

Annual Audit Letter

Redditch Borough council

Audit 2010/11



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Traffic light explanation

Red  Amber  Green 

Key messages

This report summarises the findings from my 2010/11 audit. My audit comprises two elements:

- the audit of your financial statements; and
- my assessment of your arrangements to achieve value for money in your use of resources.

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

Key audit risk	Our findings
Unqualified audit opinion	●
Proper arrangements to secure value for money	●

Audit opinion and financial statements

I issued an unqualified opinion on the financial statements on 30 September 2011.

- There were two material adjustments to the accounts. One resulted from the incorrect accounting treatment of a property lease and the other resulted from an incorrect valuation of council dwellings.
- I identified another non-material error which did not affect my audit opinion and was not adjusted.

Value for money

I gave an unqualified conclusion on your arrangements to secure value for money on 30 September 2011.

- The council has systems and processes in place to manage financial risk.
- The council produces realistic medium term financial plans which are modified as conditions change.
- The council has budget setting and monitoring processes which enable prompt action to be taken to resolve any problems.
- Performance against key operational targets is reasonable.
- The planned savings from shared services are being delivered.

Current and future challenges

Bromsgrove and Redditch are part way through an ambitious programme of developing shared services and business transformation. This is being carried out at a time of significant pressure on finances both because of the economic downturn and because of reductions in government support for local councils.

Redditch BC and Bromsgrove DC began sharing services and a senior management team in August 2008. After a trial period the full shared services began in April 2010. In August 2011 the timetable for completion was brought forward and it is planned that all services will be shared by April 2012. In addition the business transformation project which aims to significantly improve operational efficiency and customer service will run alongside the implementation of the shared services programme. Progress to date has been good but the accelerated timetable will be very challenging for management and staff.

The Council has responded to the pressures on its spending but it will become increasingly difficult to maintain services and make further savings. Following the Government's Comprehensive Spending Review, plans for savings have been substantially increased. In 2010/11 the Council identified and delivered savings of £1.370 million. The budget for 2011/12 includes savings of £1.211 million, of which £577k relates to the shared services.

In January 2011 the council received its two year financial grant settlement from government. This showed that funding for the two years 2011/12 and 2012/13 will be £1.3 million less than was originally estimated. The revised savings targets have been established as £1.8 million in 11/12, with over £3 million required over the next three years. There will need to be increased focus on council objectives and members will have to decide between competing priorities.

Detailed savings plans for 2012/13 are currently being worked on by service managers and will be underpinned by savings as part of the Business Transformation Project. All detailed savings plans need to be in place by the start of the 2012/13 financial year.

Performance reports for 2010/11 show that 49 per cent of performance indicators have improved whilst 44 per cent have deteriorated. Current performance needs to be maintained during the implementation of the Business Transformation Project.

Recommendation

R1 Council members should ensure

- All savings for 2012/13 are identified before the start of the financial year.
 - Council members should keep focussed on performance and ensure it does not deteriorate.
-

Financial statements and annual governance statement

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

Overall conclusion from the audit

I concluded that there were no material errors in the accounts and I issued an unqualified opinion on 30 September 2011. As for many other councils, in this first year of accounting under IFRS there were a large number of numerical and disclosure errors that have been adjusted in the accounts.

Two material errors were also adjusted. These are described below.

- As part of the transfer to accounting under IFRS the Council was required to assess all of its leases to decide whether they would be accounted for as an operational or finance lease. Threadneedle House was originally incorrectly assessed as an operating lease and the value of the property included in investment properties. The lease has now been re-assessed and is now treated as a finance lease. This required an adjustment of £1.836 million to take the value of the property out of investment properties and the creation of a long term debtor which is released to revenue over the life of the lease.
- The Council undertakes a cyclical revaluation of its property assets and in 2010/11 council dwellings were revalued. There is a nationally specified percentage reduction that is applied to the value of social housing to recognise that they are let and this reduction factor was increased for 2010/11. The correct factor was not applied by the valuer the Council engaged to carry out the work which resulted in an overvaluation of Council Dwellings of £91.8 million in the draft accounts.

There was little change to gross expenditure or net assets apart from the two adjustments described above.

There was only one error which management declined to amend. There was a small error in applying the proper rent increases for 2010/11 within the SAFFRON system. Although only a small amount for each tenant it meant that the rent disclosed as income in the Housing revenue account was overstated by £241k for the year. The impact on tenants has been corrected by marginally reducing the rents charged to tenants in 2011/12. However, the overstatement in the financial statements remains. I am satisfied that this does not materially misstate the position.

Significant weaknesses in internal control

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

Value for money

I considered whether the Council is managing and using its money, time and people to deliver value for money. I assessed your performance against the criteria specified by the Audit Commission and have reported the outcome as the value for money (VFM) conclusion.

I assess your arrangements to secure economy, efficiency and effectiveness in your use of resources against two criteria specified by the Audit Commission. My overall conclusion is that the Council has adequate arrangements to secure, economy, efficiency and effectiveness in its use of resources.

