

Open

Audit Committee

Agenda

6.00pm
Wednesday, 29th June 2011
The Earl Baldwin Suite
Duke House
Clensmore Street
Kidderminster



Audit Committee

Members of Committee:

Chairman: Councillor J Holden
Vice-Chairman: Councillor M A Salter

Councillor G W Ballinger
Councillor J A Hart
Councillor K H Prosser

Councillor P Dyke
Councillor M B Kelly
Councillor C Rogers

Information for Members of the Public:

Part I of the Agenda includes items for discussion in public. You have the right to request to inspect copies of Minutes and reports on this Agenda as well as the background documents used in the preparation of these reports.

Part II of the Agenda (if applicable) deals with items of "Exempt Information" for which it is anticipated that the public may be excluded from the meeting and neither reports nor background papers are open to public inspection.

There are particular circumstances when the Ethics and Standards Committee may exclude the public, which are in addition to those available at meetings of the Council, its Cabinet and Committees etc. These apply when the Ethics and Standards Committee considers the following:

Information relating to a particular chief officer, former chief officer or applicant to become a chief officer of a local probation board within the meaning of the Criminal Justice and Court Services Act 2000.

Information which is subject to any obligation of confidentiality.

Information which relates in any way to matters concerning national security.

Declarations of Interest - Guidance Note

Code of Conduct

Members are reminded that under the Code of Conduct it is the responsibility of individual Members to declare any personal or personal and prejudicial interest in any item on this agenda. A Member who declares a personal interest may take part in the meeting and vote, unless the interest is also prejudicial. If the interest is prejudicial, as defined in the Code, the Member must leave the room. However, Members with a prejudicial interest can still participate if a prescribed exception applies or a dispensation has been granted.

Section 106 of the Local Government Finance Act 1992

If any Member is two months or more in arrears with a Council Tax payment, they may not vote on any matter which might affect the calculation of the Council Tax, any limitation of it, its administration or related penalties or enforcement.

For further information:

If you have any queries about this Agenda or require any details of background papers, further documents or information you should contact Sue Saunders, Committee/Scrutiny Officer Manager, Civic Centre, Stourport-on-Severn. Telephone: 01562 732733 or email susan.saunders@wyreforestdc.gov.uk

Wyre Forest District Council

Audit Committee

Wednesday, 29th June 2011

The Earl Baldwin Suite, Duke House, Clensmore Street, Kidderminster

Part 1

Open to the press and public

Agenda item	Subject	Page Number
1.	Apologies for Absence	-
2.	Appointment of Substitute Members To receive the name of any Councillor who is to act as a substitute, notice of which has been given to the Director of Legal & Corporate Services, together with the name of the Councillor for whom he/she is acting.	-
3.	Declarations of Interest In accordance with the Code of Conduct, to invite Members to declare the existence and nature of any personal or personal and prejudicial interests in the following agenda items. Members should indicate the action they will be taking when the item is considered. Members are also invited to make any declaration in relation to Section 106 of the Local Government Finance Act 1992. (See guidance note on cover.)	-
4.	Minutes To confirm as a correct record the Minutes of the meeting held on the 14th March 2011.	6
5.	External Funding Position Statement – Quarter 4 2011/11 To receive a report from the from the Director of Planning and Regulatory Services regarding the amount of external funding being attracted to the District during Quarter 4 of the 2010/11 financial year and of the variety of project for which the funding is contributing towards.	11
6.	Internal Audit – Terms of Reference Update To receive a report from the Section 151 Officer on the updated Terms of Reference for the work undertaken by Internal Audit.	17

7.	Consultation Response – Future of Local Public Audit	26
	To receive a report from the Section 151 Officer detailing for approval the responses to the Government consultation paper on the 'Future of Local Public Audit'.	
8.	Internal Audit Monitoring Report	37
	To receive a report from the Section 151 Officer informing the Committee of the Internal Audit Monitoring Report for the Quarter ended 31 st March 2011.	
9.	Annual Report from the Section 151 Officer 2010/2011	55
	To receive the Annual Report for 2010/2011 from the Section 151 Officer	
10.	Annual Governance Statement	63
	To receive a report from the Director of Resources asking for approval of the Annual Governance Statement declaring the degree to which it meets the Governance Framework for inclusion within the Statement of Accounts.	
11.	Report on Final Accounts	69
	To receive a report from the Director of Resources asking the Committee to consider a pre-audit copy of the Council's Statement of Accounts for the financial year 2010/11.	
12.	To consider any other business, details of which have been communicated to the Director of Legal and Corporate Services before the commencement of the meeting, which the Chairman by reason of special circumstances considers to be of so urgent a nature that it cannot wait until the next meeting.	-
13.	Exclusion of the Press and Public	-
	To consider passing the following resolution: "That under Section 100A(4) of the Local Government Act 1972 the press and public be excluded from the meeting during the consideration of the following item of business on the grounds that it involves the likely disclosure of "exempt information" as defined in the paragraph 1 of Part 1 of Schedule 12A to the Act".	

Part 2

Not open to the Press and Public

14.	To consider any other business, details of which have been communicated to the Director of Legal and Corporate Services before the commencement of the meeting, which the Chairman by reason of special circumstances considers to be of so urgent a nature that it cannot wait until the next meeting.	-
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WYRE FOREST DISTRICT COUNCIL

AUDIT COMMITTEE

THE EARL BALDWIN SUITE, DUKE HOUSE, CLENSMORE STREET,

KIDDERMINSTER

14TH MARCH 2011 (6.00PM)

Present:

Councillors: J Holden (Chairman), K H Prosser (Vice-Chairman),
G W Ballinger, I Hardiman, D J McCann and M A Salter.

AUD.28 Apologies for Absence

There were no apologies for absence.

AUD.29 Appointment of Substitutes

No substitutes were appointed.

AUD.30 Declaration of Interests

No declarations of interest were made.

AUD.31 Minutes

Agreed: The minutes of the meeting held on 17th January 2011 be confirmed as a correct record of the meeting and signed by the Chairman subject to the following amendments:

Page 8, third bullet point, should read ...2 areas of the 2 criterion set namely financial resilience and prioritisation of resources.

Page 8, paragraph 1, final sentence be amended to read: The Council had been required to adjust its figures and were now required to save not the original anticipated 28% but approximately 40% based on Government Grant Settlement figures.

AUD.32 Value for Money Conclusion 2009/2010

The Panel considered a report from the Audit Commission regarding the Value for Money Conclusion for 2009/2010.

Members were advised that at the last meeting of the Audit Committee it had been agreed to give a summary of the key issues of the Value for Money Conclusion and this report contained that summary.

Decision: The report be noted.

AUD.33 2009/2010 Certification of Claims and Returns Report

A report was considered from the Audit Commission that outlined the work undertaken in the certification of claims and returns on behalf of the Council.

Members were informed that the Audit Commission was required to report to the Council the key issues arising and the fees that would be charged. There were no significant issues to report and thus a positive assurance letter had been issued.

Decision: The report be noted.

AUD.34 Audit Strategy 2010/2011

A report was considered from the Audit Commission that identified the audit work which was proposed by them to be undertaken for the audit of financial statements 2010/2011 and the Value for Money Conclusion.

The Audit Commission were required to report in more detail as to what they would be considering, where they saw the risks and whether this impacted on the fees charged. Members' attention was drawn to page 4 which highlighted that the Council would be receiving a rebate on the fees. This rebate had been given in recognition of financial pressures that public bodies were facing in the current economic climate. The Audit Commission had therefore agreed to subsidise a one off element of the cost of transition to IFRS for local authorities. The Council would also receive a further rebate of 1.5% of the scale fee.

Members' attention was drawn to the table of specific risks in relation to the accounts as outlined on page 39 of the report and the Value for Money Conclusion on page 10.

Decision: The report be noted.

AUD.35 International Financial Reporting Standards (IFRS) Draft Accounting Policies 2010/2011

A report was considered from the Director of Resources that outlined the progress made on the draft International Financial Reporting Standards (IFRS) compliant Accounting Policies.

The Accountancy Manager advised Members that in the light of the requirements of the IFRS the Council's policies had been redrafted. Further Members were advised that one thing that had not changed as a result of the IFRS requirements was the timetable for the final closedown of accounts.

The Principal Accountant advised that as part of the review of the Council's policies the redrafted documents contained more detail than previously.

Members' attention was drawn to page 65 regarding employee benefits as this policy had been extended to include the new retirement benefit policy and also a policy on flexi leave and unpaid leave. Additionally more information had been included on the Local Government Pension Scheme.

Members were informed that leasing was a key area and that it was necessary to demonstrate to the Audit Commission that every lease had been examined. Thus every lease the Council had been considered and the contract analysed to see it was embedded in the lease. This had been a huge piece of work as every lease had to be included on the Council's balance sheet.

Members' attention was drawn to page 71 of the report relating to jointly controlled operations and jointly controlled assets. In this regard shared services required the Council to account for only its share of the jointly controlled assets, the liabilities and expenses that it incurred on its own behalf or jointly with others in respect of its interest in the joint venture and the income

that it earned from the venture.

With regard to property, plant and equipment, Members were advised that this had a massive impact under IFRS and had to be analysed within the Council's accounts. It was necessary to include reparations and depreciation within IFRS.

A debate ensued where Members discussed the amount of work that IFRS had created for the Audit Team. The Director of Resources agreed to produce a briefing note on the implications of IFRS and advised Members that it was necessary for the Council to comply with IFRS.

Decision:

1. The progress to date in respect of the draft IFRS compliant Accounting Policies 2010/2011 be noted.
2. A briefing note be produced by the Director of Resources that outlines the implications of IFRS.

AUD.36 Internal Audit – Annual Audit Plan 2011/2012

A report was considered from the Director of Resources that informed Members of the Internal Audit – Annual Audit Plan 2011 – 2012.

It was noted that the Annual Audit Plan 2011/2012 had been approved. The number of audit dates available had been reduced. The Council's contract with Worcester City Council to undertake computer application reviews had been cancelled. Details of the proposed reduction in available audit days was contained within Appendix 2 of the report to the Audit Committee.

Decision:

1. The Internal Audit – Annual Audit Plan 2011 – 2012 attached as appendix 1 of the report to the Audit Committee be approved.
2. Approval be given for the Section 151 Officer to amend the plan in light of developments arising during the year as described in paragraph 3.8 of the report to the Audit Committee and in accordance with paragraph 3.3(b) of the approved Terms of Reference for Internal Audit.,

AUD.37 Internal Audit Monitoring Report Quarter Ended 31st December 2010

A report was considered from the Director of Resources that informed Members of the Internal Audit Monitoring Report for the quarter ended 31st December 2010.

Members' attention was drawn to the fact that no 'unsound' reports had been issued. One report had received 'full' assurance and the rest had received 'some' assurance.

Decision: The Internal Audit Monitoring Report for the Quarter ended 31st December 2010 as detailed in the Appendix to the report to the Audit Committee be noted.

AUD.38 Corporate Governance Framework – Action Plan

A report was considered from the Director of Resources that presented the current position on the action plan to monitor the issues identified in the Council adopting the Corporate Governance Framework which was adopted with effect from 1 April 2008.

The Director of Resources advised that this was the third annual report. The report was positive in that the Council's governance arrangements were robust and operating effectively. The further actions required have been implemented.

Decision: To approve and note the current position of the Corporate Government Framework Action Plan.

AUD.39 Annual Governance Statement – Action Plan

A report was considered from the Director of Resources that presented the current position in relation to the action plan which was developed to address the weaknesses identified within 2009/2010 and any outstanding issues from the previous Annual Governance Statement.

The Director of Resources explained to Members that within the Statement of Accounts it was a requirement to produce a Governance Statement that concludes with identifying areas of weakness. Members noted that the appendix outlined the areas of weakness for 2009/2010 and how it was proposed to address these. Some of the areas to be addressed related to external Audit Commission findings from the Annual Audit and Inspection Letter. The details of progress made against the findings had been included.

Members were advised that on 19th April 2011 Zurich would be coming to the Council to identify strategic risk groups.

Decision: To approve and note the current position of the Annual Governance Statement Action plan for 2009/10.

AUD.40 Any Other Business

The Principal Committee Officer was requested by the Chairman of the Audit Committee to write a letter to say that he felt let down that Members from the Independent Community and Health Concern Group had not turned up to the Audit Committee meeting and had not tendered their apologies. Further he noted that this had happened at previous meetings of the Committee.

The Chairman felt that the meeting of the Audit Committee on 14th March 2011 was an opportunity for the Members to raise with the Audit Commission concerns about the disposal of Council assets. In view of the fact that the Independent Community and Health Concern Group had been vociferous on this matter in the press he felt it was disappointing that members were not present to raise such issues when there was an opportunity to do so.

Agreed : The Principal Committee Officer to write a letter to the Group Leader of the Independent Community and Health Concern Group about non attendance of Members of this group and to express disappointment that in view of the fact that the group had been vociferous on this matter in the press it was disappointing that said

members were not present to raise such issues when there was an opportunity to do so.

The meeting ended at 6.36 pm.

WYRE FOREST DISTRICT COUNCIL

AUDIT COMMITTEE
29th JUNE 2011

EXTERNAL FUNDING POSITION STATEMENT – QUARTER 4 2010/11

OPEN	
SUSTAINABLE COMMUNITY STRATEGY THEME:	Multi-themed
CORPORATE PLAN THEME:	Multi-themed
CABINET MEMBER:	Councillor John Campion
DIRECTOR:	Mike Parker, Director of Planning and Regulatory Services
CONTACT OFFICER:	Matthew Barker Ext. 2192 Matthew.Barker@wyreforestdc.gov.uk
APPENDICES:	Appendix 1 – External Funding Monitoring Report: Quarters 4 2010/11

1. PURPOSE OF REPORT

- 1.1 This report provides an update on the amount of external funding being attracted into the District during Quarter 4 of the 2010/11 financial year; and the variety of projects for which the funding is contributing towards for the benefit of the District and its residents.

2. RECOMMENDATIONS

- 2.1 The Committee is asked to **NOTE** the amount of External Funding being attracted to the District as attached in *Appendix 1*.

3. BACKGROUND

- 3.1 The Wyre Forest District Council (WFDC) promotes and improves the economic, social and environmental well-being of the district in the best interests and for the greatest benefit of its residents, businesses and visitors.
- 3.2 The District Council is increasingly dependent on attracting external funding sources, in addition to its own budgets, to meet its own priorities as well of those of the community.
- 3.3 In April 2005 the District Council adopted its External Funding Strategy to establish protocol and aid development to all stakeholders and partner organisations that WFDC work with (on external funded projects) to be aware of their roles and responsibilities.

- 3.4 A review of this Strategy was completed in April 2009 in order to ensure that it is meeting its aims and objectives effectively, and that the protocol is relevant and up to date. As a result of this review, the Strategy was renamed the 'External Funding Monitoring Policy' to emphasise its primary role as a monitoring exercise.
- 3.5 External funding bid information is obtained and recorded on a quarterly basis to ensure that funding is reported and monitored regularly. This is reported in the form of position statements and is supplied to the Audit Committee. The Community & Regeneration Scrutiny Committee also receives an annual position statement detailing funding information for the whole year.

4. KEY ISSUES

- 4.1 Appendix 1 is the External Funding Position Statement for Quarter 4 of the 2010/11 financial year.
- 4.2 The information provided in the Appendix is externally funding projects which the District Council and its Officers have been directly involved with.
- 4.3 The information contains a mix of those projects where funding was actively bid for by the District Council, those instances where a grant has been allocated to the Council in order to provide a service, projects which the Council is leading on an attracting support from other organisations, and projects where the Council is working in partnership with other organisations and has contributed, but is not the accountable body.

5. FINANCIAL IMPLICATIONS

- 5.1 There are no financial implications arising directly from this report.

6. LEGAL AND POLICY IMPLICATIONS

- 6.1 There are no legal or policy implications arising directly from this report.

7. RISK MANAGEMENT

- 7.1 Not applicable.

8. EQUALITY IMPACT NEEDS ASSESSMENT

- 8.1 Not applicable.

9. CONCLUSIONS

- 9.1 The provision of external funding continues to be an important part of Wyre Forest District Council delivery of its priorities.

10. **CONSULTEES**

10.1 Not applicable

11. **BACKGROUND PAPERS**

11.1 External Funding Monitoring Policy (February 2009)

Appendix 1 - External Funding Position Statement – Quarter 4 2010/11

Name of Project or Service and Contact Officer	Acc Body WFDC?	Corporate Theme and Key Priority	Name of Funding Pot and Funding Provider	Amount of funding	Total funding required for project / service	Other monies provided and by whom	Use of Funding	Geographical Area	Sustainability of project / service once funding ceases
KAF (Kidderminster Arts Festival) Loz Samuels	Yes	A Better Quality of Life Enhancing Cultural Life	Community Housing 100 year anniversary grant, The Swan Shopping Centre.	£1000 £150	N/A		Delivery of KAF program	Kidderminster	Task and finish, additional funding sort each year.
Positive Opportunities Worcestershire (Dale Evans)	Yes	A Better Quality of Life	Worcestershire County Council	£2,500	N/A	WFDC (In kind contribution)	To supplement WFDCs existing summer activities programme	District Wide	
Community Sports Coach (Dale Evans)	Yes	A Better Quality of Life	Youth Support Services WCC Herefordshire & Worcestershire Sports Partnership Sport Unlimited Plan	£6,000 £7,575 £7,500	£27,875	WFDC (£6,800)	A 1 year extension to the existing Community Sports Coach contract	District Wide	

Appendix 1 - External Funding Position Statement – Quarter 4 2010/11

Shindig Rural Touring Scheme (Loz Samuels)	Live and Local (Managed by the Worcestershire Arts Officers Group)	Improved Health and Wellbeing Greater Learning and Participation Shared prosperity	Arts Council England National Portfolio Funding	2011-12 £118,500 2012-13 124,367 2014-15 £121,850	2011-12 £155,550 2012-13 £165,567 2014-15 £166,370	Earned Income 2011-12 £37,050 2012-13 £41,200 2014-15 £44,520	To deliver the Shindig Rural Touring Scheme	Worcestershire Wide	Funding dependant, a renewed application will be made for project to continue.
Subway Deluxe 3 (Loz Samuels)	KAF Creatives	Improved Health and Wellbeing Greater Learning and Participation	Worcestershire County Council, Inroads funding	£4,281	£6,581	In Kind contributions from volunteers	Subway Deluxe 3 to improve Comberton Hill Subway	Kidderminster	Task and finish
Kidderminster Arts Festival (Loz Samuels)	WFDC	Improved Health and Wellbeing Shared prosperity	Worcestershire County Council, Inroads funding	£5,100	£10,100	WFDC	To program increased program of performance for KAF	Kidderminster	Additional to core funding, annual project which seeks ongoing funding for it's development
Loz Samuels	DanceFest	Improved Health and Wellbeing Greater Learning and Participation	Worcestershire County Council, Inroads funding	£5,000	£5,000	N/A	To employ a project manager / fundraiser to work with all Worcs Dance Promoters members to programme and manage Spin 2012.	Worcestershire	The post will seek funding to extend the life of the project

Appendix 1 - External Funding Position Statement – Quarter 4 2010/11

Feb Feb 2011 (Lesley Fox)	WFDC	Greater Learning and Participation Shared prosperity	Wyre Forest Community Safety Partnership Youth Support Services	£10,00	£12,000	WFDC (£1,500 in kind)	Programme of activities during the February half-term week.	Kidderminster	
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WYRE FOREST DISTRICT COUNCIL**AUDIT COMMITTEE**
29th JUNE 2011**REPORT ON INTERNAL AUDIT – TERMS OF REFERENCE – UPDATE**

OPEN	
SUSTAINABLE COMMUNITY STRATEGY THEME	Stronger Communities
CORPORATE PLAN PRIORITY	Delivering Together with Less
CABINET MEMBER	Councillor Nathan Desmond
DIRECTOR	Section 151 Officer
CONTACT OFFICER	David Buckland Extension No. 2100 david.buckland@wyreforestdc.gov.uk
APPENDIX	Appendix 1 Internal Audit – Terms of Reference Update

1. PURPOSE OF REPORT

To propose updated Terms of Reference for the work undertaken by Internal Audit, attached as Appendix 1 and obtain approval for their adoption.

