



Wychavon District Council

Annual Audit Letter 2002/03

10 December 2003

KPMG

This report contains 29 pages

jg/to/2002/03

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1 Executive summary

The past year has seen Wychavon District Council (the Authority) continue to demonstrate a forward-looking approach, focussed on the needs of the residents of the District, and on improving services. This was exemplified by taking on the challenge of piloting Comprehensive Performance Assessment (CPA), helping to shape it and coming out well in the draft assessment. The Authority will undergo a “refresh” of its CPA assessment in early November and needs to ensure that it fully meets its own Improvement Plan to secure the desired formal CPA rating.

Our overall findings in respect of our three audit objectives are summarised as follows:

Accounts

The Authority produced its financial statements well within the statutory deadlines and we issued an unqualified audit opinion on the 29 August 2003.

Performance management

The Authority has:

- Focussed on delivering its Priorities and Promises;
- Developed an Improvement Plan in response to the feedback from the pilot CPA findings;

- Expanded and developed its strategy and vision for the future;
- Refined its performance management framework; and
- Produced a Best Value Performance Plan (BVPP) which is accessible, user friendly and complies with statutory requirements.

Financial Aspects of Corporate Governance

The Authority:

- Has developed an authority-wide risk management process including a successful “Away Day” event, attended by both Members and key officers;
- Is in the process of developing a 5-year strategy and financial plan; and
- Has been assessed as adequate or better in four out of the five CPA Indicators included in the Auditors Scored Judgements.

A key aspect in ensuring that the Authority has satisfactory scores to all the five indicators in the Auditors Scored Judgements assessments is improving on its Internal Financial Control, which covers monitoring of financial systems, internal audit services and risk identification and management.



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2 Introduction

This letter reflects our responsibilities under the *Code of Audit Practice* (the Code). This requires us to consider and assess the relevant significant operational and financial risks that apply to Wychavon District Council (the Authority) and the arrangements it has put in place to manage these risks. The result is greater emphasis on ensuring that our work is tailored to the circumstances of the Authority and audit effort directed to those areas of greatest risk.

The Code also stresses that each part of the audit needs to be viewed in the context of the whole. No one part stands alone, and work in relation to one element of the audit informs work in relation to other elements. The above is summarised in the Audit Commission's audit model.

Our Annual Audit Letter therefore focuses on those operational and financial risks that we considered to be relevant to our responsibilities as updated and amended during the course of our audit.

Respective responsibilities

This Annual Audit Letter is addressed to all the members of the Authority and has been prepared for the sole use of the Authority. We take no responsibility to any officer or Member acting in their individual capacities, or to third parties.

*The Audit Commission has issued a document entitled *Statement of Responsibilities of Auditors and Audited Bodies*. This summarises where the responsibilities of auditors begin and end and what is expected from the audited body. We draw your attention to this document.*

External auditors do not act as a substitute for the audited body's own responsibility for putting in place proper arrangements to ensure that public business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively.

3 Financial aspects of corporate governance

3.1 Financial standing

The Authority has continued to deliver on its financial promises within the constraints of a 2.5% increase in council tax for 2002/3 and its financial position remained strong. It has started the process of reviewing its financial needs over the next 5 years.

We are required to review the adequacy of arrangements that the Authority has in place to ensure that its financial standing is soundly based. In our assessment we reviewed the Authority'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 Performance in 2002/3

