

March 2006

# Annual Audit and Inspection Letter

**Wyre Forest District Council**

External audit is an essential element in the process of accountability for public money and makes an important contribution to the stewardship of public resources and the corporate governance of public services.

Audit in the public sector is underpinned by three fundamental principles:

- auditors are appointed independently from the bodies being audited;
- the scope of auditors' work is extended to cover not only the audit of financial statements but also value for money and the conduct of public business; and
- auditors may report aspects of their work widely to the public and other key stakeholders.

The duties and powers of auditors appointed by the Audit Commission are set out in the Audit Commission Act 1998 and the Local Government Act 1999 and the Commission's statutory Code of Audit Practice. Under the Code of Audit Practice, appointed auditors are also required to comply with the current professional standards issued by the independent Auditing Practices Board.

Appointed auditors act quite separately from the Commission and in meeting their statutory responsibilities are required to exercise their professional judgement independently of both the Commission and the audited body.

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The Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission explains the respective responsibilities of auditors and of the audited body. Reports prepared by appointed auditors are addressed to members or officers. They are prepared for the sole use of the audited body. Auditors accept no responsibility to:

- any member or officer in their individual capacity; or
- any third party.

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## Key messages

### The purpose of this letter

- 1 This Annual Audit and Inspection Letter (AAIL) for Members is presented by Wyre Forest District Council's ('The Council's') Relationship Manager, Liz Cave of the Audit Commission and Jon Gorrie, the Appointed Auditor, KPMG LLP ('KPMG'). The letter summarises the conclusions and significant issues arising from the 2004/05 audit plan and inspection programme.
- 2 Both the Audit Commission and KPMG have issued separate reports during the year having completed specific aspects of the audit and inspection programme. These reports are listed at Appendix 2 for information.
- 3 Auditor's responsibilities are summarised in the Audit Commission's statement of key responsibilities of auditors. The responsibilities of Audit Commission Inspectors are detailed in section 10 of the Local Government Act 1999. The contents of this Letter should be viewed in the context of that more formal background.
- 4 In order to expedite the timeliness of reporting its audit findings for 2004/05, KPMG has produced an Interim Memorandum in August 2005 and a Final Accounts Memorandum in November 2005. KPMG has not included in this report the detailed findings from those reports but has included the summaries and conclusions.

### Council performance

- 5 Last year we assessed the Council as 'Fair' in the Corporate Performance Assessment. The Council drew up a comprehensive three year plan to tackle the issues raised in our assessment ('the Improvement Plan') We have recently assessed the Council's progress since then ('the Direction of Travel') under two themes, evidence of the Council improving outcomes and progress against the Council's improvement plan.
- 6 The Council is making improvements in a range of service areas, particularly where these have been designated as Key Commitments. Fifty four per cent of performance indicators improved in 2004/05. There has been considerable investment in services with below average performance, such as street cleaning and recycling, and significant longer term regeneration projects are in progress. Although the Council has reduced the number of its priorities, there are still some improvement projects that are not on track. Despite the Council's efforts to increase capacity through partnerships, shared services and external funding, it is unlikely that these projects will meet their targets for this year: priorities and deliverability are to be reassessed at the end of 2005/06.

## The accounts

- 7 The Council produced its financial statements within the statutory deadline and KPMG issued an unqualified opinion on 26 October 2005.

## Financial position

- 8 The Council recognises the importance of establishing clear long term priorities in order that resources can be better directed. The ongoing management of its financial position through its Medium Term Financial Strategy is a key element in ensuring the successful delivery of the Council's aims and objectives.
- 9 The Council has a satisfactory level of financial and non-financial assets in which 38 per cent of the Council's total assets are cash-equivalents. At the financial year end 31 March 2005, the Council had £40 million of liabilities. The increase in liabilities is mostly due to an increase in pension liabilities of £11 million.

## Other accounts and governance issues

- 10 In this report, KPMG summarises its work in relation to the Council's systems of internal control, financial conduct, and its arrangements for legality and fraud and corruption.
- 11 The overall conclusion was that good arrangements are in place in these areas.

## Action needed by the Council

- 12 Whilst the Council has made progress in implementing risk management there are significant areas for further development at both the strategic and operational level. The work carried out by KPMG during its interim review and as part of the Use of Resources judgement identified a series of recommendations to refine the process, including the adoption of an assurance framework to enhance the systems of internal control. For the Council to further improve a number of recommendations have been made in this report. In addition an overview of actions for the Council to consider in order improving its financial reporting, financial management, financial standing, internal control and value for money is included at appendix 4.

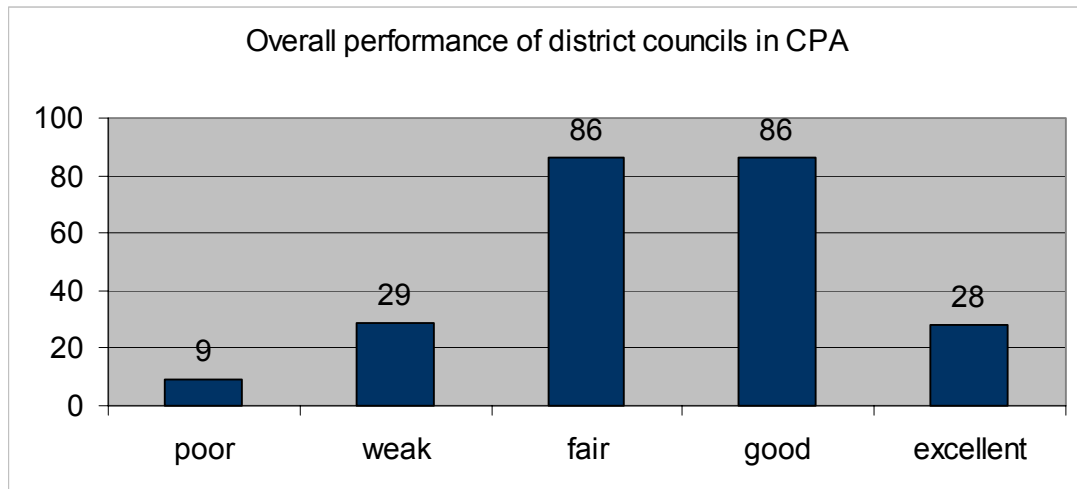
## Council performance

### Direction of travel report

- 13 The Council was assessed as Fair in the Comprehensive Performance Assessment carried out in 2004. These assessments have now been completed in all district councils with the following results.

#### Figure 1 Overall performance of district councils in CPA

Three times as many district councils are rated Good or Excellent than Poor or Weak



Source: Audit Commission

- 14 Since the assessment, the Council has identified its priorities for improvement and the Audit Commission and KPMG have been working with the Council as it seeks to improve further.
- 15 Last year we assessed the Council as 'Fair' in the Corporate Performance Assessment. The Council drew up a comprehensive three year plan to tackle the issues raised in our assessment ('the Improvement Plan') We have recently assessed the Council's progress since then ('the Direction of Travel') under two themes, evidence of the Council improving outcomes and progress against the Council's improvement plan.

- 16 The Council is making improvements in a range of service areas, particularly where these have been designated as Key Commitments. 54 per cent of performance indicators improved in 2004/05. There has been considerable investment in services with below average performance, such as street cleaning and recycling, and significant longer term regeneration projects are in progress. Although the Council has reduced the number of its priorities, there are still some improvement projects that are not on track. Despite the Council's efforts to increase capacity through partnerships, shared services and external funding, it is unlikely that these projects will meet their targets for this year: priorities and deliverability are to be reassessed at the end of 2005/06.

## Evidence of the Council improving outcomes

- 17 Service improvement as reflected in the 2004/05 PIs (Performance Indicators) is slightly above average. 54 per cent of PIs have improved. The Council's overall performance in its main services shows 58 per cent of PIs are above average
- 18 (31 per in the best quartile) and 42 per cent below average. For individual services performance is mixed, but improvements are being made in priority areas:

### Environment and economic regeneration

- 19 This is a Key Commitment for the Council this year.
- In **Environment**, 4 out of 7 2004/05 PIs were below average with the worst indicators related to recycling and to 2003/04 satisfaction levels. Targets have been set to tackle waste management and cleanliness. The Council's own monitoring reports are showing good improvements such as 91 per cent kerbside recycling achieved. Recent internal focus groups indicate improved customer satisfaction. Progress in these areas will be assessed in our forthcoming environment inspection.
  - A number of significant medium and long term **Economic regeneration** projects are underway to stimulate the economies of Kidderminster, Stourport and Bewdley and to develop tourism opportunities. These projects are on track but at too early a stage to assess outcomes.

