

Annual Audit Letter

Bromsgrove District Council

Audit 2009/10

The Audit Commission is an independent watchdog, driving economy, efficiency and effectiveness in local public services to deliver better outcomes for everyone.

Our work across local government, health, housing, community safety and fire and rescue services means that we have a unique perspective. We promote value for money for taxpayers, auditing the £200 billion spent by 11,000 local public bodies.

As a force for improvement, we work in partnership to assess local public services and make practical recommendations for promoting a better quality of life for local people.

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Key messages

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

- **the audit of your financial statements (pages 5 to 7); and**
- **my assessment of your arrangements to achieve value for money in your use of resources (pages 8 to 12).**

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

Overview

1 The Council's release from the formal engagement process with central Government reflects its commitment over a number of years to improve its performance.

2 Over the last year the Council has moved forward rapidly through the appointment of a Shared Chief Executive and a single senior management team with Redditch Borough Council. There are only three other established shared management arrangements in local government in the country. These new arrangements are forecast to save over £1.3 million over the three years from 2010/11 and are a significant opportunity for better local services. They also present a significant risk for both councils in ensuring robust and legal governance arrangements are maintained

3 Shared Services have been fully embraced by the Council through working with all district councils and the county council in Worcestershire. The Council has become the host authority of regulatory services for all these councils from June 2010. To ensure that these services continue to be provided in line with the Council's priorities these arrangements will require close monitoring.

4 I found that the Council has made progress in all aspects of its arrangements to achieve value for money that I reviewed to support my value for money conclusion.

Audit opinion and financial statements

5 I completed my audit and issued an unqualified opinion on the 30 September 2010 the statutory target date.

6 The Financial statements were well prepared and included all the entries necessary to amend the accounting treatment of the Spatial project which was the reason for my opinion being qualified last year. I did not identify any significant errors during my audit.

Value for money

7 In addition to issuing an opinion on the financial statements, I am required to issue a Value for Money (VFM) Conclusion. I issued an unqualified conclusion stating that the Council had adequate arrangements to secure economy, efficiency and effectiveness in place.

8 The Council has built on its last year's performance. It has demonstrated that it understands its costs of regulatory services. Further it has provided a business case to the satisfaction of all councils within the county to be appointed as host authority.

9 Last year I qualified your VFM conclusion because of the accounting treatment of the Spatial project. The necessary entries have now been to correct this and I have been able to conclude that all criteria for the VFM conclusion have been met.

Current and future challenges

10 There are challenging times ahead. Unprecedented Government funding cuts will mean that councils and other public services will need to work both harder and smarter. The council has already been proactive in recognising the need for change through a restructuring of roles and responsibilities at a senior level in the council.

11 Maintaining financial resilience in the light of these pressures will be vital. The robustness of financial management and strategy will be essential to the council in delivering services and achieving its priorities. I will continue to work closely with the council during this period.

12 The level of income from planning and land charges will be directly affected by the economic downturn. Levels of interest that can be achieved on the balances held under Treasury Management arrangements will be affected.

13 The three year programme of jointly providing services with Redditch Borough Council is a challenging target in itself. Following the Government's announcements of the spending review in October 2010 the councils have been looking at this programme with a view to bringing the review of some services forward. Such a revision would assist the Council to remain within its financial resources.

14 As host authority for county wide regulatory services the Council will need to ensure that appropriate arrangements are in place to separately account for the costs and income incurred by the Worcestershire Shared Services Joint Committee.

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 the statutory target date.

Overall conclusion from the audit

15 The overall conclusion from my audit of the Council's 2009/10 financial statements is that they present a true and fair view of the Council's position. The issues which were addressed as part of this audit are included in my Annual Governance Report. This report was presented to the Audit Board who considered it before adopting the revised financial statements and before I issued my opinion.

16 The Council approved its financial statements on 30 June 2010, the statutory target date.

Significant weaknesses in internal control

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

18 However as last year I identified a weakness in the accounting system of general ledger (journals) which affected the efficiency of the audit. Additional audit work was undertaken on these journals to be satisfied that no material error had occurred. The Executive Director of Resources has put in place procedures to address this weakness for the next financial year.

Accounting practice and financial reporting

19 The Financial statements were well prepared and included all the entries necessary to amend the accounting treatment of the Spatial project which was the reason for my opinion being qualified last year. I did not identify any significant errors during my audit.

20 I reviewed the arrangements for the approval of the Council's financial statements and concluded that the requirements of the Accounts and Audit Regulations 2003 (as amended in March 2009) were met overall. However the process was fragmented. The accounts which were approved by Council were accompanied by an errata sheet and were subsequently corrected for these items and in response to a member question.

21 Recommendations on the areas for improvement are included in my Annual Governance Report which was presented to the Audit Board on the 27 September 2010.

Recommendation

R1 Ensure that my agreed Annual Governance report recommendations are implemented by the agreed deadlines.

Whole of Government Accounts

22 In accordance with the Code of Audit Practice I reviewed your Whole of Government Accounts (WGA) submission for 2009-10. I gave an unqualified opinion on the submission on the 30 September 2010 in advance of the statutory reporting deadline of the 1 October 2010.