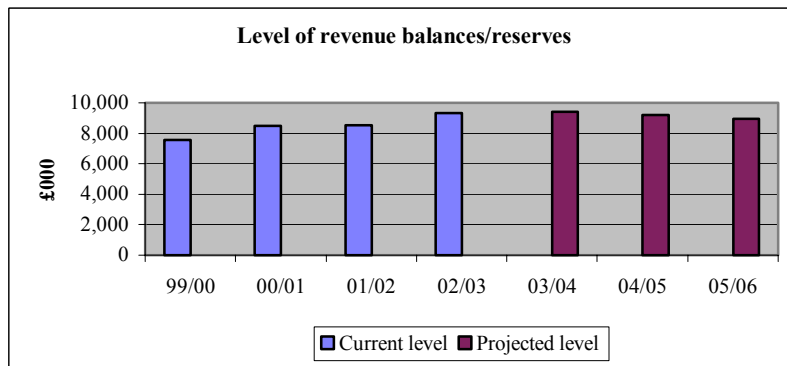
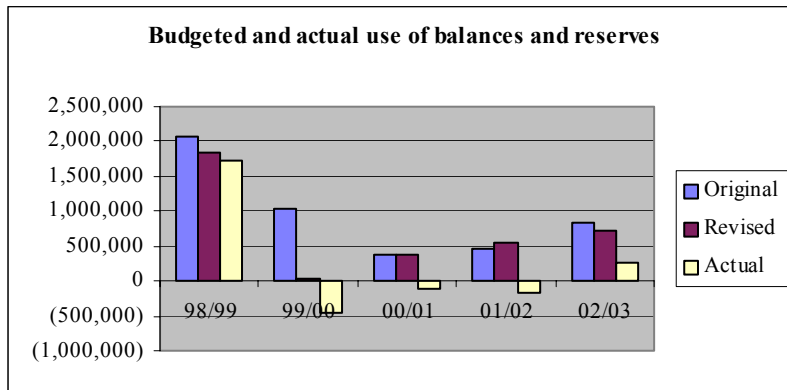
Revenue

As in previous years, the Authority has continued to keep the General Fund expenditure within its net budget of £10.2m while working within the constraints of a maximum Council Tax increase of 2.5%.

The Authority incurred an "in year" deficit of £166,000 in its General Fund but this represents an under spend of £644,000 against the original budget. There were a variety of reasons for the under spend, including areas which are particularly difficult to forecast, such as housing benefit payments. Some savings against the original budget were achieved due to the methodology that the Authority has adopted in setting its annual budget. For example, in setting the budget for contracted services, the Authority accounts for the full cost of the contracts, when past experience suggested that some savings in costs may be achieved.

We noted that the Authority has made progress in setting its employee budget that more closely reflects its actual filled establishment. It has also decided that part of the savings against the budget achieved during the year (£322,000) would be carried forward into the 2003/04 financial year to pay for future service improvements. In this way, service managers are being rewarded for achieving savings against budget and are likely to be encouraged to achieve further savings in subsequent years.

The Authority has continued to budget to use its reserves and balances to help balance its annual budget. Historically, such use of reserves and balances has not been on a scale as envisaged in the original or revised budget and in reality have in the past years, increased the level of year end reserves and balances. This can be illustrated in the following two charts.



We commented last year that the pattern of continuous under spends against budgeted use of balances and reserves could imply too generous budgets are being set, which has risks for effective financial management. We acknowledged that it is preferable for the Authority to under spend rather than over spend but sound financial management would expect the variations to be narrowed progressively as the Authority produces budgets that reflect the actual likely use of its reserves and balances in order to meet future service expenditure. Given the increasing focus on longer term planning, it may be possible to manage risks and uncertainty more through the 5-year strategy than through the budget.

Recommendation 1: Budget setting

As part of developing its 5-year financial strategy, the Authority should continue to refine its approach to annual budget setting so as to reflect a more accurate use of reserves and balances.

Capital expenditure

The capital budget for 2001/2 was initially set at £6.8 million. This was later revised to £3.4 million and the final capital spend for the year was £3.8m. The main reasons for the slippage in the capital programme were due to delays with housing association projects (£1.8m), Droitwich Lido Redevelopment project (£541,000) and Droitwich Canal Regeneration programme (£400,000).

The Authority continues to rely on capital receipts from the sale of former council houses to fund its capital expenditure and has received over £1m more from this source during the year due to increasing prices in the housing market. This, together with the reclassification of previous Right To Buy receipts has increased the level of capital receipts available to fund future capital expenditure to over £18 million. The capital programme for 2003/04 was set at £10.7m and the bulk of this will be funded from capital receipts.

The Authority approved its revised Asset Management Plan and Capital Strategy in July 2003. The revision took into account the feedback received from the Government Office of the West Midland (GOWM). It has so far received positive comments from the GOWM on the revised Capital Strategy where the main change is the inclusion of a property investment strategy. The revised documents will continue to provide a monitoring framework for the Authority's performance on capital projects ensuring that they are delivered on time and within budget.

