

Rochford District Council

Annual Audit Letter

December 2002

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1 INTRODUCTION

1.1 We have completed our audit of Rochford District Council for the year ended 31 March 2002. The audit has been carried out in order to discharge our responsibilities as set out in the Audit Commission’s *Code of Audit Practice* (the Code) and *Statement of Responsibilities of Auditors and of Audited Bodies*.

Purpose of this Annual Audit Letter

1.2 This Letter presents for Members the findings of our planned audit work for 2001/02. Detailed points and recommendations arising have been communicated to officers by way of individual memoranda during the course of the year.

The Focus of Our Audit

1.3 The risk-based focus of our 2001/02 audit is set out in our Outline Audit Plan (OAP) which was produced and agreed by Officers in June 2002. The audit focuses on the key issues for the Authority whilst ensuring that the audit objectives and requirements of the Code are fully addressed.

Code of Audit Practice

1.4 The diagram below represents the Audit Commission’s model of public audit that forms the basis of Code applicable to 2001/02 audits. The Code sets out auditors’ responsibilities in relation to each of the elements of the audit.

The Commission's model of public audit

The Commission’s model of public audit reflects the concept of an ‘integrated audit’.




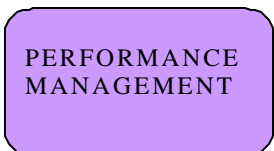
Source: Audit Commission

Structure

- 1.5 As with the OAP, this Annual Audit Letter has been structured to reflect the contents of the Code of Audit Practice. In order that Members can clearly follow the progress of our audit from planning through to final reporting, the report structure matches that of the OAP.

Our Overall Conclusions

- 1.6 The Authority continues to make good progress in dealing with the initiatives required of local government as well as its own local challenges. However, some still require further progress, particularly the establishment of the Local Strategic Partnership and production of a Community Strategy, and further development HRA Business planning and Asset Management planning procedures. Progress has been made in dealing with the possible future reserves issue, but this requires continual vigilance, including over levels of HRA reserves.
- 1.7 We set out below our conclusions in respect of the key issues identified in our OAP and during the course of our audit (Figure 1):

<i>Figure 1: Key Issues</i>			
Issue	Section	Our conclusions	Member action points
	2/3	<ul style="list-style-type: none"> • A local code of corporate governance has been adopted, reproducing part of the CIPFA/SOLACE guidance. The Authority's appraisal of its current position with respect to corporate governance is accurate, but does not include a comprehensive delegation of responsibilities for addressing problem areas. • Risk Management is an area where considerable further work is necessary. 	<ul style="list-style-type: none"> ➤ <i>For key areas that require specific attention, highlighted in the assessment of corporate governance by the authority, ensure that responsibility is comprehensively delegated to management, and due dates documented.</i> ➤ <i>Ensure that a risk culture is embedded across the Authority.</i>
	2	<ul style="list-style-type: none"> • Issues raised in last year's Annual Audit Letter have been addressed. • The Performance & Development Review (PDR) process requires some improvement. • Documentation of service action plans is variable. • The Quarterly Performance Reports do not contain a set of key indicators. 	<ul style="list-style-type: none"> ➤ <i>Ensure that the PDR system operates more effectively.</i> ➤ <i>Address the non-compliance in the completion of some service action plans, documenting progress and setting due dates for milestones and delivery.</i> ➤ <i>Develop and track a core of 'key' indicators through the QPRs.</i>



Source: PKF

Figure 1: Key Issues

Issue	Section	Our conclusions	Member action points
FINANCIAL STANDING	3	<ul style="list-style-type: none"> • Council Tax increases should continue to stabilise reserves. • There remain concerns over the long-term prospects for the HRA. • Capital Programme is not likely to be achievable. 	<ul style="list-style-type: none"> ➤ <i>Members should ensure that levels of reserves are kept under review.</i>
DEMOCRATIC RENEWAL	2	<ul style="list-style-type: none"> • New committee structure operating from April 2002. • New Constitution approved and is comprehensive. • Overview & Scrutiny Committees and Standards Committee still bedding in. • Recommendations of the Independent Panel for Remuneration were not followed. 	<ul style="list-style-type: none"> ➤ <i>Financial regulations and Standing Orders would benefit from updating.</i> ➤ <i>Monitoring and formal review of the Scrutiny and Standards function is a priority.</i> ➤ <i>Take steps to benchmark allowances against other authorities to better inform the IPR in future years.</i>
LEISURE CONTRACT	3	<ul style="list-style-type: none"> • Contract awarded to Holmes place in April 2002. The contract process was properly conducted. 	<ul style="list-style-type: none"> ➤ <i>Ensure that contract standing orders are comprehensive so that officers can successfully appraise and monitor contract arrangements.</i>
COMMUNITY STRATEGY	2	<ul style="list-style-type: none"> • The LSP steering group for production of the strategy has been finalised. • No work had been carried out on the production of a Community Strategy at the time of our visit. 	<ul style="list-style-type: none"> ➤ <i>There is considerable time pressure for the development and implementation of the Community Strategy. Care is required to prevent any slippage in the development timetable.</i> ➤ <i>Ensure that there is a demonstrable flow from Community Strategy objectives to the Corporate Plan.</i>

Source: PKF


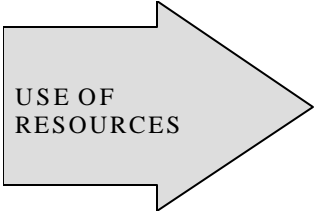
Figure 1: Key Issues

Issue	Section	Our conclusions	Member action points
	2	<ul style="list-style-type: none"> Over 33% of services could be delivered electronically by 2002 against a DTLR target of 25%. Revised priorities since IEG1 hinder an overall assessment of progress. There is currently not a formal project methodology employed or framework of meetings. 	➤ <i>None</i>
	2	<ul style="list-style-type: none"> The Performance & Development Review process is not operating efficiently. The nature of the Authority makes it particularly prone to loss of professionals and senior management. 	<ul style="list-style-type: none"> ➤ <i>The importance of completing the PDR process on time needs to be disseminated across the Authority.</i> ➤ <i>A review of succession planning is should be considered.</i>

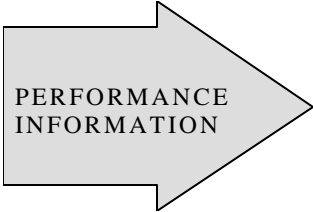



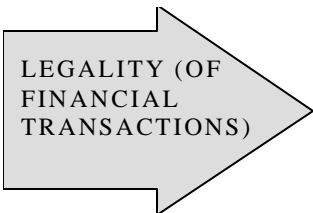
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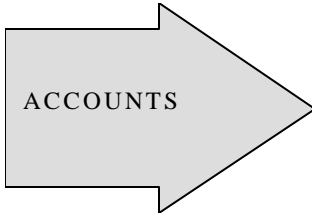
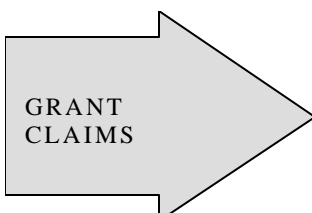
1.8 The table below sets out our overall conclusions on each of the Code areas:

Figure 2: Overall Code area conclusions

Audit objective	Our conclusions	Member action points
Aspects of Performance Management – Section2		
	<ul style="list-style-type: none"> Unqualified opinion on the 2002 BVPP. 	➤ <i>None</i>
	<ul style="list-style-type: none"> Performance management framework improved in comparison with last year, though there remain compliance issues. Variable progress in key initiatives. 	<ul style="list-style-type: none"> ➤ <i>Note PMF issues raised in paragraph 2.10.</i> ➤ <i>Management Arrangement recommendations in paragraph 2.15</i>

