

Annual Audit and Inspection Letter

Herefordshire Council

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- Reports issued during 2002/03

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- Auditor's Statutory Report on the Best Value Performance Plan

Reference:	Herefordshire Council Annual Audit letter.doc – Draft Version 1
Authors:	David Rigg - Relationship Manager and District Auditor Richard Percival - Audit Manager
Date:	February 2004

Key messages

Responding to CPA

The Council has maintained its services at the level we saw last year although Housing Benefits service score has improved. Progress has been made on a number of corporate initiatives which were outlined in the three year Improvement Plan "Committed to Excellence" launched by the Council last year.

The Council has a number of LPSA targets designed to improve services for the more vulnerable in society including the elderly. More is being done to improve education standards including increasing pupils levels of attainment. Also featured are plans to reduce crime and improved safety standards to prevent fires and accidents on the roads. Based on Herefordshire's current plans, the Council is well placed to improve the way it works and the services it provides to local people.

Social Services Joint Review

The Review Team noted significant improvement in Social Services since Re-organisation. You were assessed as "serving some people well with promising prospects for improvement". However, the Review also identified service issues that need to be rectified, including accessibility, consistency and resourcing. You need to ensure that the Joint Review Action Plan is delivered including measurable improvements in service delivery.

The Modernisation Programme

You have an ambitious programme to modernise service delivery across the Authority's range of activities. You are supporting this ambition with significant additional funding, both internally through the e-Government programme and externally through the Herefordshire in Touch Single Regeneration Budget. You need to ensure that both have adequate project management resources and comprehensive forward plans, including funding strategies.

Large Scale Voluntary Transfer

We commented in last year's letter that the transfer process was well managed. During 2003 you have been developing your partnership with Herefordshire Housing. You need to ensure that these new arrangements operate effectively now they are 'bedded in'. The Strategic Housing function will be subject to inspection in 2004.

Waste Management

Changes to the joint PFI are still under discussion and you have introduced kerbside collection of recyclables in some parts of the County. You are developing a joint municipal waste management strategy with Worcestershire County Council. You need to ensure that these changes provide the capacity to deliver future waste management targets.

Job Evaluation

The job evaluation proposals published in June 2003 were rejected by staff and resulted in adverse publicity for the Council. These proposals were subsequently withdrawn and you are now working towards implementation of the revised proposals by April 2004. Efforts are being made to improve communications. You need to ensure that the costs of implementation can be met whilst maintaining a prudent level of balances.

Financial Pressures

2003/04 budget setting was particularly demanding. You contained the increase in Council Tax to 14% by funding some of the increase from balances. You are committed to returning balances to the prudent level identified by the County Treasurer.

Further development of Medium Term Financial Planning is needed. This should include three year rolling forecasts for Programme Areas as well as corporately, integration with risk management and projections on future levels of balances.

Financial Governance

The £1.4m housing repairs overspend has been a painful experience, resulting in an unplanned overspend on the Housing Revenue Account and a cumulative deficit balance. Although due to a unique set of circumstances it has highlighted the importance of robust budgetary control arrangements across the Authority. You need to ensure that there are robust controls in place whilst ensuring sufficient flexibility for different service needs.

The purpose of this letter

This is our first joint audit and inspection 'Annual Letter' for Members which incorporates our Annual Audit Letter, and is presented by David Rigg, the Council's Relationship Manager and District Auditor. The letter summarises the conclusions and significant issues arising from our 2002/03 audit and inspection programme and comments on other current issues.

We have issued separate reports during the year having completed specific aspects of our programme. These reports are listed at Appendix 1 for information.

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. What we say in this letter should be viewed in the context of that more formal background.

