

• **ASPECTS OF PERFORMANCE MANAGEMENT**

Best Value Performance Plan

Scope and Conclusions

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

Figure 3: Summary of the Best Value Performance Plan work	
Scope of Review	Conclusions
<ul style="list-style-type: none"> Reviewing compliance of the BVPP with the requirements of the Act. 	<ul style="list-style-type: none"> The Authority produced a plan that in all significant respects was compliant with the requirements of the Act.
Source: PKF	

Key Issues

1.2 As a result of our work on the compliance of the BVPP with the Act, we issued a detailed memorandum on our findings to officers. We attach as Appendix A our statutory audit report of our opinion on the BVPP, which includes an action plan listing the issues that we consider the Authority should address before the preparation of its next BVPP. The key points arising from our work are set out below:

Figure 4: Issues arising from the Audit of the BVPP
<p><i>Compliance of BVPP</i></p> <ul style="list-style-type: none"> The Authority produced a good BVPP, which addressed many of the recommendations arising in the action plan following last year's audit. Some areas for development were noted to further improve next year's BVPP and to enhance the audit trail supporting the BVPP preparation process.
Source: PKF

Preparation for 2002/03

1.3 There have been a number of staff changes in the Strategic Services department since the production of the 2002 BVPP. In addition, the department has been heavily involved in a number of key projects, such as the peer review and preparations for the introduction of the CPA. Although a number of new officers have been recruited, in the circumstances the preparation for the 2003 BVPP will inevitably be more difficult.

1.4 We would suggest that the 2003 BVPP should incorporate any improvement and action plans arising from the recent IDEA peer review, rather than waiting for the final outcome of Comprehensive Performance Assessment ("CPA") to begin the improvement planning process.

Recommendations

1.5 *We recommend that Members monitor progress in developing the 2003 BVPP in the light of our recommendations and the pressure on staff resource.*

Use Of Resources

Scope

1.6 This aspect of the Code of Audit Practice has been subdivided into four components, as follows:

- Performance Management Framework;
- Management Arrangements issues;
- Studies; and
- Follow-up of previous work.

1.7 Each of these components is considered in order below.

Performance Management Framework

1.8 The performance management system should monitor and manage the overall strategic, and individual service, performance of the authority. Such arrangements are the foundation of continuous improvements in the exercise of functions, and the ability of an authority to comply with the general duty of Best Value.

Figure 5: Summary of the Performance Management Framework work	
Scope of Review	Conclusions
Our work on performance management has comprised: <ul style="list-style-type: none"> • Following up progress on the recommendations made during last year's audit; • Considering the design and effectiveness of the framework; and • Considering the action taken in response to the Best Value inspections. 	<ul style="list-style-type: none"> ➤ <i>Good progress has been made in developing service plans that include action plans and responsibilities.</i> ➤ <i>In some areas the mechanisms for evaluating progress against the plans have still to be finalised.</i> ➤ <i>It will be important to review the corporate priorities to ensure that they are achievable and greater linkage of service to financial planning would assist this review.</i> ➤ <i>The Authority is making progress with the Best Value Review action plans and in addressing the specific issues raised by Inspection.</i>
<i>Source: PKF</i>	

Component elements

1.9 The following table overleaf considers component elements of the Framework:

Figure 6: Review of Performance Management Framework

Scope of work	Key conclusions
<p>We have reviewed the framework, including:</p> <ul style="list-style-type: none"> • Objective and target setting; • Monitoring performance; • Action planning and implementation, including in response to external audit and inspection; and • Service reviews; 	<ul style="list-style-type: none"> ➤ <i>Service plans have now been prepared for all key services which include action plans and responsibilities.</i> ➤ <i>With the likely pressure on financial and staff resource it will be important to assess whether the corporate priorities are achievable and greater linkage of service to financial planning would assist this.</i> ➤ <i>Target are reviewed on a quarterly basis taking into account available resources to ensure they are realistic and challenging.</i> ➤ <i>The process for collecting and reporting outturn performance indicators was significantly improved following the work undertaken by Internal Audit. Further work is required to improve the underlying collection processes during the year.</i> ➤ <i>A mechanism should be put in place to monitor progress in delivering qualitative service plans, in addition to the quarterly reporting of PI's.</i> ➤ <i>The Authority is making progress in implementing Best Value action plans and in addressing issues raised by inspection and audit.</i> ➤ <i>During the year the Authority has concentrated on completing Best Value reviews in progress and monitoring actions plans, which are important aspects of demonstrating capacity to improve. It will be important to reschedule the Best Value review programme going forward.</i>
<p>Source: PKF</p>	

Best Value Inspections

- 1.10 The role of the inspectors is to review the results of and processes adopted in practice, for carrying out selected reviews undertaken by the Authority. It is important that the recommendations from inspectors are considered and appropriate changes made to deal with weaknesses identified.

- 2.11 We have reviewed the matters raised following inspections and we are satisfied that the Authority is making progress with the Best Value Review action plans and in addressing the specific issues raised by inspectors. We understand that Inspectors have emphasised that it is important to ensure that the resource allocated to specific services is supported by public consultation and greater linkage of financial and corporate planning should assist this process.

