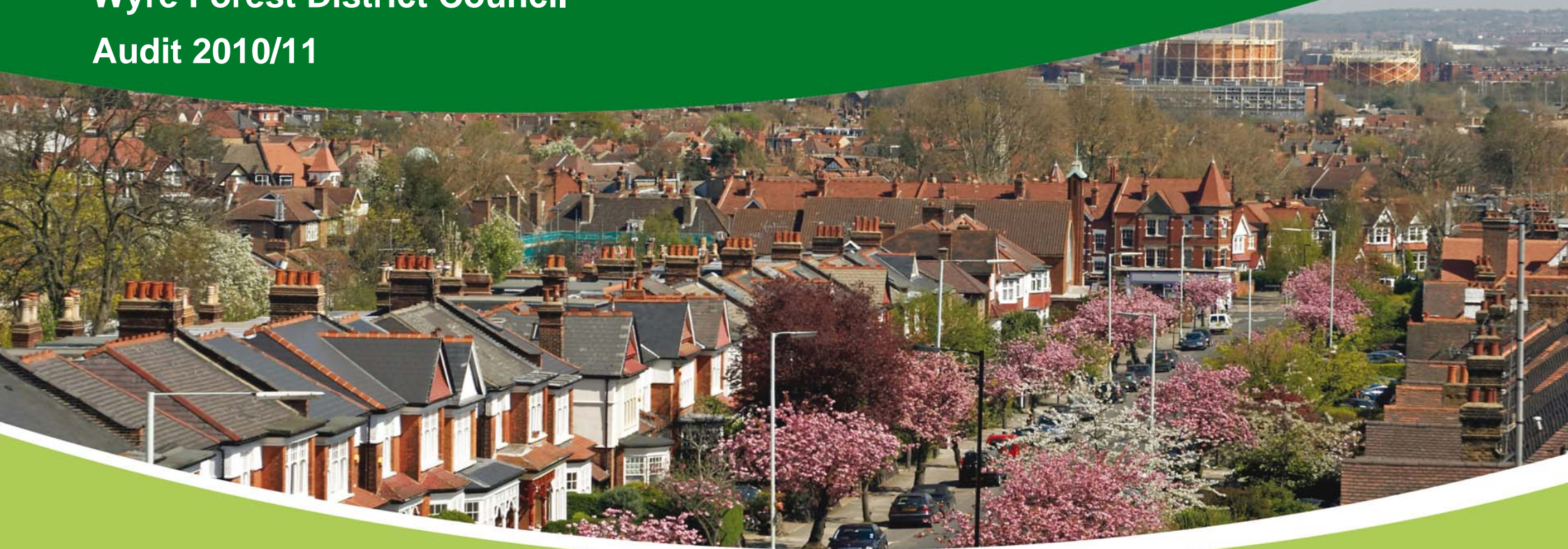


Annual governance report

Wyre Forest District Council

Audit 2010/11



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Traffic light explanation

Red  Amber  Green 

Key messages

This report summarises the findings from the 2010/11 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.

	Our findings
Unqualified audit opinion	
Proper arrangements to secure value for money	

Audit opinion and financial statements

- I am planning to issue an unqualified audit opinion by the statutory deadline of 30 September 2011.

Value for money

- I am planning to give an unqualified conclusion on the Council's arrangements for securing value for money.

Before I complete my audit

I confirm to you

My report 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.

Independence

I can confirm that I have complied with the Auditing Practices Board's ethical standards for auditors, including ES 1 (revised) - Integrity, Objectivity and Independence. I can also confirm there were no relationships resulting in a threat to independence, objectivity and integrity.

The Audit Commission's Audit Practice has not undertaken any non-audit work for the Council during 2010/11.

I ask you to confirm to me

I ask the audit committee to:

- approve the letter of representation, provided alongside this report, on behalf of the Council before I issue my opinion and conclusion.
-

Financial statements

The financial statement were signed and presented for audit by the statutory deadline of 30 June 2011. This year was the first year that your accounts have been prepared under International Financial Reporting Standards.

Opinion on the financial statements

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 report.

IFRS restatement

I reviewed the restatement of the accounts under IFRS. I did not identify any material errors in this restatement which was well supported with complete working papers. The exercise required a significant amount of work by finance staff and is a considerable achievement.

Errors in the financial statements

In the course of the audit a number of changes were made to the financial statements. The majority of these were changes to disclosures that improved the presentation or the clarity of the financial statements for the users of the accounts. There are no material uncorrected errors in the accounts. The Director of Resources will provide members with details of all changes to the accounts since the accounts were endorsed by the Chair of the Audit Committee in June.