Background to the audit and inspection programme

Following your Comprehensive Performance Assessment as a 'Good' Authority the Council has continued to move forward. Partnership working is at the centre of your approach and during 2003 you have:

- Pushed forward with the Modernisation Programme to redesign service delivery
- Worked with Housing Providers to deliver joint strategic housing goals
- Set up a joint venture with Jarvis PLC to deliver services previously provided by Herefordshire Commercial Services
- Continued to work with your partners on your Local Public Service Agreement targets
- Developed the 'Corporate Core' to facilitate an organisation wide approach to performance management

The major challenges you are facing in delivering this demanding agenda include:

- Managing upward pressure on Council Tax
- Implementing 'Single Status' through the job evaluation programme
- Continued service and financial pressures in Social Care
- Developing and agreeing a way forward for waste management services

Objectives of audit and inspection

Audit

Central to our audit are your corporate governance arrangements. Our main objective is to carry out an audit that meets the requirements of the Code of Audit Practice. Our audit is structured around the three elements of our responsibilities as set out in the Code.

Accounts

- Opinion

Financial aspects of corporate governance

- Financial standing
- Systems of internal financial control
- Standards of financial conduct & the prevention and detection of fraud and corruption
- Legality of transactions

Performance management

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

Inspection

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
- identify failing services where remedial action may be necessary.

Council Performance

CPA Scorecard

The Council has maintained its services at the level we saw last year although Housing Benefits service score and the Asset Management Plan rating have improved. Progress has been made on a number of corporate initiatives which were outlined in the three year Improvement Plan "Committed to Excellence" launched by the Council last year.

The Council has a number of LPSA targets designed to improve services for the more vulnerable in society including the elderly. More is being done to improve education standards including increasing pupils levels of attainment. Also featured are plans to reduce crime and improved safety standards to prevent fires and accidents on the roads. Based on Herefordshire's current plans, the Council is well placed to improve the way it works and the services it provides to local people.

Individual Service scores are made by the relevant Inspection Agency including OfSTED, Social Services Inspectorate, the Benefits Fraud Inspectorate and the Audit Commission which has the responsibility for making the overall assessment. Each service is listed below and is scored on a scale of 1 to 4 with 1 being the lowest and 4 the highest.

[Each Service score (using scorecard) to be inserted]

CPA Improvement Report

Following our CPA report last year you produced an Improvement Plan which we discussed with you in February and used to inform our three year audit and inspection programme.

Herefordshire's Improvement Plan – "Committed to Excellence identifies five key

areas for improvement over the three year period 2003-2005. These are:

- Leadership and vision
- Performance management
- Key resources
- Organisational development and learning
- Communications

Progress against the Plan was reported to Cabinet in September 2003. This identified that most of the outputs in the Plan are on course for delivery. Inevitably, some targets have slipped due to conflicting priorities and changes in circumstances which were not foreseen when the Plan was drafted. Overall we are satisfied that good progress has been made.

Leadership and Vision

The Corporate Plan outlining the key priorities and links to the medium term financial plan was approved by Council in January 2003 and the planning template is due for review in March 2004.

Performance management

The framework for Performance Management was developed by March and formally launched in May 2003. It includes 'commitments' required from each Director and Head of Service in delivering targets within budget allocation.

To help drive the performance management system a new Head of Performance Management took up post in September 2003.

Systems to validate key performance indicators were introduced by Internal Audit. Whilst there are still some problems with the production of some indicators there have been significant improvements overall.

A programme of Performance Management Training is underway and is being supplemented by the development of management competences.

An EFQM assessment of all services was carried out in 2002/3.

Key Resources

A Corporate approach to Project management is being developed. The Council adopted the

PRINCE2 model and implemented this from March 2003. This is being supported with tailored training. In September 2003 there was no evidence that existing service and cross-cutting strategies had been revised to incorporate the model.

A revised comprehensive risk management strategy was incorporated into the performance management framework in March 2003. This has been supported with specific training.

Implementation of the Council's Procurement Strategy is progressing supplemented by awareness training for all purchasing officers.

In order to improve asset management the Council is undertaking an in-depth scrutiny of property which was due to report in December 2003.

The plan to introduce a single broadband infrastructure has been revised and it now hoped this will be available in 2004.

Good progress has been made on the Human Resources Strategy with half of the measures now implemented.

Organisational Development

The revised process incorporating feedback and target setting linked to business planning and staff development was in place by the end of April 2003.

