

Annual Governance Report

Wyre Forest District Council

Audit 2009/10

Date

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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

2009/10 Annual Governance Report

I am pleased to present the results of my audit work for 2009/10.

I discussed and agreed a draft of the report with the Director of Resources on 17th September 2010 and updated it as issues have been resolved.

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

It asks you to:

- consider the matters raised in this report before approving the financial statements.
- take note of the adjustments to the financial statements set out in this report (Appendix 2);
- approve the letter of representation on behalf of the Council before I issue my opinion and conclusion (Appendix 3); and

Yours faithfully

Elizabeth Cave
District Auditor

Date September 2010

Key messages

This report summarises the findings from the 2009/10 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 your arrangements to secure value for money in your use of resources.

Financial statements	Results	Page
Unqualified audit opinion	Yes	7
Financial statements free from material error	Yes	7
Adequate internal control environment	Yes	8
Value for money	Results	Page
Adequate arrangements to secure value for money	Yes	10

Audit opinion

- 1 Subject to receiving a satisfactory letter of assurance from the Director of Resources, I plan to issue an unqualified opinion on the financial statements by the statutory deadline of 30th September.

Financial statements

- 2 The financial statements were prepared in line with statutory deadlines supported by satisfactory working papers. I am very grateful for the excellent co-operation I received from your staff which has allowed me to fundamentally complete the audit. During the audit, management agreed to make a number of adjustments to the accounts, mainly to improve the detailed notes to the accounts.
- 3 All errors identified in the course of the audit have been amended. The amendments were material in two areas; the revaluation of fixed assets and the disclosure of the potential losses on Icelandic investments, along with the necessary capitalisation entries in the Income and Expenditure account. Adjustments have impacted on a number of headings within the accounts and whilst the deficit for the year has reduced, there has been no impact on the general fund.

TTTTKey messages

Value for money

- 4 I intend to issue an unqualified conclusion stating that the Council had adequate arrangements to secure economy, efficiency and effectiveness in the use of resources.
-

Audit fees

The audit fee for 2009/10 was agreed with management and the audit committee in March 2009. The fee for the audit will be as agreed.

Independence

- 5 'I can confirm that there were no relationships giving rise to a threat to independence, objectivity and integrity.'

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.

6 I ask the Audit Committee to:

- consider the matters raised in the report before approving the financial statements;
- take note of the adjustments to the financial statements which are set out in this report (Appendix 2);
- approve the letter of representation on behalf of the Council before I issue my opinion and conclusion (Appendix 3);

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

- 7 Subject to satisfactory clearance of outstanding matters, 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

- 8 There were two material errors in the accounts that have now been adjusted for. These errors have meant that changes have been made to both the balance sheet and the Income and Expenditure account. The deficit for the year has reduced as a result, although there has been no impact on the general fund.
- 9 The first related to the accounting treatment of car parks. During the year the Council changed the basis of valuation of the car parks. The adjustment required for this revaluation was complicated due to the previous basis of valuation. The Council sought advice from CIPFA and as a result an amendment was made. The impact is to eliminate an impairment loss of £1.095m on the Income and Expenditure account and decrease the revaluation reserve by the same amount.
- 10 The second related to how the treatment of the impairment (estimated loss) on the Icelandic investments is shown on the face of the Income and Expenditure account. The Council is reliant on the advice from CIPFA as to how much the Council is likely to recover from its initial £9m investment. During the year the Council has received just over £2m back. CIPFA has reduced its estimate of the 'loss' and this has resulted in a credit to the I&E of £0.565m. This year the council has been given a 'capitalisation direction' allowing it to capitalise the accumulated impairment to date. Accounting convention is that the impairment would be charged to the I&E account in year. This would have a direct impact on the general fund. The 'direction' has allowed the impairment to date of £1.754m to be paid for from capital balances rather than the general fund. It is important that the I&E makes clear the distinction between this year's change in impairment and the accounting treatment of the capitalisation. These were originally shown 'net' on the face on the I&E but have now been separated out to provide greater clarity to the users of the accounts.
- 11 Appendix 2 details the most significant corrected errors in the accounts. All errors have been corrected.

Important weaknesses in internal control

12 We did not identify any significant weakness in internal controls.

Key areas of judgement and audit risk

13 In planning my audit I identified specific risks and areas of judgement that I have considered as part of my audit. The table below highlights the issues raised in our opinion plan and our findings.