As a result of the change from RPI to CPI in the valuation of pension liabilities, a past service gain of £5.5m was included in the comprehensive income and expenditure statement. In our opinion, and this was agreed by officers, this was an 'exceptional item'. This is now disclosed on a separate line in the net costs of services. This means that the other items in cost of services are now more comparable with the prior year, although there is no impact on the overall position.

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.

In planning my audit I identified specific risks and areas of judgement that I have considered as part of my audit.

Key audit risk and our findings

1. International Financial Reporting Standards (IFRS) Restatement

The 2009/10 financial statements are restated using the International Financial Reporting Standards. The risk is that the accounts may not be fully compliant with the IFRS.

I audited the restated accounts at 1/4/09 and 31/3/10. The basis of the restatement was found to be in line with our expectations and the new requirements under IFRS. These accounts have formed the basis of the prior year comparators for the 2010/11 accounts.

The accounts were prepared in line with the suggested template provided by CIPFA in their guidance notes – which is good practice and no significant errors were identified. However some of the notes and accounting policies relate to nil balances and thus do not add to the reader's understanding of the accounts. It was agreed that these would be reviewed as part of next year's preparation of the accounts.

2. Purchase order payment system

In 2010/11 a new module has been added to the general ledger that enables orders to be raised, authorised and

The new system was reviewed by Internal audit and then by my team, as part of our pre-statements testing. Internal audit found that there were some initial teething problems but these had been overcome and the system was operating as planned.

goods received notes to be received electronically.

There is a risk that the system may not be operating as desired and thus expenditure misstated

3. Icelandic Investments

The accounts contain some significant estimates and specific accounting entries around the Icelandic Investments. Any errors in these assumptions could have a material impact.

There is an ongoing legal challenge to the Council's 'preferred status in relation to the 'Landsbanki investment. This could be resolved by the year end.

Following our review I concluded that the implementation of this system did not represent a material risk to the financial statements. Our year end testing did include substantive testing of cut off and accruals which did not identify any material misstatement of expenditure.

The entries made in the accounts are based upon the guidance on impairment provided by CIPFA. This is consistent with the previous year and provides an appropriate basis of estimate and accounting treatment.

An anticipated improvement in the expected recovery of your Kaupthing, Singer & Friedlander investment has resulted in some of the impairment made in 2009/10 being reversed in 2010/11. The benefit from this has been set aside in a revenue reserve earmarked for capital purposes. I had discussions with your officers and sought technical advice, because in my view a capital reserve was more appropriate to reflect the fact that a capitalisation direction had been used to allow the impairment to be capitalised in 2009/10. My technical advice confirmed that there is a lack of specific guidance on this matter and I have accepted the Council's accounting treatment. As the revenue reserve is earmarked for capital purposes, the final outcome of the different accounting treatments is similar i.e. that the gain is available to finance future capital expenditure. I have asked the Director of Resources for assurance that the reserve will be used for capital purposes in his Letter of Representation.

The judgement on local authorities' 'preferred status' in relation to the Landsbanki investment is now expected after the statutory deadline for the opinion on the accounts. The accounts include a reference to the position and an estimate of the financial risk to which the Council is exposed of £1.8m. This is reflected in the contingent liabilities note. I consider that the disclosure in the accounts is appropriate.

Financial statements

Significant weaknesses in internal control

Whilst I am not expressing an opinion on the overall effectiveness of internal control, no significant weaknesses in internal control have been identified during the course of the audit that is relevant to preparing the financial statements.

Quality of your financial statements

I consider aspects of your accounting practices, accounting policies, accounting estimates and financial statements disclosures.

- 1 The financial statements were prepared for the first time under international financial reporting standards. Overall I found that the Council had appropriately applied the new requirements of IFRS and the accounts presented were good.
- 2 There were numerous amendments to the accounts during the audit, although these were not material but were agreed to improve the presentation of the accounts rather than to correct fundamental errors. This was not unexpected in the first year of IFRS and is not out of line with our experience at other councils.
- 3 I consider that:
 - Accounting practices adopted are good
 - Accounting policies stated reflect the actual practices adopted by the Council. Next year the Council should review the notes to the accounts to ensure that they are more closely tailored to the specific position of the Council..
 - Accounting estimates as described in the accounts include the most material items and accurately describe the approach adopted
 - All required financial disclosures were made in the accounts. Some rationalisation of these disclosures was undertaken as part of the audit, particularly around note 15 financial instruments.
- 4 The statement of accounts was supported by good quality working papers and officers resolved quickly any matters arising during the audit. I would like to take this opportunity to thank you for your support and assistance during the year.

Financial statements

Significant matters that were discussed or subject to correspondence with management

There is one significant matter that was discussed with management as part of the audit.

Icelandic investments: as highlighted earlier in this report discussions were held with management over the accounting treatment of the reversal of impairment. The amount involved was £520k. The outcome was that I accepted the Council's treatment because the balance is earmarked for capital purposes.