Source: PKF

<i>Figure 2: Overall Code area conclusions</i>		
Audit objective	Our conclusions	Member action points
<i>Aspects of Performance Management – Section 2</i>		
 <p>PERFORMANCE INFORMATION</p>	<ul style="list-style-type: none"> • A single BVPI reservation, though it relates to the same indicator as one of last year's reservations. 	➤ <i>None</i>
<i>Financial Aspects of Corporate Governance – Section 3</i>		
 <p>SYSTEMS OF INTERNAL FINANCIAL CONTROL</p>	<ul style="list-style-type: none"> • Internal Audit and other relevant arrangements are largely satisfactory. 	➤ <i>None</i>
 <p>STANDARDS OF FINANCIAL CONDUCT AND FRAUD & CORRUPTION</p>	<ul style="list-style-type: none"> • Conduct arrangements assessed as strong. • Arrangements in respect of prevention and detection of fraud and corruption are satisfactory. 	➤ <i>None.</i>
 <p>FINANCIAL STANDING</p>	<ul style="list-style-type: none"> • Financial standing at 31st March 2002 is satisfactory. • Council Tax increases should continue to stabilise reserves. • There remain concerns over the long-term prospects for the HRA. • Capital Programme is not likely to be achievable. 	➤ <i>Members should ensure that levels of reserves are kept under review.</i>
 <p>LEGALITY (OF FINANCIAL TRANSACTIONS)</p>	<ul style="list-style-type: none"> • Arrangements have been operating satisfactorily. 	➤ <i>None.</i>
<i>Source: PKF</i>		

<i>Figure 2: Overall Code area conclusions</i>		
Audit objective	Our conclusions	Member action points
Accounts – Section 4		
	<ul style="list-style-type: none"> • Unqualified opinion on the Statement of Accounts. • Underlying core financial systems operating satisfactorily. 	➤ <i>None.</i>
Grant Claims – Section 5		
	<ul style="list-style-type: none"> • No issues arising from our work to date on 2001/02 claims. 	➤ <i>None.</i>
<i>Source: PKF</i>		

1.9 The remaining Sections of this Annual Audit Letter expand upon the summaries set out above.

Acknowledgement

1.10 We would like to take the opportunity to thank the Authority’s staff for their help and co-operation during our audit.

2 ASPECTS OF PERFORMANCE MANAGEMENT

Best Value Performance Plan

Scope and Conclusions

2.1 The scope of our work and conclusions arising are set out below:

<i>Figure 3: Summary of the Best Value Performance Plan work</i>	
Scope of Review	Conclusions
<ul style="list-style-type: none"> Reviewing compliance of the BVPP with the requirements of the Act. 	<ul style="list-style-type: none"> ➤ <i>The Authority produced a plan that in all significant respects was compliant with the requirements of the Act.</i>
<i>Source: PKF</i>	

Key Issues

2.2 As a result of our work on the compliance of the BVPP with the Act, we issued a detailed report of our findings to officers. We attach as Appendix A our statutory audit report of our opinion on the BVPP. An action plan listing the issues that we considered the Authority should address before the preparation of its next BVPP has been sent to officers. The key points arising from these are considered below:

<i>Figure 4: Issues arising from the Audit of the BVPP</i>
<p><i>Compliance of BVPP</i></p> <ul style="list-style-type: none"> The BVPP was in all significant respects compliant with the requirements of the Act and some of the recommendations made by us with regard to the 2001 BVPP have been addressed. <p><i>Key areas still to be addressed:</i></p> <ul style="list-style-type: none"> The results of completed Best Value reviews are included, but these do not include details of alternatives considered or action plans for how targets will be met.
<i>Source: PKF</i>

Expectations for 2002/03

2.3 The production of the 2003 BVPP will be affected by the impact on available officer time as a result of the implementation of the performance management framework and preparations for the Comprehensive Performance Assessment. Consequently, the preparation of the 2003 BVPP is likely to be more challenging.

Recommendations

2.4 *We recommend that Members monitor the progress in developing the 2003 BVPP in the light of our recommendations and any new guidance.*

Use Of Resources

Scope

2.5 This Code area has been subdivided into four components, as follows:

- Performance Management Framework;

- Management Arrangements issues;
- Studies; and
- Follow-up of previous work.

2.6 Each of these components is considered in order below.

Performance Management Framework

2.7 The performance management system is the mechanism for cascading corporate objective into specific targets, the monitoring of performance against these targets, the determination of actions required to achieve targets, and the critical review of service needs, options and expectations. Such arrangements are the foundation of continuous improvements in the exercise of functions, and the ability of an authority to comply with the general duty of Best Value.

Figure 5: Summary of the Performance Management Framework work	
Scope of Review	Conclusions
Our work on performance management has comprised: <ul style="list-style-type: none"> • Following up progress on the recommendations made during last year’s audit. • Considering the design and effectiveness of the framework. • Consider the action taken in response to the Best Value Inspections. 	<ul style="list-style-type: none"> ➤ <i>The Authority has yet to develop a number of key Indicators within the Quarterly Performance Review, and subject to continuous tracking.</i> ➤ <i>The focus on Local Indicators and production of commentaries from heads of service has improved the usefulness of performance measurement. The framework is sound.</i> ➤ <i>The Authority should develop further medium term financial planning ensuring it is based on costed medium term service plans.</i> ➤ <i>The Authority should consider benchmarking key performance with nearest neighbours.</i>
<i>Source: PKF</i>	

Component elements

2.8 The following table considers component elements of the Framework:

Figure 6: Review of Performance Management Framework	
Scope of work	Key conclusions
Assessment of the current framework, including follow up from last year’s review, incorporating the following aspects: <ul style="list-style-type: none"> • Objective and target setting; 	<ul style="list-style-type: none"> ➤ <i>The Authority uses a cascade system to translate corporate objectives into targets for individual officers. Performance and Development Review (PDR) is part of this process, although the process needs further development</i>
<i>Source: PKF</i>	

Figure 6: Review of Performance Management Framework

Scope of work	Key conclusions
<ul style="list-style-type: none"> • Monitoring performance; • Action planning and implementation, including in response to external audit and inspection; • Service reviews; and • Achievement of objectives and targets. 	<ul style="list-style-type: none"> ➤ <i>The Quarterly Performance Reports(QPRs) completed by each head of service, and used to provide performance indicator information, have been enhanced by the inclusion of Summary Assessments. These explain variances highlighted by the indicators.</i> ➤ <i>The QPRs benefit from an increasing focus on Local Indicators, but there has not been an attempt to select a core of ‘key’ indicators of particular significance to the Authority and incorporate these into the QPR.</i> ➤ <i>The Authority uses standard Service Action Plans to help implement improved service delivery. These documents are considered appropriate, although they are not always completed in full, with omissions including no cross-references to the Corporate Plan, and no due dates for milestones or overall delivery.</i> ➤ <i>The programme of service reviews conducted by the Authority has been subject to a degree of slippage, although we acknowledge that resource constraints limit options for completion of the programme.</i> ➤ <i>The Service Reviews have become more cross cutting in line with guidance from the inspection service.</i> ➤ <i>The BVPP indicates that Rochford’s PI quartile achievement improved considerably in comparison with other district councils.</i> ➤ <i>The setting of local indicators overall appeared reasonable, although there were specific cases where targets were set below the previous years actual achievement, which will not promote improvement.</i>

Source: PKF

2.9 Based on the above, we consider that the Authority has made progress in refining its performance management framework. Further scope for improvement should focus on:

- Development of a number of key Indicators within the QPR of particular importance to Rochford, and subject to continuous tracking;

- Improving compliance aspects of the Performance and Development Review process so that individuals objectives can be directed in accordance with corporate objectives on a timely basis; and

- Ensuring that all Service Action Plans have clearer linkage to the Corporate Plan.

