

Rochford District Council

Interim Annual Audit and Inspection Letter

December 2005

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1 Introduction and Key Findings

Introduction

- 1.1 This Interim Annual Audit and Inspection Letter summarises the findings of our work at Rochford District Council ('the Council') for the year ended 31 March 2005. Following a change to the timetable for reporting Key Lines of Enquiry (KLoE) judgements for district councils, the statutory Annual Audit and Inspection Letter will be issued in March 2006 to incorporate the KLoE Use of Resources judgements and the results of the Progress Assessment.
- 1.2 The audit has 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

- 1.3 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.
- 1.4 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.
- 1.5 The core audit is structured around three main elements:
- aspects of performance management
 - financial aspects of corporate governance
 - opinion on accounts (including core financial systems)
- 1.6 The Outline Audit and Inspection Plan for 2004/05 presented to Members in October 2004 covers specific audit work for the periods as outlined in the table below:

Aspects of performance management	1 April 2004 to 31 March 2005
Opinion on accounts (including core financial systems)	2004/05
Financial aspects of corporate governance	2004/05
Best value performance plan published *	June 2004
Best value performance indicators *	2003/04

* Due to timing overlaps in audit years, the results of this audit were reported in the 2003/04 Annual Audit and Inspection Letter. This 2004/05 Letter includes results from our review of the 2004/05 Performance Indicators and Best Value Performance Plan.

Key Findings

- 1.7 The Authority has made good progress in addressing a number of key issues that it faces, including determining robustly, and with notable stakeholder interest, social housing options to achieve the Decent Homes Standard by 2010, determining a response to identified succession issues and commencing a Scrutiny review of key partnerships.
- 1.8 Further notable progress includes Workforce Development Plan issues such as achieving Investors in People (IiP) accreditation and the implementation of a new payroll/personnel system and taking steps to address Internal Audit resourcing issues.
- 1.9 There has been some development in the Authority's performance management arrangements including a useful self-assessment of service planning, but the planned Framework gap analysis due by September 2005, to direct full implementation by March 2006, has been put on hold due to the long term sick leave of a critical member of staff. We consider that resourcing in this critical area needs to be reviewed urgently.
- 1.10 The financial position remains generally tight, although surpluses were achieved in the General Fund, Housing Revenue Account and Collection Fund and earmarked reserves increased again. Budgeting arrangements continue to refocus resources towards priorities, but the Authority needs to develop a comprehensive approach that better links service planning with resource allocation to fully achieve priority-based budgeting.
- 1.11 Other key areas in which the Authority needs to make further developments are:
- Partnerships: collating and populating a central register of partnerships that the Authority is involved with, including details of resource commitments, strategic fit and governance and performance management arrangements; putting in place a Partnerships Strategy to make clear entry (and exit) criteria, including achievement of value for money; and expanding the scope of Scrutiny reviews to include governance and performance management arrangements;
 - Data quality: There has been an increase in the number of BVPIs and CPA indicators subject to reservations (qualifications). Further improvements to data collection processes need to be made to improve data quality as a whole, as well as strengthening the robustness of performance management practices and embedding a performance culture;
 - Further establishment of the operational risk-management arrangements, as progress in developing and embedding risk management has been slow and arrangements need to be comprehensively and consistently put in place and operated.
- 1.12 We will consider the robustness of the current arrangements, and any ongoing developments, as part of the Key Lines of Enquiry (KLoE) assessment work we are currently performing. Our findings will be reported in the final Annual Audit and Inspection Letter to be issued in March 2006.
- 1.13 A summary of our findings and conclusions is shown in Section 2.
- 1.14 Recommendations to Members to address the key findings identified in this report are summarised in the Action Plan at Appendix A. Detailed findings and recommendations to officers have been communicated in reports during the year and a record of reports issued is shown in Appendix B.

Status of our report

- 1.15 This Letter is prepared in the context of the Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission and is addressed to Members and officers. It is prepared for the sole use of the Council and no responsibility is taken by auditors to any Member or officer in their individual capacity or to any third party.
- 1.16 External Auditors and Inspectors do not act as a substitute for the audited body's own responsibility for putting in place proper arrangements to ensure that public business is conducted in accordance with law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively.

Confirmation of independence

- 1.17 We are required to make an annual declaration relating to our independence and objectivity and can confirm that the Audit Commission's requirements have been complied with and that we are not aware of any relationships that may bear on the independence and objectivity of the Appointed Auditor and audit staff.

Acknowledgement

- 1.18 We would like to thank the Council's staff for the co-operation and assistance provided to us during the audit and inspection work completed in the period.

