



PUBLIC SECTOR

Annual Audit Letter 2008/09

Sandwell Metropolitan
Borough Council

15 December 2009

AUDIT

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This report is addressed to the Council and has been prepared for the sole use of the Council. We take no responsibility to any member of staff acting in their individual capacities, or to third parties. The Audit Commission has issued a document entitled Statement of Responsibilities of Auditors and Audited Bodies. This summarises where the responsibilities of auditors begin and end and what is expected from the audited body. We draw your attention to this document.

External auditors do not act as a substitute for the audited body's own responsibility for putting in place proper arrangements to ensure that public 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.

If you have any concerns or are dissatisfied with any part of KPMG's work, in the first instance you should contact Michael McDonagh, who is the engagement partner to the Council, telephone 0121 335 2440, email michael.a.mcdonagh@kpmg.co.uk who will try to resolve your complaint. If you are dissatisfied with your response please contact Trevor Rees on 0161 236 4000, email trevor.rees@kpmg.co.uk, who is the national contact partner for all of KPMG's work with the Audit Commission. After this, if you are still dissatisfied with how your complaint has been handled you can access the Audit Commission's complaints procedure. Put your complaint in writing to the Complaints Investigation Officer, Westward House, Lime Kiln Close, Stoke Gifford, Bristol, BS34 8SR or by e mail to: complaints@audit-commission.gov.uk. Their telephone number is 0844 798 3131, textphone (minicom) 020 7630 0421

Executive Summary

Purpose

This Annual Audit Letter (the Letter) summarises the key issues arising from our 2008/09 audit at Sandwell Metropolitan Borough Council (the Council). Although the Letter is addressed to the Members of the Council and its Senior Officers, it is also intended to communicate these issues to key external stakeholders, including members of the public. The Letter will also be published on the Audit Commission website at www.audit-commission.gov.uk. It is the Council's responsibility to publish the letter on its website.

Throughout our audit we have highlighted areas of good performance and also provided recommendations to help you improve performance. A summary of our key recommendations is summarised in Appendix 1. We have reported all the conclusions in this letter to you throughout the year and a list of all reports we have issued is provided in Appendix 3.

Scope of our audit

The statutory responsibilities and powers of appointed auditors are set out in the Audit Commission Act 1998. Our main responsibility is to carry out an audit that meets the requirements of the Audit Commission's *Code of Audit Practice* (the *Code*) which requires us to review and report on your:

- *Use of Resources* - whether you have made proper arrangements for securing economy, efficiency and effectiveness (value for money) in your use of resources. Our work is summarised in section 2; and
- *Accounts* – the Financial Statements and the Annual Governance Statement, summarised in section 3.

Key Messages

The key areas from our 2008/09 audit work which we draw your attention to are:

- Our Use of Resources (UoR) assessment, the first under the Audit Commission's new UoR regime, demonstrated that the Council has sound processes in place and there is some evidence of positive outcomes in all three themes (managing finances, governing the business and managing resources). We have assessed the Council as level 2 (performing adequately) overall, and against two of the three themes. The third scheme, governing the business, was assessed as level 3 (performing well). This is a good achievement in the first year of what is considered to be a harder test. We issued an unqualified value for money conclusion for 2008/09 on 30 September 2009.
- The Audit Commission assesses how well the Council manages and improves its services and contributes to wider community outcomes. The assessment considers how successful the Council is in delivering its corporate priorities. The Council scored level 2 (performing adequately) for managing its performance.
- The UoR and Managing Performance assessments are combined to give an overall organisational assessment judgement for the Council. The Audit Commission has determined that the organisational assessment judgement for Sandwell Metropolitan Borough Council is that it performs adequately.
- We issued an unqualified opinion on the Council's 2008/09 accounts on 30 September 2009. We identified a number of adjustments to the draft accounts which in aggregate we considered material. Officers amended the accounts for these adjustments and we issued our opinion by the statutory deadline for publication of local authority accounts. We noted an improvement in the quality of the working papers provided in support of the accounts but also highlighted areas where the accounts production process can be improved further, such as through the development of a central contracts register.

We have reported more fully on both the Use of Resources assessment and on the accounts audit in our *Report to Those Charged with Governance* issued in September and our *Interim Audit Report* issued in July 2009. Messages from these reports are summarised in this letter.

