

Castle Point Borough Council

Annual Audit and Inspection Letter 2003/04

8 December 2004





Accountants and business advisors

PKF
16 The Havens
Ransomes Europark
Ipswich
Suffolk IP3 9SJ

Telephone 01473 320700
Facsimile 01473 320800



Audit Commission
1st & 2nd Floors
Sheffield House
Lytton Way
Stevenage
Herts SG1 3HG

Telephone 01438 351570
Facsimile 01438 362367

The Members
Castle Point Borough Council
Council Offices
Kiln Road
Benfleet
Essex
SS7 1TF

8 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 Castle Point Borough 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 their 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 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 Audit Plan agreed by officers in April 2003. The risk assessment was revisited for the 2003/04 element in 2004, as reported in our supplementary Mini Plan, and this Letter includes the findings of our work completed in respect of this period.
- 1.8 The audit of the Best Value Performance Plan (BVPP) 2003 and 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 Comprehensive Performance Assessment (CPA) process has recently been completed, with the Council scored as “Poor”. The report issued by the Audit Commission following their review stated that the Council recognised the issues and was starting to take action. The consequent Improvement Planning process is now in progress, with the Council’s Recovery Plan presented briefly to the Improvement Committee on 23 November. It was subsequently approved by a Special Council meeting on 25 November 2004.
- 1.10 We do not repeat in this Letter all of the issues raised by the CPA process, although we have provided a brief summary of the principal conclusions in section 2 below.
- 1.11 The other key issues identified in our Outline Audit Plan for 2002-04 and subsequently, and progress made to date by the Council, are as follows:

- **Risk Management:** Little progress has been made. Although a Risk Management Group was established, it did not meet during the period under review and, as reported in the Council’s Statement on Internal Control, “a significant amount of work is still required to introduce and implement risk management arrangements in the Council”. Of immediate need is the introduction of systematic and comprehensive risk assessments to support key options appraisals and critical areas of potential financial exposure, such as the leisure facilities’ repairs and maintenance backlogs;
- **Performance Management:** The Council finalised and launched the key Community Strategy in December 2003, setting out its aims and objectives for the borough. The Council’s corporate objectives were revisited during the summer of 2004, although these needed clarification and the elimination of ambiguities. Service plans will be updated to take finalised objectives into account.

Attempts were made centrally to introduce priority-based budgeting, but departmental limitations meant that this did not succeed and the process will be centralised for 2004/05.

Periodic reporting of Best Value Performance Indicators has been introduced and is now an established agenda item for the Improvement Committee. Positive attempts have been made by officers to rationalise the indicators reported, but further work should be undertaken to better match the indicator set reported to key Improvement areas and the Council’s key aims and objectives;

- **Statement on Internal Control:** As a result of the long-term sickness of the previous head of Internal Audit, arrangements for preparation of the new Statement on Internal Control and a supporting effectiveness review were not in place by the time of our final audit visit. Following discussions on a remedial approach and the subsequent development of content, the final draft Statement on Internal Control included with the Statement of Accounts complied with the requirements of CIPFA’s guidance and was not inconsistent with our understanding of the Council’s wider control environment;

- **Leisure:** Options for long-term service provision continue to be pursued, following the cessation of initial outsourcing due to the withdrawal of potential partners. Positive progress has recently been made and a suggested way forward approved by Committees that deals separately with leisure centres and community halls. Key to both exercises will be comprehensive risk and financial appraisals, including time and financial limits on budget and reserves exposure over the projects' development period.

The financial exposure is heightened by the recent discovery of significant revenue overspends and income shortfalls totalling £318k and emergency repairs of £120k, some of which have ongoing cost implications. Action is to be taken to address failures in compliance with financial procedures and budget monitoring in the Leisure department that have given rise to and prevented timely action in respect of these budget variances;

- **Revenues and Benefits:** This department has undergone a period of significant change, including the introduction of a new computer system from June 2004. The department worked hard to reduce its caseload backlogs in the run up to the changeover, achieving some notable successes, but the backlog position has subsequently returned following the disruption caused by the system change. Problems were also encountered with some new system interfaces that, whilst they worked in test situations, did not operate immediately in live running.

