

Rochford District Council

Draft Annual Audit Letter

November 2003

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1 INTRODUCTION AND OVERALL CONCLUSIONS

- 1.1 We have completed our audit of Rochford District Council for the year ended 31 March 2003. 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*.

Background

- 1.2 District Councils continue to face a challenging agenda of central government initiatives, brought about by the White Paper "Strong Local Leadership – Quality Public Services", including preparation for Comprehensive Performance Assessment and Improvement Planning.
- 1.3 Alongside these national initiatives Rochford District Council needed to address its own local issues including:
- Review, updating and adoption of a revised Code of Corporate Governance;
 - Continued development of the Performance Management Framework; and
 - Management of the overall financial position, ensuring that reserves are being maintained whilst continuing to deliver services.

Purpose of this Annual Audit Letter

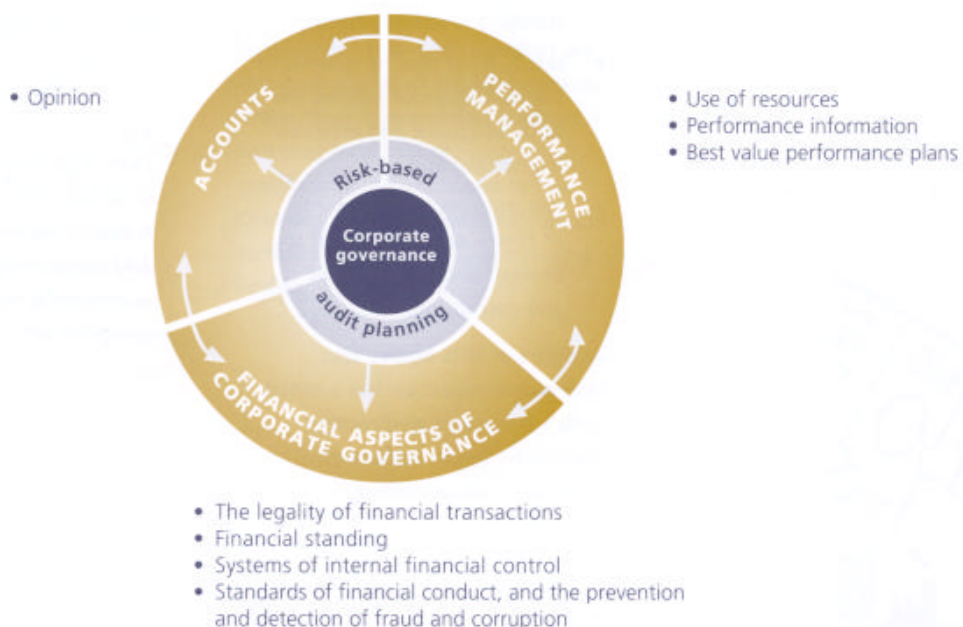
- 1.4 This Annual Audit Letter to Members presents the findings and conclusions of our planned audit work for 2002/03. Detailed points and recommendations arising have been communicated to Officers by way of individual memoranda during the course of the year.

Code of Audit Practice

- 1.5 The Audit Commission's Code of Audit Practice was revised in March 2002 and this is applicable to the Authority's 2002/03 audit.
- 1.6 The diagram below represents the Audit Commission's model of public audit that forms the basis of the revised Code. 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

The Focus of Our Audit

1.7 Our audit focuses on any significant operational and financial risks faced by the Authority, that are relevant to our audit responsibilities, whilst ensuring that the requirements of the Code are fully addressed. This risk-based focus to our 2002/03 audit is set out in our Outline Audit Plan (OAP) which was agreed by Officers in June 2003. Whilst the OAP covered two financial years (2002/03 and 2003/04) this Annual Audit Letter focuses on the results of the work we highlighted as due for completion during 2002/03.

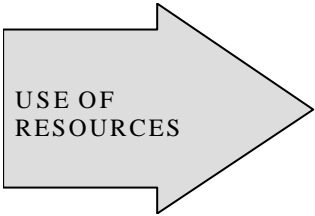
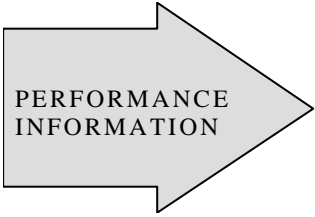

Structure

1.8 As with the OAP, this Annual Audit Letter has been structured to reflect the contents of the Code. 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

1.9 Overall the Authority has performed well during the year, dealing well with both the Local and National priorities. There are some areas in which work is required to improve the current arrangements, including Risk Management, the overall Financial Standing (budget preparation and monitoring) and further development in the preparation of the Annual Statement of Accounts.