As part of our wider responsibilities under the Audit Commission's Code of Practice, we undertook a review of the Council's role in respect of "The Public" – an interactive arts complex in West Bromwich. In our view the Council acted in a reasonable manner in their dealing with this project. Notwithstanding this there are a number of important lessons to be learned from this project and with the benefit of hindsight the Council may have taken a different course of action. However given the information and evidence of the key stages of the 15 years of this project, we believe that the Council has acted reasonably. We made a number of recommendations to the Council, many of which are currently being progressed.

Executive Summary (continued)

Fees

Our main fee for the 2008/09 audit of Sandwell Metropolitan Borough Council, which includes our Use of Resources assessment and the audit of the Council's financial statements, was £470,000 in line with the budgeted fee per the Annual Audit & Inspection Plan 2008/09.

We completed additional work, which was not allowed for in our initial plan, including our review of the Council's involvement in The Public. Further details are included in Appendix 3.

Future Issues

- UK public expenditure forecasts indicate that there will be significant pressure on local authorities' funding in the medium term. Future financial settlements will be extremely tight, increasing the need for local authorities to have comprehensive efficiency programmes supported by sound financial management arrangements. It is likely that bold measures will be required to generate sufficient savings to mitigate the impact on priority services. The Council has a good track record in delivering such efficiency and savings targets but will need to remain focused on maintaining sound financial health in light of future uncertainties over resources.
- Those local authorities in the Carbon Reduction Commitment scheme will need to start reporting their usage from 1 April 2010 and recording these transactions within their financial statements with effect from 1 April 2011. There will be implications for cash flow, energy bills, and investment decisions and these could be significant. There are opportunities in addressing sustainability with clear cost reduction benefits from saving energy which will become more significant over time. There are also opportunities to use the sustainability agenda to support the achievement of business challenges.
- Sustainability performance - HM Treasury is developing guidance for 2010/2011 which will require all public sector bodies to report publicly on sustainability performance in annual reports. The Chartered Institute of Public Finance & Accountancy (CIPFA) is in discussion with the Treasury about when and in what form this requirement will be formalised for local authorities. The reported information will be subject to audit and scrutiny. Sustainability reporting will be difficult to implement and many organisations will need to act now to implement new information gathering processes.
- From 2010/11, local government bodies are required to prepare their financial statements under International Financial Reporting Standards (IFRS), which contain a number of significant differences from the current financial reporting regime. The Council has started preparing for this transition, although as with all local authorities there remains much to be done to identify the full impact of IFRS on its accounting arrangements and to make the necessary changes.

Acknowledgement

We would like to take this opportunity to thank officers and members for their continuing help and co-operation throughout our audit work.

Use of resources

Introduction

The main elements of our use of resources work are:

- *Use of Resources* - from 2008/09, the Audit Commission introduced a new Use of Resources (UoR) assessment framework which forms part of the Comprehensive Area Assessment (CAA). This replaced the former assessment which was predominantly focused on processes. The scope of the new regime is wider as it also considers whether public bodies have achieved significant and sustainable outcomes for local people. The UoR assessment comprises three Key Line of Enquiry (KLOE) themes:
 - Managing finances – focusing on sound and strategic financial management;
 - Governing the business – focusing on strategic commissioning and good governance; and
 - Managing resources – focusing on the management of natural resources, assets and people.
- *Value for money conclusion* – we issue a conclusion on whether we are satisfied that the Council has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. This is based on the UoR assessment.

Findings

The findings from this work are summarised below.