Best Value Inspections

- 2.10 The scope of our work extends to an assessment of the framework for managing performance and for scheduling and undertaking Best Value Reviews. The role of the inspectors is to review the results of, and processes adopted in practice for carrying out, selected reviews undertaken by the Authority.
- 2.11 To date the Authority has had three reported inspections:
 - Asset Management – assessed as ‘Fair’ (1 star) service and being ‘unlikely to improve’ in October 2001;
 - Leisure Services - assessed as ‘Fair’ (1 star) service and having ‘promising prospects for improvement’ in March 2002; and
 - Building Control and Development – assessed as ‘Good’ (2 stars) service and having ‘promising prospects for improvement’ in July 2002.
- 2.12 The above are, in general, encouraging results for the Authority, with the comments made on the Asset Management review having been used to help develop the remaining service provision in this area further. However, performance will need to be maintained over the coming 18 months as the process of Comprehensive Performance Assessment is undertaken.

Recommendations

- 2.13 *Members should continue to develop and monitor progress of the performance management arrangements, taking into account the recommendations noted above.*

Management Arrangements

- 2.14 The following table considers first key, and then other, management arrangements issues being faced by the Authority or dealt with during the period:

Figure 7: Review of Management Arrangements issues	
Issue and scope of review	Conclusions
<i>Key Issues</i>	
<p><i>Corporate Governance</i></p> <ul style="list-style-type: none"> • Extent of progress in assessing position against the CIPFA/SOLACE framework and adopting a local Code 	<ul style="list-style-type: none"> ➤ <i>The Authority adopted a Local Code of Corporate Governance and has performed a comprehensive assessment of its current position</i> ➤ <i>The code reproduces the CIPFA/SOLACE framework. This needs to be expanded to include the detail of the relevant processes and arrangements in place at Rochford in one document. Required improvements have been identified but there is no indication of which officers should take responsibility for implementing and monitoring these.</i> ➤ <i>Extensive work is still required to implement a risk management framework, and embed a risk culture across the authority.</i>
<i>Source: PKF</i>	

<i>Figure 7: Review of Management Arrangements issues</i>	
Issue and scope of review	Conclusions
<i>Key Issues</i>	
<p><i>Democratic Renewal</i></p> <ul style="list-style-type: none"> • Operation of new structures, including effectiveness of scrutiny arrangements 	<ul style="list-style-type: none"> ➤ <i>The effectiveness of the new committee arrangements, and in particular the scrutiny committees, have not been subject to review, as they are still bedding in. A review should be scheduled.</i> ➤ <i>Financial Regulations have not been updated and still refer to the old committee structure.</i>
<p><i>Partnership Arrangements</i></p> <ul style="list-style-type: none"> • Extent of progress in developing a Local Strategic Partnership and drafting a Community Strategy • Development of a new Crime Reduction strategy • Development of Strategic Partnerships, including those relating to Health 	<ul style="list-style-type: none"> ➤ <i>There is a timetable for establishing a Local Strategic Partnership but it is not yet in place.</i> ➤ <i>The Authority has yet to produce a Community Strategy, and the preliminary timetable does not forecast the finalisation of the strategy until October 2003.</i> ➤ <i>The Authority has produced a new Crime Reduction strategy and is establishing monitoring groups to gauge progress towards objectives.</i> ➤ <i>The Authority is developing more formal partnership arrangements with housing associations, the , primary care trust, and the health authority.</i>
<p><i>Statutory Plans</i></p> <ul style="list-style-type: none"> • HRA Business Plan • Asset Management Plan 	<ul style="list-style-type: none"> ➤ <i>The Authority did not meet the 31 July deadline for the submission of the HRA Business Plan. It has yet to produce a final “full” plan.</i> ➤ <i>There has been limited development of performance information to use in monitoring the achievement of the Business Plan aims.</i> ➤ <i>Although improved over the 2001 HRA Business Plan, the links to the Authority’s overall corporate objectives remain limited.</i> ➤ <i>The Authority met the 31 July deadline for submission of the Asset Management plan.</i> ➤ <i>The Authority has not identified a full range of local performance indicators with which to monitor overall asset performance.</i>
<i>Source: PKF</i>	

<i>Figure 7: Review of Management Arrangements issues</i>	
Issue and scope of review	Conclusions
<p><i>e-Government</i></p> <ul style="list-style-type: none"> • Assessment of progress 	<ul style="list-style-type: none"> ➤ <i>The Authority continues to make good progress in the provision of electronic service delivery and the second IEG statement has been submitted to ODPM.</i> ➤ <i>This needs to be formally monitored over the coming year.</i>
<i>Other Issues</i>	
<p><i>Recruitment and Retention</i></p> <ul style="list-style-type: none"> • Review of current arrangements in this area in light of problems experienced with the recruitment of appropriate staff and their subsequently retention. 	<ul style="list-style-type: none"> ➤ <i>The Authority is currently addressing the issue of succession planning in specific areas. Given the officer structure at the Authority, it is particularly exposed to the departure of professionals and individuals within senior management.</i> ➤ <i>Completion of the Performance and Development review process which is a key driver for training was seriously behind schedule during our visit.</i>
Source: PKF	

Corporate Governance

2.15 The Authority adopted a local Code of Corporate Governance in July 2002 in response to the requirements of the CIPFA/SOLACE Corporate Governance Framework. However, the local code has focused on the high level principles and dimensions set out in the CIPFA/SOLACE document and has not set out for each dimension a detailed list of the Authority’s actual or planned procedures and arrangements which are designed, overall, to meet the requirements is in a separate document. We recommend that the adopted Local Code is expanded to include in one document the detail of Rochford’s procedures and arrangements to meet the Code’s objectives.

Overall conclusion

2.16 Overall, we believe the Authority is making reasonable progress and effectively managing initiatives in most areas. However, the Authority must remain vigilant to ensure that it monitors areas that are at risk of slippage or ineffective delivery, in particular:

- The quality of the HRA plans submitted remains variable, these are important to the Authority as Housing is one of the two specific areas to be reviewed as part of the Comprehensive Performance Assessment;
- The implementation of a Community Strategy has a demanding timescale for delivery that will require careful monitoring to ensure there is no slippage. Adequate arrangements must be in place for the monitoring and assessment of the strategy implementation; and

2.17 As stated last year the success of these initiatives is contingent upon the availability of staff resource and experience, which remains a difficult issue at the Authority. We appreciate that

available options are being explored to attempt to resolve this situation, and that these are often precluded by external factors, such as the situation in the job market and local cost of living.

Recommendations

- 2.18 **Members should continue to monitor progress in addressing these initiatives and pay careful attention to slippages as a number of these projects are reaching a critical stage.**

Studies

- 2.19 There were no national studies applicable to District authorities in 2001/02 and discussions with Officers did not identify any particular areas where a local study would have been appropriate during the period of the audit. Factors influencing this decision included risk assessments of operations, the timing of the Authority’s Best Value Reviews of potential study areas and the Authority’s audit budget made available.

