

Rochford District Council

Annual Audit and Inspection Letter 2003/04



Rochford District Council
2 December 2004

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2 December 2004

Ladies and Gentlemen

Annual Audit and Inspection Letter 2003/04

We are pleased to report the results of the audit and inspection work for the 2003/04 financial year in this Audit and Inspection Annual Letter. The letter has been jointly prepared by your Appointed Auditor, PKF, and the Relationship Manager, Ian Davidson.

The key findings from the audit are summarised in Section 1 together with our overall conclusions for each of the areas that we are required to review.

We would like to take this opportunity to thank officers and Members for their assistance during the course of the audit.

Yours faithfully

PKF

Audit Commission



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1 Introduction and key findings

- 1.1 This Annual Audit and Inspection Letter summarises the findings of the audit and inspection work at Rochford District Council ('the Council') for the year ended 31 March 2004.
- 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 purpose of inspection work is to review and deliver reports that will:
- enable the Council and the public to judge whether best value is being delivered;
 - enable the Council to assess how well it is doing;
 - enable the Government to assess how well its policies are being implemented; and
 - identify failing services where remedial action may be necessary.
- 1.5 The Appointed Auditor, PKF, 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.
- 1.6 The core audit is structured around three main elements:
- accounts and financial systems;
 - financial aspects of corporate governance; and
 - aspects of performance management.
- 1.7 We agreed with the Council those areas of significant financial and operational risk that we would review during the year to 31 October 2003 and the five month period from 1 November 2003 to 31 March 2004 in the Outline Audit Plan for 2002-04. The risk assessment was revisited for the 2003/04 element early in 2004, as reported in our supplementary Mini Plan, and this Letter includes our findings from the work completed in respect of this period.
- 1.8 The audit of the Best Value Performance Plan (BVPP) 2003 and the review of the Best Value Performance Indicators for 2002/03 were reported in the Annual Audit Letter for 2002/03. The audit of the BVPP 2004 and review of the Best Value Performance Indicators for 2003/04 will be carried out as part of the 2004/05 Audit and Inspection Plan and will be reported in full in the Audit and Inspection Annual Letter 2004/05. Preliminary findings are included in this Letter to enable prompt reporting of issues to Members.

Key findings and conclusions

- 1.9 The CPA assessment process has recently been completed, with the Council scored as “Weak”. The consequent Improvement Planning process is in progress, with an initial meeting held on 5 October 2004 to discuss the Council’s draft Plan. Whilst the result is less favourable than the Council would have wished, the key issue now is to take advantage of the development resources made available to assist it in pressing ahead with the Improvement Plan, to address areas of development need and, as a consequence, secure a higher rating when CPA is revisited in due course.
- 1.10 The CPA report highlights a number of strengths, including partnership working, the securing of external funding and the benefits gained from externalisation, and also states that the Council’s overall core service quality is above average. These achievements are commendable.
- 1.11 The other key issues identified in our Outline Audit Plan for 2002-04 and subsequently, and progress made against them, are as follows:
- **Risk Management:** Little progress has been made during 2003/04 as a result of officer resource being focused on CPA. There continues to be a need to effect cultural change and ensure risk management becomes embedded in both the strategic and the day-to-day operations of the Council.
 - **Performance Management:** Similar issues have been faced in terms of officer resource.
 - **Statement on Internal Control:** Officers had initially not addressed the updated requirements for 2003/04 but had instead prepared a Statement of Internal Financial Control similar to that required for 2002/03. The final draft Statement on Internal Control included with the Statement of Accounts was not inconsistent with our understanding of the wider control environment.
 - **Financial Standing:** The Council achieved a notable General Fund surplus in 2003/04, but forward projections show this being steadily utilised over the coming 5 years. Current information indicates that changes to government funding will address the likely HRA deficits, but a longer-term solution needs to be determined and options are being considered.
 - **Succession planning:** Initial plans to address succession for two key senior members of the finance team due to retire in 2006 have been developed for informal consideration, and these are due for clarification in early 2005. The aim is to have arrangements in place to ensure a timely and safe transfer of responsibilities.
- 1.12 Overall, there has been some progress, but more remains to be done to fully address these risks.

