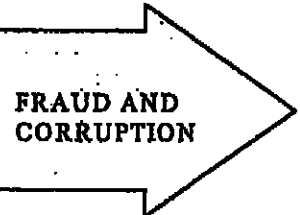
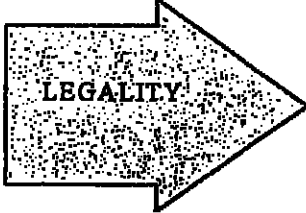
<i>Audit objective</i>	<i>Our conclusions</i>	<i>Member action points</i>
 <p>FINANCIAL STANDING</p>	<p><i>General financial standing is sound with effective budgetary control over general fund expenditure. However the assumptions in the HRA budget appear to have been particularly prudent.</i></p> <ul style="list-style-type: none"> <i>As at 31 March 1999, the financial position of the Authority is satisfactory but steps will need to be taken to address the budget gap in the medium term.</i> 	<p><i>Members should continue to consider ways of implementing cost saving or income generating measures to achieve a balanced budget.</i></p>
 <p>FINANCIAL STATEMENTS</p>	<p><i>We plan to issue a qualified opinion on the 1998/99 Statement of Accounts, as the Authority has not fully implemented the requirements of capital accounting.</i></p> <ul style="list-style-type: none"> <i>The schedules and information provided to support the accounts should be improved.</i> 	<p><i>Members should monitor progress on the action plan agreed with Officers to fully implement the capital accounting requirements.</i></p>
 <p>SYSTEMS ADEQUACY</p>	<p><i>Your systems in place to control and safeguard fixed assets during the period of our audit were not adequate for us to place reliance on them for the purposes of reaching our audit opinion. With this exception, we consider that financial systems are adequate.</i></p>	<p><i>Refer comment above – Internal Audit coverage should continue to be monitored.</i></p>
 <p>FRAUD AND CORRUPTION</p>	<p><i>Our work has identified no significant weaknesses in the Authority's arrangements for safeguarding against fraud and corruption.</i></p> <ul style="list-style-type: none"> <i>The arrangements would benefit from a policy detailing procedures to follow in the event of a breach of standing orders or financial regulations.</i> 	<p><i>None noted.</i></p>

Figure 1: Our audit conclusions (continued)

<i>Audit objective</i>	<i>Our conclusions</i>	<i>Member action points</i>
	<p><i>We have identified no issues of legality during the course of our work.</i></p>	

Source: Pannell Kerr Forster

- 1.7 We have also reviewed the arrangements in place for preparing and submitting grant claims to the relevant government departments. Our grant claims audit is in progress and work completed to date suggests that the Authority has complied with the relevant deadlines.

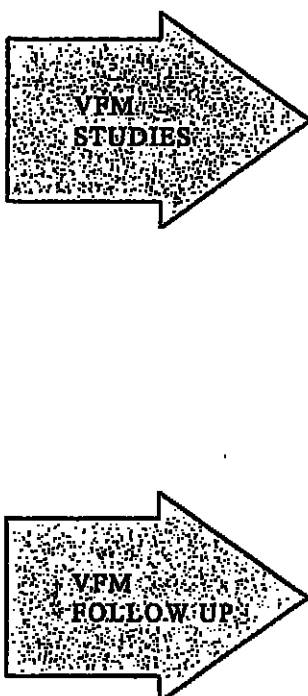
2 VALUE FOR MONEY

INTRODUCTION

2.1 A significant part of our audit is devoted to ensuring that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We have met this duty by undertaking:

- Specific Value for Money studies;
- Following up previous studies through the Audit Commission value for money indicators;
- Reviewing progress on implementing agreed recommendations contained in previous years studies; and
- Management arrangements reviews (Section 3) and Best Value assessments (Section 4).

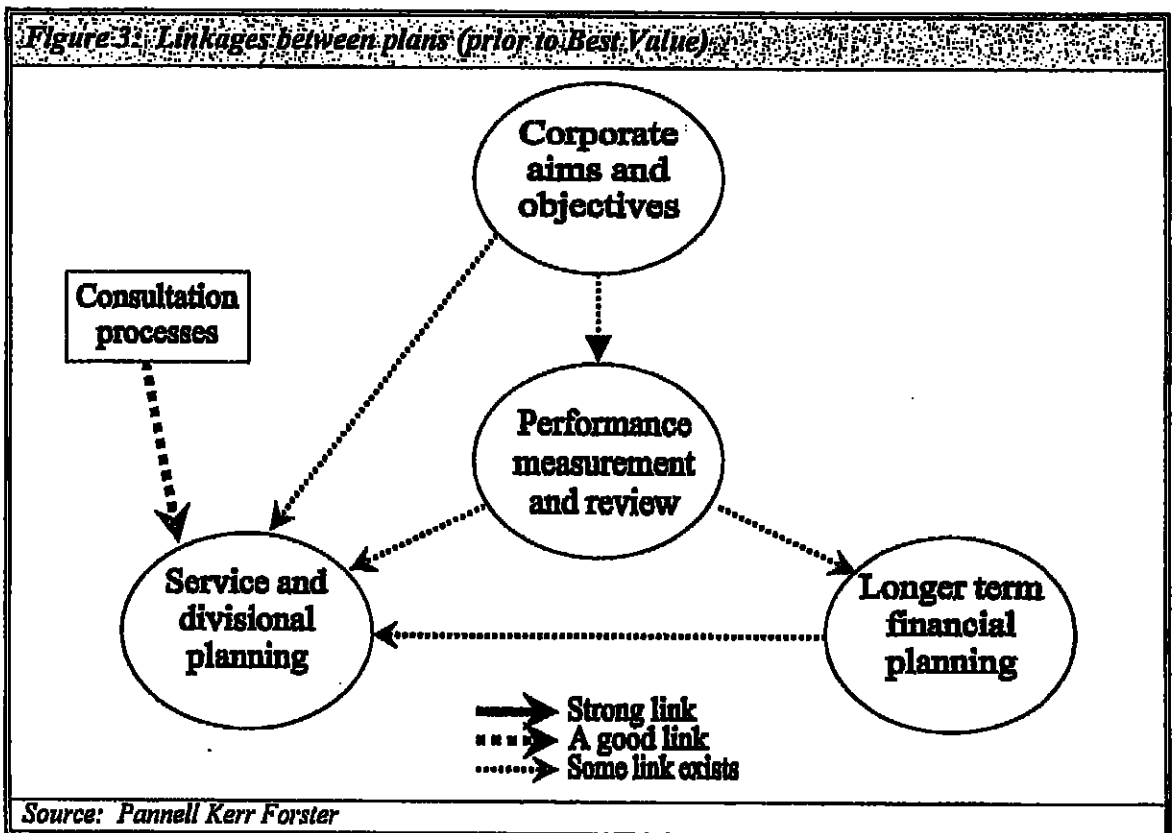
2.2 The scope of our work and conclusions arising are set out below.

<i>Figure 2: Meeting the value for money objective</i>		
	<i>Scope of Review</i>	<i>Conclusions</i>
	<ul style="list-style-type: none"> • <i>Service and Financial Planning Review</i> 	<p><i>Some improvements to the service and financial planning process are required, many of which are already being addressed. Financial planning should become more medium term and integrated with medium term service planning.</i></p>
	<ul style="list-style-type: none"> • <i>Income and Charging Review</i> 	<p><i>Policies have had an impact on the design of major areas of charging made directly by the Authority but more influence is needed over externalised services.</i></p>
	<ul style="list-style-type: none"> • <i>Community Safety Review</i> 	<p><i>The key elements required by the Crime & Disorder Act are in place, although further work will be required.</i></p>
	<ul style="list-style-type: none"> • <i>Environmental Stewardship Value for Money Indicators</i> 	<p><i>There has been some improvement on environmental issues since the initial study, but there remains a considerable amount to be done by the Authority.</i></p>
	<ul style="list-style-type: none"> • <i>Recruitment and Training Value for Money Indicators</i> 	<p><i>The Authority has made some good progress against the issues from the initial report.</i></p>
	<ul style="list-style-type: none"> • <i>Follow up of previous studies</i> 	<p><i>Some steps have been taken to implement recommendations from previous audit reports but the process of follow up needs to be improved.</i></p>
<p><i>Source: Pannell Kerr Forster</i></p>		

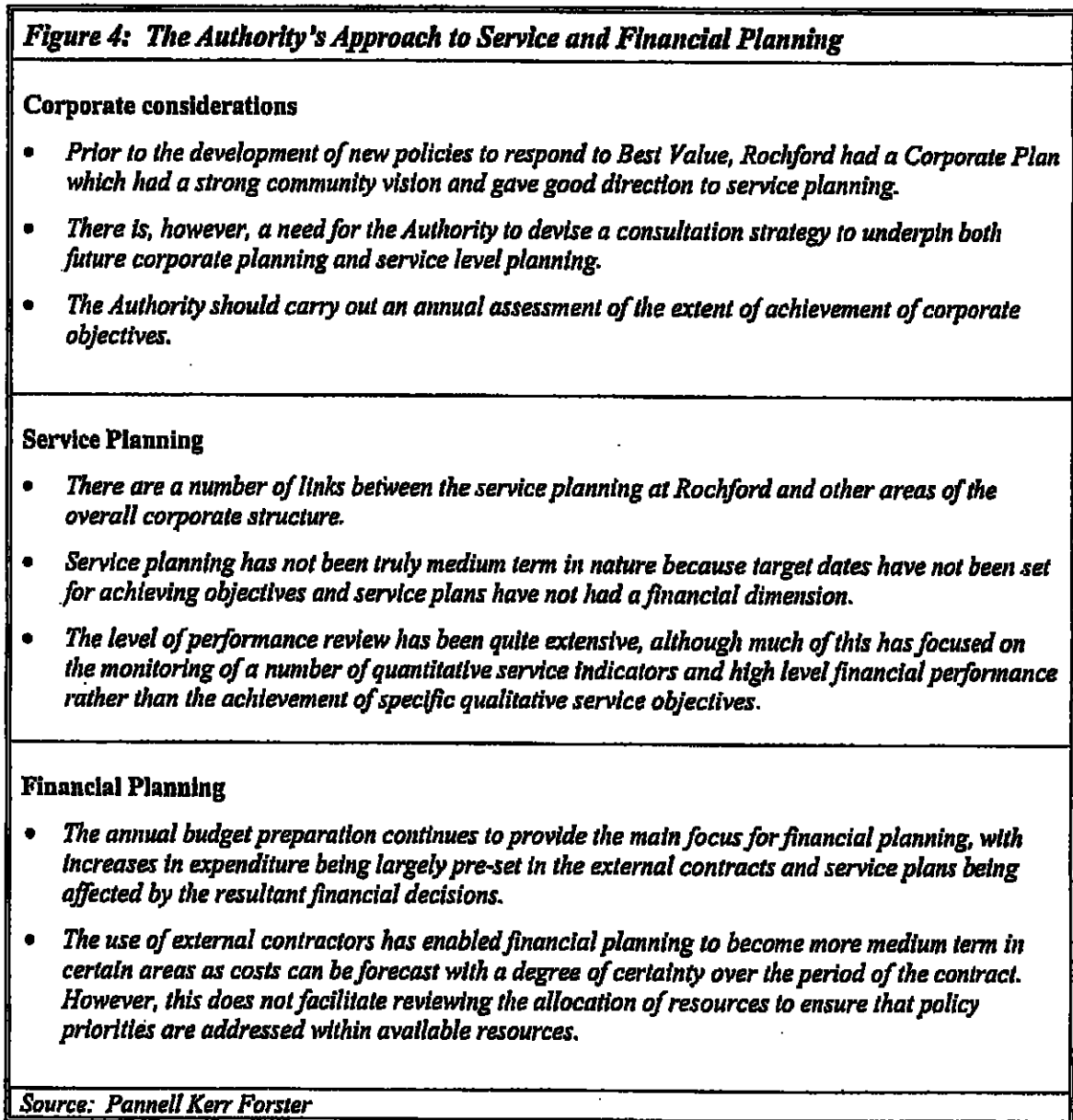
NATIONAL STUDIES

Service & Financial Planning Review

- 2.3 Service and financial planning has always been an integral part of local government, although there is evidence that shows its application and the development of accepted good practice is patchy. Best Value only increases the need for good planning as, in order to meet the Government's expectations, local authorities will need robust planning frameworks that integrate quality, cost and accountability.
- 2.4 The Audit Commission identified that few authorities have a comprehensive approach that integrates corporate aims and objectives with service plans and the financial standing of the Authority. There may be links, but these are often variable in their depth. A corporate approach that includes effective, integrated service and financial planning will be an important tool in assisting with the continuous improvement that is at the heart of future local government service provision under Best Value. Furthermore, as services are increasingly being delivered across divisional boundaries, the need for co-ordination between these areas, in terms of service and planning processes, is crucial.
- 2.5 Our review was of the position prior to implementing Best Value structures and focused on the corporate considerations, service planning and financial planning arrangements. Our assessment of the links that exist between the main elements of the corporate planning structure at Rochford are set out in Figure 3 below.



