

# Walsall Metropolitan Borough Council

Annual Audit Letter 2008/09

22 December 2009

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# 1 Introduction

## 1.1 Purpose of this letter

The purpose of this Annual Audit Letter ('letter') is to summarise the key issues arising from the work that we, Grant Thornton UK LLP, have carried out to the year end 31 March 2009 at Walsall Metropolitan Borough Council ('the Council').

This letter is intended to communicate the significant issues we have identified, in an accessible style, to the Council and key external stakeholders, including members of the public. The letter should be published on the Council's website.

## 1.2 The scope of our work

Our main responsibility as your external auditor is to plan and carry out an audit that meets the requirements of the Audit Commission's Code of Audit Practice ('the Code'). Under the Code, we are required to review and report on the Council's accounts and whether the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

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

## 1.3 Key audit outcomes for 2008/09

- we held a seminar on key accounting issues for 2008/09 at our Birmingham office;
- we provided a workshop and seminar explaining the implications of the new Use of Resources assessment;
- we issued an unqualified opinion on the Council's accounts;
- we issued an unqualified value for money conclusion; and
- we recognised the Council was performing adequately in its use of resources.

We have been unable to certify that the audit year has been concluded as we are undertaking an investigation into European Regional Development Fund and European Social Fund that includes transactions occurring within 2008/09. We anticipate concluding our investigation in February 2010 and we expect to issue the audit certificate, marking the closure of the audit and the end of the exercise of the auditor's powers and duties in respect of that audit, when the findings from this work have been reported to Council.

## 1.4 Acknowledgements

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

## 1.5 Appendices

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

This letter has been prepared in the context of the Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission. This is available from: [www.audit-commission.gov.uk](http://www.audit-commission.gov.uk).

## 2 Audit of accounts

### 2.1 Key issues arising from the audit of the accounts

We issued an unqualified audit opinion on the Council's accounts on 29 September 2009, in advance of the deadline of 30 September. Our opinion confirms that the accounts present fairly the Council's financial affairs and of the income and expenditure for the year ended 31 March 2009.

Prior to giving our opinion on the accounts, we were required to report significant matters arising from the audit to the Council's Audit Committee. A detailed report was presented to the Audit Committee on 29 September 2009 and only the key issues are summarised here.

### 2.2 Key issues

The overall quality of the Council's working papers to support the 2008/09 accounts was of a continuing good standard and the Audit Committee approved the accounts by 29 June, in advance of the 30 June 2009 deadline.

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

#### Clawback of 2006/07 Housing and Council Tax Benefits subsidy claim

The accounts presented for audit included a provision for the potential clawback by the Department for Work and Pensions (DWP) of £502,000 relating to the 2006/07 subsidy claim, based on a best estimate at the time. During August 2009 the DWP confirmed that actual clawback would be £323,000 and therefore the provision in the accounts was reduced accordingly, and a related debtor balance released.

#### Revision of Community Generation in Walsall Action Plan grant claim

This final claim was submitted in September 2009 and was £1.279m lower than the Council had initially anticipated in the draft statement of accounts. This resulted in a £1.022m reduction in the general fund, after accounting for the release of a related earmarked reserve.

### 2.3 Whole of Government Accounts (WGA)

We reviewed and reported on the Council's WGA consolidation pack in accordance with the approach agreed with HM Treasury and the National Audit Office. The pack was submitted to the Department of Communities and Local Government on 1 October 2009, meeting the deadline.

### 2.4 National Fraud Initiative (NFI)

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

As part of the audit of accounts, we examined specific data matches produced by the Audit Commission that cross referenced Council data to matches at Companies House. We did not identify any significant issues in this area.

We discussed all accounts matters with the Audit Committee on 29 September 2009. Adjusted misstatements identified during the course of our audit reduced the general fund

## **2.5 Members' expenses**

Due to the increased profile and news coverage surrounding elected politicians' expenses, we examined a sample of Members' expenses as part of our work on the Council's 2008/09 statement of accounts. We are able to confirm that there were no issues that we wish to bring to the Council's attention on this matter.

## **2.6 Dealing with the public**

As part of audit, we have a responsibility to deal with issues that are brought to our attention by members of the public or other interested parties in relation to the financial activities or governance of the Council, or disclosures to the Audit Commission under the Public Interest Disclosure Act 1998. During the year, there were no issues that were brought to our attention during the course of our audit and no person exercised their rights to raise an objection on the Council's 2008/09 statement of accounts.

## **2.7 Certification of grant claims**

We are required, acting as agents of the Audit Commission, to certify the Council's grant claims and returns. We have already completed the certification of the majority of claims for the Council relating to the 2008/09 financial year and have met all government department deadlines set under these arrangements. Our certification work is expected to be complete by the end of December 2009 after which we will prepare a separate grants report, summarising issues from the 2008/09 audit, to facilitate continuous improvement.

