

## **Annual Audit Letter 2013/14**

### **1. Summary of report**

- 1.1 This report presents Grant Thornton's Annual Audit Letter 2013/14. It summarises the key issues arising from the work that the external auditors have carried out at Walsall during 2013/14. The letter is designed to communicate their key messages and conclusions to the council and external stakeholders, including members of the public. The letter covers the following work areas:
- auditing the 2013/14 year end accounts
  - assessing the council's arrangements for securing economy, efficiency and effectiveness to ensure Value for Money (VfM) is achieved
  - certification of grant claims and returns to various government departments and other agencies

### **2. Recommendations**

- 2.1 Audit Committee are requested to formally consider and receive the external Annual Audit Letter 2013/14.



James Walsh, Chief Finance Officer  
28 October 2014

### **3. Governance**

Grant Thornton have been appointed as the council's independent external auditors by the Audit Commission. The Annual Audit Letter summarises the key work areas and audit conclusions arising from these, to assist the council in maintaining strong governance arrangements.

### **4. Resource and legal considerations**

None directly relating to this report.

### **5. Performance and risk management issues**

Performance and risk management is embedded in the final accounts process.

### **6. Equality implications**

None directly associated with this report.

### **7. Consultation**

The report is prepared in consultation with finance and senior officers across the council.

### **8. Background papers - Various financial working papers.**

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# The Annual Audit Letter for Walsall Metropolitan Borough Council

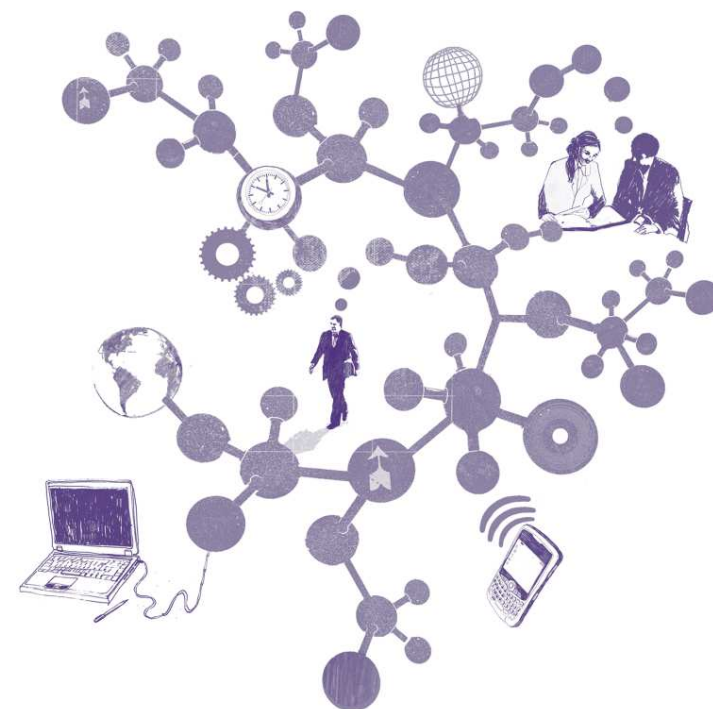
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**Year ended 31 March 2014**

October 2014

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# Key messages

Our Annual Audit Letter summarises the key findings arising from the work that we have carried out at Walsall Metropolitan Borough Council ('the Council') for the year ended 31 March 2014.

The Letter is intended to communicate key messages to the Council and external stakeholders, including members of the public. Our annual work programme, which includes nationally prescribed and locally determined work, has been undertaken in accordance with the Audit Plan, dated 16 July 2014 and was conducted in accordance with the Audit Commission's Code of Audit Practice, International Standards on Auditing (UK and Ireland) and other guidance issued by the Audit Commission.