### Culture and leisure

- 20 This is a problem area for the Council with low satisfaction levels and high costs. 4 out of 5 PIs were below average in 2004/05. Leisure services have now been outsourced saving the Council £500,000 per annum. The Council's own PIs up to December 2005 are also showing that the number of museum visitors has trebled due to a free admission policy that has also increased overall income. The development of a cinema for Kidderminster to revitalise the leisure economy is a Key Commitment for this year and this project is still on track.



### **Community housing**

- 21 The Council is working well with its RSLs to increase the affordable housing stock.

### **Planning**

- 22 Five out of eight comparable PIs were above average in 2004/05 and satisfaction with the service was in the best quartile. However, the speed of processing major applications and the percentage of successful appeals are both showing a sharp drop in performance. The Council's own PI reports for this year show them as areas for attention and a recovery plan is to be reported to Cabinet on 27 April 2006.

### **Capacity - electronic delivery**

- 23 Electronic delivery of services was in the lowest quartile. For this year, development of the Worcestershire Hub is a Key Commitment both to improve electronic delivery and customer service, and also to increase capacity by working in partnership with other local authorities. Most of these e-government projects are on target and the provision of services electronically has now increased from 73 per cent in March 2005 to 98 per cent in December 2005.

### **Employees**

- 24 PIs related to Human Resources showed a mixed picture in 2004/05 with 4 above average and 3 below. Adoption of a new Sickness Absence Policy has shown a reduction of 0.85 days absence per person. The percentage of disabled staff and the number of ethnic staff who are top earners are both shown as below 80 per cent of target on the Council's latest PIs.

### **Costs of services**

- 25 Value for Money is one of the Council's five improvement themes. The recent Use of Resources (UoR) audit found that the costs of key services are generally in line with other councils. Invoice and revenue PIs are already in the best quartile and improving. The Benefits Fraud Inspectorate rated the Council's benefits service as 'fair' in 2004; since then UoR found that investment has significantly improved performance. The recovery of overpaid benefit was in the worst quartile in 2004/05 but the latest internal PIs indicate this is now above target and improving.

### **Evidence of progress against the CPA Improvement Plan**

- 26 The Council has reduced the number of annual improvement priorities from 17 at the time of the Comprehensive Performance Assessment to 5 Key Commitments for 2005/06. There are now five main improvement themes underpinned by 26 separate projects which include the Key Commitments.

- 27 The three year plan includes 26 improvement projects. The delivery of these projects is variable. There is evidence from Council monitoring reports that not all improvement projects are on track. Progress is being made on the 5 Key Commitments although this is slower than anticipated on some projects, and 8 of the 26 projects are complete. However, a number of projects have made little headway, due mainly to lack of capacity. Progress is summarised below under the five main improvement themes.

#### **Social inclusion**

- 28 There has been limited progress on the projects under this improvement theme. The Council has met its target of developing a policy on Safeguarding Children and its project to increase the number of affordable homes is progressing. However, it has not developed a strategy for social inclusion nor has it improved its diversity and equality arrangements. Plans to recruit a 'shared' officer to lead on equal opportunities have, so far, met with no success.

#### **Performance management**

- 29 This is improving incrementally. Progress against the five 'Key Commitments is reported monthly and quarterly updates on all improvement projects are provided, although these do not always clearly show if a project is on target. Implementation of the new CoValent Performance Management system began in 2005 and is starting to be used by all divisions and for PI reporting. However, more work is to be carried out to ensure the new system is consistently used and linked to service planning and risk management before its full effect on service delivery can be assessed.

#### **Capacity**

- 30 Lack of capacity is an issue that adversely affects many of the Council's improvement projects. Solutions are being sought through capacity building initiatives with neighbouring authorities (e.g. Worcestershire Hub), seeking external funding and through partnerships. Progress has been made in reviewing the cost and contribution of current partnerships and a proposal for rationalisation was adopted in March 2006. Targets for this year to develop a Workforce Development Strategy, and to implement and monitor the HR Strategy and Sickness Absence policy have been met. The Key Commitment to move to a single site is progressing, and an agent has been appointed to produce a business plan by early May 2006. Plans for increasing capacity and improving consistency in project management are still at an early stage.

### Value for Money (VFM)

- 31 The Use of Resources audit found that the Council manages its costs, but there are areas where it does not demonstrate value for money (e.g. street cleansing). The target to agree a VFM policy was met in November 2005: once the policy is implemented, the achievement of value for money will be regularly assessed. Annual efficiency statements have been completed by due dates. To achieve improvements in procurement the Council has been working with other local districts and the County Council; some savings are being made and more are anticipated. Use of Resources identified a number of weaknesses in risk management: lack of capacity has meant little improvement has been achieved so far.

### Communication

- 32 The Worcestershire Hub and e-government are the main priorities under this improvement theme. Most of the e-government projects are on target. A customer service and branding strategy is also in development and the targets for improving consultation processes have been met. Competing priorities have meant that the adoption of communication strategies has been delayed.

#### **Recommendation 1: CPA Improvement Plan**

The Council should review its CPA improvement plan and re-prioritise its actions to set deliverable targets for year 2.

## Other performance work

### Best Value Performance Plan (BVPP)

- 33 Under the Local Government Act 1999, the Council is responsible for the preparation of a BVPP and for the information and assessments set out within it. KPMG is required under Section 7 of the Act to carry out an audit of the BVPP focusing upon the following two areas:
- compliance: assessing whether the BVPP complies with the requirements of the legislation and other associated orders or guidance; and
  - performance information: assessing the systems in place for preparing performance information.
- 34 KPMG's review of the BVPP concluded that the document was accessible, user friendly and complies with statutory requirements. There were no statutory recommendations to which the Council must formally respond. KPMG issued an unqualified opinion on the BVPP on 17 December 2005.

### Best Value Performance Indicators (BVPis)

- 35 KPMG is required to review the adequacy of the Council's systems for collecting, recording and publishing performance information. Performance information is collected over the whole range of the Council's services and the resultant indicators are published in the Best Value Performance Plan.

- 36 For 2004/05, KPMG adopted a risk based approach to the audit of the Council's performance information. In essence this entailed applying an overall understanding of the Council's compilation process to determine the key risk areas. The key factors taken into consideration when determining the level of risk for each performance indicator were as follows:
- indicators specified by the Audit Commission as high risk;
  - new or changed indicator definitions; and
  - values which differ from the previous year.
- 37 Following the audit of the outturn of the Best Value and Audit Commission performance indicators, KPMG LLP issued an unqualified opinion in October 2005.

### **Performance Management Framework**

- 38 The term 'performance management' is often defined in different ways. Performance management is ultimately about ensuring the delivery of high quality and appropriate services for service users and communities. This in turn will meet the Government's requirement as part of the Best Value legislation to continuously improve services.
- 39 The CPA inspection report issued by the Audit Commission in September 2004 identified a number of weaknesses with the Council's performance management arrangements, including:
- lack of in-house project management capacity to deliver on plans;
  - limited reporting of performance at corporate level;
  - action to tackle areas of poor performance is inconsistent; and
  - some priority areas do not have a strategy to pull together all frontline activity into a planned, long term direction.
- 40 The Council subsequently produced an Improvement Plan 2005/08 which included Performance Management as an 'Improvement theme' setting out improvement projects; strategic outcomes and targets for the year end.
- 41 A number of actions have been taken by the Council to improve their performance management arrangements including: the introduction of Covalent performance management software on 1st April 2005 and a new Performance Management Framework (PMF) presented to Cabinet on 28 July 2005.
- 42 During year KPMG performed a detailed review of the Council's performance management framework and issued a report during November 2005. The report made a number of recommendations to further improve and develop the framework.