Letter of representation

Before I issue my opinion, auditing standards require me to ask you and management for written representations about your financial statements and governance arrangements.

Value for money

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

I assess your arrangements to secure economy, efficiency and effectiveness in your use of resources against two criteria specified by the Audit Commission. My conclusion on each of the two areas is set out below. I intend to issue an unqualified conclusion stating that the Council had proper arrangements to secure economy, efficiency and effectiveness in your use of resources.

Value for money criteria and our findings

Criterion	Findings
<p>1. Financial resilience</p> <p>The organisation has proper arrangements in place to secure financial resilience.</p> <p>Focus for 2010/11:</p> <p>The organisation has robust systems and processes to manage effectively financial risks and opportunities, and to secure a stable financial position that enables it to continue to operate for the foreseeable future.</p>	<p>The key assumptions within the agreed budget for 2011/12 are reasonable overall and reflect reductions in government funding. Financial reporting to members is quarterly and sufficiently detailed for them to have an overall understanding of the financial position and the risks to the planned outturn. Reports are to be informally presented monthly to the management team and Cabinet and this is a positive step in view of the financial challenges the Council is facing. There are specific identified savings that are necessary to remain within this year's budget and reports to members do provide narrative on the position on these.</p> <p>There are plans to develop the approach to charging and fee setting and to raise proportionately more income this way. This is consistent with VFM profiles that suggest that the Council raises proportionately less income, than comparable bodies, from chargingⁱ. The Council does need to ensure that it continues to develop its approach to sensitivity analysis and profiling of income in conjunction with implementing any changes.</p>

ⁱ Source: Audit Commission 2009/10 VFM profiles: sales, fees and charges as a % of total spend

Criterion	Findings
	<p>The Council has highlighted that it needs to undertake a fundamental review of priorities through ‘Wyre Forest Forward’, to reflect the overriding need to reduce spending as government funding declines and the revenue reserves, currently being used to fund expenditure, diminish. This is planned to feed into the 2012/13 budget and is necessary if the Council is to achieve a balanced budget in the medium term.</p> <p>A continuing risk to the Council’s financial position is recovery of Icelandic investments. The accounts reflect further receipts of dividends and increased expectation of recovery for the Kaupthing, Singer & Friedlander investment. The accounts also highlight the potential risk of the court case that is challenging the ‘preferred status’ of local authorities in relation to the Landsbanki investment. This could result in £1.8m of additional costs in the 2011/12 revenue account if the decision goes against the current status.</p>
<p>2. Securing economy efficiency and effectiveness</p> <p>The organisation has proper arrangements for challenging how it secures economy, efficiency and effectiveness.</p> <p>Focus for 2010/11:</p> <p>The organisation is prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity.</p>	<p>The Council has made relatively high levels of savings over the last 2 years, many of which have been achieved through redundancies and this is going to continue into 2011/12 with the MTFP highlighting a further 23 redundancies. Progress has been made in working closer with other councils and this has also achieved savings, with further plans in the pipeline.</p> <p>VFM profiles highlight that the Council is a relatively high spenderⁱ although back office costs are not out of line with other similar bodies. This supports the Council’s contention that it does need to undertake an overall review of services that it provides.</p> <p>The new corporate HQ is now being built. The Council has demonstrated that this will provide efficiency savings, both financial and operational. As reported last year, there is still some risk to funding as not all of the properties that will fund the scheme have been sold, although over 80% of the funding has been secured.</p> <p>Capital reserves are anticipated to have reduced to a level where the Council will need to borrow to fund any future capital projects in 2011/12 onwards.</p>

ⁱ Source: Audit Commission 2009/10 VFM profiles: total net spend per head of population

Appendix 1 – Draft audit report

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF WYRE FOREST DISTRICT COUNCIL

Opinion on the Authority accounting statements

I have audited the accounting statements of Wyre Forest District Council for the year ended 31 March 2011 under the Audit Commission Act 1998. The accounting statements comprise the Movement in Reserves Statement, the Comprehensive Income and Expenditure Statement, the Balance Sheet, the Cash Flow Statement and 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 48 of the Statement of Responsibilities of Auditors and Audited Bodies published by the Audit Commission in March 2010.

Respective responsibilities of the Chief Officer (Finance and Commercial Services) and auditor

As explained more fully in the Statement of the Chief Officer's (Finance and Commercial Services) Responsibilities, the Chief Officer (Finance and Commercial Services) is responsible for the preparation of the Authority's Statement of Accounts in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom. My responsibility is to audit the accounting statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require me to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the accounting statements sufficient to give reasonable assurance that the accounting statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Authority's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Authority; and the overall presentation of the accounting statements. I read all the information in the explanatory foreword to identify material inconsistencies with the audited accounting statements. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my report.