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

<i>Figure 1: Overall Code area conclusions</i>		
OAP area	Our conclusion	Action points for Members
Aspects of Performance Management – Section2		
 <p>USE OF RESOURCES</p>	<ul style="list-style-type: none"> • Performance Management has improved since our last review, although some further development is required. • Risk management has not been further developed within the Authority. • There is no central monitoring of the achievement of the Authority’s objectives through the Partnerships that the Authority participates in. • Procedures exist for responding to Audit and inspection recommendations. 	<ul style="list-style-type: none"> ➤ <i>Members should ensure that the development of Risk Management within the Authority continues to be progressed.</i> ➤ <i>Members should ensure that standard procedures are developed and implemented for the monitoring of partnerships.</i> ➤ <i>Members should ensure the development of the PMF continues</i>
 <p>PERFORMANCE INFORMATION</p>	<ul style="list-style-type: none"> • The systems in place for producing BVPIs are robust. • We noted two instances where the Authority did not have processes in place to collect information for specific indicators. • We reported to the Audit Commission that the six high risk BVPIs were fairly stated. 	<ul style="list-style-type: none"> ➤ <i>None.</i>
 <p>BEST VALUE PERFORMANCE PLAN</p>	<ul style="list-style-type: none"> • We will be issuing an unqualified opinion on the 2003 BVPP, which complied in all significant respects with the statutory requirements. • We noted some areas in which the BVPP requires more detail, such as the results of Best Value Reviews and the progress against action plans. • We also note that there has been limited progress in addressing past BVPP audit issues. 	<ul style="list-style-type: none"> ➤ <i>Members should ensure that audit recommendations are addressed such that all appropriate information is included within the BVPP.</i>
<i>Source: PKF</i>		

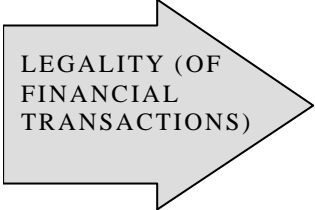



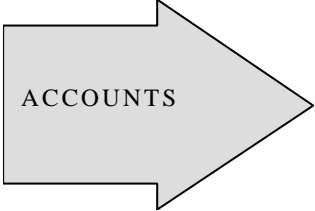
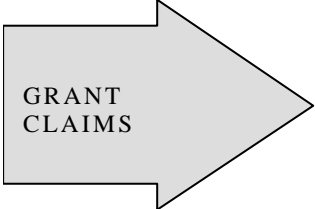
<i>Figure 1: Overall Code area conclusions</i>		
OAP area	Our conclusions	Action points
Financial Aspects of Corporate Governance – Section 3		
 <p>LEGALITY (OF FINANCIAL TRANSACTIONS)</p>	<ul style="list-style-type: none"> • With regard to the Authority’s arrangements for ensuring the legality of financial transactions, there are no significant issues which we wish to bring to the attention of Members. 	<p>➤ <i>None.</i></p>
 <p>FINANCIAL STANDING</p>	<ul style="list-style-type: none"> • Budgetary control arrangements are in place but are in need of some minor improvement to ensure they are effective. • The overall financial standing of the Authority is generally sound, although reserves should be kept under review. • The HRA position should be monitored and measures introduced to ensure that the forecast deficit does not occur. 	<p>➤ <i>Members should continue to monitor the overall reserves of the Authority, ensuring that the agreed financial strategy is adhered to and that the forecast deficit on the HRA is addressed..</i></p>
 <p>SYSTEMS OF INTERNAL FINANCIAL CONTROL</p>	<ul style="list-style-type: none"> • Systems of internal financial control and the wider control environment are operating satisfactorily. • The Authority does not have a tested IT disaster recovery plan in place. • The Authority has made progress with the adoption of a Corporate Governance Code. 	<p>➤ <i>Members should ensure that steps are taken to develop, and subsequently test, an IT disaster recovery plan for the Authority</i></p>
 <p>STANDARDS OF FINANCIAL CONDUCT AND FRAUD & CORRUPTION</p>	<ul style="list-style-type: none"> • Our work has identified no significant weaknesses in the Authority’s arrangements, although we have noted some further improvements. • No Warning Bulletin frauds appear to have occurred at the Authority and appropriate actions have been taken on warnings received. 	<p>➤ <i>None</i></p>
<i>Source: PKF</i>		

Figure 1: Overall Code area conclusions

OAP area	Our conclusions	Action points
Accounts – Section 4		
	<ul style="list-style-type: none"> • Subject to resolution of a technical point on FRS17, we will issue an unqualified opinion on the Statement of Accounts. • The Authority has successfully brought forward the timing of the preparation of the accounts. However, the set of draft accounts presented for both Member approval and audit were incomplete. • The bad debt provision, although reviewed, has not been amended to reflect the required level. • Underlying core financial systems are operating satisfactorily. 	<ul style="list-style-type: none"> ➤ <i>Members should ensure that they are presented with a full set of financial statements for approval prior to the audit of the statements.</i> ➤ <i>Members should ensure that the bad debt provision in the 2003/04 statements of accounts is supported by a detailed analysis of the required provision.</i>
Grant Claims – Section 5		
	<ul style="list-style-type: none"> • The general arrangements for completing individual grant claims are adequate. • We have noted some additional grant claims that require auditing that the Authority had not informed us of. 	<ul style="list-style-type: none"> ➤ <i>None</i>
<i>Source: PKF</i>		

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

Acknowledgement

1.12 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

2.1 This Code area has been subdivided into three components as follows:

- Use of resources, including studies;
- Performance information; and
- Best value performance plans.

