

Annual Audit Letter

Wyre Forest District Council

Audit 2008/09

December 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.

Key messages

This report summarises the findings from our 2008/09 audit. It includes messages arising from the audit of your financial statements and the results of the work I have undertaken to assess your arrangements to secure value for money in your use of resources.

Financial position

- 1 The year has been a challenging one for the Council. In the 2007/2008 annual audit letter we said that the Council had been badly affected by the economic downturn. However the Council has responded appropriately to problems and in February 2009 approved a new financial strategy for 2009/10 and 2010/12, which identifies savings that need to be made for financial stability. The council has involved members and staff in identifying savings and in keeping spending within budget this year.
- 2 In 2008 the Council's revenue reserves were £3.5m. By 2012 most of these will have been used to help fund spending on services. The Council must have a 'balanced budget' by then as there will be no reserves left to use. Savings of around £2m are to be made in 2009/10, rising to £3m in 2010/11 (equivalent to 20 per cent of the Council's net budget). These savings are needed to offset the impact of reduced investment income, reductions in income and expected reductions in central grant support. The Council is currently preparing its budget for 2010/11 which will update this position and will provide the detail as to where the savings are to be made.
- 3 Whilst the Council did act promptly to produce the strategy, actual delivery of the plan will be difficult. Quarterly budget reports to cabinet are reporting some additional costs this year and changes to the 2008/2009 accounts, referred to later in this Letter, have meant more use of revenue reserves than planned. However, the overall position for 2009/2010 is broadly on track, with the Council still forecasting to spend close to its agreed budget. Members must keep the Council's financial position under close review.

Icelandic Investments

- 4 The 2008/2009 accounts include £9m of investments in Icelandic banks that are in administration. The accounts reflect an estimated loss (carried forward) of nearly £4m which is consistent with national estimates about the amount of investment that is likely to be recovered. As at November 2009, £1.7m has been recovered and the banks' administrators are reporting that they expect that the amount paid back to the Council will be a significant proportion of the original investment. However the Council does not currently have access to this money, nor does it know for certain how much it will get back or when.

- 5** The impact on the Council of this situation is threefold.
- Loss of capital reserves, planned to be used to fund the Council's housing investment plans which may not now go ahead.
 - £4m Potential Loss (impairment) carried forward to 2011, when the balance of the investments which has not been received will have to be paid for from balances. This is not currently factored into financial plans, and will impact on the money available to fund services. The Council may ask the government to allow it to capitalise the costs of this. This would allow the council to pay for it from the balances it has earmarked for capital purposes rather than from revenue balances which could reduce the direct impact on money available for ongoing services.
 - Loss of investment income, previously used to help pay for services. Although the effect of this is not as significant as the loss of interest income on the council's other investments from the reduction in base rates.

Corporate Priorities

- 6** The Council summarised its performance against its corporate priorities in the annual report published in July 2009. The number of corporate priorities and targets has been reduced to give a clearer focus for improvement and better identification of outcomes for local people. In the annual report the Council reported a number of successes against these priorities in the year.
- 7** In view of the financial picture painted above, the priority of Improving efficiency and value for money is vital in order to free up resources to deliver other priorities. The Council has three important and interrelated projects that are important to its current plans. In February 2009, the cabinet agreed that there should be progression to a single site on a phased basis to provide centralised office accommodation by 2012. Underpinning this is the Council's ICT strategy along with plans to change staff working arrangements, including more home based employees.
- 8** During 2009/10 the Council is making progress with its ICT strategy and in November agreed a mobile and flexible working policy. Little progress is being made on the single site project however, with current estimates that it will be 2012 before the project nears completion.

Leadership

- 9** There have been changes in senior management at the Council over the year, culminating with the arrival of the new Chief Executive in December 2009. Since the retirement of the Chief Executive in August interim arrangements have been in place, Members intend that these new structures will put the council in a stronger position to deliver its corporate priorities and help to make savings.