- 2.6 A comprehensive corporate planning structure would be expected to have strong two-way links between all of the areas of the above chart. The key issues highlighted from our review of the Authority's framework are summarised in Figure 4 below:



- 2.7 We are aware that some progress has been made in addressing these issues in preparation for Best Value, in particular the development and approval of a new corporate plan and the strengthening of links to service planning.

Overall conclusions

- 2.8 We have concluded that the Authority recognises the benefits of improving its planning processes and as a result progress has been made in the development of its arrangements prior to the advent of Best Value. There is however, scope for further improvement and we have recommended to Officers that:

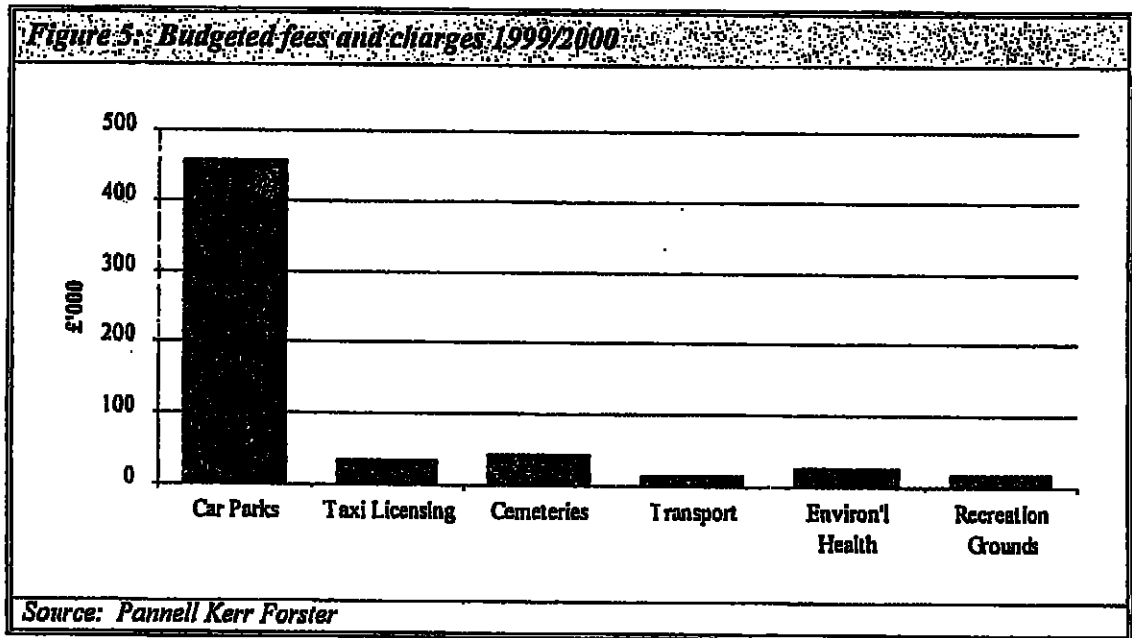
- An appropriate level of consultation is undertaken in setting both the revised corporate objectives and the relevant service priorities within them;
- Information should be obtained on the level of resources required to meet the agreed policy objectives of the Authority. This information should feed into the preparation of the budget ie moving towards service priority or policy based budgeting, rather than incremental budgeting; and
- The current procedures for monitoring the level of performance should be improved, through the use of qualitative indicators that consider the achievement of both corporate and service objectives.

Recommendation

Members should monitor progress in implementing these recommendations.

Income & Charging Review

2.9 Local authorities have the power to charge for a number of activities, although there are only a few sources of income which generate significant revenue. The principal sources of income for the Authority, other than those for planning which were excluded from our audit, are shown in Figure 5 below.



2.10 Our study assessed how the Authority manages its charging policies and makes use of the income received. We reviewed the four key considerations in setting charges, namely the financial context, the policy context, the market context and the design of the tariff. These were addressed through an overview of the Authority's arrangements.

2.11 Our findings are summarised in Figure 6.

Figure 6: The Authority's approach to income and charging	
<p>Financial Context</p> <ul style="list-style-type: none"> • Rates of cost recovery vary between charged services • Limited knowledge of who the beneficiaries of service subsidies are. • Unit costing should be used where possible to increase charges. 	<p>Policy Context</p> <ul style="list-style-type: none"> • Some strong links between charging and service policies. • Limited ability to influence charges made by contractors (particularly leisure) so as to reflect the Authority's policies. • Some variation in the concession schemes in use within the Authority - need for a corporate policy on concessions. • Need to carry out detailed review of extent to which Saturday afternoon car parking policy has achieved policy objectives.
<p>Market Intelligence</p> <ul style="list-style-type: none"> • Some level of awareness of competition, affected by use of contractors. 	<p>Tariff design</p> <ul style="list-style-type: none"> • Bargain prices exist for season tickets with car parks.
<p><i>Source: Pannell Kerr Forster</i></p>	

2.12 We have concluded that overall, many of the key considerations in setting charges identified by the Audit Commission are, to some extent, taken into account by the Authority. These include considering the cost of services, market rates, user views and the impact of service capacity. However, there are several areas where the Authority could enhance its current arrangements. We have recommended to Officers that:

- When external contracts (particularly leisure) are renewed, provision should be included to enable the Authority to influence charging structures and obtain all necessary user information to monitor usage in relation to policies, albeit whilst ensuring the current VAT position is not jeopardised;
- Officers should ensure they are aware how much each service is effectively subsidised and who benefits from these subsidies, to ensure that this fits with the overall policies of the Authority; and
- Concessions across all services, including those where external contractors are employed, should be reviewed to ensure consistency in approach, with a view to introducing a corporate guideline on their use and level.

Recommendation

Members should ensure that where contracts are externalised, charging arrangements reflect as far as possible the Authority's policies.

Community Safety Review

- 2.13 The Crime and Disorder Act 1998 set out specific provisions to tackle crime and disorder and create safer communities. The Act places joint responsibility on key agencies such as local authorities and police forces to form local partnerships, conduct 'audits', consult local people and develop a strategy to tackle crime and disorder in their area.
- 2.14 We have carried out a limited scope review of the Authority's response to Community Safety in the following areas:
- Compliance with the requirements of the Act; and
 - Assessing whether the community safety issues have been well defined through the local crime and disorder audit and the quality of consultation performed.
- 2.15 We have concluded that, to date, the Authority has conducted all of the appropriate steps required to ensure the requirements of the Act have been met. In addition, through its process of consultation the Authority has also performed an audit that has sufficiently defined the relevant community safety issues within the District.
- 2.16 We requested the Authority to undertake a self review of the current status of their arrangements across a number of areas, including:-
- the partnership itself;
 - the formulation of the strategy;
 - monitoring procedures; and
 - any resource implications.
- 2.17 We have noted from this that there are some areas where Rochford feel they have yet to make significant progress. In particular, the arrangements for monitoring the progress of the strategy, the involvement of local residents on a continuing basis and the agreed allocation of resources to the work by all parties involved in the partnership. We will be recommending that Officers continue to monitor the progress on addressing the Community Safety issues to ensure that the partnership work towards the achievement of the objectives within the strategy.

VFM FOLLOW UP**Value for Money Indicators (VFMI)s**

- 2.18 To support the national value for money programme the Audit Commission has developed an approach to following up certain value for money audits, by tracking authorities' progress against selected indicators. This year the Audit Commission has produced VFMI)s on the following studies :
- Environmental Stewardship
 - Recruitment and Training

2.19 We have reported to Officers on the Authority's progress in these areas since the original studies were undertaken, together with comparative indicators for similar authorities. The key issues arising from this are set out below.

Environmental Stewardship

2.20 The indicators cover strategic response, waste reduction, waste recycling and waste collection. The indicators demonstrate that the Authority has made progress since the time of the original review. In particular, there has been an increase in the level of home composters distributed and a rise in the level of household waste recycled. This is mainly attributable to the number of households with separate collections for recyclable materials.

Figure 7: Comparison between 1995 and 1998	
<p>Key Indicators showing better performance</p> <ul style="list-style-type: none"> • Percentage of households that have been provided with home composting containers. • Recycling at drop off sites per 1,000 households. • Recycling at civic amenity sites per 1,000 households. • Tonnes of household waste collected per 1,000 households. • Percentage of households assessed in terms of energy efficiency. 	<p>Key Indicators showing worse performance</p> <ul style="list-style-type: none"> • Tonnes of household waste recycled per 1,000 households. • Net cost of recycling household waste • Net cost of waste collection (excluding recycled materials) per 1,000 households. • Authority spend on conservation measures per HRA dwelling per annum.
<p>Source: Pannell Kerr Forster</p>	

2.21 The above indicates the Authority performs well in a number of specific areas. However when the overall strategic position is considered, including issues such as environmental stewardship accreditation and environmental action plans, the Authority's performance is below many of its neighbours within Essex.

2.22 We have recommended to Officers that the arrangements for environmental stewardship are strengthened by ensuring that:

- An environmental action plan is developed with the aim of achieving specific quantifiable targets eg water savings;
- Environmental stewardship accreditation (in accordance with British Standards) be sought where possible;
- Further consideration be given to the extension of the trial on the kerbside recycling scheme within the District;
- The reasons for the increase in the cost of collecting household waste be analysed and in particular, the extent that the increase in the amount of waste collected can be reduced; and
- Steps be taken to increase the number of houses in the District that have been formally assessed in terms of energy efficiency.

We understand that many of these recommendations are being considered in the light of the Authority's response to the Essex Waste Strategy.

Recruitment and Training

2.23 These indicators cover the following key areas:

- Recruitment
- Training
- Personnel Cost
- Staff profile and Decentralisation

2.24 The indicators demonstrate that the Authority has made significant progress since the time of the original review. In particular, the increase in the use of tests for both senior and junior appointments, the percentage of staff still in post two years after appointment, the training spend per employee and the reduction in the number of staff on short term contracts.