Findings and conclusions for separate Code areas

- 1.13 Summaries of our findings and conclusions for separate Code areas are shown at the start of each Section, with a more detailed commentary following those summaries in the main body of the report.
- 1.14 Detailed findings and recommendations have been communicated in reports and Memoranda during the year, and a record of reports issued is shown in Appendix 2.

Status of the 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 Inspections 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 take this opportunity to thank staff for their assistance and co-operation during the audit.

2 Council performance and aspects of performance management

The Council was scored as “Weak” by the recent CPA review. Improvement Planning processes are currently ongoing. The ASJ review identified a number of areas for potential improvement in the Council’s governance arrangements.

The Authority needs to continue to develop the performance management framework ensuring that the system allows the Authority to respond to areas of poor performance on a timely basis.

Progress is being made in respect of succession planning, with the aim being to secure a safe overlap period for both of the two senior members of the finance team due to retire in 2006.

- 2.1 It is the responsibility of the Council to put in place proper arrangements to manage its performance and to secure economy, efficiency and effectiveness in its use of the resources at its disposal and to set strategic aims and objectives, develop service and business plans and to set and monitor performance targets. Auditors and inspectors are required to review and, where appropriate, report on the arrangements that the Council has put in place to secure economy, efficiency and effectiveness in its use of resources.

Comprehensive Performance Assessment (CPA)

Components of the assessment process

- 2.2 The main elements of the assessment were:
- a self-assessment completed by the Council;
 - an accredited peer challenge to inform the Council’s self-assessment;
 - a corporate assessment of the Council’s overall effectiveness in supporting services to deliver improvements;
 - an assessment of the Council’s service delivery performance through two diagnostic assessments on:
 - progress in meeting the decent homes standard; and
 - the management of public space;
 - the Benefit Fraud Inspectorate’s (BFI) assessment of benefit services;
 - the Appointed Auditor’s assessment of performance on each of the main elements of the Code of Audit Practice; and
 - audited performance indicators, inspection reports and plan assessments.

Summary of CPA conclusions

- 2.3 The District Corporate Performance Assessment (DCPA) undertaken in February 2004 found the Council to be a “Weak” council which has recognised that it must move forward. The Council does not currently have a corporate vision or a clear expression of its ambitions for itself or its communities, although a longer-term vision for the area is now beginning to evolve through work on the Thames Gateway South Essex Strategy and the Community Strategy.

- 2.4 The Council does focus on the things it sees as important, but this is not based on an understanding of local need. Community leadership is held back by political resistance to the national agenda which stems from a reaction to government funding levels. This influences the ambitions for services which generally aim to meet legislative requirements and no more, unless additional financial support is given. This stance does not account for the needs or desires of local people. Local priorities are not balanced with national priorities, and are not determined through meaningful dialogue with residents.
- 2.5 The Council has limited capacity for change. Its financial position is weak, and it does not make best use of its available resources through efficiency savings. Performance management and risk management are developing, but have some way to go to ensure that service delivery is consistently of a high quality, improvements are delivered and risks are managed. Some services affecting vulnerable groups, like benefits and homelessness, are underperforming. Improvement in services is patchy and sometimes not sustained. Currently, learning is ad-hoc and not systematically captured or shared. Many of the Council's future plans lack clarity, or are under-developed. Progress in updating the strategic framework or to address gaps is slow.
- 2.6 The DCPA report does highlight a number of strengths. The Council's approach to externalising front line services has brought significant benefits and increased capacity as a result. The Council has also recognised the mutual benefits of partnership working, is effectively building capacity in areas like community safety and has a good record of attracting external funding.
- 2.7 Overall core service quality is above average; some services such as leisure perform well, and public satisfaction is high. The Council is delivering a range of initiatives, through partnerships and contracts, which are targeted at addressing the needs of the area, such as community transport. Investments in areas such as leisure centres, arts centres, waste, IT systems and training should provide a much stronger position for the Council moving forward. However, the Council faces some significant challenges in terms of the future of its housing stock, how it will meet stretched targets for recycling, and how it will deliver the evolving vision of the area.