Financial outlook and strategy

The Authority has set a balanced revenue budget for 2003/04 which allows for an annual increase of 2.5% in council tax. This budget envisages a contribution from reserves and balances of £778,000. The latest financial report to the Executive Board in July has indicated that the Authority is on target to achieve the in year savings target of £312k and that there were no significant under or over spends on the revenue budgets.

A number of factors will continue to affect the Authority's ability to achieve its financial and corporate targets in the future and this include:

- falling interest rates;
- increases in service costs;
- reductions in specific grants;
- increases in pension costs;
- increases in investment in housing; and
- abolition of Local Authority Social Housing Grant.

The Authority has begun to address the issues by considering a number of options including:

- a review of fees and charges, it is currently reviewing its policy on car park charges;
- a change in investment policy by moving into property investments that is likely to achieve a higher returns given the existing economic conditions; and
- consideration of whether to continue to limit future council tax increase to 2.5%.

The Authority has built on its existing medium term financial strategy and started the process of producing its 5-year Strategy and Financial Plan. A financial strategy that aims to allocate future

available resources to match the Authority's planned service priorities and is based on the modelling and sensitivity analysis is crucial to the success of the 5-year Plan.

3.2 Systems of internal financial control

The Authority has maintained sound systems of internal control over its core financial systems. We have placed reliance on the systems and have relied upon the work carried out by internal audit.

We are required to consider whether the Authority has put in place adequate arrangements to satisfy itself that its systems of internal financial control are both adequate and effective in practice. These arrangements include:

- the overall control environment, including internal audit;
- the identification, evaluation and management of operational and financial risks;
- clarity of roles and responsibilities and staff with the expertise appropriate to their responsibilities; and
- standing orders, financial regulations and supporting procedure notes.

Internal Audit

We reviewed the quality and scope of Internal Audit's work under the Managed Audit approach to assess the extent to which we may place reliance on its annual coverage in planning our own external audit work.

There were slippages in the Internal Audit programme during the year due to unforeseen circumstances that resulted in the loss of some audit resources. This has caused in a delay in completing the 2002/03 programme until July 2003.

Despite the delay, we are satisfied that the quality of the work carried out and the files produced by Internal Audit continue to be of acceptable standard and this has enabled us to place reliance on their work in reaching our audit opinion. Internal Audit has made a number of recommendations throughout the year to further strengthen the Authority's overall control environment and we support their recommendations.

Maintaining an effective internal audit function is one of the cornerstones which has enabled the Authority to produce its Statement of Internal Financial Control in 2002/03. Its progression to the Statement of Internal Control (SIC) in the future will also depend heavily on the basis that it will be able to continue to maintain an effective internal audit function. Moreover, the CPA assessment criteria also require an Authority to maintain an Internal Audit that has the resources, including the range of skills required in delivering its annual programme.

There is room for further improvement in the Internal Audit service before it can fully satisfy itself that adequate systems are in place to

ensure that the Authority can mitigate its operational and financial risks. The Authority therefore faces the risk of not meeting the more stringent SIC requirements and the CPA assessment unless it moves from on the existing arrangements.

We understand that arrangements have been made to find a replacement internal auditor and that there is a possibility of the auditor who has been on long term sickness absence returning to work. In order to address resource and skill issues as well as developing the service further, the Authority explored the option of joint working in an internal audit partnership arrangement with a number of other Worcestershire Authorities. This has not to date, proved fruitful. The Authority is now considering the option of “buying in” external resources and expertise, in particular computer audit in order to maintain an effective Internal Audit function.

Recommendation 2: Internal Audit

The Authority should ensure that its Internal Audit section has sufficient skills and resources to deliver its annual programme, particularly in the light of assessing operational risks required by the SIC.

We refer in our Annual Audit Letter last year a number of areas where the Internal Audit service could be developed, this included:

- ensuring that the risk assessment covers aspects such as operational, IT and fraud risks;
- the application of a range of skills, for example computer audit skills;

- satisfying the service that their audit recommendations are implemented on a timely basis (a review of this is in progress); and
- assessment, with member involvement, of the performance of the service.

We noted that the Authority has already made some progress, e.g. risk assessment and the monitoring of audit recommendations. It is in the process of considering the skills issue and formalising how Members are engaged in monitoring the performance of Internal Audit.

Recommendation 3: Internal Audit

The Authority should continue to review the remaining development issues for its Internal Audit section.

