

Annual Audit Letter

City of Wakefield Metropolitan District Council

Audit 2008/09

December 2009



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Status of our reports

The Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission explains the respective responsibilities of auditors and of the audited body. Reports prepared by appointed auditors are addressed to non-executive directors/members or officers. They are prepared for the sole use of the audited body. Auditors accept no responsibility to:

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

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

It summarises, but does not repeat the detail of, my Annual Governance Report which I presented to the Corporate Governance and Audit Committee on 28 September 2009.

As part of the Comprehensive Area Assessment (CAA) process, the Audit Commission has also carried out an Organisational Assessment and an Area Assessment which, respectively, consider how the Council has performed against its own priorities and those it shares with other public bodies in Kirklees. These assessments will be published on the 'Oneplace' website from 9 December 2009.

Audit opinion

- 1 I issued an unqualified opinion on the statements for 2008/09 on 30 September 2009.

Financial statements

- 2 Our work was supported by early copies of draft accounts, good quality electronic working papers and timely responses from staff. Better quality review processes resulted in fewer typographical and rounding errors.
- 3 Our audit detected a number of misstatements in the financial statements which were listed in my Annual Governance Report. The misstatements included one material misstatement and a small number of significant ones. The Audit Committee, as those charged with the governance of the Council, decided not to adjust the statements for the non material items in my report.

Value for money

- 4 The Council has adequate corporate arrangements in place for ensuring economy, efficiency and effectiveness in its use of resources.
- 5 My assessment of your Use of Resources appears at Appendix 1 and is summarised at paragraphs 16 to 20.
- 6 In the course of the year, I have reviewed your governance arrangements, processes for ensuring community cohesion and examined the impact of the economic downturn on the affairs of the Council. The outcomes of these reviews will feed into my Use of Resources assessment.

Grant claims

- 7 The great majority of claims are submitted on time and supported by good working papers.

Table 1 Audit fees

	Actual	Proposed	Variance
Financial statements and annual governance statement	£244,000	£244,000	Nil
Value for money	£88,000	£88,000	Nil
Total audit fees	£332,000	£332,000	Nil
Non-audit work	Nil	Nil	Nil
Audit of Grant claims	£54,905*	£124,000	(£69,095)
Total	£386,905	£456,000	(£69,095)

* fee at 31 October 2009

Actions

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

Independence

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

Financial statements and annual governance statement

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

Significant issues arising from the audit

- 10 There was one material error relating to the revaluation reserve, but overall my audit identified only a small number of significant issues which required reporting to the Audit Committee. The improvement made to the quality of the accounts in recent years has been maintained. The material error was rapidly adjusted by officers and action has been agreed to minimise the possibility of a further error in future years.
 - 11 My work was supported by early copies of draft accounts, good quality electronic working papers and timely responses from staff. Better quality control by the accountancy team resulted in fewer typographical and rounding errors.
-

Material weaknesses in internal control

- 12 We have not identified any weaknesses in the design or operation of an internal control that might result in material error in your financial statements of which you are not aware.
 - 13 Last year, we identified minor weaknesses in the operation of internal controls in the financial ledger relating to journal approval, feeder controls user access and review of the bank reconciliation. We reported the weaknesses to management in summer 2008 and immediate action was taken. As this was addressed part way through the 2008/2009 financial year we again carried out sufficient audit testing to assure ourselves that the issues did not have a material impact on the accounts.
 - 14 We have not provided a comprehensive statement of all weaknesses which may exist in internal control, nor all improvements which may have been made. We have reported to you only those matters which have come to our attention because of the audit procedures we have performed.
-

Accounting Practice and financial reporting

- 15 I consider the qualitative aspects of your financial reporting. Two areas were identified where additional content may improve statements and disclosures. These were set out in my Annual Governance Report and relate to the minor changes to the Annual Governance Statement and the disclosures on Related Party Transactions. I have agreed an Action Plan with officers to address these matters in 2009/10.
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Value for money and use of resources

I considered how well the Council is managing and using its resources to deliver value for money and better and sustainable outcomes for local people, and gave a scored use of resources judgement.

I also assessed whether the Council put in place adequate corporate arrangements for securing economy, efficiency and effectiveness in its use of resources. This is known as the value for money (VFM) conclusion.