Auditor Scored Judgements

- 2.8 The CPA process requires that the auditor assesses and scores aspects of the Council's arrangements for financial management. The table below sets out the scores as submitted to the Audit Commission and discussed with Officers, where a score of 4 is "good" and 3 is "adequate":

Area	Score (out of 4)
Financial Standing	3
Internal Financial Control	3
Fraud and Corruption, Conduct arrangements	4
Financial Statements	3
Legality of significant Financial Transactions	4

- 2.9 As part of the Improvement Planning process, officers have developed action plans to address the improvement opportunities arising from the ASJ review and we have commented on the specific areas for improvement in the relevant sections of this Annual Letter.

Use of resources

- 2.10 As part of this year's audit we have performed follow ups in those areas where we have previously reviewed the Authority's position and concluded that additional work is required. The results of these reviews are detailed below:

Performance Management Framework (PMF)

- 2.11 The Authority has made some progress in developing its overall performance management framework, including:
- Finalisation of the Community Strategy in March 2004 and publication in June 2004; and
 - The linking of Service Action Plans to individual performance assessments, although this is initially being introduced for use with Heads of Service, it should be used for all staff going forward.
- 2.12 We understand that the demands of CPA have restricted the level of resource that the Authority has been able to allocate to the development of the PMF, so progress has been less than planned. CPA has, however, identified a number of improvement opportunities that can be taken advantage of.
- 2.13 We have noted some concerns over the use of information within the performance management system. Principal amongst these is the use of local indicators by the Authority, and the fact that, although targets are set for each indicator, the Authority is achieving these in less than 50% of cases, and so the PMF cannot be said to be consistently driving through improvements in service delivery to achieve better performance.

Partnership Monitoring

- 2.14 As with risk management, which is discussed in Section 3, this is an area where our review of the progress made by the Authority on developing and implementing central monitoring arrangements for partnerships, has shown that there has been little change. The principal change we have identified is that the consideration of partnership monitoring has been included as a specific item within the Finance Procedures Overview & Scrutiny work programme. Whilst this is a positive step, there is a need for this to be adequately supported by information from officers on the effectiveness of the partnerships and the role they play in helping Rochford to achieve its aims.

Succession planning

- 2.15 The forthcoming retirement of two senior members of the finance team in 2006 gives rise to a need to review the needs of the Authority within its future management structure. We noted previously that there appeared to be no succession arrangements in place for the departure of these two key finance staff. There have now been some initial plans developed for informal consideration and these are due for clarification in early 2005. Given that the aim of the Council is to secure a safe overlap period for both of these officers, the Council must ensure that any recommendations arising are dealt with promptly.

Follow up of previous work

- 2.16 Generally, steps are being taken in all areas reviewed to address the issues previously raised, but these developments require further work to fully address the identified weaknesses.

Best Value Performance Plan and performance information

- 2.17 The audit of the Best Value Performance Plan (BVPP) 2003 and the review of the Best Value Performance Indicators (BVPIs) for 2002/03 were reported in the Annual Audit Letter for 2002/03. The audit of the BVPP 2004 and the review of the 2003/04 BVPIs is included in the 2004/05 Audit and Inspection Plan. Preliminary results are included here to ensure prompt reporting to Members, but results will be reported in more detail in the Annual Audit and Inspection Letter for 2004/05.
- 2.18 We intend to issue an unqualified opinion on the 2004 BVPP. The Council decided not to take advantage of the reduced content requirements applicable to the 2004 Plan. The document remains bulky and we believe that it would benefit from some pruning.
- 2.19 The BVPIs process ran smoothly again this year, assisted by the review of indicators undertaken by Internal Audit. However, reservations have been necessary against all Planning indicators due to systems limitations in that only the date a decision was made has been recorded, as against the date a decision was communicated, with the latter being the necessary information for calculating the indicators.