Risk Management

The Authority continues to develop its risk management strategy during the year and has organised a number of workshops to raise the awareness of the importance of risk management. It has also begun the process of compiling its risks register based on the risk profiles identified by senior management.

The Authority has so far identified over 200 operational risks, this represents a very large number of risks that need to be addressed and

managed. It has also carried out an assessment of the impact and likelihood of each risk occurring, assigned a risk factor and prioritised the risks accordingly.

Individual service managers are responsible for maintaining and updating their own risks register. In the continual development of the risk register, the Authority should recognise that risk management is an evolving process and that it will constantly face new challenges and risks. The risk register should therefore be seen as a “living document” that needs to be updated when new risks arise and when risks have been mitigated. Regular review of the risk register would allow the Authority to concentrate on the high risks areas, which if not mitigated, would affect its ability to achieve its overall objectives, while at the same time maintaining a watching brief over the lesser risk issues. We consider it important that there is a mechanism in place to ensure that the risks register is updated to reflect changing circumstances and that this task should be co-ordinated centrally.

It is important for the Authority to accept that effective risk management requires the involvement of every member and officer within the Authority and each has a responsibility to ensure that all risks, be it financial or reputational are mitigated and controlled.

The Authority’s insurers, Zurich Municipal Management Services (ZMMS) have recently undertaken an independent health check of the risk management arrangements in place. The work included a review of the risk management strategy, analysis of the risk register, and comparison to nationally collected risk data etc. It is intended that the report from ZMMS will be presented to the members shortly.

Recommendation 4: Risk Management

The Authority should continue to develop its risk management arrangements, in particular maintenance and review of an up to date risk register and integrate the concept into everyday management practices.

Prudential code

The new prudential code will replace the current system of capital controls from 2004/05. The new code will place the responsibility for assessing the “affordable” level of borrowing on each Local Authority, i.e. freedom to invest so long as it can be demonstrated that capital spending plans are affordable, prudent and sustainable. This will necessitate comprehensive revenue and capital plans to be in place to allow informed decisions about long-term sustainability of financing arrangements.

In a recent report to the Executive Board, the Authority considered the implications of the new code and acknowledges that it will offer little extra room for manoeuvre without additional funding for local government capital investment. The Authority already produce a three year financial plan for both capital and revenue when it sets the annual budget and carries out a full financial risk assessment of the medium term financial plan. It therefore has all the elements in place to comply with the new code.

The Authority’s current financial policy is to retain its debt free status and it does not foresee a change in this policy when the code

is introduced. Whilst it recognises the attractiveness of borrowing to invest, it has identified two significant drawbacks:

- impact of the loan charges on the revenue account and the consequences on the affordability of council tax increases; and
- inability to invest long term to take advantage of high rate investments.

The Authority is currently awaiting further information from the Government concerning the change to the Revenue Support Grant settlement. A change in the formula as the Code is introduced could result in significant financial loss to Wychavon.

Recommendation 5: Prudential code

The Authority should ensure that its 5-year strategy and financial plan incorporates the requirements of the new prudential code and aligns with its corporate objectives. It should also actively manage the potential financial losses due to changes in the calculation of the Revenue Support Grant entitlement.

3.3 Legality of financial transactions

Based on the work we have undertaken, the Authority has adequate arrangements in place for ensuring the legality of its transactions.

We are required by the Code of Audit Practice to assess the arrangements that the Authority has in place to identify whether transactions undertaken that might have a significant financial consequence and contracts that are entered into are legally sound. In our assessment we considered the impact of matters notified to us by the Audit Commission and reviewed the Authority's overall arrangements by:

- considering the legality of financial transactions as part of our audit of the Authority's statement of accounts;
- holding discussions as required with the Authority's Monitoring Officer as to whether or not there are any significant legal issues which impact on the Authority;
- considering the local impact of national legislation affecting local government;
- monitoring the Authority's response to the Local Government Act 2000, and in particular, considering the Authority's progress in establishing Scrutiny Arrangements; and
- considering new investment decisions and major projects.

Major projects

The Authority is currently involved in two major development projects in Droitwich, the Waitrose Supermarket Development and Droitwich Lido and is considering entering into an arrangement to build a new hospital and health centre.

