

Annual Audit Letter

City of Wakefield Metropolitan 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.

Contents

Key messages	4
Audit opinion and financial statements	4
Value for money.....	4
Audit fees.....	4
Current and future challenges	5
Financial statements and annual governance statement	6
Overall conclusion from the audit	6
Investments in Icelandic Banks	7
Significant weaknesses in internal control	7
International Financial Reporting Standards.....	7
Value for money	9
2009/10 use of resources assessments	9
VFM conclusion	9
National Fraud Initiative	11
Approach to local value for money work from 2010/11.....	11
Current and future challenges	12
Reductions in Public Expenditure	12
Closing remarks	13
Appendix 1 – Audit fees	14
Appendix 2 – Glossary	15

Key messages

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

- **the audit of your financial statements (pages 6 to 7); and**
- **my assessment of your arrangements to achieve value for money in your use of resources (pages 8 to 10).**

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

Audit opinion and financial statements

1 I issued an unqualified opinion on the Council's financial statements on 30 September 2010. My work confirmed the Council prepared the accounts to a high standard without significant errors or omissions

Value for money

2 I issued an unqualified opinion on the Council's arrangements for achieving economy, efficiency and effectiveness in its use of resources.

3 My work confirmed the Council had strengthened its arrangements in some areas, and had robust financial management arrangements to help it manage the impact of the reductions in public expenditure.

Audit fees

4 The majority of my work has been completed within the fee we agreed at the start of the audit. However I am still carrying out some additional work in response to issues brought to my attention in the course of the audit. It is likely that this will require some additional fee, and I will discuss this with the Director of Finance and Audit Committee once the work is complete.

Current and future challenges

5 The most significant challenge facing the Council, and all public bodies, is managing the impact of the reduction in public spending. The Coalition government has announced that the revenue funding of local government will be reduced by 26 per cent in real terms over the next four years. There will also be significant reductions in capital funding. These will impact on all areas of the Council and make it vital that the Council successfully delivers the efficiency improvements that it had already planned for 2010/11 and those that are needed for future years under the revised Medium Term Financial Plan.

6 The Council's work on its Organisational Review over the past year, as well as its strong track record in improving efficiency, will help it to address the current and future financial situation, but delivering the required level of savings is challenging. In order to deliver the scale of savings required the Council will need to maintain its performance management, financial management and risk management arrangements through the period of significant change.

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 30 September 2010.

Overall conclusion from the audit

7 As in previous years, the financial statements and working papers submitted for audit were of a good standard, were provided in accordance with our timescale, and officers responded promptly and professionally to my questions during the audit. My work confirmed the Council had prepared the statements to a high standard without significant errors or omissions.

8 I reported the findings and recommendations from the audit in my Annual Governance Report to the Audit Committee on 28 September 2010. I reported that:

- the draft accounts had not contained any material errors;
- during the course of the audit, the Director of Finance amended the draft accounts for most of the non-material misstatements identified by audit or finance staff; and
- the Audit Committee decided not to correct three errors because they were not material and, in the Committee's view, would not affect a reader's interpretation of the accounts. I accepted the Committee's response.

9 I also reported in my Annual Governance Report that, whilst I gave my opinion on the accounts, I am not yet able to formally complete the 2009/10 audit and have not issued an audit certificate. This is because I need to complete my consideration of matters brought to my attention by the Council in the course of my audit.

Investments in Icelandic Banks

10 In last year's Annual Letter I reported on the position relating to the Council's investments in Icelandic banks. The Director of Finance reported to the Cabinet on 27 July 2010 on the current position regarding recoverability of the £9m that the council invested in Icelandic banks. The Council currently expects to recover 84.98 per cent of the £3m invested with Heritable Bank. The position regarding the remaining £6m deposits with Glitnir and Landsbanki will not be clear until a court decision on the Council's priority status which is expected in mid 2011.

Significant weaknesses in internal control

11 I did not identify any significant weaknesses in your internal control arrangements.

International Financial Reporting Standards

12 The Council will need to produce its 2010/11 financial statements in line with the requirements of International Financial Reporting Standards (IFRS). This will be the first year of these requirements which requires the Council to change its accounting policies in a number of areas, and re-calculate the entries in the financial statements. The transition from UK to international standards presents significant challenges for all councils.

13 In the last year progress has continued steadily and officers have approached the work competently and diligently. The 2009/10 financial statements included a requirement that the Council accounted for its Private Finance Initiative scheme under IFRS. My audit of the 2009/10 statements confirmed the Council had accounted for the scheme correctly and in line with the international standards, and the work did not identify any major issues. This work provides a good basis for the continued transition work in 2010/11.

14 The Audit Commission has carried out regular surveys of councils' preparations for IFRS implementation, and has issued regular reports during 2010. The latest report issued in October 2010 sets out the challenges for all councils:

- Restate the 2009/10 accounts for IFRS by the end of December 2010.
- Produce 2010/11 skeleton accounts including disclosure notes.
- Comply with the requirements of component accounting, lease accounting and employee benefits.
- Involve audit committees to ensure they can fulfil their role and challenge the implementation progress.