Recommendations

- 2.20 **The Council should ensure that further development of the performance management framework is undertaken, ensuring that the system developed allows the Authority to respond to areas of poor performance on a timely basis and improvements in performance are consistently driven.**
- 2.21 **The Authority should ensure that the Finance and Procedures Overview and Scrutiny Committee receive appropriate information on the fit and effectiveness of partnerships to enable it to properly carry out its monitoring role.**
- 2.22 **The Council should ensure that any recommendations arising from proposals for the succession of two key senior finance staff are dealt with promptly in order that the desired overlap period is achieved.**

3 Financial aspects of corporate governance

- 3.1 It is the responsibility of the Council to put in place proper arrangements to ensure the proper conduct of its financial affairs and to monitor their adequacy and effectiveness in practice.
- 3.2 Our review of the financial aspects of corporate governance has covered the following areas:
- legality of financial transactions;
 - financial standing;
 - systems of internal financial control; and
 - standards of financial conduct.

Legality of financial transactions

Our review has not identified any significant issues that we wish to bring to your attention at this time with regard to your arrangements for ensuring the legality of financial transactions.

- 3.3 It is the responsibility of the Council to act within the law and to put in place proper arrangements to ensure that its financial affairs are conducted in accordance with the law and relevant regulations. Auditors are required to consider whether the audited body has put in place adequate arrangements to ensure the legality of transactions that might have significant financial consequences.

Arrangements to comply with law and regulations

- 3.4 We are satisfied that the Authority generally takes appropriate steps to respond to new legal issues that arise, a conclusion supported by our specific review of steps being taken to respond to recent legislative developments, including the Freedom of Information and Race Relations Acts.
- 3.5 However, there is scope for further improving arrangements for monitoring the implementation of responses to new legislation and in making more structured the involvement of the legal team in decision making, with staff being encouraged to seek the formal participation and advice of the legal team wherever necessary.
- 3.6 The Day of Public Rights took place on 18 October 2004, at which there were no formal objections received from members of the public in connection with the Council's accounts.

Disability Discrimination Act

- 3.7 We undertook a detailed review on the progress made by the Council in meeting the deadline for ensuring disabled access to local authority buildings. Arrangements are in place to ensure that the relevant buildings are 100% compliant. Currently the necessary facilities are available, but not in all cases to the standards that the Council would wish. The Council has communicated with disabled groups to explain the current position, action being taken and planned improvements.

Financial Standing

The Council reported a CRA surplus for 2003/04 of £765k and the General Fund working balance is currently £1.635m. Forward forecasts over the medium term show the working balance being reduced over the next five years. A review exercise is to be undertaken to rationalise and revisit the earmarked reserves to ensure that the amounts held are valid and at an appropriate level.

The HRA has again reported a deficit, £142k (2002/03 - £41k) and the working balance is £686k. Current information indicates future government funding will address the deficit issue, and the Authority is considering the possible options for provision of social housing.

Opportunities for improvement remain over the extent to which previous outturns on general fund activities are taken account of in future budgets and the reflection of budget performance in individual managers' appraisals.

- 3.8 It is the responsibility of the Council to conduct its financial affairs and to put in place proper arrangements to ensure that its financial standing is soundly based. Auditors are required to review financial performance in the year, assess the ability to meet known statutory and other financial obligations, and responses to developments which might have an impact on the financial standing.

Budget setting and monitoring arrangements

- 3.9 The budget for 2004/05 has been set such that it is intended to utilise some of the brought forward balance to deliver services, although the amount is at a level that will still leave the Council with a balance that is above the Authority's identified minimum level of reserves.
- 3.10 Previous reviews of budget setting and monitoring arrangements have identified issues with the extent to which prior year outturn positions are taken account of in current and future budgets. In addition, the performance of budget monitoring and management should form part of appropriate job descriptions and feed into performance development of the individuals involved.

Financial performance in 2003/04

- 3.11 The Consolidated Revenue Account has achieved a surplus of £765k in the year, after net contributions to earmarked reserves. The result included three one-off items, namely a transfer of £300k from the budget strategy reserve, £113k leisure profit share and a £84k NNDR refund, so the underlying surplus was £268k, due to the majority of services under-spending.
- 3.12 The current budget round needs to understand and take account of the underlying causes for the variances experienced in 2003/04 where these issues continue to have an impact.