<b>Financial statements audit (including audit opinion)</b>	<p>We reported our findings arising from the audit of the financial statements in our Audit Findings Report on 24 September 2014 to the Audit Committee. The key messages reported were:</p> <ul style="list-style-type: none"><li>• We identified no adjustments affecting the Council's reported financial position</li><li>• The draft financial statements recorded net expenditure of £58.326m; the audited financial statements show net expenditure of £58.326m.</li><li>• We have identified a number of adjustments to improve the presentation of the financial statements. Further detail is shown at Appendix A.</li><li>• We noted that the Council's Finance Team has continued to operate to high standards of performance in financial reporting.</li></ul> <p>We issued an unqualified opinion on the Council's 2013/14 financial statements on 26 September 2014, meeting the deadline set by the Department for Communities and Local Government. Our opinion confirms that the financial statements give a true and fair view of the Council's financial position and of the income and expenditure recorded by the Council.</p>
<b>Value for Money (VfM) conclusion</b>	<p>We issued an unqualified VfM conclusion for 2013/14 on 26 September 2014.</p> <p>On the basis of our work, and having regard to the guidance on the specified criteria published by the Audit Commission, we are satisfied that in all significant respects the Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2014.</p>

# Key messages

## **Value for Money (VfM) conclusion (continued)**

The Council disclosed under Section 5 of its Annual Governance Statement in 2012/13, that a number of significant governance issues had occurred during 2011/12 and 2012/13. These issues had been identified and were being addressed by the Council and therefore did not warrant qualification of the 2012/13 Value for Money conclusion under the Commission's two specified criteria. In addition, as the matters were being progressed by the Council in 2013/14 we were able to certify our 2012/13 audit as complete.

However, we considered that the importance of establishing a greater corporate 'compliance culture' for the Council's internal controls and governance arrangements was of sufficient priority that we needed to make a formal recommendation as part of our 2013/14 audit, under section 11(3) of the Audit Commission Act 1998. This recommendation was as follows:

### **Recommendation under section 11(3) of the Audit Commission Act 1998**

The Council should:

- review existing governance processes and procedures to provide assurance that the existing governance framework is fit for purpose
- Investigate how governance is applied across the Council, to ensure that expected ethical standards are reinforced and that a culture of compliance is embedded throughout the organisation.

As at the time of making our recommendation in November 2013, the Council had already established a 'Governance Forum' to take forward these issues and had therefore already acknowledged the need to improve arrangements regarding its governance.

To support this work in 2013/14, Internal Audit performed a review of Corporate Governance, the result of which is significant (borderline) assurance.

We were commissioned separately by the Council to undertake a governance review to provide independent challenge to the work of the Governance Forum.

# Key messages

<b>Value for Money (VfM) conclusion (continued)</b>	<p>This report is being presented separately to the Audit Committee, but summary conclusions are as follows:</p> <ul style="list-style-type: none"><li>• The Council has recognised the importance of the governance agenda and made good progress in reviewing its systems and procedures</li><li>• A key observation from the work was that it is not just the systems and procedures of governance that need to be effective but also (and arguably more importantly) the attitudes and behaviours of the workforce.</li><li>• Therefore continued strong leadership from officers and members will be required in order that the necessary cultural understanding, engagement and compliance is secured.</li></ul> <p>We are therefore satisfied with the progress being made by the Council in addressing the statutory recommendation made in our 2012/13 Annual Audit Letter. On this basis, no statutory recommendations are required at this time.</p>
<b>Whole of Government Accounts</b>	<p>We reviewed the consolidation pack which the Council prepared to support the production of the Whole of Government Accounts. We reported that the Council's pack was consistent with the audited financial statements.</p>
<b>Certification of grant claims and returns</b>	<p>We are in the process of certifying one grant claim. The results of this work will be reported to Audit Committee in our Certification Report, due in early 2015.</p>
<b>Audit fee</b>	<p>Our fee for 2013/14 was £190,470, excluding VAT which was an increase of £1,470 on our planned fee for the year. The increase was due to a fee variation approved by the Audit Commission for the additional work we undertook on business rates as part of our financial statements opinion, given that we are no longer required to certify the LA01/NDR3 claim. The Commission confirmed revised figures of £1,470 for metropolitan borough councils, which equates to approximately 50% of the average fee previously charged for NDR3 certifications at metropolitan borough councils. The overall cost to the Council therefore decreased.</p> <p>Further details of fees are included at Appendix B.</p>

# Appendix A: Key issues and recommendations

This appendix summarises the significant recommendations identified during the 2013/14 audit.