New Hospital project

The Authority is considering entering into an arrangement with the South Worcestershire Primary Care Trust (PCT) to build a new hospital and health centre at the Civic centre site. The new hospital and health centre is intended to replace the Pershore Cottage Hospital and the Pershore Health Centre.

The project would involve the Authority building the new hospital and health centre on its own land and leasing the building back to the PCT. The main benefits arising from this project for the Authority are:

- it provides an enabling role in assisting the local PCT to provide the facilities for healthcare within the area; and
- it fulfils the revised investment strategy of diversifying into property investment where returns are seen to be more attractive than the returns offered by the prevailing market.

The project has so far been well received by local stakeholders, including the Strategic Health Authority (SHA) although the formal public consultation has not yet been held. The PCT has produced its business case and this will need to be approved by the SHA. The

Authority is also in the process of preparing its own business case and in the mean time, a project team is being assembled.

Due to the complex nature of the project, it is important that the Authority considers carefully the legal implications of the transactions involved. It needs to formally consider the powers under which it relies on to enter into building the hospital. We suggested that the Authority's Monitoring Officer consider this aspect and also that it should seek independent legal advice from its own external legal advisors. The advice, which has now been received sets out the powers that the Authority could use.

Local Government Act 2000

The Authority continues to respond to the Local Government Act 2000 by:

- establishing Scrutiny Teams to review Concessionary Fares and Car Parking and the Health Overview and Scrutiny Team to develop the role, function and responsibilities of Health Overview and Scrutiny in Wychavon as part of the new responsibility for the health and well being for local residents. Major considerations by the Health Overview and Scrutiny team during the year involve discussions and debate surrounding the proposed new hospital project;
- organising a joint Member training event with neighbouring authorities to improve Members' and Officers' Overview and Scrutiny skills.

In terms of further developing the Overview and Scrutiny role, there is still much that the Authority should consider, such as learning

from the experiences of other Authorities and continuous training for its Members in order to provide the rigorous challenges required by the role.

3.4 Standard of financial conduct and the prevention and detection of fraud and corruption

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

We are 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. In our assessment we reviewed the Council's overall arrangements for:

- implementing and monitoring compliance with appropriate standards of corporate governance;
- ensuring compliance with codes of conduct that advise Members and officers of their personal responsibilities and expected standards of behaviour;
- ensuring compliance with standing orders and financial regulations, including instructions on regulating the handling of contracts; and
- developing and implementing strategies to prevent and detect fraud and corruption; and receiving and investigating

allegations of breaches of proper standards of financial conduct, or of fraud and corruption.

It is 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.

Our work in this area included a follow-up review of the Audit Commission's Overall Arrangements for the Prevention of Fraud and Corruption checklist which we completed in the previous year. This confirmed that the control environment required to prevent and detect fraud and corruption remained strong within the Council. We also reviewed the Internal Audit's Annual Plan for clear evidence that it include consideration of issues relating to the prevention and detection of fraud and corruption.

Recommendation 6: Fraud & Corruption

The Authority should continue to build on its existing fraud and corruption arrangements and ensure that its Internal Audit's annual plan includes proactive activities to promote and identify areas on detecting and preventing fraud and corruption.

During the year we also worked collaboratively with internal audit to follow up on any potential frauds that were brought to our attention by the Audit Commission's national "fraud alert" system.

4 Audit of the accounts

Our audit work on financial statements was completed to deadline and the accounts were unqualified.

4.1 Statement of Auditing Standard 610 (SAS 610)

Under SAS 610, we are required to formally communicate to those charged with governance any matters which come to our attention as a result of the audit of the financial statements. The SAS guidance states that the information that we report must include:

- Any identified misstatements in the accounts which management have *not* agreed to adjust; and
- Our view on the qualitative aspects of the Authority's accounting and financial reporting practices.

We are pleased to report that there were no unadjusted audit amendments, however we did identify a number of minor audit amendments and additional disclosure notes during the course of our audit but they do not impact upon the overall financial position of the Authority.

4.2 Our opinion and certificate

We are required to audit the Authority's financial statements and to give an opinion on whether they present fairly the financial position of the Authority and its expenditure and income for the year. We are also required to report that they have been properly prepared in accordance with relevant legislation and applicable accounting standards.

