

Annual Audit and Inspection Letter

May 2006



Appendix A

Audit Board - 13th June 2006

Annual Audit and Inspection Letter

Bromsgrove District Council

Audit 2004/2005

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.
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Key messages

The purpose of this letter

- 1 This Annual Audit and Inspection Letter (AA&IL) for Members, which incorporates the Annual Audit Letter, is presented by Bromsgrove District Council's ('The Council', 'Bromsgrove') Relationship Manager, Sandy McMillan of the Audit Commission and the Appointed Auditor, KPMG LLP (Jon Gorrie the Engagement Director). This letter summarises the conclusions and significant issues arising from the 2004/05 audit and inspection programme, with separate audit and inspection plans produced for 2004/05.
- 2 Both the Audit Commission and KPMG LLP (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 issued an Interim Memorandum in August 2005, and a combined 2003/04 and 2004/05 Final Accounts Memorandum in February 2006. KPMG has not included the detailed findings from those reports in this report but have included the summaries and conclusions.

Council performance

- 5 Since being categorised as a poor council in 2004 the Council has made some progress. The Council is making some progress and it is tangibly a different organisation than it was two years ago, but much remains to be done before it can emerge from engagement.
- 6 There has been good progress in defining ambitions for the future but prioritisation of resources is not yet effective. Organisational capacity to deliver recovery is improving but it is still fragile, and there are areas where significant improvement is required. The pace of member development has been slow and some aspects of decision-making and scrutiny arrangements are not operating effectively.
- 7 Some services continue to perform at a good level and there have been improvements in recycling, planning processing times and more recently in benefits. However overall service performance remains below average and those services where performance is weaker tend to show less improvement.

- 8 The council has responded positively to the progress assessment. Councillors are now more actively engaged in performance management and business planning is more closely aligned to corporate priorities. Significant challenges remain in addressing councillor development and improving cross party working.
- 9 In May 2005 our inspection of E Government found that it was a fair service with uncertain prospects for improvement.
- 10 KPMG issued an unqualified opinion on the Best Value Performance Plan and the systems for producing the Performance Indicators contained within that plan.
- 11 The Council overall scored 1 out of 4 for the new use of resources assessment, indicating inadequate performance. The key areas in which it needs to progress to move to a level 2 (adequate performance) assessment are summarised in the recommendations in paragraph 17.

The accounts

- 12 During the calendar year 2005, the Council produced two year's of financial statements, 2003/04 and 2004/05, delayed as a result of issues arising from the 2001/02 and 2002/03 statements of accounts; both of which included a qualified audit opinion from KPMG.
- 13 Demonstrating the improvement made by the Council over the past twelve months KPMG issued unqualified audit opinions on both the Council's 2003/04 and 2004/05 statements of accounts in November 2005 and February 2006 respectively. As a result the Council is now on track for a 2005/06 accounts and audit timetable in line with that of other local authorities.
- 14 KPMG issued a final accounts memorandum to the Council in February 2006, which contained the detailed findings, amendments and performance improvement observations arising from its audit of the two sets of accounts.

Financial position

- 15 The Council has retained its debt-free status for a further year. At the financial year end 31 March 2005, the Council had £19 million of liabilities offset by £56 million of assets, including £23 million in various forms of property and £26 million in short-term investments. We understand from current budget monitoring information that this position has not changed fundamentally and as part of our 2005/06 audit work we will continue to review and report upon this.

Other accounts and governance issues

- 16 Under the Council's Treasury Management Policy, Members should receive reports on treasury management performance during the year. Short-term investments account for 46 per cent of the Council's assets and are subject to treasury management; however, there has been limited reporting to Members during 2004/05 on treasury management performance.

Action needed by the Council

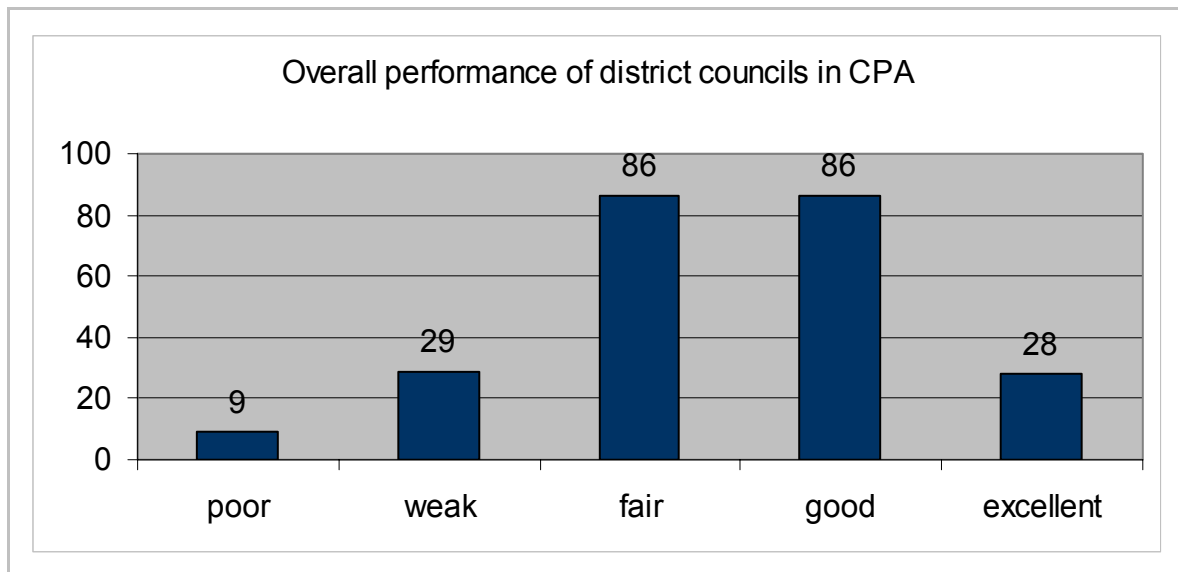
- 17 The Council should implement the recommendations included within this report, in particular the Council:
- needs to develop an appropriate and detailed action plan to address the issues and recommendations raised as part of the Use of Resources work;
 - needs to ensure it reports all financial activities, particularly treasury management issues to Members to promote good governance;
 - must enhance its performance management framework, including benchmarking its performance to enable the Council to place its improvement in context; and
 - must further develop its risk management framework and promote a risk awareness culture through the organisation, supported by Members.

Council performance

- 18 The Council is unique in England in that it was not subject to all aspects of Comprehensive Performance Assessment. In June 2004 the Council requested engagement with the Office of the Deputy Prime Minister. As a consequence of the council's request for engagement the Audit Commission agreed to change its approach to the council's comprehensive performance assessment. It agreed that the assessment would not take place as planned along with the other Worcestershire district councils in September 2004. As part of the agreement to do this the council was given, and accepted, a CPA category as a poor council. The council will continue to be categorised as a poor council until such time as the commission undertakes a full CPA. The timing of this assessment will be determined by the monitoring board, and it will take place when the board is satisfied that sufficient progress has been made to justify it. The Monitoring Board has not yet agreed that sufficient progress has been shown. The Council has set itself a target of coming out of engagement by March 2007.

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

Direction of travel report

Council services

- 19 There is a mixed picture of improvement in the Council's overall delivery of services. As illustrated by the table below, between 2002-03 and 2004-05 just over half of the Council's performance indicators have shown improvement and just under half do not. It should be noted that the majority of indicators still show below average performance for 2004-05, and those which were already below average performance show lower levels of improvement.