General Fund

- 3.13 As a result of the under spend within general fund expenditure, reserves have again increased, as has the proportion of reserves in comparison to expenditure. This is shown by the table below:

General Fund reserves and balances	31 March 2002 £000's	31 March 2003 £000's	31 March 2004 £000's
Working balance	869	871	1,636
Earmarked Reserves	1,239	1,237	1,851
Budget Strategy	0	500	0
Financial Strain and Redundancy	30	79	191
Total	2,138	2,687	3,678
Net operating expenditure (NOE)	9,972	9,516	10,762
Reserves as % of NOE	21.44	28.24	34.17

- 3.14 The medium term forecast shows a steady utilisation of these reserves over the coming 5 years to a level of £637k. A review exercise is to be undertaken to rationalise and revisit the earmarked reserves to ensure that the amounts held are valid and at an appropriate level. Members will need to continue to monitor future performance against budget and outturn to assess the validity of budgeting assumptions and ensure that the Council adheres to the medium term plan.

HRA

- 3.15 The HRA has again recorded a deficit for the year, and there has been a net draw-down from the HRA-specific Major Repairs Reserve, as shown by the table below:

HRA reserves and balances	31 March 2002 £'000	31 March 2003 £'000	31 March 2004 £'000
HRA	869	828	686
Major Repairs Reserve	158	329	218
Total	1,027	1,157	904

- 3.16 Our concerns over the continuing deficits within the HRA have been raised in previous Annual Audit Letters. However, we understand that changes in the level of funding received from government should result in future surpluses. In addition, the Authority is currently in the process of identifying its future options in respect of the provision of social housing with a view to providing a longer-term solution to the balanced funding issue and the consistent achievement of the Decent Homes standard by 2010.

Arrears

- 3.17 The table below shows the Authority's arrears and collection rates for the last three years:

Debtors and collection rates	2001/02 £	2002/03 £	2003/04 £
Sundry debtors			
Amounts due	494,814	474,523	766,641
Housing rents			
Amounts due	104,015	133,483	154,237
Target collection rate	99%	98.5%	98.6%
Actual collection rate	98.5%	98.7%	98.9%
NNDR			
Amounts due	445,118	286,415	357,306
Target collection rate	98%	98.7%	98.05%
Actual collection rate	98%	98%	99%
Council Tax			
Amounts due	411,323	463,368	547,864
Target collection rate	99%	99%	98.1%
Actual collection rate	99.1%	99%	98.9%

- 3.18 Balances outstanding at the end of the year have increased compared to prior years. The increases for Rents, NNDR and Council Tax arrears are largely attributable to increases in the charges being levied, particularly as collection rates have generally improved over the prior year, with the decrease in Council Tax only being minimal. The notable sundry debtor movement is distorted by a number of one-off timing issues, including leasehold recharges for recent work, capital grant due and other government debtors. The underlying position remains stable.

Prudential Code

- 3.19 The Council has put all of the required Prudential Indicators into place and we are aware that it intends to use the capabilities of Prudential Borrowing to fund the building work required for a new Parks Sports Centre in Rayleigh. However, in order to ensure that the indicators are representative for the Authority, and given the intention to use the powers in the future, the Authority should ensure that it reviews the indicators frequently throughout the year, rather than annually as is currently proposed.

Recommendations

- 3.20 **The exercise to review and rationalise earmarked reserves should be completed promptly and in time to feed into the 2005 financial year end position.**
- 3.21 **Options for incorporating budget performance into managers' appraisals should be considered.**
- 3.22 **Budget-setting arrangements should clearly show how the underlying factors influencing previous outturn positions are reflected in current budgets and future projections.**
- 3.23 **The Authority should closely monitor critical government HRA funding to ensure that the assumptions made underlying the avoidance of deficits are valid. Social housing options should be pursued promptly to ensure consistent achievement of the Decent Homes standard and longer-term financial balance.**

Systems of internal financial control

The Authority has put in place adequate arrangements to ensure that its systems of internal financial control are generally adequate.

It has made good progress in addressing the requirement to develop effective systems of internal control and has reported the weaknesses identified from its reviews within the Statement on Internal Control.