An important measure of proper financial control and accountability is the timely closure and publication of audited accounts. The Authority has continued to maintain an efficient final accounts closedown process including the provision of good quality working papers to support the financial statements. The Authority also met its statutory target of presenting its financial statements to Members for approval by 29 July 2003.

We reported to the Authority in our opinion on 29 August 2003, that the statement of accounts presented fairly the financial position, and that we had completed the audit in accordance with the requirements of the Audit Commission Act 1998 and the Code of Audit Practice.

We have reported detailed issues arising from our audit to the S151 Officer in a separate memorandum and there are no other matters resulting from our audit of the accounts that we wish to draw to Members' attention.

The Authority provided management assurances that all known related parties disclosures had been made and that there are no areas



of non-compliance with laws and regulations of which management is aware.

We have not received any questions or objections on the 2002/03 accounts from local authority electors under section 15 of the Audit Commission Act.

5 Performance management

We have a responsibility to review and where appropriate report on the arrangements that the Authority has put in place:

- to comply with statutory requirements in respect of the preparation and publication of its Best Value Performance Plan;
- for collecting, recording and publishing specified performance information; and
- to secure economy, efficiency and effectiveness in the use of resources.

5.1 Best Value Performance Plan

We have issued an unqualified opinion on the Best Value Performance Plan.

Under the Local Government Act 1999 the Authority is responsible for the preparation of a Best Value Performance Plan (BVPP) and for the information and assessments set out within it.

As the Authority's auditors, we were required under Section 7 of the Act to carry out an audit of the BVPP focusing upon the following areas:

- Compliance - we assessed whether the BVPP complied with the requirements of the legislation and other associated orders or guidance.
- Performance information - we assessed the systems in place for preparing performance information.

5.2 Performance information

Our audit of the final outturn of performance information was completed satisfactorily.

We are required to review the adequacy of the systems of the Authority for collecting, recording and publishing performance information. Performance information is collected over the whole range of the Authority's services and the resultant indicators are published either in the Best Value Performance Plan or in the case of Audit Commission Performance Indicators in the local press.

As in previous year, we adopted a risk based approach to the audit of the Authority's performance information. In essence this entailed applying our overall understanding of the Authority's compilation process in determining the key risk areas. The key factors we took into consideration when determining the level of risk for each Performance Indicator were as follows:

- issues identified during the audit of previous performance indicators;

- new and changed indicators;
 - significant variances from prior year audited figures;
 - significant variances from estimated outturn figures; and
 - specific issues raised by the Audit Commission.
- requirements of the Audit Commission;
 - evidence gained from other aspects of the audit or previous audit work; and
 - where appropriate, the work of other auditors, inspectors and other statutory review agencies.

As a result of our audit of the outturn of the Best Value and Audit Commission performance indicators we were able to give our opinion on the systems for compiling them and submitted the indicators to the Audit Commission by the due date. We also noted improvements to the standard and quality of the working papers that supported the performance information and this has assisted in the audit process.

5.3 Use of resources

The Comprehensive Performance Assessment (CPA) remained a key driver for the ongoing improvement of performance management arrangements, partnership working and improving services for the residents of Wychavon.

We are required to review the adequacy of the arrangements the Authority has in place to secure economy, efficiency and effectiveness in its use of resources. In making this assessment we have taken into account:

- the risks shared with the Authority at the planning stage:

Comprehensive Performance Assessment

We have contributed to the Authority’s “pathfinder” project on applying CPA to District Councils during the year, which involved providing the challenge to the draft corporate self-assessment and undertaking an Auditors Scored Judgements (ASJ) assessment on the Authority. In the five areas that we have to consider under ASJ, we have scored Internal Financial Control as being adequate overall but with some weaknesses that need to be addressed. The other areas were judged to be adequate or better. The Authority has put into place arrangements to improve on its Internal Financial Control and we will be required to undertake another ASJ assessment in the autumn as part of the pathfinder “re-fresh” assessment.