**43** The key findings of KPMG's review are:

- the Council is moving in the right direction, for example the 'golden thread' is largely in place to cascade the top level priorities and objectives of the Council down to a service and individual level and new software is being rolled out to support the approach. However there remain inconsistencies in arrangements between divisions which means that the 'thread' is stronger in some areas than others highlighting the opportunities for divisions to share learning to support each other;
- Other important areas for the Council to develop going forward include:
  - ensuring the performance management framework maintains a focus on what is most important through clear prioritisation;
  - strong follow up arrangements;
  - linking performance and financial information effectively so that value for money in service delivery can be reviewed and challenged;
  - ensuring that performance management within Divisions is undertaken consistently, and opportunities for the sharing of good practice are maximised; and
  - participation in partnerships should be focussed in order to achieve the Council's priorities.

***Recommendation 2: Performance Management Framework***

The Council should monitor its progress against the recommendations made in KPMG's report on the Council's Performance Management Framework and establish whether the recommendations are being addressed within the originally envisaged timescale. The Council should take actions as appropriate to ensure the objectives of improving the Performance Management Framework are achieved, for example by allocating individual Officers the responsibility of implementing recommendations.

**Partnership Arrangements**

- 44** The Council continues to develop its partnership arrangements and works closely with a number of neighbouring authorities. Working in collaboration with other organisations is a vital part of meeting key targets and demonstrating that resources are used effectively to secure value for money.
- 45** Whilst partnerships can deliver significant benefits, they can also produce considerable challenges. The rise in the number of partnerships within public bodies has increased and this has led to greater complexity which has been managed under the umbrella of the Local Strategic Partnership (LSP). LSPs are now taking on new roles and the focus is now on Local Area Agreements (LAAs). LAA's are a new way of working to build a more flexible and responsive relationship between central government and a geographic locality to deliver priority outcomes that need to be achieved at a local level.

- 46 Accountability and effective governance of partnerships is required in order that they can demonstrate satisfactory outputs that are sustainable. It is now appropriate that the Council take a more critical approach to their participation in partnerships, to review how well these work and to ask whether they all provide value for money.

***Recommendation 3: Partnership Working***

The Council should consider reviewing its partnership arrangement to ensure there is a strong framework of accountability and corporate governance that is based on clear leadership, a culture of scrutiny and challenge and a focus on user's views and experiences. Together, these factors should positively influence the shape and delivery of the Council's strategic priorities.

## Accounts and governance

- 47 KPMG issued an unqualified audit opinion on the Council's 2004/05 Statement of Accounts. The Council's overall corporate governance arrangements remained adequate in the key areas.

### Audit of 2004/05 accounts

- 48 The published accounts are an essential means by which the Council discharges its stewardship of the public funds at its disposal and its financial performance in the use of those resources.
- 49 The 2004/05 Statement of Accounts was approved by Members before the statutory deadline of 31 July 2005 which allowed KPMG's audit of the accounts to take place during August/September 2005 with an unqualified opinion issued on 26 October 2005.
- 50 The timeliness in producing the accounts will become increasingly important next year as the deadline for completion of the accounts continues to be brought forward in line with the Whole of Government's Accounts (WGA) timetable. KPMG will continue to work closely with the Council to ensure that it meets the deadline.

#### **Recommendation 4: Financial Working Papers**

In order to accommodate the increasing pressures of having to produce and publish its accounts a month earlier than last year, the Council should:

- Ensure that all working papers supporting the accounts fully explain, and are sufficiently detailed, to support the figures in the accounts.
- Ensure that a comprehensive senior review of the accounts is performed to address presentational and financial issues.

- 51 The accounts presented to Members have in recent years become more complex, for example during 2004/05 local authorities were required to implement in full the requirements of FRS 17 (Retirement Benefits). This accounting standard required the disclosure of a significant volume of complex information.

#### **Recommendation 5: Financial Reporting**

In order to further improve the Members understanding of the accounts and to ensure that key highlights and variances are clearly brought to their attention, the Council should consider tabling an explanatory paper when the accounts are presented to Members. This paper should provide an overview of the financial stability of the Council, any key income streams and significant revenue and capital spends. In addition the paper should link to the Council's medium term financial strategy ('MTFS') and provide commentary on whether the actual results are in line with the MTFS and if not the actions being taken by the Council to address the variances.

## Matters arising from the final accounts audit

- 52 The matters arising from the final accounts audit were discussed in a Final Accounts Memorandum issued by KPMG in November 2005. The Council's Statement of Accounts contained some accounting errors alongside some presentational and disclosure issues. Amendments were discussed and agreed with the Council's officers and incorporated into the final version of the accounts. These amendments did not materially affect the overall financial position of the Council at the year end. The main audit adjustments as reported in KPMG's Final Accounts Memorandum involved the Council's treatment of capital expenditure and are detailed below:
- the Council was not previously writing off deferred charges to service expenditure, the total charge to the consolidated revenue account in 2004/05 was £1.3 million; and
  - the Council had previously written off play equipment expenditure of £0.2 million to the Fixed Asset Restatement Account as non-enhancement expenditure, this has been restated as capital additions in line with the Statement of Recommended Practice.
- 53 KPMG's work on the Use of Resources established that the Council could further improve and promote external accountability through the production of a summary set of accounts and/or annual report which is separate to its detailed financial statements.

### ***Recommendation 6: Summary Accounts/Annual Report***

The Council should consider the production of a summary set of accounts and/or annual report which is separate to its detailed financial statements. As part of this process the Council should establish a clear process of consultation with a range of stakeholders to establish their requirements in respect of the publication of summary accounts and/or an annual report.

## Report to those with responsibility for governance in the Council

- 54 Under the Statement of Auditing Standards (SAS) SAS610 Communication of Audit Matters to Those Charged with Governance, KPMG are required to communicate to Members matters which come to their attention as a result of the audit of the financial statements.
- 55 KPMG confirmed in its November 2005 Final Accounts Memorandum that all audit adjustments had been incorporated into the Council's statement of accounts and that there were no issues to report to Members.



## Financial standing

- 56 During the year, KPMG reviewed the adequacy of the arrangements the Council has in place to ensure that its financial standing is soundly based. In its assessment, KPMG reviewed the Council's:
- financial performance in the year to date and future forecasts;
  - ability to meet known statutory and other financial obligations, actual or contingent; and
  - responses to known developments, whether current or in the foreseeable future, which might have an impact on its financial standing.

## Financial stability

- 57 The Council's cash position, following the transfer of his housing stock during 2002, has proved a significant factor in enabling Wyre Forest to maintain financial stability. The table below provides an analysis of Council's cash and cash equivalent holdings.

**Table 1**

	<b>2002/03</b>	<b>2003/04</b>	<b>2004/05</b>
<b>Cash and Cash equivalents</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
Long term investments	10	10	10
Current assets	24,461	26,340	25,680
Total current liabilities	(4,250)	(5,170)	(4,599)
Long-term borrowing	(54)	(52)	(49)
Net position on cash and cash equivalents	20,167	21,128	21,042

## Financial outturn

- 58 The Council's above liquidity is forecast to continue. The MTF5 demonstrates a balanced budget with the Council's cash and cash equivalents remaining stable.

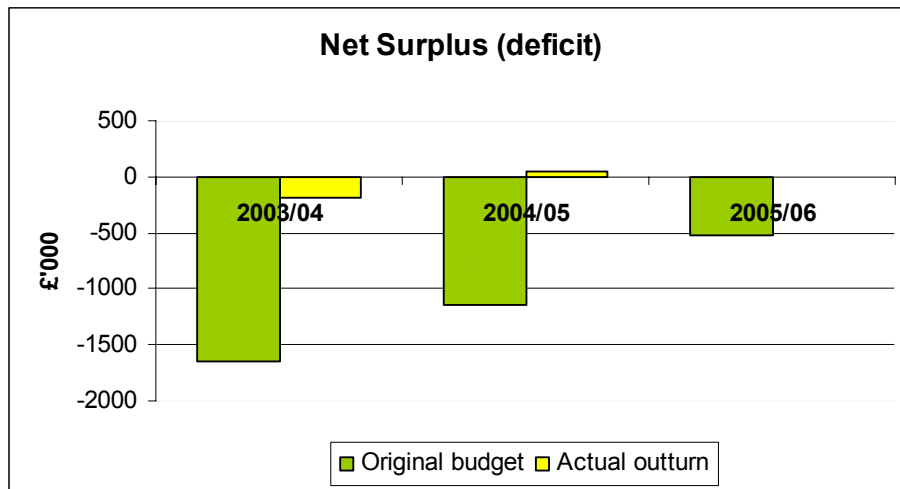
## Revenue balances

- 59 As at the 31 March 2005 the Council held £4 million in revenue balances, split between £0.7 million in the general fund working balance and £3.3 million in the Council's general fund earmarked revenue balance. The Council has a further £1.5 million in earmarked reserves, including £0.3 million for restructuring.