2. RECOMMENDATIONS

The Audit Committee is asked to **APPROVE** the updated Terms of Reference for the work undertaken by the Internal Audit Section, as attached at Appendix 1.

3. BACKGROUND

- 3.1 The Executive at its October 2003 meeting approved Terms of Reference for the Council's Internal Audit section. This report noted that the Terms of Reference would be reviewed at least once every three years by the Head of Financial Services and any amendments reported to members.
- 3.2 In accordance with best practice, the purpose, authority and responsibility of Internal Audit should be formally defined in terms of reference which:
- (a) are consistent with the CIPFA Code of Practice for Internal Audit in Local Government;
 - (b) establish the responsibilities and objectives of Internal Audit;
 - (c) define the organisational independence of Internal Audit, including accountability and resource requirements;
 - (d) specify the requirements for the professional skills and experience of the manager of the Internal Audit section;
 - (e) establish Internal Audit's right of access to all records, assets, personnel and premises, and its authority to obtain such information and explanations as considered necessary to fulfil its responsibilities; and

- (f) enable the Section 151 Officer to deliver an annual audit statement on the adequacy of the council's internal control system.

- 3.3 The Code of Practice also requires the terms of reference for the internal audit function to be formally agreed by Members and the Council's Corporate Management Team.
- 3.4 The attached Appendix sets out the terms of reference for the Internal Audit section at Wyre Forest District Council. The document will also serve as an Audit Charter so that auditors and clients of the internal audit service can understand what internal audit is there to do and provide.

4. KEY ISSUES

- 4.1 The CIPFA Code of Practice for Internal Audit in Local Government requires the terms of reference for the internal audit function to be formally agreed by members and the Council's Corporate Management Team.

5. FINANCIAL IMPLICATIONS

- 5.1 The costs of the Internal Audit section are provided for in the Council's approved budget.

6. LEGAL AND POLICY IMPLICATIONS

- 6.1 The requirement for an internal audit function is contained within Section 151 of the Local Government Act 1972 that requires local authorities to "make arrangements for the proper administration of their financial affairs". The Council has delegated these powers to the Head of Financial Services (Director of Resources) as provided in the Council's Constitution – Financial Procedure Rules (Financial Regulations) section 11.1.
- 6.2 More specifically the Accounts and Audit (England) Regulations 2011 require local authorities to:

"undertake an adequate and effective internal audit of its accounting records and of its system of internal control in accordance with the proper practices in relation to internal control".

7. RISK MANAGEMENT

- 7.1 There are no risk management issues arising from this report other than those mentioned in paragraph 6.

8. EQUALITY IMPACT NEEDS ASSESSMENT

- 8.1 An Equality Impact Assessment screening has been undertaken and it is considered that there are no discernable impacts on the six equality strands

9. CONCLUSION

- 9.1 The Terms of Reference for Internal Audit as updated comply with updated legislative requirements and best practice.

10. CONSULTEES

- 10.1 CMT.

10. BACKGROUND PAPERS

- 10.1 Executive 30th October 2003 ~ Internal Audit ~ Terms of Reference
Cabinet 23rd November 2006 ~ Internal Audit ~Terms of Reference Update.
Cabinet 23rd March 2009 ~ Internal Audit ~ Terms of Reference Update.
Accounts and Audit (England) Regulations 2011 (SI 817)

WYRE FOREST DISTRICT COUNCILINTERNAL AUDIT -TERMS OF REFERENCE - UPDATE**1. Objective**

- 1.1 The Accounts and Audit (England) Regulations 2011 Regulation 6 state:

"A relevant body must undertake an adequate and effective internal audit of its accounting records and of its system of internal control in accordance with the proper practices in relation to internal control."

- 1.2 These Terms of Reference enable Internal Audit to operate adequately and effectively. This is achieved by clearly stating Internal Audit's **Function, Responsibilities, Authority and Reporting Lines**, which are designed to ensure it meets the modern requirements for internal auditing and also so that auditors and audit users can fully understand what internal audit is there to do and provide.

2. Function

- 2.1 Internal audit is an **objective review** function of the Council's arrangements for managing and controlling its services and activities, both financial and operational. An Internal Audit review assists the Council, through its Managers, to serve the best interests of its stakeholders and make the best possible use of resources in the course of meeting its aims and objectives.
- 2.2 The primary task of Internal Audit is to review the systems of internal control operating throughout the authority and provide an independent and objective opinion to the Council on the degree to which the internal control environment supports and promotes the achievement of the Council's objectives. It objectively examines, evaluates and reports on the adequacy of internal control as a contribution to the proper economic, efficient and effective use of resources.
- 2.3 The Section 151 Officer has recognised that Internal Audit needs to be independent of any policy making process or managerial responsibility, resources permitting, in order to provide objective advice, and monitors the advice provided to ensure that objectivity is achieved.
- 2.4 The Internal Audit section operates under the direction of the Section 151 Officer.
- 2.5 The Internal Audit section comprises 3.4 full-time equivalent posts
- 3. Responsibilities**
- 3.1 The Council is required to provide sufficient resources to enable an adequate and effective Internal Audit service to be provided. The service will be managed by the Section 151 Officer who must be both professionally qualified and an experienced individual of a calibre reflecting the responsibilities arising from the need to liaise both internally and externally with senior management and professionals. The Section 151 Officer should have wide experience of Internal Audit and management.

3.2 The Section 151 Officer will be required to determine the priorities of, deliver, and manage the Internal Audit service for the Council.

3.3 The Section 151 Officer will:

- a) Ensure that he/she has a comprehensive understanding of the council's systems, structure and operations.
- b) Prior to the beginning of each financial year, following consultation with the Corporate Management Team, provide:
 - A three year strategic audit plan based on risk, showing which of the Council's services/activities are due to receive audit attention over the period. The plan to include all core activities at least once every three years with higher risk areas receiving more frequent attention, whilst at the same time meeting the requirements of "Managed Audit", whereby internal and external audit work in partnership.

The strategic plan is viewed flexibly as issues may arise during the currency of the plan which diverts Internal Audit away from planned work. The plan is seen as a statement of intent, which can be amended, as necessary, without having a damaging effect on the overall direction of the audit service.

- A detailed operational plan showing how resources will be allocated in the coming financial year in order to meet the requirements of the strategic plan. Each audit will be designed to meet current auditing best practice.
- c) During the course of and at the close of each financial year provide:
 - Quarterly monitoring reports on actual progress compared to the plan. Such reports to include reports on internal control matters with associated internal audit recommendations and manager's comments on implementing the recommendations.
 - The quarterly monitoring reports include if necessary any matters that will impact on Internal Audit's ability to meet the requirements of the strategic plan.
 - d) Compile an annual outturn report for the Audit Committee summarising the overall results for the year and providing a statement on the adequacy of the Council's control environment.
 - e) Aim to achieve at least 90% of the annual audit plan.
 - f) For each audit ensure that Internal Audit has cognisance of the advice of the current CIPFA Code of Practice for Internal Audit in Local Government in the United Kingdom.
 - g) As appropriate for each systems audit liaise with the Chief Officer and/or nominated lead manager concerned regarding:
 - The scope and objectives of each audit
 - Audit findings and draft recommendations which will be discussed prior to issuing the draft audit report

- The draft audit report which will contain a summary of the quality of the control system and detailed findings and recommendations
- The final audit report incorporating the manager's comments on the recommendations made.
- Three months after the issue of the final audit report internal audit will assess the implementation of the recommendations previously made and report as necessary

3.4 The Principal Auditor will ensure that the Section 151 Officer is briefed without delay on any matter coming to the attention of Internal Audit that could have a material impact on the finances of the Council. Similarly the Section 151 Officer will be briefed on the progress of audits having a corporate aspect and/or matters involving fraud or malpractice.

4. Scope of Internal Audit

4.1 The scope of Internal Audit is unrestricted and covers the entire internal control environment of the Council. The internal control environment comprises the Council's policies, procedures and operations in place to:

- (a) establish and monitor the achievement of the Council's objectives;
- (b) identify, assess and manage the risks to achieving the Council's objectives;
- (c) facilitate policy and decision-making;
- (d) ensure the economical, effective and efficient use of resources;
- (e) ensure compliance with established policies, procedures, laws and regulations;
- (f) secure assets and data and to ensure an anti fraud and corruption environment exists.

4.2 Where services are provided under contract or partnership arrangements, then these should allow an appropriate access for Internal Audit to those matters relating to the Council's business. This includes areas where the Council acts as the Accountable body.

5. Authority

5.1 In the course of carrying out internal auditing functions and responsibilities, internal audit employees, under the direction of the Section 151 Officer, shall have authority as detailed in Financial Regulation 11.1:

- a) to enter, at all reasonable times, any land, building, vehicle or plant owned or used by the Council
- b) to have access at all times to all records, documents or correspondences, including any stored by mechanical, electric or electronic means relating to the affairs of the Council
- c) to possess or to take copies of any record, document or correspondence
- d) to require any information and explanation from any member or employee of the Council concerning any matter under examination
- e) to require any employee or member of the Council to produce records, cash, stores or any other property under his/her control.

5.2 It is the responsibility of Chief Officers, as stated in Financial Regulations paragraph 1.3, to ensure that adequate internal controls are in place in their areas of responsibility and that they are notified without delay of any instances where systems

are failing to operate properly. Internal controls are to ensure systems meet their objectives in a secure, efficient and well ordered manner. Internal audit is not a substitute for this but its role is complimentary in providing managers with information, professional advice and independent assurance as to the adequacy of their internal control processes.

- 5.3 It is the responsibility of Chief Officers to put in place adequate controls to prevent and detect fraud. Internal Audit does not have responsibility for the prevention or detection of fraud and corruption. However, internal auditors should be alert in all their work to risks and exposures that could allow fraud or corruption.
- 5.4 The Council's Financial Regulations paragraph 11.4 require Chief Officers to immediately inform the Section 151 Officer of any loss or financial irregularity or suspected irregularity or of any circumstances which may suggest the possibility of such loss or irregularity.
- 5.5 The Section 151 Officer is responsible for the compilation of the Council's Fraud response plan and for ensuring that relevant investigations are conducted in accordance with the plan.

6. Audit Independence & Reporting Lines

- 6.1 In order to provide impartial and unbiased assessments of Council operations Internal Audit must be independent of those operations.
- 6.2 Internal Audit staff must have no operational responsibilities in the areas they audit.
- 6.3 The Section 151 Officer will be responsible for the content of internal audit reports which shall be in his/her own name.
- 6.4 Quarterly and annual audit reports to the Audit Committee will be prepared by the Section 151 Officer.
- 6.5 For management matters the Internal Audit section will report to the Section 151 Officer.
- 6.6 The Section 151 Officer will prepare an Annual report to the Audit Committee. This report should:
 - a) include an opinion on the overall adequacy and effectiveness of the Council's internal control environment
 - b) disclose any qualifications to that opinion, together with the reasons for the qualification
 - c) present a summary of the audit work undertaken to formulate the opinion
 - d) draw attention to any issues the Section 151 Officer judges particularly relevant to the preparation of the statement on internal control
 - e) compare the work actually undertaken with the work that was planned
 - f) comment on compliance with the standards included in the CIPFA Code of Practice for Internal Audit in Local Government in the United Kingdom as appropriate
- 6.7 The Section 151 Officer will prepare a Quarterly audit monitoring report to the Audit Committee. This will be a summary of the work done together with the findings and

recommendations in the quarter including emerging issues in respect of the whole range of areas to be covered in the formal annual report.

- 6.8 Draft systems and other audit reports will be discussed and agreed with the Manager/Chief Officer. If there is a disagreement on any matter in the report, a note will be included to this effect in the final report.
- 6.9 The Section 151 Officer will hold regular (normally monthly) briefing sessions.
- 6.10 The Section 151 Officer will have the right of access at any reasonable time to the Chief Executive, Monitoring Officer and Leader should this be necessary.

7. Audit Opinion

- 7.1 Internal Audit recommendations will be categorised/ranked in terms of significance. Audit recommendations will be classified in accordance with the definitions as detailed in the table below.
- 7.2 The level of assurance that internal audit can give on the operation of internal controls within a system being reviewed will be classified in accordance with the following definitions as detailed in the table below.

Assurance Levels	Definition
Full	Robust framework of controls, any recommendations are advisory – provides substantial assurance.
Some	Sufficient framework of controls but some weakness identified – provides adequate assurance.
Limited	Significant lapses/breakdown in individual controls – at least one significant recommendation – provides partial assurance.
Unsound	Significant breakdown in the overall framework of controls with a number of significant recommendations – provides little or no assurance.

Recommendation Rankings	Definition
Advisory	Low risk – recommendation for consideration
Other	Medium risk - action required but not urgent
Significant	High risk – urgent action needed

- 7.3 The annual opinion given by the Section 151 Officer will be based upon the level of assurance arising from audits undertaken relating to the financial year.

8. Implementation of agreed Audit Recommendations

- 8.1 It is the responsibility of managers to ensure that all agreed recommendations arising from an audit report are implemented in accordance with the agreed timetable.
- 8.2 For each audit undertaken where recommendations are to be implemented, a follow up audit will be scheduled no sooner than 3 months of the conclusion of the audit.
- 8.3 At the conclusion of each follow up review a summary will be issued detailing the progress made to the Chief Officer and/or lead officer.

- 8.4 The Section 151 Officer will regularly review the overall progress of the implementation of audit recommendations across the Council and report as necessary to the Corporate Management Team and the Audit Committee.

Notes

- 1 This document should be subject to review at least once every three years by the Section 151 Officer.
- 2 In the absence of the Section 151 Officer all provisions relating to him/her above will apply to the Principal Auditor.

June 2011

WYRE FOREST DISTRICT COUNCIL**AUDIT COMMITTEE**
29th JUNE 2011**CONSULTATION RESPONSE – FUTURE OF LOCAL PUBLIC AUDIT**

OPEN	
SUSTAINABLE COMMUNITY STRATEGY THEME	Stronger Communities
CORPORATE PLAN PRIORITY	Delivering Together with Less
CABINET MEMBER	Councillor Nathan Desmond
DIRECTOR	Section 151 Officer
CONTACT OFFICER	David Buckland Extension No 2100 david.buckland@wyreforestdc.gov.uk
APPENDICES	Appendix 1 - Proposed response to the "Future of Local Public Audit" Consultation Paper.

1. PURPOSE OF REPORT

- 1.1 To present for approval a draft response in relation to the Government consultation paper on the "Future of Local Public Audit".

2. RECOMMENDATIONS

- 2.1 The Audit Committee is asked to **APPROVE** or amend as necessary the draft response identified at Appendix A.

3. BACKGROUND

- 3.1 On 30 March the government released a consultation paper in relation to the future arrangements for local audits. The deadline for responses to this consultation paper is 30 June 2011. Following the consultation period the government will publish their proposals which will be subject to parliamentary approval in the usual way, it is expected that any new arrangements would be in place for 2013/14 at the earliest.
- 3.2 The primary reason for the consultation exercise relates to the governments decision to abolish as soon as possible the Audit Commission, however, the proposals within the document go far wider than simply providing local authorities the power to appoint their own auditors.
- 3.3 All of the proposals have been developed within a set a suggested design principles these being:
- **localism and decentralisation** – freeing up local public bodies, subject to appropriate safeguards, to appoint their own independent external auditors from a more competitive and open market, while ensuring a proportionate approach for smaller bodies
 - **transparency** – ensuring that the results of audit work are easily accessible to the public, helping local people to hold councils and other local public bodies to

account for local spending decisions

- **lower audit fees** – achieving a reduction in the overall cost of audit
- **high standards of auditing** – ensuring that there is effective and transparent regulation of public audit, and conformity to the principles of public audit

- 3.4 There are 50 specific questions which have been posed as part of the consultation exercise, the first 41 directly relate to our Council, with the rest of the questions related to smaller bodies such as parish councils. Attached at Appendix A, are the questions relevant to Wyre Forest District Council along with suggested responses.
- 3.5 This link <http://www.communities.gov.uk/publications/localgovernment/localpublicauditconsult> can be followed to access the full document.
- 3.6 The current arrangements for the appointment of auditors have remained virtually unchanged since 1974. It is current responsibility of the Audit Commission to oversee and appoint all audit arrangements within local government. The local authority is consulted upon the proposed auditors; however, the final decision rests with the Audit Commission, as does the determination of the annual fee.
- 3.7 In the appointment the Audit Commission mainly selects from the larger auditing firms including PwC, KPMG and Ernst & Young, but is also free to appoint its own auditors to undertake the work as is the case at Wyre Forest.
- 3.8 With the proposed abolition of the Audit Commission it is clear that the current arrangements would need to be amended, therefore the government have published proposals on how this could operate. However, the consultation document does go far further than proposing a new methodology for the appointment of auditors, it is a wider review that considers the design principles identified above

4. **KEY ISSUES**

- 4.1 The main proposals contained within the Consultation Paper include:

1. Ensuring independence within the Audit Committee

It is proposed that there would be a number of changes to the Audit Committee; the most significant would involve its membership. It is suggested that there should be an independent chair to the Council as well as the potential for a number of the committee to not be Councillors. There are various suggestions including that the majority of members are independent to the Council.

