

Annual Audit Letter

Wyre Forest District Council

Audit 2009/10

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.

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Key messages

This report summarises my findings from the 2009/10 audit. My audit comprises two elements:

- **the audit of your financial statements (pages 4 to 8); and**
- **my assessment of your arrangements to achieve value for money in your use of resources (pages 9 to 13).**

I have included only significant recommendations in this report. The Council has accepted these recommendations.

Overview of 2009/10

1 The economic downturn has had an impact on many aspects of the Council's business. The housing benefits claim for 2009/10 has shown an extra £5 million (25 per cent) increase in benefit claimed. New claims and changes to existing claims are all processed by the Council, adding to the workload of staff but claims are still being processed within targets. Sources of income from areas such as planning have also been adversely affected, while costs, such as energy costs, have continued to rise.

2 At the same time the Council has succeeded in making considerable savings accompanied by organisational, operational and cultural changes. In 2009/10 the Council set a demanding savings target and actually delivered more than the planned levels of savings. A number of people have left the council over the last eighteen months, including the previous Chief Executive. The new Chief Executive, Ian Miller, was appointed last winter.

3 The Council has made progress on two significant projects; the new municipal cemetery where a contract has been agreed to develop the site and work is now well underway, and the 'Single Site' where the land has been bought, planning permission is in place and the Council is short-listing potential contractors. In previous audit reports I have highlighted that the Council has struggled to initiate these projects.

Audit opinion and financial statements

4 The accounts are prepared and published by the Council in line with statutory requirements. I audited the accounts in accordance with the

accounts and audit regulations and followed the requirements of the International standards in auditing ISA (UK&I).

5 I issued an unqualified opinion on the 28 September 2010.

Value for money

6 The Code of Audit Practice, agreed by parliament, requires the auditor to make a judgement whether the Council provides value for money. The conclusion is based on whether the Council is able to demonstrate adequate performance against criteria set nationally by the Audit Commission. I gave an unqualified VFM conclusion on the 28 September 2010.

Future challenges

7 The Comprehensive spending review announced on 20 October will mean that overall Government grants to councils will reduce by 28 per cent over the next four years. The precise impact on Wyre Forest will not be known until December.

8 In the Council's finance strategy, assumptions have been made for 15 per cent reductions over the next two years. The reduction in grant will clearly be a significant challenge.

9 The Council is going through a consultation process with the public, to inform the 2011/12 budget setting process. A revised financial strategy is planned for December 2010.

10 In order to release savings, the Council is planning a range of measures including:

- sharing services with other councils;
- transfer of assets and services to the third sector; and
- asset disposal and transfer.

11 The council has a significant capital programme. The financial strategy shows that the Council will be borrowing externally for the first time to fund some of the programme. There are ongoing risks around recovery of Icelandic Investments, particularly the Landsbanki investment. Plans assume that assets will be sold and so there are risks around the Council's ability to sell these assets at expected prices. Large capital projects are inherently risky with potential for costs to escalate and so it is important that members are assured that there is sufficient rigour in the management of these schemes.

Recommendation

R1 The Council needs to reflect the risks which surround its capital programme in its risk register and consider its response.

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.

I gave an unqualified opinion on the Council's 2009/10 financial statements on 28 September, within the statutory target date.

Overall conclusion from the audit

12 I presented my annual governance report to the Audit Committee on 27 September and gave an unqualified opinion on the accounts. In my report I thanked the finance staff for their excellent cooperation during the audit and noted there were no unadjusted errors in the accounts to be approved.

Significant weaknesses in internal control

13 I did not identify, or report in year, any significant weaknesses in your internal control arrangements.

Accounting practice and financial reporting

14 Wyre Forest's accounts contain some complicated accounting entries around the treatment of the estimated losses on the 'Icelandic investments'. Whilst I am satisfied that the accounting for these is consistent with national guidance and appropriate, I felt that the disclosure on the face of the income and expenditure account should be expanded, to make the transactions clearer, and the Director of Resources agreed.

15 The accounting around fixed assets is also complex. I agreed two material amendments to the accounts. The first was around the accounting treatment for the revaluation of council car parks. This did impact on the Income and Expenditure account and Balance Sheet, however there was no impact on general fund balances. The second was an understatement of the impact of the revaluation of a building.

16 Amendments were made to several of the notes, including extending the disclosures made to note 7 to comply with the new requirement to more fully detail the remuneration of senior officers whose salary is less than £150,000 but more than £50,000.

Treasury management

17 The Council originally had £9 million invested in Icelandic banks, of which £6.9 million was still outstanding as at 31 March 2010. By November 2010 this has reduced to £6.2 million. The Council is optimistic in its finance strategy that the majority of these balances will be recovered and this is consistent with the view held by other councils and the advisors.