## General fund spending

- 60 The Council's final outturn position for 2004/05 resulted in a surplus of £49,000 against a projected deficit of £1.1 million. The main causes for the under spend were:
- greater investment income received than anticipated amounting to £359,000;
  - a further £106,000 income from car parking than expected;
  - £105,000 of additional income from various sources, such as fees and charges;
  - maintenance and service expenditure was £233,000 below budget, mainly due to reduced benefit payments of £209,000;
  - employee and administration expenses were £163,000 under-spent; and
  - the Council's use of earmarked reserves was £220,000 less than anticipated.
- 61 A similar level of performance has been achieved over the previous years, with the Council consistently under-spending against the budget, as illustrated below: point.

**Figure 2 General fund revenue expenditure against budget**



- 62 The Council has a history of budget under-spends. KPMG have discussed the robustness of the budget setting process with the Council as it seeks to improve the whole budgeting process. The Council are in the process recruiting a project manager to control and monitor the Council's projects. The duties of this role will include monitoring the robustness of budgets. A more realistic and accurate budget would allow the Council to demonstrate efficiency savings linked to service delivery and value for money rather than through financial management.

**Recommendation 7: Budget Preparation**

The Council's budget setting process should be refined and based on realistic assumptions of the resources likely to be in place, to fairly reflect and estimate the true cost of services expected in the forthcoming year. The budget setting process should include a comprehensive challenge process with members given sufficient opportunity to challenge budget holders' assumptions. In addition the Council should consider providing training to budget holders to make them aware of the advantages of submitting budgets that are based on realistic assumptions whilst remaining challenging to achieve.

**Recommendation 8: Budget Reports**

The Council should consider updating its budget reports to readily highlight significant variances, this could be achieved, for example by highlighting adverse variances. In addition the Council should consider expanding the budget information to include balance sheet data and operational information. This will provide the users of the information with greater clarity on how the Council is performing.

**Capital programme**

- 63 The Council's 2004/05 capital programme budgeted a £5.3million spend, however the Council incurred slippage of £1.5million (28 per cent). The main areas of variance being:
- the Council's programme for vehicle and equipment renewal slipped by £0.2 million
  - delays in the replacement and repairs of play equipment amounted to £0.16 million;
  - e-Government initiatives including the Worcestershire Hub, and Human Resource systems slipped by £0.3 million;
  - the Council's capital programme on improving car parking facilities slipped by £0.2 million; and
  - the Council's budget for Disabled Facilities Grants was under spent by £0.14 million, however, this will not roll into the 2005/06 year as each year has a separate allocation.
- 64 The Council is one of few authorities to have taken advantage of the Prudential Code in 2004/05 to fund £0.69 million of the capital programme through borrowing. The Prudential Code places a responsibility on the Council to assess the 'affordable' level of borrowing, and report on its compliance against a range of indicators.
- 65 KPMG reviewed the accounting implications of this borrowing as part of its work on the Council's 2004/05 Statement of Accounts, there were no significant issues to report.

- 66 In support of its £8.8 million 2005/06 capital programme the Council's capital fund as at 31 March 2005 totalled £16.7 million, which includes £15.1 million useable capital receipts, £1.1 million from capital contributions unapplied (which includes £0.5 million in s106 agreements) and a further £0.5 million from deferred government grants. The Council will add to these balances through further capital receipts from the sale of assets and additional government grants.

**Recommendation 9: Capital Programme**

The Council should consider providing additional training to budget-holders to address any gaps in project management skills and to ensure that slippage of the capital programme is identified at an early stage and remedial measures adequately arranged.

- 67 The Council monitors progress against its capital programme regularly. However it does not have arrangements in place to monitor the effectiveness of the use of its asset base. Local performance measures and benchmarking arrangements have not been established in relation to asset use and the impact on the corporate objectives, and this is an important area for the Council to develop in order to demonstrate that it is managing its resources effectively.

**Recommendation 10: Management of the Council's Asset Base**

The Council should consider:

- developing a set of local performance measures in relation to assets that link its asset use to its corporate objectives;
- communicating to its stakeholders, the results of performance management and benchmarking relating to its asset base; and
- developing an approach to integrate the reporting of asset management information with organisational financial information.

**Efficiency savings**

- 68 As part of the government agenda on efficiency the Council is required to achieve 2.5 per cent efficiency gains in each year of a three year period. In 2004/05 Wyre Forest reported £197,000 efficiency gains, all of which were cashable.
- 69 The Council's 2005/06 efficiency target is £530,000 and remains on track to meet this target. KPMG will report on the Council's achievement of this target once the figures are reported in June 2006.
- 70 As noted earlier the Council needs to improve the accuracy of its budget setting procedures. It is important that the Council incorporates efficiency into this process so that gains and savings achieved are realistic and the Council can demonstrate that they have been calculated based on accurate data.

**Recommendation 11: Efficiency Savings**

Following the implementation of improved budget setting procedures, the Council should review its efficiency savings target to establish its continued validity and/or whether further savings can be achieved.

## Systems of internal control

- 71 KPMG is required to consider whether the Council has adequate arrangements in place to satisfy itself that the Council's systems of internal financial control are adequate and effective.

### Risk management

- 72 KPMG's Interim Memorandum of August 2005 identified that the Council had made progress in the development of risk management arrangements however a number of further improvements were required. KPMG's work on the Key Lines of Enquiry (paragraph 56 onwards) also identified a number of areas for development. The main aim of the Council should be to embed risk management throughout the Council.
- 73 Members are responsible for effective governance of the Council and risk management forms an integral part of that governance. The Cabinet currently holds responsibility for risk management, however, given its other responsibilities this may detract from its ability to fully implement an assurance framework.
- 74 A smaller, more focused, Member group may provide a more suitable forum for the implementation of an assurance framework where Members monitor the key risks facing the Council and request quarterly reports on how Officers are managing those risks. An annual report can then be submitted to full Council to complete the risk management framework.
- 75 The corporate risk register will form the starting point for the assurance framework and quarterly reports will help embed the responsibility for risk management in officers.

### ***Recommendation 12: Risk Management***

The Council should develop further its risk management arrangements and in particular:

- write specific risk management responsibilities into the terms of reference for its Audit Committee;
- ensure that the Audit Committee receives regular reports on risk management and that risk management is reported to full Council at least annually;
- updating the risk management strategy to assess risks for their likelihood and impact, any mitigating controls and ownership of mitigating controls;
- review and update the risk management process at least annually;
- include all partnership risks within the risk register and for significant partnerships include them in the risk management policy;
- present the Statement of Internal Control for Member review and scrutiny; and
- continue to train all staff and members to manage risk within their own working environment.

## **Internal Audit**

- 76 KPMG reviewed the quality and scope of Internal Audit's work under the Managed Audit approach to assess the extent to which reliance could be placed on its annual coverage in planning the external audit work. External Audit has a responsibility for reviewing internal financial control arrangements and in addressing this KPMG work closely with Internal Audit and seek to place reliance on their work. From its review of their coverage of the main accounting systems, KPMG concluded that it was able to place reliance on their work in forming its opinion for the Council's financial statements for 2004/05.
- 77 Internal Audit's overall assessment is that the Council has an adequate framework of control, subject to the implementation of agreed recommendations, so that systems operate as intended. It should be noted that Internal Audit has made a number of recommendations throughout the year to further strengthen the Council's overall control environment and KPMG support and encourage the adoption and implementation of their recommendations.

## **Review of Statement of Internal Control (SIC)**

- 78 The Council has a responsibility for conducting, at least annually, a review of the effectiveness of its system of internal control. This review of effectiveness is informed by the Senior Managers of the Council who have responsibility for the development and maintenance of the internal control environment and by the work of the Council's internal auditors. As part of the review the Council are required to detail in the accounts the results of the review and how effectively they consider the system of internal control has been applied and adhered to.
- 79 KPMG's role as external auditors is to review the SIC detailed within the accounts to ensure that it is consistent with their knowledge of the Council. KPMG concluded that the SIC was consistent with their understanding of the Council's internal control environment and conforms to best practice issued by accounting bodies.