No.	Issue and recommendation	Management response/ responsible office/ due date
1.	<p><b>Creditors:</b> During our creditors testing we identified invoices and credit notes over a year old, the oldest of which dated November 2003. These totalled £140,550, and therefore the value was not considered to be significant but it would be best practice for these transactions to be either paid on a more timely basis or cleared out if they are no longer relevant.</p> <p><b>Recommendation:</b> We recommended that the Council reviews the old invoices and credit notes to determine if they still require to be paid, or can be removed from the system.</p>	<p>The Council has reviewed the invoices and determined that these relate to some pre-2013 invoices subject to a credit note, which have not been cleared. Cash has been received already totalling £42,663 and a further £72,159 (3 invoices) is in the recovery stage and will be deducted from the next invoice due. 1 credit note of £6,703 is affected by a company merger so we are currently in discussions concerning this. Of the remaining items, these value £20,883 and will be cleared as part of the planned Oracle upgrade.</p> <p>A revised process to manage credit notes was implemented in 2013 therefore all 2013 and onwards credit notes will be subject to this new improved process.</p> <p><b>Responsible officer:</b> Treasury, Financial Administration and Systems Manager <b>Due date:</b> Part completed. The remaining £20,883 will be cleared as part of the Oracle upgrade.</p>
2.	<p><b>Key indicators of performance:</b> The Council is aware of the challenges ahead in respect of maintaining sufficient levels of reserves as austerity measures continue. It continues to increase its level of reserves where it can, in order to smooth the path ahead.</p> <p><b>Recommendation:</b> The Council should continuing to monitor this in 2014/15 and beyond, particularly in light of the unknowns in relation to funding settlements.</p>	<p>The Council has a comprehensive medium term financial strategy which includes a recommended level of general reserves. It also makes provision for specific earmarked reserves, where required, and a prudent level of contingency to manage unforeseen events. The level of reserves is assessed and reported regularly to senior management and Cabinet and the level is set annually by Council and will continue to be so.</p> <p><b>Responsible officer:</b> Chief Finance Officer <b>Due date:</b> On-going</p>



# Appendix A: Key issues and recommendations

This appendix summarises the significant recommendations identified during the 2013/14 audit.

No.	Issue and recommendation	Management response/ responsible office/ due date
3.	<p><b>Looked After Children (LAC):</b> Overspends in the Children and Young People Directorate have been contributed to by increased number of looked after children (LAC), as well as increased staff and agency costs.</p> <p><b>Recommendation:</b> The budgeted number of LAC was 541 in 2013/14 (rising to 575 in 2014/15), but given that actual numbers have been greater than this throughout recent years, and are currently in excess of 600, the Council should consider revisiting its budget assumptions, to ensure that they are realistic.</p>	<p>The budget is based on an estimated population of LAC. Numbers will fluctuate based on need. Numbers are kept under review and are risk assessed in year and during the budget setting process and an appropriate budget level established. The assessment of the required level of general reserves held by the Council also includes an assessment of the number of LAC. The Council considers its budgetary assumptions are realistic however they are kept under constant review as stated.</p> <p><b>Responsible office:</b> Executive Director – Children’s Services and Head of Finance <b>Due date:</b> On-going and by February 2015 (for budget setting)</p>

# Appendix B: Reports issued and fees

We confirm below the fee charged for the audit and provision of non-audit services.

## Fees

	Per Audit plan £	Actual fees £
Audit Fee	189,000	189,000
Fee variation – business rates	-	1,470
Grant certification fee	18,782	18,782
<b>Total fees</b>	<b>207,782</b>	<b>209,252</b>

## Fees for other services

Service	Fees £
Governance Review	18,000
VAT Review	5,000

## Reports issued

Report	Date issued
Audit Plan	16 July 2014
Audit Findings Report	24 September 2014
Certification report	TBC – expected January 2015
Report of Value for Money	24 September 2014
Annual Audit Letter	20 October 2014



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