Figure 2

	Since 2002/03 ^{Note 3}			
	PIs that have improved	PIs that have not improved	Data only for one year	
Key PIs				
PIs in 'Best' Quartile	8	2	1	23%
PIs in 2nd Quartile	4	2	3	19%
PIs in 3rd Quartile	6	5	2	28%
PIs in 'Worst' Quartile	3	10	1	30%
	53%	48%		

Progress assessment

- 20 In 2004 we categorised the Council as 'poor'. Since then the Council has been in engagement with the Office of the Deputy Prime Minister (ODPM), with its progress overseen by a Monitoring Board. We have worked closely with the Monitoring Board to support the Council in the delivery of its priorities for improvement. In December 2005 we published a progress assessment on the Council. Such progress assessments are undertaken on an annual basis on all underperforming councils (those categorised as weak or poor under CPA). The conclusions of this assessment are outlined below.
- 21 The Council is making some progress. The direction of travel is positive and it is tangibly a different organisation now than it was two years ago. However, much remains to be done and some significant challenges will need to be addressed if the Council is to achieve its ambition of emerging from engagement by 2007.
- 22 The Council has made good progress in defining its ambitions for the future. There is a clear recognition amongst both members and officers of the need for improvement, of where it wants to get to, and what needs to be done to achieve it. The Council is looking outwards and is working productively in partnership with others across the county. However, it is not effectively prioritising its resources. It has revised its corporate priorities and has updated its budget challenge and service business planning process. A challenge for the authority was to undertake a more robust and priority-led budget and service planning round for 2006/07, and to develop this approach in future years.

- 23 Capacity to deliver recovery is improving, but is still fragile and there are areas where significant improvement is required. Clear managerial leadership has not always been evident in driving the pace and scale of the changes needed, although the focus on recovery has recently improved. Capacity is stretched by the demanding recovery agenda and the full complement of permanent management posts is only just now being completed. Solid progress has been made in improving basic financial accounting and internal control arrangements, however the Council has come from a very low base here and much remains to be done. Staff at all levels in the council are making positive contributions to the recovery process. Management of the depot has improved significantly. Good use has been made of interim managers, and the organisation's culture is now much more collaborative and 'can-do', with improved internal communications. Capacity across the authority to undertake effective performance, financial and risk management is still at an early stage.
- 24 The pace of member development has been slow, and some aspects of the Council's modernised decision-making and scrutiny arrangements are not operating effectively. Members are not working effectively together across all party groups to drive and focus on improvement.
- 25 The Council continues to deliver some good services to local people, and it has made significant improvements in some areas. The Council is now doing much better at recycling and composting waste. Most planning applications are being processed quickly, and the new Customer Service Centre has been successfully opened. However, some service areas were not performing strongly. Benefits claims were not being processed as quickly as they should, although performance was improving, and the BFI note this trend has continued. Street cleaning remains a challenge. The Council is not making effective use of customer feedback to challenge and improve services.
- 26 The Council has worked hard to put in place a range of plans and investments that should help it to sustain improvement. The Council is investing in its benefits service, various strategies have been developed or drafted to help shape future decision-making, and a bid for capacity-building funding has been agreed. Plans are in place to support more effective working and leadership by the Council's 'top team' of senior managers and members. However, the Council recognises the need to continue to work on member development and better cross-party working.

Council's actions since the progress assessment

- 27 The Council has responded positively to the progress assessment and has accepted its key messages. In many areas it has continued to make progress with plans that were in place at the time of the assessment, and further progress has been evident since. In particular progress in financial accounting has continued.
- 28 The corporate plan has been reviewed to ensure there are more explicit targets, and monitoring systems pay particular attention where there is evidence of below average performance. Business planning has also been more closely aligned to corporate priorities.

- 29 Members have been more actively engaged in performance management through a newly established Board. Business planning has been linked more closely to corporate priorities and applied more consistently across services. There has been some progress in relationships between political groups but significant tensions remain.
- 30 Unaudited council figures show significant improvement in the benefits service.

Other performance work

Best Value Performance Plan (BVPP)

- 31 Bromsgrove published a Best Value Performance Plan before the 30 June deadline. KPMG issued an unqualified opinion on the Council's 2005/06 BVPP on 14 December 2005 and there are no statutory recommendations to which the Council must formally respond.

Best Value Performance Indicators (BVPIs)

- 32 KPMG satisfactorily completed its audit of the Council's Best Value Performance Indicators.
- 33 KPMG issued an unqualified opinion on the Council's systems for compiling its 2004/05 BVPIs and the accuracy of the Audit Commission's selected BVPIs. KPMG submitted the indicators to the Audit Commission by the due date after applying a small number of audit adjustments.
- 34 The detailed findings arising from KPMG's audit of the BVPP and BVPIs were reported in its August 2005 Interim Memo.

Performance management framework

- 35 The Council did not have an effective performance management framework in place during 2004/05. KPMG noted that with regard to the Council's BVPIs these were not:
- built into the corporate objectives;
 - sufficiently monitored at a corporate level; or
 - subject to appropriate management action to act on poor performance.
- 36 However, in order to demonstrate a commitment to performance improvement the Council has established a Performance Management Board (PMB) in November 2005 to enable the Executive Cabinet to concentrate on decision making whilst the PMB monitors and actions the delivery of those decisions.
- 37 The PMB has selected 45 indicators across the Council's services that it believes are key to demonstrating and monitoring performance.
- 38 The current information presented to the PMB does not benchmark against similar sized authorities which reduces the impact of the performance presented. For example third quarter performance for 2005/06 shows that 49 per cent of indicators are meeting or exceeding targets for performance; however, without comparative data that achievement may be taken out of context. For example, indicators exceeding targets may be in the lowest national quartile, or conversely indicators below target may be in the highest quartile.

- 39 Furthermore, KPMG's review of Bromsgrove's BVPIs identified that quarterly indicators were often inaccurate, and the officer responsible for the BVPI coordination had to make a number of corrections prior to audit. This will undermine the substance of the indicators reported to the Board.

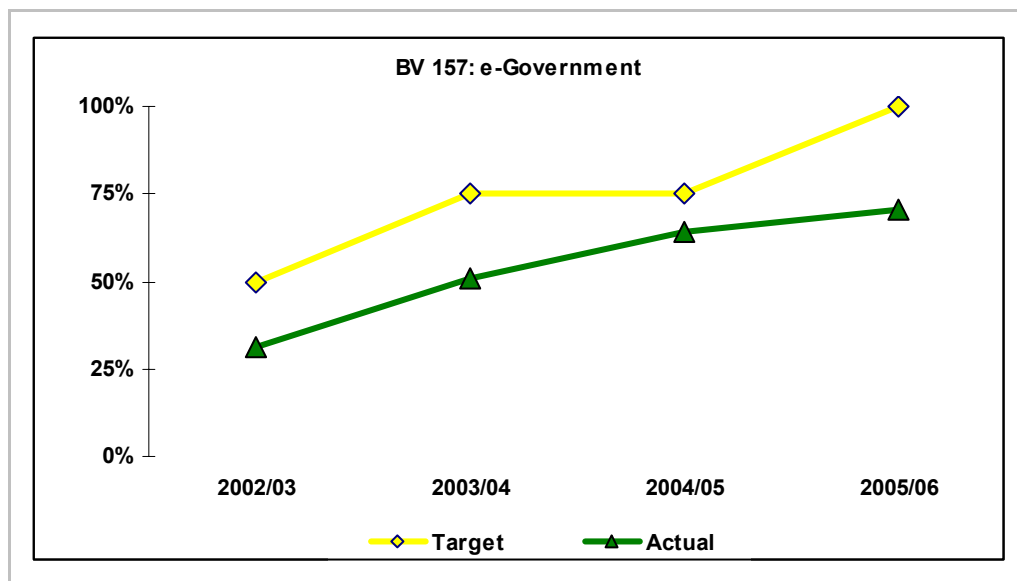
Recommendations 1 and 2: Performance framework

R1 The Council should incorporate benchmarking into the performance indicators to allow the PMB to place current performance into an appropriate context.

