



Worcester City Council

Annual Audit Letter 2008/09

24 November 2009

Contents		Page
1	Introduction	1
2	Audit of accounts	2
3	Use of resources	4

Appendices

- A High priority recommendations**
- B Responsibilities of the external auditors and the Council**
- C Fees and audit reports**
- D Completion of the Audit Plan**

1 Introduction

1.1 Purpose of this letter

The purpose of this Annual Audit Letter ('letter') is to summarise the key issues arising from the work that we, Grant Thornton UK LLP, have carried out to the year end 31 March 2009 at Worcester City Council (the Council). This letter is intended to communicate the significant issues we have identified, in an accessible style, to the Council and key external stakeholders, including members of the public. The letter should be published on the Council's website.

1.2 The scope of our work

Our main responsibility as your external auditors is to plan and carry out an audit that meets the requirements of the Audit Commission's Code of Audit Practice ('the Code'). Under the Code, we are required to review and report on:

- the Council's accounts; and
- whether the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

This letter summarises the significant issues arising from both these areas of work and highlights the key recommendations that we consider should be addressed by the Council.

1.3 Key audit outcomes for 2008/09

- We held a seminar on key accounting issues for 2008/09;
- We provided a workshop and seminar explaining the implications of the new Use of Resources assessment;
- We carried out an effectiveness review of the Audit Committee;
- We issued an unqualified opinion on the Council's accounts;
- We issued an unqualified value for money conclusion; and
- We recognised the Council was performing adequately in its use of resources.

1.4 Acknowledgements

We would also like formally record our appreciation for the work carried out by the Council's finance team. Their efforts, and their assistance provided to us in completing our audit, particularly given the structural changes during the closedown of the accounts, should be highly commended.

1.5 Appendices

A list of all significant high priority recommendations issued to the Council through the 2008/09 audit is provided at Appendix A. Our responsibilities, as your external auditor, are set out at Appendix B and we set out our budgeted and actual fees at Appendix C. We demonstrate, at Appendix D, how the significant risks raised in the Audit Plan, as presented to the Audit Committee in April 2008, have been concluded during 2008/09.

2 Audit of accounts

2.1 Key issues arising from the audit of the accounts

We issued an unqualified audit opinion on the Council's accounts on 30 September 2009, in line with the deadline of 30 September. Our opinion confirms that the accounts present fairly the Council's financial affairs and the income and expenditure for the year ended 31 March 2009.

Prior to giving our opinion on the accounts, we are required to report significant matters arising from the audit to the Council's Audit Committee. A detailed report was presented to the Audit Committee on 22 September 2009 and only the key issues are summarised here.

2.2 Key issues

The overall quality of the Council's working papers to support the 2008/09 accounts was of a continuing good standard and the Audit Committee received the accounts by 23 June, with Full Council adopting the accounts by the 30 June 2009 deadline.

The quality of the accounts remained high, although our audit identified the following significant matters:

- There is a need to improve the interface between the finance department and the fixed asset valuation arrangements as a number of key procedural recommendations were made (as set out at Appendix A);
- One adjustment was identified by the Council prior to the start of the audit. An asset had been sold, but not removed from the fixed asset register, resulting in a decrease to fixed assets by £514K and increasing the deficit on the income and expenditure account by the same amount. This did not affect the general fund or taxpayer.
- The accounts contained one unadjusted misstatement, which, if applied, would have reduced the balance sheet value of fixed assets by £70K.

2.3 National Fraud Initiative (NFI)

Since 1996 the Audit Commission has run the National Fraud Initiative (NFI), an exercise that matches electronic data within and between audited bodies to prevent and detect fraud. This includes police authorities, local probation boards and fire and rescue authorities as well as local councils.

As part of the audit of accounts, we examined a number of data matches between Council data and records from Companies House. We did not identify any significant issues in this area.

2.4 Members' expenses

Due to the increased profile and news coverage regarding elected politicians' expenses, we examined a sample of Members' expenses as part of our work on the

We discussed all accounts matters with the Audit Committee on 22 September 2009. We confirmed there was no impact to the taxpayer for any of the audit adjustments posted to the accounts.

Council's 2008/09 Statement of Accounts. We are able to confirm that there were no issues that we wish to bring to the Council's attention from this testing.

2.5 Certification of grant claims

We are required, acting as agents of the Audit Commission, to certify the Council's grant claims and returns. We have completed the certification of all the Council's claims for 2008/09 and have met all government department deadlines set under these arrangements.