Management Arrangements

2.12 The following table considers the key management arrangements issues being faced by the Authority or dealt with during the period. For each area, we have initially focused on the strength of the mitigating control arrangements in place relating to the risks connected with the issue. Any additional work carried out focused on areas of control weakness identified at the planning stage or where actual controls operating were not as strong in practice as had been suggested:

Figure 7: Review of Management Arrangements issues	
Issue and scope of review	Conclusions
<i>Key Issues</i>	
<p><i>Corporate Governance</i></p> <ul style="list-style-type: none"> • Reviewing the extent of progress against the CIPFA/SOLACE framework and the adoption of a local Code. 	<ul style="list-style-type: none"> ➤ <i>The Authority has begun a self assessment process against each of the dimensions of the Code of Corporate Governance.</i> ➤ <i>Further work is required to develop appropriate monitoring and reporting arrangements to ensure that the Code is being complied with.</i> ➤ <i>Risk management is an important element of Corporate Governance and further work will be required to develop a risk management framework.</i>
<p><i>Democratic Renewal</i></p> <ul style="list-style-type: none"> • Reviewing the operation of new structures, including effectiveness of scrutiny arrangements. 	<ul style="list-style-type: none"> ➤ <i>The Council has recently set up a review of the new structures to assess their effectiveness and we await the outcome of this review.</i> ➤ <i>We recommend that the review considers the effectiveness of the scrutiny arrangements.</i>
<p><i>Partnership Arrangements</i></p> <ul style="list-style-type: none"> • Reviewing the extent of progress in developing a Local Strategic Partnership and drafting a Community Strategy. • Reviewing the development of a new Crime Reduction strategy. • Reviewing the development of Strategic Partnerships, including those relating to SRB and to Health. 	<ul style="list-style-type: none"> ➤ <i>The Authority has made a positive start in establishing a Local Strategic Partnership ("LSP"). Once the district wide Community Strategy is finalised it will be important to monitor the achievement of the Strategy and to ensure there is clarity in the role of the LSP going forward.</i> ➤ <i>The Authority has adopted a new Crime and Disorder Strategy and is monitoring progress against the strategy on a quarterly basis.</i> ➤ <i>Three Rivers has played an active part in other Strategic Partnerships where it is not the lead partner.</i>

<i>Figure 7: Review of Management Arrangements issues (cont...)</i>	
Issue and scope of review	Conclusions
<p><i>Statutory Plans</i></p> <ul style="list-style-type: none"> We have reviewed the process for submitting an Asset Management Plan and for capital planning at the Authority. 	<ul style="list-style-type: none"> <i>The Asset Management Plan and Capital Strategy were submitted by the Government deadline. Overall, progress is being made on asset management, but the deadlines for resolving matters from earlier action plans have been missed in a number of cases. Further work is required to benchmark the performance of the asset portfolio and to integrate asset management with corporate planning.</i>
<p><i>e-Government</i></p> <ul style="list-style-type: none"> Assessment of progress against the pathfinder project and the milestones for electronic service delivery. 	<ul style="list-style-type: none"> <i>The Authority is making good progress towards electronic service delivery. Whilst the pathfinder project was slightly delayed, it is due to be completed by the end of the year.</i>
<p><i>Recruitment and Retention</i></p> <ul style="list-style-type: none"> Reviewing the extent to which the reasons for recruitment and retention difficulties are monitored and action taken to address issues identified. 	<ul style="list-style-type: none"> <i>The Authority has identified the reasons for the recruitment and retention difficulties and is taking appropriate action.</i>
Source: PKF	

Overall conclusion

1.11 Overall, we believe the Authority is making good progress and effectively managing initiatives.

Recommendation

Members should monitor progress in developing arrangements, particularly the risk management arrangements.

Studies

1.12 There were no national studies applicable to District authorities in 2001/02 and discussions with Officers did not identify any particular areas where a local study would have been appropriate during the period of the audit. Factors influencing this decision included a risk assessment of operations, the timing of the Authority’s Best Value Reviews of potential study areas and the Authority’s audit budget made available.

Follow up of previous years' studies

1.13 We have reviewed the general arrangements for follow-up and progress made by the Authority in implementing recommendations contained within reports issued during previous years.

Figure 8: Summary of Follow-up work	
Scope of Review	Conclusions
<ul style="list-style-type: none"> • We have reviewed the arrangements in place including the extent to which progress is monitored and the action taken where deadlines are not met. 	<ul style="list-style-type: none"> ➤ <i>The arrangements for implementing recommendations from previous reports have been improved, with reporting to the Management Board and the Resources Review Panel.</i> ➤ <i>The arrangements could be further developed by independently checking the progress in the reports and we understand that Internal Audit will do this in future.</i>
<p><i>Source: PKF</i></p>	

Performance Information

Responsibilities

1.14 We have reviewed the systems in place at the Authority for producing target indicators for the BVPP and collating and recording Best Value performance indicators. Our conclusions from our work are set out below:

Figure 11: Summary of the Performance Information work	
Scope of Review	Conclusions
<ul style="list-style-type: none"> • Consideration of systems in place for producing target indicators for the BVPP. • Review of the overall arrangements to collect and record outturn indicators. • Confirmation of significant performance variance compared to the previous year 	<ul style="list-style-type: none"> ➤ <i>The systems across the Authority for producing target indicators for the BVPP are broadly sound.</i> ➤ <i>The involvement of Internal Audit in checking indicators improved the arrangements for collecting outturn indicators, but the information initially provided to Internal Audit remained weak.</i> ➤ <i>Appropriate explanations have been provided for significant variances.</i>
<p><i>Source: PKF</i></p>	

Key Issues

BVPP work

- 1.15 In assessing the content of your BVPP, we considered the systems put in place at the Authority to collate necessary information for BVPIs and local indicators set by the Authority. The key points arising were as noted below:

Figure 10: Performance Information issues arising from the audit of the BVPP

Performance Information Systems

- The Authority made use of Internal Audit to review the performance indicators before the BVPP was finalised. Although this minimised the number of errors in the BVPP, the collection of the indicators and provision of an adequate audit trail to Internal Audit to support them was initially weak.
- Further improvement will be required to ensure that the underlying systems and processes for collecting indicators are sufficiently robust to give an accurate measure of performance throughout the year.
- There are both new and changed definitions within the indicators required for 2003 and the Authority needs to be prepared for these.

Source: PKF

Audit Commission Return

- 1.16 We provided our report and opinion on the Authority's outturn indicators in October 2002, in advance of the Audit Commission's deadline.
- 1.17 As a result of the work carried out by Internal Audit our work to provide the Audit Commission return resulted in reservations being expressed on only two indicators. One of the indicators was not produced and the other had insufficient audit trail to support it.
- 1.18 We have recommended to officers that consideration be given to quarterly reviews of performance information by Internal Audit and that the messages from the training on the adequacy of audit trail should be reinforced to all staff responsible for preparing performance information.