Use of resources

2.2 The Authority has a duty to secure economy, efficiency and effectiveness in the use of its resources. This is considered key to achieving continuous improvement to both control frameworks and service delivery, underpinning the ability of the Authority to comply with its general duty of achieving Best Value.

2.3 In order to assess the Authority’s performance regarding use of resources we considered a combination of the:

- robustness of the performance management framework;
- adequacy of management arrangements relating to the Authority’s key risk issues, and developing areas, as defined in our OAP; and
- appropriateness of the Authority’s arrangements for ensuring prompt and thorough implementation of audit and inspection recommendations.

2.4 There were no national studies applicable to district authorities in 2002/03 and discussions with Officers did not identify any particular areas where a local study would have been appropriate.

2.5 The following table summarises the results and main conclusions from our use of resources audit work.

<i>Figure 2: Summary of Use of Resources Assessments</i>	
Issue and scope of review	Conclusions
<i>Performance Management Framework</i>	
<ul style="list-style-type: none"> • Assessing the robustness of the design and effectiveness of the Performance Management Framework, including: <ul style="list-style-type: none"> - Objective and target setting; - Monitoring performance; and - Action planning and implementation. 	<ul style="list-style-type: none"> ➤ <i>Objectives and targets are reviewed on an annual basis and revised corporate priorities and service action plans developed from this.</i> ➤ <i>Members receive quarterly performance monitoring reports, which include some commentary on areas of both good and bad performance in the quarter.</i> ➤ <i>Action plans are developed for each service to support the achievement of aims and objectives, with implementation being monitored by members.</i> ➤ <i>Linkages between individual appraisal objectives and Service Action Plans need to be fully documented</i>
<i>Source: PKF</i>	

<i>Figure 2: Summary of Use of Resources Assessments</i>	
Issue and scope of review	Conclusions
<i>Key Issues</i>	
<ul style="list-style-type: none"> • CIPFA SOLACE Framework. 	<ul style="list-style-type: none"> ➤ <i>The authority has revised its Code of Corporate Governance to ensure it addresses all areas of the CIPFA SOLACE Framework.</i>
<ul style="list-style-type: none"> • Risk Management 	<ul style="list-style-type: none"> ➤ <i>Some progress has been made in this area although this is ongoing and it is recognised as one where the Authority needs to continue to develop policies and procedures.</i>
<ul style="list-style-type: none"> • Other plans and strategies 	<ul style="list-style-type: none"> ➤ <i>The authority has developed and submitted its relevant strategies.</i> ➤ <i>Performance information in respect of Asset management does not yet form part of the overall Performance management framework.</i>
<ul style="list-style-type: none"> • Partnership working 	<ul style="list-style-type: none"> ➤ <i>The Authority is involved with a number of partnerships. However, there are no central procedures for monitoring the success of the partnership working in achieving the aims and objectives of the Authority.</i>
<i>Developing Issues</i>	
<ul style="list-style-type: none"> • Progress in improving areas highlighted by the CPA assessment. 	<ul style="list-style-type: none"> ➤ <i>The Authority's internal procedures are being reviewed in response to the forthcoming CPA assessment process. The Authority has already identified some areas where there can be some improvement made.</i>
<i>Monitoring the implementation of audit and inspection recommendations</i>	
<ul style="list-style-type: none"> • Assess the progress of arrangements in place to monitor the progress, and completeness, of the implementation of audit and inspection recommendations. 	<ul style="list-style-type: none"> ➤ <i>A rolling programme is maintained that shows the current status of the audit action plan.</i>
<ul style="list-style-type: none"> • Determine actual progress made in implementing previous audit and inspection recommendations. 	<ul style="list-style-type: none"> ➤ <i>The process noted above has ensured that many of the recommendations made have been implemented.</i>
<i>Source: PKF</i>	

Key Issues

2.6 Our work has indicated that improvements are being made in a number of areas, in particular the continued development of the Performance Management Framework and the preparations for Comprehensive Performance Assessment. There are some areas in need of development, the key points being:

- The Authority has made some progress with the development of Risk Management over the course of the year and has begun the process of developing a comprehensive risk register. This is a continuing process and there is a need for further work to ensure that

the consideration of risk management is an ongoing part of the Authority’s operation – an outline plan exists for this;

- The development of central arrangements for the monitoring of Partnerships, and in particular the assessment of whether the partnerships are achieving both the aims of the partnership and those of the Authority; and
- The further development of the Performance Development Review system to ensure that linkages between individual appraisal objectives and those in the relevant Service Action Plans are fully documented.