Element of work	Key findings								
Use of Resources	<p>Our assessment of Sandwell Metropolitan Borough Council against the three themes resulted in the following scores on a scale of one (inadequate) to four (performing strongly):</p> <table border="1" style="margin-left: auto; margin-right: auto;"> <thead> <tr> <th style="background-color: #003366; color: white;">Theme</th> <th style="background-color: #003366; color: white;">Score</th> </tr> </thead> <tbody> <tr> <td>Managing finances</td> <td style="text-align: center;">2</td> </tr> <tr> <td>Governing the business</td> <td style="text-align: center;">3</td> </tr> <tr> <td>Managing resources</td> <td style="text-align: center;">2</td> </tr> </tbody> </table> <p>The fact that the Council achieved a level 3 score on KLOE 2 – Governing the Business – is a good achievement in the first year of this harder test.</p> <p>In total, the Council has been able to demonstrate sound arrangements and clear outcomes in four out of the nine individual sub-themes that have been assessed this year, these being financial planning, data quality and use of information, governance, and risk management and internal control.</p> <p>The other five sub-themes have been assessed as currently meeting the core requirements overall. Areas for improvement include:</p> <ul style="list-style-type: none"> ● Making better use of benchmarking data and other comparative information on cost and performance; ● Enhancing commissioning and procurement processes; and ● Progressing plans for a more corporate and strategic approach to the management of the Council's property resources. <p>We acknowledge that at the time this report is issued, the Council has already completed work to address these areas. Our findings are reported in greater detail in our <i>Report to Those Charged with Governance 2008/09</i>.</p> <p>Appendix 2 illustrates how the Council's score compares nationally. Approximately half of all Single Tier and County Councils achieved level 2 overall in 2008/09.</p>	Theme	Score	Managing finances	2	Governing the business	3	Managing resources	2
Theme	Score								
Managing finances	2								
Governing the business	3								
Managing resources	2								
Value for money conclusion	<p>We issued an unqualified value for money conclusion for 2008/09 on 30 September 2009.</p> <p>This means that we are satisfied that you put in place proper arrangements for securing economy, efficiency and effectiveness in your use of resources.</p>								

Use of resources (continued)

Managing performance

In addition to our Use of Resources assessment, the Audit Commission assesses how well the Council manages its performance. This assessment considers how successful the Council is in delivering its corporate priorities, improving its services and contributing to wider community outcomes. The Council was assessed as level 2 (performing adequately) for managing its performance. The scoring mechanisms is the same as for UoR.

The Audit Commission considers that "Sandwell manages performance adequately. It knows that its priorities are important to local people, and is targeting improving these things. However, local residents are not noticing or recognising these improvements. 62 per cent of people are satisfied with Sandwell's services and there are things the Council could do better, like improving educational attainment in secondary schools."

Organisational assessment

The Use of Resources and Managing Performance assessments are combined to give an overall organisational assessment judgement for the Council. The Audit Commission has determined that the organisational assessment judgement for Sandwell Metropolitan Borough Council is that it performs adequately.

The Council's Managing Performance and Organisational Assessment are being reported separately by the Audit Commission's Comprehensive Area Assessment Lead for Sandwell.

Other work

As part of our wider responsibilities under the Audit Commission's Code of Practice, we undertook a review of the Council's role in respect of "The Public" – an interactive arts complex in West Bromwich, and issued a detailed report on this issue on 21 September 2009.

In our view the Council acted in a reasonable manner in their dealing with this project. Notwithstanding this there are a number of important lessons to be learned from this project and with the benefit of hindsight the Council may have taken a different course of action. However given the information and evidence of the key stages of the 15 years of this project, we believe that the Council has acted reasonably. We made a number of recommendations to the Council, many of which are currently being progressed.

Financial statements

Audit opinion

We issued an unqualified opinion on your accounts on 30 September 2009. This means that we believe that the accounts gave a true and fair view of the financial affairs of the Council and of the income and expenditure recorded during the year. At the same time we also issued our certificate of the completion of the audit.

Before we give an opinion on the accounts, we are required to report to 'those charged with governance' any significant matters identified. We did this in our report to the Audit Committee meeting on 21 September 2009 and the key issues are summarised below.

Accounts production and adjustments to the accounts

During our audit we identified a number of adjustments to the Council's 2008/09 draft accounts which in aggregate we considered material. These were adjusted by the Council and we issued an unqualified audit opinion on 30 September 2009, in accordance with the statutory deadline for publication of local authorities' accounts.

We noted a further improvement in the quality of the accounts and the supporting working papers, and a reduction in the level of adjustments from previous years. This is a reflection on the Council's continued efforts to improve the closedown process.

We raised several recommendations regarding control over financial systems and the closedown process. The Council has put an action plan in place to address these. Since issuing our audit opinion we have met with officers to discuss how the accounts production and audit process can be improved further for 2009/10.

Future issues

From 2010/11, local government bodies are required to prepare their financial statements under International Financial Reporting Standards, which contain a number of significant differences from the current financial reporting regime. The Council has a project plan in place and has produced regular updates to the Audit Committee. The project is broadly on track and the Council is aware of the areas on which it needs to focus in the next six months.