Progress has been made in implementing new systems for sharing learning across the Council. Initially existing mechanisms, particularly the Managers' Forum and Intranet were used.

Communications

The commitment to team briefings was re-emphasised at the Managers' Forum in January 2003. The first spot check to ensure compliance every three months was due in August 2003.

Open meetings have been held in all Directorates and Departments for all staff. Mechanisms are in place for staff to provide upward feedback which gives the Council an opportunity to determine how this learning is captured and utilised.

Achievements

Overall 67% of performance indicators have shown improvement since last year and as a result there are now 57% of the Council's indicators achieving above average performance.

Education remains a key priority for the Council and its overall performance continues to be in the top quartile for all education authorities. Provisional data from DfES for summer 2003 shows the Council performing in the best quartile for Key stages 3 and 4 results. GCSE results continue to improve with 58% of pupils achieving 5 or more at grade A* to C and 91% achieving 5 or more at A* to G. However, the Council remains concerned over pupil performance in Key Stage 2. For the second year running, the council has no schools in special measures.

The Benefits Fraud Inspectorate has assessed the Council's grade as Fair to good - an improvement on last year's rating. All 5 Best Value performance indicators for benefits have improved, though there are still problems with the processing time for renewal claims and with satisfaction levels with the telephone service and clarity of forms.

Future Plans

The Council has a number of co-ordinated plans to take it forward and is monitoring its progress at chief officer and member level.

CPA Performance Indicators

Some of the statutory performance indicators reported in the Best Value Performance Plan are designated as CPA indicators. These are used in the CPA scoring process as a 'snapshot' of overall performance. As such it is important that robust indicators demonstrating service improvement are produced.

There were 64 CPA indicators included in your Best Value Performance Plan. The evidence supporting the production of ten of these failed to comply with Audit Commission requirements. Of the remainder, 22 (34%) either achieved or were better than the target you had set yourselves.

This implies that:

- Further improvements to indicator production are needed

- Either unachievable targets are being set or planned improvements in services are not being delivered.

Other Performance Work

During 2003 we have reported on:

- The Joint Review of Social Services (with the Social Services Inspectorate)
- The implementation of e-Government
- A progress review of the Herefordshire in Touch Programme

Currently the following performance work is in progress:

- Review of waste management
- A cross cutting review of care of older people covering the services provided by the Council, the Primary Care Trust and Herefordshire Hospital
- Post OFSTED Action Plan review

Joint Review of Social Services

The Joint Review report was published on 10 July 2003. The overall conclusion was that "Herefordshire is currently serving some people well with promising prospects for improvement."

The review team noted that significant improvements have been made since 1 April 1998, in particular:

- People receive a prompt service and most service users have a named social worker.
- Investment in family support services has helped to reduce the number of looked after children.
- Good progress has been made in integrating both Learning Disabilities and Mental Health Services with Health.

They also concluded that:

- There is an insufficient range and quantity of provision to support children and adults to maintain their independence and remain at home.
- Thresholds for receiving services are too high, presenting risks particularly for children's services.

- There is too much variation in the quality of assessment and care planning.
- Hospital discharges arrangements need improving by ensuring that there are sufficient resources in place.

The team were impressed by your political leadership on Social Care issues and with the clear sense of purpose and direction in the Directorate Management Team. Relationships with Health partners and other agencies were felt to be excellent.

It is noted in the report, however, that:

“The Directorate currently faces a serious financial situation that threatens its capacity to respond to assessed needs and also puts pressure in its relationship with Health.”

[Joint Review Report – Paragraph 6.4.1]

The report identifies 51 priorities for action across six priority areas:

- Make sure people understand what they can expect
- Improve the standard and consistency of assessment, care planning and review
- Build on recent positive developments to support people to maintain their independence, participate in the life of the community and enjoy a better quality of life
- Improve longer term planning and commissioning arrangements
- Embed good practice within a comprehensive performance management framework
- Make the most of available resources

The Proposed Action Plan, responding to these priorities, was discussed with the Director of Social Care and Strategic Housing in early October and together with Social Services Inspectorate we will monitor its implementation.