Recommendations

We recommend that Members monitor progress in further improving the performance information systems.

• **FINANCIAL ASPECTS OF CORPORATE GOVERNANCE**

Systems of Internal Financial Control

Scope and Conclusions

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

Figure 12: Summary of the Systems of Internal Financial Control work	
Scope of Review	Conclusions
<ul style="list-style-type: none"> • Reviewing Internal Audit arrangements, including staffing, independence, work focus and quality. • Consideration of the wider control environment within the Authority. 	<ul style="list-style-type: none"> ➤ <i>The Authority's internal financial control arrangements have strengthened with improved monitoring of progress in resolving any weaknesses identified.</i> ➤ <i>Sample checking the information used for monitoring and ensuring explanations are provided when deadlines are not met would further strengthen the arrangements.</i> ➤ <i>Some recommendations have been made on the scope and recording of Internal Audit's work.</i>
<i>Source: PKF</i>	

Internal Audit Work

1.20 Our review considered:

- the strategic operation and positioning of the Internal Audit function;
- practical reviews of the quality and scope of work undertaken; and
- compliance with best practice, as set out in CIPFA's *Code of Practice for Internal Audit in Local Government in the United Kingdom*.

1.21 We have concluded that the Authority's Internal Auditors provided adequate coverage of the Authority's systems, although some recommendations have been made on improving the scope and recording of their work, to ensure that maximum reliance can be taken by external audit. We have recently formalised our agreement with Internal Audit in the form of an audit protocol, which will further develop the 'Managed Audit' approach for the Authority.

1.22 As referred to previously, Internal Audit have begun to provide assurance on performance information systems and, with the introduction of a Controls Assurance Statement (Refer Section 6) for 2002/3, further assurance work may be required on other non-financial systems to support this statement.

Recommendations

We recommend that Members continue to monitor the scope and coverage of Internal Audit and the extent to which their recommendations are implemented.

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

Scope and Conclusions

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

Figure 13: Summary of the Financial Conduct and Fraud & Corruption work	
Scope of Review	Conclusions
<ul style="list-style-type: none"> • Reviewing the Authority’s overall financial conduct arrangements, including the adoption of a new ethical framework. • Annual fraud risk assessment, including consideration of the scope of internal audit work, and testing high risk areas • Following up on Audit Commission Fraud Warning Bulletins and submitting an annual fraud return to the Audit Commission. 	<ul style="list-style-type: none"> ➤ <i>The new ethical framework required by the Local Government Act 2000 was fully implemented in advance of the deadline.</i> ➤ <i>The arrangements to prevent and detect fraud and corruption appear satisfactory.</i> ➤ <i>The Authority now fully complies with the Verification Framework.</i> ➤ <i>The Authority has taken appropriate action on Warning Bulletins received.</i> ➤ <i>Progress is being made on implementing the action plan following the BFI visit last year.</i>
Source: PKF	

Proper Standards of Financial Conduct

1.24 Part III of the Local Government Act 2000 introduced a “new ethical framework”, which includes the establishment of a Standards Committee at each authority, a Standards Board for England and a duty for authorities to adopt a local Code of Conduct, based on a national model Code, and for Members to sign up to and comply with it.

1.25 Our review and the issues arising are detailed in figure 14 below:

Figure 14: Summary of work on Standards of Financial Conduct	
Scope of work	Key conclusion
<ul style="list-style-type: none"> • Reviewing the arrangements currently in place and the progress in adopting a new code of conduct and establishing a Standards Committee. 	<ul style="list-style-type: none"> ➤ <i>The Authority adopted the local code of conduct in advance of the statutory deadline and a Standards Committee was in place, but has been updated to comply with the new regulations.</i>
Source: PKF	

1.26 Figure 15 below details the key findings arising from our risk-based work:

Prevention and Detection of Fraud and Corruption

Figure 15: Summary of work on the Prevention and Detection of Fraud and Corruption	
Scope	Key conclusions
<ul style="list-style-type: none"> • Reviewing the progress made by the Authority in implementing the action plan arising from the Benefit Fraud Inspectorate Report. 	<ul style="list-style-type: none"> ➤ The Authority has made progress in implementing the BFI recommendations and the action plan is being monitored by the Resources Review Panel.
Source: PKF	

1.27 The deadline set by the Audit Commission for the completion of an Annual Fraud Return has been deferred and we have not yet received the return to complete. We will report on any significant matters arising from this return in next years Annual Audit Letter.

Recommendations

Members should continue to monitor the implementation of the action plan from the BFI report.

Financial Standing

Scope and Conclusions

1.28 The scope and conclusions of our work are set out below.

Figure 16: Summary of the Financial Standing work	
Scope of Review	Conclusions
<ul style="list-style-type: none"> • Assessment of the Authority's: <ul style="list-style-type: none"> • budget arrangements; • financial performance during 2001/02; and • financial position as at 31 March 2002. • Consideration of future financial prospects. 	<ul style="list-style-type: none"> ➤ Budgetary control over revenue remains sound, although budget setting has until recently been largely incremental. ➤ There has been some slippage in the current year housing capital programme. ➤ The Authority has improved collection rates for the major sources of income. ➤ Whilst the level of reserves is currently adequate, difficult decisions will need to be made to maintain a sound financial position in the medium term.
Source: PKF	

*Budget arrangements***Budget setting and control**

- 1.29 Steps are now being taken to more closely align the 2002/3 budget requirement with underlying service plans and corporate objectives. We also understand that the Medium Term Financial Plan will be reconciled to the service plans, which should enable service managers to measure the medium term affordability of their plans in future.
- 1.30 The Authority continued to operate a generally effective budgetary control system throughout the year, which was monitored by the Executive and the Review Panels. Variances arising between the budget and actual outturn are noted in the table below.