15 I have held regular progress meetings with finance officers through 2010, and these will continue as the implementation progresses. Officers are doubtful that they will be able to produce restated 2009/10 accounts by the end of December 2010. Primarily this is due to the late issuing of guidance from CIPFA, the accounting institute. However it does also highlight the extent of the task to produce the IFRS compliant accounts, and the importance of good project planning to deliver what is required.

16 The Audit Committee, as part of its responsibilities for the Council's accounting and financial control, has the key role in ensuring that IFRS implementation is on track. The Committee should ensure that it receives and considers further update reports as the project to produce IFRS compliant accounts draws to a conclusion.

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 gave an unqualified (VFM) conclusion on 30 September 2010.

2009/10 use of resources assessments

17 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.

18 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.

VFM conclusion

19 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.

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

21 A summary of my findings is presented in the table on page 9.

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
Risk management and internal control	Yes
Managing resources	
Natural Resources	Yes
Strategic asset management	Yes
Workforce	Yes

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

Managing Finances

23 The Council has maintained its robust financial planning and management arrangements. The medium term financial strategy is properly linked to a robust service and financial planning process which challenges value for money appropriately. The Council makes use of unit costs and benchmarking to develop and deliver outcome driven action plans. The Council has a good track record of achieving efficiencies and this has continued in 2009/10.

Governing the Business

24 The Council has maintained its strong governance arrangements and has an effective process for managing its performance. It commissions and procures quality services and supplies, delivering value for money and achieving sustainable outcomes. The Council is also exploring wider economies of scale in service provision with partners and establishing locally-responsive services across the district.

Managing Resources

25 The Council has used its service planning process to challenge its need for assets. It has also been successful in reducing its asset base through the 'Worksmart' programme. The use of assets is linked to outcomes, but performance information on asset use is not yet clear and comprehensive.

26 The Council has effective plans in place to respond to future workforce challenges and has integrated workforce planning into its service planning process. It is currently addressing issues of higher than average sickness absence and is also pursuing opportunities to increase efficiency which have been identified through its Organisational Review.

National Fraud Initiative

27 The Council has a well established and robust approach to responding to the national fraud initiative (NFI), and has continued to take a positive approach to reviewing the data matches from the latest NFI based on 2008/09 data. Officers have identified £179,210 of fraud and error through NFI during 2009/10 and are now recovering these amounts.

Approach to local value for money work from 2010/11

28 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.

29 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.

30 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.

Current and future challenges

Reductions in Public Expenditure

31 The most significant challenge facing the Council is to manage the impact of the public spending cuts, to ensure the Council continues to improve service delivery with reduced resources.

32 The Comprehensive Spending Review in October 2010 announced that revenue funding to local government would reduce by 26 per cent in real terms over the next four years. This was broadly in line with the announcements made in the emergency budget in June 2010. This follows announcements of in-year funding cuts in 2010/11 which impact on services this year. These cuts place great demands on the Council to continue to improve front-line services to the public while managing with fewer resources.

33 The Council had already embarked on a programme of efficiency improvements, most recently through its Organisational Review, and also has a strong track record in improving value for money. The Council's programmes from previous years have already begun to change service delivery, use assets more effectively and deliver efficiency savings and this work will form an effective foundation for its future financial challenges.

34 The Council has already revised its Medium Term Financial Strategy (MTFS) and will continue to update this document as finance staff work through the implications of the cuts in funding. I will review the Council's MTFS as part of my 2010/11 VFM conclusion programme.

35 The Council's capital programme assumes a level of investment from public funds. This will need close and careful management to ensure the schemes are delivered, and achieve the expected improvements in services.

36 The government's proposal to replace Primary Care Trusts with GP consortia presents added challenges to the Council. Like all other major councils it will need to influence, and then deal with the consequences of, the major national reorganisation of the NHS. This is likely to trigger major changes to the current ways of delivering health and social care services, and the way the Council works with its health partners.

37 Each of these issues are complicated, they will place significant demands on the reduced numbers of senior managers, and involve significant risks. Like all other major public sector organisations, the Council will need to ensure that its performance management, financial management, project and programme management, and risk management arrangements operate successfully and robustly throughout this difficult period.

Closing remarks

38 I have discussed and agreed this letter with the Chief Executive and the Director of Finance. I will present this letter at the Audit Committee on 29 November 2010 and will provide copies to all board members.

39 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
Fee Letter	April 2009
Revaluation Reserve	February 2010
Audit Opinion Plan	June 2010
Annual Governance Report	September 2010

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

Paul Lundy
District Auditor
November 2010

Appendix 1 – Audit fees

	Actual	Proposed	Variance
Financial statements and annual governance statement	250,000	250,000	0
Value for money	92,000	92,000	0
Total audit fees	342,000	342,000	0
Non-audit work			
Total	342,000	342,000	0

We are currently carrying out work to enable us to issue an audit certificate and formally complete the 2009/2010 audit. The fee relating to this work will be reported separately once that work is complete.

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.

If you require a copy of this document in an alternative format or in a language other than English, please call:
0844 798 7070

© Audit Commission 2010.

Design and production by the Audit Commission Publishing Team.

Image copyright © Audit Commission.

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.



Audit Commission

1st Floor
Millbank Tower
Millbank
London
SW1P 4HQ

Telephone: 0844 798 3131

Fax: 0844 798 2945

Textphone (minicom): 0844 798 2946