## **Other issues**

- 80 The Council purchased a new finance computer system, Agresso, which went live on 11 July 2005. The Finance department carried out extensive user acceptance testing, following which Internal Audit performed a series of data migration tests to validate the source data.
- 81 KPMG will review the data integrity to assess the completeness and accuracy of Agresso information as part of its audit of the Council's 2005/06 Statement of Accounts.

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

The Council has maintained effective controls over the prevention and detection of fraud and corruption.

- 82 KPMG is required to review the adequacy of the Council's arrangements to manage its affairs in accordance with proper standards of financial conduct and to prevent and detect fraud and corruption.
- 83 It remains the management's responsibility to ensure that there are appropriate controls in place to prevent loss through fraud and error and to ensure that appropriate governance arrangements are in place and operating satisfactorily.
- 84 KPMG reported its findings originally in its Interim Memorandum, and updated its work during its audit of the Council's Statement of Accounts. This included discussions with the Chief Executive, Head of Financial Services, Head of Internal Audit and the Corporate Performance Officer.
- 85 KPMG has not identified any significant weaknesses in the Council's arrangements to prevent and detect fraud and corruption.

## Legality of transactions

The Council has adequate arrangements for ensuring the legality of its financial transactions

- 86 KPMG is required to review the arrangements that the Council has in place to identify whether transactions that might have a significant financial consequences and contracts that it enters into are legally sound.
- 87 KPMG has not identified any significant weaknesses in the framework established by the Council for ensuring the legality of its significant financial transactions.

## Electors' Questions and Objections

No questions or objections were raised with KPMG with regard to the Council's 2004/05 Statement of Accounts.

- 88 Sections 15 and 16 of the Audit Commission Act 1998 provide local electors with an annual opportunity to inspect the accounts of a local authority and subsequently, to put questions and/or objections relating to those accounts to the external auditor. Any such representations must be resolved prior to the closure of the audit.
- 89 KPMG can report that it has not received any questions or objections on the 2004/05 accounts from local authority electors under Sections 15 and 16 of the Audit Commission Act 1998.

## Use of resources judgements

- 90 The Use of Resources assessment is a new assessment which focuses on financial management but links to the strategic management of the Council. It looks at how the financial management is integrated with strategy and corporate management, supports council priorities and delivers value for money. It will be carried out annually, as part of each council's external audit. KPMG and the Audit Commission anticipate the Use of Resources judgements will form part of the future CPA framework.
- 91 KPMG has assessed and scored the Council's arrangements in five areas as the table shows.

**Table 2 Councils arrangements**

Element	Assessment
Financial reporting	2 out of 4
Financial management	2 out of 4
Financial standing	2 out of 4
Internal control *	1 out of 4
Value for money	2 out of 4
<b>Overall</b>	<b>2 out of 4</b>

(Note: 1=lowest, 4=highest)

- 92 \* KPMG's assessment of the Council's internal control included reviewing the arrangements in place for managing its key risks along with the arrangements in place for documenting key system procedures. The Council's is to start strengthening its risk management procedures, including the creation of a comprehensive assurance framework that identifies risks along with any mitigating controls. In addition the Council plan to identify key business systems and create procedure notes/manuals for each. As mentioned above KPMG's review of the Council's internal audit function proved satisfactory.
- 93 In reaching these judgements KPMG has drawn on the above work and supplemented this with a review against specified Key Lines of Enquiry.
- 94 An overview of the areas of good practice and areas for the Council to address in order to achieve higher scores is shown at appendix 4.



- 95 KPMG discussed the above findings with the Council's management in March 2006. This discussion included references to the improvements needed to progress to the next level. The most significant area where further development is needed is risk management and its incorporation into the various aspects of the Council's operations, which will be facilitated by the recommendation made earlier on devolved responsibility for risk management to a sub-committee of the Council.
- 96 The recommendations arising from KPMG's review of the Council's use of resources have been incorporated within this letter. KPMG will hold a workshop with the Council's management in 2006 to discuss actions taken and progress made against the recommendations.

### **Value for Money**

- 97 The Council has set Value for money ('VFM') as a key aim of the Council. Presently there is little evidence of past investments securing improvements in value for money. The Council is however expecting its investments in improving value for money to start to realise improvements, for example additional costs incurred on recycling.
- 98 The Council's Corporate plan includes value for money as a key priority however no targets are 'set'
- 99 The Council's Annual Efficiency Statement identified achieved gains of £197,000. A further £530,000 of savings is envisaged through procurement improvements and initiatives such as e-government. The Council is a key member of the Worcestershire Hub, a partnership to share services and reduce costs, in addition the Council is active in a number of partnerships including the LSP, for example working with other authorities to procure more efficient energy procurement.

#### ***Recommendation 13: Value for Money***

The Council should consider the areas for development in relation to KPMG's Value for Money judgements and include them within its overall corporate improvement processes, in particular:

- the scope for improving cost effectiveness needs to be kept under review and scrutiny to achieve clear improvements in value for money;
- the Council should continue to have value for money as a priority of the Council. This priority could be extended by assessing where the Council has higher costs / lower satisfaction than its peers and, if appropriate, develop action plans to improve the value for money presently offered; and
- the Council should also develop and document clear policies and effective processes for reviewing and improving value for money.

## Other work

### Additional voluntary work

- 100 Section 35 of the Audit Commission Act 1998 provides for additional work on improvement areas, outside the main audit, to be performed. KPMG LLP has not performed any additional voluntary work under Section 35 during the 2004/05 audit cycle.

### Grant claims

- 101 KPMG has continued to apply a risk-based approach to the certification of grant claims and have reduced the time spent on the audit of these claims. However, its ability to reduce this time further depends on the adequacy of the Council's control environment.
- 102 KPMG has certified all claims for the year ending 2004/05 that has been submitted to it for audit.

### National Fraud Initiative

- 103 In 2004/05, the local authority took part in the Audit Commission's National Fraud Initiative. The NFI, which is undertaken every two years, aims to help identify and reduce fraud by bringing together data from NHS bodies, local authorities and government departments and other agencies, to detect a wide range of frauds against the public sector. These include housing benefit fraud, occupational pension fraud, tenancy fraud and payroll fraud as well as, new for 2004/05, right to buy scheme fraud and providing new contact details for former tenants with arrears in excess of £1,000.
- 104 The Council participated in the NFI exercise and fully complied with the requirements of the initiative. It has set aside specific resources to follow up data matches and shared its findings with the Audit Commission.

## Looking forwards

### Future audit and inspection work

- 105** KPMG and the Audit Commission have an agreed plan for 2005/06 and have reported in this Letter those aspects that have already been completed. The remaining elements of that Plan, including KPMG's audit of the Council's 2005/06 accounts, will be reported in next year's Annual Audit and Inspection Letter. The Audit Commission's and KPMG's planned work, together with that of other inspectorates, is included on both the Audit Commission and LSIF (Local Services Inspectorates Forum) websites.
- 106** KPMG and the Audit Commission have sought to ensure, wherever possible, that their work relates to the challenges facing the Council. Both organisations will continue with this approach when planning their programme of work for 2006/07. Both organisations will also seek to reconsider the Council's improvement priorities in the light of the latest CPA assessment and the Council's own analysis, and develop an agreed programme by 31 March 2006. KPMG and the Audit Commission will continue to work with other inspectorates and regulators to develop a co-ordinated approach to regulation at The Council.

### Revision to the Code of Audit Practice

- 107** The statutory requirements governing our audit work, are contained in:
- the Audit Commission Act 1998; and
  - the Code of Audit Practice (the Code).
- 108** The Code has been revised with effect from 1 April 2005. Further details are included in our Audit Plan which has been agreed with the Executive Cabinet in March 2005. The key changes include:
- the requirement to draw a positive conclusion regarding the Council's arrangements for ensuring value for money in its use of resources; and
  - a clearer focus on overall financial and performance management arrangements.

### A new CPA framework

- 109** The Audit Commission is currently considering the results of the consultation on the proposals for revising the CPA framework for District Councils. The revised framework will be published in the early part of 2006 with implementation from April 2006.