Use of resources judgements

- 16** Table 2 below summarises the three themes of the Audit Commission's 'use of resources' assessment, and the scores I have given. Appendix 1 gives more details. The assessment is based on a methodology that is used at all of the Commission's local government, NHS, police and fire audits, and involves marking the specified 'key lines of enquiry' (KLOE) using a four point scale. '4' is the highest score, and '1' represents a failure to meet the minimum requirements.
- 17** I have also taken into account, where appropriate, findings from previous use of resources assessments (updating these for any changes or improvements) and any other relevant audit work.

Table 2 Use of resources theme scores

Use of resources theme	Scored judgement
Managing finances	3
Governing the business	2
Managing resources	2

- 18** As the table shows, the Council demonstrated a strong performance in Managing Finances overall. This strength particularly relates to the Council's financial planning and understanding of its costs. Appendix 1 also shows that Governance and internal control are areas where the Council is scored highly in the assessment.

Value for money and use of resources

- 19 The Council already has improvement plans in place to address the areas where weaknesses remain. The significant issues for further development by the Council in the future include:
- demonstrating that the wider (ie non financial) reporting framework meets user needs;
 - ensuring that fully costed, SMART (specific, measurable, achievable, realistic and time bound) joint action plans are in place to demonstrate that resources are aligned with Council and partner priorities;
 - the need to ensure that the performance, risk and finance monitoring is fully integrated and has a locality focus;
 - the need to fully embed environmental aspirations across the council; and
 - the need to further develop joint plans for asset use with partners.

VFM conclusion

- 20 I have to give a specific conclusion on your arrangements to secure economy, efficiency and effectiveness in your use of resources against criteria specified by the Audit Commission. I base this largely on the evidence I collected for the use of resources judgments, described above. My detailed conclusions are also set out in Appendix 1.
- 21 I issued an unqualified conclusion stating that the Council had adequate arrangements to secure economy, efficiency and effectiveness in its use of resources.

Impact of the economic downturn

- 22 The economic downturn and banking crisis is having a very significant impact on public finances and the bodies that manage them. The impact on treasury management strategies has been immediate, but there are wider and more fundamental impacts on the ability of public sector bodies to fund service delivery and capital programmes, including pressures on income streams. There are further challenges for policy priorities where patterns of demand for services are changing.
- 23 This impacts on the audit and as part of my responsibility, I have reflected on the wider environment, specific issues and risks and the Council's response.
- 24 In the course of my review of the council's Use of Resources, I examined arrangements for Treasury Management, particularly in the light of the council's exposure to investments in Icelandic banks. Following that review, there are no matters that I wish to draw to the attention of members.
- 25 The Director of Finance reported to the Audit Committee on 28 September 2009 on the current position regarding recoverability of the £9m that the council invested in Icelandic banks. Although the final position will not be known for some time, it is currently expected that around £8.25m of this sum will be recovered. It is currently uncertain how much interest will be recovered from the banks and the council has not credited any interest on these investments to its General Fund.

- 26 The council's budget for 2009/2010 has been under pressure as a result of a number of factors, some which directly relate to the economic downturn. The most significant pressures have arisen from demand led growth in Family Services and loss of income within the Communities and Regeneration, Culture and Sport service areas. After action has been taken to address the overspends in individual service areas, the council is currently reporting a forecast net overspend of £1.151m at the year end and work is ongoing to ensure that the Council can maintain expenditure within budget by the year end.
- 27 As reflected in my comments on Use of Resources, the council has strong arrangements for financial planning and should therefore be well placed to identify, and take the necessary decisions to address, the pressures that it faces for the remainder of 2009/2010 and in the coming expenditure round.

Community Cohesion

- 28 This review examined how the council and its partners were achieving their ambitions to address the community cohesion issues facing the district, through:
- testing the robustness of planning and action regarding the forthcoming revised framework for community cohesion - 'Wakefield's Shared Future'; and
 - following up progress against actions resulting from the Community Engagement review of 2007/08. This aimed to provide a sense of progress rather than a point by point follow up.
- 29 The revised community cohesion strategy - 'Wakefield's Shared Future' - provides a comprehensive framework to support the delivery of the Community Strategy. It has the potential to play a key role in making sure the work of the Council and its partners leads to cohesive communities across the district. However if the partnership is to capitalise on its high profile launch it need to do more to ensure the Council and its partners implement the 17 priorities and 70 pledges contained in the strategy.
- 30 The report has been agreed with officers and contains recommendations for action. In summary these are to:
- recognise and address neighbourhood cohesion issues in plans for area based services, community engagement and the focus on the 10 per cent most deprived communities;
 - ensure Council plans address the five priority themes of the strategy;
 - review the effectiveness of the new area based approach and the focus on the 10 per cent most deprived communities to make sure they are making a difference to people's lives - as measured by the cohesion indicators in the strategy; and
 - clarify how each partner will contribute to the 70 pledges contained in the strategy and how progress towards the pledges is to be monitored.