Opinion on accounting statements

In my opinion the accounting statements:

- give a true and fair view of the state of Wyre Forest District Council's affairs as at 31 March 2011 and of its income and expenditure for the year then ended; and
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom.

Opinion on other matters

In my opinion, the information given in the explanatory foreword for the financial year for which the accounting statements are prepared is consistent with the accounting statements.

Matters on which I report by exception

I have nothing to report in respect of the governance statement on which I report to you if, in my opinion the governance statement does not reflect compliance with 'Delivering Good Governance in Local Government: a Framework' published by CIPFA/SOLACE in June 2007.

Conclusion on Authority's 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 to review regularly the adequacy and effectiveness of these arrangements.

Auditor's responsibilities

I am required under Section 5 of the Audit Commission Act 1998 to satisfy myself that the Authority has made proper arrangements 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 relating to proper arrangements, having regard to relevant criteria specified by the Audit Commission.

I report if significant matters have come to my attention which prevent me from concluding that the Authority has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. 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.

Basis of conclusion

I have undertaken my audit in accordance with the Code of Audit Practice, having regard to the guidance on the specified criteria, published by the Audit Commission in October 2010, as to whether the Authority has proper arrangements for:

- securing financial resilience; and
- challenging how it secures economy, efficiency and effectiveness.

The Audit Commission has determined these two criteria as those necessary for me to consider under the Code of Audit Practice in satisfying myself whether the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2011.

I planned my work in accordance with the Code of Audit Practice. Based on my risk assessment, I undertook such work as I considered necessary to form a view on whether, in all significant respects, the Authority had put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

Conclusion

On the basis of my work, having regard to the guidance on the specified criteria published by the Audit Commission in October 2010, I am satisfied that, in all significant respects, Wyre Forest District Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2011.

Certificate

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

Elizabeth Cave
District Auditor

Audit Commission
Room 24
West Mercia Police HQ
Hindlip Hall
PO Box 55
Worcs
WR3 8SP

30 September 2011

Appendix 2 – Glossary

Annual governance statement

A statement of internal control prepared by an audited body and published with the financial statements.

Audit closure certificate

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 financial statements.

Audit opinion

On completion of the audit of the financial statements, I must give my 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; and
- whether they have been prepared properly, following the relevant accounting rules.

Opinion

If I agree that the financial statements give a true and fair view, I issue an unqualified opinion. I issue a qualified opinion if:

- I find the statements do not give a true and fair view; or
- I cannot confirm that the statements give a true and fair view.

Materiality and significance

The Auditing Practices Board (APB) defines this concept as ‘an expression of the relative significance or importance of a particular matter for the financial statements as a whole. A matter is material if its omission would reasonably influence users of the financial statements, such as the addressees of the auditor’s report; also a misstatement is material if it would have a similar influence. Materiality may also be considered for any individual primary statement within the financial statements or of individual items included in them. I cannot define materiality mathematically, as it has both numerical and non-numerical aspects’.

The term ‘materiality’ applies only to the financial statements. Auditors appointed by the Commission have responsibilities and duties under statute, as well as their responsibility to give an opinion on the financial statements, which do not necessarily affect their opinion on the financial statements.

‘Significance’ applies to these wider responsibilities and auditors adopt a level of significance that may differ from the materiality level applied to their audit in relation to the financial statements. Significance has both qualitative and quantitative aspects.

Weaknesses in internal control

A weakness in internal control exists when:

- a control is designed, set up or used in such a way that it is unable to prevent, or detect and correct, misstatements in the financial statements quickly; or
- a control necessary to prevent, or detect and correct, misstatements in the financial statements quickly is missing.

An important weakness in internal control is a weakness, or a combination of weaknesses that, in my professional judgement, are important enough that I should report them to you.

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 resources based on criteria specified by the Audit Commission.

The Code of Audit Practice defines proper arrangements as corporate performance management and financial management arrangements that form a key part of the system of internal control. These comprise the arrangements for:

- planning finances effectively to deliver strategic priorities and secure sound financial health;
- having a sound understanding of costs and performance and achieving efficiencies in activities;
- reliable and timely financial reporting that meets the needs of internal users, stakeholders and local people;
- commissioning and buying quality services and supplies that are tailored to local needs and deliver sustainable outcomes and value for money;
- producing relevant and reliable data and information to support decision making and manage performance;
- promoting and displaying the principles and values of good governance;
- managing risks and maintaining a sound system of internal control;
- making effective use of natural resources;
- managing assets effectively to help deliver strategic priorities and service needs; and
- planning, organising and developing the workforce effectively to support the achievement of strategic priorities.

If I find that the audited body had adequate arrangements, I issue an unqualified conclusion. If I find that it did not, I issue a qualified conclusion.

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0844 798 7070

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



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September 2011