## Closing remarks

- 110 This letter has been discussed and agreed with senior officers at the Council. A copy of the letter will be presented to Cabinet on 27 April 2006.
- 111 The Council has taken a positive and constructive approach to KPMG and the Audit Commission's audit and inspection and both organisations would like to take this opportunity to express their appreciation for the Council's assistance and co-operation during the year of audit and inspection.

## Availability of this letter

- 112 This letter will be published on the Audit Commission's website at [www.audit-commission.gov.uk](http://www.audit-commission.gov.uk) and also on the Council's website.

Appointed Auditor - KPMG LLP (Jonathan Gorrie)

Relationship Manager - Audit Commission (Liz Cave)

Date: March 2006

## Appendix 1 - Background to this letter

### The purpose of this letter

This is KPMG's and the Audit Commission's Audit and Inspection 'Annual Letter' for Members, which incorporates the Annual Audit Letter for 2004/05, which is presented by the Council's Relationship Manager and the Appointed Auditor, KPMG. The Letter summarises the conclusions and significant issues arising from both organisations recent audit and inspections of the Council.

KPMG has issued separate reports during the year setting out the findings and conclusions from the specific elements of its audit work programme. These reports are listed at Appendix 2 for information.

The Audit Commission has circulated to all audited bodies a statement that summarises the key responsibilities of auditors. KPMG's audit has been conducted in accordance with the principles set out in that statement. KPMG's findings, conclusions and the results of its audit should be viewed in the context of that more formal background.

Appendix 3 provides information about the fee charged by KPMG and the Audit Commission for the audit and inspections at the Council during 2004/05.

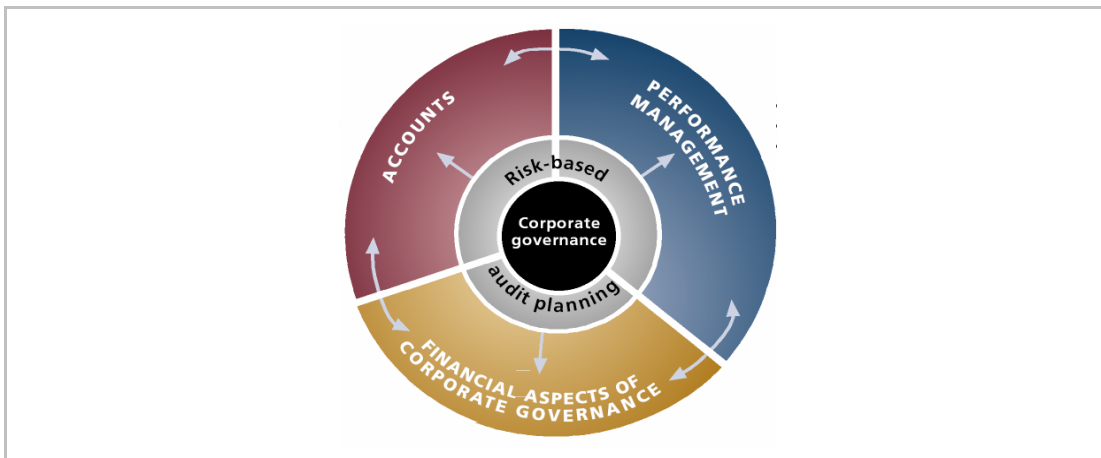
### Audit objectives

KPMG's main objective as your appointed auditor was to plan and carry out an audit that met the requirements of the Code of Audit Practice. KPMG adopted a risk-based approach to planning its audit, and its audit work focused on the Council's significant financial and operational risks that were relevant to its audit responsibilities.

Central to KPMG's audit were the Council's corporate governance arrangements. KPMG audit was then structured around the three elements of its responsibilities as set out in the Code and shown in Figure 3.

### Figure 3 Code of Audit Practice

Code of practice responsibilities



#### Accounts

- Opinion.

#### Financial aspects of corporate governance

Reviewing how effectively the Council ensures:

- financial standing;
- systems of internal financial control;
- standards of financial conduct and the prevention and detection of fraud and corruption; and
- legality of transactions with significant financial consequences.

#### Performance management

- Use of resources.
- Performance information.
- Best Value Performance Plan.

#### Inspection objectives

Inspection work is based around section 10 of the Local Government Act 1999, which requires us to carry out inspections 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.

## Appendix 2 - Audit and Inspection reports issued

**Table 3**

<b>Report title</b>	<b>Date issued</b>
<b>KPMG LLP</b>	
2004/05 Annual Audit Plan	March 2005
Report on the 2004/05 financial statements to those charged with governance (SAS 610)	August 2005
KPMG's Interim Memorandum	August 2005
KPMG's Opinion of the Accounts	August 2005
Best Value Performance Indicators - Opinion	October 2005
Best Value Performance Plan - Opinion	December 2005
Performance Management Framework Report	November 2005
KPMG's Final Accounts Memorandum	November 2005
<b>Audit Commission</b>	
Direction of Travel (page 31)	March 2006
Joint Annual Audit and Inspection Letter	March 2006

## Appendix 3 - Audit and Inspection fee

**Table 4     Audit fee update**

<b>Audit area</b>	<b>Plan 2005/06 £</b>	<b>Actual 2005/06 £</b>
Accounts	27,000	27,000
Financial aspects of corporate governance	33,000	33,000
Performance	27,000	27,000
<b>Total Code of Audit Practice fee</b>	<b>87,000</b>	<b>87,000</b>
Additional voluntary work (under section 35)	0	0
<b>Total</b>	<b>87,000</b>	<b>87,000</b>
Grant Claims certification	<b>14,000</b>	<b>13,537</b>
<b>Inspection</b>	<b>10,114</b>	<b>10,114</b>



## Appendix 4 - Use of Resources Overview

Key Line of Enquiry	Good Practice Points	Areas for development
Financial reporting	<p>The Council produced its accounts in accordance with its timetable and relevant accounting standards.</p> <p>The Council has strong closedown procedures in place and the Finance Department are prepared to meet future earlier accounts deadlines.</p> <p>Sufficiently skilled and helpful staff were available throughout the audit to deal with any additional queries.</p>	<p>The Council should establish a clear process of consultation with a range of stakeholders to establish their requirements in respect of the publication of summary accounts or an annual report.</p> <p>The Council should consider the benefits of providing all working papers detailed in KPMG's 'Prepared by Client' list.</p> <p>KPMG will assist the Council in developing appropriate working papers.</p>
Financial management	<p>Wyre Forest District Council has the main elements of a Medium Term Financial Strategy (MTFS) that encompasses its strategic objectives as well as national priorities.</p> <p>The Council sets a balanced budget each year based on projections about pay, inflation, and known service developments.</p> <p>The Council also manages performance against budgets and manages its asset base and capital programme effectively.</p>	<p>The Council should consider annually reviewing its financial arrangements to ensure they align with the medium term financial strategy.</p> <p>The Council should improve budget reports to include risk assessments of budget variances.</p> <p>The Council should also consider developing a local set of performance measures for assets that link into corporate objectives.</p>
Financial standing	<p>The Council exercises adequate budgetary control procedures that allows it to manage any variances if and when they occur and develop action plans to deal with them.</p>	<p>As noted earlier the Council has historically underspent its budgets. The Council needs to enhance the accuracy of</p>

<b>Key Line of Enquiry</b>	<b>Good Practice Points</b>	<b>Areas for development</b>
	<p>The Council also shows some awareness of the impact of the budget on reserves and balances. It reports formally to Members in line with the Local Government Act 2003 and CIPFA's Treasury Management Code of Practice.</p>	<p>the budget setting process to reduce the final variance to the outturn position.</p> <p>The Council should monitor the costs of recovering debt and the costs of not recovering debt promptly. This process should be reported to the Council's senior management team and the Audit Committee.</p>
Internal control	<p>The Council maintains and reviews a register of its corporate business risks and links these to strategic objectives and all committee reports include a risk management paragraph</p> <p>The Council has a comprehensive constitution that lays down its standing orders and financial instructions. This is supplemented by a robust internal audit function that reports to an Audit Panel.</p> <p>As part of its Corporate Governance Framework the Council holds an annual review of effectiveness of the system of internal control. In addition the SIC is reviewed collectively as a group with sources of assurance being the Cabinet's knowledge gained from reporting throughout the year from Internal and external audit.</p>	<p>The Council should annually update its risk management strategy to assess risks for their likelihood and impact, any mitigating controls and ownership of mitigating controls.</p> <p>The Cabinet should approve the Statement of Internal Control in isolation the financial statements.</p> <p>The Council must also develop its procedure notes/ manuals for business critical systems.</p> <p>Furthermore, the Council should consider the merits of adopting an assurance framework do drive and embed the risk management framework into the Council's culture.</p>
Value for money	<p>The Council has comprehensive information on its costs, for example quarterly budget monitoring is prepared and issued to budget holders and cabinet. The Council also benchmarks its services, for example electoral services and building control.</p>	<p>In addition to embed value for money throughout the organisation the Council should consider including assessing and identifying value for money improvements as part of</p>