2 Results of Audit Work

- 2.1 The key findings from the audit work undertaken as part of the 2004/05 Outline Audit and Inspection Plan are outlined in the table below:

Improvement planning
During the year the Authority has worked to implement the issues identified in its Improvement Plan and we have held quarterly Improvement Panel meetings to review and discuss the approach of the Authority, as well as to monitor the progress being made.
Inspection
There were no inspections scheduled for 2005, other than the Progress Assessment which has been carried out and which will be reported publicly on 15 December 2005.
Preparation for future CPA
<p>The Council, as a weak CPA authority, is currently subject to a formal Progress Assessment (as discussed above) and auditors need to carry out work to support Key Lines of Enquiry assessments.</p> <p>We have held discussions with officers on the arrangements for the Use of Resources judgements and our requirements for the provision of evidence against the Key Lines of Enquiry criteria which would support these judgements. The findings from this work will be reported in the Final Annual Audit and Inspection Letter for 2004/05, to include the Progress Assessment results, which will be published by 31 March 2006.</p>
Use of Resources
<p>In response to the issues identified as part of our risk based planning of the audit, we have reviewed the Authority's arrangements in four areas: Capacity, the Performance Management framework, Social Housing Options and Risk Management:</p> <p>Capacity – Our review of capacity looked at both internal and external issues:</p> <p>Internal</p> <ul style="list-style-type: none"> • The Workforce Development Plan (WDP) is being implemented, with ownership now being taken on by service departments. The Authority achieved the sought-after Investors in People (IiP) accreditation in early March 2005 and has introduced a new payroll/human resources system. • The Internal Audit resource reinstatement was successful, notably so in the context of recruitment issues faced by neighbouring authorities. • Plans to address the succession issues at the Authority had not been completed at the time of our fieldwork, but have since been submitted to Members for review and approval. To ensure the Authority is able to achieve the most efficient handover for these staff there is a need to complete the recruitment process at the earliest opportunity. <p>External:</p> <ul style="list-style-type: none"> • Notable progress made in agreeing and undertaking a Scrutiny review of five key partnerships. However, we concluded that the scope of the review should have been expanded to explicitly assess governance (including risk management) arrangements and performance management arrangements (including assessments of the achievement or otherwise of value for money from resources input). • An exercise to collate information on partnerships participated in by the Authority had been started, but needed to be completed and the listing expanded to form a central register to include details of resource inputs/commitment, governance and performance management arrangements and planned strategic fit. A completed trail, including a formal Partnerships Strategy, would assist the Authority in demonstrating the existence of strategic arrangements for ensuring the achievement of Value for Money in its use of resources in this area. • A Partnerships Strategy would be a useful means of setting out agreed entry (and exit) criteria for non-mandated partnerships, including strategic fit and value for money considerations, and value for money targets (e.g. "return" on investment) for mandated partnerships.

Use of Resources (continued)

Performance Management Framework

The planned gap analysis of the Performance Management Framework due by the end of September 2005 to provide focus for implementation of residual elements by March 2006 has been put on hold due to the long term sick leave of a critical member of staff. We consider that resourcing in this critical area needs to be reviewed urgently.

Social Housing Options

The Authority has undertaken a thorough and comprehensive review process, engaging notable stakeholder participation, and resulting in a robust proposal submitted for government approval within the statutory timetable. Key now is to secure a successful tenants' vote and address identified General Fund financial pressures consequent upon the preferred option.

Risk Management

Our review of the current arrangements has shown that, although the Authority has taken steps to ensure risks are identified as part of the committee reporting process, the further development of risk management has been delayed as a result of competing priorities placing pressure of available staff resources.

Members should satisfy themselves that appropriate action is being taken to implement the detailed recommendations from our reviews thus strengthening the management arrangements in place in these critical areas.

Members should ensure sufficient information is provided on a timely basis to enable appropriate monitoring of delivery against the LSVT aim and action being taken to address the funding issue.

Best Value Performance Plan ("BVPP") and Best Value Performance Indicators ("BVPI's")

We anticipate providing an unqualified opinion on the Best Value Performance Plan which was published in June 2005.

We have completed our work on the 2004/05 performance indicators which suggests that the procedures and systems in place for compiling performance indicators are broadly similar to those of previous years. Our review was able to place notable reliance on the detailed work performed by Internal Audit, and the majority of issues and reservations were identified by the Authority before our external review.

Ten indicators (including four **CPA indicators**, one of which was a non-BVPI) were reserved because the Authority had inadequate data collection systems or processes in place to obtain the required compliant data, be it internally generated or received from third parties, and could not retrospectively produce a compliant outturn. This is an increase on the number reserved for 2003/04 BVPIs of six:

- BV 66, Local authority rent collection and arrears: proportion of rent collected.
- BV 91, Population resident in the authority's area served by a kerbside collection of recyclables.
- **BV 109 (a, b, c), Time taken in the processing of planning applications.**
- BV 174, The number of racial incidents recorded by the authority per 100,000 population.
- BV 175, The percentage of racial incidents that resulted in further action
- BV 184 (a, b), The proportion of LA homes which were non-decent
- **HSSA, Private sector homes vacant for more than 6 months (not a BVPI)**

In addition to the reservations, seven indicators had either been inaccurately calculated or recorded, based on the definition set by the ODPM. Amendments were made to these indicators during the audit to ensure that the correct result was reported and a reservation avoided.