The judgements from the “pathfinder” CPA assessors are positive and we worked in conjunction with the Relationship Manager to provide comments on the Authority’s Improvement Plan. The major areas that the Authority needed to develop were:

- *Improve housing service provision-* The Authority has responded to this challenge by, amongst other initiatives, reviewing its structure and IT needs within Housing to

provide the capacity and database to deliver services. It also has plans to carry out a housing needs assessment and stock condition survey, together with developing a performance management framework that will be monitored by the Overview and Scrutiny Committee;

- **Promoting social inclusion and equalities-** The Authority is undertaking a review of this area and has taken advantage of input from the Audit Commission at an early stage;
- **Developing scrutiny arrangements-** We have referred to the progress made by the Authority under the Legality section of this report; and
- **Developing and implementing an improved system for performance management-** See below

Performance Management and service improvement

The Authority's CPA action plan on performance management was to set out a clear performance management framework and implement it across the Authority to improve services. There was an element of documenting what is already done and this has been dealt with through an outline of the performance management system in both narrative and diagrammatic forms.

More substantively, a basket of a limited number of key indicators has been developed for quarterly monitoring, to supplement the key half yearly review. We also noted the progress made in linking service plans to the corporate priorities and targets more clearly. These are both areas on which we have commented in the past and can recognise the progress made.

We agree with the Authority that keeping it clear and simple is essential if the real benefits of monitoring and accountability are to flow. We therefore consider that the key areas to focus on going forward are on target setting (where can performance slip, where must it improve faster, getting ownership of targets from the teams concerned), and on ensuring that the face to face appraisal sessions with staff consistently make the link between corporate, departmental and individual objectives so that your promises are turned into reality.

The Authority is in the process of developing a corporate performance management system with an external firm of consultants that will provide the linkage between its performance indicators, risk profiles, reporting requirements and co-ordinate the "to do" lists. This should help facilitate the links that are needed for clear accountability and keep administration to a minimum.

Recommendation 7: Performance Management

The Authority should continue to develop its performance management framework by focusing on key areas that are likely to demonstrate that it has made "a difference" to service provision.

6 Audit summary

This section summarises the overall arrangements for delivery of your external audit in 2002/03 as well as initial thinking for the 2003/04 audit work that we will need to perform.

The 2002/03 audit cycle

In order to ensure that there is transparency between the Authority and the external auditors about the extent of our fee relationship with you, we have summarised below the outturn against the 2002/03 agreed external audit fee.

Analysis of the external audit fee – 2002/03

Audit Area	Plan £000	Outturn £000
Accounts	30	30
Financial Aspects of Corporate Governance	18	18
Performance management	9	9
Total	57	57

The analysis shows that to date, we are not expecting a significant change in the level of audit fees when compared with the plan. We have not undertaken any additional work outside our agreed audit plan.

Future audit cycles

Our work in 2003/04 has already been tentatively presented within our seventeen-month 2002/04 audit plan that we agreed in June 2003. We will update this plan shortly by reassessing the risks facing the Authority.

Appendix A - Summary of recommendations and action plan

No.	Recommendation	Management response
1	<p><i>Budget setting</i></p> <p>As part of developing its 5-year financial strategy, the Authority should continue to refine its approach to annual budget setting so as to reflect a more accurate use of reserves and balances</p>	<p>Wychavon will continue to refine where possible its approach to setting budgets to ensure that expenditure and income forecasts are as accurate as possible at the time that they are made. A financial risk assessment now accompanies our medium-term financial plan and this highlights areas of the budget where there is a significant risk that actual expenditure and income will be considerably different from the budget. Our budget monitoring procedures help us to identify at an early stage when actual expenditure or income is not going according to plan. New flexibility in our financial regulations allows managed underspends to be carried forward so that ‘spare’ money is quickly reinvested. Our culture in Wychavon is one of strong financial control and our Heads of Service protect the corporate ‘piggy bank’ by seeking the most cost-effective ways of delivering the same and indeed improved levels of service to the public. It is unfortunate that this success translates into a criticism when viewed at an overall level.</p>

No.	Recommendation	Management response
2	<p><i>Internal Audit</i></p> <p>The Authority should ensure that its Internal Audit section has sufficient skills and resources to deliver its annual programme, particularly in the light of assessing operational risks required by the SIC.</p>	<p>The difficulties experienced in recent months due to an unexpected vacancy within the team and a long-term sickness absence are now resolved. A temporary member of staff joins us in the beginning of October for a six-month period and our colleague on long-term sickness absence has started to make a phased return to work.</p> <p>A report is being prepared for the Executive Board to consider in October on the way forward for the whole of the Financial Services section. This will address the issues for Internal Audit identified by the external auditor.</p>
3	<p><i>Internal Audit</i></p> <p>The Authority should continue to review the remaining development issues for its Internal Audit section.</p>	<p>See comment for recommendation 2 above. The audit team has been developing a wider role within the council. It acts as an internal consultancy for new initiatives and has promoted risk management.</p>
4	<p><i>Risk Management</i></p> <p>The Authority should continue to develop its risk management arrangements, in particular maintaining an up to date risk register and integrate the concept into everyday management practices.</p>	<p>This is in hand. Zurich Municipal Management Services has completed the health check they were commissioned to carry out. An action plan will be developed to take forward agreed areas for improvement.</p>