2. Appointment of Auditors

It is likely that the decision in relation to the appointment of auditors will rest with Council; however, the debate will be informed by a report from the Audit Committee which would make recommendations. Council would not be obliged to follow these recommendations however would have to be clear on the reasons for not following advice. There are various proposals in relation to the detail of the procurement process; however, it is clear that the government through the National Audit Office will effectively produce a select list of approved auditors that the Council could then involve in a procurement process.

There are also proposals to allow the public to have a say in relation to the appointment, however, these are limited to making comments to the Audit Committee upon the select list. This involvement could also produce difficulties in relation to collaborative approaches to such appointments related to this input.

3. Other Auditor Issues

Given the proposals that Local Authorities will be able to appoint its own auditors, there are also detailed proposals on what happens if the Council were in dispute. There are a number of mechanisms to avoid a complete breakdown in relations, however, the consultation paper does identify how an auditor could resign or indeed be removed by the Local Authority.

There would need to be safe guards in place to retain the independence of the auditor and so as not to compromise their position. It is proposed that the appointed Auditor will retain the power to present a public interest report to Council if they find a breakdown in governance issues within the authority.

4. Scope of Audit Work

One of the main drivers of the new Audit arrangements is to reduce the fees to local authorities. Since the new government the burden on Local Authorities has been reduced following the abolition of Comprehensive Area Assessments and the Use of Resources assessment.

The consultation paper debates how whilst still trying to reduce fees, Local Authorities can be even more transparent in their affairs with the public. To this end the paper discusses the requirement for Local Authorities to produce Annual Reports for the public. One of the proposals suggests that these reports are then reviewed by the Auditors to help ensure that they are objective, but also to demonstrate that the Local Authority is delivering value for money. There are alternative proposals on this matter; however, the underlying tone appears to suggest their inclusion in future.

In return it is suggested that the current right for members of the public to formally object to the Statement of Accounts will be removed, replaced with the requirement for the Auditors to consider any representations which are made to themselves. This is seen as a move to replace an outdated system.

5. FINANCIAL IMPLICATIONS

- 5.1 There are no financial implications arising directly from this report.

6. LEGAL AND POLICY IMPLICATIONS

- 6.1 Any legal issues have been addresses within the background section above

7. RISK MANAGEMENT

- 7.1 The consultation paper provides options for the future appointment of Auditors and it is therefore essential that these arrangements are robust and realistic. Any

concerns surrounding the proposals have been identified within the proposed response.

8. EQUALITY IMPACT NEEDS ASSESSMENT

- 8.1 An Equality Impact Assessment screening has been undertaken and it is considered that there are no discernable impacts on the six equality strands

9. CONCLUSIONS

- 9.1 It is clear that with the abolition of the Audit Commission government needs to identify new arrangements for the appointment of auditor. It appears that the National Audit Office will in the main fulfil this role.

10. CONSULTEES

- 10.1 Corporate Management Team

11. BACKGROUND PAPERS

- 11.1 Future of local public audit: Consultation Paper

1. **Have we identified the correct design principles? If not what other principles should be considered? Do the proposals in this document meet these design principles?**
The Council can support the four principles which have been suggested and in the main the proposals do support these objectives.

However, there is a concern that the proposed requirement for Local Authorities to prepare an Annual report does not sit well with the Localism agenda. There are also concerns that whilst the proposals may reduce the external audit fee, any savings could be more than off set with the cost of producing such an Annual Report.

There are also concerns surrounding local choice when suggestions are being made specifically in relation to the membership of the Audit Committee. It is the Council's opinion that the final decision upon membership should be retained by Council.

2. **Do you agree that the audit probation trusts should fall within the Comptroller and Auditor General's regime?**

The Council does not have an opinion on this matter

3. **Do you think that the National Audit Office would be best placed to produce the Code of audit practice and the supporting guidance?**

The Council recognises the need for a central body to ensure consistency in approach to audits, and given the current role of the National Audit Office can understand why this body has been proposed. The Council therefore supports this proposal.

4. **Do you agree that we should replicate the system for approving and controlling statutory auditors under the Companies Act 2006 for statutory local public auditors?**

The rationale for replicating the system under the Companies Act is understood, and the Council supports similar arrangements for local public auditors. However, any cost arising from such arrangements should be met by central government and not passed onto local authorities.

5. **Who should be responsible for maintaining and reviewing the register of statutory local public auditors?**

The Council would suggest that the National Audit Office would have the necessary skills and experience to maintain and review the register.

6. **How can we ensure that the right balance is struck between requiring audit firms eligible for statutory local public audit to have the right level of experience, while allowing new firms to enter the market?**

With the introduction of the International Financial Reporting Standards (IFRS) it is less essential that the firms have significant public sector experience. The rationale behind IFRS was that common accounting standards are adopted in the public and private sector. In addition so long as the Code of Audit Practice and supporting guidance is produced by the NAO this should be sufficient for firms to follow.

- 7. What additional criteria are required to ensure that auditors have the necessary experience to be able to undertake a robust audit of a local public body, without restricting the market?**

The proposals already consider the adequacy of the qualifications of the potential auditors. There would need to be sufficient safeguards in place to ensure the independence of the staff undertaking the audit from the Council.

- 8. What should constitute a public interest entity (i.e. a body for which audits are directly monitored by the overall regulator) for the purposes of local audit regulation? How should these be defined?**

The Council does not believe that there should be significant additional bureaucracy in relation to this role and believe that the tasks of:

- o reviews of individual audit engagements*
- o reviews of the policies, procedures and internal controls of those firms licensed to carry out the public sector audits*
- o reporting on the quality of audit to the registration body*

Could be undertaken again by the National Audit Office, at the expense of central government.

- 9. There is an argument that by their very nature all local public bodies could be categorised as 'public interest entities.' Does the overall regulator need to undertake any additional regulation or monitoring of these bodies? If so, should these bodies be categorised by the key services they perform, or by their income or expenditure? If the latter, what should the threshold be?**

Care needs to be given to ensure that small parish councils are not caught up in the same regime as Mets, Unitary, County or Districts. The Council would suggest a threshold on expenditure of £500,000 in common with reporting requirements would make the most sense.

- 10. What should the role of the regulator be in relation to any local bodies treated in a manner similar to public interest entities?**

They should provide the framework and allow local authorities to make their own decisions; however, they can act as arbiters in dispute situations.

- 11. Do you think the arrangements we set out are sufficiently flexible to allow councils to cooperate and jointly appoint auditors? If not, how would you make the appointment process more flexible, whilst ensuring independence?**

There appears to be the potential for barriers to exist under the proposals to allow for the joint appointment of auditors. For instance, given that the Council will be required to consider the report from the Audit Committee there is no guarantee that this independent body will have the same objectives for minimising fees that Council may have. Also the involvement of the public in the decision to appoint the auditors is an unknown factor, objections may be raised at one authority which have no real substance but could undermine efforts to jointly procure. Obviously the overall decision will rest with Council however this would be unlike other procurement exercises where evaluation criteria are laid out in advance, again although all recommendations may point to a joint appointment, Council will have the final decision which may be at odds with recommendations.

12. Do you think we have identified the correct criteria to ensure the quality of independent members? If not, what criteria would you suggest

The issue of the skills of members of Audit Committees has been debated for some time, training has been provided to ensure that they have the requisite skills to undertake the role. In addition the Council has considered in the past whether the Audit Committee should have some co-opted Members.

The Council believes that the decision to appoint independent members to the Audit Committee should be left the Council and not imposed by central government. It is felt that this approach is directly at odds with the principle to decentralise.

The said other concerns exist as to whether there would be any members of the public that would firstly qualify under the criteria and secondly be willing to provide their services. It is likely that a payment would be required to independent members that provide their services and this again would increase the cost the Council, which could out weigh any savings which could be achieved in this area.

13. How do we balance the requirements for independence with the need for skills and experience of independent members? Is it necessary for independent members to have financial expertise?

The Council suggests that whilst desirable for the members to have financial expertise it is not essential and it should be the responsibility of the s151 officer that adequate training is provided to all members of the Audit Committee. This could be supported through the production of training materials through the NAO to ensure consistency of approach.

14. Do you think that sourcing suitable independent members will be difficult? Will remuneration be necessary and, if so, at what level?

Yes, this will be difficult as was found to be the case when the Council explored the possibility of a co-opted member and will require payment. Given the suggested responsibility of Chairmanship of the Audit Committee this is likely to be around £2,000 pa, it is also likely for any other independent member this would be around £500 pa.

15. Do you think that our proposals for audit committees provide the necessary safeguards to ensure the independence of the auditor appointment? If so, which of the options described in paragraph 3.9 seems most appropriate and proportionate? If not, how would you ensure independence while also ensuring a decentralised approach?

Putting aside the Council's objections for the Audit Committee to be completely independent from the Council, then it has to be agreed that the proposals do increase independence. Of the options proposed:

- (a) only the chair and perhaps a minority of members are independent of the local public body*
- (b) a chair and a majority of members independent of the local public body,*
- (c) as for (b), but with independent selection of the members independent of the local authorities*

The Council is not in a position to support any of the proposals; however, in line with the CIPFA/SOLACE guidance to ensure independence the Council is agreed that no member of the Cabinet should have a position on the Audit Committee.

16. **Which option do you consider would strike the best balance between a localist approach and a robust role for the audit committee in ensuring independence of the auditor?**
Please see response to previous question
17. **Are these appropriate roles and responsibilities for the Audit Committee? To what extent should the role be specified in legislation?**
Whilst the roles and responsibilities identified under Option 2 appear reasonable, and almost mirror the Council's own Terms of Reference. However, the Council does not support the view that legislation is required, moreover that authorities should have regard for guidance issued by CIPFA & SOLACE.
18. **Should the process for the appointment of an auditor be set out in a statutory code of practice or guidance? If the latter, who should produce and maintain this?**
The Council does not have a strong opinion on whether the process should be subject to a statutory code or guidance; however, believe that the National Audit Office should have this responsibility.
19. **Is this a proportionate approach to public involvement in the selection and work of auditors?**
The suggested role for the public appears to have been an after thought and does not provide any real input to the system. The Council would welcome dialogue with the appointed auditors and the public after Council has made the appointment, however, for the reasons provided earlier their involvement pre-appointment may jeopardise issues such as joint procurement.
20. **How can this process be adapted for bodies without elected members?**
No comment
21. **Which option do you consider provides a sufficient safeguard to ensure that local public bodies appoint an auditor? How would you ensure that the audited body fulfils its duty?**
The appointment of an external auditor is unlikely to be a political issue and therefore all local public bodies should be able to fulfil this requirement. If however, there is no appointment then Option 2 would be supported.
22. **Should local public bodies be under a duty to inform a body when they have appointed an auditor, or only if they have failed to appoint an auditor by the required date?**
Yes, it would serve as a good reference for other public bodies
23. **If notification of auditor appointment is required, which body should be notified of the auditor appointment/failure to appoint an auditor?**
Again, the National Audit Office.
24. **Should any firm's term of appointment be limited to a maximum of two consecutive five-year periods?**
Yes, this proposal is supported

- 25. Do the ethical standards provide sufficient safeguards for the rotation of the engagement lead and the audit team for local public bodies? If not, what additional safeguards are required?**
Again, the Council supports this proposal.
- 26. Do the proposals regarding the reappointment of an audit firm strike the right balance between allowing the auditor and audited body to build a relationship based on trust whilst ensuring the correct degree of independence?**
The Council is satisfied with the arguments in this area.
- 27. Do you think this proposed process provides sufficient safeguard to ensure that auditors are not removed, or resign, without serious consideration, and to maintain independence and audit quality? If not, what additional safeguards should be in place?**
They appear to be well considered, however, will respond more fully in relation to question 34, there may be situations where an auditor is deterred from serving a public interest report due to either the threat of being removed or being not considered for a future tender process.
- 28. Do you think the new framework should put in place similar provision as that in place in the Companies sector, to prevent auditors from seeking to limit their liability in an unreasonable way?**
Yes, again this proposal is supported.
- 29. Which option would provide the best balance between costs for local public bodies, a robust assessment of value for money for the local taxpayer and provides sufficient assurance and transparency to the electorate? Are there other options?**
The Council's view is that Option 1 is adopted. All public sector bodies are ensuring ever greater value for money following the reductions in funding available. This coupled with the publication of all transactions above £500 should provide sufficient information for local taxpayers.
- The Council would like to see the greatest reduction in external audit fees and believe that this is only possible through Option 1. Option 1 does recognise however the importance of the integrity of the Financial Statements.*
- 30. Do you think local public bodies should be required to set out their performance and plans in an annual report? If so, why?**
No, although the Council is committed to sharing with our taxpayers what our priorities and performance levels are this should be prescribed through an annual report. Local Authorities should be free to determine their own communication channels.
- 31. Would an annual report be a useful basis for reporting on financial resilience, regularity and propriety, as well as value for money, provided by local public bodies?**
Please see response to previous question
- 32. Should the assurance provided by the auditor on the annual report be 'limited' or 'reasonable'?**
Please see response to question 30.

33. **What guidance would be required for local public bodies to produce an annual report? Who should produce and maintain the guidance?**
Please see response to question 30.
34. **Do these safeguards also allow the auditor to carry out a public interest report without his independence or the quality of the public interest report being compromised?**
The Council does have concerns that the appointed auditor may feel compromised on this issue to be completely impartial about such matters. It does make sense that the appointed auditor who would be closest to such a situation identifies in the first instance that there may be concerns and register these with the NAO. It may then be more appropriate for an alternative auditor to undertake any investigation which may or may not result in a public interest report.
35. **Do you agree that auditors appointed to a local public body should also be able to provide additional audit-related or other services to that body?**
Yes, the Council is content with this proposal
36. **Have we identified the correct balance between safeguarding auditor independence and increasing competition? If not, what safeguards do you think would be appropriate?**
Yes, however, please note response to question 34.
37. **Do you agree that it would be sensible for the auditor and the audit committee of the local public body to be designated prescribed persons under the Public Interest Disclosure Act? If not, who do you think would be best placed to undertake this role?**
This depends upon the result of the proposals and again question 34. The proposals however would put considerable pressure upon the individual members of the Audit Committee who are likely to have an on-going role. It is the Council's opinion that arrangements similar to the current arrangements should be maintained.
38. **Do you agree that we should modernise the right to object to the accounts? If not, why?**
Yes, the Council agrees with these proposals. In reality the appointed auditors act in this method already.
39. **Is the process set out above the most effective way for modernising the procedures for objections to accounts? If not, what system would you introduce?**
Yes, the Council agrees with the proposed process.
40. **Do you think it is sensible for auditors to be brought within the remit of the Freedom of Information Act to the extent of their functions as public office holders? If not, why?**
Again the Council agrees with the thinking in this area.
41. **What will be the impact on (i) the auditor/audited body relationship, and (ii) audit fees by bringing auditors within the remit of the Freedom of Information Act (to the extent of their functions as public office holders only)?**

- (i) it is not believed that this should not be a significant impact*
- (ii) any costs arising from the FOI requests would need to be borne by the Auditor and not passed on through additional fees.*

Questions 42 to 50 relate to smaller bodies and the Council has not considered these areas.

WYRE FOREST DISTRICT COUNCIL**AUDIT COMMITTEE****29TH JUNE 2011****INTERNAL AUDIT MONITORING REPORT****QUARTER ENDED 31ST MARCH 2011**

OPEN	
SUSTAINABLE COMMUNITY STRATEGY THEME	Stronger Communities
CORPORATE PLAN PRIORITY	Delivering Together with Less
CABINET MEMBER	Councillor Nathan Desmond
DIRECTOR	S151 Officer
CONTACT OFFICER:	David Buckland Extension No. 2100 david.buckland@wyreforestdc.gov.uk
APPENDIX	Appendix 1 Internal Audit Report for the Quarter ended 31 st March 2011

1. PURPOSE OF REPORT

- 1.1 To inform members of the Internal Audit Monitoring Report for the Quarter ended 31st March 2011, attached as Appendix 1.

2. RECOMMENDATIONS

The Audit Committee is asked to **CONSIDER:**

- 2.1 The Internal Audit Monitoring Report for the Quarter ended 31st March 2011 as detailed in the Appendix to the report.

3. BACKGROUND

- 3.1 The management of the authority are obliged to safeguard public funds and use them in a way which provides value for money and thereby best value. An effective internal audit service is vital in helping management to meet these important duties as it is an independent appraisal function for the review of the entire internal control system.
- 3.2 The Audit Committee approved the operational Annual Audit plan 2010 – 2011 in March 2010. This plan takes into account changes in priorities or risk in accordance with the CIPFA Code of Practice for Internal Audit in Local Government in the United Kingdom.
- 3.3 The Internal Audit Strategic Plan 2009 – 2012 approved in March 2009 provides the overall direction for the Internal Audit service working in partnership with the External Auditors to minimise the overall audit cost to the authority.
- 3.4 Performance of the Internal audit service is monitored against plan each quarter during the year by way of this quarterly audit report to the Audit Committee, to the Corporate Management Team and to the External Auditors.

3.5 The Report attached as an Appendix contains 4 sections which are:

- Section 1 **Final** internal audit reports issued in the quarter
- Section 2 **Follow up** Reviews undertaken in the quarter
- Section 3 **Draft** internal audit reports issued in the quarter
- Section 4 **Performance Statistics**
- Section 5 Final Audit Reports issued in the period 1st April 2010 to 31st December 2010 ~ Key Systems

3.6 The audit reports referred to in the Appendix are those where testing has been undertaken on an element of the internal control environment. It should be noted that the findings are on an **exception basis** i.e. reported if an internal control was found not to be operating satisfactorily, so giving rise to a control weakness and therefore an area for improvement. The findings of audit reviews in the report do not list those internal controls which were found to be operating satisfactorily. This approach has been adopted to enable the output of the review to focus on those areas considered by internal audit to require management's attention.

3.7 The Internal audit review process is published on the Council's Intranet. This details the process whereby **Draft** internal audit reports arising from audits are forwarded to Chief Officers and nominated lead managers for agreement to recommendations and timescales for implementation prior to the preparation of **Final** internal audit reports.