Table 1 Key areas of judgement and audit risk

Issue or risk	Finding
Fixed Asset valuations: There is a particular risk of material error in relation to the valuation of fixed assets.	We found asset valuations to be adequately supported and not materially inconsistent with the views of the Audit Commission's valuer. Errors were found in the accounting for the revaluation of fixed assets.
Icelandic investments: capitalisation direction sought to offset the impact of the 'impairment' on the general fund.	The accounting treatment of the Icelandic investments and the impairment was found to be consistent with the advice provided by CIPFA. The impairment was capitalised in accordance with the capitalisation direction.
The Council has spent considerable sums on IT. This should be accounted for appropriately	Our testing of additions did not identify any material errors in the treatment of capital additions.
Material VAT refunds	The accounting treatment of this as an exceptional item was considered appropriate.
Possible capital commitments near to the year end.	We considered capital commitments and post balance sheet events and these are appropriately reflected in the accounts
Purchase order processing is implemented at the year end.	This has not adversely impacted on our audit approach.
Ongoing legal issues that could have an impact on the accounts.	Contingent liabilities and provisions are appropriately disclosed in the accounts.

Annual Governance Statement (AGS)

14 The accounts contain the Annual Governance Statement and I am required to consider the content and the underlying process to prepare this statement. The content of the AGS is consistent with my expectations and understanding of the Council.

TTTTFinancial statements

- 15** I do consider that there is scope to strengthen the underlying processes to produce this statement and the supporting evidence.
- 16** The AGS is a 'corporate' document and there should be evidence of involvement of key people outside the finance function. Risk management arrangements are a key part of the process and currently there is little evidence of robust risk management arrangements, other than the management of financial risks. Arrangements could be strengthened by:
- Considering guidance provided by CIPFA on the production of the AGS.
 - Complying with the Council's own risk management strategy by routinely updating and reporting the risk register
 - Providing evidence that there has been consideration of internal controls and strategic risks by members / management as part of the production of the AGS
 - Members Considering whether the current review of internal audit (as referred to in the AGS) is adequate.

Letter of representation

- 17** Before I issue my opinion, auditing standards require me to ask you and management for written representations about your financial statements and governance arrangements. Appendix 3 contains the draft letter of representation.

Value for money

I am required to decide whether the Council put in place satisfactory corporate arrangements for securing economy, efficiency and effectiveness in its use of resources. This is known as the value for money conclusion.

Value for money conclusion

- 18 I assess your arrangements to secure economy, efficiency and effectiveness in your use of resources against criteria specified by the Audit Commission. I have shown my conclusions on each of the areas in Appendix 4.
- 19 I intend to issue an unqualified conclusion stating that the Council had adequate arrangements to secure economy, efficiency and effectiveness in the use of resources. Appendix 1 contains my draft report.

Glossary

Annual governance statement

- 20** Governance is about how local government bodies ensure that they are doing the right things, in the right way, for the right people, in a timely, inclusive, open, honest and accountable manner.
- 21** It comprises the systems and processes, and cultures and values, by which local government bodies are directed and controlled and through which they account to, engage with and, where appropriate, lead their communities.
- 22** The annual governance statement is a public report by the Council on the extent to which it complies with its own local governance code, including how it has monitored the effectiveness of its governance arrangements in the year, and on any planned changes in the coming period.

Audit closure certificate

- 23** A certificate that I have completed the audit following statutory requirements. This marks the point when I have completed my responsibilities for the audit of the period covered by the certificate.

Audit opinion

- 24** On completion of the audit of the accounts, auditors must give their opinion on the financial statements, including:
- whether they give a true and fair view of the financial position of the audited body and its spending and income for the year in question;
 - whether they have been prepared properly, following the relevant accounting rules; and
 - for local probation boards and trusts, on the regularity of their spending and income.

Qualified

- 25** The auditor has some reservations or concerns.

Unqualified

- 26** The auditor does not have any reservations.

Value for money conclusion

- 27** The auditor's conclusion on whether the audited body has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

Appendix 1 – Independent auditor’s report to Members of Wyre Forest District Council

Independent auditor’s report to the Members of Wyre Forest District Council

Opinion on the accounting statements

I have audited the accounting statements and related notes of Wyre Forest District Council for the year ended 31 March 2010 under the Audit Commission Act 1998. The accounting statements comprise the Income and Expenditure Account, the Statement of Movement on the General Fund Balance, the Balance Sheet, the Statement of Total Recognised Gains and Losses, the Cash Flow Statement, the Collection Fund and the related notes. These accounting statements have been prepared under the accounting policies set out in the Statement of Accounting Policies.

This report is made solely to the members of Wyre Forest District Council in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 49 of the Statement of Responsibilities of Auditors and of Audited Bodies published by the Audit Commission in April 2008.

Respective responsibilities of the Director of Resources and auditor

The Director of Resources' responsibilities for preparing the accounting statements in accordance with relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2009: A Statement of Recommended Practice is set out in the Statement of Responsibilities for the Statement of Accounts.