Recommendations

- 2.7 *Members should ensure that the development of Risk Management within the Authority continues to be progressed.*
- 2.8 *Members should ensure that standard procedures are developed and implemented for the monitoring of partnerships.*
- 2.9 *Members should ensure the development of the PMF continues.*

Performance Information

- 2.10 The Authority is required to put in place adequate arrangements for collecting, recording and publishing specified performance information.
- 2.11 We have reviewed the adequacy of your arrangements for ensuring that accurate Best Value Performance Indicators (BVPIs), as specified by the Office of the Deputy Prime Minister, are produced.
- 2.12 The overall conclusions from our work on BVPIs are set out below:

<i>Figure 3: Summary of the Performance Information work</i>	
Scope of Review	Conclusions
<ul style="list-style-type: none"> • Assessment of systems in place for producing target indicators for the BVPP. • Review of the robustness of overall arrangements to collect, record and publish outturn indicators. • Confirmation of significant performance variance compared to the previous year. • Report to the Audit Commission on whether the six nationally recognised high risk District Council BVPIs are fairly stated, to help inform the CPA process. 	<ul style="list-style-type: none"> ➤ <i>The systems and arrangements in place for producing BVPIs are robust.</i> ➤ <i>We noted some instances where the Authority did not have processes in place to collect information for specific indicators.</i> ➤ <i>Appropriate explanations for variances have been provided.</i> ➤ <i>We reported to the Audit Commission that the six high risk BVPIs were fairly stated.</i>
<i>Source: PKF</i>	

Key Issue

- 2.13 We provided our report and opinion on the Authority’s indicators in October, in line with the Audit Commission’s deadline.

- 2.14 As a result of the review we expressed reservations in our opinions on two indicators. In both instances the reservation arose because the Authority was unable to collate the necessary information to compile the indicator.
- 2.15 Accurate reporting of performance indicators within the Authority is a fundamental prerequisite of effective performance management. Our work has again indicated that the Authority has very robust procedures for ensuring the accuracy of the indicators prepared.

Recommendations

- 2.16 *There are no action points for Members in this area.*

Best Value Performance Plan

- 2.17 Auditors are required to consider and report on whether the audited body has complied with the statutory requirements in respect of the preparation and publication of its Best Value Performance Plan (BVPP), including the specified performance information and associated targets.
- 2.18 The scope of our work and our conclusions are set out below:

Figure 4: Summary of the Best Value Performance Plan work	
Scope of Review	Conclusions
<ul style="list-style-type: none"> • Review the extent to which the BVPP complies with the statutory requirements • Consider the extent to which outturn performance information has been included in the BVPP. • Assess the progress in addressing the issues arising from our review of the 2002 BVPP. 	<ul style="list-style-type: none"> ➤ <i>The Authority produced a plan that complied in all significant respects with the statutory requirements.</i> ➤ <i>The BVPP requires more detail in respect of the results of Best Value Reviews and the progress being made in implementing the developed action plans.</i> ➤ <i>The BVPP contains no response to points raised in last years BVPP audit report.</i> ➤ <i>We have no concerns over the inclusion of final outturn results in the BVPP, although as with the PI section above, we note that some of the indicators could not be produced.</i> ➤ <i>There has been limited progress with the 2002 BVPP audit issues with many of the points noted again in 2003.</i>
<i>Source: PKF</i>	

Key Issues

- 2.19 We have found that the BVPP was, in all significant respects, compliant with the requirements of the Act, that recommendations made by us with regard to previous BVPPs had generally been addressed and that the BVPP had been prepared and approved by the 30 June deadline.
- 2.20 We also noted some further areas to be addressed. These include:
 - As in the previous year, the section in which the Best Value review process is considered needs some expansion on the alternative service options considered to ensure it meets with requirements;

- This section should also include details of the resources available to undertake the detailed reviews; and
- The inclusion of additional details on the progress that has been made in implementing the action plans developed for the previously completed reviews.

Recommendations

- 2.21 *Members should ensure that audit recommendations are addressed such that all appropriate information is included within the BVPP.*

3 FINANCIAL ASPECTS OF CORPORATE GOVERNANCE

3.1 Our financial aspects of corporate governance review assesses whether the Authority has adequate arrangements for:

- securing the legality of transactions with a significant financial consequence;
- ensuring financial standing is soundly based;
- satisfying itself that its systems of financial control are both adequate and effective; and
- ensuring proper standards of financial conduct and arrangements for preventing and detecting fraud and corruption.

