

Annual Governance Report

Wyre Forest District Council

Audit 2008/09

Date September 2009

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Status of our reports

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

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

Ladies and Gentlemen

2008/09 Annual Governance Report

I am pleased to present the final version of my report on the results of my audit work for 2008/09.

A draft of the report was discussed and agreed with the Director of Finance on 22 September 2009 and has been updated since as issues have been resolved.

The report sets out the key issues that you should consider before I complete the audit.

It asks you to:

- consider the matters raised in the report before approving the financial statements (pages 2 to 75);
- take note of the adjustments to the financial statements which are set out in this report (Appendix 2);
- agree to adjust the errors in the financial statements I have identified, which management has declined to amend or set out the reasons for not amending the errors; (Appendix 3);
- approve the letter of representation on behalf of the Council before I issue my opinion and conclusion (Appendix 4); and

Yours faithfully

Liz cave
District Auditor
Date

Key messages

This report summarises the findings from the 2008/09 audit which is substantially complete. It includes the messages arising from my audit of your financial statements and the results of the work I have undertaken to assess how well you use and manage your resources to deliver value for money and better and sustainable outcomes for local people.

Financial Statements	Results	Page
Unqualified audit opinion	Yes	7
Financial statements free from error	Yes	7
Adequate internal control environment	Yes	8
Use of resources	Results	Page
Use of resources judgements	adequate	12
Arrangements to secure value for money	Yes	12

Audit opinion

- 1 I will be issuing an unqualified opinion on the accounts by the statutory deadline of 30th September. Our draft opinion is included in Appendix 1.

Financial statements

- 2 The 'Credit Crunch' has had a significant impact on the council, and these events and the Council's response have impacted on the accounts. As a result there are a number of unusual and significant entries in the 2008/2009 accounts. This has meant it has been a challenging year for your finance staff in preparing the accounts
- 3 Despite these challenges, the financial statements were generally well presented and officers were helpful in providing timely responses to audit queries. Officers were proactive in raising significant or contentious issues with us throughout the year, allowing sufficient time for the majority of issues to be resolved prior to the final audit, which is good practice.
- 4 There were however material amendments made to the accounts as a result of the audit.

Use of Resources

- 5 I am required to consider how well the Council is managing and using its resources to deliver value for money and better sustainable outcomes for local people and give a scored 'Use of Resources' judgement.
- 6 Our approach to this has changed significantly this year from previous years. The Council is now assessed against three themes; Managing Finances, Governing the business and Managing Resources. I am required to form a view based on our assessment of the council's performance against the criteria for each of these themes specified by the commission annually as outlined in the 'fees letter'.
- 7 Our conclusions are checked to ensure that the approach is being applied consistently nationally. This process is now complete.
- 8 The Council has been assessed as a level 2 and so I have judged the Council as having adequate arrangements in place to deliver value for money and better sustainable outcomes for local people

Value for Money Conclusion

- 9 I am required by the Audit Commission Act 1998 to be satisfied that proper arrangements have been made by the Authority for securing economy, efficiency and effectiveness in its use of resources. The criteria for our Use of Resources judgement are key criteria for forming my Value for money conclusion. I have therefore concluded that the council does have proper arrangements in place, as outlined in Appendix 1

Audit Fees

- 10 In our Opinion Plan, presented to the March audit committee, we highlighted that it was likely that we would need to charge additional fee due to the number of unusual entries in this years accounts that were not anticipated when the 2008/2009 audit plan was agreed with members. We anticipate that the additional work required will be contained within the additional fee of £5,300, referred to in the opinion plan.

Next steps

This report identifies the key messages that you should consider before I issue my financial statements opinion, value for money conclusion, and audit closure certificate. It includes only matters of governance interest that have come to my attention in performing my audit. My audit is not designed to identify all matters that might be relevant to you.