Figure 8: Comparison between 1995 and 1998	
<p>Key Indicators showing better performance</p> <ul style="list-style-type: none"> • Average time between close date and initial offer. • Percentage of senior appointments made where tests and interviews were used • Percentage of junior appointments made where tests and interviews were used • Percentage of staff appointed in past two years still in post. • Training spend per employee • Training officers per 1,000 employees • Percentage of staff on short term contracts • Decentralised training budget as a percentage of total training budget. 	<p>Key Indicators showing worse performance</p> <ul style="list-style-type: none"> • Advertising cost per post advertised externally. • Appointments as a percentage of all staff. • Leavers as a percentage of all staff.
<p><i>Source: Pannell Kerr Forster</i></p>	

2.25 From an organisational perspective, looking at areas such as the use of standard forms for recruitment, the use and existence of training plans and any monitoring procedures that exist, the Authority has performed below many of its neighbours within Essex. This is mainly because there are no written recruitment and selection procedures and no formal training plans within the Authority.

2.26 We have recommended to Officers that the arrangements for recruitment and training are further strengthened by ensuring that the reasons for the high number of advertised posts not being filled are understood.

2.27 The current high level of appointments and leavers (expressed as a percentage of all staff) is mainly due to the restructuring that has been taking place throughout the Authority. Once this restructuring is completed, the level of staff turnover should be monitored going forward.

Progress on previous years' reports

2.28 We have reviewed the Authority's arrangements for ensuring that recommendations arising from previous reports are promptly and properly implemented by:

- Establishing the status of recommendations contained in previous reports; and
- Reviewing the monitoring procedures in place at the Authority for ensuring that reports are actioned.

Status of previous reports

2.29 We have carried out a review of the Authority's progress in implementing the recommendations outstanding at the conclusion of last year's audit.

2.30 Overall we are satisfied that the Authority has been considering the recommendations from previous reports, however there appears to have been limited progress to date in implementing the recommendations from last year's studies. Our findings are summarised in Figure 9 below.

Figure 9: Comparison between 1998 and 1999	
Key recommendation	Progress
<p>HOUSING BENEFITS</p> <ul style="list-style-type: none"> • The Authority's response to countering Housing Benefit Fraud would be enhanced by the development of an anti-fraud policy, a review of procedures in place for dealing with fraud and setting and monitoring targets for the benefits division. 	<ul style="list-style-type: none"> • A corporate anti-fraud policy is now in place, which has specific reference to benefit fraud. • The majority of the detailed recommendations arising from the study have been considered by the Audit Committee but there has been limited progress to date on implementing them.
<p>EARLY RETIREMENT</p> <ul style="list-style-type: none"> • Members should be presented with an annual report detailing the number and financial effects of early retirement. • Consideration should be given to producing a formal staffing and succession plan and to introducing measures to reduce the incidence of ill health 	<ul style="list-style-type: none"> • Members receive a six monthly report on early retirement. • The staffing and succession plan and measures to reduce the incidence of ill health have not been implemented. We understand that the Authority has concerns over the practicality of these recommendations given the potential costs involved. However, they are particularly relevant to smaller authorities which are often dependent on a small number of key staff.

Source: Pannell Kerr Forster

Monitoring procedures

- 2.31 Whilst there is a good mechanism in place for following up Internal Audit recommendations, there are no structured arrangements in place to ensure that all recommendations contained in previous years' external reports are implemented.
- 2.32 There is a need to devise a more efficient and effective way of ensuring that the recommendations contained in audit reports are promptly and properly implemented, which should include :
- Regular monitoring by line management of progress against implementation dates contained in action plans (could form part of performance appraisal process);
 - Test checking of recommendations to ensure that they have been adequately implemented;
 - Obtaining and recording the reasons for failure to implement any recommendations by the agreed date and securing revised implementation dates;
 - Reviewing and assessing, from a corporate viewpoint, the acceptability of instances where line managers do not agree to recommendations made; and
 - Reporting the results of test checking and monitoring activities to Members.

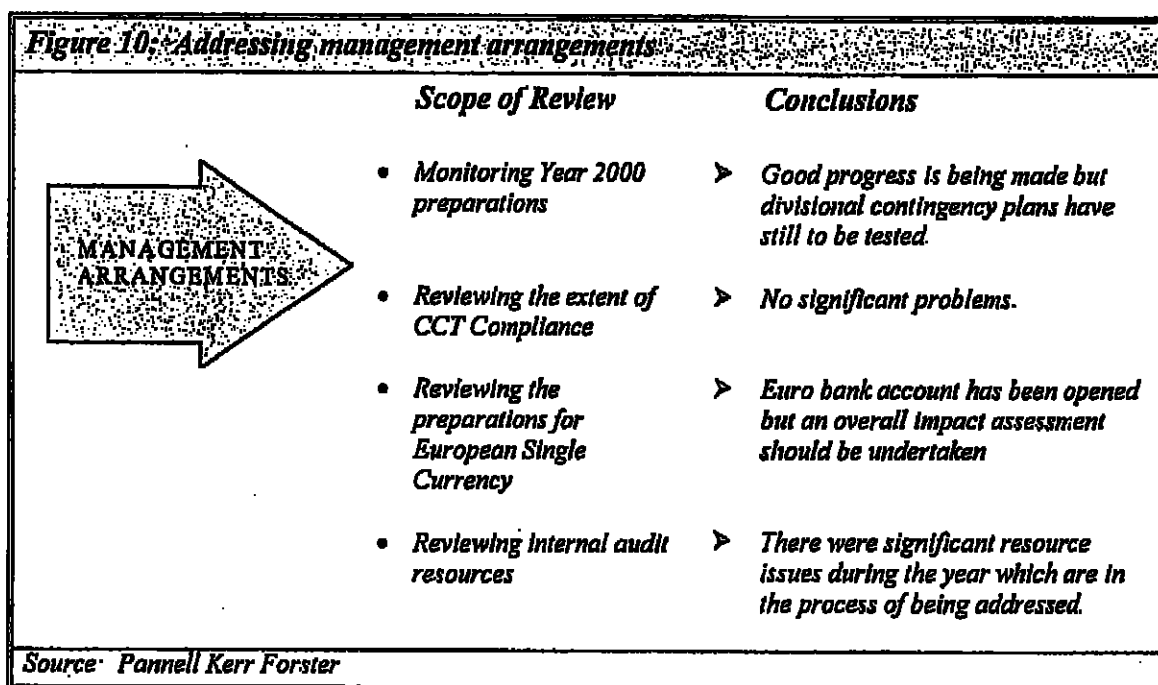
Recommendation

A formal process for monitoring the actions taken in response to previous external audit reports should be introduced and monitored by Members.

3 MANAGEMENT ARRANGEMENTS

RESPONSIBILITIES

3.1 The Code of Audit Practice requires the auditor to consider the adequacy of the Authority's arrangements for securing economy, efficiency and effectiveness in the use of resources. We have met this duty by reviewing the Authority's response to a number of national issues affecting local government as well as local issues identified as risk areas in our Outline Audit Plan.



Year 2000

3.2 The immovable Year 2000 deadline is now drawing near and overall preparations by the Authority need to be reaching completion. In particular the Authority needs to have gained sound assurance that its key financial and operational systems and processes will continue to operate effectively. This ranges from IT processing systems to heating systems to electronic equipment.

3.3 The Authority also needs to have developed contingency plans for possible disruption to its operations or the community it serves through wider problems arising from Year 2000 issues. These may include disruption to power supplies or to transport or difficulties experienced by key suppliers. The aim of the overall project is to minimise the risk of a system failure which would impact on the Authority's ability to manage its affairs and deliver services. Such a system failure could then impact on the general population of the area.

- 3.4 The purpose of our review has been to assess whether the Authority is taking appropriate action to ensure that there is no significant loss of service or financial problem carried through Year 2000 failures. It is not, however, within our remit to test systems for Year 2000 compliance. Our comments should not therefore be construed as indicating that any of the systems mentioned are Year 2000 compliant.
- 3.5 The Authority has made good progress in preparing for Year 2000. However, there is still work to be undertaken and one important area outstanding is the contingency planning which dictates actions in the event of a systems failure. Whilst emergency planning with outside agencies is well advanced, the testing of departmental contingency plans has not been completed. The Authority must now ensure that this aspect of the project is given priority.

Compulsory Competitive Tendering

- 3.6 Whilst the compulsory competitive tendering (CCT) provisions have been repealed by the Local Government Act 1999, the CCT requirements continue until 2 January 2000 and authorities need to ensure that they continue to fully comply. The repeal of CCT does not reduce the obligation of the Authority to secure value for money in the future. It will continue to be important for the Authority to demonstrate that services continue to provide value for money as part of the ongoing service review process under Best Value.

European Single Currency

- 3.7 The Treasury's Euro Preparations Unit produced a paper dated 1 January 1999 called 'Local Government Preparations' which outlined the implications of the Euro for Local Authorities, including;
- Existing foreign currency dealings with countries which had joined the Euro;
 - The provision of advice to the local community on the changes and the effect of the Euro on them; and
 - The potential need to pay some local businesses via the Euro.
- 3.8 The decision on whether the UK joins the Single European Currency is still awaiting a national referendum. However, it is important that authorities carry out an impact analysis and begin to draw up implementation plans for such an eventuality.
- 3.9 The Local Government Association has distributed a Euro Checklist to authorities as an aid to considering the implications of the Euro. This covers various areas including organisational systems, information technology, finance, legal, economic development and regeneration, education, social services and other services. We recommend that the use of this checklist is considered by the Authority.

Internal Audit Resource

- 3.10 During 1998/99 very little Internal Audit coverage was provided within the Authority due to staff shortages. As a result, a number of core systems were not subject to review in the year and action plans from previous audits were not followed up. This limited the assurance provided to the Section 151 Officer on the discharge of his duties concerning the adequacy of internal controls within the Authority's systems. In addition, the extent of our external audit testing of core financial systems had to be extended due to the limited Internal Audit coverage, resulting in additional cost to the Authority.
- 3.11 We understand that the Internal Audit department is now fully staffed and training has been provided by Castle Point Borough Council. We have noted that there has been an improvement in the standard of documentation and a more formalised approach to audit planning and we are pleased to see that the progress against the Internal Audit plan is now being reported to Members. We have recommended to Officers a number of areas where the Department's procedures can be further enhanced, including considering alternatives for obtaining experienced resource in certain specialist areas, such as computer audit.

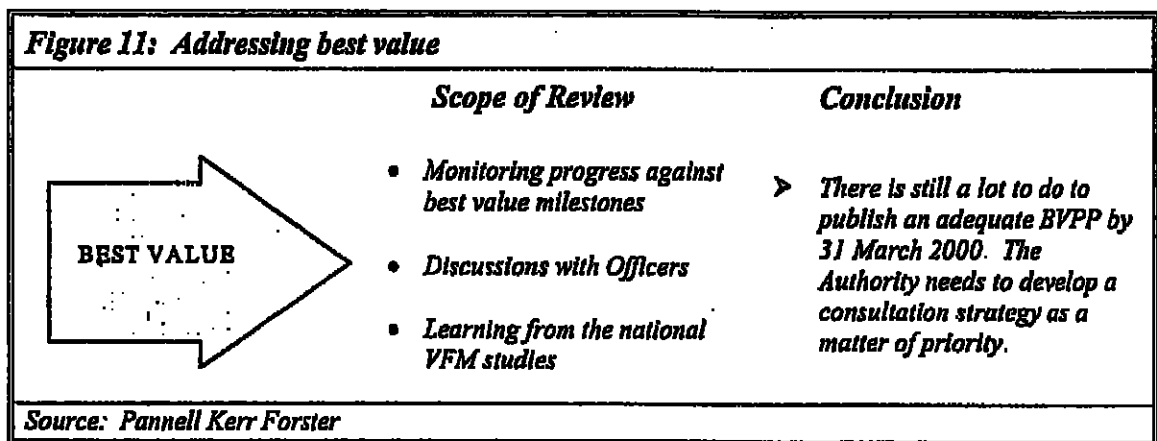
Recommendation

We recommend that Internal Audit coverage should continue to be monitored, to ensure that appropriate resource is available.