3.8 The approved Terms of Reference for Internal Audit require that the Section 151 Officer prepares an annual opinion on the Council's internal control environment. This is a personal opinion, which takes into account the findings of the audit reviews that have been undertaken relating to the financial year in question. These findings are taken together and considered in order to give an overall view of the Council's Internal Control environment, which is reported to the June meeting of the Audit Committee.

3.9 The terminology within the reports presented to members is in line with that used by many other Internal Audit sections of public authorities, private and public companies and external auditors.

3.10 Every organisation operates in the real world and errors/omissions/system weaknesses (manual or computerised) are inevitable. Management have to manage these known risks through the use of internal controls.

3.11 It may be that an operational decision has been taken by management to accept the risk of the non operation of an internal control. Where the area is being reviewed by internal audit in such an instance the weakness and any associated recommendation would be reported. Management would record within the service's risk register the processes in place to mitigate the risk.

3.12 The Corporate Management Team have confirmed that action would be taken immediately should an internal audit review report a significant weakness which could lead to a potential serious issue.

4. KEY ISSUES

- 4.1 Internal audit make recommendations to management on potential improvements to the internal control environment of the system under review. It is management's responsibility to take the necessary action to implement recommendations as agreed in the final internal audit report.
- 4.2 The Quarterly audit report contains details of internal audit reports issued in the quarter together with follow up reviews. The format of internal audit reports has been adopted to enable management and members to focus on those areas that internal audit wishes to draw to its attention. The success or otherwise of a service is reported via other dimensions of the Council's performance management framework including for example the monitoring of the Performance Indicators, Performance Review Clinics and the progress of the Council against its agreed implementation plan arising from its Comprehensive Performance Assessment review.
- 4.3 The internal audit section operates in accordance with the CIPFA Code of Practice for Internal Audit in Local Government in the United Kingdom 2006. Procedures are monitored to ensure that the internal audit section procedures remain compliant.
- 4.4 The approved Terms of Reference for Internal Audit require that the Section 151 Officer prepares an annual opinion on the Council's internal control environment. This is a personal opinion, which takes into account the findings of the audit reviews that have been undertaken relating to the financial year in question. These findings are taken together and considered in order to give an overall view of the Council's Internal Control environment.

5. FINANCIAL IMPLICATIONS

- 5.1 There are no financial implications arising from this report. There may however be financial implications if the audit recommendations made within audit reports are not implemented on a timely basis.

6. LEGAL AND POLICY IMPLICATIONS

- 6.1 The Accounts and Audit (England) Regulations 2011 section 6(1) require that:

"A relevant body must undertake an adequate and effective internal audit of its accounting records and of its system of internal control in accordance with proper practices in relation to internal control."

7. RISK MANAGEMENT

- 7.1 In order to manage risks internal controls are used to mitigate and manage the identified risks to an acceptable level. Any weakness in the operation of internal controls therefore impacts directly on the management of risk.
- 7.2 Risk management issues could arise when weaknesses in internal controls are identified during the audit review process and management delay or defer implementation of the recommendations made.
- 7.3 The Internal Audit service is one element of the Council's assurance/internal control framework.

8. EQUALITY IMPACT NEEDS ASSESSMENT

- 8.1 An Equality Impact Assessment screening has been undertaken and it is considered that there are no discernable impacts on the six equality strands.

9. CONCLUSION

- 9.1 The work undertaken by internal audit in the quarter ended 31st March 2011 is reported within Appendix 1. This information is presented to members in accordance with the Terms of Reference for the Internal Audit Section.
- 9.2 The work undertaken by the Internal Audit Section has complied with the requirements of the CIPFA Code of Practice for Internal Audit in Local government.

10. CONSULTEES

- 10.1 Corporate Management Team

11. BACKGROUND PAPERS

- 11.1 16th March 2010 ~ Audit Committee ~ Annual Audit Plan 2010~2011
16th March 2009 ~ Audit Committee ~ Strategic Audit Plan 2009~2012
16th March 2009 ~ Audit Committee ~ Internal Audit Terms of Reference ~ Update
Accounts and Audit (England) Regulations 2011 (SI 817)



INTERNAL AUDIT SECTION

INTERNAL AUDIT MONITORING REPORT

**QUARTER ENDED
31st March 2011**

INTERNAL AUDIT SECTION
QUARTERLY AUDIT REPORT
QUARTER ENDED 31st MARCH 2011

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DAVID BUCKLAND
SECTION 151 OFFICER

17th MAY 2011

SECTION 1 FINAL AUDIT REPORTS ISSUED IN THE QUARTER ENDED 31 ST MARCH 2011		
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KEY		
Assurance Level	Description of Assurance Level	What is reported in the Quarterly Audit Report
U = Unsound	Significant breakdown in the overall framework of controls with a number of significant recommendations ~ provides little or no assurance. A significant internal control is one which is key to the overall framework of controls.	Summary page of Audit Report and significant findings and associated recommendations.
L = Limited	Significant lapses/breakdown in individual controls ~ at least on significant weakness ~ provides partial assurance.	Summary page of Audit Report and significant findings and associated recommendations.
S = Some	Sufficient framework of controls but some weaknesses identified ~ provides adequate assurance.	Summary page of Audit Report together with any significant findings and associated recommendations where appropriate.
F = Full	Robust framework of controls, any recommendations are advisory ~ provides substantial assurance.	The title of the review undertaken is reported.

AUDIT REPORT TITLE: Worcestershire Hub 2010/11		ACTION PLANS ISSUED: 6 th August 2010 & 18 th October 2010 DRAFT REPORT DATE ISSUED: 25 th February 2011 FINAL REPORT ISSUED: 31 st March 2011		SERVICE: Community and Partnership Services RESPONSE RECEIVED: 15 th March 2011	
BUDGET: REF: A260					
Assurance Levels	Definition				
Full	Robust framework of controls, any recommendations are advisory – provides substantial assurance.				
Some	Sufficient framework of controls but some weakness identified – provides adequate assurance.				
Limited	Significant lapses/breakdown in individual controls – at least one significant recommendation – provides partial assurance.				
Unsound	Significant breakdown in the overall framework of controls with a number of significant recommendations – provides little or no assurance.				
		Recommendation Rankings	Definition		
		Advisory	Low risk – recommendation for consideration		
		Other	Medium risk - action required but not urgent		
		Significant	High risk – urgent action needed		

Overview

This Audit forms part of the annual reviews undertaken to assist the Council's External Auditors in their annual audit. The review concentrated on ensuring that the collection and banking of income is in accordance with Council policy and there are adequate procedures to ensure the security of both employees and cash within the three Hub locations.

The detailed testing has been undertaken to cover the first three quarters of 2010/2011 (April to December). As part of the review daily documentation completed by the Customer Service Advisors at all three Hub locations was examined in detail. The reports generated by the Radius Cash Receipting system to ensure that the all income received is receipted and banked and is in accordance with Financial Regulations included: Cash Analysis sheets, Cash-Up Reports, Payment Analysis by User reports, Global Fund reports, Bank Security Bag Credit slips, G4S (security company) Receipts, Bank Paying In slips, Bank Statement Reports and Collections & Deposit Book. Reversals and adjustments relating to refunds, encashment of Housing Benefit cheques and payments from the County Council vulnerable persons float that arose within the sample weeks were also examined. It was verified that variances indicated on the Cash-Up Reports (CSA End of Day Reconciliations) between expected and actual amounts are recorded and regularly reviewed and monitored by management to ensure that any additional training needs are identified.

Following the detailed testing carried out in quarters one (April to June) and two (July to September), action plans were issued in August and October respectively. The aim of the action plans being to advise of any matters arising during the period of testing in order that they can be addressed promptly and remedial action taken. The observations reported within both action plans focussed on housekeeping issues i.e. signing of end of day banking documentation, ensuring paying in slips agreed to reports from the Cash Receipting System, ensuring refunds and reversal payments are processed correctly, signatures are obtained for encashed cheques.

For these matters arising, prompt remedial action was taken by the Customer Services Manager. However, it should be noted that within the recommendations detailed below, reference is made to the action plans following similar observations within the recent testing in respect of cash to bank transactions, ensuring all paying in slips are completely and deposit schedules signed.

Conclusion:

The review concluded that with the volume of transactions processed by the Worcestershire Hub on a daily basis income is being receipted and banked appropriately and the systems in place are well managed. However, there are some areas where an opportunity for improvement has been identified. These areas cover the Customer Service Advisors (CSA's) recording information on bank paying in slips and security bag slips accurately, the Collections & Deposits Book (C&D) is 'signed off' by Team Leaders and C&D amendments are processed only on receipt of an official request and within the current week.

The overall conclusion therefore, is that **SOME** assurance can be given in that the internal controls in place over the Worcestershire Hub as operated by Wyre Forest D.C. are operating as intended. The implementation of the following recommendations will further strengthen the system in place and raise the level of assurance.

AUDIT REPORT TITLE: BANK RECONCILIATION 2010/2011		ACTION PLAN DATE ISSUED: 19 th July 2010 th /November 2010 DRAFT REPORT DATE ISSUED: 3 rd February 2011 FINAL REPORT DATE ISSUED: 11 th March 2011		SERVICE: Resources (Accountancy) RESPONSE RECEIVED DATE: 3 rd March 2011	
BUDGET: REF:	N/A				
Assurance Levels	Definition	Recommendation Rankings	Definition		
Full	Robust framework of controls, any recommendations are advisory – provides substantial assurance.	Advisory	Low risk – recommendation for consideration		
Some	Sufficient framework of controls but some weakness identified – provides adequate assurance.	Other	Medium risk - action required but not urgent		
Limited	Significant lapses/breakdown in individual controls – at least one significant recommendation – provides partial assurance.	Significant	High risk – urgent action needed		
Unsound	Significant breakdown in the overall framework of controls with a number of significant recommendations – provides little or no assurance.				
Overview This Audit forms part of the annual reviews undertaken to assist the Council's External Auditors in their annual audit. The review was undertaken to ensure that there are regular reconciliations of the Council's bank accounts and concentrated on ensuring that there are adequate controls over the processes in place for both the income and expenditure bank reconciliations. In addition, that there are procedures in place to ensure peer reviews are appropriately undertaken and all entries are substantiated by relevant supporting documentation. The detailed testing of the Income and Expenditure reconciliations has been undertaken to cover the first three quarters of 2010 (April to December). Reconciliations for four separate weeks were selected for testing, Week 4~24 th April, Week 19~8 th August, Week 29~17 th October and Week 35~26 th November. Following the testing of the reconciliations for Quarter 1 (Week 4) and Quarter 2 (Week 19) action plans were issued in July and November respectively to the Financial Services Manager. The aim of the action plans being to advise of any matters arising during the period of testing in order that they can be addressed promptly and remedial action taken. Of the observations arising from the July action plan covering the reconciliations for Week 4 it was found that retrospective amendments had been made to the reconciliations however supporting documentation had not been retained as evidence of the changes and amended reconciliations had not been retained on file; additionally reconciliation templates had been copied from the previous year without the date being amended leading to misleading records. Of the observations arising from the November action plan covering Week 19 there were income reconciliation differences which occurred due to an error in a spreadsheet link in the previous weeks reconciliation and ultimately an error on the cash in transit summary. The spreadsheet link error had not been identified at the time of reconciliation and had continued uncorrected until Week 30. The error came to light during the audit review. For these matters arising (detailed below for completeness), prompt remedial action was taken by the Financial Services Manager with evidence of actions to Internal Audit. During the detailed testing, the Financial Services Manager was also advised of a possible contravention of Financial Regulation 4.5, which requires a division of duties regarding monies to be calculated, checked and recorded to be separated from a duty of collecting or disbursing them. The audit review highlighted that an employee with responsibilities for Treasury Management was also undertaken bank reconciliation duties. The Financial Services Manager was able to provide assurance to Internal Audit that any risk is mitigated by the requirement for three separate employees to approve any Treasury Management transactions. The Financial Services Manager also advised that to ensure business resilience the Treasury Management employee will still be required to undertake the bank reconciliation process, however, it was agreed that these reconciliations will be reviewed by the Financial Services Manager herself. From the examination of the reconciliations for Weeks 29 and 35 only one additional observation was noted with a supporting recommendation in respect of ensuring reconciliations are completed in a timely manner. Conclusion: On the basis of the work undertaken, the review has concluded that within the systems in operation for the reconciliation on Income and Expenditure to the Council's Bank Accounts there were opportunities for improvement. In view of the Action Plans issued and in recognition of the prompt action taken by the Financial Services Manager, the overall conclusion is that SOME assurance can be given on the internal controls in place for the reconciliation of all income and expenditure to the council's bank accounts.					

AUDIT REPORT TITLE: Corporate Creditors 2010/2011		DRAFT REPORT DATE ISSUED: 3 rd February 2011	SERVICE: Resources Legal & Corporate Services (No 4)
BUDGET: Various		FINAL REPORT ISSUED: 31 st March 2011	RESPONSE RECEIVED: 9 th March 2011
REF:			
Assurance Levels	Definition	Recommendation Rankings	Definition
Full	Robust framework of controls, any recommendations are advisory -- provides substantial assurance.	Advisory	Low risk – recommendation for consideration
Some	Sufficient framework of controls but some weakness identified – provides adequate assurance.	Other	Medium risk - action required but not urgent
Limited	Significant lapses/breakdown in individual controls – at least one significant recommendation – provides partial assurance.	Significant	High risk – urgent action needed
Unsound	Significant breakdown in the overall framework of controls with a number of significant recommendations – provides little or no assurance.		

Overview

This Audit forms part of the annual reviews undertaken to assist the Council's External Auditors in their annual audit. The review concentrated on ensuring that the controls in place over the system for the payment of the Council's creditors are operating as intended. The review comprised examination of the Council's new procedures for the ordering, processing and payment of invoices and that these procedures operate within current Standing Order relating to Contracts and Financial Regulations. Further examination was undertaken to ensure that reconciliations are undertaken regularly, revenue and capital contracts are appropriately approved and exceptions reviewed.

A new purchase order processing system was introduced in April 2010; an assessment was undertaken on a sample of invoices processed for payment during June and September. It was observed that the reconciliation processes within the Accountancy and Support Services Sections were working effectively. The introduction of purchase order processing has proved complex to set up with many coding and approver changes which require ongoing monitoring. Initial teething problems appear to have settled down. There is however a need for continued monitoring to ensure the commitment accounting records are accurate at the year end. With so many on going changes the systems in place, as yet, have not been fully documented. The audit review highlighted that following the change from a manual system, orders raised to a single given supplier could exceed an approvers' electronic authorisation limit. Although this had been identified as a weakness the issue had not been addressed until the audit review. Initially, once made aware, the Council's Directors agreed to accept the risk involved in allowing requisitioners/approvers, with a credit limit of £1000 per cost centre, the ability to raise multi cost centre orders up to an aggregate value of £10,000. However, following external consultation with Agresso, system restrictions have now been implemented within user profiles to prevent individuals from raising orders outside of their approved credit limit. Orders exceeding authorised limits are now escalated to a higher approver level and evidence has been provided to Internal Audit of the control in place to mitigate any risk. In addition there are areas that require strengthening with regard to the authorisation of procurement contract orders. Additional recommendations have been made to enhance the current system for ordering, authorising and payment of creditor invoices and highlight the advantages that could be gained from the function being centralised.

Conclusion

On the basis of the work undertaken, the review has concluded that there are significant areas for improvement within the system for approval of the requisition, and the documenting of the systems in operation. The report also identifies other areas where there are opportunities for improvement. Five advisory recommendations have also been included regarding the payment method for NNDR & Council Tax refunds, the timely processing of invoices for payment, authorisation protocols for shared services/partnerships, the reviewing of risks and the risk register and the accuracy of the information available on the Accountancy intranet page.

At the time of audit only LIMITED assurance could be given that the internal controls in place for the electronic ordering, processing and payment of Council invoices were operating effectively however, following the changes to use profiles and in recognition of the remedial actions taken by the Financial Services Manager and the principal Accountant the overall conclusion therefore has been raised to **SOME**. It should be noted that the System Administrator has been and will continue to work closely with the Internal Audit team to ensure that the risks from process changes are identified, evaluated, monitored and minimised.

Ref.	OBSERVATIONS	CONTROL RISK	RECOMMENDATIONS	MANAGEMENT COMMENTS
1	<p>Budgetary Control</p> <p>In accordance with Financial Regulation 14.2, approver roles and responsibilities are agreed and authorised by divisional Directors, also any amendments to the approver roles should be approved by Directors.</p> <p>Budgetary responsibility has been delegated by Directors to Managers and Administration Officers within specified limitations (cost centres and expenditure limits)</p> <p>With the old manual ordering system an authorised signatory could approve an order up to the value of a pre-defined limit only (example £1000), whether that order was for one general ledger account code or several.</p> <p>Approver authorisation limits are split by budgetary code and monetary bands. With the new electronic system the same approver, with the same limit (example £1000), can approve each general ledger cost centres up to their specified limit, with no restriction placed on the number of transactions processed.</p> <p>Therefore an approver with a £1000 authorisation limit, who can authorise 13 different general ledger cost centres, can now approve one order up to the value of £13000.</p> <p>It was also identified that following the introduction of the Regulatory Shared Service, budgetary codes had been merged allowing employees to approve budgetary spend outside their authorised areas.</p>	<p>Approvers could exceed their authorised limits.</p> <p>Unauthorised access could result in data corruption/ misappropriation of funds</p>	<p>Orders raised for a total value exceeding the approvers limit should be escalated up to the next level of approval.</p> <p>System amendments, including changes in roles and responsibilities, are reviewed and authorised by a senior employee (Director).</p> <p>In view of the computerised authorisation limits: Systems access/ approval limits for employees working out their notice period should be restricted or removed with approval limits being immediately transferred to the new employee delegated with budgetary responsibility.</p> <p>Management Comments:- Agresso Authorisation Limits are at cost centre level which does allow orders to be raised for a total value exceeding the approvers' cost centre limit. This is a change to approval levels per order to approval levels per cost centre.</p> <p>Management Comments 7th March 2011:- System amendments, including changes in roles and responsibilities will be reviewed and authorised by a senior employee (Director) on a quarterly basis. Accountancy will act on instructions received from the appropriate Director to restrict or remove employees working out their notice period and transfer to nominated employee delegated with budgetary responsibility. Directors have been made aware of the authorisation process in Agresso and are in agreement. A restriction of £10 000 will be placed on orders in this category, which will now be escalated to the appropriate authorisation level</p> <p>Management Comments 14th March 2011:- The Council's four Directors accepted the risk that an approver with a £1000 authorisation limit can place one order for aggregated cost centres up to a value of £10,000. However, the parameters have now been set to ensure approvers can not exceed their credit limits by the requisitioning of a single multi cost centre order. Such orders are now escalated to approver with a higher credit limit.</p>	<p>Responsible Manager: Principal Accountant</p> <p>Recommendation to be actioned and completed by (Date): February 2011/March 2011</p>

AUDIT REPORT TITLE: Council Tax Reconciliation 10/11		DRAFT REPORT DATE ISSUED: 17 th February 2011	SERVICE: Director of Resources (Revenues)
BUDGET	£59,715,651 Gross Debit 2010/2011	FINAL REPORT DATE ISSUED: 25 th February 2011	RESPONSE DATE: 18 th February 2011
REF:			
Assurance Levels	Definition		Recommendation Rankings
Full	Robust framework of controls, any recommendations are advisory – provides substantial assurance.		Advisory
Some	Sufficient framework of controls but some weakness identified – provides adequate assurance.		Other
Limited	Significant lapses/breakdown in individual controls – at least one significant recommendation – provides partial assurance.		High risk – urgent action needed
Unsound	Significant breakdown in the overall framework of controls with a number of significant recommendations – provides little or no assurance.		