3 Use of resources

3.1 Comprehensive Area Assessment

Our work on Use of Resources is performed in conjunction with the Audit Commission's work on Comprehensive Area Assessment. This work will be reported separately by the Audit Commission, but, briefly, encompasses:

- an assessment of how effectively the organisation is addressing its own priorities, called "managing performance"
- an overall scored judgment taking into account the organisational assessment scores and the score for managing performance; and
- an overall assessment of how well public services are performing across Worcestershire.

3.2 Value for money conclusion

We are required to issue a conclusion on whether we are satisfied that the Council has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. This is known as the use of resources conclusion and is generally informed by reference to relevant criteria under the Audit Commission Code of Audit Practice.

We can confirm that we were able to issue an unqualified use of resources conclusion for the year end 31 March 2009. This means that we were satisfied that the Council put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

3.3 Use of resources (UOR)

In 2009, the Audit Commission introduced a new framework and methodology for Use of Resources assessments across local government, police forces, fire authorities and primary care trusts. The new framework emphasises outcomes over processes, and brings new areas into the assessment such as environmental and workforce management. The new assessment presents a more robust challenge than the old framework, based on different scoring criteria.

We reported our work under UOR to the Council's Audit Committee in December 2009, the key findings are set out overleaf.

UOR Scores

1 - below minimum requirements - inadequate
 2 - at minimum requirements - adequate
 3 - consistently above minimum requirements - performing well
 4 - well above minimum requirements - performing strongly

Theme	Description	Assessment
Managing finances	This theme focuses on assessing whether the Council has sound strategic and financial management, that is, whether it plans its finances to deliver its priorities, the extent to which it has a sound understanding of its costs and performance, and whether its financial reporting is timely, reliable and meets the needs of its population.	2
Governing the business	This theme focuses on strategic commissioning and good governance, in particular how well the Council governs itself and commissions services that provide value for money and deliver better outcomes for local people. To support our assessment under this theme we carried out some project based work to measure the effectiveness of the Audit Committee. Our findings were presented to the Audit Committee in June 2009 and the high priority recommendations recorded at Appendix A.	2
Managing resources	This theme considers areas which have not, previously, been assessed on their own in detail. There are three elements to this theme, but only workforce was assessed in 2008/09. Use of natural resources and strategic asset management are the remaining two themes that will be introduced over the next two years.	2

3.4 Audit Committee effectiveness

An effective Audit Committee is a cornerstone of good governance. The outcome of its work can demonstrate to stakeholders that the Council's affairs are being conducted in an environment of openness, honesty and integrity. The main objective of the Audit Committee is to independently contribute to the assurance framework that an effective internal control system is maintained.

Our review of the Audit Committee's effectiveness was carried out using two self-assessment checklists, one for Members and one for officers. We complimented the completed self-assessment checklists with our own experience working with Audit Committee and a review of key documents.

We provided an initial report to officers where the findings and key practical implications of the recommendations raised were discussed. The final report for Audit Committee discussion was presented in December 2009. The high priority recommendations arising from our work were to:

- update the Audit Committee's Terms of Reference to reflect the structure and role of the Committee, using the CIPFA model as a reference guide;
- ensure the agenda and work plan fully reflect the Audit Committee's Terms of Reference;

- produce an Annual Report of the Audit Committee for full Council to confirm the Audit Committee has fulfilled its role appropriately and produce a meaningful summary of the key issues of the financial year;
- improve the understanding of Annual Governance Statement and ensuring there are adequate arrangements in place to provide evidence that the Governance Framework operates as reported and is effective;
- review and approve significant accounting policies, management judgments and estimates, before accepting the financial statements; and
- begin monitoring the Council's plan for the introduction of International Financial Reporting Standards (IFRS).

3.5 Looking ahead to 2009/10

We agreed our indicative 2009/10 audit fee with the Council in March 2009. The focus of our work in 2009/10 will be to support the Council's transition to International Financial Reporting Standards and to further develop its Use of Resources.

We will present our 2009/10 Audit Plan to the Audit Committee in due course. However, the following provides a short summary of the key risks we will aim to address.

Financial standing

The Council has identified a budget gap over the medium term. There are a number of pressures, such as decreases in grant and discretionary income and increased demand on services, which will impact on the financial standing of the Council. We will conduct a critical review of the Medium Term Financial Plan and evaluate the Council's arrangements for the identification, delivery and monitoring of the savings plans.