R2 Whilst the Council has a Top 45 set of performance indicators, the Council should still consider reporting by exception ie reducing the number of indicators presented to the PMB to streamline the reporting process and enable the PMB to focus on poor performing areas.

e-Government

- 40 The Government set a target for local government of 100 per cent electronic delivery of key services by 31 December 2005, which is measured under BVPI 157: *The number of types of interactions that are enabled for electronic service delivery as a percentage of the types of interactions that are legally permissible for electronic delivery.*
- 41 The Council's e-Government strategy aims to ensure that the Council delivers excellence in the quality of its services to all its customers through the use of information technology systems. A significant proportion of service improvement has been delivered through the Worcestershire Hub, which aims to provide customers with more choice about how and when they access services.
- 42 In addition the Council has opened a Customer Service Centre adjacent to the Dolphin Centre, which offers the following services:
- council tax;
 - business rates;
 - payment facilities for both Council and County Council services;
 - street scene;
 - waste management; and
 - bus passes and car park permits.
- 43 However, despite these efforts the Council has consistently under-performed against its BVPI 157 target since 2002/03, with the third quarter performance for 2005/06 reported as 70.34 per cent, almost 30 per cent below the national target.
- 44 The chart below plots the Council's performance since 2002/03 in delivering it's e-Government strategy.

Figure 3 BVPI 157 e-Government against target

- 45 The Council's e-Member and e-Officer Champions must finalise the e-Government agenda and deliver the final promises as set out in its vision.

Recommendation 3: e-Government

R3 The Council must develop time bound action plans that are driven by effective project management based on realistic targets to ensure it fully delivers the e-Government agenda.

Other Audit Commission inspections

- 46 In May 2005 we published a report on the Council's E Government service. This judged that the council provided a fair service with uncertain prospects for improvement.
- 47 The service showed a number of positive aspects. The web site was well presented and becoming more interactive over time and the Customer Service Centre had been opened successfully. However, analysis of customer need and performance against the Government target for e-enabled services was weak. E-Government was not being used to tackle equality and diversity, there were no customer care standards and performance management was poor.
- 48 Prospects for improvement were uncertain because understanding of public need was limited, and service plans lacked detail so the council was unable to quantify the resources in needed to meet its high level objectives. Weaknesses in performance and project management continued to undermine confidence in future improvement.

Working with other inspectorates and regulators

- 49 An important aspect of the role of the Relationship Manager is to work with other inspectorates and regulators who also review and report on the council's performance. These include:
- Benefits Fraud Inspectorate (BFI); and
 - Local Government Office contact.
- 50 We share information and seek to provide 'joined up' regulation to the Council. During the last year the Council has received the following assessment.
- 51 In January 2006 the BFI published a report on the Council's benefits service. The Council had been chosen for inspection because of the historic poor performance of the benefits service.
- 52 The inspection found that overall the Council was performing to a poor standard. The service did not meet national standards in any of the four themes of performance standards (claims administration, security, user focus and resource management). Despite recent improvement the time taken to process claims, performance was below standard and a lack of prioritisation and inefficient working practices were identified. Councillors and senior officers were not aware of poor performance in preventing and recovering overpayments. Performance in taking sanctions against fraudsters had improved, but the Council had failed in its duty to prosecute in instances where fraud had been proven. There also needed to be improvements in the way the service dealt with its customers, and in particular there were insufficient customer care standards.
- 53 Management information provided to councillors was often inaccurate. There was also a lack of management checks and audit coverage was inadequate.
- 54 Since the inspection the BFI have continued to work with the Council to support service improvement. There has been a steady improvement in claims processing performance and the council is working actively to deliver further improvements across the service.

Accounts and governance

- 55 KPMG issued unqualified audit opinions on the Council's 2003/04 and 2004/05 Statement of Accounts.**

Audit of 2004/05 accounts

- 56** KPMG is required to audit the Council's financial statements and to give an opinion on whether they present fairly the Council's financial position and its income and expenditure; and have been prepared in accordance with relevant legislation and applicable accounting standards.
- 57** KPMG's audit of the Council's 2003/04 statement of accounts took place from August to October 2005 with an unqualified opinion issued on 24 November 2005. KPMG's issued an unqualified opinion on the Council's 2004/05 Statement of Accounts on 22 February 2006 based on the audit work carried out in November 2005 to January 2006.

Matters arising from the final accounts audit

- 58** 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.
- 59** The 2003/04 Statement of Accounts was presented to and approved by Members in May 2005, but due to the significant number of audit adjustments was re-presented to Members in October 2005, before KPMG could issue its audit opinion.
- 60** The 2004/05 Statement of Accounts was approved by Members in July 2005, meeting the statutory deadline of 31 July 2005. These accounts repeated a number of errors included within the 2003/04 accounts. However, due to timing issues the audit adjustments incorporated into the 2004/05 accounts did not have a significant impact on the overall position of the Council's reserves, and therefore did not require re-presentation to Members.
- 61** 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. The Council has cleared the backlog of statutory reporting and now has a real opportunity to meet the 2005/06 deadline. KPMG will continue to work closely with the Council to ensure that it meets the deadline.
- 62** During the course of the audit KPMG identified some audit adjustments and presentation and disclosure amendments within the Council's financial statements. These were discussed and agreed with the officers of the Council and the amendments were duly incorporated into the final versions of the accounts.

- 63 The table below summarises the impact of KPMG's audit adjustments on the Council's balances within both the 2003/04 and 2004/05 Statements of Accounts.

Table 1

	Year	Pre-audit £'000	Post-audit £'000	Movement £'000
Housing revenue balance	2002/03	23	-47	-70
	2003/04	-51	206	257
	2004/05	357	246	-111
General fund revenue balance	2002/03	1,212	1,057	-155
	2003/04	2,073	1,957	-116
	2004/05	2,590	2,550	-40
Overall revenue balances as at 31 March 2005		3,031	2,796	-235

- 64 KPMG has already reported the detailed issues arising from the final accounts audit in its combined final accounts report for 2003/04 and 2004/05. The key recommendations arising from KPMG's work on the Council's statement of accounts over the past 12 months are as follows.
- The Council must significantly improve the quality of the working papers provided for the audit.
 - The Council must deliver, and closely monitor, a closedown timetable to ensure that the 2005/06 statement of accounts are produced by the statutory deadline of 30 June 2006.
 - The Council must improve on the recording of expenditure within the capital programme to clearly distinguish between capital and revenue expenditure.
 - The Council must implement and follow consistent accounting policies, particularly those relating to capital expenditure.

Report to those with responsibility for governance in the Council

- 65 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 its attention as a result of the audit of the financial statements.
- 66 KPMG confirmed in its Combined 2003/04 and 2004/05 Final Accounts Memo 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

67 During the year, KPMG reviewed the adequacy of the arrangements the Council has in place to ensure that its financial standing is soundly based.