The Authority should ensure that risk management is fully incorporated into the systems of Internal Financial Control, beyond the risk assessments of systems that have already been carried out.

- 3.24 It is the responsibility of the Council to develop and implement systems of internal control, including systems of internal financial control, and to put in place proper arrangements to monitor their adequacy and effectiveness in practice. Auditors are required to consider whether arrangements are adequate to satisfy the Council that its systems of internal financial control are both adequate and effective in practice.

Systems of internal control and risk management

- 3.25 The Accounts and Audit Regulations 2003 introduced a requirement for local authorities to develop and monitor robust arrangements for internal control including effective risk management strategies and reporting frameworks. All local authorities are required to review at least annually the effectiveness of their systems of internal control and to include a *Statement on Internal Control* in the 2003/04 financial statements.
- 3.26 The effectiveness review undertaken by the Council noted the following issues:
- the process of risk management is in need of further development and embedding;
 - there are a number of system processes around the Authority that require documenting; and
 - in some departments there is a need for staff training to ensure that system processes are being performed correctly.
- 3.27 The review by the Council established that progress was being made in a number of areas, but that there were gaps in the control framework that will need to be addressed.
- 3.28 The initial draft of the Statement on Internal Control we received did not address the requirements of CIPFA's guidance contained in "*The Statement on Internal Control in Local Government: Meeting the Requirements of the Accounts and Audit Regulations 2003*" because the Council had not taken account of the changed requirements introduced by the Accounts and Audit Regulations 2003 as discussed with officers. The final version did comply with these requirements and was found to be not inconsistent with our understanding of the wider internal control environment.

Risk Management

- 3.29 We have considered the progress made by the Authority on the development of risk management arrangements and note that, as a result of resource constraints that we understand are linked to CPA, there has been little development with this process during 2003/04.
- 3.30 Although we are aware that some progress is being made in the development of risk management, there continues to be a need for a risk culture to be fully embedded within the day to day operations of the Council, and for all aspects of its operation to be subject to risk analysis and assessment.

Internal Audit

- 3.31 We were able to place some reliance on the systems work performed by Internal Audit during the year and we continue to place significant reliance on their work on performance indicators. However, we have made some recommendations for the continued improvement of the department which should allow us to extend the level of reliance we are able to place on their work in future years, these include:
- sample used for testing should be spread over the entire year;
 - all areas of testing undertaken should be fully documented to enable evidence to be available upon which to place reliance; and
 - testing performed should be compliance-based rather than substantive or reliant solely on discussions.

Recommendation

- 3.32 **Development of the risk management process should be continued to ensure that cultural change is achieved and risk management becomes embedded in both the strategic and the day-to-day operations of the Council.**

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.

- 3.33 It is the responsibility of the Council to ensure that its affairs are managed in accordance with proper standards of financial conduct and to prevent and detect fraud and corruption. Auditors are required to consider whether arrangements to maintain proper standards of financial conduct are adequate. It is not the auditors' function to prevent or detect breaches of proper standards of financial conduct or fraud and corruption. However, in all aspects of their work auditors are alert to the possibility of breaches of proper standards of financial conduct and of fraud and corruption.

Arrangements for proper standards of financial conduct

- 3.34 The Authority has a constitution in place that is reviewed regularly to ensure that the most recent information is contained within it. It includes Standing Orders and a scheme of delegation. All arrangements are considered sufficient for their purpose and there are no issues to be reported.

Anti-fraud and corruption arrangements

- 3.35 The Fraud Risk Assessment tool was completed. No significant issues were identified, but some suggestions for improving the anti-fraud and corruption arrangements that the Authority has in place have been detailed within the memorandum we will shortly be issuing to Officers.
- 3.36 We were unable to report on the NFI 2002 exercise in our 2002/03 Annual Audit Letter because the Council's work was still being undertaken at the time of drafting. From our subsequent discussions with officers, we identified that all matches were followed up and that there were no significant issues arising.

4 Accounts and financial systems

We provided our audit opinion on the financial statements prior to the statutory deadline of 30 November 2004, confirming that these presented fairly the financial position of the Authority at 31 March 2004 and its income and expenditure for the year the ended.