Follow up of previous years’ studies

- 2.20 We have reviewed the general arrangements for follow-up and progress made by the Authority in implementing recommendations contained within study reports issued during the previous [two] years.
- 2.21 Our detailed findings are summarised below:

Figure 9: Progress in implementing 1999/2000 VFM study action plans	
<i>Study and key recommendations</i>	<i>Progress to date</i>
<p>Economic regeneration</p> <ul style="list-style-type: none"> • Rochford should allocate resources to produce an Economic Regeneration Strategy. • The strategy needs a performance monitoring framework to be set up to gauge achievement of SMART objectives. 	<ul style="list-style-type: none"> ➤ An Economic Regeneration Strategy has been prepared, but is still in draft format.
<p>Service and Financial Planning</p> <ul style="list-style-type: none"> • For future service plans, the Authority should set realistic target dates for the achievement of objectives, and plans should be fully costed for all resources. 	<ul style="list-style-type: none"> ➤ Target dates and availability of resources are yet to be included in all plans.
<i>Source: PKF</i>	

- 2.22 In general the majority of recommendations from the reports have now been addressed, with those listed above being the key recommendations where we feel further progress can still be made.

PERFORMANCE INFORMATION

Responsibilities

- 2.23 We have reviewed the systems in place at the Authority for producing target indicators for the BVPP and collating and recording Best Value performance indicators. Our conclusions from our work are set out below:

<i>Figure 10: Summary of the Performance Information work</i>	
Scope of Review	Conclusions
<ul style="list-style-type: none"> • Consideration of systems in place for producing target indicators for the BVPP. • Review of the overall arrangements to collect and record outturn indicators. • Confirmation of significant performance variance compared to the previous year 	<ul style="list-style-type: none"> ➤ <i>The systems across the Authority for producing target indicators for the BVPP are broadly sound although further work is needed to ensure there are links between targets and the relevant corporate and service objectives.</i> ➤ <i>The central co-ordination arrangements in place for the year have again worked well and assisted us in the completion of our work.</i> ➤ <i>Appropriate explanations have been provided for all significant variances.</i>
<i>Source: PKF</i>	

Key Issues

BVPP work

- 2.24 In assessing the content of your BVPP, we considered the systems put in place by the Authority to collate necessary information for BVPIs and local indicators set by the Authority. The key points arising were as follows:

<i>Figure 11: Performance Information issues arising from the audit of the BVPP</i>
<p><i>Performance Information systems</i></p> <ul style="list-style-type: none"> • Appropriate arrangements are in place for collecting the data for the performance indicators, including evidence of outturn and target calculations. • At the time of the BVPP the majority of indicators were available, the only exception being the outturn indicators which were not finalised and as a result estimated figures were used within the BVPP. • There are both new and changed definitions within the indicators required for 2003, and the Authority needs to be prepared for these.
<i>Source: PKF</i>

Audit Commission Return

- 2.25 We provided our report and opinion on the Authority's indicators prior to the Audit Commission's deadline of 25 October 2002.
- 2.26 As a result of the audit no indicators were changed. We have expressed reservations in our opinions on only one indicator (BVPI 79b), which has been made due to the fact that the Authority is unable to provide accurate data to support the reported figures.

Recommendations

- 2.27 *We recommend that Members ensure accurate performance information continues to be produced and linked to the corporate and service objectives of the Authority.*

3 FINANCIAL ASPECTS OF CORPORATE GOVERNANCE

Systems of Internal Financial Control

Scope and Conclusions

3.1 The scope of our work and conclusions arising are set out below:

<i>Figure 12: Summary of the Systems of Internal Financial Control work</i>	
Scope of Review	Conclusions
<ul style="list-style-type: none"> • Review Internal Audit arrangements, including staffing, independence, work focus and quality. • Consideration of the wider control environment within the Authority. 	<ul style="list-style-type: none"> ➤ <i>There remains scope for closer working between Internal Audit and external, and for Internal Audit work to focus on Key Controls and Core Systems.</i> ➤ <i>Appropriate arrangements are in place for the Authority to ensure the adequacy and effectiveness of financial systems.</i> ➤ <i>There are a number of minor issues relating to key controls that have been detailed in a memorandum to officers, such as clearance of suspense accounts and timeliness of processing Housing Benefit applications.</i>
<i>Source: PKF</i>	

Internal Audit Work

3.2 Our review considers:

- the strategic operation and positioning of the Internal Audit function;
- practical reviews of the quality and scope of work undertaken; and
- compliance with best practice, as set out in CIPFA's *Code of Practice for Internal Audit in Local Government in the United Kingdom*.

3.3 We have concluded that generally the Authority's Internal Audit department operated satisfactorily during the period under review, although there remain areas where performance can be enhanced.

3.4 This year only a small proportion of the our identified key controls within the core financial systems had been reviewed by Internal Audit, as a result we have conducted an amount of additional systems testing ourselves. Internal Audit currently bases its work on the CIPFA Internal Control Evaluation forms, which are very detailed and only allow a proportion of core systems to be reviewed each year.

3.5 Current communication between Internal and External Audit remains limited, although we have discussed options for a closer working relationship with the Head of Internal Audit, in order to increase the level of key control coverage in future years.

Recommendations

3.6 *We recommend that members continue to monitor the scope and coverage of Internal Audit work and review a selection of their reports.*

Standards of Financial Conduct, and the Prevention and Detection of Fraud and Corruption

Scope and Conclusions

3.7 The scope of our work and conclusions are set out below:

<i>Figure 13: Summary of the Financial Conduct and Fraud & Corruption work</i>	
Scope of Review	Conclusions
<ul style="list-style-type: none"> • Reviewing the Authority's overall financial conduct arrangements • Annual fraud risk assessment, including consideration of the scope of internal audit work, and testing high risk areas • Following up on Audit Commission Fraud Warning Bulletins 	<ul style="list-style-type: none"> ➤ <i>Our work has identified no significant weaknesses in the Authority's arrangements.</i> ➤ <i>The Authority did not fully comply with the Verification Framework during the current period, but is on target to do this in the coming period.</i> ➤ <i>No Warning Bulletin example frauds appear to have been perpetrated at the Authority and appropriate actions have been taken on warnings received.</i>
<i>Source: PKF</i>	

Proper Standards of Financial Conduct

3.8 Part III of the Local Government Act 2000 introduced a "new ethical framework", which includes the establishment of a Standards Committee at each authority, a Standards Board for England and a duty for authorities to adopt a local Code of Conduct, based on a national model Code, and for Members to sign up to and comply with it.

3.9 Our review and issues arising are detailed in figure 14 below:

<i>Figure 14: Summary of work on Standards of Financial Conduct</i>	
Work done	Key conclusion
<ul style="list-style-type: none"> • Review the arrangements currently in place and the progress in adopting a new code of conduct and establishing a Standards Committee. 	<ul style="list-style-type: none"> ➤ <i>The Authority adopted a local code of conduct for members in accordance with the model.</i> ➤ <i>There is a local protocol for officers which will be developed in accordance with forthcoming guidance.</i> ➤ <i>A Standards Committee has been operating as part of the new committee structure, and in accordance with regulations. Its effectiveness will be established once the committee has bedded in.</i>
<i>Source: PKF</i>	

Prevention and Detection of Fraud and Corruption

3.10 Figure 15 below details the key findings arising from our risk-based work:

<i>Figure 15: Summary of work on the Prevention and Detection of Fraud and Corruption</i>	
Area(s)	Key conclusions
Housing Benefits	➤ <i>Arrangements appear satisfactory.</i>
Payroll	➤ <i>Arrangements appear satisfactory.</i>
Source: PKF	

Financial Standing

Scope and Conclusions

3.11 The scope and conclusions of our work are set out below:

<i>Figure 15: Summary of the Financial Standing work</i>	
Scope of Review	Conclusions
<ul style="list-style-type: none"> • Assessment of the Authority's: <ul style="list-style-type: none"> – budget arrangements; – financial performance during 2001/02; and – financial position as at 31 March 2002. • Consideration of future financial prospects. 	<ul style="list-style-type: none"> ➤ <i>Reserves have been stabilised and the general financial standing at 31 March 2002 has improved. However, the Authority still needs to ensure that a sufficient level of reserves can be preserved in the medium term, including in the HRA.</i> ➤ <i>The Authority has good collection rates for the major sources of income.</i> ➤ <i>The Capital Programme is subject to continued slippage, and is unlikely to be achieved in the coming year.</i>
Source: PKF	

Budget arrangements

Budget setting and control

3.12 The budget setting process for 2001/02 was based initially on the previous years estimate book, but all known changes in resource requirements were incorporated at an early stage, and participation from all heads of service was required. The linkage established with the Corporate Plan last year remains, and resource requirements of service plans are also incorporated. It is important that Authority ensures that Revenue and Capital budgets continue to be integrated and that a risk assessment is documented in relation to levels of material items of income and expenditure.