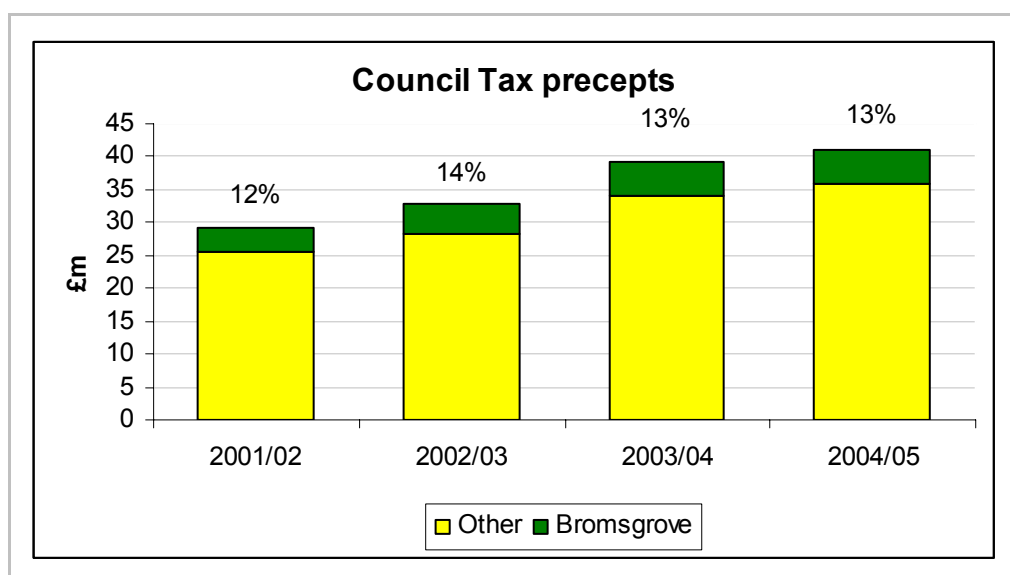
General fund spending

68 The Council's original budget for 2004/05 projected a £193,000 deficit on the general fund, based on budgeted spend of £9.18 million. After audit adjustments (as identified above) the Council returned a surplus of £593,000, a variance of £786,000. The main reasons for this are outlined below.

- The Council's treasury management activities generated an additional £300,000 in interest earned due to increases in interest rates between the date the budget was set and the outturn.
- £200,000 was saved through vacancy management, where departments were not fully staffed through the year, and supplemented by additional payroll savings through the restructuring that occurred mid-way through the year.
- The Council received £200,000 in income from Bromsgrove District Housing Trust not included in the original budget.

69 The precept levied on the Collection Fund forms a significant proportion of the income in support of general fund expenditure. The Council has maintained its share of the Council tax precept to an average 13 per cent of the total each year.

Figure 4 Proportion of the Council tax precepts relating to Bromsgrove District Council (excluding parish councils)



- 70 Over the past three years the balance on the Collection Fund account, which includes Business Rates and Council Tax, has risen to £1 million after audit adjustments. The main contributing factor to this surplus has been the excess of Council Tax income collected over precepts paid out. Since 2002/03 this excess has contributed to £0.8 million of the surplus now held on the Collection Fund account.
- 71 The Council's calculation of the council tax level and subsequent impact on the increasing Collection Fund balance has been hindered by the delays in finalising its financial statements. The Council has had difficulties in preparing the calculation without a firm indication of the exact level of its reserves. Now that the Council has cleared the back-log in finalised financial statements, it should have more accurate information on which to base its calculation of the Council Tax level in line with required revenue balances.

Recommendation 4: Council tax base

R4 The Council should ensure that future calculations of the Council Tax Level take into account the existing (and future) level of reserves, including any implications arising from the need to distribute any surplus to precepting authorities.

Treasury management performance

- 72 Following the housing stock transfer to Bromsgrove District Housing Trust (BDHT) on 29 March 2004, the Council's ability to generate a higher level of investment income significantly increased. The Council placed £30 million with two fund managers: Invesco (£15 million) and Casenove (£15 million). During the year Casenove decided to pull out of the local government market and the funds were returned to the Council, and which were managed in-house until a replacement fund manager was appointed. From 2005/06 these funds have been placed with HSBC.
- 73 The Council held £33.7 million in short-term investments at 31 March 2004, and £25.8 million at 31 March 2005, giving an average of £29.75 million. This level of investments returned investment income in the Consolidated Revenue Account of £1.6 million, representing an average return of 5.38 per cent. The sources of this income are:
- Casenove £277,000;
 - Invesco £659,000; and
 - In-house £664,000.
- 74 The Council's Treasury Management Policy (TMP) for 2004/05 was approved by Members in March 2004. The TMP requires regular reporting to Members on the performance and changes to treasury management activities, including non-compliance with the TMP.

- 75 The Council's TMP is supported by an annual Treasury Management Strategy Statement (TMSS) that includes information on the Council's prudential indicators which set the limit for borrowing at £6 million. The prudential code (2003) requires the Chief Finance Officer to establish procedures to monitor both performance against all forward looking prudential indicators and the requirement specified in paragraph. The Chief Finance Officer will need to establish a measurement, monitoring and reporting process that highlights significant deviations from expectations.
- 76 To date, there has been limited reporting to Members on either treasury management performance or compliance with the Prudential Code. Such reporting is required by the Council's own policies as well as representing good practice.
- 77 The Council has already acknowledged this issue and has put in place procedures to provide Members with periodic reports on treasury management activities.

Recommendation 5: Treasury management performance

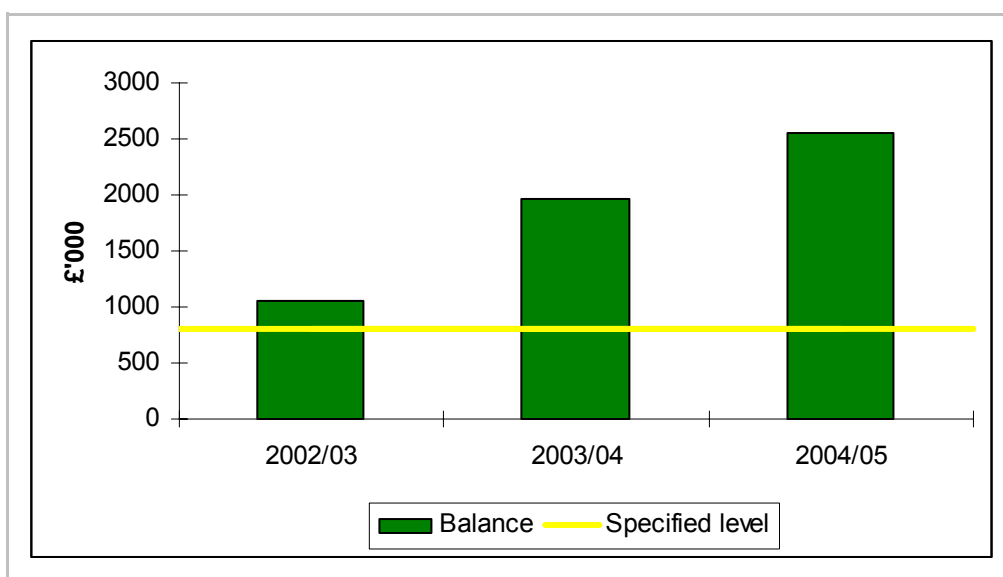
R5 The Council should produce quarterly reports that benchmark treasury management performance to ensure it is achieving best value from its fund managers.

Housing Revenue Account

- 78 The Council's Housing Revenue Account (HRA) contained only nominal entries during 2004/05. The Council will request closure of the HRA from the Office of the Deputy Prime Minister which will allow Bromsgrove to transfer the surplus (currently £246,000) into the general fund, on the proviso that if the Council ever has to re-open the HRA that same amount will be transferred back.

Revenue balances

- 79 As at the 31 March 2005 the Council held £2.8 million in revenue balances, split between £2.55 million in the general fund and £250,000 in the HRA. The Council has a further £69,000 in specific reserves, the majority of which has been earmarked for capital expenditure. The Council's overall position therefore identifies £2.82 million of reserves in support of future revenue expenditure. The Council needs to set a clear plan as how it determines an appropriate, risk assessed, minimum level of balances.
- 80 The current minimum level of reserves has been set at £850,000; however, the Council has not taken a risk assessed approach in setting this minimum level for its revenue balances and therefore cannot clearly demonstrate how these balances will contribute to the effective financial management of the Council.

Figure 5 General fund revenue balances 2002/03 to 2004/05**Recommendation 6: Revenue balances**

R6 The Council should calculate a risk assessed minimum level of balances required to sustain revenue expenditure. This should be based on a risk assessment of key variables and incorporate the overall objectives as specified in the Corporate Plan via the Medium Term Financial Strategy.