No.	Recommendation	Management response
5	<p><i>Prudential code</i></p> <p>The Authority should ensure that its 5-year strategy and financial plan incorporates the requirements of the new prudential code and aligns with its corporate objectives. It should also actively manage the potential financial losses due to changes in the calculation of the Revenue Support Grant entitlement.</p>	<p>The foundations for the prudential code are well established in our existing medium-term financial strategy. The 5-year money plan being developed in tandem with the 5-year service strategy will show how we use our financial resources to support corporate objectives. We will follow the debate on changes to the RSG formulae closely and use our powers of persuasion to influence the best possible outcome for Wychavon council taxpayers.</p>
6	<p><i>Fraud & Corruption</i></p> <p>The Authority should ensure that its Internal Audit's annual programme includes a proactive plan to identify and carry out work on detecting and preventing fraud and corruption.</p>	<p>As I commented last year, our internal audit plan is based on the CIPFA risk assessment tool and we therefore automatically consider fraud & corruption issues. We started doing this in 2001/02.</p>

No.	Recommendation	Management response
7	<p><i>Performance management</i></p> <p>The Authority should continue to develop its performance management framework by focusing on key areas that are likely to demonstrate that it has made “a difference” to service provision.</p>	<p>The Council has already strengthened Performance Management arrangements with a strategic basket of key measures identified so we are clear what is important to keep track of. The joint meetings by the top teams - the Executive Board and Senior Management Team - are monitoring and actively managing these quarterly, with Overview and Scrutiny having an active role in the process. The Council is investing in a new corporate information tool, working with Consilium- a private sector IT partner. This will help co-ordinate our performance information and the first phase will include our promises, National Performance Indicators, Community Plan targets and Land and Property Group project management milestones and the Our People Action Plan. This tool will be piloted this autumn. Members and managers will then be able to access progress far more easily.</p>

Appendix B - Auditor's Report to Wychavon District Council on its Best Value Performance Plan for the Financial Year 2003/04

Certificate

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

This report is made solely to Wychavon District Council, in accordance with Section 7 of the Act. Our audit work has been undertaken so that we might state to the Council, to the Audit Commission and (where necessary) to the Secretary of State those matters we are required to state to them in such an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than (i) the Council, for our audit work, for this report, or for the opinions we have formed, (ii) the Audit Commission, for our recommendation under section 7(4)(e) and (iii) the Secretary of State, for our recommendation (if positive) under section 7(4)(f) of the Act.

Respective Responsibilities of the Authority and the auditors

Under the Local Government Act 1999 (the Act) the Authority is required to prepare and publish a best value performance plan summarising the Authority'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 Authority is responsible for the preparation of the plan and for the information and assessments set out within it. The Authority 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 Authority'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 Authority 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 with regard to 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 Authority. 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

Unqualified opinion

In our opinion, Wychavon 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.

Basis of recommendations

For the purpose of making our recommendations, 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 that we considered necessary in order to enable us to determine whether or not to make recommendations in this report on the matters that came to our attention during the audit. However, our work cannot be relied upon to identify every weakness or opportunity for improvement. In particular, it has not necessarily covered the same areas as a best value inspection.

For this purpose, our audit included a review and assessment, and where appropriate, examination on a test basis of evidence relevant to the adequacy of the systems set in place by the Authority for collecting and recording specified performance information.

Recommendations

On the basis of our audit work, there are no matters, which should be brought to your attention.

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 Authority 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 Wychavon District Council under section 10 of the Local Government Act 1999; and
- we do not recommend that the Secretary of State should give a direction under section 15 of the Local Government Act 1999.

KPMG LLP, Birmingham

10 December 2003