4 BEST VALUE

RESPONSIBILITIES

- 4.1 Best Value is a major and challenging initiative for local government. The Authority is required to make arrangements to secure continuous improvement in the way its functions are exercised, having regard to a combination of economy, efficiency and effectiveness. The auditor is required to give an independent assessment of the Authority's response to the Best Value initiative which is due to be implemented in practice from 1 April 2000.



KEY ISSUES

- 4.2 The Local Government Act 1999 came into force in July 1999. As a result the Authority now has a legal duty to achieve Best Value in the performance of its functions. Authorities are required to develop corporate objectives, service reviews and Best Value Performance Plans (BVPP). Within service reviews they will be expected to demonstrate that they have addressed four key aspects of Best Value:

- Challenge:** why and how a service is being provided or if it should be provided at all
- Compare:** their performance across a variety of indicators with other authorities and relevant outside organisations
- Consult:** with local taxpayers, service users and the business community in particular about performance targets
- Compete:** by evidencing competitiveness as a means of securing efficient and effective services

They are also expected to have consulted in respect of the general development of the BVPP within the Authority.

- 4.3 The BVPP will be the key public document, published annually, that identifies the Authority's assessment of current performance, future priorities and targets for improvement. Although the Government is still to provide final statutory guidance, it has now issued a Consultation Paper on the Draft Guidance. Authorities need to be well advanced in their preparations for Best Value and have a clear timetable for completion of the task of publishing a BVPP.
- 4.4 The primary role of the auditor in Best Value will be to give an opinion on whether the Best Value Performance Plan complies with legal requirements, and to report on the arrangements made for achieving continuous service improvement. During the last year we have discussed with the Authority progress in meeting the legislative timetable and in developing its approach towards the Best Value Performance Plan and service reviews. We have done this through:
- A quarterly milestones survey to check whether the Authority is likely to meet the timetable;
 - Periodic assessment of progress against an Audit Commission checklist enabling us to track progress in other key areas;
 - Discussions with the Authority; and
 - The Service and Financial Planning review.
- 4.5 Our assessment this year of the Authority's preparations for Best Value in key areas is summarised in Figure 12.

Figure 12: Preparations for Best Value	
Key Issue	Our assessment
<i>Is there a Best Value Performance Plan in the process of development and is it likely to have been produced, agreed and published by the 31 March 2000 deadline?</i>	<i>Progress is being made in developing many of the components of the BVPP. An outline of the BVPP showing the various headings and an indication of contents has been produced. Time is tight, however, to complete the plan. This is particularly so given the need to incorporate Members' approval of the plan within the Committee timetable.</i>
<i>Is a Performance Management system in place which will support Best Value?</i>	<i>The Authority has developed revised corporate objectives. Service directors have been asked to develop service level objectives for the plan but these have not yet been produced. Service directors will also devise local performance indicators to respond to the objectives but these have also yet to be produced. Targets need to be set for all indicators in the top quartile nationally.</i>
<i>Has the Corporate approach to the 4 'c's been developed?</i>	<i>The BVPP outline referred to above contains provision for a summary of the Authority's approach to the 4 'c's but all aspects of this (eg the approach to competition) have not yet been developed. We refer elsewhere specifically to consultation and benchmarking.</i>
<i>Is the corporate review and service selection procedure being developed taking into account "worst first"?</i>	<i>An order of service review has been developed and was presented to Members on 11 November 1999.</i>

Figure 12: Preparations for Best Value	
Key Issue	Our assessment
<i>Has the service review methodology been developed and piloted?</i>	<i>An outline of the service review methodology has been produced. Two pilot services have been identified and the process of testing the methodology is about to commence.</i>
<i>Is consultation with interested parties in the community underway?</i>	<i>The Authority has invited comments on aspects of its plans in the Borough Newspaper. However, no direct consultation with electors (ie where direct contact is made) has taken place on corporate priorities. There is a need to address this in the near future and we understand budgetary provision may have been made for this. The Authority needs to develop a consultation strategy.</i>
<i>Source: Pannell Kerr Forster</i>	

- 4.6 There is still a lot to be achieved if the plan is to be drafted, approved by Members and physically published by 31 March 2000. An action plan with a timetable is being developed. Whilst those involved are committed to the process, we believe it is necessary to keep the amount of resource allocated to the process under review. We are also concerned about the limited nature of consultation on corporate priorities which has taken place to date.

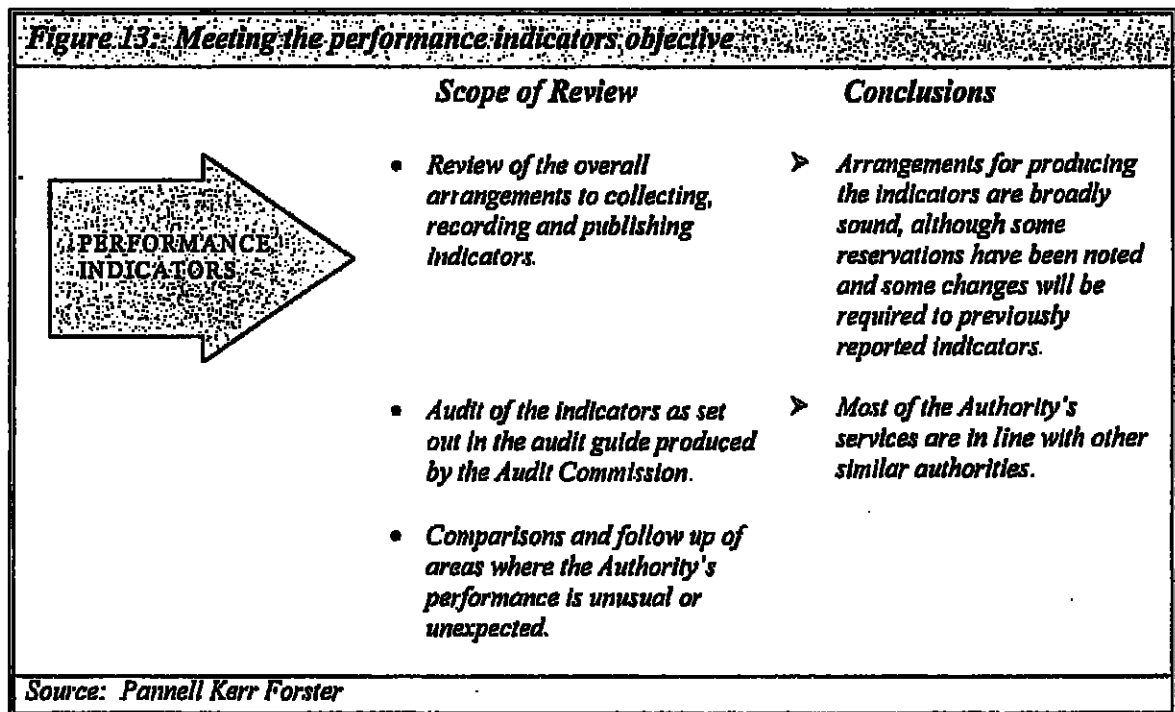
Recommendation

Given the fast approaching deadlines, we recommend that Members keep adherence to the action plan under review. The Authority needs to develop a consultation strategy to deal with Best Value on an ongoing basis.

5 PERFORMANCE INDICATORS

RESPONSIBILITIES

- 5.1 The Authority has a legal responsibility to publish information relating to performance against the Citizen's Charter benchmarks by 31 December each year. We are required to express an opinion as to the adequacy of the arrangements for collecting, recording and publishing these indicators. Our approach to this obligation and the conclusions from this work, are set out in Figure 13 below.



KEY ISSUES

Production of Indicators

- 5.2 The Performance Indicators were prepared and collated in line with the agreed timetable for the audit. At the time of drafting the Management Letter, the audit of the indicators is in the process of being completed and it is planned that the indicators will be published in December.
- 5.3 We have made a number of recommendations to Officers on areas where the process could be made more efficient in future years. We have also found some instances where the relevant direction has not been followed, which will result in changes to previously reported indicators.

5.4 From the audit work completed we will be making four changes to the indicators reported in 1998, which are detailed below:

Figure 14: Changes to indicators reported in 1998		
Indicator	Originally reported in 1997/98	Revised 1997/98
Dealing with the public		
The number of the Authority's buildings in which all suitable public areas are suitable for and accessible to disabled persons.	2	1
Does the Authority have a comprehensive published policy to provide services fairly to all sections of the community?	Yes	No
Does the Authority formally monitor how it carries out this policy?	Yes	No
Housing		
Does the Authority follow the Commission for Racial Equality's Code of Practice in rented housing?	Yes	No
<i>Source: Pannell Kerr Forster</i>		

We also anticipate expressing reservations in our opinions on the following indicators.

Figure 15: Reservations on Performance Indicators	
Indicator	Reservation
Housing	
<ul style="list-style-type: none"> • The average time taken to relet dwellings available for letting or awaiting minor repairs in weeks • Does the Authority follow the Commission for Racial Equality's Code of Practice in rented housing? 	<ul style="list-style-type: none"> ➤ The indicator is based on data collected in 98/99, however no working papers were kept for us to be able to audit the figure. ➤ We were informed that the Authority does not have a copy of the code. Unable to confirm whether code followed in 98/99.
Homelessness	
<ul style="list-style-type: none"> • The average number of homeless households in temporary accommodation during the year in bed and breakfast and hostel accommodation and other accommodation • The average length of stay in bed and breakfast and hostel accommodation (weeks) 	<ul style="list-style-type: none"> ➤ Large unexplained variances between 97/98 and 98/99. No working papers to support 97/98 indicators and different departments calculating 98/99 figures. ➤ Data only available for the period October to March. Therefore unable to accurately compute indicator for the whole year.

Figure 15: Reservations on Performance Indicators	
Indicator	Reservation
<p>Planning and Land Searches</p> <ul style="list-style-type: none"> • The percentage of householder applications decided within 8 weeks. • The number of advertised departures from the statutory plan approved by the Authority. • Percentage of standard searches carried out in 10 working days. 	<p>➤ Indicators based on data collected in 98/99 but no working papers kept. 98/99 data inaccessible due to updated computer systems.</p>
<p>Leisure and Recreation</p> <ul style="list-style-type: none"> • The number of playgrounds and play areas provided by the council per 1000 children under 12 • The net expenditure per hectare on parks and open spaces. • The average number of days taken to remove fly tips. 	<p>➤ Statistics not available for number of under 12's. Calculations use average of under 10's and 14's. Statistics for under 10's and 14's were estimated for 1997/98.</p> <p>➤ Same number of hectares used as last year and not updated.</p> <p>➤ There are records of when complaints are received and orders placed but there is no formal record of when the work is done.</p>
<p>Source: Pannell Kerr Forster</p>	

We would encourage the Authority to improve collection arrangements in these areas to enable an unqualified opinion to be issued in future years.

Recommendation

We recommend that the arrangements for collecting and publishing performance indicators are reviewed in the light of the reservations to be reported on certain indicators.

Reporting Performance Indicators

- 5.5 The Citizen's Charter Performance Indicators are published and reported to Members annually and, where possible, also reported to Members quarterly. The Authority will now need to move towards integrating the national Performance Indicators with a locally developed framework for performance review under Best Value. This will be particularly effective where there is a clear link between the PIs and corporate and service objectives.

