



Rochford District Council

Annual Audit and Inspection

Letter 2004/05

March 2006

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Appendices

A	interim Annual Audit and Inspection Letter 2004/05
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1 Introduction and key issues

Introduction and scope

- 1.1 This Annual Audit Letter summarises the findings of the audit and inspection work at Rochford District Council ('the Authority') for the year ended 31 March 2005. Following a change to the timetable for reporting Direction of Travel work and Key Lines of Enquiry judgements for district councils, the statutory Annual Audit and Inspection Letter is being reported by 31 March 2006 in order to incorporate the results of those pieces of work.
- 1.2 We have previously reported the bulk of 2004/05 audit and inspection work in an interim Annual Audit and Inspection Letter, presented to the Finance and Procedures Overview and Scrutiny Committee on 15 December 2005. This interim Letter is included in this statutory report as Appendix A.
- 1.3 This statutory letter builds upon the audit and inspection work set out in Appendix A and reports the two elements of audit and inspection work carried out in the period from November 2005 to February 2006, namely the Progress Assessment/Direction of Travel inspection work and Key Lines of Enquiry audit work.
- 1.4 The audit was been carried out in accordance with the *Audit Commission's Code of Audit Practice (the Code)* and *Statement of Responsibilities of Auditors and of Audited Bodies*. The responsibilities of Inspectors are included in section 10 of the Local Government Act 1999. The contents of this report should be viewed in the context of this more formal background.

Background

- 1.5 To ensure that councils receive a tailored and seamless service, integrated with the work of other inspectorates, the Audit Commission has appointed a Relationship Manager for each council, who is the primary contact with you, and for the interface between the Audit Commission and other inspectorates. Your Relationship Manager is Ian Davidson.
- 1.6 The Appointed Auditor, PKF (UK) LLP, is the primary contact for the delivery of the core audit. The main objective of the auditor is to plan and carry out an audit that meets the requirements of the Code of Audit Practice by adopting a risk based approach that focuses work on your significant financial and operational risks.
- 1.7 The core audit is structured around three main elements:
- aspects of performance management;
 - financial aspects of corporate governance; and
 - opinion on accounts (including core financial systems).

Key conclusions

- 1.8 The Authority is progressing well in priority areas, has clarified its vision and priorities and is developing plans to deliver future improvement. Officer and Councillor leadership is developing and effective. Some previously poorly performing services have been improved and, despite limited capacity, some large projects have been delivered.
- 1.9 However, the recently developed priorities are not supported by a corporate planning process and have inconsistent departmental approaches to the planning of service delivery. Performance information is not currently enabling Councillors to easily identify progress against priorities and therefore manage performance effectively.
- 1.10 The Use of Resources judgements show that, overall, arrangements are at minimum acceptable levels. However, there are areas of inadequacy in risk management, performance management and elements of internal control arrangements already recognised by the Authority.

2 Direction of Travel

- 2.1 Rochford District Council is progressing well in priority areas. It has clarified its vision and priorities and is developing plans to deliver future improvement.
- 2.2 As a result of consultation a clear long term vision has been developed. This is underpinned by priorities identified by key stakeholders, and by a series of specific medium and long term actions. These are linked to the budget setting process, and have been communicated to staff and key stakeholders.
- 2.3 The Council demonstrates community leadership and, with partners, is developing a new community plan. Officer and Councillor leadership is developing and effective. There is an improved and developing approach to user focus, accessibility and diversity.
- 2.4 Capacity has been increased through effective partnership working. Some key services are delivered effectively in partnership whilst others have been outsourced. The Council is open to being a facilitator as well as provider of services depending on local need and capacity. It has improved political capacity through a training and member development programme. It is also increasing staff capacity by reducing absence from work, implementing a robust appraisal system and developing staff.
- 2.5 Some previously poorly performing services have been improved. For example, increased speed of payment and accuracy in the benefits service, higher level of waste recycling and improvements in the homelessness service. Despite limited capacity, some large projects have been delivered including a new leisure centre. The Council's Housing Strategy / Business Plan is judged to be 'fit for purpose' and good progress has been made in the options appraisal for the Council's housing stock. Customer access to the Council has also significantly improved.
- 2.6 Performance has generally improved between 2002/03 and 2004/05, with 52% having improved and 52% above average. The Council continues to report high levels of customer satisfaction, which is achieved at a below average spend per head of population.
- 2.7 The Council is developing as a learning organisation, both internally from staff and externally from other councils and agencies.
- 2.8 The Council does not yet have a Corporate Plan however many of the key elements are included in other documents such as '*Our Performance Plan*'. There are plans to produce a Corporate Plan in 2006 along with a Community Plan. The recently developed priorities are not supported by a corporate planning process and have inconsistent departmental approaches to planning delivery, which inhibits the certainty of delivering against the key actions supporting the priorities.
- 2.9 Performance management has improved but is still not fully effective. The Council has introduced quarterly performance monitoring and reviews some of the key priority actions. However the information is not clear and it does not enable Councillors to easily identify progress against priorities and therefore manage performance effectively. The Council is currently unable to demonstrate value for money as it does not include a cost analysis of performance