N.B. Assurance level for this system is highlighted.

Overview

This Audit forms part of the annual reviews undertaken to assist the Council's External Auditors in their annual audit. The review was undertaken to ensure that there are regular reconciliations between the Council Tax (Civica Tax – Open Revenues) system with the Agresso Financial Management System (FMS), the Radius Cash Receiving and the Valuation Office Property Listings and these reconciliations are regularly reviewed by management. The Gross Debit reconciliation for 2010/2011 was examined to ensure it had been promptly undertaken. The review also concentrated on ensuring that there are adequate controls over the processes in place for the monitoring of Council Tax arrears & exceptions and that information is appropriately reported to committee. Further examination was undertaken on the Council Tax business plan 2010/2011 and performance monitoring.

The June and September 2010 reconciliations between the Council Tax system and the Agresso & Radius systems were selected for detailed assessment. Although the timeliness of the reconciliations has improved since the previous financial year and each completed within the following month, the September reconciliation was not completed until December 2010. The delay was due to unidentified differences between the Civica (Council Tax) and Agresso (FMS) internet payments. Three Valuation Office reconciliations were assessed dating from April, May and June 2010; these reconciliations were found to have been undertaken in a timely manner and each had been independently reviewed with supporting documentation for all entries. The Gross Debit reconciliation for 2010/2011 had been appropriately completed prior to the start of the financial year, which identified an unexplained difference of £1161.43, advice had been sought from Civica to ensure there was no underlying fault with the system and all other balances were checked and agreed. However, it was not possible to identify which Valuation List Schedule was used for the reconciliation for clarification as the Schedule number was not recorded. Arrears monitoring reports had been regularly and appropriately reviewed as were exception reports. Information is reported to committee appropriately and in a timely manner. The 2010/2011 business plan reflects the commitments and aspirations of the Revenues and Benefits Manager and an update of the progress to date had been reported to the Corporate Resources Committee on 11th November 2010.

Conclusion:

The review concluded that there are some areas within the internal controls for the reconciliation of Council Tax with opportunities for improvement. One area highlighted was in reference to the reconciliation of the Valuation Office Listing to the Gross Debit Calculation for the annual billing, the difference of £1161.43 in terms of materiality to the gross debit of £59,715,652 only forms part of the detailed reconciliations that are undertaken throughout the year. Therefore, the overall conclusion is that **SOME** assurance can be given in that the internal control processes for the Council Tax reconciliation will operate as intended, with the implementation of the following recommendations to further strengthen the system in place and raise the level of assurance.

AUDIT REPORT TITLE: NNDR Reconciliation 2010/2011		DRAFT REPORT DATE ISSUED: 17 th February 2011	SERVICE: Director of Resources (Revenues)
BUDGET: £30,479,029 (Gross Debit) REF: P100		FINAL REPORT DATE ISSUED: 25 th February 2011	RESPONSE RECEIVED DATE: 18 th February 2011
Assurance Levels	Definition	Recommendation Rankings	Definition
Full	Robust framework of controls, any recommendations are advisory – provides substantial assurance.	Advisory	Low risk – recommendation for consideration
Some	Sufficient framework of controls but some weakness identified – provides adequate assurance.	Other	Medium risk - action required but not urgent
Limited	Significant lapses/breakdown in individual controls – at least one significant recommendation – provides partial assurance.	Significant	High risk – urgent action needed
Unsound	Significant breakdown in the overall framework of controls with a number of significant recommendations – provides little or no assurance.		
<p>N.B. Assurance level for this system is highlighted.</p> <p>Overview This Audit forms part of the annual reviews undertaken to assist the Council's External Auditors in their annual audit. The review was undertaken to ensure that there are regular reconciliations between the NNDR (Civica - Open Revenues) system and the Agresso Financial Management System (FMS), the Radius Cash Receipting and the Valuation Office rateable value listings and that the Gross Debit reconciliation for 2010/2011 had been promptly undertaken. The review also concentrated on ensuring that there are adequate controls over the processes in place for the completion of the NNDR1 return and the monitoring of NNDR arrears and exceptions.</p> <p>A detailed examination of the June and September 2010 reconciliations between the NNDR system and the Agresso (FMS) & Radius systems was carried out to ensure the accuracy of the information recorded. As identified by the Principal Revenues Officer there is a difference of £116 between the two systems which is currently held on the suspense account and under review. Four Valuation Office reconciliations were assessed dating from June, July, August and September 2010; these reconciliations were found to have been undertaken in a timely manner and each had been independently reviewed with supporting documentation for all entries. The Gross Debit Reconciliation for 2010/2011 was found to have been appropriately completed prior to the start of the financial year and the NNDR1 return for 2010/2011 had been completed and returned within the required time frame (February 2010). Although Void Property and Allowances are reviewed and included within the Gross Debit Reconciliation there was no evidence of review of void properties. The review of the accuracy for the parameters set in the Civica system prior to the annual billing run is evidenced by the Revenues & Benefits Manager and the Principal Revenues Officer, however, there were no sample bills retained as evidence that these had been checked. Arrears monitoring and exception reports had been regularly reviewed and evidenced by the appropriate officer. The 2010/2011 business plan reflects the commitments and aspirations of the Revenues and Benefits Manager and an update of the progress to date had been reported to the Corporate Resources Committee on 11th November 2010.</p> <p>Conclusion On the basis of the work undertaken, the review has concluded that the systems in operation for the reconciliation and monitoring of the NNDR system are working effectively with the reconciliations being undertaken regularly and appropriately reviewed and signed in a timely manner. There were some areas identified for improvement in the retaining of evidence for which the following recommendations will further strengthen the procedures in place. The overall conclusion therefore, is that SOME assurance can be given on the internal controls in place for the reconciliation of the NNDR.</p>			

AUDIT REPORT TITLE: Civica IBS Application Audit 2010/11 (Revenues & Benefits ~ Council Tax ~ NNDR)		ACTION PLAN ~ NOVEMBER 2010 DRAFT REPORT DATE ISSUED: 3 rd February 2010 FINAL REPORT DATE ISSUED: 25 th February 2011	SERVICE: Director of Resources (Revenues & Benefits) RESPONSE DATE: 18th February 2011
BUDGET £37,780,070 Benefit Payments (Estimated) £59,715,651 Council Tax Gross Debit £38,479,029 NNDR Gross Debit			
REF:			
Assurance Levels	Definition	Recommendation Rankings	Definition
Full	Robust framework of controls, any recommendations are advisory – provides substantial assurance.	Advisory	Low risk – recommendation for consideration
Some	Sufficient framework of controls but some weakness identified – provides adequate assurance.	Other	Medium risk - action required but not urgent
Limited	Significant lapses/breakdown in individual controls – at least one significant recommendation – provides partial assurance.	Significant	High risk – urgent action needed
Unsound	Significant breakdown in the overall framework of controls with a number of significant recommendations – provides little or no assurance.		

Overview

The purpose of the Audit was to examine the arrangements in place relating to the IBS Application used in the Revenue & Benefits Section. The application enables the Council to record, produce and report on various Revenue and Benefit matters. With Anite as a document image solution running parallel with IBS for Council Tax and Benefits, NNDR correspondence was not saved to Anite at the time of the audit. Anite is being rolled out as a corporate document imaging solution. However, for the purposes of this audit it was outside the scope but due to its link with IBS certain aspects have been considered.

IBS has been in place for approximately eight years and is a stable system with continual development. The application has an audit trail which has several levels of functionality depending on the level of reporting required, however, not all of it is enabled due to resource restrictions. The audit trail is currently set at a local level but there is functionality which will allow a full version to be reported. There are controls on data input to assist data cleansing and uniformity of input data. System back ups appear to be sufficient and during the audit the application was moved from physical servers to a virtual server which is contained in the server room at the Town Hall. Users are provided with access to the system using groups and rights and permission status in order to view, create or update documents. Security pertaining to the rights and permissions, which has the effect of limiting the functionality available to them within the system through dynamic menus, is in place and is administered by the System Administrators. Documentation pertaining to cases is displayed using the Anite application for Council Tax and Benefits. NNDR is soon to follow. There is an Escrow Agreement which would allow the ICT Section to obtain the core code if there was an issue with the Software House. A maintenance agreement with the software supplier is in place to assist ICT with the maintenance of the software. Documents are held in Anite which runs in parallel with IBS but with no direct interface. There is also an uploading of documents on a daily basis from docking stations contained within the office which are used for visiting officers using VPM software to capture the eforms that are used. The Audit has identified several points which Management should consider to enhance overall security, reduce risk and strengthen control. Overall, the control environment evidenced during the audit indicated a satisfactory level of security and integrity of information storage. The application appears to be operating as intended with a development cycle. Home working is an area which is developing and has been considered as part of this audit in respect of the remote access security. The Council has a Home Working Policy in place and assurance can be provided for the access link and is contained in the audit.

Conclusion:

The overall conclusion based on the overview above is that **SOME** assurance can be given that the internal controls are in place within the key system for control of Civica. Implementation of the following recommendations will ensure that the controls are strengthened. It should be noted, that since the integration of the Revenues and Benefits Sections the teams have become more overcome challenges and enabled them to develop best practice across the Service as a whole.

Summaries of Follow up Reviews undertaken in the Quarter

KEY	
Assurance Levels	Definition
Full	Robust framework of controls, any recommendations are advisory – provides substantial assurance.
Some	Sufficient framework of controls but some weakness identified – provides adequate assurance.
Limited	Significant lapses/breakdown in individual controls – at least one significant recommendation – provides partial assurance.
Unsound	Significant breakdown in the overall framework of controls with a number of significant recommendations – provides little or no assurance.

TITLE	SYSTEM TYPE K=Key S=Subsidiary	ASSURANCE LEVEL OF FINAL REPORT	IMPLEMENTATION STAGE PER CHIEF OFFICER AND/OR RESPONSIBLE MANAGER AT TIME OF FOLLOW UP REVIEW				Page No.
			No of Recommendations	No of Recommendations Implemented	No of Significant Recommendations	No of Recommendations Implemented	
Community & Partnership Services							
Cash to Bank ~ Worcestershire HUB 09/10	K	S	6	6	-	-	-
Planning & Regulatory Services							
Innologic Computer Application 09/10	K	S	5	5	-	-	-
Resources							
Council Tax Gross Debit Reconciliation 09/10	K	S	3	3	1	1	-

SECTION 3		
DRAFT AUDIT REPORTS ISSUED IN THE QUARTER ENDED 31 st MARCH 2011		
TITLE	DATE OF ISSUE	CURRENT STATUS OF REPORT
Resources Directorate: Agresso (Financial Management System) Computer Application 2010~11 Benefit Reconciliations 2010~11 (Accountancy) Benefit Reconciliations 2010~11 (Revenues & Benefits) MOT Testing Station 2010~11	04.02.11 11.03.11 11.03.11 31.03.11	Final Report Issued 06.05.11 Final Report Issued 06.05.11 Final Report Issued 01.06.11 Final Report Issued 01.06.11

INTERNAL AUDIT SECTIONPERFORMANCE AGAINST ANNUAL PLAN FOR THE FINANCIAL YEAR 2010/11Quarter Ended 31st March 2011Year to 31st March 2011

	<u>Quarter Actual</u>	<u>Quarter Plan</u>	<u>Quarter Actual as a % of Plan</u>		<u>Year Actual</u>	<u>Annual Plan</u>	<u>Year to Date Actual as a % of Plan</u>
	<u>Days</u>	<u>Days</u>	<u>%</u>		<u>Days</u>	<u>Days</u>	<u>%</u>
System and Probity	114.00	98.75	115.44%	System and Probity	468.25	395	118.54%
Computer Audit	3.25	10.00	32.50%	Computer Audit	12.50	40	31.25%
Computer Audit Contract	5.00	5.00	100.00%	Computer Audit Contract	50.00	50	100.00%
Contract Audit	2.00	10.00	20.00%	Contract Audit	15.50	40	38.75%
Consultancy and Advice	9.25	10.00	92.50%	Consultancy and Advice	39.00	40	97.50%
Irregularity	3.50	10.00	35.00%	Irregularity	15.00	40	37.50%
Specific Service Duties	4.25	3.75	113.33%	Specific Service Duties	16.25	15	108.33%
Sub Total	141.25	147.50	95.76%	Sub Total	616.50	620	99.44%

TARGET**90.00%**

Audit Resource Statistics

For the year ended 31st March 2011, 99.4% of the annual audit plan has been completed compared against the set target of 90%.

SECTION 5		
FINAL AUDIT REPORTS ISSUED IN THE PERIOD 1 ST APRIL 2010 TO 31 ST DECEMBER 2010 - KEY SYSTEMS		
QUARTER ENDED 30 TH JUNE 2010	ASSURANCE	
CORPORATE		
Corporate Creditors Compliance Testing 2009/10 (LCS)	F	
Corporate Creditors Compliance Testing 2009/10 (PRS)	F	
Fixed Assets (Title Deeds) 2009/10 ~ Physical Verification	N/A ~ Inspection Only	
PLANNING & REGULATORY SERVICES		
General Licensing & Registration 2009/10	L	
RESOURCES		
Benefits Compliance Testing 2009/10	S	
Council Tax Compliance Testing 2009/10	F	
Cash to Bank ~ Miscellaneous Income & Housing Act Advances 2009/10	F	
NNDR Compliance Testing 2009/10	F	
NNDR Gross Debit Reconciliation 2009/10	S	
Payroll Compliance Testing & Establishment Verification 2009/10	F	
Payroll Reconciliations 2009/10	S	
QUARTER ENDED 30TH SEPTEMBER 2010		
CORPORATE		
Corporate Creditors Compliance Testing 2009/10 (C&PS)	S	
Corporate Creditors Compliance Testing 2009/10 (RD)	S	
Corporate Debtors Compliance Testing 2009/10	S	
Fixed Assets (Intangible & Vehicles & Play Equipment) 2009/10~Physical Verification	N/A	
COMMUNITY & PARTNERSHIP SERVICES		
Cash to Bank ~ Worcestershire HUB 2009/10	S	
RESOURCES		
Housing Benefits Reconciliations 2009/10	S	
Council Tax Gross Debit Reconciliation 2009/10	S	
Treasury Management 2009/10	F	
QUARTER ENDED 31ST DECEMBER 2010		
PLANNING & REGULATORY SERVICES		
Development Control 2010/11	F	
Innologic Computer Application 2009/10	S	
MVM Computer Application 2009/10	S	
RESOURCES		
Benefits Compliance 2010/11	S	

KEY		
Assurance Level	Description of Assurance Level	What is reported in the Quarterly Audit Report
U = Unsound	Significant breakdown in the overall framework of controls with a number of significant recommendations ~ provides little or no assurance. A significant internal control is one which is key to the overall framework of controls.	Summary page of Audit Report and significant findings and associated recommendations.
L = Limited	Significant lapses/breakdown in individual controls ~ at least on significant weakness ~ provides partial assurance.	Summary page of Audit Report and significant findings and associated recommendations.
S = Some	Sufficient framework of controls but some weaknesses identified ~ provides adequate assurance.	Summary page of Audit Report together with any significant findings and associated recommendations where appropriate.
F = Full	Robust framework of controls, any recommendations are advisory ~ provides substantial assurance.	The title of the review undertaken is reported.

SECTION 5		
FINAL AUDIT REPORTS ISSUED IN THE PERIOD 1 ST APRIL 2010 TO 31 ST DECEMBER 2010 - KEY SYSTEMS		
Council Tax Compliance 2010/11		S
NDR Compliance 2010/11		S

KEY		
Assurance Level	Description of Assurance Level	What is reported in the Quarterly Audit Report
U = Unsound	<p>Significant breakdown in the overall framework of controls with a number of significant recommendations ~ provides little or no assurance.</p> <p>A significant internal control is one which is key to the overall framework of controls.</p>	Summary page of Audit Report and significant findings and associated recommendations.
L = Limited	Significant lapses/breakdown in individual controls ~ at least on significant weakness ~ provides partial assurance.	Summary page of Audit Report and significant findings and associated recommendations.
S = Some	Sufficient framework of controls but some weaknesses identified ~ provides adequate assurance.	Summary page of Audit Report together with any significant findings and associated recommendations where appropriate.
F = Full	Robust framework of controls, any recommendations are advisory ~ provides substantial assurance.	The title of the review undertaken is reported.

WYRE FOREST DISTRICT COUNCIL

AUDIT COMMITTEE
29th JUNE 2011

ANNUAL REPORT FROM THE SECTION 151 OFFICER - 2010/2011

OPEN	
SUSTAINABLE COMMUNITY STRATEGY THEME	Stronger Communities
CORPORATE PLAN PRIORITY	Delivering Together with Less
CABINET MEMBER	Councillor Nathan Desmond
DIRECTOR	Section 151 Officer
CONTACT OFFICER	David Buckland Extension No 2100 david.buckland@wyreforestdc.gov.uk
APPENDICES	Appendix 1 - Annual report from the Section 151 Officer - 2010/2011

1. PURPOSE OF REPORT

- 1.1 To inform members of the Annual Report from the Section 151 Officer for 2010/2011.

2. RECOMMENDATIONS

- 2.1 The Audit Committee is asked to **APPROVE** the Annual report from the Section 151 Officer for 2010/2011 attached as Appendix 1.