Good data quality is key to ensuring effective performance management, and is indicative of an embedded performance culture. There is also an increasing focus being placed on performance outturn information for CPA assessments. It is vital that the Authority has appropriate procedures in place to collect accurate performance information and that the supporting audit evidence is sufficiently robust.

Members should ensure that action is taken at service level to improve data quality such that the level of Internal and External Audit corrections and reservations of BVPIs and CPA indicators is reduced and that greater assurance can be obtained about the reliability of local performance indicators.

Legality

We have reviewed the Authority's overall arrangements for ensuring the legality of transactions with specific focus on new national issues and this has not highlighted any issues that we wish to report to Members at this stage.

Financial standing

Budget setting

The 2005/06 budget was set similarly to prior years, using previous budgets as the main driving factor and supplementing this with expenditure linked to specific aims and objectives of the Authority, rather than by aligning budgets specifically to fully-costed service plans driven by Community and corporate priorities.

The budget prepared and approved by Members included a council tax increase of 4.93%, below the capping limit set by central government and also below the anticipated increase set out in previous financial plans, with the consequence of increasing the pressure on services to ensure that costs continue to be controlled.

Outturn

General Fund (GF)

The GF showed a surplus of £86k for 2004/05, after contributions of £382k to earmarked reserves during the year.

Available General Fund reserves at the end of the year were £3.7m, including the GF balance of £1.7m. Earmarked reserves have again increased overall, with only the Crime and Disorder reserve showing utilisation. The Medium Term Financial Plan includes the utilisation of a proportion of these reserves in the short term.

Housing Revenue Account (HRA)

The HRA reported a significant surplus of £386k, which was £431k higher than the original budget. This arose due to changes in the treatment of subsidy linked to the transfer of benefits (Rent Rebates) to the General Fund, not reflected within the original budget.

Collection Fund

The Collection Fund for the year has shown a net surplus of £101k, which has increased the available surplus within the fund to £1.1m. Given the significance of this balance and that surpluses should be distributed to precepting authorities, the Authority should review the residual level considered necessary.

Collection rates

Collection rates for all of the main sources of income were below target levels set and below level achieved in the previous year, as shown below:

- Council Tax 98.6% (2004/05 Target: 99.15%; 2003/04: 98.9%)
- National non-domestic rates 97.9% (2004/05 Target: 99.1%; 2003/04: 99%)
- Housing rents 98.33% (2004/05 Target: 98.75%; 2003/04: 98.9%).

We understand that Council Tax collection rates have fallen widely across the County, linked to relative rates of increase. Targets for 2005/06 have been adjusted downwards to better reflect achievable performance. NNDR performance has been negatively impacted upon by two notable accounts, where excluding these performance would have shown an increase compared to 2003/04. Rents performance is linked to uncertainties surrounding Supporting People charges referred to in our SAS610 Report.

Capital programme

The capital programme was under-spent compared to budget by £1.06m (or 27% of the original estimate). This is consistent with prior years, and is primarily a result of delays in specific projects, although these have been offset by the some expenditure on the Rayleigh Sports Centre. There are continued issues with the delivery of the capital programme and we are aware of, and support, steps that have recently been taken to more actively manage the delivery of the programme in future years.

Members should ensure the Authority further improves links between the developing service planning arrangements and resource allocations to fully achieve priority-based budgeting, and continues to closely monitor recovery performance in the light of 2004/05 outturn against targets set and prior year achievement.

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

Our work has not identified any significant weaknesses in the Council's arrangements for the prevention and detection of fraud and corruption and for maintaining proper standards of financial conduct. We are satisfied the Authority has appropriate policies and procedures in place to prevent and detect fraud.

The Authority has also continued to be proactive in reviewing and addressing the issues that have been identified from its participation in the NFI process.

Systems of internal financial control

The Statement on Internal Control highlighted the progress that is being made in developing the Authority's internal control arrangements, although some gaps in the control arrangements were identified. These include the need to ensure that risk assessments are complete, that the risks arising from this are being managed and the need to strengthen monitoring arrangements over the capital programme.

As a result of close liaison and constructive discussions in advance of the commencement of their core systems work for 2004/05, we were able to place an increased level of reliance on the work of Internal Audit in the areas that they tested. We have identified some residual recommendations for improving the effectiveness of the joint audit arrangements, particularly in relation to the retention of evidence to support their work, ensuring compliance tests of controls are performed and the timetable for the completion of specific reviews.