Implementation of e-Government

Your Modernisation Programme is a substantial undertaking and its success is dependent upon many factors including; commitment and collaborative working, joint and partnership initiatives, adequate funding, cultural change and appropriate programme management. The achievement of the Council's vision for its

future services and integration with the Herefordshire Plan is dependent on the success of this programme.

Members and officers are committed to embracing the Modernisation Programme to ensure the Council achieves optimum citizen access to all of its services. The overall programme is directed by the Modernisation Board, to which the Head of Modernisation (IEG) reports. Positions for Programme and Project Manager posts have been created but not all have been filled presenting a project management control risk.

You are committed through your Local Public Service Agreement to achieving 100% electronic delivery of those services capable of being delivered electronically by 31st March 2004 (a year in advance of the national target). If this target is not reached, there will be an impact on the funding available to the Council.

The CPA report identified this as a risk for you and recommended urgent action.

Significant improvements have been delivered with the percentage of electronically delivered services increasing from 5% in 2001-02 to 43% in 2002-03. Delivery of this target remains challenging.

We consider the following as key to your successful implementation of e-Government:

- Development of a long-term funding strategy with continuous assessment and exploration of future funding possibilities
- Implementation of rigorous monitoring and reporting processes to enable accurate monitoring of progress against targets
- Continuous prioritisation of risks to the programme with effective action to ensure significant issues are promptly addressed including issues highlighted by the ICT Improvement Plan
- Continuous assessment of skills and training requirements to ensure that the programme is adequately resourced and facilitates the move to a change management culture
- Successful recruitment to all identified programme and project management posts to ensure appropriate management control is in place

- Implementation of a corporate project management methodology with appropriate training
- Accurate assessment of service requirements and implementation of an appropriate SLA with IT Services
- Further development of IT security policies and procedures to raise awareness of the need for greater security over data and systems.

We agreed an Action Plan on completion of the review.

Herefordshire in Touch Programme

One of the key strands to your Modernisation Programme is the Herefordshire Partnership ICT Strategy. The Herefordshire in Touch Programme is the delivery mechanism for this. Although the 'centre piece' of this is the provision of County-wide Broad Band, Herefordshire in Touch (HIT) is a range of inter-related projects that are jointly funded under a Single Regeneration Budget (SRB).

The scheme has had to respond to:

- Demise of the original Accountable Body and transfer of that role to the Council from April 2002
- Development of a regional Broadband strategy
- Development of Regeneration Zones as the future Advantage West Midlands (RDA) funding delivery mechanism.

Our review was primarily concerned with your management of the major risks in the HIT Programme. We concluded that:

- Initial progress on HIT SRB was slow due to innovative nature and particular problems around external funding, staffing and novation to the Council
- Considerable progress made since novation to the Council, positively assisted by Advantage West Midlands, the Programme Managers, by HIT appointments and HIT Board flexibility
- Risks, particularly around external funding, remain, but have been considerably mitigated

We recommended that you:

- Clarify upward accountability route within Council
- Review location and ensure access to adequate support, expertise and cover for the HIT SRB Performance Manager
- Project and risk manage HIT SRB as a "programme with projects" ensuring both PRINCE2 and SRB requirements are met
- Develop a comprehensive SRB HIT scheme forward strategy and keep it under annual review
- Put in place a HIT Communication Plan through the Modernisation Programme Communication Strategy, particularly to retain the support and understanding of the voluntary, community and private sectors and the Herefordshire Partnership.

Following the presentation of our findings an Action Plan was agreed.

Waste Management

Most of the County's waste is currently land filled and the failure of the PFI 'energy from waste' solution has required a significant change in your approach to waste management.

The Government has set demanding national targets for the diversion of waste from landfill. You are developing a joint municipal waste strategy with Worcestershire County Council and have recently received the results of a jointly commissioned analysis of the Best Practicable Environmental Option (BPEO) for waste management. Herefordshire Council needs to develop a clear picture of the way forward with its waste management.

We are currently carry out a 'staged' piece of work providing external challenge to the process of determining the way forward.