National Fraud Initiative

23 The Audit Commission runs the National Fraud Initiative exercise which matches electronic data within and between audited bodies to prevent and detect fraud.

24 As at 14 October 2010 the estimated savings identified from the most recent data matching initiative reported by the Council is over £191,000. This demonstrates that the newly established Corporate Fraud section has effective arrangements to follow up reported matches.

Certification of grant claims and returns

25 I am in the process of finalising my audit of grant claims relating to the 2009/10 financial year. Claims were submitted for audit by the Council within the agreed deadlines. I have completed the audit of the Disabled Facilities Grant which required no amendments. I was able to issue an unqualified certificate in line with the required timetable.

26 The Council collect monies from business rate payers on behalf of central government and pay these monies/receive monies over to/from central government. Each year the Council is required to prepare a grant claim to confirm the correct amount of business rate monies collected and then paid over to central government. I am required to review this claim. My review identified that a full audit trail from the computer system for business rates to support the values included within the claim had not been retained. Officers agreed to make amendments to the claim and I was able to issue an unqualified certificate on this return in line with the required timetable.

27 The only other claim upon which the audit has yet to be completed is that for Housing Benefit & Council Tax Benefit. At this stage of the audit, I do not anticipate any significant issue arising on this claim and I am intending to complete this work in line with the required timetable.

Preparations for IFRS 2010/11 financial statements

28 On behalf of the Audit Commission I reviewed your preparations to meet the new requirements for Local Government financial statements to be in accordance with IFRS for the 2010/11 financial year. This took place on two occasions, in November 2009 (the baseline assessment) and in July 2010. The Audit Commission collated the information and produced a report identifying the national picture and this report is available on the website at <http://www.audit-commission.gov.uk/localgov/audit/auditmethodology/financialmanagement/ifrs/Pages/20101005ifrsprogresstransition.aspx>.

29 I found that a project team has been established and a risk assessment prepared. Members of the finance team have engaged us with the project and the audit team will continue to work alongside the team to ensure a successful transition. I found that although the Council was behind its original project plan, arrangements have been put in place for the position to be corrected and have been able to conclude that the Council is on track to meet this challenge.

Value for money

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

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

2009/10 use of resources assessments

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

31 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 2010 to inform my 2009/10 conclusion.

32 I report the significant findings from the work I have carried out to support the vfm conclusion.

VFM conclusion

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

34 A summary of my findings is shown in the following table.

Table 1: VFM conclusion

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
Workforce	Yes

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

36 The Council has improved its performance from last year in the following areas:

- It has demonstrated that it understands its costs well. The Council has provided a business case to the satisfaction of councils within the county to be appointed as host authority for Regulatory Services.
- It has amended the accounting treatment of the Spatial project and I have been able to conclude that the criterion for financial reporting has been met.
- Its procurement strategy links through to the Sustainable Community strategy and the corporate plan. It has identified opportunities to work with district partners in a number of areas to jointly commission and procure goods and services.

37 I also considered the value for money and impact from the Council's investment in the Spatial Project. Over the last couple of years the Council has invested significant sums in the Spatial Project.

38 The Spatial Project was a transformational project originally part of the Local Authority Modernisation Programme (LAMP). The history of the Council, which was in voluntary engagement throughout the duration of this project, meant that the Council had to embark on a transforming programme using IT as the means to improve whilst recognising the need for a reliable, stable IT platform and associated systems. Improved outcomes for customers and services as a result of the project have mostly been delivered, and continue to develop and embed. However, the anticipated savings were not fully realised due to a number of reasons mostly due to the recession. The level of current annual savings is close to the level of the original estimated savings.

39 The project has enabled much wider partnership working together with potential for more far reaching value for money. It has enabled the Council to successfully bid for the Regulatory Services as part of the Worcestershire enhanced two tier programme and given the Council resilience and capacity to embark on the shared services with Redditch Borough Council.

40 Lessons have been learnt in terms of project management and this is demonstrated in the more robust management and communications around shared services.

41 A separate report of the detailed findings from my work on the VFM conclusion has been prepared and presented to the Audit Board.

Risk-based performance reviews

42 To support my review of the criteria I undertook the following studies:

- Shared Services Review.
- Waste Management Review.

Shared Services

43 I carried out a high level diagnostic audit of joint working with Redditch Borough Council in order to discharge my duties under the Code of Practice. I found that overall governance arrangements are sound. The risks of these arrangements are regularly evaluated and mitigating actions are put in place where necessary. Members have considered the need for an exit strategy from the arrangement and approved a formal Overarching Shared Services Framework. This is a high level document and will need more detail as shared services develop. The agreement contains a framework for dealing with conflicts of interest and for dispute resolution which are both important.

44 As this is not only a new arrangement for both councils but also relatively new nationally I recommended that The framework agreement requires employee liability insurance to be in place which is essential to cover this risk given that the arrangements proposed for staffing shared services are that each Council remains responsible for its own employees.