Governance survey

- 31** To support our work on Use of Resources and to establish how the council's governance arrangements have adapted in the changing environment that the council is operating in, we carried out an electronic survey to establish member and officer views of governance arrangements. The survey was completed between 15 October and 4 November 2009. 76 responses were received - an overall response rate of 48 per cent.
- 32** The survey covered the following areas.
- How good is the Council at focusing on its purpose and outcomes?
 - How well defined are functions and roles within the Council and do they perform effectively?
 - How well are values promoted in the Council and is good governance promoted through behaviour?
- 33** The overall message about governance from responses to this survey is a positive one. We are currently discussing with officers the way forward on the detailed recommendations of the report and will feed the results of the survey into our next assessment of the Council's Use of Resources.

Audit of claims for government grant

Summary of work for 2008/09

- 34 I have audited fourteen claims and returns for government grant relating to the 2008/09 financial year. During 2009 I have been pleased to note that the Council has broadly continued its effective approach to the compilation of such claims, with the great majority of claims submitted on time, accurately completed and supported by good working papers. This allowed us to complete the work efficiently, and has resulted in a much lower cost to the Council than in earlier years.

Closing remarks

- 35 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 and will provide copies to all committee members.
- 36 Further detailed findings, conclusions and recommendations in the areas covered by our audit are included in the reports issued to the Council during the year.

Table 3

Report	Date issued
Initial Audit Plan	April 2008
Audit opinion Plan	July 2009
Annual Governance Report	September 2009
Opinion on Financial Statements	30 September 2009
Value for Money Conclusion	30 September 2009
Accounts Memorandum	November 2009
Governance Survey	November 2009
Use of Resources slides	December 2009
Review of Community Cohesion	December 2009
Audit Letter	December 2009

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- 37 The Council has taken a positive and constructive approach to our audit. I wish to thank the Council staff for their support and co-operation during the audit.

Paul Lundy
District Auditor
December 2009

Appendix 1 – Use of resources key findings and conclusions

The following tables summarise the key finding and conclusions for each of the three use of resources themes.

Table 4 Managing finances

Theme score 3	
Key findings and conclusions	
KLOE 1.1 (financial planning)	
Score	3
VFM criterion met	Yes
Key findings and conclusions	
<p>The council has integrated financial and corporate planning processes and a good track record of achieving budgets. There is effective medium term financial planning that is linked to key strategic objectives and is informed by a risk management processes. The Council undertakes equalities impact assessments in respect of new policies and engages with stakeholders through a Citizen’s Panel. Budget gaps are well managed to maintain balances and income collection is well monitored. A budget and performance clinic process ensures collective responsibility for and scrutiny of performance by Corporate Management Team and Cabinet.</p>	

Appendix 1 – Use of resources key findings and conclusions

<p>KLOE 1.2 (understanding costs and achieving efficiencies)</p> <p>Score</p> <p>VFM criterion met</p>	<p>3</p> <p>Yes</p>
<p>Key findings and conclusions</p>	
<p>The Council has arrangements in place to undertake VFM self assessments which map costs to service priorities and can demonstrate the impact of changes over time. New investments are subject to whole life costing. Service planning maps spending to service priorities, demonstrating assessment of impact on communities in decision making. There are clear plans for efficiencies and overall costs demonstrate best value in comparison to other councils providing similar levels and standards of services allowing for local context.</p>	
<p>KLOE 1.3 (financial reporting)</p> <p>Score</p> <p>VFM criterion met</p>	<p>2</p> <p>Yes</p>
<p>Key findings and conclusions</p>	
<p>The budget reporting process is accruals based and includes clear trend analysis and forecasting, with risk and sensitivity analysis applied where applicable. Previous forecasts have been consistent with outturn and variances identified early and addressed. Budget and performance information has recently been combined for review by CMT and Cabinet. Internal Audit's annual programme of work on financial systems provides management with adequate assurances regarding the control environment. The council has a history of producing prompt and accurate accounts in a range of formats. The Council does not currently produce an annual report and needs to consider its wider reporting framework to ensure the framework meets user needs.</p>	