In addition, our work certifying the ERDF grant claims for Community Generation in Walsall Action Plan identified significant weaknesses in the financial administration and governance of the programme, as referred to elsewhere in this letter. We are currently reviewing the history of this Programme in more detail and will report formally our specific findings early in the new year.

## 3 Use of resources

### 3.1 Value for money conclusion

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

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

### 3.2 Use of resources (UoR)

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

Theme	2009
Managing finances	3
Governing the business	2
Managing resources	2
Overall	<b>Performing adequately - 2</b>

The provisional findings from our 2008/09 UoR assessment were reported to the Audit Committee in September 2009, as part of our report to those charged with governance (ISA260 report). We are pleased to report that, subsequent to our ISA260 report, these provisional scores were confirmed following the Audit Commission's national quality assurance process and are reported in more detail in our UoR report for 2008/09.

#### Managing finances

This theme focuses on assessing whether the Council has sound strategic and financial management, that is, whether it plans its finances to deliver its priorities, the extent to which it has a sound understanding of its costs and performance, and whether its financial reporting is timely, reliable and meets the needs of its population. We assessed the Council and awarded an overall theme score of three, concluding that it is performing well.

In particular, the Council has good arrangements in place for financial planning and financial reporting. However, the Council needs to develop further its arrangements to ensure that it has a sound understanding of its costs and performance and achieves efficiencies in its activities.

#### UoR Scores

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

**Governing the business**

This theme focuses on strategic commissioning and good governance, in particular how well the Council governs itself and commissions services that provide value for money and deliver better outcomes for local people. We assessed the Council as achieving an overall theme score of two, performing adequately.

In particular, the Council has good partnership arrangements in place for securing good governance and risk management. However, the Council needs to develop further its arrangements to:

- commission and procure quality services and supplies, tailored to local needs, to deliver sustainable outcomes and value for money; and
- produce relevant and reliable data and information to support decision making and manage performance (e.g. develop partnership arrangements to demonstrate how it identifies and resolves data quality issues).

**Managing resources**

This theme considers areas which have not, previously, been assessed on their own in detail. There are three elements to this theme, but only use of natural resources and strategic asset management were assessed in 2008/09. We considered the arrangements and outcomes in place to ensure the Council effectively manages its assets and natural resources as being adequate, level two.

The Council is performing adequately in making effective use of natural resources. However, it needs to be able to evidence reductions in the levels of CO2 emissions, water consumption and improvements in air quality as a result of actions undertaken by the Council to demonstrate improvement in this area in the future.

In addition, the Council is also performing adequately in managing its assets effectively to help deliver its strategic priorities and service needs. However, the Council needs to develop a strategic approach to sharing assets with partners that extends beyond individual initiatives and buildings.

The remaining theme, management of workforce, will be assessed for the first time in 2009/10.

**Next steps**

Key actions arising for the Council from our assessment include the following:

- demonstrating a broader set of outcomes of reductions in costs and / or improvements in services as a result of the decision-making process (e.g. benefits derived from the rollout of the Council-wide LEAN reviews in 2009/10);
- ensuring that it is able to demonstrate outcomes, outputs and achievements for local people as a result of the arrangements in place to commission and procure quality services and supplies tailored to suit local needs;
- developing further partnership arrangements to identify and resolve data quality issues;
- developing a strategic approach to sharing assets with partners that extends beyond individual initiatives and buildings; and
- ensuring that it has sound arrangements in place to demonstrate that it is 'getting the basics right' for workforce management in 2009/10.

### **3.3 Looking ahead to 2009/10**

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

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

#### **Schools balances**

In its 2004 Education Funding Report "The impact and effectiveness of measures to stabilise school funding, the Audit Commission found that the overall level of schools' unspent revenue balances was substantial and exceeded £1 billion, which they considered to be an inefficient use of public money.

The Commission reported that Councils needed better information and to be more proactive in their monitoring and challenging of school expenditure. The continuing upward trend in net balances for a large proportion of councils means this should continue to be a priority. Overall during 2007/08 net balances held nationally by schools in cash terms, and in percentage terms rose from £1.618 billion (6.4%) to £1.859 billion (7.1%) by the end of March 2008.

We will carry out a review of the Council's schools balances to determine whether they are at appropriate levels in light of the Audit Commission report.

#### **Audit Committee Effectiveness**

The Council is keen to develop its Audit Committee function to demonstrate that it is achieving best practice for governance and internal control arrangements.