My responsibility is to audit the accounting statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

I report to you my opinion as to whether the accounting statements give a true and fair view, in accordance with relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2009: A Statement of Recommended Practice, of the financial position of the Authority and its income and expenditure for the year.

TTT Appendix 1 – Independent auditor’s report to Members of Wyre Forest District Council

I review whether the governance statement reflects compliance with ‘Delivering Good Governance in Local Government: A Framework’ published by CIPFA/SOLACE in June 2007. I report if it does not comply with proper practices specified by CIPFA/SOLACE or if the statement is misleading or inconsistent with other information I am aware of from my audit of the accounting statements. I am not required to consider, nor have I considered, whether the governance statement covers all risks and controls. Neither am I required to form an opinion on the effectiveness of the Authority’s corporate governance procedures or its risk and control procedures.

I read other information published with the accounting statements, and consider whether it is consistent with the audited accounting statements. This other information comprises the Explanatory Foreword and the Statement of Accounts- overview. I consider the implications for my report if I become aware of any apparent misstatements or material inconsistencies with the accounting statements. My responsibilities do not extend to any other information.

Basis of audit opinion

I conducted my audit in accordance with the Audit Commission Act 1998, the Code of Audit Practice issued by the Audit Commission and International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the accounting statements and related notes. It also includes an assessment of the significant estimates and judgments made by the Authority in the preparation of the accounting statements and related notes, and of whether the accounting policies are appropriate to the Authority’s circumstances, consistently applied and adequately disclosed.

I planned and performed my audit so as to obtain all the information and explanations which I considered necessary in order to provide me with sufficient evidence to give reasonable assurance that the accounting statements and related notes are free from material misstatement, whether caused by fraud or other irregularity or error. In forming my opinion I also evaluated the overall adequacy of the presentation of information in the accounting statements and related notes.

Opinion

In my opinion the Authority accounting statements give a true and fair view, in accordance with relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2009: A Statement of Recommended Practice, of the financial position of the Authority as at 31 March 2010 and its income and expenditure for the year then ended.

TTT Appendix 1 – Independent auditor’s report to Members of Wyre Forest District Council

Conclusion on arrangements for securing economy, efficiency and effectiveness in the use of resources

Authority’s Responsibilities

The Authority is responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance and regularly to review the adequacy and effectiveness of these arrangements.

Auditor’s Responsibilities

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 Code of Audit Practice issued by the Audit Commission requires me to report to you my conclusion in relation to proper arrangements, having regard to relevant criteria for principal local authorities specified by the Audit Commission and published in May 2008 and updated in October 2009. I report if significant matters have come to my attention which prevent me from concluding that the Authority has made such proper arrangements. I am not required to consider, nor have I considered, whether all aspects of the Authority’s arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

Conclusion

I have undertaken my audit in accordance with the Code of Audit Practice and having regard to the criteria for principal local authorities specified by the Audit Commission and published in May 2008 and updated in October 2009, and the supporting guidance, I am satisfied that, in all significant respects, Wyre Forest District Council made proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2010.

Certificate

I certify that I have completed the audit of the accounts in accordance with the requirements of the Audit Commission Act 1998 and the Code of Audit Practice issued by the Audit Commission.

Elizabeth Cave
Officer of the Audit Commission

Audit Commission

The Business Centre

Blackpole Road

Worcester

WR3 8SQ

September 2010

Appendix 2 – Amendments to the draft accounts

I identified the following misstatements during my audit and managers have made the necessary adjustments. I bring them to your attention to aid you in fulfilling your governance responsibilities. This table only includes the most significant items. I have provided the Director of Resources with a full list of amendments.

Table 2

		Income and Expenditure Account		Balance sheet	
Adjusted misstatements	Nature of adjustment	Dr £000s	Cr £000s	Dr £000s	Cr £000s
fixed assets revaluation - asset omitted in error	tangible assets revaluation reserve			585	585
classification of tangible and intangible assets	increase tangible assets reduce intangible assets			102	102
car park valuations incorrect	Remove impairment SMGFB I&E Decrease of revaluation Revaluation reserve Capital Adjustment Account			1,094 1,095	 1,094 1,095
impairment of long term investments: split between impairment and capitalisation of impairment. (presentational change on face of I	impairment of Icelandic investments: <i>removing the net impairments entry</i> impairment of Icelandic investments: <i>credit for in year reduction of impairment</i> capitalisation of the total	1755	1190 565		

TTTAppendix 2 – Amendments to the draft accounts

		Income and Expenditure Account		Balance sheet	
& E)	impairment to date				
Trust Fund - exclusion of Trust fund from the accounts	Creditors Cash			290	290

Appendix 3 – Draft letter of representation

Elizabeth Cave
Audit Commission
The Business Centre
Blackpole Road
Worcester
WR3 8SQ

Wyre Forest District Council - Audit for the year ended 31 March 2010

I confirm to the best of my knowledge and belief, having made appropriate enquiries of other directors of Wyre Forest District Council, the following representations given to you in connection with your audit of the Council's financial statements for the year ended 31 March 2010.