Table 5 Governing the business

Theme score 2 (due to extra weighting to KLOE 2.2)	
Key findings and conclusions	
KLOE 2.1 (commissioning and procurement)	
Score	2
VFM criterion met	Yes
Key findings and conclusions	
<p>The Council effectively commissions and procures quality supplies and services tailored to local needs delivering sustainable outcomes and value for money. Although there are examples of needs assessment aligning resources and priorities this is not yet systemic across all areas – fully costed, SMART, are not widely established with partners. The Council is working more closely with other public sector bodies to collaborate on spending – in 2008/09 this rose to £22m, a 50 per cent increase on the previous year. There is a wide range of examples of procurement to minimise environmental impact and all new decisions take account of whole life costing and sustainability.</p>	
KLOE 2.2 (data quality and use of information)	
Score	2
VFM criterion met	Yes
Key findings and conclusions	
<p>The Council recognises the need to link performance, financial and risk information more routinely, but has yet to establish a locality focus. There is a robust data quality framework, which has a history of producing accurate relevant, reliable data. There is some data integrity work in key risk areas, but this is not part of a formal council-wide programme. There are a number of systems that hold common data which is not linked to provide a clearer focus on the individual users of services. The Council has further developed and managed its ability to manage and improve value for money.</p>	

Appendix 1 – Use of resources key findings and conclusions

<p>KLOE 2.3 (good governance)</p> <p>Score</p> <p>VFM criterion met</p>	<p>3</p> <p>Yes</p>
<p>Key findings and conclusions</p>	
<p>There are good working relationships between officers and members. Training arrangements are embedded and regularly reviewed and there is a high level of engagement. The Council has a clear and challenging vision for Wakefield and a good understanding of local needs. Service plans effectively drive improvement and are achieving desired outcomes. Codes of conduct and ethical standards are in place for members and officers and compliance is monitored. The council's complaints system is embedded and outcomes are reported on frequently. A governance in partnerships group actively reviews arrangements with major partnerships.</p>	
<p>KLOE 2.4 (risk management and internal control)</p> <p>Score</p> <p>VFM criterion met</p>	<p>3</p> <p>Yes</p>
<p>Key findings and conclusions</p>	
<p>Responsibility for risk management is documented. Reporting arrangements and processes for updating the corporate risk registers and reporting to members is embedded. The council has a fraud response plan and carries out a programme of fraud and corruption work. The standards expected of partners are set out in legal agreements. The council can demonstrate effective partnership with other agencies in enforcement activity. Plans are in place for disaster recovery and business continuity. An Annual Governance Statement Group is in place to identify and monitor risks.</p>	

Table 6 Managing resources

Theme score	
Key findings and conclusions	
KLOE 3.1 (use of natural resources)	
Score	2
VFM criterion met	Yes
Key findings and conclusions	
<p>The council knows what natural resources it consumes but does not yet have a full and clear picture of all carbon emissions. A draft Environmental Policy is in place, but the approach to sustainable development does not yet ensure that service delivery fully takes account of environmental limits. Environmental aspirations are not yet part of HR policies and procedures to demonstrate a clear message to staff. There is progress in the Council's sustainable agenda, with Worksmart bringing significant carbon reduction and good examples of biodiversity management, but little wide-spread sharing of good practice across all departments. The Council has started to tackle adaptation issues relating to climate change.</p>	
KLOE 3.2 (strategic asset management)	
Score	2
VFM criterion met	Yes
Key findings and conclusions	
<p>The Council has a strategic asset management plan which is linked to the capital programme, medium term financial plan and service plans. Members are engaged in asset management and their role is clearly documented. Arrangements are now in place to benchmark performance against other councils from data held in asset databases. Option appraisal processes include cost/benefit analysis over the whole life of projects for capital investment. The Council challenges its need for assets through service plans on an annual basis. The Council is actively working with partners to develop a strategy for asset use across the area, but to date although this has achieved better placement of some services it hasn't yet achieved synergistic joint working arrangements.</p>	

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.

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