*Financial performance during 2001/02***General Fund**

<i>Figure 16: Summary of General Fund Revenue Outturn against Original Budget</i>			
Area	Original Budget Net £000	Outturn Net £000	Variance Net £000
Corporate and Democratic Core	1,155	1,167	12
Central Support and Overheads	1,081	921	(160)
Cultural and Related Services	2,201	3,226	1,025
Planning and Development	1,293	1,121	(172)
Environmental Services	2,417	2,412	(5)
Highways, Road and Transport	102	260	158
Housing Services	1,025	1,200	175
Total Net Cost of Services	9,274	10,307	1,033
<i>Source: PKF</i>			

- 3.13 The apparent overspend with regard to the original budget was primarily the result of incorrectly estimated asset rentals, within both Cultural and Related Services and Highways, Road and Transport, although the effect of these is reversed out below Net Cost of Services. After allowing for this the overall result for the authority was an underspend of £109,000 which included £82,000 being contributed to reserves.
- 3.14 At the start of the accounting year the Budget Strategy Reserve contained £102,000, which was fully utilised to support General Fund expenditure. This compares with an original estimated draw down of £337,000, that would have overdrawn the reserve.

Housing Revenue Account (HRA)

- 3.15 The estimated deficit of £121,000 on the HRA did not occur due to a number of underspends, which totalled £122,000 and resulted from a number of better than expected performances. However, these positive variances in the HRA are mainly one-off in nature, and the underlying trend of deficits remains a key issue facing the Authority in future years.
- 3.16 To support the HRA in the future, Rochford needs to continue to develop its HRA Business Plan, and consider its options with regard to addressing unit cost increases, rental income restrictions and the forecast deficits that will result.

Collection Fund

- 3.17 The Collection fund performance continues to show consistency with prior years, with collection rates for Council Tax of 99.1% against prior year outturn of 99.0%, and 98.0% against 99.1% in 2000/01 for NNDR. Both results indicate very good performance, with the slight deterioration in NNDR collection being attributable to non-controllable events. The Authority's Council Tax collection rate places it in the top 10 authorities in England.

Capital Programme

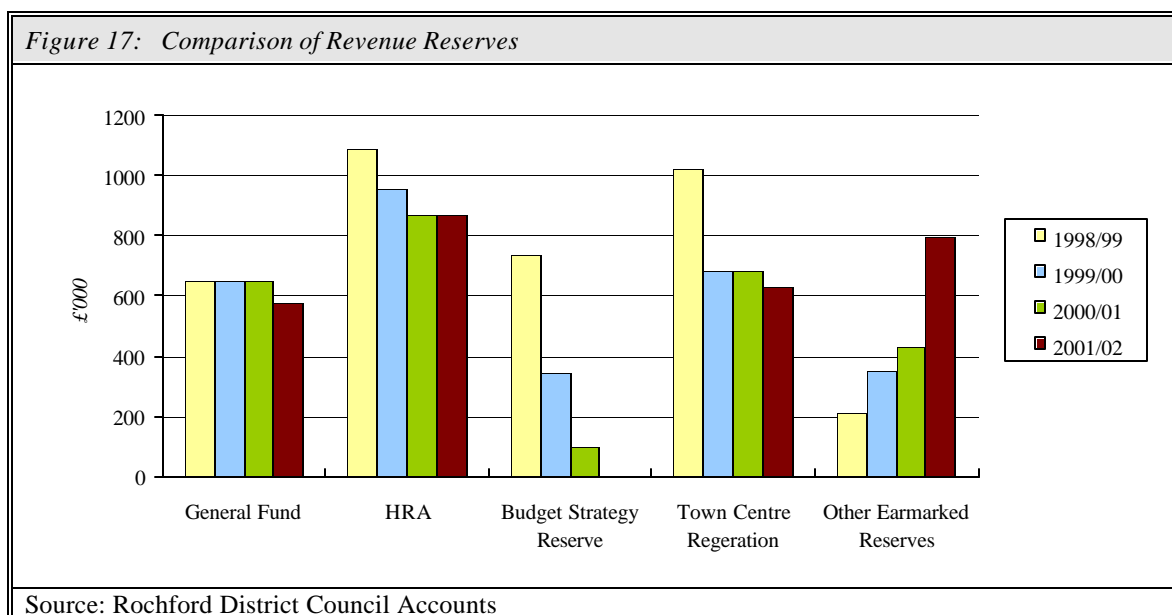
- 3.18 Capital expenditure in the year amounted to £2.1m, against a budget of £2.7m and a prior year figure of £1.4m. The variance between actual and budget of £0.6m equates to 22% of the original budget, which represents a clear improvement on 2000/01 when 48% of the budget was not completed.

- 3.19 There have been some particular areas of slippage including delays in the Springboard Housing Association scheme to supply accommodation for the homeless (£375k) and the utilisation of Social Housing Grants (£120k), although these are outside the authority’s control.
- 3.20 There remains considerable slippage in capital expenditure, which has been referred to in previous Annual Audit Letters. We are aware that this is partly a result of having a Capital Programme based on the urgent allocation of highly variable capital receipts.