We will carry out a review of the Council's current arrangements for maintaining and developing an effective Audit Committee. This will include an assessment of the operation of the Audit Committee, including how it links with the other Scrutiny Committees of the Council and its Cabinet, and will work alongside officers and members in supporting its future development.

#### **International Financial Reporting Standards (IFRS)**

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

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

## A Medium priority recommendations

We raised no high priority recommendations in 2008/09 and therefore those listed below were all designated as medium priority.

<b>Report (and issue date)</b>	<b>Recommendation</b>
2008/09 Interim report to those charged with governance (Audit Strategy Document issued June 2009)	<p>Review identified historic balances within debtors which are up to 20 years old.</p> <p>We were aware that these debts had been fully provided against but recommend that the Council should consider whether these amounts are written off, as they are inflating both debtor and provision figures.</p>
2008/09 Interim report to those charged with governance (Audit Strategy Document issued June 2009)	<p>Testing identified a bad debt write off request which had not been signed by an authorised signatory but was still actioned.</p> <p>The debtors control team should ensure that they are only accepting bad debt write off requests from authorised signatories.</p>
2008/09 Interim report to those charged with governance (Audit Strategy Document issued June 2009)	<p>The payroll reconciliation sampled (week 52) had been signed by the preparer but not evidenced as reviewed.</p> <p>In addition, we noted that whilst the payroll reconciliation was initialled by the Oracle Finance team to confirm receipt, it was not signed to show that the payroll data has been uploaded onto the Oracle system.</p> <p>We recommended that the review of payroll reconciliations and the upload of data to Oracle is evidenced.</p>
2008/09 Interim report to those charged with governance (Audit Strategy Document issued June 2009)	<p>The fixed asset register is currently updated on an annual basis.</p> <p>We would expect this to be completed on a more regular basis so as to:</p> <ul style="list-style-type: none"> <li>• demonstrate maintenance of up-to-date accounting records;</li> <li>• spread the work load through out the year; and</li> <li>• identify any anomalies on a timely basis.</li> </ul>
2008/09 ISA260 report to those charged with governance (issued September 2009)	<p>The Council should identify residual values for relevant assets and use these to calculate depreciation charges in future the Statements of Account.</p>
2008/09 ISA260 report to those charged with governance (issued September 2009)	<p>The Council should review the percentage rates applied to calculate bad debt provisions annually against current collection patterns to ensure the percentages remain appropriate.</p>

## B Responsibilities of the external auditors and the Council

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

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

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

## C Fees and audit reports

The table below compares the actual audit fees charged for out work in 2008/09 compared to the budgeted fees as set out in our revised Audit Plan. In addition we also undertake the certification of the Council's grant claims, which is charged on a per diem basis, using Audit Commission recommended hourly rates. This work is still in progress and a detailed fee analysis will be reported to you upon its completion. Our specific review of the Council's ERDF Action Plan will also be charged separately, following Audit Commission guidance, once it has been completed.

	<b>Budgeted (£)</b>	<b>Actual (£)</b>
Audit of accounts	185,600	185,600
Use of resources	122,400	122,400
<b>Total fees</b>	<b>308,000</b>	<b>308,000</b>

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

<b>Planned output</b>	<b>Planned delivery</b>	<b>Actual delivery</b>
2008/09 Annual Audit Inspection Plan	June 2008	June 2008
2008/09 Interim report to those charged with governance (which will cover accounts and use of resources)	June 2009	June 2009
2008/09 ISA260 report to those charged with governance	September 2009	September 2009
Use of resources report	December 2009	November 2009
Annual Audit Letter	December 2009	December 2009
2008/09 Grant Claims report	January 2010	In progress
ERDF Action Plan review	February 2010	In progress

## D Completion of the Audit Plan

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

Area as reported in the Audit Plan	Audit response and outcome
<p><b>Effective governance and scrutiny arrangements</b> Council's are required, for the first time, to produce an Annual Governance Statement for the 2008/09 Statement of Accounts.</p>	<p>We reviewed the Annual Governance Statement and we concluded that the statement for 2008/09 was in accordance with our knowledge of the Council and compliant with reporting requirements.</p>
<p><b>Financial standing</b> Financial health continues to be a key risk area for many councils. Nationally, social care pressures are particularly relevant. Locally additional funds were allocated to the social care revenue budget during 2007/08 and pressures in this area are expected to continue in the future. Other future revenue budget risks include waste disposal costs, the single status pay agreement and the continuing costs of long term contracts such as PFI. Budget savings of £2.3m are required to maintain a council tax increase of 5% (£4.3m for 3%) and this needs to be balanced against the Council's strategy to bring council tax in line with the West Midlands Metropolitan average by applying below average increases over a number of years. There is a risk that the Council has not modelled the financial implications of key changes to services effectively.</p>	<p>We reviewed the financial standing of the Council as part of the Use of Resources assessment. The Council ended 2008/09 with its balances at a level consistent with the requirements of the MTFs, whilst delivering its strategic priorities. The Council, as in the case nationally, is continuing to face significant financial pressures due to the impact of the economic downturn. In particular, this is impacting Neighbourhood, Procurement and Regeneration Services, which all overspent in 2008/09. In addition, the impact of the clawback of ERDF grant, referred to earlier, will have to be addressed in future Council tax increases. We will continue to monitor the Council's responses to these challenges during 2009/10.</p>