The final Statement on Internal Control included within the Statement of Accounts complied with the SORP guidance and was consistent with our understanding and knowledge of the Council.

4.1 The published Accounts of the audited body are an essential means by which it accounts for its stewardship of the resources at its disposal and its financial performance in the use of those resources. It is the responsibility of the Council to:

- ensure the regularity of transactions;
- maintain proper accounting records; and
- prepare financial statements that give a presents fairly view of the financial position of the body and its expenditure and income.

4.2 Auditors are required to audit the financial statements and to give their opinion as to whether they present fairly the financial position and its income and expenditure for the year then ended and have been prepared in accordance with relevant legislation and accounting standards.

Financial systems

4.3 Our work on the key financial systems has indicated that they are generally adequate for the production of the statement of accounts. However, we did note some areas where systems were not working as intended, and as a result we had to plan some additional year end procedures. These areas included:

- Over the course of the year there were a number of concerns over the preparation of a notable number of key reconciliations covering a range of core financial systems, with there being ongoing concern over the bank reconciliation; and
- The use of incorrect dates on debtors invoices, resulting in potential problems with cut-off in the financial statements.

4.4 We communicated our findings from our audit of the financial systems in our interim report to Officers. The detail of this report is currently still being discussed with the Authority and has yet to be finalised.

Statement of accounts

4.5 The financial statements were prepared and submitted for approval by Council on 29 July 2004 in advance of the statutory deadline of 30 August. The financial statements and supporting evidence files were made available to us for audit on the agreed date and we completed the majority of our field testing by 1 October 2004.

4.6 A presents fairly audit opinion will be provided on the financial statements prior to the statutory deadline of 30 November 2004, to allow the Council to publish its financial statements in advance of the same statutory deadline.

- 4.7 During the course of the audit we identified a number of areas requiring amendment within the accounts. These included both changes to disclosure and some errors and misstatements, all of which have been adjusted by management in the final version of the financial statements. The cumulative impact of these adjustments was to:
- increase the CRA surplus by £16k;
 - increase the HRA deficit by £6k; and
 - decrease balance sheet net assets by £485k.
- 4.8 A number of immaterial errors and misstatements have not been adjusted by management and the reasons for this have been agreed with those “charged with governance” for the preparation and approval of the financial statements.
- 4.9 We have communicated our findings arising from the audit of the financial statements in our SAS610 report, which was considered by the Finance and Procedures Overview and Scrutiny committee on 18 November 2004. Acknowledgement of unadjusted misstatements was also confirmed at that meeting.

Statement on Internal Control

- 4.10 The Council has included the required statement which follows the guidance issued by CIPFA in ‘*The Statement on Internal Control in Local Government: Meeting the Requirements of the Accounts and Audit Regulations 2003*’ and we have reported that the disclosures are not misleading or inconsistent with our knowledge of the Council gained during our audit. Further details are included in Section 3 of this report within systems of internal control and risk management.

Whole of Government Account and advanced timetable

- 4.11 The current timetable should allow the Authority to comply with the advanced accounts approval deadline for 2004/05, as the accounts were approved this year prior to 31 July. However, there will need to be some reassessment and improvement to the process to ensure progress can be made towards the 30 June deadline in 2006.
- 4.12 We understand that the Council’s finance team intends to meet with other local authorities to discuss approaches to the advanced timetable and identify some proposals for Rochford. The need to review the process is particularly important due to its link with the retirement of senior members of the finance team and the need to plan service delivery after this time.

5 Grant claims and certification of returns

The Council has, in general, adequate arrangements for ensuring completion of the required grant claims and returns.

However, there are concerns over the availability of supporting information for the claims and returns. The Authority should ensure that all supporting working papers used in the preparation of the claims are collated and provided to the auditors in order to minimise the time spent on auditing the claims.