Financial stability

- 81 The Council's cash position and debt-free status has proved a significant factor in enabling Bromsgrove to maintain its financial stability. The table below provides an analysis of Council's cash and cash equivalent holdings.

Table 2

	2002/03 £'000	2003/04 £'000	2004/05 £'000
Long term investments	50	50	50
Current assets	24,188	40,338	32,879
Total current liabilities	5,455	6,950	4,804
Net position on cash and cash equivalents	18,783	33,438	28,125

82 The Council's liquidity has increased through 2003/04 to 2004/05 and its current ratio as at 31 March 2005 was above the generally accepted level. This, together with the Council's strong positive net position on cash and cash equivalents, indicated that Bromsgrove had a sound financial position from which to plan ahead. We understand from current budget monitoring that this position has not fundamentally changed and as part of our 2005/06 audit we will confirm and report upon the final position.

Capital programme

83 The Council's expected to incur £8.537 million general fund capital expenditure in 2004/05. The final outturn position identified slippage of 15 per cent, at £7.240 million. The main areas of slippage were the result of:

- improvements to town access at Mill Lane was under-spent by £148,000 due to delays in carrying out the feasibility study;
- registered social landlords not drawing on the Council's £258,000 budget to purchase/repair housing in the district;
- £299,000 under-spend on the Council's budget for disabled facilities grants;
- management shortages at the depot meant that the Council did not purchase £345,000 of the vehicles it had originally planned; and
- delays to the Dolphin Centre upgrade in 2003/04, but no adjustment to the budget was made, resulting in £184,000 continued under-spend in 2004/05.

84 From its review of the Council's asset management during the year KPMG noted that the Council did not evaluate the impact of prior years on the capital programme. For example the Council did not re-profile the budget on the Dolphin Centre as a result of prior year issues, also the Council has continually under-spent on disabled facilities grants, but no trend analysis has been built into the budget setting process.

85 The Council did not establish a budget for capital expenditure on the Housing Revenue Account; however, £2.083 million was incurred relating to the housing stock transfer to Bromsgrove District Housing Trust. This amount was funded from the capital receipt relating to the transfer.

Recommendations 7 and 8: Capital programme

R7 The Council needs to re-evaluate its capital budget setting process to ensure it takes into account issues arising from earlier years and ensure that all projects are covered.

R8 The Council needs to ensure it has robust project management arrangements over its capital programme to ensure that all projects are delivered on time and to budget.

Use of the prudential code

- 86 The Prudential Code provides greater financial freedom to local authorities to invest as long as their capital plans are affordable, prudent and sustainable. The 2006/07 capital programme of £5.7million is funded by through three main sources: s106 receipts £900,000; £500,000 from government grants; and the remaining £4.3 million from capital receipts.
- 87 If the Council can effectively monitor treasury management performance against external borrowing rates then the prudential code will offer an alternative form of capital funding. The current PWLB borrowing rates available to local councils ranges between 4.2 per cent and 4.4 per cent. Therefore provided that the cost of borrowing remains less than the income that could be earned from investing its own capital resources, it might be better value for money for Bromsgrove to consider borrowing as an option to finance its future capital expenditure.

Recommendation 9: Prudential borrowing

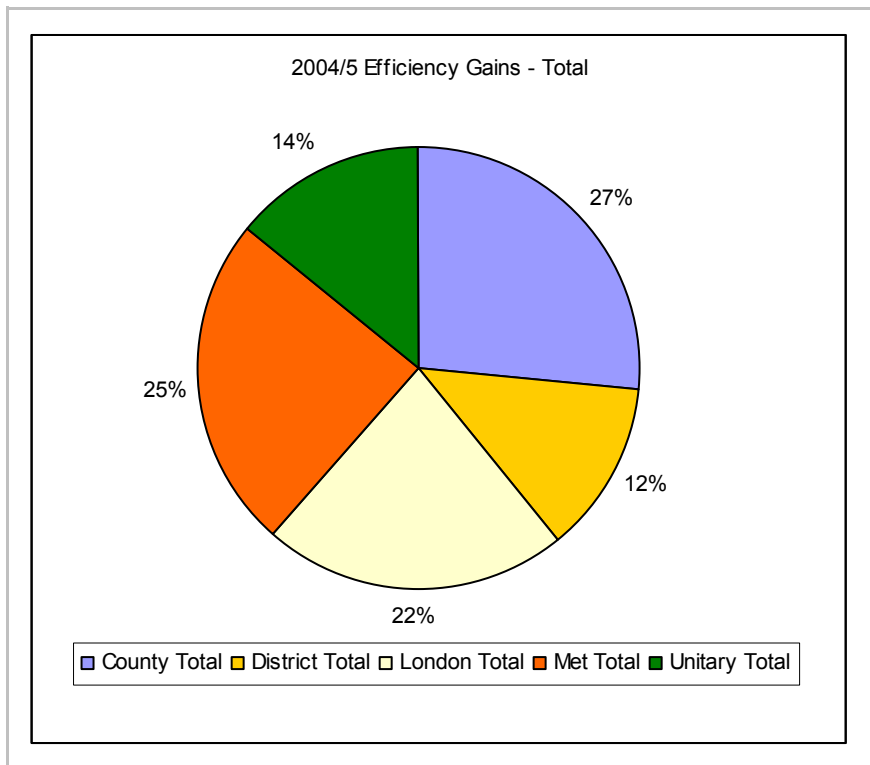
R9 The Council should risk assess and carry out a cost-benefit analysis of the two options available to it with regards to funding its future capital programme, for example through prudential borrowing.

Efficiency savings

- 88 As part of the Gershon agenda on efficiency the Council is required to achieve 2.5 per cent efficiency gains over a three-year period. In 2004/05 Bromsgrove reported £326,600 efficiency gains. The chart below shows the distribution of the total £760 million¹ efficiency gains achieved by all local government bodies in 2004/05 by type of local authority. Bromsgrove contributed 0.35 per cent of the £95 million efficiency gains achieved by districts.

¹ Source: Office of the Deputy Prime Minister www.odpm.gov.uk

Figure 6 2004/05 efficiency gains by local government type



89 The Council's 2005/06 efficiency target is £615,500 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.

Systems of internal financial control

- 90 KPMG are required to consider whether the Council has adequate arrangements in place to satisfy itself that its systems of internal financial control are adequate and effective.
- 91 KPMG's work identified significant weaknesses in the Council's overall control framework for the systems of internal financial control; however the Council took appropriate action to resolve these issues. KPMG reported in its Interim Memo of August 2005 and confirmed in its Combined 2003/04 and 2004/05 Final Accounts Memorandum that the Council has implemented key control account reconciliations.
- 92 During its work on the Council's statement of accounts, KPMG did notice, however, that a number of controls were not operating effectively, particularly the use of exception reports across the fundamental financial systems.

Risk management

- 93 During 2004/05 the application of risk management was poor and as KPMG reported in its interim memo, the Council only really began the process for developing risk management through a risk management steering group late in 2005. Bromsgrove approved a new Risk Management Strategy in January 2006 to replace a previous version that was never properly publicised or enforced.
- 94 The Council has recognised that good risk management supports and facilitates good decision making processes, but to be effective will require support from Members. As such Bromsgrove has identified the need for a risk champion to ensure risk management is given a higher profile and priority within the Council.
- 95 The Council will provide risk management training to the Chairmen and Vice-Chairmen of the Scrutiny Committee, the Performance Management Board, the Audit Board and the Planning Committee. However, the Council will need to ensure that it rolls out risk management training to all Members.
- 96 Risk management is in its early stages of development, with strategic risk registers due in March 2006 and operational risk registers due to be produced in June 2006. The Council should aim to integrate its risk and performance management, to facilitate more informed decision making on service delivery.
- 97 The Council needs to ensure the processes it is currently putting in place are sufficiently flexible and resilient to facilitate the future development of risk and performance management, including the development of an assurance framework.