Legality of transactions

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

<i>Figure 5: Summary of the Legality work</i>	
Scope of Review	Conclusions
<ul style="list-style-type: none"> • Assessment of the overall monitoring arrangements. • Review of the arrangements for dealing with specific issues raised by the Audit Commission and key new legislation. • Consideration of specific issues raised by the Authority relating to actions being considered. • Addressing questions and objections from electors. 	<p>➤ <i>With regard to the Authority's arrangements for ensuring the legality of financial transactions, there are no significant issues which we wish to bring to the attention of Members at this time.</i></p>
<i>Source: PKF</i>	

Key Issues

3.3 The Day of Public Rights took place on 29th September 2003, at which there were no formal objections received from members of the public in connection with the Authority's accounts.

3.4 During the course of the year we have dealt with a number of letters of complaint from the public.

Recommendations

3.5 *There are no action points for Members in this area.*

Financial Standing

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

<i>Figure 6: 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"> - budgetary control arrangements, including medium term forecasting and linking financial planning to service planning; - financial performance during 2002/03; and - financial position as at 31 March 2003. • Consideration of the 2003/04 financial current financial position and medium term financial projections. 	<ul style="list-style-type: none"> ➤ <i>budgetary control arrangements are in place but there remains a need for close monitoring to ensure significant variances are avoided.</i> ➤ <i>As a result of increases in Council Tax, the overall financial standing of the Authority is generally sound, although reserves should be kept under review.</i> ➤ <i>The forecast deficit on the HRA should be monitored on an ongoing basis and all possible steps should be taken to reduce the likelihood of the situation occurring.</i>
<i>Source: PKF</i>	

Key Issues

Budgetary control arrangements

3.7 We understand that the current budgeting is performed by the Accounts department, taking into account both the prior year actual outturn and the known plans of individual services, and that performance against budget is monitored by department heads and members on a regular basis.

3.8 Our work has indicated that, when total actual outturn is compared to budget, in the past 3 years there have been variances in excess of 5% between the figures. Given the unpredictability of some budgets, particularly in demand led services, some level of variance is expected. However, whilst these variances may be either positive or negative, and often combine a number of smaller variances, they are significant and it is important that the Authority continue to monitor the process to ensure that the budgets set are realistic and achievable.

2002/03 Financial performance

3.9 During the year the Consolidated Revenue Account generated a surplus of £0.6m, after net contributions of £0.7m had been made to earmarked reserves. Whilst these figures have ensured that reserves continue to be healthy, they represent a considerable variance from the budget.

3.10 Whilst the Authority has, as a result of the above transfer and surplus, increased the overall reserve figure during the year, the part of this relating to the HRA has again decreased as there has been another deficit within this account. We are aware that it is anticipated that the deficits are likely to continue, with the HRA forecast to be in overall net deficit in several years time. However, our discussions indicate that the Authority is attempting to develop measures to address this situation.

2003/04 Financial position and medium term projections

3.11 The 2003/04 budget has been set to achieve net expenditure of £8.2m, as compared to £7.5m for 2002/03, with which it is anticipated that the Authority will contribute £37k to General Fund reserves. Although the Authority has planned a contribution to General Fund reserves, it remains

the overall policy to strive to match income and expenditure over a period, whilst maintaining an adequate level of reserves.

- 3.12 There is a need for longer term financial planning to underpin this policy, in order to prevent exhaustion of reserves in future and the Authority has developed a Medium Term Financial strategy to assist with this process.
- 3.13 This strategy considers all specific costs pressures that the Authority is aware of, such as the uncertain position on future pension payments and changes in investment income, and considers the level of Council Tax increase required to ensure that reserves are maintained. It currently indicates that increases of 9% will be required for the next three years. It will be important to perform ongoing monitoring of the financial strategy to ensure that it is achieving its aims.

Recommendations

- 3.14 **Members should continue to monitor the overall reserves of the Authority, ensuring that the agreed financial strategy is adhered to and that the forecast deficit on the HRA is addressed.**

Systems of Internal Financial Control

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

<i>Figure 7: Summary of the Systems of Internal Financial Control work</i>	
Scope of Review	Conclusions
<ul style="list-style-type: none"> • Review Internal Audit arrangements for compliance with the best practice set out in CIPFA’s “Code of Practice for Internal Audit in Local Government in the United Kingdom”. • Assessment of the progress made in the adoption of a local Corporate Governance Code, with particular focus on the preparations for publishing a Statement on Internal Financial Control with the 2002/03 accounts. • Consideration of the Authority’s wider control environment. 	<ul style="list-style-type: none"> ➤ <i>Systems of internal financial control and the wider control environment are operating satisfactorily.</i> ➤ <i>The Authority does not have a tested IT Disaster Recovery plan in place.</i> ➤ <i>The Authority has made progress with the adoption of a local Corporate Governance Code and has used this to assist in the preparation of the Statement on internal Financial Control included in the statement of Accounts.</i>
<i>Source: PKF</i>	

Key Issues

- 3.16 Our review of Internal Audit’s work against the best practice set out in CIPFA’s code of practice has confirmed the continuing development of the function. As a result we were able to further develop the Managed Audit approach, in order to maximise use of combined internal and external audit resource.
- 3.17 The result is that we have placed greater reliance on Internal Audit’s work with regard to our assessment of the core financial systems. We have made two small recommendations in our memorandum to Officers, with a view to placing further reliance on the work of Internal Audit in the future.
- 3.18 The 2002/03 SORP has introduced the requirement for a Statement on Internal Financial Control (SIFC) to be included within the Authority’s accounts for 2002/03. We have reviewed the

Authority’s preparation of the SIFC and concluded that the information used and evidence available to write it is sufficient in nature.