*Financial performance during 2001/02***General Fund**

Figure 17: Summary of Net Cost Outturn against Original Budget			
Area	Budget £000	Outturn £000	Variance (under) / overspend £000
Highways and Transportation	2,126	1,923	(203)
Planning and Economic Development	1,168	1,122	(46)
Leisure	2,277	2,403	126
Waste Collection and Disposal	1,476	1,641	165
Environmental Health	1,048	1,040	(8)
Other Environmental Services	130	129	(1)
Housing Services	719	13,779	13,060
Corporate and Democratic Core	1,216	1,420	204
Local Taxation Collection	559	583	24
Housing Benefits	710	861	151
Central Support and Overheads	1,010	5,459	4,449
Other Services	0	628	628
	12,440	30,988	18,558
<i>Source: PKF</i>			

- 1.31 In overall terms, the General Fund expenditure was approximately £330,000 higher than the original budget after taking account of:
- A £13.25 million cost of capital charge for HRA assets, which is now shown within net cost of services under the new resource accounting requirements. This charge is reversed below net service costs and therefore does not contribute to the overall budget requirement.
 - An additional unbudgeted payment of £4.98 million to the Authority's pension scheme to reduce the pension fund deficit.

1.32 The £330,000 variance relates primarily to:

- A decrease in capital charges of £102K within Highways and Transportation, as a result of the demolition of the Northway Car Park;
- Employment of an external consultant to assist with the preparation of an in-house bid for refuse collection and the recruitment of four additional benefits staff;
- Lower income received from Watersmeet Theatre box office of £82k; and
- An increase in demand led rent allowances of £140K.

Conclusion

1.33 The general fund variances noted above could largely not have been foreseen when the budget was set and are not indicative of weaknesses in budgetary control.

Housing Revenue Account (HRA)

Figure 18: Summary of HRA Outturn against Original Budget		
	2001/02 Budget £000	2001/02 Actual £000
Expenditure	14,036	26,712
Income	(13,587)	(13,706)
Transfers, appropriations and investment returns	(647)	(13,063)
Surplus	(198)	(57)
<i>Source: PKF</i>		

3.16 Expenditure has increased against the original budget due to the HRA consolidation adjustments relating to capital charges of £13.25 million referred to above and underspends totalling £572K, primarily in the following areas:

- Rent rebate expenditure was £117K under the original budget as a result of a lower number of claimants;
- Policy and management was £286k under budget due to a charge in the amount of time spent by staff in this area;
- The remainder of the variance is due to small underspends in community services, applications and lettings and residential repairs and maintenance.

Collection Fund

- 1.17 The Authority's collection rates have significantly improved from last year. The collection rate for council tax was 96.4% last year rising to 97.0% in the current year. The collection rate for NNDR was 95.4% last year rising to 97.7% in the current year. The authority has made good progress in this area, although further work will be required to meet the collection targets for 2002/3 set out in the BVPP.

Capital Programme

Figure 19: Summary of Capital Programme Outturn against Revised Budget		
Area	2001/02 Revised Budget £000	2001/02 Actual Outturn £000
General Fund	13,449	11,452
Housing Revenue Account	2,190	1,727
Total	15,639	13,179
<i>Source: PKF</i>		

- 1.18 The main explanations for the variances against the revised budget relate to:
- Slippage of the Pathfinder programme into 2002/03 of £536k, due to a delay in funding which therefore impacted capital spend;
 - SHG Highlands – the early payment of the social housing grant (SHG) funded from the SHG allocated to this scheme. This amounted to £326k;
 - An underspend of £1.2m as a result of staff shortages in the surveyors section combined with adverse weather conditions;
 - A new golf course depot costing £197k was built for the ground maintenance contract which was not included in original budget; and
 - A cycle track and parking bay underspend (£493K) due to delayed funding from the county council fund.

- 1.19 In the HRA there were no delays in significant projects, but many small projects slipped.

- 1.20 In October 2002 the latest capital budget for 2002/03 was £14.0 million, of which £5.8 million has been committed by the middle of the financial year. Within the overall capital programme only 25% of the £4.5 million earmarked for the housing programme had been committed. We understand that the reasons for the delay relate to slippage in the programme from the previous year, which caused delays in the commencement of preparatory work for the current year. In addition, following the initial surveys during the early design stage, some of the larger schemes were identified as requiring additional funding, for which Council approval is required. By December, however, committed housing expenditure had increased to 50% of the approved programme. Of the remaining uncommitted budget, the majority relates to six large schemes,

which are at various stages in the pre-contract process and we are informed that all of these schemes should be committed and on site before the year end.

