

Audit Committee – 11 November 2013

Annual Audit Letter 2012/13

1. Summary of report

- 1.1 This report presents Grant Thornton's Annual Audit Letter 2012/13. It summarises the key issues arising from the work that the external auditors have carried out at Walsall during 2012/13. 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 2012/13 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

Audit Committee are requested to formally consider the attached document.

2. Recommendations

- 2.1 Audit Committee are requested to formally consider and receive the external Annual Audit Letter 2012/13.



James Walsh, Chief Finance Officer
1 November 2013

3. Governance

- 3.1 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

- 4.1 None directly relating to this report.

5. Performance and risk management issues

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

6. Equality implications

- 6.1 None directly associated with this report.

7. Consultation

7.1 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

Year ended 31 March 2013

October 2013

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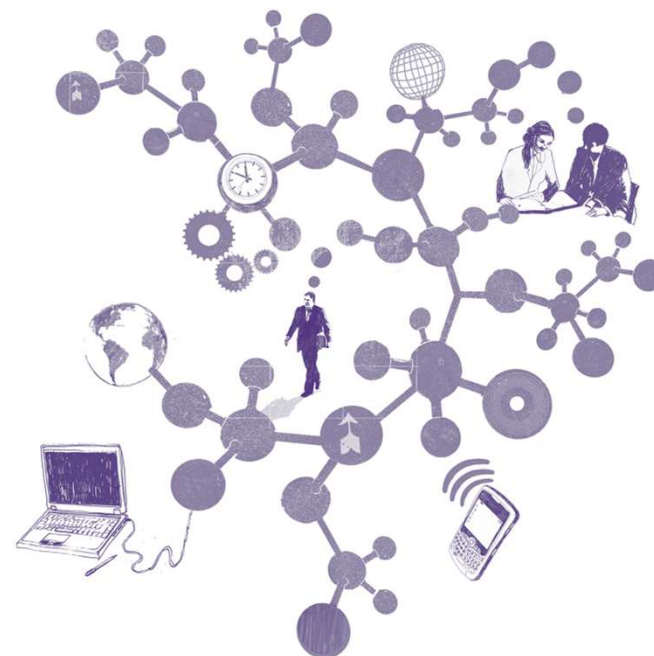
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Contents

Section	Page
1. Executive summary	3
2. Audit of the accounts	7
3. Value for Money	9
4. Certification of grant claims and returns	12
Appendix A - Reports issued and fees	

Section 1: Executive summary

01. Executive summary

02. Audit of the accounts

03. Value for Money

04. Certification of grant claims and returns

Executive summary

Purpose of this Letter

Our Annual Audit Letter ('Letter') summarises the key findings arising from the following work that we have carried out at Walsall Metropolitan Borough Council ('the Council') for the year ended 31 March 2013:

- auditing the 2012/13 accounts and Whole of Government Accounts submission (Section two)
- assessing the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources (Section three)
- certification of grant claims and returns (Section four).

The Letter is intended to communicate key messages to the Council and external stakeholders, including members of the public. We reported the detailed findings from our audit work to those charged with governance in the Audit Findings Report on 25 September 2013.

Responsibilities of the external auditors and the Council

This Letter has been prepared in the context of the Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission (www.audit-commission.gov.uk).

The Council is responsible for preparing and publishing its accounts, accompanied by an Annual Governance Statement. It is also responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources (Value for Money).

Our annual work programme, which includes nationally prescribed and locally determined work, has been undertaken in accordance with the Audit Plan that we issued on 24 June and was conducted in accordance with the Audit Commission's Code of Audit Practice ('the Code'), International Standards on Auditing (UK and Ireland) and other guidance issued by the Audit Commission.

Audit conclusions

The audit conclusions which we have provided in relation to 2012/13 are as follows:

- an unqualified opinion on the accounts which give a true and fair view of the Council's financial position as at 31 March 2013 and its income and expenditure for the year
- an unqualified conclusion in respect of the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources
- an unqualified opinion on the council's Whole of Government Accounts submission
- we are required to certify three grant claims and returns. One has been certified with amendment and work is in progress on the remaining two in line for them to be certified by the relevant deadlines.

Key area for Council attention - Governance

The Council disclosed under Section 5, Significant Governance Issues, of its Annual Governance Statement, that a number of significant governance issues have occurred during 2011/12 and 2012/13:

- Audit investigation into irregularities concerning recruitment and selection; procurement; and pay and grading practices within human resources.
- Allegations (including whistleblowing) were received from different sources in respect of procurement practices, the management of appointeeships and systems to implement personalisation within social care and inclusion. Work undertaken in respect of this is now subject to an external review by Bevan Brittan, which at the time of writing is yet to report on its findings.

We are required to report to you when we designate under section 11(3) of the Audit Commission Act 1998 any recommendation as one that requires the Council to consider it at a public meeting and to decide what action to take in response.

These issues have been identified and are being addressed by the Council and therefore did not warrant qualification of the 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 consider that the importance of establishing a greater corporate 'compliance culture' for the Council's internal controls and

governance arrangements is of sufficient priority that we have decided to make such a recommendation as part of our 2013/14 audit:

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.

Next steps

The Council has already established a Governance Forum to take forward these issues. It has therefore already acknowledged the need to improve arrangements regarding its governance. It must, however, consider the recommendation at a formal meeting which has been appropriately advertised within one month from the date the recommendation was made to the Council.