Performance

- 5.5 Our review of the indicators has identified that generally the Authority's performance is consistent with previous years. However, we did identify the following significant changes:

Figure 16: Significant Changes to Performance Indicators (greater than 20% variance)		
Indicator	1998/99	1997/98
Dealing with the public		
The number of complaints determined by an ombudsman (none upheld)	11	8
Housing		
Capital expenditure on major repairs and improvements per dwelling for the year	£227.37	£170.97
The percentage of dwellings that are empty: available for lettings or awaiting minor repairs	0.7%	1.68%
The percentage of dwellings that are empty: others	0.05%	0.29%
The average time taken to relet dwellings available for letting or awaiting minor repairs (in weeks)	6.4	4
The percentage of all current tenants owing over 13 weeks rent at 31 March 1999, excluding those owing less than £250	2.11%	1.24%
The average weekly repair costs per dwelling	£13.67	£8.94
The average weekly capital charges and other items (net) per dwelling	£9.66	£14.82
Homelessness		
The average number of homeless households in temporary accommodation during the year in bed and breakfast and hostel accommodation	0.25	6.5
The average number of homeless households in other temporary housing during the year	0	10.75
The average length of stay in bed and breakfast and hostel (weeks)	13	10
The average time taken to decide whether to accept people as homeless (days)	41	5
Refuse collection		
The percentage of household waste recycled	3.87%	3.21%
Planning and Land Searches		
The percentage of householder applications decided within eight weeks	45%	72.5%
The number of decisions on planning appeals reported during the year	59	47
The number of advertised departures from the statutory plan approved by the Authority	11	6
The net expenditure per head of population	£4.53	£5.79
Housing Benefit and Council Tax Benefit		
The cost of administration per claimant	£80.65	£58.79
Letsure		
The net cost per swim/visit	£0.84	£0.69
Total spending per head in sport and recreation	£14.07	£12.28
The Local Environment		
The percentage of responses to environmental health complaints and requests provided within the target time	94.5%	72%
Highways and Streetlights		
Net spending per head of population on public transport	£0.86	£1.79
<i>Source. Pannell Kerr Forster</i>		

- 5.7 We have discussed these changes with Officers and are satisfied that the 1998/99 indicators are supported. However, the changes should be investigated and fully understood. In some cases, for example the homelessness indicators, the 98/99 figures have been calculated by a different division and the prior year working papers have not been available. Officers are currently investigating the reason for these changes.

Comparison With Other Authorities

- 5.8 In comparison with other authorities, we have identified the following areas where performance is significantly different from the Authority's nearest neighbour group as shown in Figure 17.

Figure 17: Comparisons with Authority's Nearest Neighbour Group	
<p><i>Indicators where Authority appears significantly better than its nearest neighbour group:</i></p> <p>Dealing with the Public:</p> <p><i>Performance against target in answering letters.</i></p> <p><i>Performance against target in answering phone calls.</i></p>	<p><i>Indicators where Authority appears significantly worse than its nearest neighbour group:</i></p> <p>Planning and Land Searches:</p> <p><i>The percentage of decisions on planning applications decided within 8 weeks.</i></p> <p>Homelessness:</p> <p><i>The average time taken to decide whether to accept people as homeless.</i></p>
<p><i>Source: Pannell Kerr Forster</i></p>	

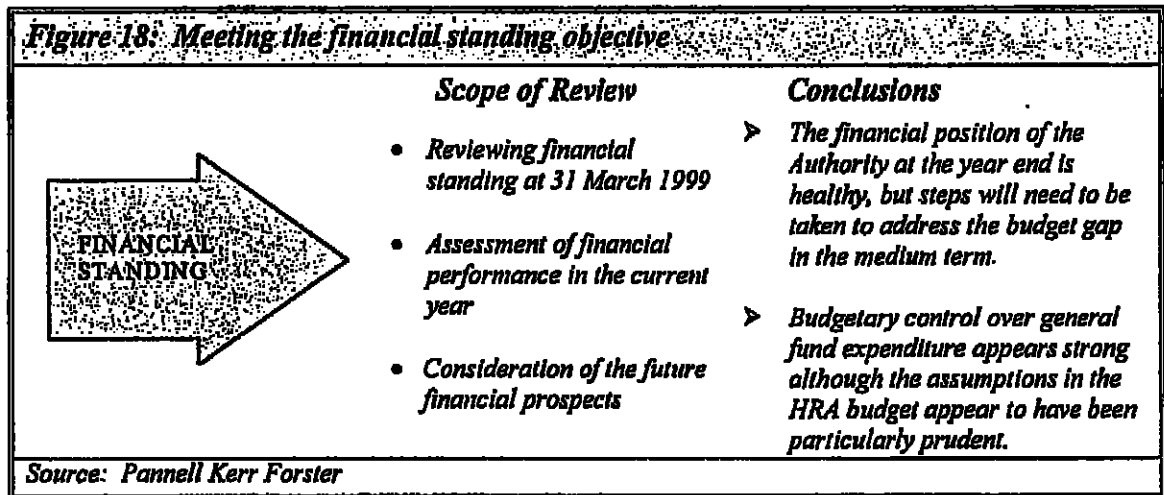
Recommendation

We recommend that Members monitor progress in areas where the performance of the Authority has slipped from the previous year and where performance is significantly below that of its nearest neighbour group.

6 FINANCIAL STANDING

RESPONSIBILITIES

- 6.1 The Code of Audit Practice requires the auditor to give an independent assessment of the general financial standing of the Authority, taking into account the Authority's ability to meet its known statutory and other financial obligations, whether actual or contingent.



KEY ISSUES

- 6.2 We have assessed the Authority's financial standing at 31 March 1999 through consideration of its budgetary performance, the level of reserves and balances, the collection of income, management of the capital programme and the financial performance of trading activities. Our findings are summarised below.
- 6.3 The Authority operates an effective budgetary control system which is monitored throughout the year. This is demonstrated in Figure 19.

Figure 19: Summary of Budget's Actual

Committee	Net (Under)/Over spend £000	Percentage of Budgeted Expenditure
Transportation and Environmental Services	(324)	3.7%
Community Services Committee	(155)	1.7%
Finance and General Purposes Committee	456	5.1%

Source: Annual Statement of Accounts and 1998/99 Budget

Financial Performance

General Fund

- 6.4 Excluding transfers from reserves, the original budget for 1998/99 of £6.5 million was 16% above the Authority's SSA (12.5% above SSA after the use of balances) and aimed to utilise approximately £213,000 of general reserve balances. The actual outturn on the general fund for the year was £22,000 better than budget before transfers to reserves.
- 6.5 Within this overall strong performance, there were a number of variances at committee level as referred to in Figure 19 above. When the budget was set it was based on the assumption that £255,000 of savings would be identified during the course of the year. In the event savings were achieved across most categories of expenditure.

Housing Revenue Account

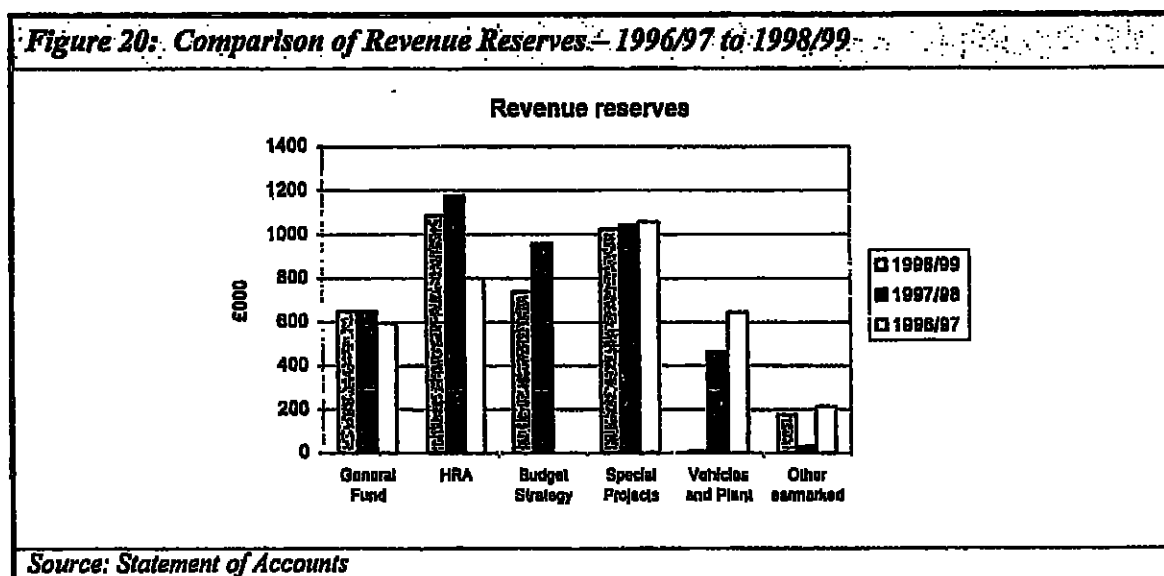
- 6.6 The deficit of £89,600 on the Housing Revenue Account ("HRA") was £397,000 lower than budgeted, primarily due to an increase of approximately £96,000 in rental income and savings in revenue costs of £200,000. There was also a reduction in the amount used to financial capital expenditure of £83,000.
- 6.7 The significant underspend in the HRA does suggest that budgetary assumptions have been particularly prudent and the closing balance of £1.1 million on the HRA at 31 March 1999 should enable flexibility when setting future budgets.

Conclusion

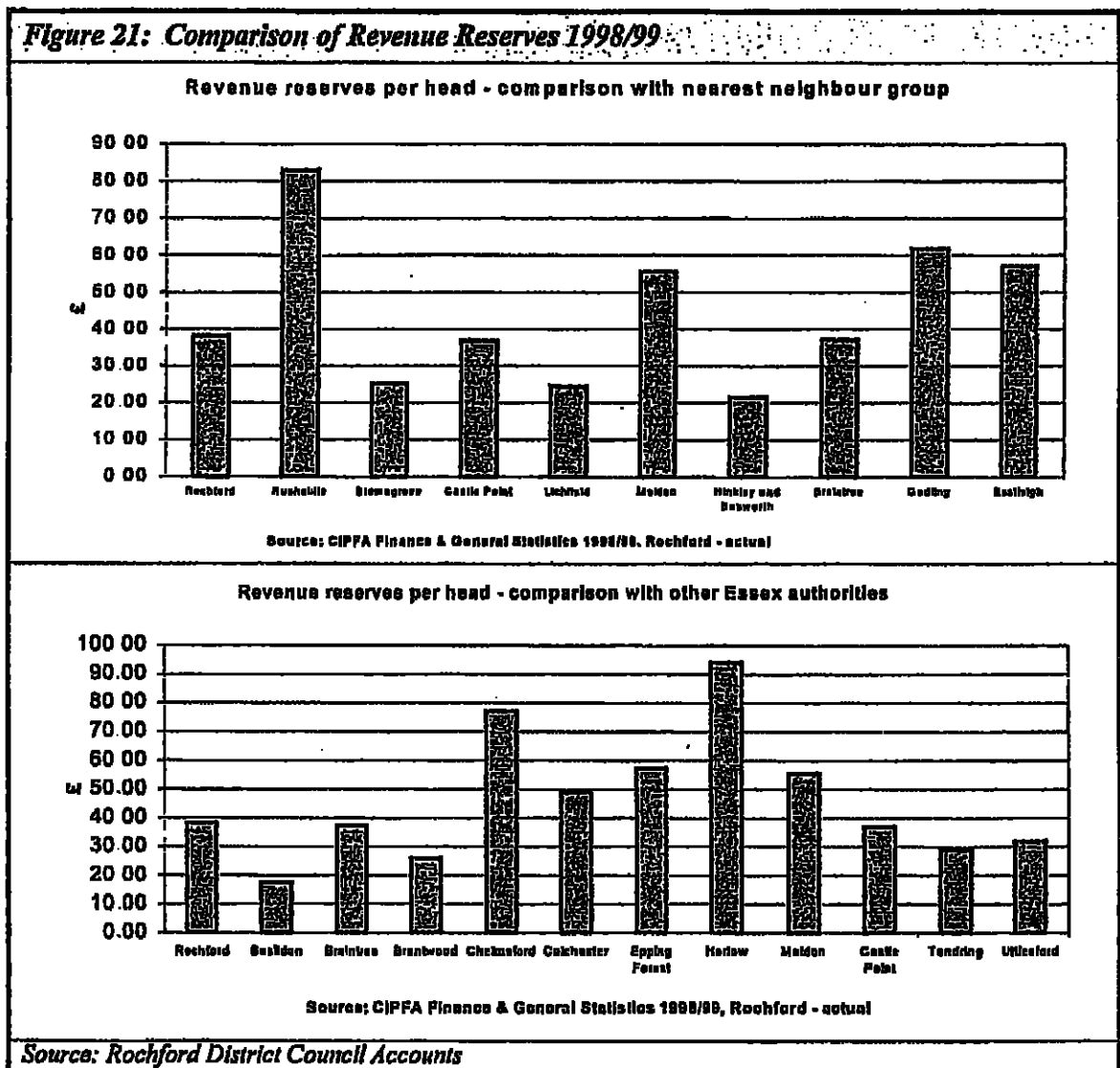
- 6.8 Budgetary control over general fund expenditure appears strong although the assumptions in the HRA budget for 1998/99 appear to have been particularly prudent.