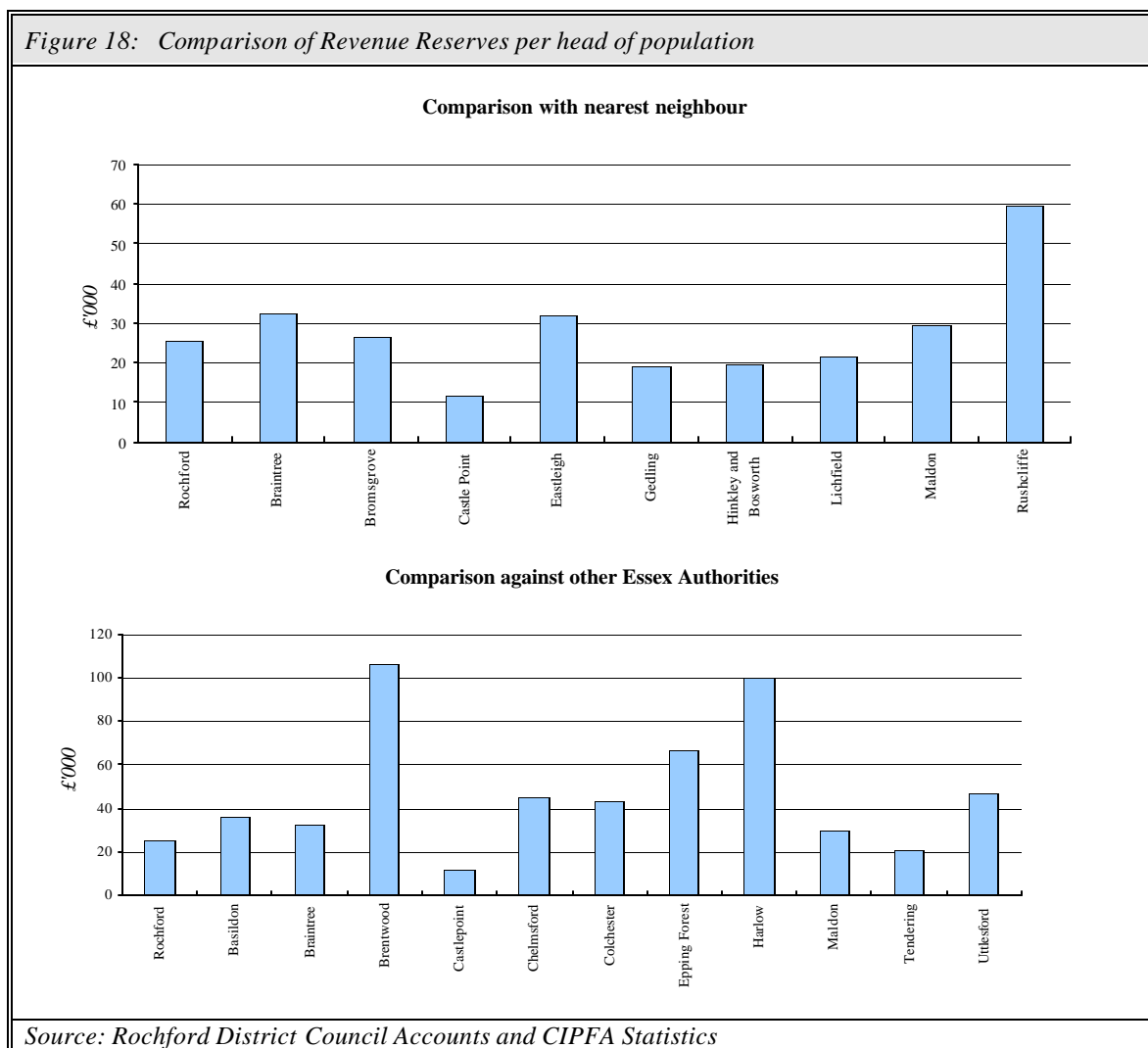
Financial position as at 31 March 2002

Reserves and Balances

- 3.21 At the end of 2001/02 the Authority held revenue reserves of approximately £1.4m (2001/02 £1.2m). We have reviewed the levels of reserves and balances maintained by the Authority, as shown below:



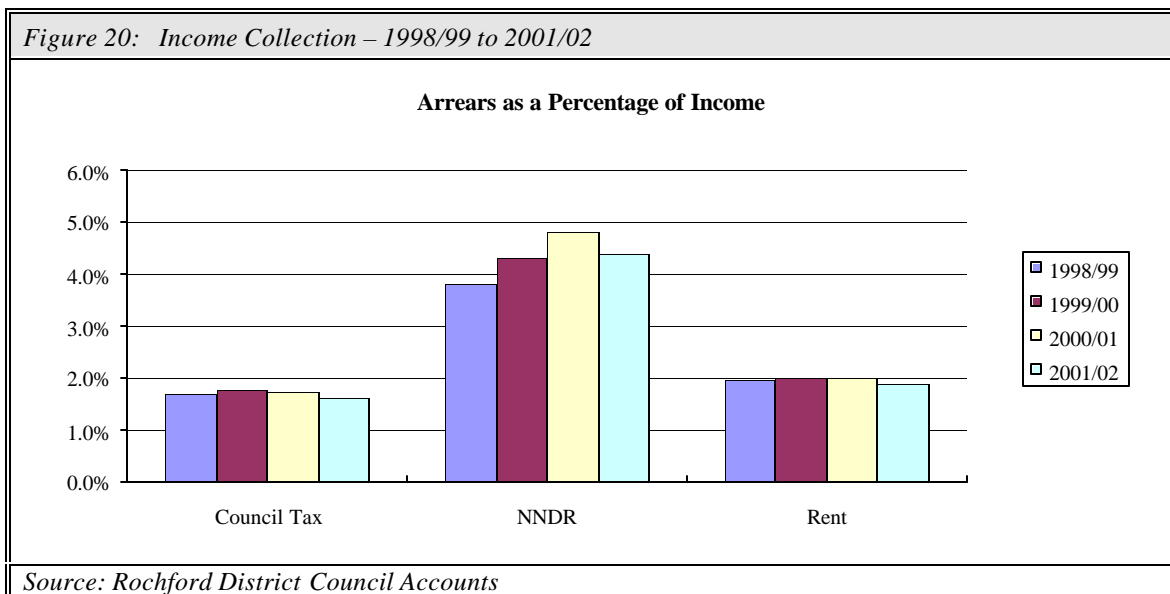
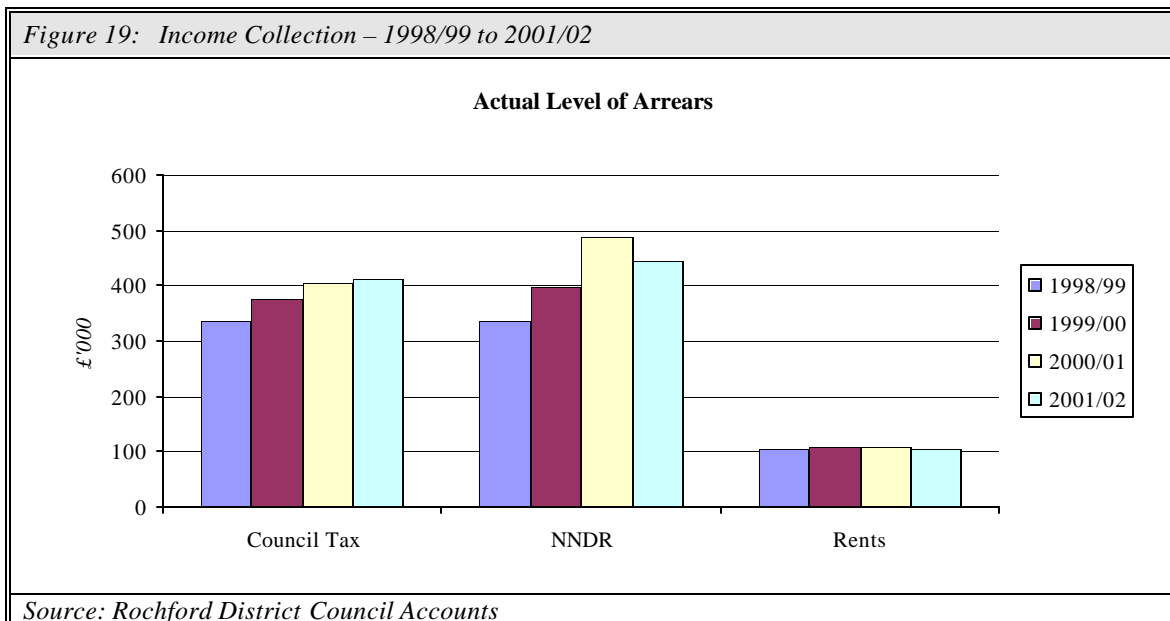
- 3.22 During the year the Budget Strategy Reserve has been exhausted, and a minor drawdown from the General Fund has been required to meet revenue expenditure. This utilisation is directly attributable to a delay in receipt of an NNDR refund expected during the year, but the Authority is committed to restoring the General Fund balance in the coming year.
- 3.23 A large proportion of the earmarked reserves brought forward at the start of the period remain at the end. Additional earmarked reserves are primarily being set up to fund the capital programme going forwards.
- 3.24 We have compared the level of revenue reserves per head (including earmarked reserves) with the Authority’s nearest neighbours and other Essex Authorities as shown by the charts below:



3.25 The above confirms that Rochford remain in the mid-range when compared to nearest neighbours, and towards the lower end of Essex Authorities.