<b>Key Line of Enquiry</b>	<b>Good Practice Points</b>	<b>Areas for development</b>
	<p>There is evidence that managers use information to review value money and report to members, for example leisure services costs were identified as being high. Additional investigations were made and results and action plans delivered to members who approved that the service should be outsourced.</p> <p>The budget review also assesses value for money when reviewing performance.</p> <p>Cost information is reported to staff and council. In addition the demographics of the area are considered when assessing performance, for example the usage needs of public transport for minority groups was assessed when analysing the affects of concessionary travel.</p>	<p>senior staffs employee development process.</p> <p>The Council should consider assessing and documenting the impact on users when assessing value for money improvements.</p> <p>The Council should also develop and document clear policies and effective processes for reviewing and improving value for money.</p>

## Appendix 5 - Current year recommendations

Recommendation	Priority	Management response	Responsible Officer	Timescale for implementation
<p>1. CPA Improvement Plan</p> <p>The Council should review its CPA improvement plan and re-prioritise its actions to set deliverable targets for year</p>	High	<p>The Improvement Plan covers three years (2005-08). An initial progress report for the first year (2005/06) was given to Cabinet on 10 April 2006. This will be followed by discussions with the A.C. Relationship Manager in May to review the Plan's targets and improvement priorities for 2006/07. These will be reported to Cabinet in June 2006.</p>	P. Jones	Apr-Jun 06
<p>2. Performance Management Framework</p> <p>The Council should monitor its progress against the recommendations made in KPMG's report on the Council's Performance Management Framework and establish whether the recommendations are being addressed within the originally envisaged timescale. The Council should take actions as appropriate to ensure the objectives of improving the Performance Management Framework are achieved, for example by allocating individual</p>	High	<p>The Council's PM Framework includes a comprehensive, long-term action plan for Council-wide implementation. This is being overseen by a quarterly PM Group with representation from all six Divisions. Regular progress reports will be given to CMT and Members.</p>	P. Jones	Quarterly from April 2006

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Recommendation	Priority	Management response	Responsible Officer	Timescale for implementation
Officers the responsibility of implementing recommendations.				
<p>3. Partnership working</p> <p>The Council should consider reviewing its partnership arrangement to ensure there is a strong framework of accountability and corporate governance that is based on clear leadership, a culture of scrutiny and challenge and a focus on user's views and experiences. Together, these factors should positively influence the shape and delivery of the Council's strategic priorities.</p>	High	<p>Following an audit, in summer 2005, of the Council's involvement in local partnerships, a Partnership Framework was adopted by Council on 1st March 2006. This is now being rolled out across the authority and will include an evaluation of the effectiveness of all partnerships over the next 12 months with a view to rationalisation. This process will support the Council in the development and delivery of its strategic priorities.</p>	W. Delin; A. Braithwaite	2006/07
<p>4. Financial Working Papers</p> <p>In order to accommodate the increasing pressures of having to produce and publish its accounts a month earlier than last year, the Council should:</p> <p>Ensure that all working papers supporting the accounts fully explain, and are sufficiently detailed, to support the figures in the accounts.</p> <p>Ensure that a comprehensive senior</p>	Medium	<p>The Council has considerably improved the quality and content of the Final Accounts working papers over the past few years and will endeavour to continue to do so in order to achieve Level 4 on Use of Resources.</p> <p>This will be reviewed prior to presentation of the Statement of</p>	K. Bannister	From 2006/07 and ongoing

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Recommendation	Priority	Management response	Responsible Officer	Timescale for implementation
review of the accounts is performed to address presentational and financial issues.		Accounts at the appropriate Scrutiny Committee, in accordance with the Council's Corporate Governance arrangements.		
<p>5. Financial Reporting</p> <p>In order the further improve the Members understanding of the accounts and to ensure that key highlights and variances are clearly brought to their attention, the Council should consider tabling an explanatory paper when the accounts are presented to Members. This paper should provide an overview of the financial stability of the Council, any key income streams and significant revenue and capital spends. In addition the paper should link to the Council's medium term financial strategy ('MTFS') and provide commentary on whether the actual results are in line with the MTFS and if not the actions being taken by the Council to address the variances</p>	Medium	Agreed. The Council's current variance report on the Final Accounts will be further refined to include these requirements.	K. Bannister	September 2006

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Recommendation	Priority	Management response	Responsible Officer	Timescale for implementation
<p>6. Summary Accounts/Annual Report</p> <p>The Council should consider the production of a summary set of accounts and/or annual report which is separate to its detailed financial statements. As part of this process the Council should establish a clear process of consultation with a range of stakeholders to establish their requirements in respect of the publication of summary accounts and/or an annual report.</p>	Medium	<p>It is the intention to produce a summary set of Accounts in addition to the Statement of Accounts as part of this year's closedown process. This will be made generally available and will be included in the Best Value Performance Plan/Annual Report.</p>	K. Bannister	June 2006
<p>7. Budget Preparation</p> <p>The Council's budget setting process should be refined and based on realistic assumptions of the resources likely to be in place, to fairly reflect and estimate the true cost of services expected in the forthcoming year. The budget setting process should include a comprehensive challenge process with members given sufficient opportunity to challenge budget holders' assumptions. In addition the Council should consider providing training to budget holders to make them aware of the advantages of submitting budgets that are based on realistic assumptions whilst remaining</p>	High	<p>The Council will continue to refine its Budget Process to ensure that estimates are realistic. A comprehensive challenge has already been established in the form of the Budget Review Group who are scrutinising in detail the whole of the Council's budget over a three year period (2005-08).</p> <p>The Accountancy Section continue to provide training and advice to Divisional Management Teams on an on-going basis, including budget setting/monitoring and control.</p>	K. Bannister	2006/07 - ongoing

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Recommendation	Priority	Management response	Responsible Officer	Timescale for implementation
challenging to achieve.				
<p>8. Budget Reports</p> <p>The Council should consider updating its budget reports to readily highlight significant variances, this could be achieved, for example by highlighting adverse variances. In addition the Council should consider expanding the budget information to include balance sheet data and operational information. This will provide the users of the information with greater clarity on how the Council is performing.</p>	High	<p>The Cabinet already receives quarterly Budget Monitoring Reports, which highlight significant variances and action required if necessary to address.</p> <p>Consideration will be given to how this Report can be improved to provide greater clarity and convey key messages.</p> <p>Provision of balance sheet information with budget information is a medium-term objective.</p>	K. Bannister	2007/08
<p>9. Capital Programme</p> <p>The Council should consider providing additional training to budget-holders to address any gaps in project management skills and to ensure that slippage of the capital programme is identified at an early stage and remedial measures adequately arranged.</p>	Medium	<p>The Council has approved resources for the appointment of a Programme / Project Manager to improve performance of on-going projects.</p>	W. Delin	July 2006



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Recommendation	Priority	Management response	Responsible Officer	Timescale for implementation
<p>10. Management of the Council's Asset Base</p> <p>The Council should consider:</p> <ul style="list-style-type: none"> <li>developing a set of local performance measures in relation to assets that link its asset use to its corporate objectives;</li> <li>communicating to its stakeholders, the results of performance management and benchmarking relating to its asset base; and</li> <li>developing an approach to integrate the reporting of asset management information with organisational financial information.</li> </ul>	Medium	<p>The Council's Asset Management Plan is included in the Performance Management Framework action plan (see recommendation 2 above), which will address performance measures and monitoring &amp; reporting arrangements.</p>	A. Dickens	2006/07