Reserves and Balances

- 6.9 At the end of 1998/99 the Authority held general revenue reserves of approximately £2.6 million (1997/98: £3.1 million). We have reviewed the levels of reserves and balances maintained by the Authority, as shown in Figure 20 below.



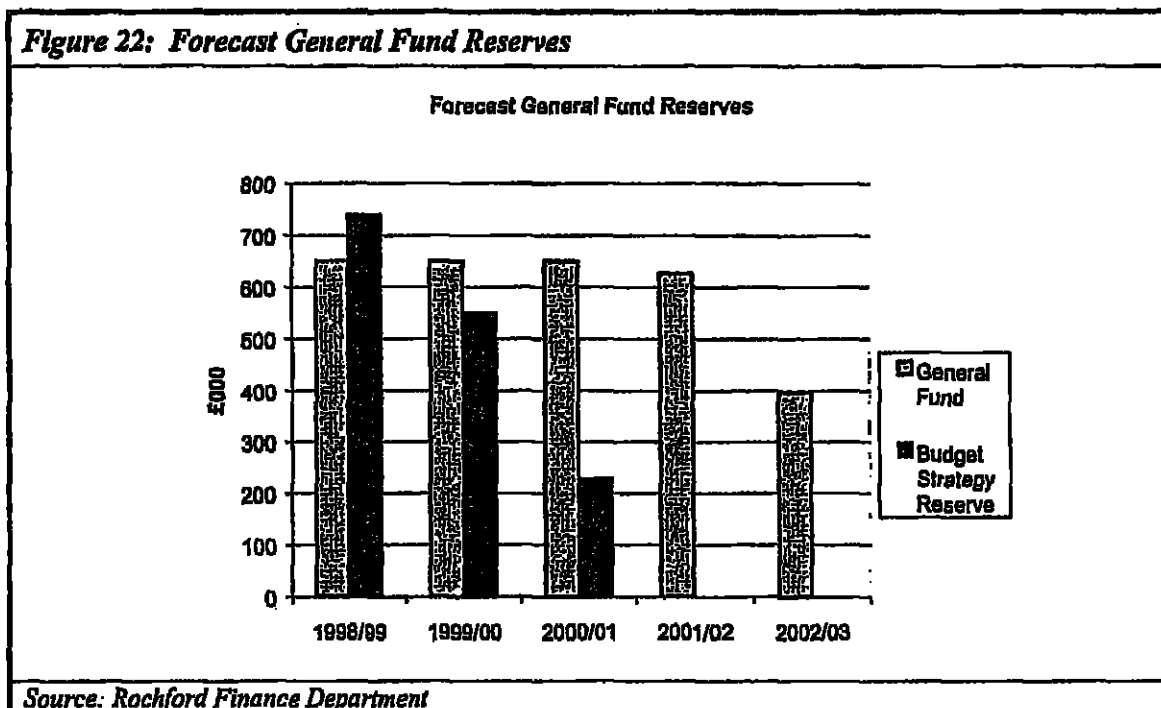
- 6.10 As in the previous years, the general fund balance has been maintained at £650,000 with the remaining revenue balances being earmarked for specific purposes. The budget strategy reserve of £739,000 is being held to meet a predicted budget gap over the next two years and £569,000 is expected to be utilised in 1999/2000. The remaining £1.2 million of balances is held for specific projects, such as town centre regeneration.
- 6.11 We have compared the level of revenue reserves per head with the Authority's nearest neighbour group and other Essex authorities in Figure 21 Below. This comparison specifically excludes the Housing Revenue Account balance.



- 6.12 The comparison with other Essex Districts and the Authority's nearest neighbours indicates that the level of revenue reserves per head at Rochford is in the middle of the range. This comparison takes no account of the extent that these reserves have been committed or earmarked.

Prospects for 1999/2000 and future years

- 6.13 The 1999/2000 budget was set at net expenditure of £6.5 million, in line with the previous year, after using £569,000 of the budget strategy reserve. Council tax is set at 4.5% higher than 1998/99. The budget again assumes target savings of £225,000 which had not been identified at the time the budget was set.
- 6.14 Forecasts prepared by the Finance Department show that the Authority's budget strategy reserve will be fully utilised by 2001/02, hence the general fund balance, currently maintained at £650,000 will begin to be eroded. The forecasts are illustrated in Figure 22 below.



- 6.15 Whilst the forecasts are not prepared to the level of detail of the Annual Budget, they illustrate the financial problems the Authority will begin to face unless action is taken now to address the 'budget gap'. The forecasts also do not include any contingency allowances for the renewal of major service contracts or the likely costs of the Waste Diversion Strategy, if this is approved.
- 6.16 Our work on income and charging has identified ways in which the income to the Authority could be enhanced, without necessarily impacting on policy objectives. The need to 'challenge' the method or reason for delivering services under Best Value may also highlight opportunities for cost savings in other areas.

Conclusion

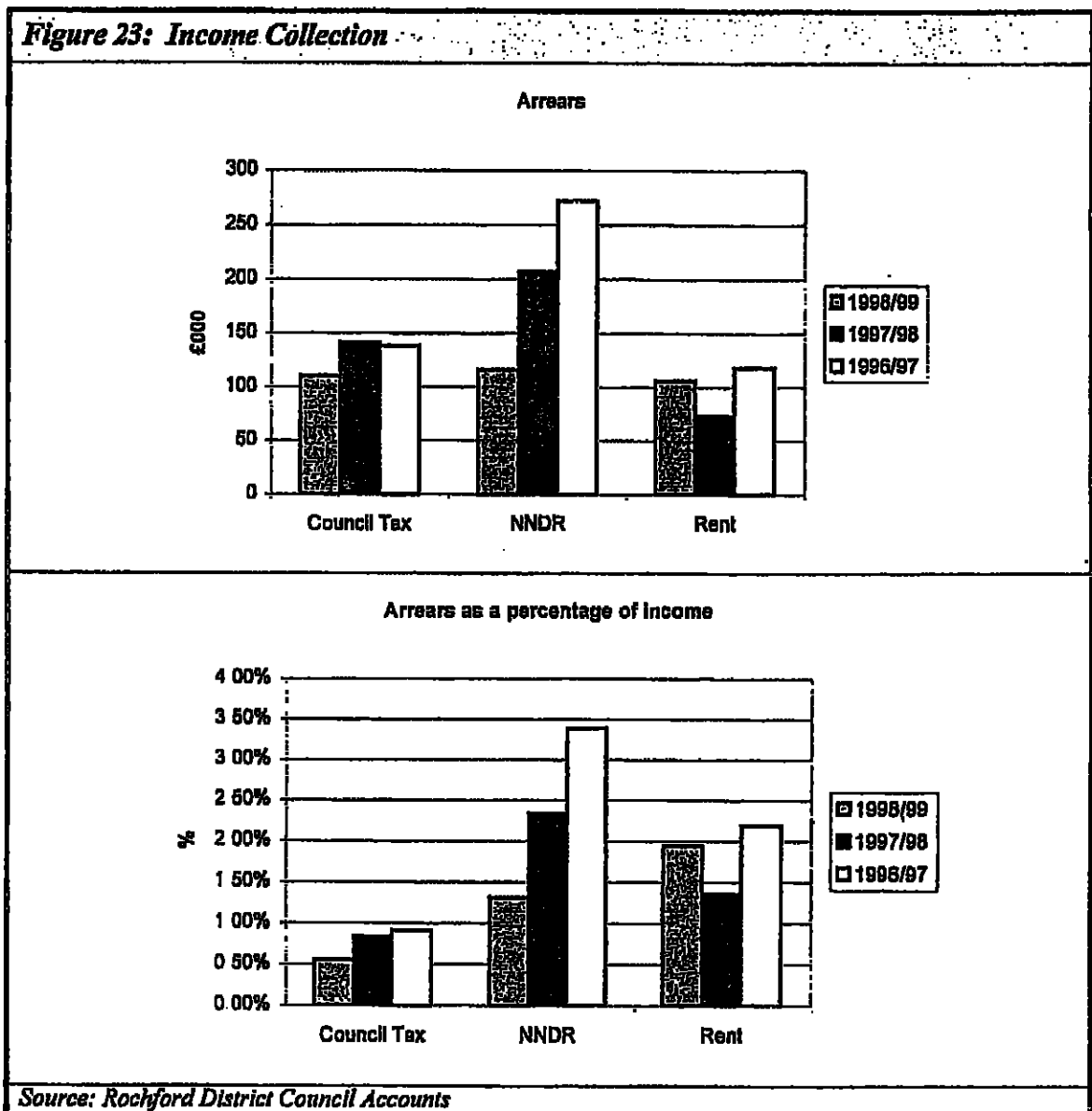
- 6.17 The need to achieve a balanced budget in the medium term is one of the key issues facing the Authority. Unless alternative sources of finance are found, or significant cost savings are achieved, the Authority will not be able to invest in major service enhancements such as the Waste Diversion Strategy or improvements to leisure facilities.

Recommendation

Members should continue to consider ways of implementing cost saving or income generating measures to obtain a balanced budget in the medium term.

Arrears

6.18 We have reviewed the arrears and results of income collection across the Authority to assess the impact of this on the Authority's finances. These are summarised in Figure 23.



- 6.19 Whilst council tax and NNDR arrears have fallen in absolute terms and as a percentage of income, housing rent arrears have increased and now represent nearly 2.1% of rental income. We understand that rent collection procedures were hampered by staff shortages and irrecoverable amounts were not written off during the year. We have recommended to Officers that write-off procedures should be followed and improvements should be made to the housing rents information systems to enable arrears to be monitored more closely in future.