Wider control environment

3.19 As part of our review of the wider control environment we have considered the Authority’s ability to respond and continue to deliver services following the loss of IT systems. Whilst we are aware of a past success in recovering systems, we have noted that the Authority does not currently have a formal tested IT disaster recovery plan in place.

Recommendations

3.20 *Members should ensure that steps are taken to develop and adopt an IT disaster recovery plan.*

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

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

<i>Figure 8: Summary of the Financial Conduct and Fraud & Corruption work</i>	
Scope of Review	Conclusions
<ul style="list-style-type: none"> • Reviewing the adequacy of overall arrangements for ensuring proper financial conduct and preventing and detecting fraud and corrupt practices. • 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 Verification Framework has been operational throughout the year.</i> ➤ <i>No Warning Bulletin example frauds appear to have occurred at the Authority and appropriate actions have been taken on warnings received.</i>
<i>Source: PKF</i>	

Key Issues

3.22 Our work has indicated that the Authority’s arrangements continue to be sound, something which has been assisted by the full adoption of the Verification Framework. We have noted some further areas where the Authority could continue to improve its processes, these include:

- Conducting a risk review of all areas of operation to identify those areas, and staff roles, that are most susceptible to fraud;
- Benchmarking of overall management arrangements against other Authorities to identify any shortfalls in approach; and
- Undertaking training of all staff on fraud awareness.

3.23 These points have all been included within our Memorandum to Officers.

Recommendations

3.24 *There are no action points for Members in this area.*

4 ACCOUNTS

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

<i>Figure 9: 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. • Providing an opinion on whether the Authority's Statement of Accounts (the accounts) are presented fairly. 	<ul style="list-style-type: none"> ➤ <i>Subject to the resolution of a technical issue with the auditors of the Essex CC pension Fund re FRS17 disclosures, we will issue an unqualified opinion on the 2002/03 Statement of Accounts.</i> ➤ <i>The Authority has successfully brought forward the timing of the preparation of the accounts. However, the set of draft accounts presented for both Member approval and audit were incomplete.</i> ➤ <i>The bad debt provision, although reviewed, has not been amended to reflect the required level.</i> ➤ <i>There are some improvements that can be made to the closedown and accounts preparation procedures.</i> ➤ <i>We consider the financial systems to be operating effectively, although we have noted some improvements that can be made.</i>
<i>Source: PKF</i>	

Key Issues

4.2 As a result of our work we will be issuing an unqualified opinion on the accounts.

4.3 In accordance with the requirements of SAS610 we have reported the findings of our audit to Officers by way of Memorandum to Officers. We set out below the key points noted as part of this reporting process.

System reliance

4.4 Our review of systems indicated that the core financial systems were operating effectively and could be relied upon as a basis for preparing the accounts, although we have noted some improvements to controls to Officers.

Accounting Practices and Financial reporting

4.5 Our work has identified some improvements to accounting practices and financial reporting. The key points are:

- The majority of the statement of Accounts were ready at the start of the audit. However, as in previous years, a full Cash Flow Statement was not available until the end of the audit, which had the effect of delaying the work in this area;
- The bad debt provision continues to be set at £930k, the same level as in previous years. Whilst we are aware that the Authority has performed a comparison of the provision

required in relation to the year end debtors, concluding that a reduction is required, no amendment has been made to the year end figure; and

- We have noted a number of detailed disclosure improvements that can be made to the Authority's statements of accounts for future years and will discuss these with Officers.

Recommendations

4.6 *Members should ensure that they are presented with a full set of financial statements for approval prior to the audit of the statements.*

4.7 *Members should ensure that the bad debt provision in the 2003/04 statements of accounts is supported by a detailed analysis of the required provision.*

5 GRANT CLAIMS

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

<i>Figure 10: Summary of Grants work</i>	
Scope of Review	Conclusions
<ul style="list-style-type: none"> • Review of arrangements for the preparation and submission of grant claims. • Risk assessment for each separate claim or return. • Review, in accordance with Audit Commission certification instructions. 	<ul style="list-style-type: none"> ➤ <i>The arrangements for completing individual grant claims are adequate</i> ➤ <i>The Authority should ensure a member of staff is given responsibility to develop a full list of relevant grant claims requiring audit and act as a co-ordination point for submission to us for audit.</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 generally approaching their preparation in an appropriate way.