Recommendation 10: Risk management

R10 The Council should map its risk register to its corporate and operational objectives to help align future risk and performance integration.

- 98 KPMG will continue to review the Council's progress on risk management through 2006.

Internal Audit

- 99 KPMG reviews the work of Internal Audit as part of its assessment on the Council's internal control environment. Internal Audit carried out further work on the Council's financial systems which then enabled KPMG to place reliance on its work. This was carried out in time for KPMG's audit of the accounts to commence.
- 100 KPMG has made a number of recommendations have been made on the work of Internal Audit during the year and reported in its letter to the Corporate Director in May 2005 and in its Interim Memo of August 2005, which highlighted a number of significant weaknesses. Since those reports were issued KPMG has seen good progress in the quality of the work carried out by Internal Audit.
- 101 Internal Audit was affected by the organisational restructuring, with two audit posts below Audit Services Manager becoming vacant. The Council is currently in the progress of appointing two auditors to bring the department back to full strength. However, the appointees will be faced with a steep learning curve and will require training and development, including potentially the need for time off to study for professional exams; all of which could impact on the total number of audit hours available.
- 102 As noted earlier the research into shared services led by Worcester County Council has removed the Internal Audit aspect from the study. However, given the issues with regards to Internal Audit's delivery of its audit plan, combined with the revised staffing structure the Council needs to closely monitor the delivery of this service through the new Audit Board.

Recommendation 11: Internal Audit

R11 Internal Audit should establish realistic milestones and targets for the delivery of its audit plan that incorporates appropriate actions in case of slippage.

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

- 103 **The Council has maintained effective controls over the prevention and detection of fraud and corruption.**
- 104 KPMG reviews 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.

- 105 However, 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.
- 106 KPMG reported its detailed findings within its Interim Memorandum, where no significant weaknesses in the Council's arrangements to prevent and detect fraud and corruption were identified.
- 107 Since that report the Council produced a revised Anti-Fraud and Corruption in February 2006 which incorporates the expectations of Members, staff and third parties. KPMG will continue to monitor the Council's procedures for the prevention and detection of fraud and corruption during its 2006 work.

Legality of transactions

- 108 **The Council has adequate arrangements in place for ensuring the legality of its financial transactions.**
- 109 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.
- 110 As reported in its Interim Management Letter, 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

- 111 **No questions or objections were raised with KPMG with regard to the 2003/04 or the 2004/05 financial statements.**
- 112 Sections 15 and 16 of the Audit Commission Act 1998 provide local electors with an annual opportunity to inspect the accounts of a local Council 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.
- 113 KPMG can report that it has not received any questions or objections on the 2003/04 or the 2004/05 accounts from local Council electors under Sections 15 and 16 of the Audit Commission Act 1998.

Use of resources judgements

- 114 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.
- 115 KPMG has assessed and scored the Council's arrangements in five areas as Table 3 shows.

Table 3 Council's arrangements

Element	Assessment
Financial reporting	1 out of 4
Financial management	1 out of 4
Financial standing	2 out of 4
Internal control	1 out of 4
Value for money	1 out of 4
Overall	1 out of 4

(Note: 1 = lowest, 4 = highest)

- 116 In reaching these judgements KPMG has drawn on the above work and supplemented this with a review against the Audit Commission's specified Key Lines of Enquiry.
- 117 KPMG reported the findings to senior officers in March 2006 which included references to the improvements needed to progress to the next level. The Council has already made progress in implementing the recommendations, although areas for further development remain, as summarised in Table 4.

Table 4

KLOE	Areas beginning to be addressed	Areas for further development
Financial Reporting	The Council has now cleared its backlog of financial statements with unqualified audit opinions issued by KPMG on both the 2003/04 and 2004/05 Statement of Accounts. This now provides a clear opportunity to produce the 2005/06 statements of accounts within the statutory deadline.	<p>The Council needs to compile sufficient working papers as laid out in our 'prepared by client' schedule which are available prior to the commencement of the external audit.</p> <p>The Council also should ensure that the statements of accounts are subject to robust Member and officer scrutiny prior to approval.</p>
Financial management	The Council has begun to implement appropriate financial and budgetary training to officers and Members to improve its budgetary control. Furthermore, the Council has designated a responsible department for corporate property management.	<p>The Council also needs to link the MTFS to corporate objectives and be driven by the Corporate Business Plan. The Council needs to integrate business planning with financial planning, ensuring that the internal service plans are supported by the MTFS.</p> <p>The Council needs to update the asset management plan to reflect the transfer of housing stock to Bromsgrove District Housing Trust in March 2004.</p> <p>Members should be provided with reports that enable appropriate and informed decisions with regard to the Council's land and buildings portfolio, at both a strategic and service level.</p>

KLOE	Areas beginning to be addressed	Areas for further development
Financial standing	The Council has produced a balanced budget with expenditure set within the Council’s resources.	<p>To move to the next level Bromsgrove should:</p> <ul style="list-style-type: none"> • set and monitor targets for income collection and recovery of arrears, based on age profile of debt; • consistently maintain spending within overall budget and without significant unexpected overspends or under-spends; • identify target levels for reserves and balances that are based on a thorough understanding of its needs and risks, including its treasury management strategy and is meeting these targets; and • produce monitoring information that evaluates the effectiveness of recovery actions, associated costs, and the cost of not recovering debt promptly.

KLOE	Areas beginning to be addressed	Areas for further development
Internal Control	<p>The Council has a risk management steering group which has helped develop a new risk management strategy.</p> <p>The Council has also implemented and brought up-to-date fundamental control reconciliations on the Council's financial systems.</p> <p>The Council has established an Audit Board which will help to improve the Council's internal control environment.</p>	<p>The Council needs to finalise its corporate (due March 2006) and operational (due June 2006) risk registers and assign a Member group with the responsibility to manage, oversee and receive reports on the implementation of risk management.</p> <p>The Council needs to allocate responsibility for review and approval of the Statement of Internal Control (SIC) to an appropriate member group who will consider the SIC separately from the accounts .</p> <p>The Council should conduct an annual review of the effectiveness of the system of internal control and report on this in the SIC and the sources of assurance to support the SIC should be identified and reviewed by senior officers and Members.</p>
Value For Money	<p>The Council has established a Procurement Steering Group that will assist the Council in driving our inefficiencies and reducing costs.</p> <p>The Council has also begun to develop a performance management framework, under the Performance Management Board, that should link to costs and drive performance improvement across service areas.</p>	<p>The Council should analyse and report on the links between costs and performance across its services and how these are aligned with its corporate priorities.</p> <p>The Council should build and develop the VFM and efficiency culture. This needs to involve the understanding and ownership of Members.</p>

Recommendation 12: Use of Resources

R12 The Council should review the individual KLOEs and develop suitable action plans to move to the next level.

Other work

Grant claims

- 118 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 but its ability to reduce this further depends on the adequacy of the Council's control environment.
- 119 KPMG has certified all claims for the year ending 2004/05 that have been submitted to them for audit.

National Fraud Initiative

- 120 In 2004/05, the local Council 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.
- 121 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

- 122** 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 audit of the Council's 2005/06 accounts, will be reported in next year's Annual Audit & 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.
- 123** 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, with Council, Bromsgrove'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 Bromsgrove.

Revision to the Code of Audit Practice

- 124** The statutory requirements governing our audit work, are contained in:
- the Audit Commission Act 1998; and
 - the Code of Audit Practice (the Code).
- 125** 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 Corporate Director (Resources) in April 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

- 126** 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

- 127 This letter has been discussed and agreed with senior officers at the Council. A copy of the letter will be reported to the Executive Cabinet on 17 May 2006.
- 128 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

- 129 This letter will be published on the Audit Commission's website at www.audit-commission.gov.uk and also on the Council's website.