Targets set for improvement have for some time been largely aspirational rather than based on calculated returns on resource changes or realignment. Furthermore, baseline performance positions have not been established or compared to comparable arrangements at other authorities. In other words, the Council has not known what its team members' performance has been, or what it should or could be, and so it has not been able to properly determine any plans for improvement. In a positive step forward, the Council has recently undergone peer challenge and is currently studying the results;

- **Financial Standing:** The Leisure issues referred to above have served to drain already scarce resources away from other key Improvement areas. General Fund reserves of £1.9m may well fall below the set base level of £1m within 5 years at current spending levels and this position could worsen still further should more urgent repair problems crystallise during this period at the Council's leisure facilities. In this context, hard decisions will be necessary to protect the Council's wider service provision and address the necessary improvement issues set out in the Recovery Plan.

1.12 Overall, there has been some progress, and an acceleration in recent months, but more remains to be done to fully address the above risks. Critical recent development factors include:

- The appointment of an interim Chief Executive, with consequent benefits to the Council's capacity, focus and momentum;
- The completion and approval of a Recovery Plan;
- The refocusing of Leisure projects, including undertakings for comprehensive financial and risk analyses for each stream;
- Firm plans for addressing backlogs and service quality issues for Revenues and Benefits, with the use of peer challenge information to better focus future changes to arrangements to secure longer-term, sustainable improvements.

1.13 The next few months will continue to be challenging for the Council, and we will work closely with Members and officers to assist the achievement of necessary improvements.

Findings and conclusions for separate Code areas

- 1.14 Summaries of our findings and conclusions for separate Code areas are shown at the start of each Section, with more detailed commentary following those summaries in the main body of the report.
- 1.15 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

- 1.16 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.
- 1.17 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

- 1.18 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

- 1.19 We would like to take this opportunity to thank staff and Members for their assistance and co-operation during the audit.

2 Council performance and aspects of performance management

The Council was scored as “Poor” in the recent Comprehensive Performance Assessment and has had a representative of the Office of the Deputy Prime Minister (ODPM) appointed to assess its capacity to address failings and to closely monitor developments. There are a range of key issues that will need to be addressed through the improvement planning process, which is currently ongoing. A Recovery Plan was recently approved by the Council.

Whilst progress has been made in developing the performance management framework, there are still some significant issues to address, both procedural and cultural.

The target areas of Revenues and Benefits and Leisure have developed during the year, but they will require proper and robust options appraisals to be undertaken to enable sound decisions to be made for the longer-term.

- 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)

Summary of CPA conclusions

- 2.2 The District Corporate Performance Assessment (DCPA) undertaken in February 2004 found the Council to be a “Poor” council that was beginning to take action on some of the problems it faces. The DCPA team found that there has been a lack of clear political direction and the Council’s strategic management is weak. Political direction is now emerging, but it will take some time for this to be translated into sustained improvements for the area.
- 2.3 Historically, the Council has not demonstrated effective community leadership. However, it now recognises it must do more. It has a long-term vision for the area and is engaging partners in contributing to the delivery of its ambitions, for example through the development of the Community Strategy. The Council does not have a track record in using effective consultation to inform its priorities for improvement, but it is now beginning to adjust priorities in response to community concerns and to commit additional resources to some priority areas.
- 2.4 Service performance is inconsistent. There are a number of good performing services, such as street scene and some housing services, for example performance against the Decent Homes standard. However, there are poor overall satisfaction levels and 55% of performance indicators are below average. The Council does not consistently focus to deliver improvement in priority areas. The rate of improvement is slow and the Council has not addressed its poor performance in areas such as housing benefits and access to buildings.
- 2.5 Many of the necessary building blocks for improvement are not yet in place. The Council does not work corporately, there is a lack of strategic capacity and staff capacity is not effectively developed. The Council has not effectively planned to build the capacity it needs to support its ambitions. Learning, where it occurs, is not shared. Councillors are unclear about their role and there is a lack of transparency in decision making. Performance management is not embedded and it does not drive improvement. Risk management has not been addressed.