5.3 However, we have become aware of additional relevant grant claims during the year, the completion of which the Authority had not informed us about. This has resulted in the need for additional time to be planned in order that the required submission deadlines can be met.

Recommendations

5.4 *There are no action points for Members in this area.*

6 2003/04 PLANNED AUDIT WORK

Introduction

- 6.1 The OAP we agreed in July detailed the audit work we planned to complete for both 2002/03 and 2003/04 based on the risk assessments we made at that time. This was summarised as follows:

Proposed audit work (two years 2002-04)	2002/03 financial year	2003/04 financial year
Accounts and systems	4	4
Financial aspects of corporate governance	4	4
Local performance audit work (risk determined)	4	4
Best value performance plan (2003/04 plan published in 2003)	4	
Best value performance indicators (2002/03 indicators in 2003/04 BVPP and to be submitted to the Audit Commission in 2003)	4	
Comprehensive Performance Assessment input	–	4*
Annual Audit Letter	4	4

* Amendment to OAP as detailed below

- 6.2 The scope and timing of audit work on Comprehensive Performance Assessment had not been determined at the time the OAP was agreed. This has now been finalised and our main contribution to CPA will be by providing “Auditor Scored Judgements” (ASJs), to help inform the Audit Commission’s CPA scoring process.
- 6.3 The Audit Commission has set out a staggered timetable for the production of these ASJs. For Rochford District Council the deadline for completion is 12 January. Consequently, this work will be added to our planned audit work for 2003/04 and reported in the 2003/04 Annual Audit Letter.
- 6.4 In all other respects we have concluded that the results of our 2002/03 audit work, as detailed in this Annual Audit Letter, do not have a significant impact on our risk assessments for 2003/04. Consequently, we do not consider further changes to the scope of the planned 2003/04 audit to be necessary at this time. We will issue a ‘Mini Audit Plan’, for agreement by Officers, to reconfirm the details of our 2003/04 risk assessments and the proposed audit work.

Audit Fees

- 6.5 In our OAP we provided an analysis of our audit fee for the period November 2002 to March 2004, based on certain assumptions regarding the level of reliance we could place on Internal Audit, the quality of the Authority’s systems and the scope of performance audit work that still had to be determined by the Audit Commission.
- 6.6 As noted within the OAP, the audit fee did not include any work on the ASJs and certification of the CPA Performance Indicators (the opinions on which are noted in section 2). We now have a better idea of the programme of work we will perform, and we would anticipate a fee of £11,000 for this work.

6.7 The fee position as at November is further analysed in the table below:

Code Area	17 month fee agreed in OAP £	Adjustments (paragraph 6.6) £	Revised fee £	Amount billed to date £	Balance £
Accounts	55,330	-	55,330	18,610	36,720
Financial Aspects of Corporate Governance	28,020	-	28,020	13,670	14,350
Performance Management	46,650	11,000	57,650	20,720	36,930
Total	£130,000	£11,000	£141,000	£53,000	£88,000

6.8 The balance of fee will be billed in line with the completion of our work, but an indication of the likely timing is given below:

	£
December 2003	23,000
March 2004	23,000
June 2004	17,000
September 2004	25,000
TOTAL	88,000

6.9 In our OAP we estimated that 46 days would be required for the certification of 2002/03 grant claims. As at October we have input 13 days on this audit work, which equates to a fee of £7,720. We anticipate a further 33 days input (equating to £18,696) is still required in order to complete all certifications required.

Rochford District Council

SAS610

**Report to Finance and Procedures
Overview and Scrutiny Committee**

November 2003

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7 Opinion audit work

7.1 The Corporate Director (Finance and External Services) is responsible for the preparation of the financial statements in accordance with the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2002.

7.2 As the appointed auditors, our main objective is to form an independent view of the Statement of Accounts.

Scope of our work

7.3 The audit covers all the Statements of Account. In accordance with the Code of Audit Practice we must assess whether the statements present fairly the financial position of the Authority as at 31 March of the financial year and its income and expenditure for the year in question.

7.4 In completing these assessments we consider a number of aspects which may have an impact on our ability to issue an unqualified opinion. These aspects include:

- Assessing systems reliance;
- Reviewing the accounts preparation process; and
- Completing analytical review, testing balances and considering the adequacy of disclosures.

Systems reliance

7.5 In advance of the detailed testing of the completed financial statements, we have reviewed the core financial systems in place across the Authority which contribute to the preparation of accurate financial statements, to assess the extent to which we can place reliance on them for this purpose.

Scope of our review

7.6 Our approach to the audit of the core systems has involved considering key control areas for each system and satisfying ourselves that they are operating as intended and are sufficient to prevent material misstatements within the accounts. In assessing the reliability of systems as a basis for providing financial information, we have prepared systems notes for each financial system and performed walkthrough tests of key controls.