KPMG LLP
Chartered Accountants, Birmingham

Sandy McMillan
Relationship Manager, Audit Commission

March 2006

Status of both the Audit Commission's and KPMG LLP's reports to the Council

- 130 This annual audit and inspection letter is prepared in the context of the Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission. Annual audit and inspection letters are prepared by relationship managers and appointed auditors and addressed to members and officers. They are prepared for the sole use of the audited and inspected body, and no responsibility is taken by the Audit Commission or its appointed auditors to any member or officer in their individual capacity, or to any third party.
- 131 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.

Appendix 1 – Background to this letter

The purpose of this letter

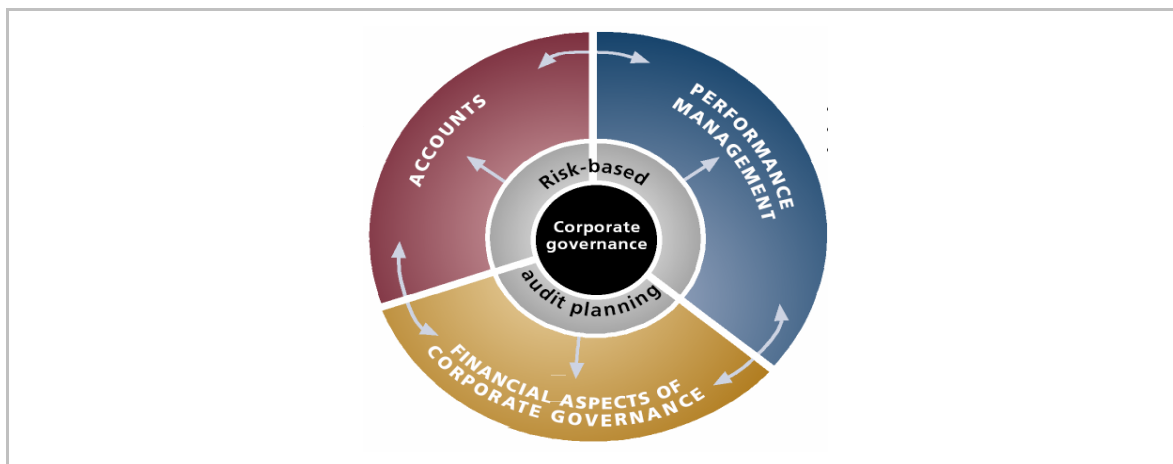
- 1 This is the KPMG's and the Audit Commission's Audit and Inspection 'Annual Letter' for Members, which incorporates the Annual Audit Letter for 2004/05, which is presented by the Council's Relationship Manager and the Appointed Auditor, KPMG. The Letter summarises the conclusions and significant issues arising from both organisations recent audit and inspections of the Council.
- 2 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.
- 3 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.
- 4 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

- 5 KPMG's main objective as the Council's appointed auditor is to plan and carry out an audit that meets the requirements of the Code of Audit Practice. KPMG adopt a risk-based approach to planning its audit, and its audit work has focused on the Council's significant financial and operational risks that are relevant to its audit responsibilities.
- 6 Central to KPMG's audit are the Council's corporate governance arrangements. KPMG's audit is then structured around the three elements of its responsibilities as set out in the Code and shown in Figure 7.

Figure 7 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 5

Report title	Date issued
2004/05 Annual Audit Plan	March 2005
Inspection of E Government	May 2005
KPMG's Interim Memorandum	August 2005
2004/05 BVPI Opinion	September 2005
2003/04 Accounts - Unqualified Opinion	November 2005
Progress Assessment	December 2005
2005/06 BVPP Opinion	December 2005
2004/05 Accounts - Unqualified Opinion	February 2006
Report on the 2004/05 financial statements to those charged with governance (SAS 610)	February 2006
KPMG's Combined 2003/04 and 2004/05 Final Accounts Memorandum	February 2006

Appendix 3 – Audit and inspection fee

Table 6 Audit fee update

Audit area	Plan 2004/05 (£)	Actual 2004/05 (£)
Accounts	37,000	57,000*
Financial aspects of corporate governance	22,000	22,000
Performance	22,000	22,000
Total Code of Audit Practice fee	81,000	101,000
Additional voluntary work (under section 35)	0	0
Total	81,000	101,000

*Includes £20,000 overrun fee on the 2004/05 Statement of Accounts audit.

Inspection fee update

The full year inspection fee is £18,270. The work reported in this audit and inspection letter has been funded by an element of the fee covering 2004/05 and by an element of the fee covering 2005/06. In both years the actual fee will be in line with that planned.

Appendix 4 – Current year recommendations

Priority	Recommendation	Management response
High	<p>Recommendation 1: Performance framework</p> <p>The Council should incorporate benchmarking into the performance indicators to allow the Performance Management Board (PMB) to place current performance into an appropriate context.</p>	
Medium	<p>Recommendation 2: Performance framework</p> <p>Whilst the Council has a Top 45 set of performance indicators, the Council should still consider reporting by exception i.e. reducing the number of indicators presented to the PMB to streamline the reporting process and enable the PMB to focus on poor performing areas.</p>	
High	<p>Recommendation 3: e-Government</p> <p>The Council must develop time bound action plans that are driven by effective project management based on realistic targets to ensure it fully delivers the e-Government agenda.</p>	
High	<p>Recommendation 4: Council Tax Base</p> <p>The Council should ensure that future calculations of the Council Tax Base take into account the existing (and future) level of reserves, including any implications arising from the need to distribute any surplus to precepting authorities.</p>	

Priority	Recommendation	Management response
High	<p>Recommendation 5: Treasury management performance</p> <p>The Council should produce quarterly reports that benchmark treasury management performance to ensure it is achieving best value from fund managers.</p>	
Medium	<p>Recommendation 6: Revenue balances</p> <p>The Council should calculate a risk assessed minimum level of balances required to sustain revenue expenditure. This should be based on a risk assessment of key variables and incorporate the overall objectives as specified in the Corporate Plan via the Medium Term Financial Strategy.</p>	
Medium	<p>Recommendation 7: Capital programme</p> <p>The Council needs to re-evaluate the capital budget setting process to ensure it takes into account issues arising from earlier years and ensure that all projects are covered.</p>	
High	<p>Recommendation 8: Capital programme</p> <p>The Council needs to ensure it has robust project management arrangements over its capital programme to ensure that all projects are delivered on time and to budget.</p>	
Medium	<p>Recommendation 9: Prudential borrowing</p> <p>The Council should risk assess and carry out a cost-benefit analysis of the two options available to it with regards to funding its future capital programme, for example through prudential borrowing.</p>	

Priority	Recommendation	Management response
High	<p>Recommendation 10: Risk management</p> <p>The Council should map its risk register to its corporate and operational objectives to help align future risk and performance integration.</p>	
High	<p>Recommendation 11: Internal Audit</p> <p>Internal Audit should establish realistic milestones and targets for the delivery of its audit plan that incorporates appropriate actions in case of slippage.</p>	
High	<p>Recommendation 12: Use of Resources</p> <p>The Council should review the individual KLOEs and develop suitable action plans to move to the next level.</p>	