- 2.6 On the positive side, the Council is actively exploring alternative forms of service provision, partners are positive about working with the Council and the Council is investing in some areas of weakness such as ICT. The Council recognises the problems it faces and is developing a programme of change with external organisations. However, some plans are not yet well developed and so do not provide a clear route to improved services.
- 2.7 A Recovery Plan was approved at a Special Council meeting on 25 November 2004.

Auditor Scored Judgements (ASJs)

- 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.

Area	Score (out of 4)
Financial Standing	3
Internal Financial Control	2
Fraud and Corruption, Conduct arrangements	3
Financial Statements	4
Legality of significant Financial Transactions	4

- 2.9 In the table above, the highest possible score of 4 means “Good”, a score of 3 means “Adequate” and 2 means “Adequate, but some weaknesses need to be addressed”.
- 2.10 Key strengths identified were the arrangements for preparing, and the consequent quality and timeliness of, the Council’s Statement of Accounts and the arrangements for ensuring the legality of significant financial transactions, both procedurally and in terms of key officers’ involvement.
- 2.11 The key weakness affecting the Internal Financial Control category related to the lack of progress in risk management.
- 2.12 Areas for improvement arising from the ASJ review will be addressed by action plans within the Authority’s overall Recovery Plan in response to the Poor CPA assessment.

Audit Commission and other inspections

- 2.13 There have been no inspections during the period. However, there has been close involvement of the Relationship Manager, in conjunction with the External Audit Partner, in working with key Revenues and Benefits and Leisure department developments and attending Improvement Committee and other meetings.

Use of resources

2.14 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 continues to be required. The results of these reviews are detailed below:

Performance Management Framework.

2.15 The performance management framework is still not yet fully embedded across the Authority.

2.16 There has been some progress in the areas for improvement highlighted in last year's Annual Audit Letter, particularly:

- Finalisation and launch of the Community Strategy in December 2003;
- Regular reporting of Best Value Performance Indicators, including performance against targets, to Members via the Improvement Committee;
- Revisiting Corporate strategic aims and objectives during the summer of 2004; and
- The purchase of a system for monitoring and reporting Performance Indicators.

2.17 However, significant components of the framework remain to be addressed, including:

- There are no procedures in place to monitor progress against targets and objectives in all of the Council's service plans;
- Target-setting needs to be revisited to ensure targets set are realistic, rather than aspirational;
- Performance monitoring reports still do not include timescales for action plans; and
- There has been no progress in cascading service plan objectives through to objectives for individuals.

2.18 As noted above, the Council has recently revisited its strategic objectives in order to better align them with priorities and needs, but they still require some further work to ensure clarity before they are finalised. This process will need to include identifying measurable targets for improvement to ensure tangible benefits can be delivered to the community.

2.19 The Council has purchased a performance *information* system which will facilitate the monitoring and reporting of performance indicators, but systematic use of this information for the purposes of performance *management* has yet to be used by the Council in anything other than isolated areas.

2.20 There is regular reporting of key performance indicators to the Improvement Committee. However, this appears still to be a separate exercise and not part of an embedded performance management culture. Detailed action plans have still not been developed and there is therefore little evidence that the monitoring of performance indicators will ensure continuous service improvement going forward.

2.21 The Improvement Committee continues to focus on a number of selected topics, for example benefits, leisure and street scene, but it does not primarily focus on wider improvement issues and arrangements. As noted above, selected performance indicators are reported to the Committee, and it is positive that efforts have been made during the year to rationalise the indicators reported. However, this rationale could usefully be revisited again once the strategic priorities have been clarified and taking account of the recently approved Recovery Plan, so that the indicators monitored by this Committee match the key improvement and delivery priorities of the Council.