11 I ask the Audit Committee to:

- consider the matters raised in the report before approving the financial statements (pages 1 to 75);
- take note of the adjustments to the financial statements which are set out in this report (Appendix 2);
- agree to adjust the errors in the financial statements I have identified which management has declined to amend or set out the reasons for not amending the errors (Appendix 3);
- take note of the VFM Conclusion and Use of Resources score;
- approve the letter of representation on behalf of the Council before I issue my opinion and conclusion (Appendix 4); and

Financial statements

The Council's financial statements and annual governance statement are important means by which the Council accounts for its stewardship of public funds. As Council members you have final responsibility for these statements. It is important that you consider my findings before you adopt the financial statements and the annual governance statement.

Opinion on the financial statements

- 12** I plan to issue an audit report including an unqualified opinion on the financial statements. Appendix 1 contains a copy of my draft audit report.

Errors in the financial statements

- 13** As a result of the audit, material changes have been made to the accounts. The impact of errors has been to reduce the deficit by £0.58m. Errors were also identified that impacted on the balance sheet and other disclosure notes. The adjusted errors are detailed in Appendix 2.
- 14** The Council had not properly reconciled the Statement of Total Recognised Gains and Losses prior to the commencement of the audit. When this was completed by Finance staff it highlighted two significant errors. The largest related to the accounting treatment of employer's contributions which had the impact of overstating corporate and democratic core expenditure by over £0.8m. The second related to over £0.2m that was an additional accounting adjustment processed in error in relation to the creation of a revenue earmarked reserve for future capital expenditure, also within corporate and democratic core.
- 15** During the year we have been in discussion with officers about the accounting treatment of £1.85m of redundancy costs. The Council had obtained a 'Capital Direction' which allows costs to be funded from capital reserves rather than revenue, and much of the dialogue was around what could be capitalised. According to definitions within the Direction only statutory redundancy costs may be capitalised. The discretionary costs paid by the council were £0.166m of the costs of 'payment in lieu of notice' (PILON) and £0.498m other discretionary payments. The accounts already approved reflect adjustments for the discretionary sums to be financed from revenue rather than capital reserves. The post audit statements now reflect the agreement by the Director of Finance to finance the remaining PILON costs also from revenue reserves. Of the £1.85m originally planned to be financed from capital reserves, we have agreed that £0.664m should in fact be funded from revenue reserves as it does not meet the requirements of the capitalisation direction.
- 16** There is one area in the accounts where we disagree with the Council's accounting treatment. In our view, the Council has not provided sufficient evidence that approximately £90,000 of costs associated with an individual involved in the capital programme should be capitalised. It is our view that these are revenue costs. The

Council has not agreed to adjust the accounts in this respect. This and other unadjusted misstatements are detailed in Appendix 3.

Recommendation

- R1** As part of the closedown of the 2009/10 accounts, officers should ensure that the Statement of Recognised gains and losses is fully reconciled.
- R2** Capital Programme:
 - There should be early dialogue between officers and audit during 2009/2010 to ensure that any disagreements about capitalisation of costs are resolved early.
 - There should be a review of the capital programme to ensure that forward plans do not include significant expenditure that is inappropriately planned to be financed from capital balances rather than revenue.
- R3** Members should consider the listing of uncorrected errors contained in Appendix 3. you should decide whether these should be adjusted for or whether you regard these as immaterial to the accounts and thus conclude that they can remain unadjusted.

Material weaknesses in internal control

- 17** There were no identified weaknesses in internal control that were material and thus impacted significantly on our audit.

Letter of representation

- 18** Before I issue my opinion, auditing standards require me to obtain appropriate written representations from you and management about your financial statements and governance arrangements. Appendix 5 contains the draft letter of representation I seek to obtain from you.

Key areas of judgement and audit risk

- 19** In planning my audit I identified specific risks and areas of judgement that I have considered as part of my audit. My findings are set out in Table.

Table 1 Key areas of judgement and audit risk

Issue or risk*	Finding
Redundancy costs - the council has recently announced it will be making staff redundant and has sought a capitalisation direction to fund these.	We have now agreed with officers, the proportion of redundancy costs that meet the definitions within the capitalisation direction that can be funded from capital balances. We are satisfied that the