Appendix 5 – 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	Position as at February 2006
<p>Recommendation 1: BVPIs The Council should ensure the indicators are subject to quality review before submitting BVPI data for inclusion in the BVPP and prior to audit.</p>	<p>The policy and performance officer undertakes a quality check of all BVPI information. The indicators are also now reviewed at the Performance Monitoring Board.</p>
<p>Recommendation 2: Performance Management The Council should continue its work in building its performance management framework and strategy.</p>	<p>The Performance Monitoring Board undertakes a quarterly review of local and statutory PIs. The new frameworks for personal development reviews include performance measurement targets for all staff.</p>
<p>Recommendation 3: Future liabilities The Council should consider carrying out an evaluation of the likelihood of any future claims against the Council and consider seeking legal advice to evaluate the cost of any personal injury claim.</p>	<p>The subject of asbestos was raised as an issue prior to the LSVT and a second survey report was carried out in conjunction with expert advice from the Council's own architects department. The Trust made provision in its business plan for a contingency sum of £1.75 million for dealing with asbestos: this would be the first port of call for any asbestos claims. The Council is only liable under the environmental warranties it had to give, once this contingency of £1.75 million has been utilised by the Trust, and in this regard the first call by the Council would be on the VAT savings scheme.</p> <p>No further work has been undertaken on this area.</p>

Recommendation	Position as at February 2006
<p>Recommendation 4: Overheads and support costs The Council needs to fully consider the impact of support costs and review its procedures for overhead allocation since the transfer of housing stock.</p>	<p>The finance team have commenced a review of the areas that are currently defined as support services with a full reallocation to be undertaken in March 2006.</p>
<p>Recommendation 5: Worcestershire Hub The Council is heavily reliant on the Worcestershire e-Government Partnership for the delivery of key elements of the e-Government programme, and should ensure that the Council has appropriate representation at the Partnerships programme board.</p>	<p>The e-government steering group has ownership of all e-government issues and projects. The council is aiming to be at the forefront of implementation of the improvements.</p>
<p>Recommendation 6: BVPI The Head of IT Services should use a recognised methodology (ie IDeA ESD Toolkit) to formally measure and confirm the Council's performance against BVPI 157. The measurement of BVPI 157 and the actions taken to meet the target should be a corporate exercise rather than being an IT issue. In this regard the departments should consider the actions required to achieve the target within their areas and this be fed into a corporate action plan, which is monitored by the Operational Management Team (OMT).</p>	<p>This has been undertaken by the interim head of e-government and customer services. There is a clear plan of action to be undertaken by the Council during 2006/07 and 2007/08.</p>

Recommendation	Position as at February 2006
<p>Recommendation 7: Project management The Council needs to establish formal project management, change and risk management methodologies for its internal e-Government projects. This should include the identification of the inter-dependencies that each project may have and the barriers that could affect the successful delivery of the projects.</p>	<p>Project management training has commenced with an external provider for all relevant staff members. A formal methodology will be approved through the committee framework.</p>
<p>Recommendation 8: IT strategy The corporate IT strategy should be completed as a matter of urgency and take account of and be aligned to the Council’s e-Government strategy.</p>	<p>A full e-Government and ICT strategy for 2006/2007 has been successfully presented and the following two years will be presented by 24 March.</p>
<p>Recommendation 9: Statement of accounts The Council should set a clear timetable and devote sufficient resources for the production of the 2003/04 financial statements so as to ensure that the 2004/05 accounts can be presented in line with statutory dates. This should be project managed to avoid a recurrence of the delays in the presentation of the 2002/03 Accounts to Members. The Council should also ensure sufficient working papers are produced to support the financial statements in order to improve the timeliness of the audit.</p>	<p>Statement of accounts for 2003/04 and 2004/05 both unqualified with improvements to each set of accounts. 2004/05 was presented to members within the statutory deadline. External support will be sourced during the close of 2005/06 to ensure improved compliance to SORP and audit requirements.</p>

Recommendation	Position as at February 2006
<p>Recommendation 10: Freedom of Information Act</p> <p>The Council need to ensure officers and Members are familiar with the requirements of the Freedom of Information Act through appropriate training.</p> <p>The Council should consider how it will monitor its performance under the Freedom of Information Act. This should include developing a system to allow tracking of information requests.</p>	<p>There is a FOI officer who liaises with departments and members on FOI issues. There have been a number of newsletters to inform staff of the procedures to be followed.</p>
<p>Recommendation 11: Equality</p> <p>The Council should ensure there is a strategy in place to develop and improve its policies and help the Council meet its target.</p>	<p>Draft equalities strategy under review. Equalities champions group in place with a member champion. Equalities forum with relationship developing with external partners.</p>
<p>Recommendation 12: Reserves and balances</p> <p>The Council should review reserves and balances as part of its medium term strategy and budget process as this is an essential tool to sound financial management.</p>	<p>Balances have been reviewed and subsequently reduced to meet one off costs as part of the review of the medium term financial plan.</p>
<p>Recommendation 13: Budget deficits</p> <p>The Council must adopt a vigilant approach to achieving budget savings in light of its anticipated annual deficits and to allow the Council to maintain a general fund working balance of £850,000.</p>	<p>Regular monthly monitoring is in place with budget holders and reports detailed the financial position of the council are presented to members on a quarterly basis.</p>

Recommendation	Position as at February 2006
<p>Recommendation 14: Capital resource allocation The Council should consider the effectiveness of its current capital resource allocation arrangements to ensure that resources are directed where is most appropriate.</p>	<p>There is a clear link between the request for capital resources and the priorities of the Council. Capital appraisal returns have to be completed for all requests.</p>
<p>Recommendation 15: Internal audit Internal audit should ensure they review the high level controls of key financial systems annually. Furthermore, the Council should ensure that all the recommendations raised in our interim memorandum are implemented.</p>	<p>The audit plan for 2006/07 has now been approved. The review of key financial system forms a part of the plan. There are currently two vacancies within the internal audit team to which the Council is aiming to recruit part qualified staff.</p>
<p>Recommendation 16: Improvements to control environment and reconciliations The Council must ensure the outstanding recommendations raised in the follow up report are addressed as a matter of urgency. The Council need to ensure that sufficient reconciliations are produced for 2003/04 and 2004/05 to satisfy itself that systems of internal control are robust.</p>	<p>Reconciliations are now completed and signed off by managers and held centrally. The completion of these reconciliations are part of the local indicators as part of the financial services business plan.</p>
<p>Recommendation 17: New financial ledger system The Council need to consider the use of appropriate computer audit specialists to ensure the data is processed within the system correctly.</p>	<p>No further work on this area – the upgrades to Agresso will be actioned as part of the POP system implementation. Integration with external systems will be improved over the next few months.</p>

Recommendation	Position as at February 2006
<p>Recommendation 18: Budget monitoring</p> <p>The Council should continue to improve budget monitoring procedures including timeliness of information, ensuring that any variations are followed up and appropriate explanations are given.</p>	<p>Regular monthly monitoring is in place with budget holders and reports detailing the financial position of the council are presented to members on a quarterly basis.</p>
<p>Recommendation 19: Risk management</p> <p>The Council should place risk management high on its agenda and ensure there is sufficient drive to embed a risk awareness culture into the Council. This is needed at all levels of the organisation. In particular the Council should establish a set of risk registers that should be regularly reviewed for completeness and appropriateness given any changes in the micro or macro environment.</p> <p>Once the risk registers have been produced the Council should embed risk management into its everyday management practices and service planning process, together with appropriate member involvement</p>	<p>A risk management steering group is now in place to ensure the risk management culture is driven forward through the council. There have been a number of training sessions which will continue during 2006/07 to raise awareness of risk management.</p> <p>A risk officer (one year contract) is to be appointed as part of the restructure.</p>
<p>Recommendation 20: Treasury management</p> <p>The Council must continue to monitor its Treasury Management processes particularly with the introduction of the Prudential Code and the additional £18 million received from the LSVT transfer.</p>	<p>An updated Treasury Management strategy to be reported to members in April 2006. The investment of the funds via the fund managers is monitored by officers on a quarterly basis – this will be formally reported to members on a similar basis in 2006/07.</p>