Other Audit Commission Inspections

There have been no other Audit Commission inspections during 2003.

Supporting People

Supporting People is the government's new funding and planning regime for the delivery of

housing related support services to a wide range of vulnerable people. The programme started on April 1st 2003. £1.8 billion is being spent on these services in England in this financial year.

The inspection assessed the Council's arrangements as good but that the prospects for improvement are uncertain. The inspection, led by the Housing Inspectorate in partnership with the Social Services and Home Office Probation Inspectorates, awarded the service two stars out of a possible three. The Council has ensured the Supporting People programme is well managed and has developed services in response to identified needs.

Herefordshire is one of the first councils to be inspected for its delivery of the Supporting People programme. The Council is developing a programme to meet the housing support needs of local people in partnership with health service providers. New services have been developed that are giving opportunities for vulnerable people to live independently with support. The council needs to take further actions to make sure that it has arrangements in place to drive the programme forward.

The inspection found:

- A good understanding of the needs of local people and the gaps in service provision that need to be met in order to provide housing related support services to all vulnerable groups.
- An increase in the number of housing related support services provided for vulnerable people.
- The council has achieved wide consultation and engagement with service users including consultation with people who are often hard to reach.
- The council does not have all the systems and procedures in place that will secure continuing improvement.

To help improve the service there are a number of recommendations, including:

- The council must make sure that the programme can be driven forward by working closely with all its partners and put systems in place that will enable progress to be measured and monitored.
- The council must develop its partnership working with the probation service and learn from other councils where this partnership is reaping benefits for vulnerable people.
- The outcomes from the council's reviews of services must be captured and used to influence further improvements for all housing related support services for vulnerable people.

The total amount of Supporting People funding available to the council in 2003/04 is £7.5 million. The council receives £194,062 in Supporting People administration grant from the Office of the Deputy Prime Minister (ODPM) as a contribution to the administering costs of its role as the administering local authority.

Strategic Housing

Your Homelessness and Housing and Advice Service was inspected in 2001 and was assessed as 'excellent and likely to improve'. This rating has been used as part of your CPA score.

The 2001 Homelessness and Housing Advice inspection will be time barred for the 2004 CPA Scorecard. We will therefore be carrying out an inspection of your Strategic Housing function next year.

Revenues and Benefits

We had planned to carry out an inspection of Revenues and Benefits in June 2003, but following discussion with the County Treasurer it was agreed to re-schedule this to early 2004. This inspection is now due to commence in February 2004.

The future of CPA

The Audit Commission has consulted on the future arrangements for CPA and has concluded that it will be developed by:

- The introduction of a new CPA framework in 2005/06 and again in 2010, that enables assessments to be made in the context of an agreed set of local and national policy priorities.
- The release of annual improvement reports in December 2003 and December 2004.

The CPA programme from January 2005 will seek to understand the impact of the council in their locality, and to recognise the leverage, co-ordination and leadership the council provides to achieve a wider improvement agenda.

The precise shape and nature of this approach has yet to be finalised, though the Commission has recognised the need to agree the strategy for improvement reporting after 2004, leading up to a further re-assessment from 2010.

Financial aspects of corporate governance

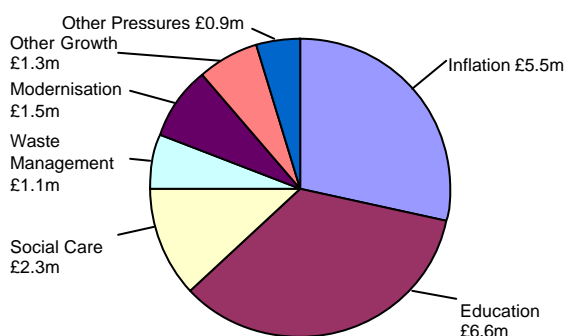
Financial standing

Reserves need to be maintained at a prudent level following the application of £1.9m of balances to limit the 2003/04 Council Tax rise to 14%. Forward management of reserves would be helped by further development of Medium Term Financial Planning.