3. BACKGROUND

- 3.1 The management of the authority are obliged to safeguard public funds and use them in a way which provides value for money and thereby best value. An effective Internal Audit service is vital in helping management to meet these important duties, since it is an independent appraisal function for the review of the entire internal control system.

A definition of Internal Audit given by The Chartered Institute of Public Finance and Accountancy (CIPFA) is:

"Internal Audit is an assurance function that provides an independent and objective opinion to the organisation on the control environment, by evaluating its effectiveness in achieving the organisation's objectives. It objectively examines, evaluates and reports on the adequacy of the control environment as a contribution to the proper economic, efficient and effective use of resources."

- 3.2 The approved Terms of Reference for Internal Audit require that the Section 151 Officer prepare an Annual report to the Audit Committee. This report should:

- include an opinion on the overall adequacy and effectiveness of the Council's internal control environment
- disclose any qualifications to that opinion, together with the reasons for the

qualification

- present a summary of the audit work undertaken to formulate the opinion
- draw attention to any issues the Section 151 Officer judges particularly relevant to the preparation of the statement on internal control
- compare the work actually undertaken with the work that was planned
- comment on compliance with the standards included in the CIPFA Code of Practice for Internal Audit in Local Government in the United Kingdom as appropriate.

- 3.3 The opinion is a personal opinion of the Section 151 Officer on the overall adequacy and effectiveness of the Council's internal control environment and as last year the view has been taken that there are three categories which are:

Satisfactory
Satisfactory, with reservations
Improvement required

4. KEY ISSUES

- 4.1 It is a statutory requirement that this Council has an Internal Audit service as part of its Corporate Governance framework.
- 4.2 An Annual Governance Statement is required to be published with the Council's Annual Statement of Accounts which is required to be signed by the Leader of the Council and the Chief Executive. The Annual Report from the Section 151 Officer contributes to the evidence necessary in order for this statement to be prepared.
- 4.3 The Accounts and Audit (England) Regulations 2011 requires the Council to conduct a **review of the effectiveness of Internal Audit**. The Annual Report from the Section 151 Officer provides evidence in respect of this requirement.
- 4.4 Internal Audit make recommendations to management to improve the internal control environment of the system being reviewed. It is management's responsibility to take the necessary action to implement agreed recommendations included in final internal audit reports.
- 4.5 The approved Terms of Reference for Internal Audit require that an annual report is prepared by the Section 151 Officer covering the items detailed in paragraph 3.3 and this is attached as Appendix 1.
- 4.6 The numbers of the conclusions arising from internal audit reviews for 2010~11 with those of the previous year is as follows:

		KEY SYSTEMS <u>Assurance Level</u>			SUBSIDIARY SYSTEMS <u>Assurance Level</u>			TOTAL
		Full	Some	Limited	Full	Some	Limited	
2010-11	Number	10	26	1	2	1	1	41
	%	24.3	63.4	2.5	4.8	2.5	2.5	100
2009-10	Number	11	22	1	9	5	3	51
	%	21.6	43.1	1.9	17.7	9.8	5.9	100

- 4.7 The results of this table give an overall perspective only with the knowledge that some audit reviews of both key and subsidiary systems can range from a very large and complicated system to a very straightforward one. Therefore direct comparison of numbers and related percentages should not be taken in perspective.
- 4.8 During 2010/11 Internal Audit have sought to work with other Sections/Directorates to provide advice and assistance on the implementation of recommendations and action. As a result, measures have been put into place greatly improving systems and it is fair to conclude that there has been an improvement in control reflected in the reduction in the limited assurance conclusions for key systems.
- 4.9 The annual report in Appendix 1 also covers a review of the effectiveness of Internal Audit required by the Accounts and Audit (England) Regulations 2011. CIPFA guidance indicates that compliance with the CIPFA Code of Practice is a useful tool for assessing the effectiveness of Internal Audit. A report detailing compliance with this Code was presented to the Audit committee on the 29th June 2009.
- 4.10 The CIPFA code details that an effective internal audit section should aspire to:
- Understand the whole organisation
 - Understand its position with respect to the organisation's other sources of assurance and plan its work accordingly
 - Be seen as a catalyst for change at the heart of the organisation
 - Add value and assist the organisation in achieving its objectives
 - Be forward looking
 - Be innovative and challenging
 - Help to shape the ethics and
 - Standards of the organisation
 - Ensure the right resources are available in the section – recognising that the skills mix, capacity, specialisms, qualifications and experience requirements all change constantly
 - Share best practice with other auditors
 - Seek opportunities for joint working with other organisation's auditors.
- 4.11 The review of Internal Audit effectiveness is not about process. The focus of the review is in respect of the delivery of the Internal Audit Service to the required standard in order to produce a reliable assurance on internal control in operation in the council's practices and procedures – in essence the need for the review is to ensure that the opinion given in Appendix 1 may be relied upon as a key source of evidence for the annual review of internal control.
- 4.12 It is the opinion of the S151 Officer, that it is **satisfactory**; this is detailed within Appendix 1.

5. FINANCIAL IMPLICATIONS

There are no financial implications arising directly from this report.

6. LEGAL AND POLICY IMPLICATIONS

- 6.1 The Accounts and Audit (England) Regulations 2011 section 4 (2) require that:

"The relevant body (the Council) must conduct a review at least once in a year of

the effectiveness of its system of internal control.”

This report contributes to the preparation of the Annual Governance Statement which is considered elsewhere on the agenda of this committee.

- 6.2 The Accounts and Audit (England) Regulations 2011 section 6 (1) require that:

“A relevant body must undertake an adequate and effective internal audit of its accounting records and of its system of internal control in accordance with the proper practices in relation to internal control.”

This is the statutory requirement that this Council has an Internal Audit service.

- 6.3 The Accounts and Audit (England) Regulations 2011 section 6(3) require that:

“The relevant body must, at least once in each year, conduct a review of the effectiveness of its internal audit”.

The annual report attached as an appendix to this report forms part of this review.

7. RISK MANAGEMENT

- 7.1 It is a statutory requirement that the Council undertakes an adequate and effective internal audit of its accounting records and of its system of internal control in accordance with proper practices in relation to internal control. Further it is a statutory requirement that the council shall at least once in each year conduct a review of the effectiveness of its internal audit.
- 7.2 The Internal Audit Section operates in accordance with proper practice in line with the CIPFA Code of Practice in Local Government and its approved terms of reference.
- 7.3 This report summarises the work undertaken by the Internal Audit Section for the 2010/2011 financial year, it is assumed that External Audit have been able to place reliance on this work and that the annual report has been provided in accordance with the Internal Audit Section’s approved Terms of Reference.
- 7.4 Corporate Risk Management is now being embedded throughout the Council’s processes as reported to this committee on the 22nd April 2008. This will assist the maintenance and development of the council’s internal control environment.

8. EQUALITY IMPACT NEEDS ASSESSMENT

- 8.1 An Equality Impact Assessment screening has been undertaken and it is considered that there are no discernable impacts on the six equality strands

9. CONCLUSIONS

- 9.1 The Annual Report - 2010/2011 provides an opinion from the Section 151 Officer, on the adequacy and effectiveness of the Council’s internal control environment arising from the completion of Internal Audit reviews.
- 9.2 This opinion is based on the work undertaken by the Internal Audit Section in

accordance with the approved Annual Audit Plan for 2010/2011. This report is presented to members in accordance with the Terms of Reference for the Internal Audit section approved by the Council.

9.3 Overall it has been concluded that the internal control environment has seen improvement during 2010/11.

9.4 A review of the effectiveness of internal audit for the financial year 2010/2011 has been undertaken in accordance with current guidelines.

10. CONSULTEES

10.1 Corporate Management Team

11. BACKGROUND PAPERS

11.1 16th March 2009 ~ Audit Committee ~ Strategic Audit Plan 2009~2012
16th March 2009 ~ Audit Committee ~ Internal Audit Terms of Reference ~ Update
29th June 2009 ~ Audit Committee ~ Cipfa Code of Practice Checklist
Accounts and Audit (England) Regulations 2011 (SI 817)

WYRE FOREST DISTRICT COUNCIL**ANNUAL REPORT FROM THE SECTION 151 OFFICER – 2010/2011****Internal Control Environment**

The Council's Financial Procedure Rules (Financial Regulations) No. 1.3 state that it is the responsibility of Chief Officers (members of the Council's Corporate Management Team) to ensure that adequate internal controls are in place in their areas of responsibility. These internal controls include those to prevent and detect fraud.

The work of the Internal Audit Section relating to the financial year ended 31st March 2011 has been undertaken in accordance with the approved Audit plan 2010/2011. The work undertaken has met the requirements of the Council's External Auditors. This work has been undertaken in accordance with the CIPFA Code of Practice for Internal Audit in Local Government in the United Kingdom 2006.

The results of this work have been reported to the Audit Committee in quarterly reports on the 27th September 2010; 17th January 2011, 14th March 2011; and 29th June 2011. These reports include a summary of the work done in each quarter.

The internal control weaknesses identified from final and draft reports relating to the 2010/2011 financial year have been considered in the preparation of this annual report.

A comparison of the work actually undertaken with the work that was planned by audit type is as follows:

Year ended 31st March 2011

	Plan Days	Actual Days	Actual as % of Plan %
System and Probity	395	468.25	118.54%
Computer Audit	40	12.50	31.25%
Bought in Computer Audit	50	50.00	100.00%
Contract Audit	40	15.50	38.75%
Consultancy and Advice	40	39.00	97.50%
Irregularity	40	15.00	37.50%
Specific Service Duties	15	16.25	108.33%
SUB TOTAL	620	616.50	99.44%

From the work undertaken by internal audit for the 2010/2011 financial year overall the adequacy and effectiveness of the Council's internal control environment is considered to be:

Satisfactory

The conclusion on each Internal Audit review is based on the weaknesses identified together with the recommendations made to improve the operation of the internal controls of the system under review. Of the recommendations arising from the reports issued in

2010/11 and subject to a 3 month follow up review, overall 93% of the recommendations had been implemented with immediate effect.

It is drawn to the Audit Committee's attention that the following reports also provide information on the Council's internal control environment:

- The Council adopted the CIPFA/SOLACE Corporate Governance Framework in March 2008. Subsequently the implementation has been subject to reviews the latest of which was considered by the Audit Committee on 14th March 2011, where it was identified that the implementation was substantially complete.
- The findings and recommendations of the External Audit's Annual Audit Letter reported to the Audit Committee 17th January 2011. Their main findings include:
 - The Council needs to reflect the risks which surround its capital programme in its risk register and consider its response. Along with comments surrounding the current Risk Management arrangements;
 - Members should ensure that they continue to be kept up to date on the position on these Icelandic investments in particular and understand the assumptions made for their return in the financial strategy.
 - Members should be briefed at each audit committee about the progress towards implementation of IFRS and be assured that enough resources are being dedicated to the issue.
 - Members should ensure that the recommendations in the VFM conclusion report are considered and addressed.

Review of the effectiveness of the system of internal audit

Work has been undertaken in accordance with the approved Internal Audit plan for 2010/2011 and 99.4 % of this plan has been completed by June 2011. Internal Audit reports have been reported to members of the Council's Corporate Management Team and the Audit Committee.

The approved Audit Plan is a statement of intent and has been subject to monitoring throughout the year. Those audits considered to be of highest priority for example relating to Key Financial Systems have been completed and reported upon.

The work of the Internal Audit section is undertaken in accordance with the CIPFA Code of Practice and procedures are continually reviewed and refined in order to ensure compliance.

The External Auditors review the files and reports of the Internal Audit Team. An assessment is made by the External Auditors as to the extent that **reliance** can be placed on the work of Internal Audit each year as part of their audit of the Council's annual financial statements. For 2010/2011 it is assumed that the External Auditors have again been able to place full reliance on the internal audit work to support their conclusions.

In accordance with guidance on the requirements of the Accounts and Audit (England) Regulations 2011 on the review of the effectiveness of Internal Audit a survey of Employees as users of the Internal Audit Service has been undertaken. This survey was

undertaken in March 2011. The questionnaire was distributed to all employees. A total of 48 responses were received which included Employees whose Service Area had been subjected to an audit review during 2010/11. Feedback is also obtained at the conclusion of each audit review from the recipients of the internal audit service.

Overall the responses have been found to be constructive and the views will contribute to help continually improve the Internal Audit Service. An area for continuing improvement from the Annual Survey was noted in relation to the planning and timing of audit reviews to accommodate Service Division workloads throughout the year.

As in previous years, the survey highlighted that the Internal Audit Team is continuing to work well with their customers, being approachable and able to support employees with **74%** rating the provision of advice and assistance when required during 2010/11 as "Good".

Following the survey last year Customers did request more written feed back during the audit reviews. In order to meet our Customers needs action plans have been introduced as part of the audit process. The aim of these plans is to advise Managers of any matters arising during the review in order that they can be addressed promptly and remedial action taken. These have proved successful and Managers have been able to put any recommended controls in place.

In addition, 76% of those who responded considered that the overall assessment of the Internal Audit Service as good, **7%** as overall satisfactory and 10 % as overall adequate.

With 66% considering that the contribution of the Audit Team in assisting the Council to achieve it's objectives as Good.

The matters reported here indicate that my report given in Appendix 1 may be relied upon as a key source of evidence in the annual review of internal control.

David Buckland
Section 151 Officer

WYRE FOREST DISTRICT COUNCIL

AUDIT COMMITTEE
MONDAY 29th JUNE 2011

ANNUAL GOVERNANCE STATEMENT

SUSTAINABLE COMMUNITY STRATEGY THEME	Stronger Communities
CORPORATE PLAN PRIORITY	Delivering Together with Less
CABINET MEMBER	Councillor Nathan Desmond
DIRECTOR	Director of Resources Ext 2100 david.buckland@wyreforstdc.gov.uk
CONTACT OFFICERS:	Director of Resources Ext 2100 david.buckland@wyreforstdc.gov.uk
APPENDIX	Appendix 1 Annual Governance Statement 2010/11

1. PURPOSE OF REPORT

- 1.1 This report is to approve the Annual Governance Statement declaring the degree to which it meets the Governance Framework for inclusion within the Statement of Accounts.

2. RECOMMENDATION

- 2.1 The Audit Committee is asked to approve:

The Annual Governance Statement which is attached at Appendix 1.

3. BACKGROUND

- 3.1 On 18th August 2006, the DCLG (Department for Communities and Local Government) issued circular 03/2006 and Section 7 states that proper practice in relation to internal control relates to guidance contained in two documents:
- Statement on Internal Control in Local Government; meeting the requirements of the Accounts and Audit Regulations 2003, published by CIPFA in 2004
 - Corporate Governance in Local Government; A Keystone for Community Governance (Framework and Guidance Note), produced by CIPFA/SOLACE in 2001 (which has been updated in 2007)
- 3.2 The circular and the new CIPFA/SOLACE governance framework requires an annual governance statement and CIPFA has also confirmed that the annual governance statement will replace the SIC with effect from 2007/8 reporting year (i.e. from 1st April 2007).
- 3.3 The Audit Committee approved the adoption of the CIPFA/SOLACE code at the meeting on the 17 March 2008 and the subsequent reviews on the implementation on 15 March 2010 and 14 March 2011.

- 3.5 In relation to the 2010/11 Annual Governance Statement it is proposed to use existing processes in relation to the review of the control system, collation of information and compilation and monitoring of the Annual Governance Statement.

4. KEY ISSUES

- 4.1 In establishing the draft documents the following pieces of evidence were considered within the current Assurance Framework:
- Internal Audit reports, following the annual report from the Financial Services Manager;
 - External Audit reports;
 - Assurance Statements completed by senior staff;
 - Strategic Risk Register;
 - External Inspection findings including;
 - Other relevant information.
- 4.3 Following consideration by the Corporate Management Team the Annual Governance Statement is now presented to the Audit Committee for approval, prior to the signing by the Chief Executive and the Leader of the Council.
- 4.4 The draft Annual Governance Statement for 2010/11 is shown at Appendix A, this document has been prepared in line with the CIPFA/SOLACE guidance.

5. FINANCIAL IMPLICATIONS

- 5.1 There are no financial implications relating to this report.

6. LEGAL & POLICY IMPLICATIONS

- 6.1 It is a requirement under the Accounts and Audit Regulations 2003 (amended 2006 & 2011) that the Council prepares an Annual Governance Statement.

7. RISK MANAGEMENT

- 7.1 The Governance Framework pulls together all of the Council's information in relation to governance. In doing so the Council has regard for the Corporate Risk Register and approach to Risk Management. It is essential that the Council acts upon the significant governance issues that have been identified within the Annual Governance Statement.

8. CONCLUSION

- 8.1 The Council is required to complete an Annual Governance Statement which is required to:
- ☐ Consider the arrangements required for gathering assurances for the preparation of the annual governance statement
 - ☐ Consider the robustness of the Authority's governance arrangements
 - ☐ Monitor any actions arising from the review of arrangements.
- 8.2 The final statement is submitted to the Audit Committee for approval on 29 June 2011.

9. CONSULTEES

9.1 None.

10. BACKGROUND PAPERS

10.1 CIPFA Finance Advisory Network The Annual Governance Statement Meeting the requirements of the Accounts and Audit Regulations 2003, Incorporating Accounts and Audit (Amendment) (England) Regulations 2006 Rough Guide for Practitioners with effect from 2007/8.

10.2 DCLG Circular 03/2006.

10.3 Delivering Good Governance in Local Government CIPFA/SOLACE.

10.4 Code of Practice for Internal Audit in the UK CIPFA 2006.

Wyre Forest District Council
Annual Governance Statement – 2010/11

Scope of Responsibility

Wyre Forest District Council is responsible for ensuring that its business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively. Wyre Forest District Council also has a duty under the Local Government Act 1999 to make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness.

In discharging this overall responsibility, Wyre Forest District Council is responsible for putting in place proper arrangements for the governance of its affairs, facilitating the effective exercise of its functions, and which includes arrangements for the management of risk.

Wyre Forest District Council has adopted the code of corporate governance, which is consistent with the principles of the CIPFA/SOLACE Framework *Delivering Good Governance in Local Government*, and has implemented this framework during the last year. A copy of the code is on our website at www.wyreforestdc.gov.uk or can be obtained from main reception Duke House, Kidderminster. This statement explains how Wyre Forest District Council has complied with the code and also meets the requirements of the Accounts and Audit Regulations 2011 in relation to the publication of a statement on internal control.