18 Proper accounting practice requires the Council to write down and charge to revenue the expected loss (impairment) on these investments. The 2009/10 accounts include an impairment of minus £0.565 million reflecting an expected increase in value from the 2008/09 accounts. This reflects the more optimistic rates of recovery and the fact that some funds have been returned this year.

19 In the Director of Resources' foreword to the accounts he refers to the ongoing legal challenge over the status of the Landsbanki creditors. If successful then the 'preferred' status of British local authorities could change and thus the amount expected to be recovered would be significantly reduced.

20 The Council was successful in receiving a 'capitalisation direction' from Central Government. This meant that rather than charging the impairment loss to revenue, the cost could be borne by capital balances in the short term, thus lessening the impact on services. £1.75 million of capital balances were used in this way.

21 At the end of March, the Council had £8.5 million other investments and these were invested in high street banks that are AA- rated in accordance with the investment strategy approved by Council which is line with CIPFA guidance.

Recommendation

R2 Members should ensure that they continue to be kept up to date on the position on these Icelandic investments in particular and understand the assumptions made for their return in the financial strategy.

Implementation of IFRS

22 Local authorities will need to prepare fully IFRS-compliant financial statements under the new Code of Practice on Local Authority Accounting for 2010/11 (the Code of Practice) by 30 June 2011.

23 The Audit Commission has undertaken two surveys of auditors to assess the national picture of local authorities' readiness for implementing IFRS. After the first survey, the Audit Commission made recommendations to help councils in making a successful transition to IFRS. The second report considers progress. Appendix 1 summarises the recommendations and the up-to-date position at Wyre Forest.

24 Overall I assessed the Council as 'amber' in its preparedness. I expect that the Council will produce IFRS compliant accounts, as discussions with officers indicates that work is being done on the areas most likely to be affected. However we have yet to undertake any substantive work in this area and there is a risk that with conflicting pressures on staff the timetable could slip further.

Recommendation

R3 Members should be briefed at each audit committee about the progress towards implementation of IFRS and be assured that enough resources are being dedicated to the issue.

Shared Services

25 In our 2008/09 audit letter I urged members to consider all opportunities for shared services where there is potential for achieving efficiencies. I am pleased to note the Council has made progress in this area and is clearly committed to pursuing further opportunities.

26 The Council is a member of the Worcestershire partnership. This partnership has expressed a clear commitment to work together, to discuss major budget decisions with one another, to consider service redesign across organisational boundaries and to consult businesses, the third sector and other stakeholders where appropriate.

27 Progress has been made on the Worcestershire Enhanced two tier (WETT) project. In June a number of staff transferred to Bromsgrove Council, the host for the Regulatory Shared Service. In total it is expected that 160 people will transfer to this organisation across the county, releasing up to £180,000 of savings for Wyre Forest.

28 A Worcestershire Shared Services joint committee has been set up. It is important that 'those charged with governance' are clear about the governance arrangements around this committee and how they relate to their responsibilities at Wyre Forest Council for the accounts.

Capital programme

29 The Council has made some significant progress this year on its major capital projects.

Municipal Cemetery

30 The contract for the construction of the new municipal cemetery and crematorium has been agreed and work is well underway. Successful negotiation has meant that the expected costs are reduced from those originally budgeted. It is anticipated that the cemetery will become operational from 2011.

Single site

31 The Council made a decision in July 2008 to relocate to a single site. This decision was based on a business case prepared in 2006 by DTZ Consulting.

32 Early in the 2010/11 financial year the land was purchased, project managers have now been appointed and a design agreed. Contractors for the build are expected to be secured in the near future. The costs of this project have been estimated to be around £10.5 million, although the full costs will not be known until tenders are received.

33 The Director of Resources has presented a paper to members to provide an update on potential savings from the project. Funding of the project will be from capital receipts and receipts from assets yet to be disposed of.

34 We are planning to review this paper and the progress of this project as part of our 2010/11 audit. Clearly this is a high profile project with a number of risks, as might be expected from such a scheme.

Recommendation

R4 Members should be satisfied that there are clear management and reporting arrangements around these projects and that risk is being managed.

National Fraud Initiative (NFI)

35 The Council carries out some good proactive fraud work particularly in benefits and has been successful in subsequent prosecution and recovery.

NFI is a national matching exercise run by the Audit Commission. Audited bodies are provided with details of matches which Councils can then consider for evidence of fraud. Districts councils both nationally and locally are reporting high values of identified fraud from this exercise, particularly around housing benefits and single person discounts. The identified savings are modest at Wyre Forest which might suggest that better use could be made of the data matching exercise.