Our overall assessment is that the Council's financial standing remains sound. Further improvements have been made to both revenue and capital budgeting and you have a good record of delivering your financial targets. As at the end of 2002/03 we assessed the level of your reserves as adequate.

The 2003/04 budget round was particularly demanding for the Council. Overall budget growth was £19.2m (12.75%) and the proportion of spending to be funded from Council Tax increased from 32% (02/03) to 37% (03/04).

EXHIBIT 1 2003/04 BUDGET INCREASE



A Council Tax increase of 17.4% was needed to finance the 2003/04 budget. Cabinet did not accept an increase of this size and reduced the increase to 14.3% by drawing down £1.9m from balances. It was anticipated that this would reduce revenue balances at 31 March 2004 below the minimum £3.0m prudent level identified by the County Treasurer.

Cabinet made a commitment to replenish revenue balances to the agreed minimum prudent level in 2004/05 and we endorse the County Treasurer's view that the minimum level of balances needs to be maintained.

The CPA report recommended that the Council: *"integrate service and financial planning with key priorities more explicitly and develop detailed robust medium-term financial planning at both a strategic and service level, building in known operational risks and contingency arrangements"*

The Joint Review of Social Services similarly recommended that the Social Care Directorate: *"Develop a medium-term budget strategy to enhance the capacity to plan service developments beyond the short-term."*

We reviewed progress with developing the medium term financial planning framework earlier in the year and concluded that although some progress had been made there remained a need for further development. In particular:

- Integration of the development of Medium Term Financial Planning with the development of risk management
- The corporate three year financial forecast should be supported by three year forecasts for each Programme Area.
- The three year financial forecast is modified to identify the impact of significant financial pressures which are currently uncertain
- The three year financial forecast is modified to include the projections of the levels of revenue balances.

Systems of internal financial control

The over spend on Housing Repairs of £1.4m was in part due to a failure in internal financial controls.

The County Treasurer has reported the findings of the internal investigation into the Housing Repairs overspend. We are satisfied that appropriate action was taken and have not carried out our own investigation. We have however been briefed by the Lead Officer on progress.

Although we are satisfied that the overspend arose due to a unique set of circumstances in the run up to LSVT there are improvements which could be made to strengthen budgetary control.

Budget monitoring procedures are only formally defined at Director level, though regular monitoring at budget holder level does appear to occur. Although budget monitoring procedures should be flexible enough to take into account service needs minimum standards should be documented and distributed to all budget holders.

Although potential overspends are monitored and recovery plans instigated, there are no formal variance levels set to trigger investigations. Clearly stated parameters for triggering investigations should be set at service level.

One of the main ways that you gain assurance about the operation of internal financial control is through the work of Internal Audit. As part of our annual audit we review Internal Audit against the requirements of the Code for Internal Audit in Local Government. Against this criteria we have again assessed Internal Audit as adequate. We noted that:

- The approach to assurance reporting has continued to develop
- There is a need to ensure that Internal Audit develop their programme to include emerging risks such as pooled budgets, external funding and PFI.

Risk identification and management is an important way of ensuring that internal financial control is maintained and developed in a changing environment. You have recognised the importance of this and implementation of improved risk management is one of your Improvement Plan actions.

During 2003 the new risk management system was designed and implemented. We understand that this has drawn heavily on existing good practice in other local authorities. We have not yet reviewed the new system and intend to do this during 2004.

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

Although we are satisfied that you have an appropriate ethical framework in place there is a need to improve some arrangements to prevent and detect fraud and corruption.

You have a dedicated Benefits Fraud Team who are well regarded and have been rated highly by the Benefits Fraud Inspectorate. Responsibility for ensuring the adequacy of fraud and corruption prevention and detection arrangements across the rest of the Authority rests with Internal Audit.

We carried out a review of key fraud and corruption risks and concluded that:

- Controls are not adequate in some areas to safeguard you from the risk of fraud
- Internal Audit need to develop a fraud specific programme of work to complement their operational plan.