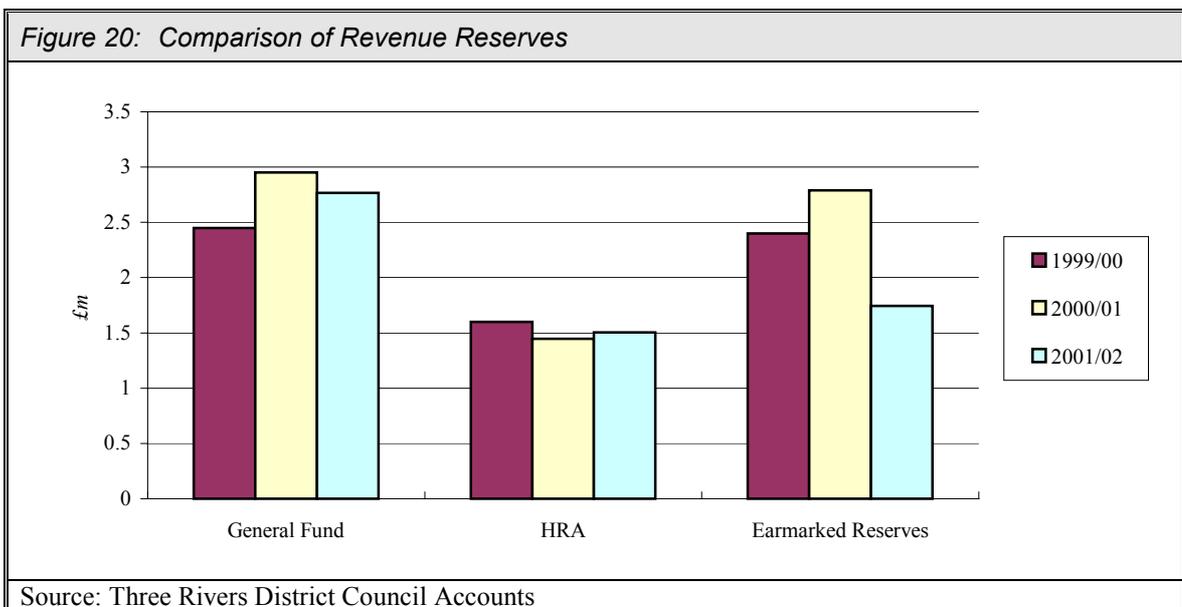
Recommendations

- 3.21 *Members should continue to monitor progress on the capital programme, particularly the housing programme. We recommend that capital budgets should only include projects where the Authority has sufficient capacity to manage and deliver the projects in the year budgeted.*

Financial position as at 31 March 2002

Reserves and Balances

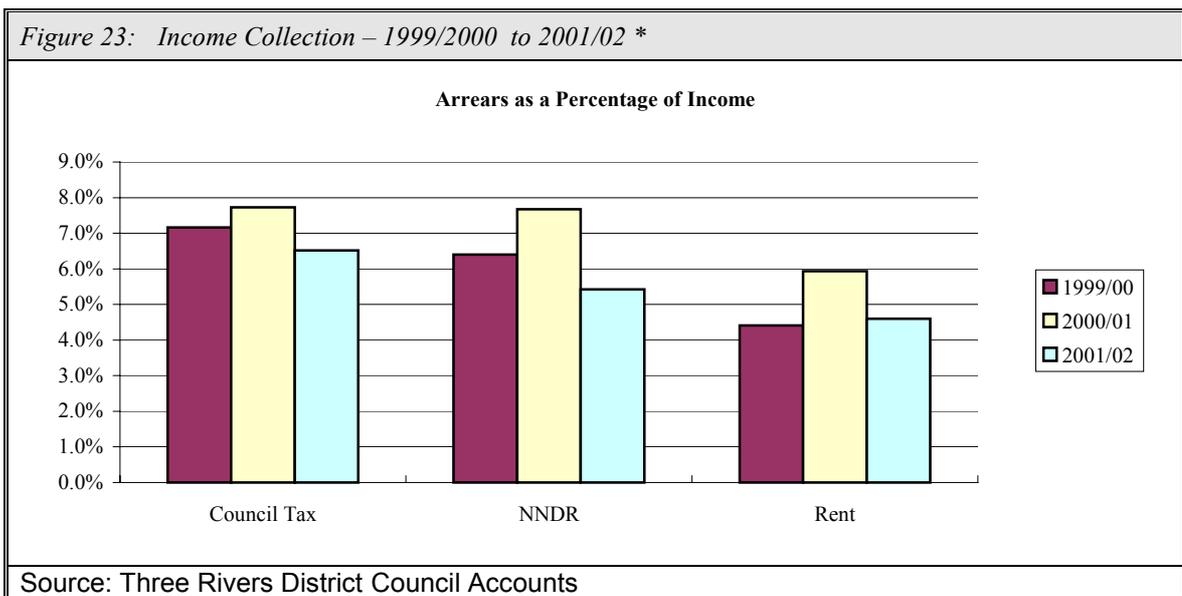
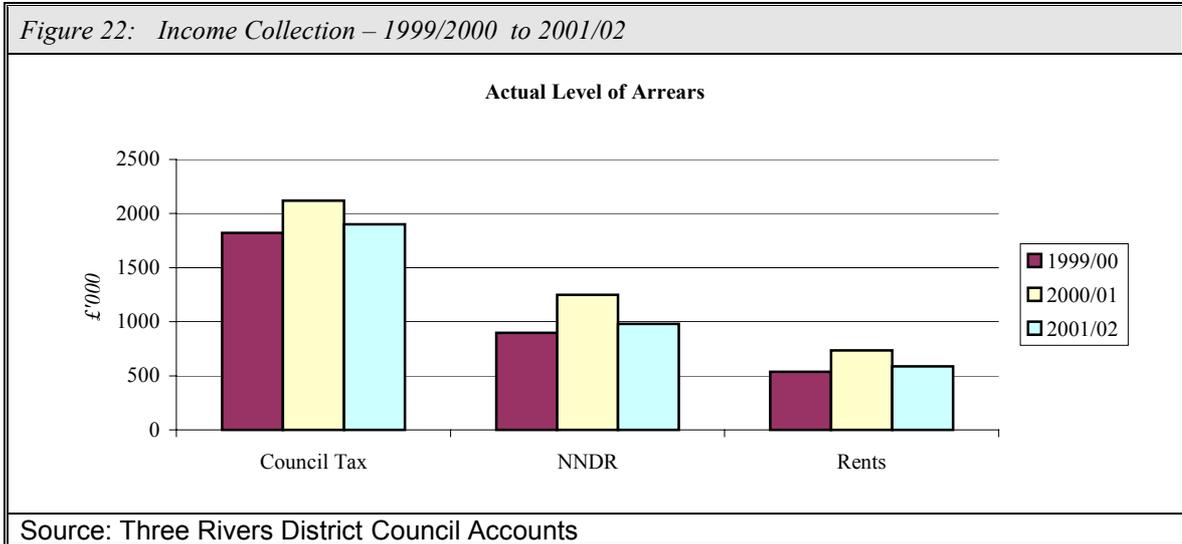
- 1.22 At the end of 2001/02 the Authority held revenue reserves of approximately £6m (2000/01 £7.14m) excluding the Collection Fund. We have reviewed the levels of reserves and balances maintained by the Authority, as shown below:



- 1.23 The balances for the General Fund and HRA have remained at a similar level to previous years. The level of earmarked reserves has fallen, primarily as a result of a major capital project nearing completion.
- 1.24 Whilst the Authority had adequate reserves and balances at the end of March 2002, the overall reduction in balances demonstrates that this position may not be sustainable in the medium term.