2.22 Procedures for monitoring the implementation of audit recommendations did not operate fully throughout 2003/04, but they are now in place for 2004/05.

- 2.23 The Council has established a wide range of links to other bodies and formal partnerships and projects, which is to be commended. However, the strategic fit and performance management of partnership involvement continues to be of concern, as does the sustainability of the Council's commitment, given its finite resources. This area will be given increased attention as part of our 2004/05 programme of work.

Revenues and Benefits arrangements

- 2.24 The Revenues and Benefits department has undergone a period of significant change over the last year, including changes to the ways in which benefits are determined and, critically, a change in computer system from June 2004. The Council applied additional resources to reduce the level of backlogs in processing and this achieved some reductions in the period leading up to the system change. Backlogs cause delays in delivering benefits to claimants, with the associated inconvenience this may cause, and leads to a cost to the Council by way of reduced government subsidy.
- 2.25 However, as a result of the system change, backlogs have returned, and the Council recognises that it again needs to take steps to address this issue and also to maintain and improve its levels of performance in the longer-term. Targets for improvement have been set and reported, but there is no clear and supported plan for how these stepped changes are to be achieved using the current resources.
- 2.26 The Council has committed to benchmarking its current arrangements against comparable authorities with a view to identifying areas for longer-term and sustainable improvements in service delivery. These comparisons will, of course, need to take account of departmental structures, working arrangements, staffing levels and individual performance targets.
- 2.27 The Council has recently undergone a peer review of the service and is currently reviewing the resulting report. Staffing changes have already been made to allow greater resource to be dedicated to assessments and extended access to the public. Finally, recent statistics indicate improvements to monthly processing times which, if sustained, will gradually feed through to the key annual Best Value Performance Indicators and reduce the level of linked subsidy losses.

Leisure arrangements

- 2.28 Work is ongoing to deliver a longer-term solution to the Council's leisure service provision, and this will continue to be closely monitored during 2004/05. Current proposals include separating the main leisure centres from community halls with a view to simplifying packages. Critical to both streams of this project will be the need to undertake a proper and comprehensive risk and financial appraisal of all the available options, with this linked to a realistic timetable similarly assessed, particularly in the light of the Leisure Department's continuing and significant over-spends and the consequent diversion of scarce resource from areas of non-discretionary service provision.
- 2.29 Key issues with failures in budget setting and monitoring are discussed more fully in Section 3.

Decision-making arrangements

- 2.30 There is a need to review the Council's decision-making arrangements both in terms of their strategic focus and compliance with process. In the context of the CPA result and the likely challenges of the Recovery Plan, Members need to ensure that strategic issues are given the level of attention that is necessary and minor issues do not distract attention. The review of Committee structures and focus should incorporate a review of officer support arrangements to ensure the most appropriate officers provide that support, but also that this resource is proportionate and does not unnecessarily prevent officers from carrying out their core duties and driving forward the Improvement agenda.

- 2.31 Papers submitted to key Committees need to be made available on a timely basis, and need to contain comprehensive options analyses, to ensure a proper consideration and debate of the issues.

Best Value Performance Plan and performance information

- 2.32 The audit of the Best Value Performance Plan (BVPP) 2003 and 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 2004 BVPP and 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.
- 2.33 We will shortly issue an unqualified opinion on the 2004 BVPP. We will, as for the 2003 BVPP, conclude that we will not refer the Council to the Audit Commission or to the Secretary of State. Our accompanying conclusion on whether or not to refer will again explain that, in arriving at our decision, we have taken account of the fact that the Council is already subject to close monitoring by the Audit Commission generally and on the specific areas of Leisure and Revenues and Benefits but also has an appointed representative of the Office of the Deputy Prime Minister (ODPM). In other words, were the Council not already the subject of close monitoring by both the Audit Commission and ODPM, a referral would have been likely. This is a serious issue.
- 2.34 The Council's post-external review BVPIs submission was late due to the need to recalculate a number of planning indicators following clarification of the definitions. The number of reservations decreased from 10 in 2002/03 to 8 (including 3 where the Authority is reliant on information provided by a third party) for the current period. Our review process was assisted by a helpful central exercise to collate supporting documentation for indicators and targeted work carried out by Internal Audit on top quartile and national target indicators. A detailed memorandum to officers will be issued in due course setting out recommendations for improvement.