My conclusion on each of the two areas is set out below.

Value for money criteria and key messages

Criterion	Key messages
<p>1. Financial resilience</p> <p>The organisation has proper arrangements in place to secure financial resilience.</p> <p>Focus for 2010/11:</p> <p>The organisation has robust systems and processes to manage effectively financial risks and opportunities, and to secure a stable financial position that enables it to continue to operate for the foreseeable future.</p>	<p>The council has systems and processes in place to manage financial risk. The council produces realistic medium term financial plans which are modified as conditions change. The council has maintained the improvement in financial planning, budgeting and monitoring made in recent years.</p> <p>The annual updating of the medium term financial plan identifies budget gaps at an early stage. In 2009 significant future budget gaps were identified and a basket of savings options and delivery timetable was produced for member consideration. Service directorates were tasked with identifying savings. These totalled £1.4 million and were delivered in full in 2010/11 accounting period.</p>

Criterion	Key messages
	<p>Both budget monitoring and budget reporting to Executive Committee are adequate for management to take necessary action on any potential over spends.</p> <p>Reductions in government grants from 2011/12 coupled with unavoidable commitments resulted in further significant budget gaps. Savings plans are in place to address these gaps and are mainly being addressed by staff savings identified in the shared services business planning. A further £0.5 million have been identified by directorates in their base budgets. These savings targets are currently on target to being met</p> <p>There remains a risk that 2012/13 savings will not be achieved. Savings rely on those identified as part of the transformation project which is still at an early stage.</p> <p>There is a robust risk management process so that financial risks are identified, addressed and monitored. Management will need to brief members on risks as they arise.</p>
<p>2. Securing economy efficiency and effectiveness</p> <p>The organisation has proper arrangements for challenging how it secures economy, efficiency and effectiveness.</p> <p>Focus for 2010/11:</p> <p>The organisation is prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity.</p>	<p>Costs have been reviewed and savings identified as part of the shared services programme. Shared service savings are based mainly on savings from pay budgets. Redditch BC has detailed plans and monitoring arrangements in place for the delivery of the shared service agenda.</p> <p>The shared services programme has proceeded according to plan so far. The following services are now shared: payroll, procurement, community safety/CCTV services, electoral services, ICT, corporate policies and communications and leisure services. In addition regulatory services are now part of the Worcestershire wide shared service hosted by Bromsgrove District council. The implementation timetable has now been revised so that all services will be shared by April 2012. There are detailed savings plans in place which are monitored on a regular basis. These overall planned savings of £1.179 million were achieved in 2010/11. Redditch's share of these savings was approximately £629,000.</p> <p>Savings for 2012/13 are being worked on by service managers and are underpinned by the Business Transformation project. It is planned that business efficiency and customer focus will be improved by this project.</p> <p>Operational targets are closely monitored and reported to members on a quarterly basis. Performance reports for 2010/11 show that 49 per cent of performance indicators have improved, 7 per cent have stayed the same and 44 per cent have deteriorated. Current performance needs to be maintained as the transformation project progresses.</p>

Closing remarks

I have discussed and agreed this letter with the Chief Executive and the Executive Director of Finance and Resources. I will present this letter at the Audit and Governance Committee on 23 January 2011 and will provide copies to all board members.

Further detailed findings, conclusions and recommendations in the areas covered by our audit are included in the reports issued to the Council during the year.

Report	Date issued
Audit Plan	May
Annual governance Report	September
Audit opinion	September
Annual Audit Letter	November

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

Elizabeth Cave

District Auditor

30 November 2011

Appendix 1 – Fees

	Actual	Proposed	Variance
Scale fee	134,000	134,000	0
Grant certification	40,000	40,000	0
Total	174,000	174,000	0

Appendix 2 – Glossary

Annual governance statement

Governance is about how local government bodies ensure that they are doing the right things, in the right way, for the right people, in a timely, inclusive, open, honest and accountable manner.

It comprises the systems and processes, cultures and values, by which local government bodies are directed and controlled and through which they account to, engage with and where appropriate, lead their communities.

The annual governance statement is a public report by the Council on the extent to which it complies with its own local governance code, including how it has monitored the effectiveness of its governance arrangements in the year, and on any planned changes in the coming period.

Audit opinion

On completion of the audit of the financial statements, I must give my opinion on the financial statements, including:

- whether they give a true and fair view of the financial position of the audited body and its spending and income for the year in question; and
- whether they have been prepared properly, following the relevant accounting rules.

Opinion

If I agree that the financial statements give a true and fair view, I issue an unqualified opinion. I issue a qualified opinion if:

- I find the statements do not give a true and fair view; or
- I cannot confirm that the statements give a true and fair view.

Value for money conclusion

The auditor's conclusion on whether the audited body has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources based on criteria specified by the Audit Commission.

If I find that the audited body had adequate arrangements, I issue an unqualified conclusion. If I find that it did not, I issue a qualified conclusion.

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