Appendix 1: Key recommendations

This appendix summarises the main high priority recommendations that we identified during 2008/09, along with your response to them. All of these have previously been reported. Other lower priority recommendations are contained, as appropriate, in our audit reports (which are listed in Appendix 3).

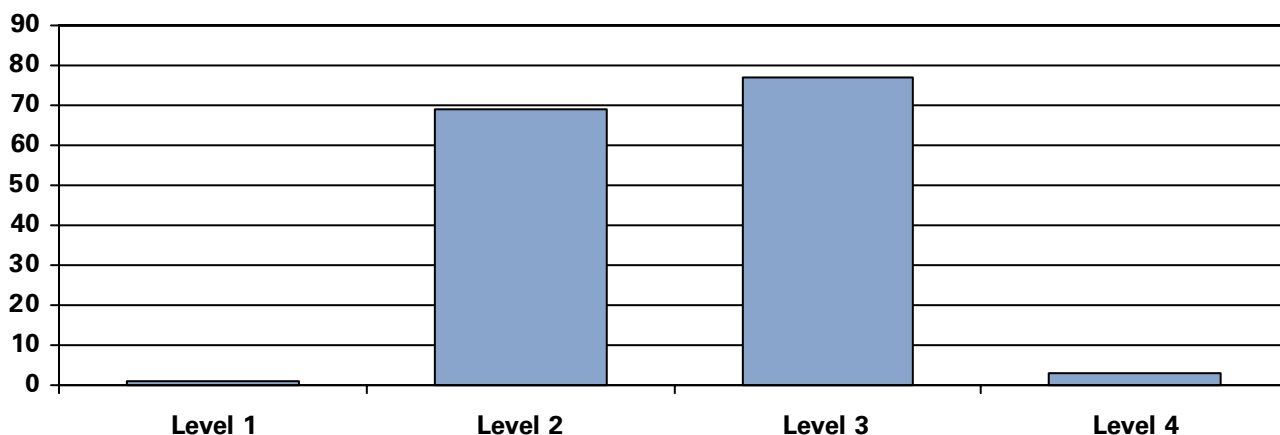
Issue/ Recommendation	Management Response / Timescale for implementation
<p>Insurance Fund</p> <p><i>Issue</i></p> <p>The Council operates an internal insurance account to fund excesses on insurance claims and to provide insurance cover where external cover is uneconomical or unavailable. We found that the Council did not account for potential liabilities in relation to this account in line with the relevant financial reporting standard (FRS 12), which requires a provision to be recognised when a potential liability can be estimated reliably.</p> <p><i>Recommendation</i></p> <p>The Council should ensure that potential liabilities covered by the Council's insurance fund are assessed against FRS 12 as part of the closedown process to determine which are sufficiently certain to require a provision in the accounts.</p> <p>The Council should also review the levels of insurance reserves and associated provisions on an annual basis, to ensure that the amount held to meet emerging and pending liabilities is both adequate and appropriate.</p>	<p><i>Management response</i></p> <p>The Council will review its level of Insurance Reserve and Provision to ensure that the amount held is adequate to meet emerging and pending liabilities.</p> <p><i>Officer and due date</i></p> <p>Corporate Finance Manager, Head of Finance and Business Services and Insurance Manager.</p> <p>December 2009</p>
<p>Review of significant contracts</p> <p><i>Issue</i></p> <p>There is no central register of contracts which lists the nature and value of each arrangement. Contracts may contain aspects that require a specific accounting treatment. This will become more imperative with the introduction of IFRS.</p> <p><i>Recommendation</i></p> <p>The Council needs to enhance controls in place in relation to its contracts, including developing a central register of its contracts. This information should be used on an annual basis to identify and evaluate contracts to ensure that the accounting treatment for these complies with the SORP. This evaluation should be fully evidenced.</p>	<p><i>Management response</i></p> <p>The Council undertook a detailed review of its contracts in 2007/08 and reviewed these again in 2008/09. However the Council will ensure that it develops a central register of its contracts.</p> <p><i>Officer and due date</i></p> <p>Strategic Purchasing Officer, Head of Legal Services</p> <p>December 2009</p>
<p>Following up previous recommendations</p> <p><i>Issue</i></p> <p>We confirmed the majority of recommendations raised in previous years had been implemented by the Council. In some cases, however, progress has been slower than anticipated or the measures put in place by the Council have not been fully effective.</p> <p><i>Recommendation</i></p> <p>Where recommendations raised in our 2007/08 ISA 260 Report have only been partially implemented to date, the Council should assess if action plans need to be updated to ensure that any weaknesses identified are fully addressed.</p>	<p><i>Management response</i></p> <p>The Council will ensure that it follows up these areas that have only been partially completed following the recommendations in the ISA 260 report 2007/08.</p> <p><i>Officer and due date</i></p> <p>Corporate Finance Manager</p> <p>March 2010</p>

Appendix 2: Use of Resources scores

The table below shows overall Use of Resources scores for all Single Tier Authorities and County Councils and is illustrated in the graph below.