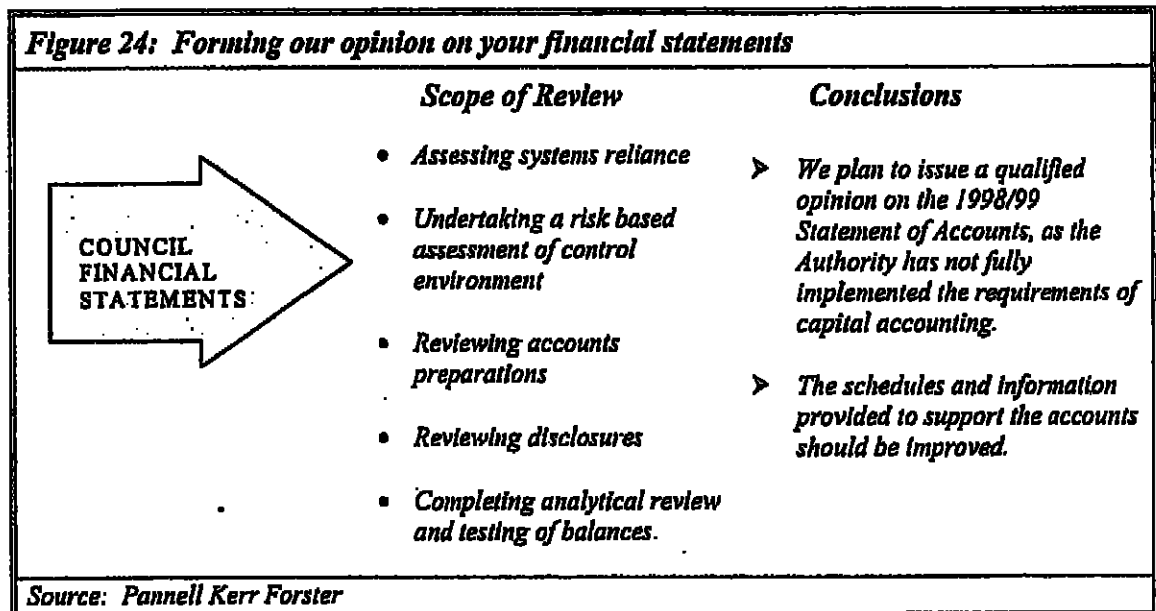
Capital Programme

- 6.20 Capital expenditure of £1.6 million was undertaken during the year compared to a budgeted spend of £2.2 million. Approximately £120,000 of the total underspend of £600,000 related to improvement grants, which are essentially demand driven. However, the balance of £480,000 related to underspends and slippage in the capital programme. In particular, investment in the Authority's housing stock was £300,000 less than budgeted, the largest saving being in capitalised repairs.
- 6.21 We understand that the budget for the HRA was particularly prudent and that the saving against budget was largely a result of underspends, rather than a delay in completing programmed work.

7 FINANCIAL STATEMENTS

RESPONSIBILITIES

- 7.1 The Code of Audit Practice requires the auditor to give an opinion on the Authority's Statement of Accounts. This requires that we satisfy ourselves that the Statement of Accounts is free from material misstatement, whether caused by fraud or other irregularity or error and complies with relevant statutory and other requirements.



KEY ISSUES

Opinion

- 7.2 The Statement of Accounts was produced and presented for audit prior to the 30 September deadline and in accordance with the timetable agreed with Officers. A detailed list of schedules and information required for the audit was provided to the Authority in February 1999. However, the file prepared in support of the accounts did not contain many of the schedules requested and the audit trail had to be identified during the course of the audit. Following our review of the accounts, a number of adjustments were agreed with management and we are currently awaiting a revised draft of the Statement of Accounts incorporating these adjustments. We have requested that Officers re-present the published accounts to Members when finalised.
- 7.2 We have discussed with Officers our intention to issue a qualified opinion on the Statement of Accounts, as the Authority has not fully implemented the requirements of capital accounting. The main areas which will need to be addressed to fully implement capital accounting are as follows:

- The Authority maintains a fixed asset register which records details of land and property. Whilst there are inventories recording fixtures, equipment and other assets, they do not include values and, other than IT and vehicles, were not updated during the year. The value of these assets in the accounts is estimated to be 15% of the building valuation and all additions in the year are written off to reserves.

Without a detailed costed asset register, we are unable to form a view on whether the value included in the accounts is materially accurate. We are also concerned that there were no procedures in place for controlling and safeguarding these assets during the period of our audit.

- The Authority's land and buildings are subject to a rolling programme of revaluations. However, the valuations have not been undertaken on a systematic basis and, contrary to the capital accounting requirements, some assets have not been revalued in the last five years. We have also not been provided with any evidence to support the internal valuation of car parks and the reasonableness of the 3% annual uplift applied to all assets between valuations.
- None of the Authority's assets are depreciated. Local government accounting guidelines require all assets to be depreciated, unless it can be demonstrated that they are being maintained to such an extent as to render the depreciation charge not material. We have not been provided with any evidence to support the policy of not depreciating assets.
- Capital expenditure which does not give rise to an asset, eg grants to third parties, is currently written off to reserves, rather than charged to committee service costs. This treatment, coupled with our concerns over the valuation of assets, means that service costs may not reflect the true cost of capital. For example, the expenditure on new software in 1998/99 has been written off to reserves and not charged to the services using the new systems.
- The asset register for land and property used to prepare the Accounts is not integrated with the records held by the Solicitor. A number of errors have been noted in the accounting records as the procedures for identifying property additions and disposals are not sufficiently robust.

We have discussed with Officers an action plan to ensure that these issues are addressed for the 1999/2000 audit.

Recommendation

Members should request regular updates of progress against the action plan to ensure that the requirements of capital accounting are fully implemented in the current year.

Control Environment

- 7.4 We have sought to adopt the principles outlined in the Audit Commission's managed audit approach to streamline the work we do to give an opinion on your Statement of Accounts. This includes working constructively, yet independently, with your management and seeking to place maximum reliance on your overall control environment. In particular we have assessed the strength of the high level monitoring controls, the operation of financial information systems, the accounts closure processes and the quality and extent of Internal Audit coverage.

- 7.5 As there was limited Internal Audit coverage and the audit trail was not complete at the start of the audit, we assessed the controls over the preparation of the accounts to be weak. We therefore undertook additional substantive testing of balances and transactions to enable us to form an opinion on the accounts. We have discussed with Officers a number of matters, in addition to capital accounting, that should be subject to review when preparing the 1999/2000 Statement of Accounts.

Changes for 1999/2000

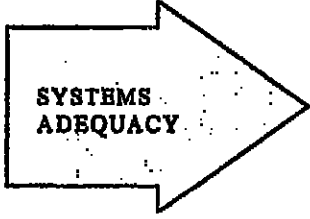
- 7.6 The Code of Practice on Local Authority Accounting in Great Britain 1999 was published earlier this year and applies to local authority financial statements for 1999/2000. The broad basis of local government accounting remains unchanged but there are a number of additional issues which need to be addressed including changes to the use of provisions and accounting for fixed assets.
- 7.7 We will be discussing with Officers the Authority's preparations for accommodating these changes during our planning for the 1999/2000 audit.

8 SYSTEMS ADEQUACY

RESPONSIBILITIES

- 8.1 It is the Authority's responsibility to maintain adequate and effective financial systems. The Code of Audit Practice requires the auditor to evaluate the financial systems and controls for the purposes of giving an opinion on the accounts and to report on the adequacy of the systems.

Figure 25: Meeting the systems adequacy objective

	<i>Scope of Review</i>	<i>Conclusions</i>
	<ul style="list-style-type: none"> • <i>Systems risk reviews</i> 	<ul style="list-style-type: none"> ➤ <i>Your systems in place to control and safeguard fixed assets are not adequate for us to place reliance on them for the purposes of reaching our audit opinion.</i>
	<ul style="list-style-type: none"> • <i>Individual system control reviews</i> 	<ul style="list-style-type: none"> ➤ <i>With this exception, we consider that the financial systems are adequate.</i>
	<ul style="list-style-type: none"> • <i>Review of the work and findings of Internal Audit</i> 	<ul style="list-style-type: none"> ➤ <i>Internal Audit coverage was not sufficient to enable the Managed Audit approach to be adopted.</i>

Source: Pannell Kerr Forster

KEY ISSUES

Financial Systems

- 8.2 Through the application of the principles of the "managed audit" we seek to place maximum reliance on Internal Audit. In reaching an opinion on Internal Audit's work on the core financial systems, we re-perform such of their work as we consider necessary. As noted earlier, the extent of testing undertaken by Internal Audit during the year was limited and we therefore increased our testing of the core systems to compensate for this.
- 8.3 We have considered your main financial systems in accordance with the cyclical programme set out in our Outline Audit Plan. We have assessed their adequacy for us to place reliance on them for the purposes of reaching our audit opinion. Our system evaluations are based on an assessment of the system risks, analytical review, Internal Audit coverage and findings and walk through testing of controls. Our conclusions are set out in Figure 26.

Figure 26: Assessment of Financial Systems			
	Reviewed and evaluated	Tested	Matters reported to Officers
Core Systems			
General Ledger	✓	✓	✓
Council Tax	✓	✓	
Housing Benefits	✓	✓	✓
Housing Rents	✓	✓	✓
Sundry Debtors	✓	✓	✓
Creditor Payments	✓		✓
Payroll	✓	✓	
NNDR	✓	✓	
Cash Receipts	✓	✓	✓
Subsidiary Systems			
Members and Officers Expenses	✓	✓	
Treasury Accounts	✓	✓	✓

Source: Pannell Kerr Forster

- 8.4 Whilst the fixed assets system was not selected for review this year in our cyclical programme, our work on the final accounts identified significant concerns over the systems for recording and safeguarding fixed assets, which we have referred to in paragraph 7.3.
- 8.5 With this exception, we concluded that the systems reviewed were broadly sound and that reliance could be placed on them for opinion purposes. However, we identified some areas where controls could be strengthened. These matters have been discussed with Officers and resolution of the issues raised will be followed up during the 1999/2000 financial year.

Information Systems Audit

- 8.6 In the first year of our audit, our information systems work has focused on procedures in place to safeguard the systems and ensure the security and integrity of data.
- 8.7 We have identified some areas where controls are insufficient to ensure data integrity in the event of a system failure. We have recommended to Officers that information system controls would be enhanced by the preparation of a disaster recovery plan and the use of more rigorous access controls.

Internal Audit Work

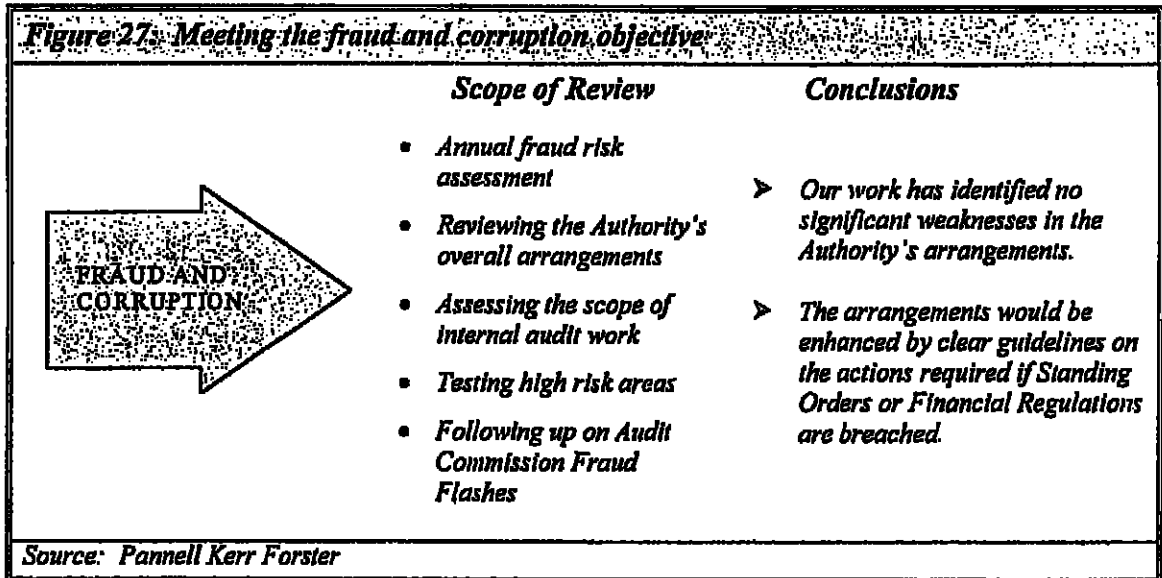
- 8.8 Our audit has included an assessment of the Internal Audit function to establish the quality of service delivered, compliance with professional practices and the extent to which we can place reliance on their work to support our audit. Our review included consideration of:
- staffing and structures;
 - methods and procedures;

- planning and audit coverage; and
 - completed audit work.
- 8.9 Our assessment of Internal Audit is that the work carried out in 1998/99 was not sufficient for us to adopt the Managed Audit approach. We were, however, able to place reliance on their work in respect of the creditor payments systems. We have made several recommendations to Officers to enhance the procedures of the Internal Audit department, including formalising the basis of sample testing and considering alternatives for obtaining experienced resource in certain specialist areas.
- 8.10 We are pleased to note that there has been an improvement in the procedures in the current year and we understand that the viability of obtaining specialist resource from other authorities is being explored.