45 External legal advice had been sought where and when needed and the Council had learnt from the experiences of other councils who had implemented similar arrangements. The governance arrangements are straightforward and I found worked well. At the time of the review the performance management arrangements were at an early stage and found that these needed to be developed further to provide the Council with sufficient information to monitor the success of the arrangements.

46 The detailed findings of the Shared Services review were presented to the Council in June 2010.

Recommendations

R2 Ensure that my agreed Shared Services Review report recommendations are implemented by the agreed deadlines.

R3 Ensure that consideration is given to how to establish where the liability, if any, would rest should an error occur or service fail to deliver.

Waste Management

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

48 Throughout Worcestershire there are a variety of different waste collection and recycling methods and frequency. We concluded at an early stage that these differences were not causing a problem for the disposal arrangements. Our work with the districts therefore focussed on partnership working on the joint municipal waste strategy (JMWMS).

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

Approach to local value for money work from 2010/11

50 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.

51 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.

52 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.

Future challenges

Single management team

53 The appointment of a single management team with neighbouring district councils is becoming more widely used as bodies review their costs and structures. There are only three other established and four other recent shared management arrangements of councils in England.

54 The Chief Executive and the majority of the single management team responsible for both Bromsgrove District Council and Redditch Borough Council were in place from April 2010. The Council will need to monitor these new arrangements to ensure that they deliver as planned.

Host authority for Regulatory Services across the county

55 This is the first time that the Council has been the host organisation for services provided across the county. A Worcestershire Shared Services Joint Committee has been set up to govern these services which is subject to its own statutory financial reporting and auditing requirements as a separate entity from the Council.

Future developments

56 The Council was able to generate General Fund reserves to a level of £1.2 million at 31 March 2010 from the accounting for the capitalisation directive received from central government for the Spatial project together with other specific reserves including £444,000 for Shared services.

57 The Medium Term financial plan for the three year period 2010 to 2013 approved in January 2010 provided for a minimum level of General Fund reserves at 31 March 2011 of £1.6 million. The most recent finance and performance report to members in November 2010 noted that savings were lower than anticipated. The financial pressures in the current year 2010/11 are significant and are being closely managed by the Council.

58 As a result of the October 2010 Comprehensive Spending Review, it is now clear that local government is facing significant cuts in its financing from central government. The review has stated that local government will face average annual cuts of 7.1 per cent over the review period. Therefore, there is going to be a need for effective financial management and planning if the Council is to maintain a sound financial position.

59 These provide a significant challenge for local government as they seek to continue to provide services to local residents, whilst maintaining a sound financial position. I will continue to monitor the Council's response and actions in this key area.

Closing remarks

60 I have discussed and agreed this letter with the Chief Executive and the Executive Director (Finance & Corporate Resources). I will present this letter at the Audit Board on 13 December 2010 and will provide copies to all Council members.

61 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
Opinion Audit plan	March 2010
Shared Services Review	February 2010
Annual Governance Report	September 2010
Whole of Government Accounts opinion	October 2010

62 The Council has taken a positive and helpful approach to my audit. I wish to thank the Bromsgrove District Council staff for their support and cooperation during the audit.

63 Following the Government's announcement of the abolition of the Audit Commission, I would like to re-assure Council members that we will deliver the Council's 2010/11 and 2011/12 audits. The Audit Commission is writing to all the organisations we audit to explain that current audit arrangements will continue up to and including 2011/12 audits.

Elizabeth Cave
District Auditor
November 2010

Appendix 1 Audit fees

	Proposed	Actual	Variance
Financial statements and annual governance statement (including Whole of Government accounts)	65590	70070	4480
Value for money	34340	34340	0
Total audit fees	99930	104410	4480
Non-audit work	0	0	0
Total	99930	104410	4480

The proposed fee level was set prior to the conclusion of the audit of the 2008/09 financial statements. Additional fee was required for time spent in agreeing the adjustments made to the financial statements in order to correct the entries for the Spatial Project which was the subject of my qualification of the 2008/09 financial statements.

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 (VFM)

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.

Whole of Government Accounts (WGA)

Whole of Government Accounts (WGA) are commercial-style accounts covering all the public sector and include some 1,700 separate bodies. HM Treasury coordinates WGA who decides the form and content of the accounts and chooses the bodies to be included in the accounts for any financial year.

Appendix 3 Action Plan

Recommendations

Recommendation 1

Ensure that my agreed Annual Governance report recommendations are implemented by the agreed deadlines.

Responsibility	Executive Director (Finance & Corporate Resources)
Priority	High
Date	31 March 2011
Comments	The issues will be addressed as part of the final accounts and budget process.

Recommendation 2

Ensure that my agreed Shared Services Review report recommendations are implemented by the agreed deadlines.

Responsibility	Executive Director (Finance & Corporate) Resources
Priority	High
Date	31 March 2011
Comments	The recommendations will be addressed as reported to Members.

Recommendation 3

Ensure that consideration is given to how to establish where the liability, if any, would rest should an error occur or service fail to deliver.

Responsibility	Chief Executive
Priority	High
Date	31 March 2011
Comments	The issue will be picked up with legal and insurance officers to ensure liability is covered.

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