Recommendations

- 2.35 **The Council should press on with introducing the remaining elements of the Performance Management Framework. Members should assist in driving forward the necessary cultural change to ensure that the supporting arrangements are understood and the processes are undertaken as part of the day-to-day operations of the Council.**
- 2.36 **The Council should promptly complete the analysis of the report resulting from the recent peer review of Revenues and Benefits and undertake benchmarking with comparable authorities so that information is available to properly determine a clear plan of action to achieve sustainable, longer-term improvements to its service provision in these areas.**
- 2.37 **The Council should ensure that comprehensive financial and risk analyses are undertaken to support both streams of the Leisure outsourcing proposals and also to inform the project conclusion time-frame.**
- 2.38 **The Council should review its decision making arrangements to ensure that strategic focus is applied to deliver the Recovery Plan. Officer support arrangements should be incorporated within that review.**

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 The audit 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.

In light of the significant backlog in repairs and maintenance at the Council's leisure centres and the lack of funds allocated to address this backlog, the Council should carry out a risk assessment of the potential legal issues arising.

- 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 The Authority has appropriate arrangements in place to respond to new legislation. In particular, the Freedom of Information Act which will impose additional duties on public bodies, and the Authority has nominated "Information Champions" who have assumed responsibility for implementing this new legislation in their respective departments.
- 3.5 The Authority has not undertaken any risk assessment regarding the potential legal issues that could arise at its leisure centres as a result of the significant backlog in repairs and maintenance. Given that funds have not yet been budgeted to address this backlog, there may be an increased risk of possible legal action in the future by the Health and Safety Executive if this important maintenance work is not carried out.
- 3.6 The Day of Public Rights took place on 6 August 2004, at which there were no formal objections received from members of the public in connection with the Authority's accounts.

Financial Standing

The Council achieved net surpluses on both the General Fund (£174k) and Housing Revenue Account (£150k). Collection rates show consistent improvements on the previous year, although they did fall below the targets set for both housing rents and Council Tax.

Budget-setting and monitoring arrangements are generally sound, although central monitoring continues to be hindered by a lack of staff resource. The Leisure department's budget setting and monitoring arrangements continue to give rise to over-spends and the Council needs to take firm action to stop these failures recurring in future.

- 3.7 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 the Council's financial performance in the year, assess its 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

- 3.8 Attempts to introduce priority-based budgets across the Council for 2004/05 did not succeed as planned, due primarily to limitations at departmental levels. Arrangements for 2005/06 budget-setting include re-centralising the process and a greater challenge to historical budgets, resource needs and priorities.
- 3.9 Overall budget monitoring is generally positive, limited primarily by staff resourcing issues. Plans are being developed to address this area, which will also serve to strengthen the central financial support that is available for project appraisal and development.
- 3.10 There continue to be significant issues with the Leisure department's budget setting arrangements, failures by the department to comply with the Council's set financial regulations and also the reliability and realism of Leisure's budget monitoring arrangements. These failures have contributed to the projected overspend to date in 2004/05 of £318k.
- 3.11 The performance of the Leisure department continues to drain scarce resources away from other priority areas, including funding needed to deliver the significant improvement programme highlighted by previous Annual Audit Letters and the recent CPA process. Action to address the Leisure situation, which is already a key priority for the Council, needs to be progressed swiftly but comprehensively to stop the problems recurring.