The purpose of the Governance Framework

The governance framework comprises the systems and processes, and culture and values, by which the authority is directed and controlled and its activities through which it accounts to, engages with and leads the community. It enables the authority to monitor the achievement of its strategic objectives and to consider whether those objectives have led to the delivery of appropriate, cost-effective services.

The system of internal control is a significant part of that framework and is designed to manage risk to a reasonable level. It cannot eliminate all risk of failure to achieve policies, aims and objectives and can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of Wyre Forest District Council's policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them effectively, efficiently and economically.

The governance framework has been in place at Wyre Forest District Council for the year ended 31 March 2011 and up to the date of approval of the statement of accounts.

The Governance Framework

This is defined as 'the systems by which local authorities direct and control their functions and relate to their communities'.

The key elements of the Council's systems and processes that comprise the authority's governance arrangements are as follows. These arrangements have been implemented to provide a robust framework to deliver good governance. A review was undertaken based

upon the six core principles of governance approved by the Audit Committee on 14 March 2011, which are:

1. Focussing on the purpose of the authority and on outcomes for the community and creating and implementing a vision for the local area.
2. Members and officers working together to achieve a common purpose with clearly defined functions and roles.
3. Promoting values for the authority and demonstrating the values of good governance through upholding high standards of conduct and behaviour.
4. Taking informed and transparent decisions which are subject to effective scrutiny and managing risk
5. Developing the capacity and capability of members and officers to be effective
6. Engaging with local people and other stakeholders to ensure robust public accountability

Delivery

The Council delivers these outcomes through:

- Annually reviewing local procedures and practices, which together create the framework for good corporate governance as described in the CIPFA/SOLACE Framework Corporate Governance in Local Government: A Keystone for Community Governance.
- Nominating a lead officer for each of the six main themes that will be responsible for assessing the Council's effectiveness in practice.
- Producing an Assurance Statement on the extent to which the local code has been adhered to and the actions required where, adherence has not been achieved.

Review of Effectiveness

Wyre Forest District Council has responsibility for conducting, at least annually, a review of the effectiveness of its governance framework including the system of internal control. The review of the effectiveness of the system of internal control is informed by the work of the Management Team within the authority, which has responsibility for the development and maintenance of the governance environment, the section 151 Officer's annual report, and also by comments made by the external auditors and other review agencies and inspectorates.

The Council process for maintaining and reviewing the effectiveness of the governance framework includes:

- Findings and recommendations of Internal Audit;
- Updates by the managers within the authority who have responsibility for the development and maintenance of the internal control environment;
- Findings and recommendations by the external auditors and other review agencies and inspectorates.

A review undertaken for the 2010/11 statement was carried out by the Corporate Management Team on 2nd June 2011. This review took into account:

- the Annual report from the s151 Officer – 2010/11 reported to the Corporate Management Team on the 2nd June 2011 and considered by the Audit Committee on 29th June 2011;
- comments of other review agencies, inspectorates and external bodies;
- the findings and recommendations of the External Audit's Annual Audit & Inspection Letter reported to the Audit Committee on 14th March 2011;

All Councillors and Officers of the Council adhere to the Constitution and codes of conduct. The duty to ensure compliance is predominantly the responsibility of the Council's three statutory officers:

- Head of the Paid Service (Chief Executive)
- Monitoring Officer (Director of Legal and Corporate Services)
- Chief Financial Officer (Director of Resources)

The constitution is under constant review, to ensure that it remains fit for purpose.

The Audit Committee is the member forum that is responsible for reviewing and monitoring Corporate Governance in relation to Risk and Audit matters.

The Council's Director of Resources has the overall responsibility to ensure that the internal control environment is effective and adhered to. This is delivered through the Internal Audit service. Internal Audit undertake regular reviews of all of the Council's systems and produce reports containing recommendations for improvement wherever necessary, in line with their 3-year audit plan (2009-11). The Council's Internal Audit operates using the CIPFA Code of Practice Standards 2006.

External audit reports are reviewed and considered by the Audit Committee and the Council's Management Team. In addition to this, the Council is also subject to formal review by other inspectorates, these reviews are considered by the Council's Cabinet.

The authority has been advised on the implications of the result of the review of the effectiveness of the governance framework by the Audit Committee, and a plan to address weaknesses and ensure continuous improvement of systems is shown below.

Significant Governance Issues

The main issues, which are being or need to be addressed during the coming year, include:

- Completion of the New Headquarters project to ensure that the Council achieves Value for Money in its accommodation requirements;
- Continued priority to be given to the on-going recovery of the Council's "Icelandic" investments;
- Full implementation of the review of the Council's Corporate Risk Register;
 - Implementation of the Wyre Forest Forward programme and associated Transformation projects.

We propose over the coming year to take steps to address the above matters to further enhance our governance arrangements. We are satisfied that these steps will address the need for improvements that were identified in our review of effectiveness and will monitor their implementation and operation as part of our annual review

Signed: Leader & Chief Executive

WYRE FOREST DISTRICT COUNCIL

AUDIT COMMITTEE
MEETING ON 29TH JUNE 2011

REPORT ON FINAL ACCOUNTS 2010/11

SUSTAINABLE COMMUNITY STRATEGY THEME:	Stronger Communities
CORPORATE PLAN PRIORITY:	Delivering Together with Less
CABINET MEMBER:	Cllr. Nathan Desmond
DIRECTOR:	Director of Resources
CONTACT OFFICER:	David Buckland Ext. 2100
APPENDIX 1	Statement of Accounts 2010/11 - Overview
APPENDIX 2	Appendix setting out an Explanation of Major Variations on Revised 2010/11 Budgets

1. PURPOSE OF REPORT

- 1.1 To consider a pre-audit copy of the Council's Statement of Accounts for the financial year 2010/11.

2. RECOMMENDATION

The Audit Committee is asked to **DECIDE** that:-

- 2.1 The pre-audit Statement of Accounts approved by the Director of Resources be endorsed by the Audit Committee.
- 2.2 The additional reserves of £412,400 generated from the 2010/11 surplus will be reconsidered in accordance with the Council's Finance Strategy, as part of the 2012/15 Budget Process.

3. BACKGROUND

- 3.1 The Accounts and Audit Regulations 2011 have been incorporated into the Council's Financial Regulations. These regulations require that the Council's Statement of Accounts be produced and approved by the Director of Resources on or before 30 June, 2011. This is a change to previous regulations where the Audit Committee had the responsibility and this recognises the increased burden upon local authorities as a result of implementing the International Financial Reporting Standards which are fully adopted for the first time this year. The Audit Committee are therefore requested to endorse the Statement approved by the Director of Resources at this stage. A full copy of the draft Statement of Accounts will be made available on the Council's intranet for Member's perusal.
- 3.2 The Cabinet received the provisional outturn position in relation the Final Accounts for 2010/11 on the 21 June 2011. Additional contributions were approved by Cabinet - £100,000 for the Transformation Reserve and £25,000 for an earmarked reserve in relation to the Diamond Jubilee and Olympics in 2012. They also endorsed that the

additional reserves generated from the 2010/11 surplus will be reconsidered in accordance with the Council's Finance Strategy as part of the 2012/15 Budget Process.

- 3.3 The Statement is then subject to audit and the Council's external auditor, the Audit Commission has until 30 September, 2011 to complete the audit; after which the Audit Committee will be asked to consider and approve the Statement, following which it will be published.
- 3.4 Should it be necessary for the Audit Commission to agree minor technical changes with the Director of Resources while the accounts are subject to audit, these will be made under delegated powers and the Statement will then be published. All Members of the Council will be provided with a published copy of the Statement.
- 3.5 Members may wish to note that the Council's Accounts will be made available for public inspection as required by the Accounts and Audit Regulations 2011, between 3 August 2011 and 31 August 2011. The Audit Commission will be available on the 1 September 2011, at the Resources Directorate, Duke House, if any local government elector for the area has any questions on the accounts that they wish to raise with them.
- 3.6 Appendix 1 - gives a brief explanation of the key components of the Statement of Accounts.
- 3.7 The provision revenue outturn position has identified savings of £412,400 (subject to audit) compared to the revised budget. Appendix 2 summarises major variations from the Revised Budget for Members information.

4. KEY ISSUES

- 4.1 These remain challenging times for the Council as we come to grips with an environment where funds will be reducing. The Financial Strategy 2011/14 approved by Council in February, provides a stable financial platform to move forward with. For the coming year, Council approved a freeze in Council Tax which released an additional grant from government, however, in each of the following two years annual increases of 2.5% have been assumed, along with a 40% reduction in Government Grant.
- 4.2 The Council has made further significant progress in relation to the recovery of the Icelandic investments and as at 31 March 2011, just over £3m of the £9m had been repaid to the Council, with further dividends received from the Heritable of £62,500 on the 19 April 2011 and from Kaupthing Singer and Friedlander (KSF) of £250,000 on 27 May 2011 that are post balance sheet events in the Statement of Accounts 2010/11. Further dividend payments are expected during 2011/12.
- 4.3 In addition, an update to the guidance for accounting for potential losses (impairment) from the Icelandic investments (update to LAAP Bulletin 82) was issued on the 17 May 2011. This statutory guidance results in a reversal of the potential principal loss (impairment) in relation to the KSF investment of £550,000. This adjustment for the impairment allows the capital financing revenue reserve (which had previously been utilised for severance costs in 2008/09) to be reinstated.

- 4.4 The Council has been successful in defending its "priority status" with Landsbanki as announced in mid April by the Icelandic Court. This is excellent news as the "priority status" means the Council would receive the vast majority of the investment during the winding up of the bank.
- 4.5 However, an appeal against this decision has been made to the Icelandic Supreme Court and the result of this, although not yet known, will probably come through in September. This is the final challenge the Council can face on our status and we continue to work with the Local Government Association along with other public bodies in the UK and the Netherlands to defend our position. We remain confident we will retain this status, although if lost it could have a material impact upon the likely settlements. It would have the impact of reducing the current forecast for return 95% to around 38%, of this £3m investment. Further updates will be provided as soon as they become available, for information, the accounts for 2010/11 have been prepared on the basis that this status is retained.
- 4.6 Included within Appendix 2 is the identification of the significant variances against the revised budget for 2010/11. These variances include:
- General Administration savings of £175k
These relate to various accounts across the whole of the Council which are then reallocated to front line services. It is clear that reductions have been made in expenditure across the authority as spending decisions are scrutinised more carefully in light of the current economic position.
 - Benefit Payments, positive variance of £75k
The Council has been successful in the recovery of more overpayments than had been expected. The total benefit payments budget is around £38m, an under spend of £75k equates to 0.2% of the total budget.
 - Property-related savings in building maintenance, energy of £100k
The Council manages the energy position extremely carefully and has achieved significant savings in the last year.
 - Savings in relation to the Elections function of £91k
The Council has been able to recover more election expenses than had been anticipated resulting in a significant savings for the section. These savings relate to both 2010/11 and 2009/10.
 - Additional costs of an increase in the Bad Debt Provision of £50k
Due in the main to greater difficulty in collecting debts to the Council the value of the bad debt provision has had to be increased. These charges relate across the whole of the Council, however, would mainly relate to the recovery of property rents and trade waste income.
 - Additional Development Control income received of £48k received in the final quarter of the financial year.
At the end of quarter 3 it was expected that there would be an under recovery of fees in 2010/11, however, due in the main to two large applications being received in February this budget will now be exceeded.
 - Additional costs relating to vehicles of £56k most of which relates to increased costs of fuel
The increased cost of diesel has resulted in an increased cost, most significantly in relation to waste management and street scene sections.

➤ **Reduced Trade Waste Income of £47k**

Although income has reduced, this activity still contributes towards the overall cost of the Council. There has been significant competition in this area from another local company.

➤ **One-off Implementation Costs £111k**

Budgetary allowance of £700k has been allowed within the 2011/12 budget to meet the one-off implementation costs of the Cabinet proposal. Certain decisions relating to the implementation were made before 31 March and therefore a provision needs to be included in the 2010/11 accounts.

➤ **Additional approvals of £124,500**

During 2010/11 additional expenditure of £124,500 was approved by the Cabinet, these are shown within the major variations. Where expenditure has not been fully incurred earmarked reserves have been created. These areas include Leisure Facilities Review - £35k, Kidderminster Town Centre Enhancement - £21k and funding for the implementation of the Payroll Business Case - £68.5k.

➤ **Additional approvals of £125,000**

Cabinet on the 21st June approved additional approvals of £100,000 for the Transformation Fund and £25,000 for the Diamond Jubilee and Olympics in 2012.

- 4.7 It is clear that the future financial position for the Council will continue to be challenging with the new government coming to terms with the record budget deficit. The reduced level of funding for the Council in the future will be mitigated by a raft of transformational reviews led by the Wyre Forest Forward programme.
- 4.8 The draft position for 2010/11 demonstrates that through prudent financial management additional resources of £412,400 will be made available to the Council's reserves. In addition to the under spend along with the reinstatement of the revenue financing reserve (para 4.3), a further contribution of £286k has been made to earmarked reserves.
- 4.9 As part of the final accounts 2009/10 an earmarked reserve of £100,000 was established of a Transformation Reserve to provide capacity to the officers of the Council in implementing the ambitious change programme. This has been extremely successful in delivering upon the change programme, and a further contribution was approved of £100,000 by Cabinet on 21 June from the 2010/11 under spend.
- 4.10 In addition to ensure that the Council can contribute towards the celebrations in the Wyre Forest next year to mark the Diamond Jubilee and the 2012 Olympics, an earmarked reserve of £25,000 was also approved by Cabinet on 21 June.

5. FINANCIAL IMPLICATIONS

- 5.1 The positive variance of £412,400, compared to the revised budget, will be reconsidered in accordance with the Council's Finance Strategy, as part of the 2012/15 Budget Process. This is greater than reported at Quarter 3 budget monitoring, however, a number events in the last quarter coupled with year end transactions has led to the increase in the savings.

6. LEGAL AND POLICY IMPLICATIONS

6.1 None.

7. RISK MANAGEMENT

- 7.1 The principal risk to the Council is non-achievement of the Accounts and Audit Regulations 2011 deadline, in respect of production and approval of the Statement of Accounts before 30 June 2011, and qualification of the Accounts by the Council's External Auditors.
- 7.2 Concern remains surrounding the preservation of the "preferred" status in relation to the Landsbanki deposit. Further updates will be provided as soon as they become available.

8. EQUALITY IMPACT ASSESSMENT

- 8.1 This is a financial report and there is no requirement to undertake an Equality Impact Assessment.

9. CONCLUSION

- 9.1 In order to comply with the Accounts and Audit Regulations, the Director of Resources is required to approve the Council's Statement of Accounts before 30 June 2011, Audit Committee will be asked to endorse them at this stage and approve them before the 30 September 2011.

10. CONSULTEES

- 10.1 CMT.

11. BACKGROUND PAPERS

- 11.1 Accounts and Audit Regulations 2011.
- 11.2 Cabinet 21 June 2011
- 11.3 Code of Practice of Local Government Accounting 2010/11

WYRE FOREST DISTRICT COUNCIL

STATEMENT OF ACCOUNTS 2010/11 – OVERVIEW

1. INTRODUCTION

Each year the Council has to produce a set of accounts just like any other organisation. The formal document is the Statement of Accounts (Statement) which sets out the financial aspects of the Council's activities and draws attention to the main characteristics of the Council's financial position. The full Audited Statement will be published on the Council's web-site by the 30th of September 2011. The purpose of this overview document is to provide a summary of key aspects of the more detailed Statement to aid understanding and assist with the scrutiny process.

2. APPROVAL PROCESS

The deadline for approval of the 2010/11 Statement of Accounts is the 30th June, 2011 in accordance with the Accounts and Audit Regulations.

This Council's timetable for approval is as follows:

- : Cabinet – 21st June, 2011 (Major Variations only); and then
- : Director of Resources approval/Audit Committee – 29th June, 2011
- : Audit Committee – 29th September, 2011 (revised version)

The Accounts are audited by the Audit Commission who are the Council's external auditors. Regulations require that the Statement of Accounts is published by the 30th September 2011

3. BASIS OF ACCOUNTS

The Chief Financial Officer the Director of Resources, David Buckland, is responsible for the preparation of the Statement in accordance with the Code of Practice of Local Authority Accounting in the United Kingdom 2010/11. This includes, for the first time, full compliance with the International Financial reporting Standards (IFRS) so the accounts contain a number of restatements to reflect the transition to these new requirements.

The Accounts present a true and fair view of the financial position of Wyre Forest District Council for the year ended 31st March 2011. Up to date and proper accounting records have been maintained in accordance with the accounting policies outlined in the detailed Statement. In addition, the Chief Executive and Leader of the Council are required to confirm the Council's Governance arrangements can be relied upon to produce an accurate Statement of Accounts; again this is contained in the main Statement within the Annual Governance Statement.

4. KEY COMPONENTS

The Council's accounts for the financial year ended 31st March 2011 mainly comprise:-

(a) The Comprehensive Income and Expenditure Statement

This new statement replaces the former Income and Expenditure Account and Statement of Total Recognised Gains and Losses. These cover many of the day to day activities that the Council is involved with, detailing revenue income and expenditure on each of the major activities. It excludes Capital, accounted for separately. Many of the activity descriptions are similar to those in the budget book, but are grouped into Standard Expenditure Analysis Areas for interauthority comparisons. Income from the Council's precept on the Collection Fund is included in these accounts. It represents the gains and losses that contribute to the changes in financial resources and is the accounting position rather than the bottom-line to taxpayers.

(b) The Movement in Reserves Statement

This statement replaces the former Statement of Movement on the General Fund Balance and the note on the movement in reserves. It represents the changes in the Council's financial resources.

(c) The Collection Fund Income and Expenditure Account

This reflects the statutory requirement to maintain a separate Collection Fund. This account records income received from the Council Tax and Business Rates. It also shows the distribution of that income to precepting authorities, including Wyre Forest District Council, Worcestershire County Council, West Mercia Policy Authority, and The Hereford and Worcester Fire and Rescue Authority.

(d) The Balance Sheet

This relates to the Council's year end financial position, covering both Capital and Revenue. It shows the balances and reserves at the Council's disposal, summarised information on the fixed assets held, the current assets employed in its operations and its long term indebtedness.

(e) The Cash Flow Statements

The statements summarise major movements of the Council Funds over the period of the financial year. They are updated reflect the new full IFRS requirements.