Arrears

- 1.25 We have reviewed the arrears and results of income collection across the Authority to assess the impact of these on the Authority’s finances. These are summarised overleaf:



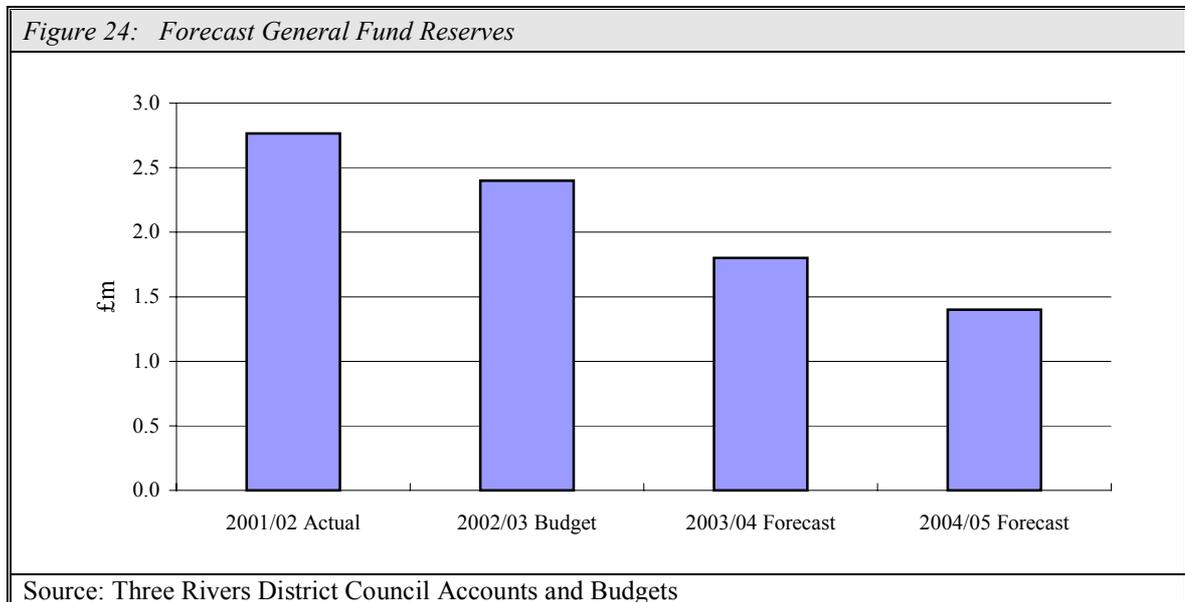
* Total arrears as a percentage of current year income.

1.26 The collection of debt has improved across all income categories and we understand that collection rates in 2002/03 reflect a further improvement in performance.

Prospects for 2002/3 and future years

1.27 The 2002/3 budget was set to achieve net operating expenditure of £12.89 million, as compared to £11.16 million for 2001/2. The latest forecast indicates that net operating expenditure will be approximately £200,000 higher than the original budget, reflecting reduced income from parking enforcement, higher costs for Watersmeet Theatre and increased maintenance on vacant houses. At this level it is anticipated that the Authority will use £391,000 of General Fund reserves by the end of the year.

1.28 The Authority currently anticipates that its reserves will reduce over the next few years as illustrated overleaf:



1.29 The above table is derived from the medium term financial plan. This plan predicts that council tax would need to increase by 8.9% per annum to enable the Authority to retain reserves and balances at £1.4 million by 2005.

1.30 We understand that the medium term plan is currently being reconciled to service plans to enable managers to compare the cost of their core service plans with the resources likely to be available. When this exercise is completed, the underlying sustainability of the capital and revenue budgets can be fully assessed. However, it is likely that difficult decisions will be required to ensure that the limited resources available are focused on the corporate priority areas in future.

Recommendations

Members should monitor the Authority’s progress in establishing the base budget requirement necessary to achieve the key corporate priorities. This will assist Members in making the difficult decisions that will be required to allocate the limited resource available, whilst not jeopardising performance in key areas.

Legality of Financial Transactions

Scope and Conclusions

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

Figure 25: Summary of the Legality work	
Scope of Review	Conclusions
<ul style="list-style-type: none"> • Review of overall monitoring arrangements. 	<ul style="list-style-type: none"> ➤ <i>Our work has identified no significant weakness in the Authority's arrangements for ensuring the legality of financial transactions.</i>
<ul style="list-style-type: none"> • Consideration of specific issues raised by the Audit Commission and key new legislation. 	<ul style="list-style-type: none"> ➤ <i>Steps are being taken to respond to new legislation e.g. the authority has undertaken training on the Human Rights Act.</i>
<ul style="list-style-type: none"> • Consideration of specific queries raised by the Authority relating to actions being considered. 	
<ul style="list-style-type: none"> • Addressing questions and objections from electors. 	<ul style="list-style-type: none"> ➤ <i>There were no objections from electors.</i>
<i>Source: PKF</i>	

Key issues

Review of the Constitution

1.32 A new model constitution was adopted last year in line with the requirements of the Local Government Act 2000. The authority is currently undertaking a review of the constitution, which will include looking at the effectiveness of the arrangements for scrutiny and call-in of decisions.

Questions and objections

1.33 The Day of Public Rights took place on 26th September, at which there were no formal objections received from members of the public in connection with the Authority's accounts. Once we have signed the audit report in the Statement of Accounts we will be in a position to issue our Audit Certificate and formally close the audit.