Financial performance 2003/04

General Fund

- 3.12 As a result of the net under-spend within General Fund expenditure, reserves have again increased, as shown by the table below:

General Fund reserves and balances	31 March 2002 £'000s	31 March 2003 £'000s	31 March 2004 £'000s
General Fund	1,391	1,697	1,871
Collection Fund	425	343	357
Building Control Reserve	-	36	103
Total	1,816	2,076	2,331

- 3.13 Future projections of General Fund reserves have been impacted upon by the notable over-spends in the Leisure department referred to above. Current projections show that the Council's reserves could fall below the £1m mark over the period of the next 5 year forecast. Members will need to carefully monitor the position, and particularly developments in terms of Leisure options, to ensure that sufficient resources are available to properly support the improvement agenda.

Housing Revenue Account (HRA)

- 3.14 Reserves attributable to the HRA are shown in the table below:

HRA reserves and balances	31 March 2002 £'000	31 March 2003 £'000	31 March 2004 £'000
HRA	261	431	581
Major Repairs Reserve	0	0	0
Total	261	431	581

- 3.15 The Council does not have a large housing stock, nor are there significant issues with the standard of dwellings. Reserve levels do not appear unreasonable in this context.

Arrears

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

Debtors and collection rates	2001/02 £'000	2002/03 £'000	2003/04 £'000
Sundry debtors			
- Amounts due	1,429	1,182	1,657
- Bad debt provision	(593)	(392)	(410)
Housing rents			
-Amounts due	80	51	87
-Target collection rate	96.8%	99.1%	99.3%
-Actual collection rate	98.5%	98.9%	99%
NNDR			
-Amounts due	423	206	96
-Target collection rate	96%	98%	98.5%
-Actual collection rate	97.8%	97.8%	99.6%
Council Tax			
-Amounts due	1,318	1,148	1,195
-Target collection rate	97%	98%	98.5%
-Actual collection rate	97.5%	97.2%	98.1%

3.17 Collection rates have consistently improved on the previous year, although they fell marginally short of the targets set for both housing rents and Council Tax. Gross arrears levels are generally relatively steady across the period shown above, although NNDR levels show a commendable decrease linked to improved collection rates and an exceeded target in 2003/04.

Prudential Code

3.18 The Council has put all of the required Prudential Code indicators and arrangements in place.

Recommendations

3.19 **Members should support the efforts being taken to introduce priority-based budgeting and take steps to address any barriers to success should these arise.**

3.20 **Members should take action to ensure a consistent, Council-wide culture of compliance with financial procedures and co-operation with budget setting and monitoring arrangements.**

Systems of internal financial control

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

The Statement on Internal Control properly reports that improvement is required in the areas of CPA, Performance Management and Risk Management. The Authority should ensure that detailed action plans are put in place to address weaknesses identified in these areas, and that these are monitored closely.

The Council needs to monitor closely the level of resources in the Internal Audit department to ensure an adequate Internal Audit function is maintained.

- 3.21 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

- 3.22 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 the systems of internal control and to include a *Statement on Internal Control* in their 2003/04 financial statements.

Statement on Internal Control (SIC)

- 3.23 As a result of staffing issues, the Council's arrangements for preparing a SIC were not properly developed at the time of our final audit visit. This included both drafting the initial version of the SIC and undertaking a comprehensive effectiveness review to support it. However, the final version of the SIC included within the Statement of Accounts complied in all material respects with the guidance set out in CIPFA's "*The Statement on Internal Control in Local Government: Meeting the requirements of the Accounts and Audit Regulations 2003*", and it was not inconsistent with our understanding of the relevant control arrangements operating at the Council.

Risk Management

- 3.24 Little progress has been made in this area, as reported in the Council's Statement on Internal Control included with the 2003/04 financial statements

Internal Audit

- 3.25 Overall, whilst still complying with CIPFA Code requirements, we found that the Council's Internal Audit arrangements had weakened in some areas since the prior year, primarily due to the long-term sickness of the previous Head of Internal Audit and pressure on resources in the department. We have identified a number of opportunities for improving the effectiveness of the Managed Audit arrangements at this Authority and met with Internal Audit to discuss improving the working arrangements for 2004/05
- 3.26 It is important that the Authority monitors this area closely, and takes the necessary action to ensure that an adequate Internal Audit function is maintained.