3 Key Lines of Enquiry

Introduction

3.1 The Use of Resources judgements evaluate how well the Authority manages and uses its financial resources. They are a more stringent test of performance than the auditor scored judgements (ASJs) that have formed part of the comprehensive performance assessment (CPA) framework up until 2004. They focus on the importance of having sound and strategic financial management to ensure that resources are available to support the Authority's priorities and improve services. There are five themes covering

- Financial reporting
- Financial management
- Financial standing
- Internal control
- Value for money.

3.2 The Audit Commission has determined the overall Use of Resources score by combining our separate scores for each of the themes covered. The score is determined by reference to the following scale:

Level	Performance
1	below minimum requirements – inadequate performance
2	only at minimum requirements – adequate performance
3	consistently above minimum requirements – performing well
4	well above minimum requirements – performing strongly

3.3 Each judgement area consists of a number of key lines of enquiry and areas of audit focus and evidence. There are also descriptions of performance against each key line of enquiry showing performance levels 2, 3 and 4.

3.4 The Key Lines of Enquiry (KLoE) scoring scale differs notably from that applicable to the ASJ regime, with KLoE reflecting the Audit Commission's "Harder Test". Where previously "adequate" might have been scored as a 3, KLoE guidance would dictate a score of only 2. Further, achievement of higher performance levels is more difficult and arrangements must be seen to be embedded. The KLoE scores awarded need to be seen in this context.

Results

3.5 The Authority has been awarded an overall score of **2**. The underlying component scores for each of the Key Lines of Enquiry and the sub-themes are as follows:

Theme and Key Line of Enquiry	Score
1.1 <i>Annual accounts</i>	2
1.2 <i>Promotion of external accountability</i>	2
1 Financial Reporting	2
2.1 <i>Medium term financial strategy, budgets and capital programme</i>	2
2.2 <i>Managing performance against budgets</i>	1
2.3 <i>Managing the asset base</i>	2
2 Financial Management	2
3.1 <i>Managing spending within available resources</i>	2
3 Financial Standing	2
4.1 <i>Managing significant business risks</i>	1
4.2 <i>Maintaining a sound system of internal control</i>	1
4.2 <i>Arrangements to promote and secure probity and propriety</i>	2
4 Internal Control	1
5.1 <i>Current achievement of good value for money</i>	2
5.2 <i>Managing and improving value for money</i>	1
5 Value for Money	2
Overall	2

Analysis

3.6 Overall, the Authority's arrangements are considered to be at minimum acceptable standards. However, the Authority falls short of this minimum level in the following areas:

- Financial Management KLoE 2.2: A lack of Member Committee level in-year reporting or action plans being established for significant variances or overspends meant that, overall, the minimum criteria were not met;
- Internal Control KLoE 4.1: Risk management arrangements are in the early stages of implementation and fall short in terms of allocating responsibilities for individual risks and the formality of Member Committee involvement;

- Internal Control KLoE 4.2: The Authority has yet to establish separate Member Committee approval for the Statement on Internal Control (SIC), put in place action plans to address significant weaknesses identified by the SIC or to determine what systems are business critical as a key pre-requisite for demonstrating that these are adequately documented, although it is known that procedure manuals for two core financial systems fall short of requirements in any event;
- Value for Money KLoE 5.2: The Authority has progress to make in establishing a complete and operational performance management framework, no benchmarking arrangements beyond those undertaken in support of external contracting and a limited track record of improvements from Best Value/service reviews.

3.7 There are some components of individual KLoEs where the Authority scores at Level 3 (or “above minimum requirements”), and the Authority could achieve Level 3 scores for both Financial Reporting KLoEs and the asset base Financial Management KLoE 2.3 with comparatively little additional resource input. Detailed recommendations for improvement have been made in a separate report to officers.

National and regional context

3.8 We are unable at this point in time to provide national or regional analysis of scores to provide any context for the Authority’s scores outlined above. Analysis had been expected to be received from the Audit Commission, but, given the need to allow for any appeals against scores awarded, this will not now be able to be provided until after the publication embargo relating to local elections has been lifted. Local analysis, in co-operation with our regional Audit Commission colleagues, has also been forbidden.

The way forward

3.9 A detailed report has been prepared and issued to officers, setting out scoring and areas that should be addressed to reinforce or progress arrangements. We have differentiated action plan points between those areas where we are aware that the Authority is already taking action and those where further action appears necessary.

3.10 Our sole Member-level recommendation is to monitor, at a strategic level, progress against the detailed Action Plan, and to take action by exception if progress in implementation diverges from agreed timescales.

Appendix A – interim Annual Audit and Inspection Letter 2004/05