• **ACCOUNTS**

Scope and Conclusions

1.34 The scope and conclusions of our work on the Accounts for the year ended 31 March 2002 are set out below:

Figure 23: Summary of the Accounts work	
Scope of Review	Conclusions
<ul style="list-style-type: none"> • Risk-based assessment of control environment and of key controls in place over core financial systems to determine their reliability as sources of financial information. • Reviewing closedown and accounts preparation arrangements, including consideration of new accounting standards. • Reviewing disclosures within the accounts. • Completing analytical review and testing of balances. 	<ul style="list-style-type: none"> ➤ <i>We anticipate issuing an unqualified opinion on the 2001/02 Statement of Accounts.</i> ➤ <i>We consider that the core financial systems provide reliable information for preparing the accounts.</i> ➤ <i>The working papers supporting the Accounts were generally good, although some presentational changes were made to the Accounts during the audit.</i>
<i>Source: PKF</i>	

Key Issues

Reliance on core financial systems

1.35 To arrive at our opinion on the Statement of Accounts we have assessed whether the core systems are operating soundly, where possible, placing reliance on Internal Audit’s work. We have concluded that the core financial systems can be relied upon as a basis for preparation of the Statement of Accounts.

Accounts Preparation

1.36 The Statement of Accounts was produced and presented for approval by Members prior to the 30 September deadline. The accounts and working papers presented to us for audit were generally good, although some presentational amendments were made to the notes to the Accounts during the audit, after Members approval. No material adjustments were made to the Accounts and, subject to checking some final confirmations, we anticipate issuing an unqualified opinion on the Accounts.

1.37 Under Statement of Auditing Standard 610, which will be fully effective for the 2002/3 audit, we will be required to report to Members any significant issues from our work, including adjusted and unadjusted errors arising, prior to signing the audit report. Within Appendix B to this Letter we have included a note of the unadjusted differences identified during our audit of the 2001/2002 accounts.

Accounting Requirements

1.38 The main accounting changes required by 2001 SORP were the disclosure of additional information on retirement benefits under Financial Reporting Standard 17 and the introduction of resource accounting within the HRA.

- 1.39 The information required under FRS17 was obtained from the administering authority in time for the approval of the accounts.
- 1.40 In line with HRA resource accounting the authority had made the necessary adjustments to the Housing Revenue Account and correctly consolidated the HRA into the Consolidated Revenue Account.
- 1.41 The changes currently proposed to the Accounts and Audit regulations will require authorities to speed up the production of their accounts over a period of time, to enable the accounts to be approved by 30th June by the year ended 31 March 2006. This will require a significant change in the current close down process at Three Rivers to enable this deadline to be met.

Recommendations

Members should monitor the steps being taken to achieve a quicker close down timetable in anticipation of the new Accounts and Audit Regulations due to be implemented in 2003.

• **GRANT CLAIMS**

Scope and Conclusions

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

Figure 24: Summary of Grants work	
Scope of Review	Conclusions
<ul style="list-style-type: none"> • <i>Review of arrangements for preparation and submission of grant claims.</i> • <i>Risk assessment for each separate claim or return.</i> • <i>Audit in accordance with Audit Commission certification instructions</i> 	<ul style="list-style-type: none"> ➤ <i>The arrangements for completing grant claims are soundly based.</i> ➤ <i>No issues have arisen in the course of our work to date, or on claims that were completed after last year's Annual Audit Letter.</i>
<i>Source: PKF</i>	

1.43 From our review of the preparations and the grant claims reviewed so far, we are satisfied that the Authority is approaching this in an appropriate way and there are no significant issues that we wish to bring to your attention.

• ISSUES FOR 2002/03 AUDIT

Introduction

1.44 We will shortly be producing a draft Outline Audit Plan detailing our proposed work at the Authority in 2002/03. The following are some of the key issues, which we shall address during the audit.

Comprehensive Performance Assessment (CPA)

1.45 In October 2002 the Audit Commission published a consultation document on the proposed approach to Comprehensive Performance Assessment for district councils. The suggested approach is that the assessment will review:

- The Council's **capacity to deliver** services and improvements for local people, by examining the impact of the Council in delivering cross cutting initiatives and other external priorities that sit outside traditional service boundaries; and
- The Council's **current performance** in housing, the environment and benefits, as well as the management of resources, using inspection judgements, performance indicators, plan assessments and auditors judgements.

6.3 The consultation paper proposes that the Council's capacity will be determined by a process which will include self-assessment and external challenge from a peer challenge review. Two new cross cutting inspections are also proposed to look at strategic housing and planning delivery and the management of public space.

6.4 Auditors will be asked to contribute to providing judgements on the financial aspects of corporate governance and to assist the Audit Commission in improvement planning and developing a co-ordinated audit plan for the Authority, once the CPA assessments have been finalised. The intention is that, for good and excellent Authorities, the level of inspection work and audit work on use of resources should decrease from March 2004, as the improvement planning process should focus on the areas of risk.

6.5 As Three Rivers has already undertaken a self-assessment using the Upper Tier authority criteria and has also recently undertaken a peer review by IDEA, the Authority should be well placed to meet the challenges imposed by CPA. In addition to providing input to the CPA process in terms of auditor scored judgements, we will review the Authority's response to the IDEA report findings. Whilst there was not an agreed CPA framework for peer challenge when the recent IDEA review was undertaken, it should provide a good starting point for assessing the areas of priority for future improvement planning.

Corporate Governance

6.6 The 2002/3 SORP introduced the requirement for a statement on the system of internal financial control ("SSIFC") to be made in an Authority's accounts with effect from the financial year ending 31 March 2003. The statement should include the following information:

- An acknowledgement of responsibility for internal financial control;

- An indication of the level of assurance that a system of internal financial control can provide;
- A brief description of the main features of the system of internal financial control;
- A brief description of the role of internal audit and its management and reporting arrangements;
- Details of any other reviews informing the assessment of the effectiveness and operation of internal financial control undertaken during the year; and
- A concise explanation of any identified weaknesses in the system of internal financial control, together with actions undertaken or planned to address these.