36 In the 2010/11 financial year the Council is targeting single person discounts. The council has already identified a considerable number of ineligible claimants as a result of the drive and this is likely to result in considerable savings.

37 The Audit Commission has recently published a report 'Protecting the Public Purse: Fighting Fraud against Local Councils and Local Taxpayers.' In this report the Commission describes what has happened in the field of fraud detection and prevention since 2009 and set out the findings from its recent fraud survey. The report identifies more fraud risks and urges local councils and related bodies to focus on them. The report also describes the action taken by some Councils to tackle fraud and provide links to tools to help councils improve their counter-fraud defences.

Value for money

I considered whether the Council is managing and using its money, time and people to deliver value for money.

I assessed your performance against the criteria specified by the Audit Commission and have reported the outcome as the value for money (VFM) conclusion.

2009/10 use of resources assessments

38 At the end of May 2010, the Commission wrote to all chief executives to inform them that following the government's announcement, work on CAA would cease with immediate effect and the Commission would no longer issue scores for its use of resources assessments.

39 However, I am still required by the Code of Audit Practice to issue a value for money conclusion. I have therefore used the results of the work completed on the use of resources assessment up to the end of May to inform my 2009/10 conclusion.

40 I report the significant findings from the work I have carried out to support the VFM conclusion.

VFM conclusion

41 I assessed your arrangements to achieve economy, efficiency and effectiveness in your use of money, time and people against criteria specified by the Audit Commission. The Audit Commission specifies each year, which Key Lines of Enquiry (KLOE) are the relevant criteria for the VFM conclusion at each type of audited body.

42 The table below summarises my conclusions.

Table 1: **VFM conclusion criteria and assessments**

Criteria	Adequate arrangements?
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	Yes
Workforce	Yes

43 I issued an unqualified conclusion stating that the Council had satisfactory arrangements to secure economy, efficiency and effectiveness in its use of resources.

44 Overall we found that arrangements had improved in the areas we reviewed, particularly around managing finances. I am issuing a separate, more detailed report on our value for money conclusion. The main issues raised in the report are summarised below.

Managing finances

- I consider that the Council has appropriate arrangements for financial planning and is taking steps to secure the financial stability of the council in the medium term. Clearly the Council faces some significant challenges in achieving this due to the level of savings that are going to need to be delivered.
- The Council has made considerable progress this year in understanding its costs and making efficiencies. The council was able to demonstrate improved processes and examples of efficiencies made or action taken as a result of this information were provided.

The Council has good arrangements for producing its accounts. In year reporting is adequate and provides information on key financial risks. Arrangements could be improved further and this should be facilitated by the upgraded financial ledger. The council has already implemented purchase order processing and commitment accounting and is already experiencing some improvement in efficiency.

Governing the business

- The Council has taken steps to improve its arrangements for commissioning and procurement. The Council has established collaborative working arrangements with other councils, such as the county wide shared regulatory service.
- The Council is taking steps to improve data quality and to use data more effectively. Performance management arrangements are starting to bed in with clinics held to focus on underachieving areas and improved outcomes have been highlighted as a result.
- Good working relationships exist with members and there have been examples of strong challenge through the scrutiny process, for example with the budget.
- Risk management is a weak area for the council. The proforma of reports to members does provide a prompt for risks to be considered before decisions are made, the budget and financial reporting process clearly considers risks, and service risks are identified as part of the planning process. However the risk register itself is rarely updated or considered by members. A risk register brings together all corporate and service risks and should be updated and considered regularly to support management in its governance roles.

Use of natural resources

- The council has gathered baseline information and is starting to develop this area. The Council is planning new offices and the design will incorporate energy saving features.

Recommendations

R5 Members should ensure that the recommendations in the VFM conclusion report are considered and addressed.

R6 Risk management arrangements at the Council should be improved.

Risk-based performance reviews

45 To support my review of the criteria I undertook the following reviews.

Performance management follow-up

46 In 2008 I undertook an audit of the Council's performance management arrangements. In the autumn last year I followed up that initial report to assess progress against the agreed action plan. We found that recommendations following the performance management review were being implemented, although progress was slower than expected because the Council was going through a period of significant organisational change.

47 In September 2010, the action plan was updated by officers and reported to the Corporate Resources Scrutiny Committee. I am pleased to note that the Council is continuing to use this action plan and that progress is being reported against the agreed actions.

Waste management

48 In the plans for all Audit Commission clients in Worcestershire I included time for review of county wide waste management. Much of this work focussed on the development of arrangements for waste disposal under the PFI contract. My findings have been discussed with officers of the County Council and Herefordshire Council and will be included in their annual audit letters.