National Fraud Initiative

The National Fraud Initiative (NFI) is the Audit Commission's data matching exercise. Its main aim is to help identify and reduce housing benefit fraud, occupational pension fraud, tenancy fraud and payroll fraud. The NFI is carried out every two years and data matches were provided to you in early in 2003.

We reviewed your arrangements for dealing with NFI data and were not satisfied that they were adequate.

Legality of transactions

Agreement was reached with an Elector concerning the legality of transactions relating to rights of way.

We reported in last year's Annual Letter that we had assessed your arrangements for ensuring the legality of financial transactions as good. Our review in 2003 confirmed this assessment.

We had not issued Audit Certificates on the 1998/99, 2000/01 and 2001/02 audits as an Elector had raised two objections concerning the legality and value for money of transactions relating to rights of way. A course

of action was agreed with the County Solicitor and the Elector withdrew his objections. The Audit Certificates were issued on 16 June 2003.

Audit assurance work

Accounts

At the time of drafting this letter we had not yet issued our audit opinion on the 2002/03 accounts. We are anticipating issuing an unqualified opinion before 31 December 2003.

Production of Accounts

Your accounts were produced by the end of July 2003 and it is pleasing to report continuing improvements to the quality of supporting records.

Reporting to the Council

There is a new auditing standard which applies to our audit of your accounts - Statement of Auditing Standard (SAS) 610 'Reporting to those charged with governance'. This requires us to report issues arising from our audit, to members, in your Council's case the Statutory Accounts Committee, before we give our audit opinion on your financial statements.

In previous years we have discussed such issues with officers rather than members, but the SAS encourages openness and accountability by ensuring that members take responsibility for the Council's accounts.

At the time of drafting this letter we were still considering whether we needed to issue a report to those charged with governance.

Financial Position

The financial statements detail the Council's overall financial position and the way in which your financial arrangements are changing. In particular:

The Consolidated Revenue Account shows a General Fund Balance at the 31 March 2003 of £6.4m. The notes identify that:

- The Council is involved in Pooled Budget arrangements totalling £20.8m (of which you contributed £9.4m)
- Waste Management PFI negotiations are ongoing and it is anticipated that costs will increase significantly.

The Housing Revenue Account (HRA) shows a deficit for the year of £1.1m and an accumulated deficit of £318,000. This unplanned position is due to the overspend on housing repairs.

The Consolidated Balance Sheet shows significant changes in the Council's assets as a result of LSVT:

- £160m (42%) reduction in your fixed assets
- An increase in short term lending of £33.0m reflecting the £39m capital receipt.

Local Authority accounts are adopting pension disclosures required by Financial Reporting Standard 17. Balance sheet note 20 therefore discloses your share of the Worcestershire County Council Pension Fund. This shows that your share of accumulated liabilities are £79.8m

more than the market value of assets. This position reflects the level of under funding in the pension scheme under current investment conditions.

Best value performance plan audit

Production of Best Value Performance indicators has improved. We have decided to issue an unqualified Best Value opinion despite the relatively high level of qualified and amended indicators. We have made a statutory recommendation that indicator production and quality assurance is improved.

We have commented in detail on your arrangements to comply with best value in the earlier section 'Council Performance'. Having completed our statutory audit of your 2003/04 Best Value Performance Plan we report to you our opinion and statutory BVPP report. These are included in this letter at Appendix 2.

In considering your Best Value Performance Plan we noted that:

- There was limited description of the outcome or impact of improvement measures you have already implemented
- Although details of current and recent Best Value Reviews are included the future Best Value Review Programme is not included
- There is very little commentary about your performance as shown by the Best Value Performance Indicators.

The proportion of Best Value Performance Indicators either qualified or amended as a result of our audit is above the threshold for consideration of a qualified Best Value Opinion. However, we have also considered the improvement in indicator production compared to previous years and decided to issue an unqualified opinion.

Other work

Grant Claims

We have continued to complete a high volume of grant claim certification work during 2003. During the year co-ordination arrangements have improved.

Audit fees

The proposed audit fee for the 2002/03 audit was set out in our audit and inspection plan at the start of the year. The table below shows the breakdown of the fee for 2002/03.