5. **FINANCE STRATEGY**

The Council continues to implement the three year Finance Strategy endeavouring to balance service priorities against resources available. The increasing needs of the Community were recognised within the Strategy by setting a target Council Tax increase for the District of 2.5% per annum and by undertaking a Budget Consultation exercise. The Corporate Plan sets out the four aims for 2008 to 2011 as reflected in the Finance Strategy. The Strategy also supports the four corporate priorities for 2009/2010 being more affordable housing, reducing waste to landfill and increasing recycling, district wide regeneration and improving efficiency and value for money.

6. **SUMMARY OF THE COMPREHENSIVE INCOME AND EXPENDITURE ACCOUNT, MOVEMENT IN RESERVES STATEMENT**

2009/10 Net Expenditure/ (Income) £000's	Service Area	2010/11 Net Expenditure/ (Income) £000's
917	Central Services to the Public	1,280
9,512	Cultural, Environmental, Regulatory & Planning Services	10,224
1,605	Highways, and Transport Services	1,177
1,552	Housing Services	1,632
2,886	Corporate and Democratic Core	(2,845)
16,472	Net Cost of Services	11,468
445	Parish Precepts	459
(355)	Other Net Operating Income	(184)
(537)	Investment and Right to Buy and other Capital Income	(372)
(598)	Other Accounting Adjustments*	3,983
15,427	Amount to be met by Government Grant/Council Tax	15,354
(6,484)	Funded by: NNDR Re-distribution	(7,044)
(1,497)	Revenue Support Grant	(1,023)
(7,198)	Council Tax	(7,382)
(381)	Area Based Grant	(327)
(133)	Movement in Revenue Fund Balance	(422)

* This takes into account entries required to reflect issues including depreciation, reduction in market value of assets and the position of this Council's Pension Fund

7. OVERALL BUDGET VARIATIONS

Major revenue variations between the revised budget and actual were shown in Appendix 1 to the main report to this Cabinet on the 21st June, 2011. This demonstrates a saving of £412,400 compared to the revised budget; this saving will be reconsidered in accordance with the Council's Finance Strategy, as part of the 2012/2015 Budget Process.

A further analysis of actual compared to the original budget used for 2010/11 is contained in the full Statement.

8. WHAT DO WE OWN (NUMBER OF ASSETS)?

Civic & Administrative Buildings	4
Car Parks	29
Asset under Construction	1
Trading Estates & Enterprise Centres	5
Public Conveniences	14
Leisure Centres (leasehold interest in Bewdley Leisure Centre)	3
Museums	1
Farms	2
Sports, Social Clubs, Fields & Parks	26
Nature Reserves	3
Other Land & Buildings	38
Vehicles	88
Play Equipment /Systems Software/Open Spaces Equipment	Various
Note: The Council also owns a number of assets below the de minimis level of £10,000 which are not shown in these figures	

9. SIMPLIFIED BALANCE SHEET

31/03/10 £000's	What the Council owns and is owed	31/03/11 £000's
	What we own:	
46,807	Buildings, Land, Vehicles and Equipment	48,121
106	Inventories	86
13,251	Cash Invested	17,274
6,570	Money owed to the Council	2,499
	What we owe:	
(4,548)	Money owed by the Council	(5,759)
(49,170)	Pension Fund Liability	(38,529)
13,016	Total Value of what we own	23,692
	Financing:	
	Usable Reserves	
11,887	Capital Expenditure Reserve	10,104
1,963	Earmarked Reserves	2,688

2,991	General Reserves	3,418
810	Capital Grants Unapplied	885
	Unusable Reserves	
45,143	Capital Financing Reserves	45,183
(49,170)	Pensions Reserve	(38,529)
(436)	Financial Instruments Adjustment Account	-
(172)	Short-term Accumulated Absences Account	(57)
13,016		23,692

Notes:
General Reserves include a Collection Fund revenue balance of £20,000 in 2010/11, £15,000 in 2009/10. The Collection Fund is 'ring fenced' and is not available for General Fund purposes.

10. WHAT ARE OUR RESERVES?

31/03/10 £000's	General Fund Reserves:	31/03/11 £000's
2,843	At beginning of the year	2,976
133	Movement in Revenue Fund Balance	422
2,976	Balance at the end of the year	3,398

The Council has a duty in law to keep an appropriate (prudent) level of General Reserves. It is our policy to keep a minimum working balance of £700,000. The approved budget has agreed to use £883,730 in our budget for 2011/12, to use £414,010 for 2012/13 and £684,560 for 2013/14.

	Capital Expenditure Reserve and other Reserves and Capital Contributions set aside for the future:	
	The savings and money set aside for the future are :-	
11,887	Capital Expenditure Reserve	10,104
1,963	Earmarked Reserves	2,688
810	Capital Contributions Unapplied (Grants)	885
14,660	Total Reserves and Provisions	13,677

11. HOW WELL HAVE WE PERFORMED?

Finances:

Borrowing Money - average interest rate: not relevant since the Council is debt free
Investing Money - average interest rate 0.85%

Payment of what we owe:

Prompt Payment – we paid 97.02% of all invoices within 30 days

Collection of what is owed to us:

Council Tax - we collected 97.58%

Performance against national and local measures:

Each year we show the results of how we performed against a range of national and local performance measures (performance indicators).

We used the National Indicator set (NI's) which were introduced in 1st April 2008 to measure our performance. As some NIs are not collected by financial year, some comparative information is not yet available, in addition, a number of NI have been deleted during 2010/11.

In addition to the statutory set of National Indicators, the Council also collects a number of locally set performance indicators. Local indicators monitor services not included in the NI set and are set by each Directorate to measure and monitor the performance of their services.

Performance to date for 2010/11:

- 47% improved
- 38% worsened
- 15% remained the same

It was announced by Government in October 2010 that statutory reporting of National Indicators would be discontinued; however the Council will continue to collect a reduced set of PIs to monitor our own performance.

12. SUMMARY

This Overview gives a summary of the Statement of Accounts, which is a snapshot of this Council's finances as at 31st March 2011, showing:-

- How we raised income during the year
- How we spent money during the year
- How we performed against our budget
- How we performed in looking after the money
- How much money we have at 31st March 2011 (reserves)
- How the money is invested at 31st March 2011 (buildings, equipment and cash)

13. FINANCIAL TERMS EXPLAINED

We have tried to avoid using too many financial terms in this Overview, but here are a few of them explained for you:-

Assets: Buildings, land, vehicles and money in the bank.

Borrowing: Money we have borrowed to pay for fixed assets and are repaying over a number of years.

Capital Expenditure: Spending on new assets and the refurbishment of old ones like buildings and vehicles.

Capital Expenditure Reserve: Allocated usable capital receipts.

Capital Financing Reserve: Capital accounting reserve “backed” or balanced within balance sheet by fixed assets - not a funding resource available to spend.

Creditors: Those to whom we owe money.

Debtors: People or organisations who owe us money.

Depreciation: Some assets lose their value as they get older; this is called depreciation.

Earmarked Reserves: Savings or money set aside for the future for a specific purpose.

Fixed Assets: Things that will last more than one year.

International Financial Reporting Standards (IFRS): new international framework to ensure common approach to the production of Statement of Accounts across the world.

Inventories: Things we have bought but have not yet used.

Reserves: Savings or money set aside for the future.

Revenue Expenditure: Spending (and income) on day to day running costs, for example, employees. day to day running expenses including items like premises costs and supplies and services.

14. DIRECTOR OF RESOURCES ENDORSEMENT

The purpose of this overview is to help with the overall understanding of the Council finances and accounts. This is an on-going process if you have any comments in relation to how we can improve this understanding please let me know.

The Council continues with its strong financial performance and due to decisions to reduce expenditure in previous years is in a relatively healthy position in meeting the challenges of reduced government funding. During 2010/11 the Council has been able to make a contribution to reserves; however, over the next four years the Council is expecting government support to reduce by around 40%. These valuable reserves will enable the Council to make the necessary adjustments to spending in a planned manner rather than having to make knee-jerk decisions.

To ensure that the Council is ready to meet future challenges, a number of initiatives are currently being undertaken including Wyre Forest Forward and the Corporate Plan significant service review and transformation work, Shared Services and the move to the new Head Quarters.

In addition to the transformation programme and service reviews mentioned above the Council has also been seeking the recovery of the deposits with "Icelandic Banks". The Council had £9m invested in these banks and have been working over the last two and half years to secure their recovery. Full details are provided within the Financial Instruments section of these statements, however, as at 31st March over £3m had been recovered and the Council is confident that overall returns will be close to 85%.

The Council's position was boosted in April when we were successful in a case in the Icelandic Courts which confirmed the Council's "priority" status. This ruling results in significantly higher returns for the Council; although this decision has been appealed we remain confident that we will be successful.

As highlighted above, these remain challenging times for the Council as we come to grips with an environment where funds will be reducing. The Financial Strategy 2011/14 approved by Council in February provides a stable financial platform to move forward with. For the coming year, Council approved a freeze in Council Tax which released an additional grant from government, however, in each of the following two years annual increases of 2.5% have been assumed, along with a 40% reduction in Government Grant.

If you have any questions or would like further explanation of our financial position, please contact either myself, or a member of the Accountancy team.

A full copy of the Statement of Accounts will be published on the Council's website by the 30th of September 2011.

**MAJOR VARIATIONS BETWEEN REVISED BUDGET
AND ACTUAL NET EXPENDITURE FOR 2010/11**

APPENDIX 2

Total Revised Budget 2010/11	15,307,830
Actual Net Expenditure	14,895,430

SAVINGS COMPARED TO 2010/11 REVISED BUDGET

(412,400)

<u>Description of Major Variances</u>	<u>Extra Costs/ Reduced Income £</u>	<u>Savings/ Additional Income £</u>
<u>Community & Partnership Services</u>		
1. Leisure Centre Plant Replacement saving of £50k and Grounds Maintenance saving of £18k		(68,000)
2. Leisure Centre Management Fee - higher RPI than forecast in Budget	21,000	
3. Grounds Maintenance - Parks and Open Spaces due to changing work profiles on basis of service needs - negated by savings in other service areas	55,000	
4. Grounds Maintenance - Highways Maintenance of Verges saving		(33,000)
5. Other Sports Facilities Reduced costs of repairs and Maintenance		(33,000)
6. Cemetery - Additional reduced expenditure on repairs		(15,000)
7. Cemetery - Additional Income from forward selling of plots		(17,000)
8. Civil Contingencies Saving		(10,420)
9. Corporate Communications Saving and Equality and Diversity		(14,500)
10. Additional Approval for Leisure Future Reserve	35,000	
11. Community Safety reduction on reserve for unmetered Electricity re CCTV		(10,000)
<u>Legal and Corporate Services</u>		
1. Elections - Savings due to recovery of expenses over and above that anticipated		(91,000)
2. Land Charge Reduced Income	16,200	
3. Saving on Administrative Buildings the majority of which relates to Energy		(100,000)
4. Industrial Estates and Other Property net saving on Repairs and Maintenance		(60,000)
<u>Planning & Regulatory Services</u>		
1. Development Control - additional Income received in the final quarter of the financial year		(48,000)
2. Homelessness is a volatile budget which is continually monitored. The under spend is as a result of a number of cost cutting efficiencies including moving people out of Bed and Breakfast accommodation more quickly		(18,000)
3. Public Conveniences - Reduced Expenditure for repairs and maintenance and other savings on auto conveniences		(39,000)
4. Car Parking - Reduced Income of £74K partially offset by savings in expenditure	35,000	
5. Car Parks NNDR Refund - NNDR Refunds were budgeted for globally as target figure in Other Property. Target for 2010/11 of £89,600 substantially achieved; Car Parks Refund of £65k part of £100k budget in Other Property in 2011/12 (so achieved early)		(65,000)
6. Street Furniture and Naming saving		(13,000)
7. Highways General Cleansing Additional Vehicle Costs (fuel and repairs)	47,000	
8. Additional Approval for KTC Enhancement Project	21,000	
<u>Resources</u>		
1. Waste disposal saving on bin purchase and tipping charges		(22,700)
2. Waste - additional vehicle running costs including increased costs for diesel fuel	9,000	
3. Trade Waste income reduction	43,000	
4. Benefits Admin (excluding pay)		(46,000)
5. Benefit Payments - over and above £150k credit in budget		(75,000)
6. Saving on external trainers		(10,660)
7. Additional Approval for Payroll Business Case	68,500	
<u>Capital Account</u>		
1. Direct Revenue Funding saving		(9,300)
2. Additional External Interest achieved		(34,570)
3. MRP - increased cost re rephasing of Capital Expenditure	21,190	
<u>Corporate Variations</u>		
1. General Administration Savings		(175,000)
2. Increase in Bad Debt Provision	50,000	
3. One-off implementation costs (provision budget 2011/12)	111,000	
4. Additional Contribution to Transformation Reserve	100,000	
5. Diamond Jubilee and Olympics Earmarked Reserve Creation	25,000	
6. Miscellaneous Variations		(62,140)
	657,890	(1,070,290)
REDUCED NET EXPENDITURE ON YEAR 2010/11		£ (412,400)

List of Commonly Used Acronyms

Acronym	Description/Definition
ABG	Area Based Grant – a general grant from central government allocated directly to Local Authorities as additional revenue funding to areas. It is allocated according to specific policy criteria rather than general formulae.
AGS	Annual Governance Statement – this forms part of the Statement of Accounts and provides an overview of the Governance arrangements within the Council, along with any potential weaknesses.
BVACOP	Best Value Accounting Code of Practice – this Code issued by CIPFA identifies standard definitions of services and total cost for consistency of data for Government returns, and comparisons with other local authorities.
CAA	Comprehensive Area Assessment – now formally abolished by government but was the performance framework for Local Government.
CDC	Corporate and Democratic Core – central account which identifies the corporate costs of the authority, including Members and the democratic process.
CFR	Capital Financing Requirement – measures the authority's underlying need to borrow, or finance by other long-term liabilities, its capital expenditure.
CI&E	Comprehensive Income and Expenditure Statement – This new statement shows the accounting cost in the year of providing services in accordance with generally accepted accounting practice rather than the amount to be funded from taxation. It replaces the former Income and Expenditure Account and Statement of Total Recognised Gains and Losses.
CIPFA	Chartered Institute of Public Finance and Accountancy – the institute that sets the accounting rules and guidance for Local Government.
CLG	Department for Communities and Local Government – central government department which has the responsibility for Local Government.
DRC	Depreciated Replacement cost – valuation method used within the Statement of Accounts relating to the Replacement Cost less any accrued depreciation.
DWP	Department for Works and Pensions – largest central government department which amongst its responsibilities are Benefits payments.
HMRC	Her Majesty's Revenue and Customs – central government organisation responsible for the administration and collection of national taxes including VAT.
FIAA	Financial Instruments Adjustment Account – this is a balance sheet account which is the balancing account to hold the differences between statutory requirements and proper accounting practices for borrowings and investments

FARA	Fixed Asset Restatement Account – this was the balance sheet account which contained the surplus arising from the revaluation of fixed assets, now called the Revaluation Reserve.
HRA	Housing Revenue Account – is a separate landlord account that any council with more than 50 council dwellings must keep.
IAS	International Accounting Standard – these provide detailed guidance on the application of IFRS.
IFRS	International Financial Reporting Standards – new international framework to ensure common approach to the production of Statement of Accounts across the world.
LAA	Local Area Agreement – set out the properties for a local area agreed between central government and a local area (the local authority and Local Strategic partnership) and other key partners at the local level.
LAAP	Local Authority Accounting Panel – issues LAAP Bulletins to local authority practitioners. These Bulletins provide guidance on topical issues and accounting developments and when appropriate provide clarification on the detailed accounting requirements.
LASAAC	Local Authority (Scotland) Accounts Advisory Committee – operates in the same way as CIPFA within England, and often works in partnership with CIPFA on accounting guidance through a Joint Committee.
LGA	Local Government Association – the body that represents Local Government nationally, this body has a key lobbying role with central government.
MIRS	Movement in Resources Statement – this statement replaces the former Statement of Movement on the General Fund Balance and the note on the movement in reserves. It represents the changes in the Council's financial resources.
MRP	Minimum Revenue Provision –this represents the minimum which authorities must repay on their debts each year.
NDR or NNDR	National Non Domestic Rates – sometimes called business rates – these are collected by Local Authorities and are the way that those who occupy non-domestic property contribute towards the cost of local services.
NAO	National Audit Office – The National Audit Office (NAO) scrutinises public spending on behalf of Parliament. The NAO does not yet audit local government spending, this is the responsibility of the Audit Commission.
OMV	Open Market Value – valuation method within the accounts which relates directly to the current valuation of the asset.
PFI	Private Finance Initiative – is a way of creating “public-private partnerships” (PPPs) by funding public infrastructure projects with private capital

POP	Purchase Order Processing – the new method by which goods and services are electronically ordered at the Council.
PPE	Property Plant and Equipment – new IFRS terminology for fixed assets.
PPP	Public-private Partnership – describes a government service or private business venture which is funded and operated through a partnership of government and one or more private sector companies.
PWLB	Public works Loan Board – this is a central government body which makes loans to local government and other prescribed public bodies from the National Loans Fund.
RICS	Royal Institute of Chartered Surveyors – is an independent, representative professional body which regulates property professionals and surveyors in the United Kingdom and other sovereign nations.
S151	Section 151 – this refers to Section 151 of the Local Government Act 1972 where it states that every local authority shall make arrangements for the proper administration of their financial affairs and shall secure that one of their officers has responsibility for the administration of those affairs.
SOLACE	Society of Local Authority Chief Executives – organisation that represents Chief Executives within Local Government.
SSAP	Statement of Standard Accounting Practice – accounting standards issued by the Accounting Standards Committee. SSAPs have now generally been replaced by Financial Reporting Standards.
STC4	Stourport Town Centre 4 – Bridge Street area of Stourport which is in the process of being enhanced.
TUPE	Transfer of Undertakings (Protection of Employment) Regulations – protects employees' terms and conditions of employment when a business is transferred from one owner to another.
UKGAAP	Generally Accepted Accounting Practice in the UK or UK GAAP – are the overall body of regulation establishing how company accounts must be prepared in the United Kingdom. This includes not only accounting standards but also UK company law. IFRS supersedes IFRS for local government accounts from 2010/2011.
UoR	Use of Resources – now formally abolished, however, for the last six years this has been used by auditors to assess how well local authorities are managing their finances and other resources.
VFM	Value for Money – this represents a formal review by the auditors on whether the Council is delivering Value for Money to its residents. This opinion forms part of the overall audit certificate.
WETT	Worcester Enhanced Two Tier – a programme whereby all Worcestershire local authorities are working together to investigate shared services and joint working to become more efficient and effective.