Joint working

We will consider the impact the expansion of the South Worcestershire Shared Services Joint Committee has had on the participating authorities, as part of our assessment the Council's Use of Resources for 2009/10.

Waste

The Audit Commission will carry out a county-wide assessment of waste management during 2009/10 and we will work with the Commission, using colleagues from our advisory team, to ensure that there is suitable and appropriate representation of the issues within Worcester City.

International Financial Reporting Standards (IFRS)

From 2010/11 the Council is required to produce its accounts under IFRS. We are pleased to note that the Council is making positive steps towards conversion and is working in partnership with other Councils locally. The Council reported the potential implications of IFRS to the Audit Committee in April 2009, and has assigned an officer to lead the restatement exercise.

Our IFRS credentials ensure we are well prepared to assist the Council through this transition, and we will continue to work with your finance team to ensure the process is as smooth as possible.

A High priority recommendations

We raised the following high priority recommendations in 2008/09.

Report (and issue date)	Recommendation
Final Accounts Report (ISA 260) September 2009	The Council should incorporate, and evidence, a full annual impairment review into its accounts closedown process, which should include a supporting statement from the Council's valuer.
Final Accounts Report (ISA 260) September 2009	The Council should annually review its programme of revaluations to ensure it remains fit for purpose and effectively responds to external, or other, factors.
Final Accounts Report (ISA 260) September 2009	The Council should ensure all assets within an asset class are revalued at the same time
Final Accounts Report (ISA 260) September 2009	The Council should review practices for the authorisation of fixed asset disposals to ensure value for money is clearly demonstrated and accounting records are kept up to date.
Final Accounts Report (ISA 260) September 2009	The Council should develop, approve and distribute appropriate procedural documentation for change management, testing, application and routine database maintenance and back up for its computerised financial systems.
Measuring the effectiveness of the Audit Committee December 2009	The Audit Committee should consider the suggested actions from this report and developing an Action Plan for improving effectiveness.
Measuring the effectiveness of the Audit Committee December 2009	The Audit Committee's Terms of Reference should be updated to reflect the structure and objectives of the Committee, using the CIPFA model as a guide.
Measuring the effectiveness of the Audit Committee December 2009	The Audit Committee should produce an Annual Report for full Council to ensure it has fulfilled its role appropriately, met its objectives for the year, and summarises the key issues for the year.
Measuring the effectiveness of the Audit Committee December 2009	The Audit Committee should ensure its agenda and work plan fully reflects its Terms of Reference and analyse the content of previous meetings to determine the appropriateness of coverage and actions.

Report (and issue date)	Recommendation
Measuring the effectiveness of the Audit Committee December 2009	The Audit Committee should improve its understanding of Annual Governance Statement and consider the arrangements in place to provide evidence that the Governance Framework operates as reported and is effective.
Measuring the effectiveness of the Audit Committee December 2009	The Audit Committee should review and approve significant accounting policies and management judgments before accepting the financial statements.
Measuring the effectiveness of the Audit Committee December 2009	The Audit Committee should review significant judgements and estimates made by management in preparing the financial statements and consider whether these are appropriate.
Measuring the effectiveness of the Audit Committee December 2009	The Audit Committee should begin monitoring the Council's plan for the introduction of International Financial Reporting Standards (IFRS).
Use of Resources 2009 December 2009	The Council has received an Action Plan from the Audit Commission to support and improve performance under the National Fraud Initiative. The Audit Committee should monitor the Council's progress in implementing this action plan.

B Responsibilities of the external auditors and the Council

We have been appointed as the Council's independent external auditors by the Audit Commission, the body responsible for appointing auditors to local public bodies in England.

As the Council's external auditors, we have a broad remit covering financial and governance matters. We target our work on areas that involve significant amounts of public money and on the basis of our assessment of the key risks to the Council achieving its objectives. It is the responsibility of the Council to ensure that proper arrangements are in place for the conduct of its business, and that public money is safeguarded and properly accounted for. We have considered how the Council is fulfilling these responsibilities.

This report is part of a continuing dialogue between the Council and ourselves and is not, therefore, intended to cover every matter which came to our attention. For this reason we do not accept responsibility for any reliance that third parties may place on it. Our procedures are designed to support our audit opinion and they cannot be expected to identify all weaknesses or inefficiencies in the Council's systems and work practices. The Council is asked to note that our audit should not be relied upon to detect all errors, systems or control weaknesses or opportunities for improvements in management arrangements that might exist.