Wider control environment

- 3.27 We noted during the course of our work that few exception reports are produced or reviewed by users of the Council's core financial systems. Exception reporting can be a useful tool in identifying control weaknesses which may lead to errors in the data produced by systems, and therefore, ultimately, errors in the financial statements. We have previously recommended in our Interim report that officers should consider, on a system by system basis whether exception reports could be used more widely to reduce the risk of errors

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

The Council's arrangements for ensuring proper standards of financial conduct and for the prevention and detection of fraud and corruption are generally sound.

However, some exceptions to compliance with the necessary arrangements to ensure proper standards of financial conduct have been noted and we understand that they have contributed to the ongoing overspends in the Leisure department.

Some information that was produced as a result of the 2002 National Fraud Initiative has yet to be pursued by the Council.

- 3.28 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.

Proper standards of financial conduct

- 3.29 Issues relating to failures within the Leisure department to comply with the Council's financial regulations as they apply to committing to expenditure have already been discussed more fully under Financial Standing above.

Anti-fraud and corruption arrangements

- 3.30 We highlighted in last year's Annual Audit Letter that the resulting matches from the National Fraud Initiative ("NFI") 2002 had not been fully investigated by the Authority, and during our work this year we found that a number of these matches remain outstanding.
- 3.31 The NFI should form a key part of the Authority's anti-fraud strategy and it is important that the Authority follows up any matches arising on a timely basis. It is particularly important that the work for 2002 is completed as soon as possible as the NFI 2004 is already underway.

4 Accounts and financial systems

We provided our audit opinion on the financial statements on 10 November 2004, confirming that they presented fairly the financial position of the Authority for the year ended 31 March 2004. Delays were again encountered in obtaining necessary assurances from the actuary of the Essex pension fund via the auditors of that fund, resulting in the Council's accounts being signed some three months after our initial audit clearance had been provided subject only to this one outstanding issue.

The Statement on Internal Control complied with the CIPFA guidance and was consistent with our understanding and knowledge of the Council. Due to the long-term sickness of the previous Head of Internal Audit, arrangements to produce this key Statement were not well developed at the time of our final audit visit, but the final version of the SIC complied with the aforementioned guidance.

The Council's corporate arrangements for producing complete, accurate and compliant financial statements on a timely basis continue to be notably good.

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 present fairly 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 We communicated the findings from our audit of the financial systems in our Interim report and this was considered by the Audit Committee on 31 August 2004. Management has since agreed to address all of the recommendations we raised and produced an action plan with agreed implementation dates.

Statement of accounts

4.4 The financial statements were prepared and submitted for approval to Council on 28 June 2004 in advance of the statutory deadline of 31 August. The financial statements and supporting evidence files were made available for audit on the agreed date and we completed our field testing on 6 August 2004.

4.5 We communicated our findings arising from the audit of the financial statements in our SAS610 report and this was considered by the Audit Committee on 31 August 2004. We recommended in that report that a timetable should be put in place for the production of the Statement on Internal Control for 2004/05 and for the reviews that need to be carried out to feed into this process.

4.6 A presents fairly audit opinion was 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.

Statement on Internal Control

- 4.7 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.
- 4.8 Further details concerning the SIC are included in Section 3 of this Letter within systems of internal control and risk management.

Whole of Government Account and advanced timetable

- 4.9 Over the next two years the timetable for the approval of the accounts is to be moved further forward by a month each year to 31 July 2005 and 30 June 2006. The Authority should not have difficulty in meeting these timescales, however the timetable for the production of the Statement on Internal Control also needs to be brought forward so it remains in line with the production of the draft accounts.
- 4.10 There is also a programme to produce Whole of Government Accounts, which will require the Authority to produce and submit consolidation packs of financial statement information. The Council's Financial Services Unit will need to consider the timing of the requirements for consolidation pack production as part of their closedown programme in future years.