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Recommendation	Priority	Management response	Responsible Officer	Timescale for implementation
<p>11. Efficiency Savings</p> <p>Following the implementation of improved budget setting procedures, the Council should review its efficiency savings target to establish its continued validity and/or whether further savings can be achieved.</p>	High	<p>The Council's efficiency targets have been incorporated into the budget setting process, with the savings incorporated in the Medium Term Financial Strategy.</p> <p>Efficiency savings are monitored with our VFM Policy as part of our performance management arrangements.</p>	K. Bannister; P. Jones	From April 2006
<p>12. Risk Management</p> <p>The Council should develop further its risk management arrangements and in particular:</p> <p>Write specific risk management responsibilities into the terms of reference for its Audit Committee;</p> <p>Ensure that the Audit Committee receives regular reports on risk management and that risk management is reported to full Council at least annually;</p> <p>Updating the risk management strategy to assess risks for their likelihood and impact, any mitigating controls and ownership of mitigating controls;</p> <p>Review and update the risk</p>	High	<p>The Terms of Reference for the Audit Committee (currently Audit Panel) will be reviewed and amended for the new municipal year (2006/07) to include risk management responsibilities.</p> <p>Risk Management will be included as a standing item on the Audit Committee Agendas. Consideration will be given to including an Annual Summary</p>	<p>C. Caygill</p> <p>P. Jones</p>	<p>From June 2006</p> <p>From June 2006</p>

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Recommendation	Priority	Management response	Responsible Officer	Timescale for implementation
<p>management process at least annually;            Include all partnership risks within the risk register and for significant partnerships include them in the risk management policy;            Present the Statement of Internal Control for Member review and scrutiny; and            Continue to train all staff and members to manage risk within their own working environment</p>		<p>Report on Risk Management to full Council at the end of each year (February/March).            The Risk Management Strategy will be reviewed and updated as recommended.            The risk management process will be reviewed at least annually (as part of the Performance Management Framework).            Partnership risks will be included as recommended.            The Statement of Internal Control will be reported to Scrutiny Committee and Cabinet.            Training needs will be assessed and provided for accordingly.</p>	<p>A. Braithwaite            P. Jones            P. Ryder</p>	<p>July 2006            2006/07            October 2006            June 2006            2006/07</p>

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Recommendation	Priority	Management response	Responsible Officer	Timescale for implementation
<p>13. Value for Money</p> <p>The Council should consider the areas for development in relation to KPMG's Value for Money judgements and include them within its overall corporate improvement processes, in particular:</p> <p>The scope for improving cost effectiveness needs to be kept under review and scrutiny to achieve clear improvements in value for money;</p> <p>The Council should continue to have value for money as a priority of the Council. This priority could be extended by assessing where the Council has higher costs / lower satisfaction than its peers and, if appropriate, develop action plans to improve the value for money presently offered; and</p> <p>The Council should also develop and document clear policies and effective processes for reviewing and improving value for money.</p>	High	<p>The content and impact of the Council's VFM Policy will be monitored as part of the Performance Management Framework (see above). This will include an assessment of service costs, standards and local need to determine value for money.</p> <p>VFM is included in the Council's priorities for 2006/07 under the "Efficiency" Theme and will be monitored accordingly.</p> <p>Policies and Processes will be developed through the above Performance Management Framework.</p>	P. Jones; K. Bannister	From April 2006

## Appendix 6 - Follow up of prior year recommendations

We are required to review the Council's performance against the recommendations made in the 2003/04 Annual Audit and Inspection Letter. These have been detailed in the table below.

Recommendation	Progress made by Wyre Forest
<p>1. Development and delivery of DCPA improvement planning Following the outcome of its DCPA, the Council should develop its improvement plan focusing on the priorities on which it will need to focus its efforts and resources over the coming year in conjunction and collaboration with its external auditors and its other inspection services.</p>	<p><b>Original Response</b></p> <p>An improvement plan is being developed for implementation early in 2005. The first meeting has been arranged with auditors and inspectors for 19th January 2005.</p> <p><b>Current Position</b></p> <p>The three-year Improvement Plan was adopted in April 2005. Quarterly progress reports have been given to Cabinet / Cabinet Scrutiny Committee.</p>
<p>2. Development of the performance management framework The Council should continue its work in developing and refining its performance management framework, which will help to ensure that it can produce a robust and evidence based improvement plan going forward.</p>	<p><b>Original Response</b></p> <p>The Council's performance management framework is being updated and extended, and will use new software to improve the quality and timeliness of information produced from April 2005.</p> <p><b>Current Position</b></p> <p>The Framework was considered by Cabinet in July 2005 and adopted by Council in September 2005. A cross-Divisional officer group is overseeing implementation.</p>

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<b>Recommendation</b>	<b>Progress made by Wyre Forest</b>
<p>3. Monitoring and delivery of Worcestershire Hub The Council will need to ensure that the implementation of the Worcestershire Hub is carefully managed and closely monitor the performance of partner organisations to ensure service delivery is maintained and subsequently improved.</p>	<p><b>Original Response</b></p> <p>The implementation of the Hub programme is overseen by the Corporate Management Team, with regular reports to Members. All aspects of this major project are kept under close scrutiny, including via regular contact with partners.</p> <p><b>Current Position</b></p> <p>E-shop has been installed and Customer Service Assistants recruited. Training is continuing and Hub Service Centres will open in Kidderminster (July 2006), Stourport Civic Centre (late 2006) and Bewdley (early 2007).</p>
<p>4. Single Site and Vicar Street Should the Council move certain divisions back into Vicar Street the Council will need to ensure the benefits of having a single site, as originally envisaged, are not forgone.</p>	<p><b>Original Response</b></p> <p>Single site remains a priority for the Council. Any move back to Vicar Street will involve the sale of Coventry Street and will not add to the number of Council offices.</p> <p><b>Current Position</b></p> <p>An Agent has been appointed (DTZ Pidea) and a business case will be reported to Members in May 2006. The target date for a final decision to be made is October 2006. In order to contribute to funding the single site project, the Council has agreed to sell Coventry Street offices and temporarily relocate revenues / benefits staff to Vicar</p>

<b>Recommendation</b>	<b>Progress made by Wyre Forest</b>
<p>5. Leisure Management Partnership The Council should consider reviewing the performance of DC Leisure at regular intervals, for example quarterly, during the initial years of the partnership arrangement. This will ensure that any early issues can be quickly identified and resolved.</p>	<p><b>Original Response</b></p> <p>Reviews of the Partnership take place through the committee process at six-monthly intervals and Board meetings are held each quarter. Meetings also take place with DC Leisure on a monthly basis, and performance is continuously reviewed through, for example the complaints system.</p> <p><b>Current Position</b></p> <p>No change.</p>
<p>6. Budget setting The Authority should review its budget setting process to ensure that satisfactory challenges are made on key budget assumptions. For example cost savings to address budget deficits should be discussed and agreed with members.</p>	<p><b>Original Response</b></p> <p>The Council has reviewed the budget-setting and scrutiny process this year to ensure a more transparent and rigorous process.</p> <p><b>Current Position</b></p> <p>The Budget Review Group has met fortnightly to scrutinise and prioritise the budget in detail and make recommendations to Cabinet as part of the budget process.</p>

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<b>Recommendation</b>	<b>Progress made by Wyre Forest</b>
<p>7. Financial strategy The Authority should continue to monitor its progress against the medium term financial strategy and continue to address the potential shortfalls already identified for future years.</p>	<p><b>Original Response</b></p> <p>The Cabinet already monitors the Finance Strategy on a quarterly basis, and will be setting a fully-funded strategy as part of this year's budget process.</p> <p><b>Current Position</b></p> <p>Achieved.</p>
<p>8. Risk benchmarking The Authority should further develop the corporate risk register and in turn assess how it is used. As part of this process the Authority should consider benchmarking the risks identified against other authorities and/or organisations to ensure risks have been comprehensively identified.</p>	<p><b>Original Response</b></p> <p>The corporate risk register is partially complete and will be finalised by April 2005. The current risk policy is under review and external benchmarking will be considered as part of the evaluation process. Practical links to business planning and performance monitoring will also be assessed.</p> <p><b>Current Position</b></p> <p>A full review of the Risk Management Strategy, risk registers and procedures will be undertaken early in 2006/07. Developmental work on risk management has not been carried out due to capacity shortage. This will be addressed in response to the Use of Resources recommendations.</p>