49 Throughout Worcestershire there were a variety of different waste collection and recycling methods and frequency. We concluded at an early stage that these differences were not causing a problem for the disposal arrangements. Recent changes to arrangements means that there is now consistency in collection methods across most of the County. Our work with the districts therefore focussed on partnership working on the joint municipal waste strategy (JMWMS).

50 In July the Council changed the way it collects waste, to comply with the county wide waste management strategy. Since the launch the Council is reporting improved performance in waste recycling and in volumes of residual waste.

51 Partnership working between the county and district councils is improving. Both member and officer forums are in place but these are not constituted and have no decision making powers. The district councils were engaged in leading and reviewing the JMWMS although the revised strategy is yet to be approved by all the districts. There is a strong feeling within the district councils, including Wyre Forest that they need to know more about how payments within the PFI contract are arranged so they can better understand how to minimise costs. The County Council and districts are now talking about these issues and there is an understanding by the County Council that there has to be a rational way of incentivising the districts to continue to increase recycling and work within the remit of the JMWMS. The districts also feel it would be best to have a more open partnership, for example with open discussion around what form collection and disposal should take in order to aid better understanding and to collectively resolve issues. All partners have worked together to reduce the tonnage of waste

collected, increase the amount of recyclable waste, and reduce the amounts going to landfill.

Approach to local value for money work from 2010/11

52 Given the scale of pressures facing public bodies in the current economic climate, the Audit Commission has been reviewing its work programme for 2010/11 onwards. This review has included discussions with key stakeholders of possible options for a new approach to local value for money (VFM) audit work. The Commission aims to introduce a new, more targeted and better value approach to our local VFM audit work.

53 My work will be based on a reduced number reporting criteria, specified by the Commission, concentrating on:

- securing financial resilience; and
- prioritising resources within tighter budgets.

54 I will determine a local programme of VFM audit work based on my audit risk assessment, informed by these criteria and my statutory responsibilities. I will no longer be required to provide an annual scored judgement relating to my local VFM audit work. Instead I will report the results of all my local VFM audit work and the key messages for the Council in my annual report to those charged with governance and in my annual audit letter.

Closing remarks

55 I have discussed and agreed this letter with the Chief Executive and the Director of Resources. I will present this letter at the Audit Committee on 17 January 2011 and will provide copies to all board members.

56 Full detailed findings, conclusions and recommendations in the areas covered by our audit were included in the reports I issued to the Council during the year.

Report	Date issued
Annual Governance report	28 June 2010
Value for money conclusion	28 June 2010

57 The Council has taken a positive and helpful approach to our audit. I wish to thank the Council staff for their support and cooperation during the audit.

Elizabeth Cave
District Auditor
November 2010

Appendix 1 International Financial Reporting Standards

Table 2: Progress towards implementation of IFRS

Recommended action	position at Wyre Forest	Comments
Develop and maintain a detailed project plan including a budget and resource plan.	The Council has a project plan that identifies key dates and personnel.	The Audit Commission expectation is that restated accounts are prepared by Autumn 2010. WFDC timetable is for December. Preparation of the 2011/12 budget is a high priority now and the same people are involved in the IFRS restatement exercise. There is a risk that this date could slip because of conflicting pressures on staff.
Conduct a detailed impact assessment.	A consultant has been employed to support the Council in preparing IFRS compliant accounts. Holiday pay and leases are identified as the key areas affected.	We have yet to review the impact assessment and to undertake any detailed work. As well as the areas the Council has identified in its project plan we will also be looking for evidence the Council has considered the impact and its accounting approach and policies around: <ul style="list-style-type: none"> ■ (IFRIC 4)/IFRIC 12; ■ identification and accounting for components of assets; and ■ the proposed approach to segmental reporting.
Engage the wider organisation because IFRS is not just a finance issue.	Human Resources, Legal, property and IMT staff have been involved.	Approach adopted appears reasonable at a council of this size and complexity.
Ensure that their audit committee or equivalent is aware of the implications of IFRS.	The audit committee has been briefed on the background and further updates are planned.	The Audit committee should ensure that it is briefed at each meeting of progress against the project plan.
Begin a dialogue with their external auditor on the authority's plans and progress, and the issues arising.	We are planning to review the restated balance sheet and proposed accounting policies in December.	

Appendix 2 Glossary

Annual governance statement

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.

It comprises the systems and processes, 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.

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 opinion

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.

Financial statements

The annual accounts and accompanying notes.

Qualified

The auditor has some reservations or concerns.

Unqualified

The auditor does not have any reservations.

Value for money conclusion

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 money, people and time.

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