9 FRAUD AND CORRUPTION

RESPONSIBILITIES

- 9.1 The Code of Audit Practice requires the auditor to give an independent assessment of the Authority's arrangements for preventing and detecting fraud and corruption. The overall responsibility for the prevention and detection of fraud and corruption remains with the Authority and its Officers.



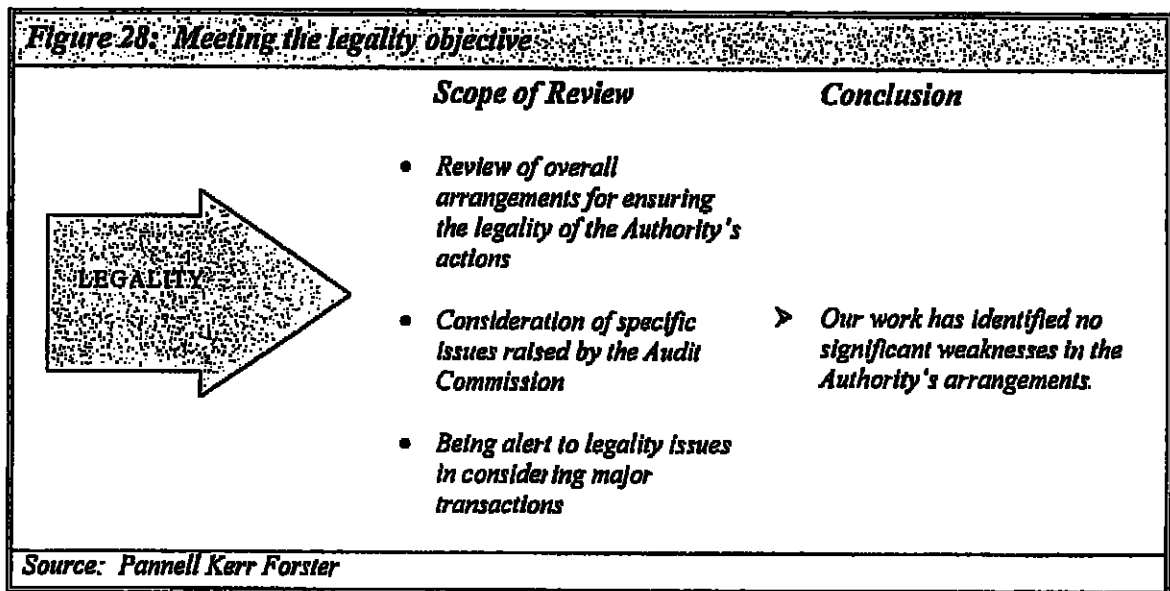
KEY ISSUES

- 9.2 Our assessment of the Authority's overall arrangements for preventing and detecting fraud and corruption has included reviewing specific areas on a cyclical basis using the Audit Commission's Fraud Manual. The areas reviewed this year were:
- Car parking;
 - Loans and Investments; and
 - Expense claims.
- 9.3 There were no matters arising from this work that we wish to bring to the attention of Members.
- 9.4 We have also carried out a high level review of attitudes to fraud, policies and guidelines, staff recruitment procedures, the extent of internal audit and the overall control structures in place. We have concluded that the procedures employed by the Authority are generally satisfactory. However, we have recommended to Officers that a formal policy detailing procedures to follow in the event of a breach of Standing Orders or Financial Regulations is introduced.

10 LEGALITY

RESPONSIBILITIES

- 10.1 The Code of Audit Practice requires the auditor to give an independent assessment of the Authority's arrangements for ensuring the legality of transactions that might have a financial consequence. We are also required to take reasonable steps to inform ourselves of significant financial transactions that are unusual or of questionable legality.



KEY ISSUES

Overall Arrangements

- 10.2 We have assessed the Authority's arrangements for ensuring that it complies with relevant legislation and operates within its powers. The main elements of these arrangements include:
- The availability of the Authority Solicitor to give advice;
 - Review of all reports to Council by the Monitoring Officer;
 - Review of key reports to Committee by the Monitoring Officer; and
 - Legal support on all contracts.
- 10.3 We have identified no issues of legality during the course of the year which we need to bring to your attention.

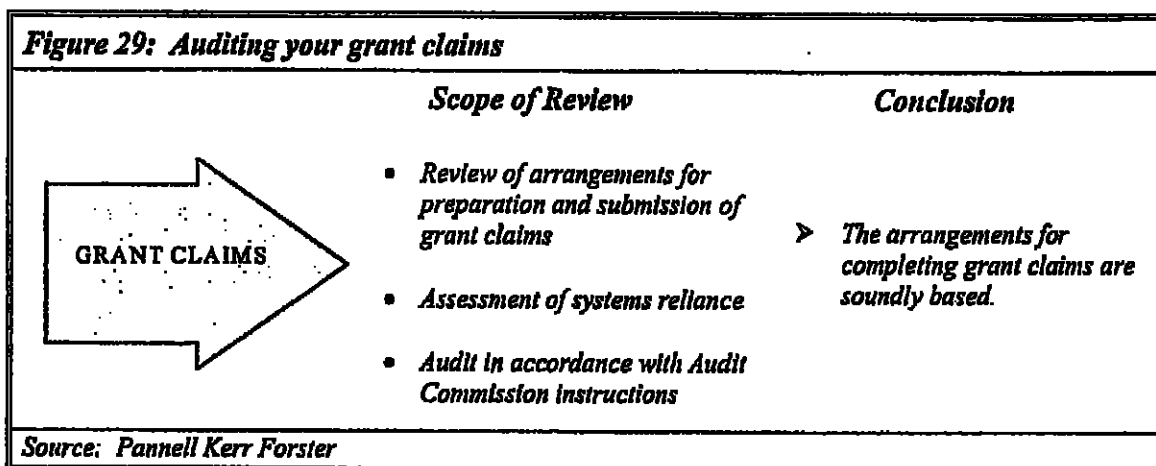
Questions and Objections

- 10.4 The Audit Commission Act 1998 and the Code of Audit Practice require us to take note of any information or questions received from local electors.
- 10.5 The Day of Public Rights took place on 27 August 1999, at which there were no formal objections received from members of the public in connection with the Authority's accounts.

11 GRANT CLAIMS

RESPONSIBILITIES

11.1 A key element of our regularity programme is the audit and certification of claims for grants from government departments. This work is required to be carried out in accordance with the Grant Instructions agreed between the Audit Commission and the relevant department.



KEY ISSUES

11.2 We have liaised with Officers throughout the year to establish the grant claims requiring audit and the Authority's timetable and other arrangements for their preparation. The majority of grants have a 31 December 1999 or later deadline and therefore our audit has not yet been completed. However, from our review of the preparations and the grant claims reviewed so far, we are satisfied that the Authority is approaching this in an appropriate way and there are no significant issues to bring to your attention.

11.3 The following grant claims have been submitted:

- Challenge funding;
- Housing Subsidy 2000/01; and
- NNDR Final Contribution.

The status of the remaining grants to be submitted is shown in Figure 29.

Figure 30: Progress on grant certification

Grant Claim	Deadline for submission	Status
Housing and Council Tax Benefit	31 December 1999	Grant received and audit in progress
Housing Subsidy 1998/99	31 January 2000	Grant received and audit in progress
MIRAS	31 March 2000	Grant received and audit in progress
Capital Receipts Return	31 March 2000	Grant received and audit in progress

Source: Pannell Kerr Forster

- 11.4 From the work undertaken to date, we have concluded that the Authority has good arrangements in place for the accurate and timely completion of grant claims.

12 ISSUES FOR 1999/2000 AUDIT

- 12.1 We will shortly be producing a drafting Outline Audit Plan detailing our proposed work at the Authority in 1999/2000. The following topics are some of the key issues which we shall address during the audit.

VALUE FOR MONEY STUDIES

- 12.2 The Value for Money programme will be determined by an assessment carried out in conjunction with Officers and taking into account the priorities indicated by the Audit Commission. There is one national study which will be applicable to the Authority for 1999/2000, namely Asset Management. The Asset Management study focuses on improving the effectiveness of property management at the Authority including:
- Constructing and maintaining an effective property database;
 - Benchmarking asset performance;
 - Using properties to support wider service objectives;
 - Management of commercial properties; and
 - Practical issues of space utilisation, building maintenance and energy and water usage.
- 12.3 The Audit Commission has indicated that it will continue to require at least 30% of the audit programme to be allocated to VFM work. It is expected that the balance of the VFM work, other than asset management, will comprise reviews of management arrangements and local projects which will be carried out to address specific issues and to assist authorities to move towards best value in their services.
- 12.4 In addition we will continue to follow up progress on recommendations from previous studies carried out at the Authority.

MANAGEMENT ARRANGEMENTS

- 12.5 As part of our ongoing review of management arrangements we will continue to review the Authority's response to legislative issues and developments. In particular, we will focus on the action taken on the Government's proposals on political management structures.
- 12.6 Legislation has been drafted, and has been included in the Queen's speech, which will require all authorities to review and amend their political management structures. The new arrangements, which are intended to clarify accountability and streamline decision making, are likely to require authorities to adopt one of the three models:
- Directly elected mayor and cabinet;
 - Cabinet and leader; or
 - Mayor and council manager.

The Queen's speech suggested that public consultation may be necessary on this issue.

- 12.7 At Rochford, you have not implemented a new structure in advance of legislation although you are in the process of considering your options for the future. It is important that this review takes account of other changes to Officer and Member structures which will be required to implement Best Value.

REGULARITY AUDIT

Financial Systems and Opinion

- 12.8 We shall conduct work in relation to the Authority's core and subsidiary financial systems, developing our cyclical audit plans based on liaison with Internal Audit and our initial audit planning. This will include a follow up of action on the issues identified during the current audit.

Fraud and Corruption

- 12.9 We will continue to develop a programme of work responsive to any matters arising from our liaison with Internal Audit, initial planning and guidance received from the Audit Commission.

BEST VALUE

- 12.10 For 1999/2000 onwards we have the additional responsibility to carry out the audit of the Authority's Best Value Performance Plan and to issue a report of our findings and judgements by 30 June. The aim of these audits is to provide local people and central government with a clear indication of whether Best Value is being obtained and it is designed to be complementary to the Authority's own review arrangements. It can support the Authority by:

- Providing advice on best practice for preparing plans;
- Challenging authorities to improve key aspects of performance; and
- Making comparisons against national standards and local targets.

This work will be in addition to our responsibilities under the Code of Audit Practice and will be subject to separate terms of engagement.

We would welcome the views of Members on suitable value for money projects and on any other aspects of our audit proposals on which they would like to comment before our Outline Audit Plan is finalised.