- 5.1 The Council has submitted five claims and returns requiring audit certification during the year. We have completed a considerable amount of our work but are, at present still finalising our review of two of the claims, both of which have audit deadlines of 31 December 2004.
- 5.2 The Authority's procedures are sufficient to ensure that the required submission deadlines are met. However, whilst the supporting papers are adequate for a number of claims, there are some returns where there is no nominated individual responsible for retaining the working papers supporting the submitted grant claim.
- 5.3 This can result in working papers being difficult to locate, and may also not agree with the return, resulting in a need for additional audit time to locate the papers and ensure that the return submitted is correct. An example of this during 2003/04 was the Housing subsidy base data return, where there were a number of adjustments required, with a lack of supporting documentation for one figure in the return leading to that figure being qualified, although this was later resolved following additional work.

6 Audit and Inspection Fees and Planned Work

6.1 We are required to disclose our analysis of the proposed and actual audit and inspection fees for the year and provide an explanation for any significant variations for each element of our work.

6.2 The proposed audit fees were set out in the Mini Audit Plan 2003/04 at the start of the year.

Audit area	Plan 2003/04	Actual 2003/04
Accounts	55,330	55,330
Financial aspects of corporate governance	28,020	28,020
Performance	46,650	57,650
Code of Audit Practice fees	130,000	141,000
Certification of grant claims *	21,500	21,500
Total fees	£151,500	£162,500

* - The work on grant claims is continuing and we have not yet finalised our fees.

6.3 The variance from our planned fees arose from additional work in 2002/03 in providing Auditor Scored Judgements.

6.4 Our planned work for the 2004/05 financial year is in the process of being discussed with management and will be reported in the Audit and Inspection Plan presented to the Finance and Procedures Overview and Scrutiny Committee early in 2005. The proposed fees for 2004/05 will also be detailed within this report.

6.5 The presentation and agreement of this Plan is later than originally intended as a result of the Authority's appeal against its CPA score and the need for the plan to take into consideration the final result and consequent Improvement Plan.

Recommendations and Council action plan

These recommendations relate to the issues raised in the Annual Audit 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 2.

Recommendation	Management response	Implementation date
The Council should ensure that further development of the performance management framework is undertaken, ensuring that the system developed allows the Authority to respond to areas of poor performance on a timely basis and improvements in performance are consistently driven.	Incorporated within the CPA Improvement Plan	April 2006
The Authority should ensure that the Finance and Procedures Overview and Scrutiny Committee receive appropriate information on the fit and effectiveness of partnerships to enable it to properly carry out its monitoring role.	Incorporated within the CPA Improvement Plan	November 2005
The Council should ensure that any recommendations arising from proposals for the succession of two key senior finance staff are dealt with promptly in order that the desired overlap period is achieved.	Incorporated within the CPA Improvement Plan	Review alternatives April 2005. Implement from October 2005
The exercise to review and rationalise earmarked reserves should be completed promptly and in time to feed into the 2005 financial year end position.	Work in progress and will be fed into budget strategy	Budget strategy Jan/Feb 2005 Closure of accounts 2004/5
Options for incorporating budget performance into managers' appraisals should be considered.	Agreed, to be introduced following implementation of restructuring	From October 2005
Budget-setting arrangements should clearly show how the underlying factors influencing previous outturn positions are reflected in current budgets and future projections.	Outturn is taken into account in budget preparation. Budget documentation to Members highlighting percentage increases.	Continue to emphasise in 2005/6 budget.
The Authority should closely monitor critical government HRA funding to ensure that the assumptions made underlying the avoidance of deficits are valid. Social housing options should be pursued promptly to ensure consistent achievement of the Decent Homes standard and longer-term financial balance.	Housing Option Approval is being progressed according to plan. This will determine most effective future management.	Obtain Government approval September 2005. Complete April 2008.
Development of the risk management process should be continued to ensure that cultural change is achieved and risk management becomes embedded in both the strategic and the day-to-day operations of the Council	Refinement of risk management work ongoing. Risk assessment to be incorporated within performance management improvement included in CPA Improvement Plan.	Ongoing.

Audit and Inspection reports and opinions issued for the 2003/04 financial year

Mini Audit Plan	14 April 2004
Interim Memorandum on financial systems and corporate governance	16 July 2004
CPA report	16 September 2004
SAS610 report	10 November 2004
Accounts audit opinion and certificate	30 November 2004
Final Memorandum	December 2004