C Fees and audit reports

The table below compares the actual fees charged for out work in 2008/09 compared to the budgeted fees as set out in our revised Audit Plan.

	Budgeted (£)	Actual (£)
Audit of accounts	71,500	71,500
Use of resources	52,000	52,000
Total audit fees	123,500	123,500
Certification of grants and claims	24,648 ¹	24,648 ¹
Total fees	177,948	177,948

We also set out the reports we have issued during 2008/09 in the table below.

Planned output	Planned delivery	Actual delivery	Delivery to Audit Committee
2008/09 Audit plan	April 2008	March 2008	April 2008
Interim Audit Report	April 2009	April 2009	Incorporated into ISA 260 report
2008/09 ISA260 report to those charged with governance	September 2009	September 2009	September 2009
Audit Committee effectiveness	September 2009	September 2009	December 2009
Use of resources report	November 2009	December 2009	December 2009
Annual Audit Letter	December 2009	December 2009	December 2009

¹ This is the actual fee for 2007/08

D Completion of the Audit Plan

The table below sets out the key risks in our 2008/09 Audit Plan (April 2008) and how these were addressed and reported through the course of our work.

Area as reported in the Audit Plan	Audit response and outcome
<p>Use of resources Comprehensive Area Assessment (CAA) will provide the first holistic independent assessment of the prospects for local areas and the quality of life for people living there. The 2009 Use of Resources assessment will be aligned to CAA and the updated Key Lines of Enquiry (KLOEs) represent an enhanced challenge to the Council in terms of performance and evidence. This assessment will be funded from the 2009/10 audit fee.</p>	<p>We completed the final Use of Resources assessment under the old framework. The Council achieved a level 2, overall score. We subsequently held a workshop at our offices, followed by regular meetings with the senior management team, to discuss with the Council the emerging requirements under CAA. Finally, as reported in Section 3 above, we completed the Use of Resources assessment under the new framework.</p>
<p>Effective governance and scrutiny arrangements Councils are required, for the first time, to produce an Annual Governance Statement.</p>	<p>We examined the Annual Governance Statement as part of our audit on the Council's 2008/09 Statement of Accounts. We did not note any weaknesses in the statement or the procedures supporting it. We also conducted a review of the effectiveness of the Audit Committee, producing a range of findings for action. We concluded the existing arrangements were adequate, but did identify a number of specific improvements that could be made.</p>
<p>Medium-term financial management The Council is facing increasingly severe financial challenges. Cuts and savings of almost £1.8million are required in 2008/09 and a further £3.5million over the next five years. The Council will be forced to make difficult financial decisions which will impact on services.</p>	<p>We discussed the progress in this matter throughout the year. We considered the Council's overall financial standing and development of the Medium Term Financial Plan as part of our review of the Council's Use of Resources. The Council also sought external validation of its Medium Term Financial Plan during the year, which led to further changes.</p>

Area as reported in the Audit Plan	Audit response and outcome
<p>Partnerships and shared services The Council has a number of key partnerships and a shared service arrangement for the Revenues and Benefits service.</p>	<p>We considered the Council's approach to monitoring and evaluating the performance of its key partnerships as part of our work on the Use of Resources assessment.</p>
<p>Internal Audit The Council's internal audit function is key in ensuring that the Council operates a sound system of internal controls.</p>	<p>We considered the work of Internal Audit as part of our assessment of the internal control environment and to assist in documenting the key financial controls in place. We concluded we were able to take assurance on the work of Internal Audit for the purposes of documenting the Council's key financial controls.</p>
<p>2008 SORP The 2008 SORP will identify further changes in the transition to International Financial Reporting Standards (IFRS).</p>	<p>We held an accounts planning workshop with the Council that discussed the implications of the 2008 SORP and other local risk factors.</p>
<p>International Financial Reporting Standards (IFRS) Local government accounting will eventually follow IFRS for the compilation of its statement of accounts.</p>	<p>We met with the Council throughout the year and discussed progress on IFRS.</p>
<p>Whole of Government Accounts (WGA) We believe that the 2008/09 WGA consolidation pack will no longer need to be produced in accordance with the International Financial Reporting Standards (IFRS). We believe this has been deferred to 2009/10, however we will inform the Council of any future changes.</p>	<p>We reviewed and reported on the Council's WGA consolidation pack in accordance with the approach agreed with HM Treasury and the National Audit Office. The pack was certified on 1 October 2009, in line with the certification due date.</p>



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