Compliance with the statutory authorities

I acknowledge my responsibility under the relevant statutory authorities for preparing the financial statements in accordance with the Code of Practice for Local Authority Accounting in the United Kingdom: A Statement of Recommended Practice which gives a true and fair view of the financial position and financial performance of the Council and for making accurate representations to you.

Supporting records

All the accounting records have been made available to you for the purpose of your audit and all the transactions undertaken by the Council have been properly reflected and recorded in the accounting records. All other records and related information, including minutes of all Council and Committee meetings, have been made available to you.

Irregularities

I acknowledge my responsibility for the design and implementation of internal control systems to prevent and detect fraud or error.

There have been no:

- irregularities involving management or employees who have significant roles in the system of internal accounting control;
- irregularities involving other employees that could have a material effect on the financial statements; or

Appendix 3 – Draft letter of representation

- communications from regulatory agencies concerning non-compliance with or deficiencies on, financial reporting practices which could have a material effect on the financial statements.

I also confirm that I have disclosed:

- my knowledge of fraud, or suspected fraud, involving either management, employees who have significant roles in internal control or others where fraud could have a material effect on the financial statements; and
- my knowledge of any allegations of fraud, or suspected fraud, affecting the entity's financial statements communicated by employees, former employees, analysts, regulators or others.

Law, regulations, contractual arrangements and codes of practice

There are no instances of non-compliance with laws, regulations and codes of practice, likely to have a significant effect on the finances or operations of the Council.

The Council has complied with all aspects of contractual arrangements that could have a material effect on the financial statements in the event of non-compliance. There has been no non-compliance with requirements of regulatory authorities that could have a material effect on the financial statements in the event of non-compliance.

Fair Values

I confirm the reasonableness of the significant assumptions within the financial statements. For the assumptions around the valuation of investments, I confirm:

- the appropriateness of the measurement method;
- the basis used by management to overcome the presumption under the financial reporting framework;
- the completeness and appropriateness under the financial reporting framework; and
- if subsequent events do not require adjustment to the fair value measurement.

I also confirm that there has been no information received from the administrators of the Icelandic investments that would significantly impact on the assumptions around these investments.

Assets

The following have been properly recorded and, where appropriate, adequately disclosed in the financial statements:

- losses arising from sale & purchase commitments;
- agreements & options to buy back assets previously sold; and
- assets pledged as collateral.

Compensating arrangements

There are no formal or informal compensating balancing arrangements with any of our cash and investment accounts.

Contingent liabilities

There are no other contingent liabilities, other than those that have been properly recorded and disclosed in the financial statements. In particular:

- there is no significant pending or threatened litigation, other than those already disclosed in the financial statements; and
- there are no material commitments or contractual issues, other than those already disclosed in the financial statements; and
- no financial guarantees have been given to third parties.

Related party transactions

I confirm the completeness of the information disclosed regarding the identification of related parties. The identity of, and balances and transactions with, related parties have been properly recorded and where appropriate, adequately disclosed in the financial statements.

Post balance sheet events

Since the date of approval of the financial statements by the Council, no additional significant post balance sheet events that have occurred which would require additional adjustment or disclosure in the financial statements.

The Council has no plans or intentions that may materially alter the carrying value or classification of assets and liabilities reflected in the financial statements.

Signed on behalf of Wyre Forest District Council

I confirm that this letter has been discussed and agreed by the Council on 27 September 2010.

Signed

David Buckland

Director of Resources

Date

Appendix 4 – Value for money criteria

KLOE	Met
Managing finances	
Planning for financial health	Yes
Understanding costs and achieving efficiencies	Yes
Financial reporting	Yes
Governing the business	
Commissioning and procurement	Yes
Use of information	Yes
Good governance	Yes
Risk management and internal control	Yes
Managing resources	
Natural resources	Yes
Strategic asset management	not assessed
Workforce	not assessed

The Audit Commission

The Audit Commission is an independent watchdog, driving economy, efficiency and effectiveness in local public services to deliver better outcomes for everyone.

Our work across local government, health, housing, community safety and fire and rescue services means that we have a unique perspective. We promote value for money for taxpayers, auditing the £200 billion spent by 11,000 local public bodies.

As a force for improvement, we work in partnership to assess local public services and make practical recommendations for promoting a better quality of life for local people.