TTTKey messages

- 10** These changes have meant that many staff have taken on new roles. More changes are likely with further redundancies and changes to working practices. It is important that members are satisfied that there is sufficient management capacity to see through the necessary changes that will give financial stability and preserve services. The Council is seeking to achieve efficiencies through participating in the 'Worcestershire Enhanced Two Tier' project. Some councils are also seeking to achieve efficiencies through shared services and the Council may need to look further at this option if it is to maintain the balance between sound management and services provided to the public.

Audit Opinion

- 11** I issued an unqualified audit report by the statutory deadline of 30 September.

Financial Statements

- 12** The 'Credit Crunch' has had a significant financial impact on the council as described above. These events and the Council's response have affected the 2008/2009 accounts, resulting in a number of unusual and large entries. This has meant it has been a challenging year for finance staff in preparing the accounts.
- 13** Despite these challenges, the financial statements were generally well presented and officers were helpful in providing timely responses to audit queries. Officers raised 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.
- 14** There were material amendments made to the accounts as a result of the audit these related to a one-off issue and we do not have any concerns about the accounts processes generally.

Value for money

- 15** 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.

Audit Fees

- 16** As identified in my Opinion Plan which I reported to members in February I needed to carry out extra work on the financial statements to audit the entries arising from the redundancies and the Icelandic investments. The variance in fee of £5300 is in line with that anticipated in the Opinion Plan.

Table 1 Audit fees

	Actual	Proposed	Variance
Financial statements and annual governance statement	73156	67856	5300
Value for money	34524	34524	nil
Total audit fees	107680	102380	5300
Inspection fee	13070	13070	nil
Total	120750	115450	5300

Actions

- 17** Recommendations are shown within the body of this report and have been agreed with the audited body.

Independence

- 18** I can confirm that the audit has been carried out in accordance with the Audit Commission's policies on integrity, objectivity and independence.

Recommendations

- R1** Members must be satisfied that the updated financial strategy will deliver a balanced budget in the medium term.
- R2** Members must be satisfied that the projects that underpin the strategy are deliverable within the required timeframes and will provide the necessary savings and improvements to services.
- R3** Members should ensure that the Council is actively considering all opportunities for shared services where there is potential for achieving efficiencies.
- R4** Members must continue to be updated on the progress towards recovering its Icelandic investments.

Financial statements and annual governance statement

The Council's financial statements and annual governance statement are an important means by which the Council accounts for its stewardship of public funds.

Significant issues arising from the audit

- 19** The accounts were approved and given to us to audit in line with the national timetable. Finance staff raised appropriate accounting issues with us before we started the main final accounts visit, so that we were able to resolve some of the more contentious issues early. Staff responded to queries quickly so that the audit was completed by the required deadline of 30 September.
- 20** There were some significant issues in the accounts.

Icelandic investments:

- 21** Accounting requirements are that the Council is required to 'impair' a proportion of the £9m invested in the banks currently under administration. This requires an estimate to be made of what is likely to be recovered, and the estimated loss to be charged as an expense in year. This was estimated at around £4m. Because Councils had not budgeted to charge this amount of money to the accounts and because the situation is so uncertain, and may improve with time, the Government formally allowed Councils to delay charging this expense until the 2010/11 financial year. The estimated loss is therefore shown in the accounts, but carried forward. As part of the audit we checked that the estimate of losses was calculated in accordance with accounting guidance and properly accounted for.
- 22** The Director of Resources remains optimistic, based on information supplied by the Banks' administrators, that amounts recovered will be significant. Cabinet reports indicate that the Council are considering obtaining a 'capitalisation direction' for these impairment losses. This means that the impairment loss could be funded from capital resources rather than revenue, thus having less effect on the money available for directly providing services.
- 23** Wyre Forest was one of many councils having Icelandic investments. Local and national reviews of the circumstances leading to the collapse of Icelandic banks suggest that the Council followed its approved investment policy and that this policy was not out of line with that adopted elsewhere in the public sector. The Council has since reviewed its investment policies and its current investments are in relatively low risk areas.