Overall Use of Resources score	Number of authorities	Percentage (%)
1	1	1%
2	69	46%
3	77	53%
4	3	2%

Use of resources scores 2009 for Single Tier and County Councils



The Council's overall score for 2008/09 was level 2 in line with 46 percent of all Single Tier and County authorities.

Appendix 3: Audit reports issued

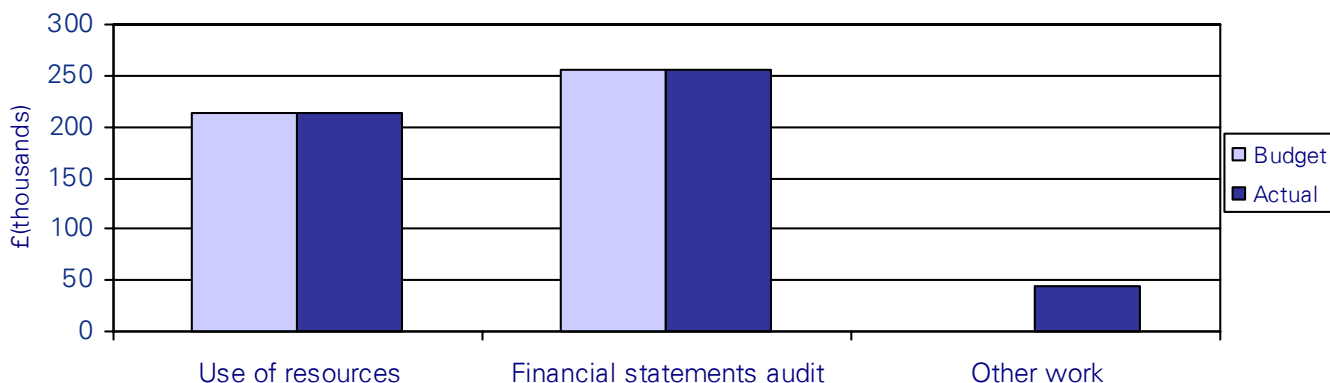
A summary of the reports issued in the year to date is set out below.

Report	Date issued
Audit and Inspection Plan 2008/09	July 2008
Accounts Audit Protocol 2008/09	March 2009
Annual Audit Fee Letter 2009/10	April 2009
Interim External Audit Report 2008/09	June 2009
Report on The Public	September 2009
Report to those charged with governance (ISA 260 Report) 2008/09	September 2009
Value for money conclusion 2008/09	September 2009
Opinion on the financial statements 2008/09	September 2009
Certificate of completion of the 2008/09 audit	September 2009
Annual Audit Letter 2008/09	December 2009
Opinion on the Whole of Governments Accounts pack	December 2009 (expected)

Appendix 4: Audit Fee

To make sure that there is openness between us and your Audit Committee about the extent of our fee relationship with you, we have summarised below the out-turn against the 2008/09 agreed external audit fee:

External audit fee for 2008/09



Our main fee for the 2008/09 audit of Sandwell Metropolitan Borough Council, which includes our Use of Resources assessment and the audit of the Council's financial statements, was £470,000 in line with the budgeted fee per the Annual Audit & Inspection Plan 2008/09.

We completed additional work, which was not allowed for in our initial plan. This included reviews of the Council's role in the development of The Public and of the Council's compromise agreement with the previous Executive Director of Urban Regeneration. The fees to date for this work are £45,000. We are still due to issue our final invoice in respect of our work on The Public.

Our grants work is still ongoing and the fee will be confirmed through our summary report on the certification of grants and returns which will be issued in Spring 2010.

We have also certified two additional grant claims in the current year on request of the Council. This work was not related to our audit responsibilities. The fee for this work was £16,560.