7.7 Where possible, we have placed reliance on Internal Audit's work and thereby avoided unnecessary duplication of audit effort on the systems work relevant to our audit opinion. To ensure this approach was valid, we have undertaken the following exercises:

- Reviewed Internal Audit's working papers and reports;
- Considered the robustness of the core financial systems on the evidence of this work; and
- Re-performed a sample of Internal Audit's testing of key controls, to establish that Internal Audit's conclusions are soundly based and that we do not disagree with them.

Our findings

7.8 Following review of working papers, we have been able to place further reliance on the work of Internal Audit this year as there has been increased coverage of the controls that we have identified as being key. We feel there are some further improvements that can be made, including the use of

appropriate sample sizes and ensuring that all of the controls have been reviewed in the year under review.

- 7.9 Testing of individual system has indicated that, at present, the Authority does not use exception reports, despite the various systems having the ability to run such reports. Exception reports are a useful method for identifying issues surrounding the processing of transactions within individual systems, and should be reviewed on a regular basis.

Review of Accounts

- 7.10 Our work here has, as noted in bullet points 2 and 3 under paragraph 2.4, focused on reviewing the accounts preparation process, completing analytical review, testing balances and considering the adequacy of disclosures.

Our findings

- 7.11 In general we have found an improvement with the level of preparedness of the Authority for audit this year, with the vast majority of information being available on our arrival. However, the accounts provided did not include all Financial Statements, with the cash flow in particular being omitted. are prepared and approved by Council before the PKF audit, this may be a problem in future years as the deadline is moving forward.
- 7.12 Work on Fixed Assets has again shown that the detailed valuation note in the accounts does not comply with the requirements of the SORP. This requires that the note should disclose gross opening values for both original cost and depreciation together with movements during the year to arrive at gross values at the end of the year. Net book values, which are currently all that is disclosed, should also be provided.

SAS 610 responsibilities

- 7.13 As noted within our Outline Audit Plan, Statement of Auditing Standard 610 (“SAS 610”), which is effective for the 2002/03 audit, requires auditors to communicate relevant matters relating to the audit with “those charged with governance”, who at Rochford District Council have been agreed as the Finance & Procedures Overview & Scrutiny Committee. The content of this report forms part of our reporting the on results of our final accounts audit to the Finance & Procedures Overview & Scrutiny Committee, and will be supplemented by the preparation of our Annual Audit Letter.
- 7.14 In particular we are required to report:
- Expected modifications to the audit report;
 - Unadjusted misstatements;
 - Material weaknesses in accounting and internal control systems identified during our work;
 - Qualitative aspects of accounting practices and financial reporting; and
 - Any other relevant matters.
- 7.15 Our comments in these areas are set out below:

Audit Report

- 7.16 Subject to the resolution of a technical qualification of the Essex CC pension Fund auditor's report to us for FRS17 purposes, there are no proposed modifications to the audit report.

Unadjusted misstatements

- 7.17 During the course of our audit we identified what we regard as a number of non-trifling misstatements for which no amendments were made to the statement of accounts. In accordance with the requirements of SAS 610.5(b) these are also detailed within Appendix A. As these misstatements were not considered by management to be material we propose signing an unqualified audit opinion on the accounts, subject to resolution of the matter referred to above.

Accounting and Control systems

- 7.18 We have noted a number of minor matters to officers in a separate document.

Accounting Practices and Financial reporting

- 7.19 In addition to the comments noted above in paragraphs 2.11 to 2.12, we specifically wish to draw to the attention of the Finance & Procedures Overview & Scrutiny Committee to the current analysis of the provision for bad debts.
- 7.20 The bad debt provision continues to be set at £930k, the same level as in previous years. We are aware that the Authority performed a comparison of the current provision in relation to the year end debtors, but concluded that despite some difference occurring no amendment was required to the year end position.
- 7.21 This has been the case for a number of years, with the provision remaining unchanged. There is therefore a need for a detailed review of the percentage supporting the calculation of the bad debt provision, these to be based on collection rates, to ensure a suitable provision is calculated. Once such a calculation has been performed, appropriate amendment should be made to the provision within the annual accounts.
- 7.22 We have also completed a detailed review of the accounts and have noted that there are a number of areas in which the current disclosure could be improved. We will discuss all of the points with officers to agree on any changes to be made.

Other Matters

- 7.23 There are no other matters arising from our work that we wish to bring to the Finance & Procedures Overview & Scrutiny Committee's attention.

Appendix A – Unadjusted errors

Schedule of unadjusted errors.

The table below details the errors recorded during the audit that have not been adjusted for within the statement of accounts.

	Income £'000	Expenses £'000	Assets £'000	Liabilities £'000	Reserves £'000
Items above materiality					
No errors above materiality were identified.					
Items below materiality					
MRA figure does not agree to ODPM notification					
Rents Bad Debt Provision not amended.		12	(12)		
NNDR Bad Debt provision not amended.		(143)	143		
Council Tax Bad Debt provision not amended		12	(12)		
	-	(119)	119	-	-