Arrears

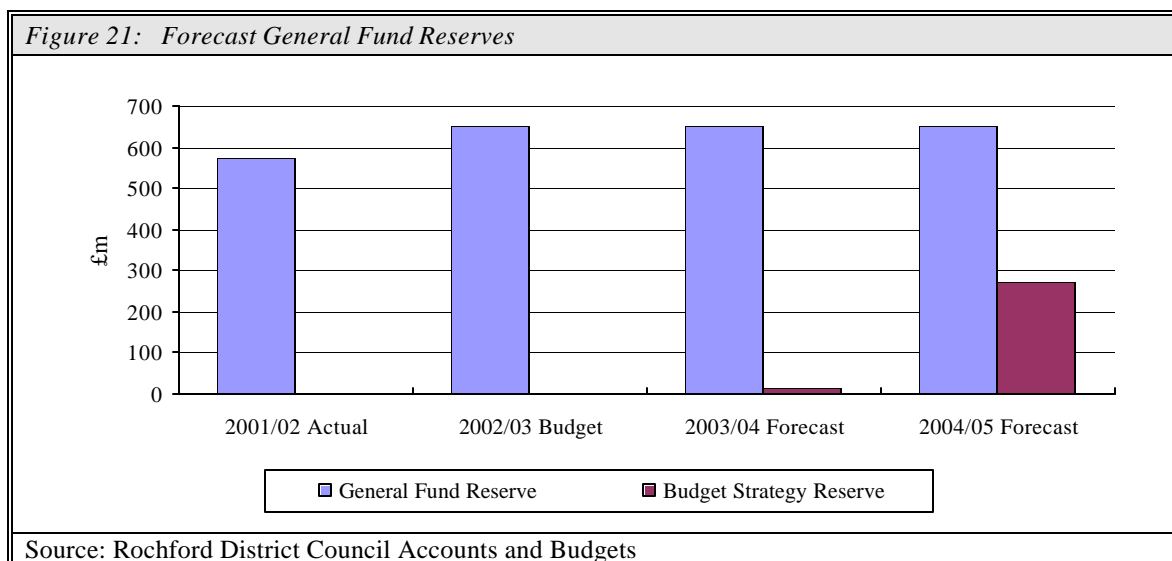
3.26 We have reviewed the arrears and results of income collection across the Authority to assess the impact of these on the Authority’s finances. These are summarised below:



3.27 In absolute terms, only Council Tax arrears have increased in the year, although this is less than the 8% increase in Council Tax charge this year. For all areas the percentage arrears have continued to fall, with Council Tax only showing a small reduction due to the increase in the charge for the year.

Prospects for 2002/03 and future years

3.28 The authority does not prepare detailed longer-term budgets as it is their policy to achieve a balanced budget. In the short term, including the 2002/03 budget which has been set to achieve a net expenditure of £7.5m, and the outline forecast for future years, results in movements in balances as illustrated below:



- 3.29 It is anticipated that the Authority will be able to fund the 2002/03 budget through a 10% increase in the level of Council Tax from the current year, and that the General Fund Reserve will be restored to £650,000.
- 3.30 The latest revenue information indicates that the authority is managing its budget well and provides a reasonable basis for the forecasts illustrated in the above graph.
- 3.31 As such, we consider that the concern raised in the 2000/01 annual audit letter on the potential erosion of the General Fund Reserve in the medium term has been addressed. As the Authority is likely to seek any opportunities to limit further increases in Council Tax, consideration needs to be given to the continued pursuit of cost savings if a balanced budget is to be realised.

Legality of Financial Transactions

Scope and Conclusions

- 3.32 The scope and conclusions of our work are set out below:

Figure 22: Summary of the Legality work

Scope of Review	Conclusions
<ul style="list-style-type: none"> • Overall monitoring arrangements • Specific issues raised by the Audit Commission and key new legislation • Specific queries raised by the Authority relating to actions being considered. • Addressing questions and objections from electors. 	<ul style="list-style-type: none"> ➤ <i>The overall arrangements for ensuring the legality of the Authority's transactions continue to be strong.</i> ➤ <i>We have identified no issues from our specific reviews of the use of Wellbeing Powers and the impact of the Human Rights Act.</i>

Source: PKF

Questions and objections

- 3.33 The Day of Public Rights took place on 14 October, at which there were no formal objections received from members of the public in connection with the Authority's accounts.
- 3.34 We dealt with a number of letters of complaint from the public during the course of the year.

4 ACCOUNTS

Scope and Conclusions

4.1 The scope and conclusions of our work are set out below:

<i>Figure 23: Summary of the Accounts work</i>	
Scope of Review	Conclusions
<ul style="list-style-type: none"> • Risk-based assessment of control environment and of key controls in place over core financial systems to determine their reliability as sources of financial information. • Reviewing closedown and accounts preparation arrangements, including consideration of new accounting standards. • Reviewing disclosures within the accounts. • Completing analytical review and testing of balances. 	<ul style="list-style-type: none"> ➤ <i>We consider the systems to generally be operating effectively, with a few minor points for improvement being noted to officers in memoranda.</i> ➤ <i>There were a number of areas covered in our Records Required Listing sent to the Authority prior to the audit that were not available to us during our visit.</i> ➤ <i>A number of adjustments and additional disclosures were required to be added to the financial statements as a result of our audit.</i> ➤ <i>We anticipate issuing an unqualified opinion on the 2001/02 Statement of Accounts.</i>
<i>Source: PKF</i>	

Key Issues

Reliance on financial systems

4.2 We have concluded that:

- Overall, Internal Audit's work was satisfactory, although it did not cover all of our identified key controls within the core systems, and so we were unable to place full reliance on them for the purposes of our assessment of the core financial systems; and
- Based on all of the testing, the core financial systems can be relied upon as a basis for preparation of the Statement of Accounts.

Accounts Preparation

4.3 The statement of accounts was produced and presented for approval by members prior to the 30 September deadline, and was made available to us on commencement of our audit. However, the accounts have required a number of minor amendments, with some of the notes required by CIPFA's *Statement of Recommended Practice (SORP)* for the HRA were not included.

Accounting Requirements

4.4 The main accounting changes required by the 2001 SORP were the disclosures of additional information on retirement benefits under FRS 17 and the introduction of resource accounting within the HRA. Both of these requirements, subject to the above note on the notes to the HRA, were included in the draft statement of accounts.

Recommendations

- 4.5 *Members should monitor the measures being taken to achieve the closedown timetable requirements proposed by the Accounts and Audit regulations.*

Issues for 2002/03

- 4.6 These issues are discussed in Section 6, but include new requirements for auditors to report on significant issues arising during the course of the audit, for example adjusted and unadjusted errors, to Members *before* issuing an opinion on the Statement of Accounts, and the introduction of a statement on the systems of internal financial control. Members should note these developments.

5 GRANT CLAIMS

Scope and Conclusions

5.1 The scope and conclusions of our work are set out below:

<i>Figure 24: Summary of Grants work</i>	
Scope of Review	Conclusions
<ul style="list-style-type: none"> • <i>Risk assessment for each separate claim or return.</i> • <i>Audit in accordance with Audit Commission certification instructions</i> 	<ul style="list-style-type: none"> ➤ <i>The arrangements for completing grant claims are soundly based.</i> ➤ <i>No issues have arisen in the course of our work to date, or on claims that were completed after last year's Annual Audit Letter.</i>
<i>Source: PKF</i>	

Key Issues

5.2 From our review of the grant claims certified to date and our preparations for the remaining grant claims, we are satisfied that the Authority is approaching this in an appropriate way and there are no issues that we wish to draw to the attention of Members.