Area as reported in the Audit Plan	Audit response and outcome
<p><b>Use of resources</b> Comprehensive Area Assessment (CAA) will provide the first holistic independent assessment of the prospects for local areas and the quality of life for people living there. The 2009 Use of Resources assessment will be aligned to CAA and the updated Key Lines of Enquiry (KLOEs) represent an enhanced challenge to the Council in terms of performance and evidence. This assessment will be funded from the 2009/10 audit fee.</p>	<p>We presented the changes in the regime to your officers at a training workshop in January 2009 and have been meeting regularly with our key contacts within the Council to ensure the new approach has become established as efficiently as possible. The UoR scores are taken into account by the Audit Commission in its organisational assessment of the Council under CAA and, as such, we have been working closely with the Audit Commission throughout the assessment period.</p> <p>Finally, as reported in Section 3 above, we completed the Use of Resources assessment under the new framework, where we judged the Council was performing adequately, scoring level 2.</p>
<p><b>Education contract</b> The Council is currently re-tendering its contract for the provision of support services for its education and young people's services. This represents a major risk to the Council, and the contract will need to be robust to ensure effective arrangements, between the Council and the third-party provider, which will deliver effective governance, whilst ensuring sufficient flexibility for the ongoing service and value for money improvement.</p>	<p>As reported in our 2008/09 Annual Audit and Inspection Plan, issued in May 2008 we monitored progress through the tender process, which was found to be adequate. We have no further matters to report at this stage.</p>
<p><b>2008 SORP</b> The 2008 SORP will identify further changes in the transition to International Financial Reporting Standards (IFRS).</p>	<p>We held an accounts planning workshop for our local government clients in February 2009 to discuss the key issues arising from the 2008 SORP and identify relevant financial reporting risks. The Council was represented at this event.</p> <p>We are pleased to report that our compliance review of the 2008/09 accounts against the SORP 2008 identified fewer disclosure omissions and misstatements compared to our review in 2007/08, raising only minor disclosure amendments.</p>

Area as reported in the Audit Plan	Audit response and outcome
<p><b>International Financial Reporting Standards (IFRS)</b> Local government accounting will eventually follow IFRS for the compilation of its statement of accounts.</p>	<p>We have discussed the Council's preparations for IFRS conversion during our regular update meetings throughout the year. To assist the Council in identifying areas of focus, we held an IFRS workshop to highlight the key differences in reporting requirements, critical dates in the conversion process and potential planning and resource implications.</p> <p>During November 2009, we discussed in detail the Council's preparations for conversion as part of an Audit Commission study on the implementation of IFRS in local government. We 'RAG' rated the Council as 'Amber' (i.e. the Council has minor issues with its IFRS implementation) from this review as detailed IFRS preparations have commenced, whilst recognising that the Council's accounts include a number of complex issues, such as PFI.</p>
<p><b>Accounting for PFI and other major operating lease schemes</b> During April 2008 the Council contracted with Housing 21 for the re-provision of Residential and Day Care Services for Older People. In previous accounting years the Council has entered into PFI arrangements for Street lighting and St Moores school redevelopment. There is a risk that major lease schemes, such as PFI and PPP, are incorrectly accounted for, due to their complexity and nature, particularly in light of the impact of International Financial Reporting Standards (IFRS).</p>	<p>We involved our technical specialists, to provide an 'Initial View' on the provisional judgement on the accounting treatment of the re-provision of residential and day care services for older people scheme.</p> <p>Based on the information provided to us, our knowledge of the proposed contract and the current guidance on the accounting treatment of PPP schemes, we were not minded to challenge the view set out in the 'Provisional Judgement'. This opinion was confirmed to the Council in April 2008.</p>
<p><b>Internal Audit</b> The Council's internal audit function is key in ensuring that the Council operates a sound system of internal control.</p>	<p>We considered the work of Internal Audit as part of our assessment of the internal control environment and to assist in documenting the key financial controls in place. We did not identify any significant issues that we felt warranted reporting to the Council.</p>



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