EXHIBIT 2 AUDIT FEES

Audit area	2002/03 £'000
Accounts	43
Financial aspects of corporate governance	24
Performance	38
Planning, managing and reporting	18
TOTAL CODE OF AUDIT PRACTICE AUDIT FEE	123
Additional s35 work	0

Certification of grant claims (1)	150
TOTAL AUDIT FEE	273

(1) The grant claim audit continues until the end of 2003 and the actual fee will be reported to the County Treasurer

Strategic regulation: future audit and inspection work

Strategic Regulation contributes to improvement in public services by ensuring that regulators collaborate to identify each council's priorities for improvement, and provide assessments that are useful to managers, professionals, politicians and the public.

For the first time we have brought together co-ordinated audit and inspection plans that make clear how our work supports the improvement agenda of each single tier and county council. These plans are now available on the Audit Commission website.

We have structured our work programme across the following themes that help to clarify the purpose of our work:

- Assessment
- Improvement
- Assurance.

We have developed a programme of work that is proportionate to both the Council's risks and its performance as assessed through CPA.

Our joint audit and inspection plan for 2003/04 was agreed with the Chief Executive in March 2003. At that time the plan included two inspections. Following further consideration and comparison with other 'Good' authorities' inspection programmes we decided to limit the programme to one inspection in 2004. This resulted in a £15,000 fee reduction.

Audit and Inspection planning for 2004/05, linked to your improvement plan, will be carried out in early 2004.

Acknowledgement

As we noted at the beginning of this letter, 2003 has been a particularly challenging year for Herefordshire Council. The changes in the strategic regulation framework are also having a big impact on how we discharge our responsibilities.

We would like to take this opportunity to thank both officers and members for continuing to work with us and further develop a constructive and professional relationship.

Status of our Audit & Inspection Annual Letter

Our Annual Letter is prepared in the context of the Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission. The Letter is prepared by the Relationship Manager and District Auditor and is addressed to Members and officers. It is prepared for the sole use of the audited body, and no responsibility is taken by auditors to any Director or officer in their individual capacity, or to any third party.

David Rigg
District Auditor and Relationship Manager

Date

Audit & Inspection reports issued during 2002/03

Audit plan	January 2003
Herefordshire in Touch (presentation)	May 2003
Implementing e-Government	June 2003
Social Services Joint Review	July 2003*
Budgetary Control and Financial Standing (draft)	September 2003
Fraud and Corruption (draft)	September 2003

* Published with Social Services Inspectorate

Auditor's Statutory Report on the Best Value Performance Plan

Auditor's Report to the County of Herefordshire District Council on its Best Value Performance Plan for 2003/04

Certificate

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

Respective Responsibilities of the Council and the Auditor

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

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

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

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

Opinion

Basis of this opinion

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

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

In giving my opinion I am not required to form a view on the completeness or accuracy of the information or the realism and achievability of the assessments published by the Council. My work therefore comprised a review and assessment of the plan and, where appropriate, examination on a test basis of relevant evidence, sufficient to satisfy me 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 I have qualified my audit opinion on the plan I am required to recommend how the plan should be amended so as to comply in all significant respects with the legislation and statutory guidance.

Opinion

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

Recommendations on procedures followed in relation to the plan

Where appropriate, I am required to recommend the procedures to be followed by the Council in relation to the plan.

Basis of recommendations

For the purpose of making my recommendations, I conducted my audit in accordance with the Audit Commission's Code of Audit Practice. In carrying out my audit work, I also had regard to supplementary guidance issued by the Audit Commission.

I planned and performed my work so as to obtain all the information and explanations that I considered necessary in order to enable me to determine whether or not to make recommendations in this report on the matters that came to my attention during the audit. However, my 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, my 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 Council for collecting and recording specified performance information; and the testing of specific performance indicators

Recommendations

On the basis of my audit work, I consider that the matters set out below should be brought to your attention:

- Further improvements are required to the production and quality assurance of Best Value Performance Indicators.

Recommendations on referral to the Audit Commission/ Secretary of State

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

On the basis of my work:

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

Signature Date