6 ISSUES FOR 2002/03 AUDIT

Introduction

- 6.1 We will shortly be producing a draft Outline Audit Plan detailing our proposed work at the Authority in 2002/03. The following are some of the key issues which we shall address during the audit:

Comprehensive Performance Assessment (CPA)

- 6.2 In October 2002 the Audit Commission published a consultation document on the proposed approach to Comprehensive Performance Assessment for district councils. The suggested approach is that the assessment will review:
- The Council's **capacity to deliver** services and improvements for local people, by examining the impact of the Council in delivering cross cutting initiatives and other external priorities that sit outside traditional service boundaries; and
 - The Council's **current performance** in housing, the environment and benefits, as well as the management of resources, using inspection judgements, performance indicators, plan assessments and auditors' judgements.
- 6.3 The consultation paper proposes that the Council's capacity will be determined by a process that will include self-assessment and external challenge from a peer review. Two new, cross-cutting inspections are also proposed to look at Balancing Housing markets and Clean, Green and Safe Public Space.
- 6.4 Auditors will be asked to contribute to providing judgements on the financial aspects of corporate governance and to assist the Audit Commission in improvement planning and developing a co-ordinated audit plan for the Authority, once the CPA assessments have been finalised. The intention is that, for good and excellent Authorities, the level of inspection work and audit work on use of resources should decrease from March 2004, as the improvement planning process should focus on the areas of risk.

Corporate Governance

- 6.5 The 2002/03 SORP introduced the requirement for a statement on the system of internal financial control ("SSIFC") to be made in an Authority's accounts with effect from the financial year ending 31 March 2003. The statement should include the following information:
- An acknowledgement of responsibility for internal financial control;
 - An indication of the level of assurance that a system of internal financial control can provide;
 - A brief description of the main features of the system of internal financial control;
 - A brief description of the role of internal audit and its management and reporting arrangements;
 - Details of any other reviews informing the assessment of the effectiveness and operation of internal financial control undertaken during the year; and
 - A concise explanation of any identified weaknesses in the system of internal financial control, together with actions undertaken or planned to address these.

- 6.6 The SORP specifies that the statement should be signed, as a minimum, by the Responsible Financial Officer.
- 6.7 Authorities have been allowed discretion to publish a wider-ranging statement on internal control (beyond “financial” controls) and a statement on the adoption of a local code of corporate governance. The proposed changes to the Accounts and Audit Regulations also introduce a requirement for an annual review of the effectiveness of the system of internal control and the publication of a statement on the adequacy of internal control with the accounts.
- 6.8 We will continue to monitor progress in the adoption of a local Corporate Governance Code. Key elements linked to the Code include the adoption of a Community Strategy, integration with a comprehensive performance management framework and the development and operation of authority-wide risk management arrangements. These areas will receive particular attention.

Accounts and Audit Regulations

- 6.9 The ODPM is currently consulting on some proposed changes to the Accounts and Audit Regulations that are expected to come into force with effect from 1 April 2003. Amongst other issues (see above), a key element of the proposed changes is a requirement for authorities to speed up their timetable for closing their annual accounts over a transitional period, to enable accounts to be approved by Members three months after the end of the financial year by March 2006.
- 6.10 Whilst no acceleration is proposed for the 2003 closedown, the timetable for future years will require some re-engineering of the accounts preparation process. We do not anticipate that this will be a significant problem for Rochford as the Statement of Accounts for 2001/02 was available in July 2002, and received Member approval at the next meeting thereafter.

Reporting to those Charged with Governance (“SAS 610”)

- 6.11 The introduction of Statement of Auditing Standard 610 next year will require auditors to report to Members on significant matters arising from their audit of the accounts before signing their audit report. The practicalities of this requirement, for example scheduling meetings, will need to be considered in the context of maintaining, or possibly accelerating, the audit timetable.

e-Government

- 6.12 We will continue to monitor progress towards the government’s 2005 targets.

Use of Resources studies

- 6.13 Although there are no national studies applicable to district councils, as part of our risk-based approach there remains scope to undertake locally determined studies on any key issues identified.
- 6.14 We would welcome comments from Members and Officers on these suggestions and any other areas that may add value.

Appendix A

BVPP Certificate

Auditor's Report to Rochford District Council on its Best Value Performance Plan for the Year Ended 31 March 2002

Certificate

We certify that we have audited Rochford Council's best value performance plan in accordance with section 7 of the Local Government Act 1999 and the Audit Commission's Code of Audit Practice. We also had regard to supplementary guidance issued by the Audit Commission.

Respective Responsibilities of the Council and the Auditors

Under the Local Government Act 1999 (the Act) the Council is required to prepare and publish a best value performance plan summarising the Council's assessments of its performance and position in relation to its statutory duty to make arrangements to secure continuous improvement to the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness.

The Council is responsible for the preparation of the plan and for the information and assessments set out within it. The Council is also responsible for establishing appropriate performance management and internal control systems from which the information and assessments in its plan are derived. The form and content of the best value performance plan are prescribed in section 6 of the Act and statutory guidance issued by the DETR.

As the Council's auditors, we are required under section 7 of the Act to carry out an audit of the best value performance plan, to certify that we have done so, and:

- to report whether we believe that the plan has been prepared and published in accordance with statutory requirements set out in section 6 of the Act and statutory guidance and, where appropriate, recommending how the plan should be amended so as to accord with statutory requirements;
- to recommend:
 - where appropriate, procedures to be followed in relation to the plan;
 - whether the Audit Commission should carry out a best value inspection of the Council under section 10 of the Local Government Act 1999;
 - whether the Secretary of State should give a direction under section 15 of the Local Government Act 1999.

Opinion

Basis of this opinion

For the purpose of forming our opinion whether the plan was prepared and published in accordance with the legislation and statutory guidance, we conducted our audit in accordance with the Audit Commission's Code of Audit Practice. In carrying out our audit work we also had regard to supplementary guidance issued by the Audit Commission.

We planned and performed our work so as to obtain all the information and explanations which we considered necessary in order to provide an opinion on whether the plan has been prepared and published in accordance with statutory requirements.

In giving our opinion we are not required to form a view on the completeness or accuracy of the information or the realism and achievability of the assessments published by the council. Our work therefore comprised a review and assessment of the plan and, where appropriate, examination on a test basis of relevant evidence, sufficient to satisfy ourselves that the plan includes those matters prescribed in legislation and statutory guidance and that the arrangements for publishing the plan complied with the requirements of the legislation and statutory guidance.

Included in the plan are the Council's estimates for the year ended 31 March 2002. Actual results for the year are likely to be different from the figures reported, because events and circumstances frequently do not occur as expected, and the differences may be material. To the extent that figures included in the plan are estimates, our audit work comprised an assessment as to whether the estimates made by the Council had been properly compiled in all significant respects on the basis of the assumptions stated by the Council, as at the date at which the plan was prepared.

Where we have qualified our audit opinion on the plan we are required to recommend how the plan should be amended so as to comply in all significant respects with the legislation and statutory guidance.

Opinion

In our opinion, Rochford District Council has prepared and published its best value performance plan in all significant respects in accordance with section 6 of the Local Government Act 1999 and statutory guidance issued by the DETR.

Recommendations on referral to the Audit Commission/ Secretary of State

We are required each year to recommend whether, on the basis of our audit work, the Audit Commission should carry out a best value inspection of the Council or whether the Secretary of State should give a direction.

On the basis of our work:

- We do not recommend that the Audit Commission should carry out a best value inspection of Rochford District Council under section 10 of the Local Government Act 1999;
- We do not recommend that the Secretary of State should give a direction under section 15 of the Local Government Act 1999.

PKF
London