- 6.7 The SORP specifies that the Responsible Financial Officer should sign the statement, as a minimum.
- 6.8 Authorities have been allowed discretion to publish a wider-ranging statement on internal control (beyond financial controls) and a statement on the adoption of a local code of corporate governance. The proposed changes to the Accounts & Audit regulations also introduce a requirement for an annual review of the effectiveness of the system of internal control and the publication of a statement on the adequacy of internal control with the accounts.
- 6.9 We will continue to monitor progress in the adoption of a local Corporate Governance Code, which will form part of the assessment for CPA. We will also review the processes and evidence in place to support any statement made on internal control in the Authority's accounts.
- 6.10 From the work we have undertaken in the current year, we consider that the development of authority-wide risk management arrangements will be the key area to focus on in achieving compliance with the Corporate Governance Code.

Accounts and Audit Regulations

- 6.11 As noted above, the ODPM is currently consulting on some proposed changes to the Accounts and Audit regulations which are expected to come into force with effect from 1 April 2003. A key element of the proposed changes is a requirement for Authorities to speed up their timetable for closing their annual accounts over a transitional period, to enable accounts to be approved by Members three months after the end of the financial year by March 2006.
- 6.12 Whilst no changes are proposed for the 2003 close down, the acceleration in the timetable for future years will require the accounts preparation process to be significantly re-engineered. We will be discussing with the Authority ways in which the process can be changed for 2003 to enable the accounts and audit to be completed earlier next year.

Reporting to those Charged with Governance ("SAS 610")

- 6.13 The introduction of Statement of Auditing Standard 610 next year will require auditors to report to Members on significant matters arising from their audit of the accounts, before signing their audit report. The practicalities of this requirement will need to be considered in the light of any acceleration of the close down and audit timetable.

E - Government

- 6.14 We will continue to monitor progress towards achieving the government's 2005 targets and the achievement of milestones on the pathfinder programme.

Use of Resources studies

- 6.15 Although there are no national studies applicable to district councils, as part of our risk-based approach there remains scope to undertake locally determined studies on any key issues identified.
- 6.16 We would welcome comments from Members and Officers on any areas that may add value.

Appendix A

BVPP Certificate

BVPP Action Plan

**Auditor's Report to Three Rivers District Council on its
Best Value Performance Plan for the Year Ended 31 March 2002**

Certificate

We certify that we have audited Three Rivers District Council's best value performance plan in accordance with section 7 of the Local Government Act 1999 and the Audit Commission's Code of Audit Practice. We also had regard to supplementary guidance issued by the Audit Commission.

Respective Responsibilities of the Council and the Auditors

Under the Local Government Act 1999 (the Act) the Council is required to prepare and publish a best value performance plan summarising the Council's assessments of its performance and position in relation to its statutory duty to make arrangements to secure continuous improvement to the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness.

The Council is responsible for the preparation of the plan and for the information and assessments set out within it. The Council is also responsible for establishing appropriate performance management and internal control systems from which the information and assessments in its plan are derived. The form and content of the best value performance plan are prescribed in section 6 of the Act and statutory guidance issued by the Government.

As the Council's auditors, we are required under section 7 of the Act to carry out an audit of the best value performance plan, to certify that we have done so, and:

- to report whether we believe that the plan has been prepared and published in accordance with statutory requirements set out in section 6 of the Act and statutory guidance and, where appropriate, recommending how the plan should be amended so as to accord with statutory requirements;
- to recommend:
 - where appropriate, procedures to be followed in relation to the plan;
 - whether the Audit Commission should carry out a best value inspection of the Council under section 10 of the Local Government Act 1999;
 - whether the Secretary of State should give a direction under section 15 of the Local Government Act 1999.

Opinion*Basis of this opinion*

For the purpose of forming our opinion whether the plan was prepared and published in accordance with the legislation and statutory guidance, we conducted our audit in accordance with the Audit Commission's Code of Audit Practice. In carrying out our audit work we also had regard to supplementary guidance issued by the Audit Commission.

We planned and performed our work so as to obtain all the information and explanations which we considered necessary in order to provide an opinion on whether the plan has been prepared and published in accordance with statutory requirements.

In giving our opinion we are not required to form a view on the completeness or accuracy of the information or the realism and achievability of the assessments published by the Council. Our work therefore comprised a review and assessment of the plan and, where appropriate, examination on a test basis of relevant evidence, sufficient to satisfy ourselves that the plan includes those matters prescribed in legislation and statutory guidance and that the arrangements for publishing the plan complied with the requirements of the legislation and statutory guidance.

Where we have qualified our audit opinion on the plan we are required to recommend how the plan should be amended so as to comply in all significant respects with the legislation and statutory guidance.

Opinion

In our opinion, Three Rivers District Council has prepared and published its best value performance plan in all significant respects in accordance with section 6 of the Local Government Act 1999 and statutory guidance issued by the Government.

Recommendations on referral to the Audit Commission/ Secretary of State

We are required each year to recommend whether, on the basis of our audit work, the Audit Commission should carry out a best value inspection of the Council or whether the Secretary of State should give a direction.

On the basis of our work:

- We do not recommend that the Audit Commission should carry out a best value inspection of Three Rivers District Council under section 10 of the Local Government Act 1999;
- We do not recommend that the Secretary of State should give a direction under section 15 of the Local Government Act 1999.

PKF
London
December 2002

Three Rivers District Council**Unadjusted Differences in the 2002 Accounts****Appendix B**

1. Four properties (stents) were disposed of in the period. The dwellings were not removed from the fixed asset register and therefore their value of £123,120 remains in the accounts at the year end.
2. Automatic creditors have been included in the accounts net of VAT, resulting in debtors and creditors being understated by £129,850.
3. As confirmed by the DETR the MRA is considered a reasonable approximation for depreciation of the Authority's Council Dwellings where the difference from the accounting policy of the Authority is not material. In 2001/2 the depreciation in line with the accounting policy was £2.54m with the MRA being £2.4m. The difference is not material and the MRA was therefore used as the depreciation figure for Council Dwellings in the year, however the cumulative difference may be material in future years.

Three Rivers are in dispute with HM Customs and Excise over the treatment of capital expenditure at the South Oxhey centre. In the worst case this could result in an additional VAT liability of approximately £265,000 at the