The process for scrutinising the findings of Internal Audit has continued to operate effectively, with regular reporting to the Finance and Procedures Overview and Scrutiny Committee, in its role as the Audit Committee, and close monitoring of agreeing audit recommendations by Internal Audit.

We provided our audit opinion on the financial statements on 27 October 2005 and confirmed that these presented fairly the financial position of the Council for the year ended 31 March 2005.

Our work on the core financial systems concluded that they were adequate as a basis for preparing the accounts, although there were some control weaknesses identified that required us to complete additional audit procedures, as reported previously in our SAS610 Report.

A number of presentational changes were made to the Accounts during the Audit to ensure the disclosures fully complied with the SORP. There were also a number of adjustments made to the accounts, although none of the changes made were sufficiently material to require the Accounts to be re-presented to Members. A number of non-trifling, unadjusted misstatements identified by our work have been reported previously in our SAS610 report.

Arrangements for producing draft financial statements and supporting working papers were generally good with information required supplied in time for the commencement of the audit. Although comprehensive files were provided containing the working papers, these were not always of sufficient standard for us to avoid the need to obtain further information.

There will be further pressure on this accounts preparation process for 2005/06 as a result of the further reduction in the timetable and the loss of senior members of the Authority's finance team. It is important that this is managed at an early stage by the Authority.

Members should ensure steps are being taken to allow for the earlier completion of the accounts and that the loss of senior finance staff will not unduly affect the process.

- 2.2 We have included Member recommendations on the key issues arising from our work within Appendix A. We look forward to receiving Members' responses to the recommendations arising from our work and we will monitor the implementation of the action points arising in future audits.

3 Audit Fees

- 3.1 We are required to disclose an analysis of our proposed and actual audit fees for the year and provide an explanation for any significant variations for each element of our work.
- 3.2 The proposed audit and inspection fees were set out in the Outline Audit and Inspection Plan 2004/05 at the start of the year.

Audit area	Planned 2004/05 £	Actual 2004/05 £
Accounts	53,078	53,078
Financial aspects of corporate governance	14,485	14,485
Performance	20,737	20,737
Code of Audit Practice fees	88,300	88,300
Certification of grant claims	21,500	31,970
Total fees	109,800	120,270

- 3.3 The key reasons for the variance in grants fees were an overall increase in grade-related charge rates, and also in the percentage payable to the Audit Commission from fees levied, imposed by the Audit Commission, increased work necessary in respect of the benefits and business rates claims and returns and a new claim in respect of Implementing Electronic Government funding, offset by reduced work on Community Safety claims that had been expected to recur.
- 3.4 Our planned work for the 2005/06 financial year is set out in the joint Outline Audit and Inspection Plan being presented to Finance and Procedures Overview and Scrutiny in December 2005. When we issued the plan in June 2005 the precise details of the work required to provide the Use of Resources judgements had not been set by the Audit Commission, so an estimate was included within the plan. The work required to provide the judgements has now been agreed and we are in the process of discussing with officers the impact of this on our estimated fees.

Appendix A – Recommendations and Council Action Plan

These recommendations relate to the issues raised in this Interim Annual Audit and Inspection Letter. We have communicated detailed findings and recommendations in reports and memoranda during the year and a record of reports issued is shown in Appendix B.

<i>Members should satisfy themselves that appropriate action is being taken to implement the detailed recommendations from our reviews thus strengthening the management arrangements in place in these critical areas.</i>		
<i>Members should ensure sufficient information is provided on a timely basis to enable appropriate monitoring of delivery against the LSVT aim and action being taken to address the funding issue.</i>		
<i>Members should ensure that action is taken at service level to improve data quality such that the level of Internal and External Audit corrections and reservations of BVPIs and CPA indicators is reduced and that greater assurance can be obtained about the reliability of local performance indicators.</i>		
<i>Members should ensure the Authority further improves links between the developing service planning arrangements and resource allocations to fully achieve priority-based budgeting, and continues to closely monitor recovery performance in the light of 2004/05 outturn against targets set and prior year achievement.</i>		
<i>Members should ensure steps are being taken to allow for the earlier completion of the accounts and that the loss of senior finance staff will not unduly affect the process.</i>		

Appendix B - Audit and Inspection reports and opinions issued for 2004/05

Outline Audit and Inspection Plan	February 2005
Report on systems for preparing and publishing 2003/04 performance indicators	October 2004
Opinion on Best Value Performance Plan	December 2004
Interim report on financial systems and corporate governance	Draft: June 2005 Final: October 2005
Use of Resources Letter	September 2005
SAS610 final report on the financial statements audit	October 2005
Accounts audit opinion and certificate	October 2005