5 Grant claims and certification of returns

Work in this area for 2003/04 claims is still ongoing at the time of drafting this Letter.

The Council's arrangements have been sufficient to ensure that draft claims were submitted on time and were generally supported by appropriate working papers.

- 5.1 The Audit Commission has introduced a new grants regime from 2003/04, aimed at reducing the burden on authorities and the level of external audit resource required to review claims in accordance with certification instructions agreed jointly by the Audit Commission and grant-paying bodies. Claims below the de-minimis level of £50,000 do not require review, and those between this level and £100,000 only require limited procedures to be carried out. As a result of the profile of claims at this Council, and limitations in quality control arrangements, the impact of this change has been minimal.
- 5.2 The Council's arrangements have generally been sufficient to ensure that draft claims were submitted on time. However, we have encountered some problems with the claims submitted for our review to date, including the completeness of audit trail, access to key staff and clarity of explanations in respect of benefits-related claims.

Recommendation

- 5.3 **The Audit Commission has revisited its best practice guidance to assist the achievement of efficient grant certification arrangements. As with the previous guidance, we commend it to the Council and recommend that it should be used to self-assess the current arrangements with a view to making any improvements for the future, taking appropriate account of the level of resources available and the potential fees savings that might result.**

6 Audit and Inspection Fees and Planned Work

- 6.1 We are required to disclose the 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 and inspection fees were set out in the Mini Audit Plan and Inspection Plan 2003/04 at the start of the year.

Audit area	Plan 2002-04	Actual 2002-04
Accounts	80,572	81,970
Financial aspects of corporate governance	22,966	28,257
Performance	81,738	81,738
Code of Audit Practice fees	185,276	191,965
Certification of grant claims*	37,000	37,000
Total fees	£222,276	£228,965

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

- 6.3 The variance in fees for accounts reflects the extra audit time spent in obtaining explanations and supporting evidence for our analytical review of income and expenditure, and additional work performed on the Statement on Internal Control in 2004. The variance in fees for Financial Aspects of Corporate Governance is in respect of additional work required on the Council's core financial systems due to limitations in the reliance that could be placed on the work of Internal Audit in 2004.
- 6.4 Our planned work for the 2004/05 financial year cannot be finalised until the Improvement Planning process has been completed. The proposed fees for 2004/05 will be detailed within the Outline Audit and Inspection Plan that follows on from that process.

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.

Para	Recommendation
2.35	The Council should press on with introducing the remaining elements of the Performance Management Framework. Members should assist in driving forward the necessary cultural change to ensure that the supporting arrangements are understood and the processes are undertaken as part of the day-to-day operations of the Council.
2.36	The Council should promptly complete the analysis of the report resulting from the recent peer review of Revenues and Benefits and undertake benchmarking with comparable authorities so that information is available to properly determine a clear plan of action to achieve sustainable, longer-term improvements to its service provision in these areas.
2.37	The Council should ensure that comprehensive financial and risk analyses are undertaken to support both streams of the Leisure outsourcing proposals and also to inform the project conclusion time-frame.
2.38	The Council should review its decision making arrangements to ensure that strategic focus is applied to deliver the Recovery Plan. Officer support arrangements should be incorporated within that review.
3.19	Members should support the efforts being taken to introduce priority-based budgeting and take steps to address any barriers to success should these arise.
3.20	Members should take action to ensure a consistent, Council-wide culture of compliance with financial procedures and co-operation with budget setting and monitoring arrangements.
5.3	The Audit Commission has revisited its best practice guidance to assist the achievement of efficient grant certification arrangements. As with the previous guidance, we commend it to the Council and recommend that it should be used to self-assess the current arrangements with a view to making any improvements for the future, taking appropriate account of the level of resources available and the potential fees savings that might result.

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

Mini Audit Plan	16 March 2004
Interim report on financial systems and corporate governance	16 July 2004
CPA report	22 July 2004
SAS610 report on the Financial Statements audit	31 August 2004
Accounts audit opinion and certificate	10 November 2004