At the meeting the Council must decide if the recommendation is to be accepted and what action should be taken.

Section 12(1) of the Act also requires at least seven clear days notice of the meeting to be given through advertisement in a newspaper circulating in the

area of the Council concerned. After the meeting the Council must notify the auditor of its decision and publish a summary of its decisions in a local newspaper (Section 12(2)).

The process that is required to be followed is summarised below:

- The date of the notification of the recommendation is the date this report is presented to Audit Committee, ie 11 November 2013. The one month period, within which this recommendation needs to be considered commences from that date.
- The formal meeting should be a meeting of the Full Council. This need not be a specially convened meeting, but can be included within an already arranged meeting of the Full Council.
- A notice of the date of that Full Council meeting, where this recommendation is to be considered, needs to be placed in a local newspaper at least 7 days prior to that meeting date, together with the purpose of the meeting (ie to consider the Auditor's s11(3) recommendation).
- At the meeting a summary of the decision made (ie agreement to or disagreement with the recommendation) is also required to be placed in the same local newspaper following the meeting (within 7 days of the meeting).

Acknowledgements

This Letter has been agreed with the Chief Finance Officer (CFO) and was presented to Audit Committee on 11 November 2013. We would like to record our appreciation for the assistance and co-operation provided to us during our audit by the Council's staff.

Grant Thornton UK LLP
October 2013

Section 2: Audit of the accounts

01. Executive summary

02. Audit of the accounts

03. Value for Money

04. Certification of grant claims and returns

Audit of the accounts

Audit of the accounts

The key findings of our audit of the accounts are summarised below:

Preparation of the accounts

The Council presented us with draft accounts on 28 June 2013, in accordance with the national deadline. Appropriate working papers were made available from the start of the audit fieldwork, which commenced 1 July 2013.

Supporting working papers were made available at the start of the audit, and requests for information were acted upon promptly enabling a smooth audit process. We are working with officers to improve upon this further for the 2013/14 audit, such that working papers can be more easily accessed, through for example, a shared network, therefore freeing up officers' time.

Issues arising from the audit of the accounts

We issued an unqualified opinion on 25 September 2013, ahead of the statutory deadline.

We identified no adjustments that impacted on the Council's reported financial position, and, as such, both the draft and audited financial statements recorded net expenditure of £90.587m.

We did, however, identify a number of reclassification errors and made a number of adjustments to improve the presentation of the financial statements.

Annual Governance Statement

We concluded that the Annual Governance Statement and Explanatory Foreword were consistent with our knowledge of the Council, subject to a small number of minor adjustments, which management incorporated into the final versions of the documents.

Conclusion

Prior to giving our opinion on the accounts, we are required to report significant matters arising from the audit to 'those charged with governance' (defined as the Audit Committee at the Council). We presented our report to the Audit Committee on 25 September 2013 and summarise only the key messages in this Letter.

We issued an unqualified opinion on the Council's 2012/13 accounts on 25 September 2013, meeting the deadline set by the Department for Communities and Local Government. Our opinion confirms that the accounts give a true and fair view of the Council's financial position and of the income and expenditure recorded by the Council.

Section 3: Value for Money

01. Executive summary

02. Audit of the accounts

03. Value for Money

04. Certification of grant claims and returns

Value for Money

Scope of work

The Code describes the Council's responsibilities to put in place proper arrangements to:

- secure economy, efficiency and effectiveness in its use of resources
- ensure proper stewardship and governance
- review regularly the adequacy and effectiveness of these arrangements.

We are required to give a VFM conclusion based on the following two criteria specified by the Audit Commission which support our reporting responsibilities under the Code:

The Council has proper arrangements in place for securing financial resilience. The Council 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.

The Council has proper arrangements for challenging how it secures economy, efficiency and effectiveness. The Council is prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity.

Key findings

Securing financial resilience

We have undertaken a review which considered the Council's arrangements against the three expected characteristics of proper arrangements as defined by the Audit Commission:

- financial governance
- financial planning
- financial control.

We concluded that the Council has proper arrangements in place for each of the three characteristics. However, we made the following recommendations to further strengthen the Council's arrangements:

- Continue to monitor the levels of reserves to ensure they remain sufficient as austerity measures continue
- Continue to work with schools to ensure schools' balances are adequate but not excessive
- Consider the structure of its statutory roles in accordance with best practice specifically to consider making the section 151 officer a full member of the leadership team.

Further details are provided in our Financial Resilience report issued and presented to Audit Committee on 25 September 2013.

Challenging economy, efficiency and effectiveness

We have reviewed whether the Council has prioritised its resources to take account of the tighter constraints it is required to operate within and whether it has achieved cost reductions and improved productivity and efficiencies.

We concluded that the Council has proper arrangements in place. However, we made the following recommendation to further strengthen the Council's arrangements:

- Continue to monitor sickness absence levels to manage them down to the target of 8.00 days

Value for Money

Overall VFM conclusion

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 2013.

Section 4: Certification of grant claims and returns

01. Executive summary

02. Audit of the accounts

03. Value for Money

04. Certification of grant claims and returns

We are required to certify certain of the claims and returns submitted by the Council. This certification typically takes place some six to nine months after the claim period and represents a final but important part of the process to confirm the Council's entitlement to funding.

We are currently in the process of certifying the 2013/14 grant claims and returns. Once this work is complete we will report in full on the findings of our work in a separate report to the Audit Committee.

Appendices

Appendix A: Reports issued and fees

We confirm below the fee charged for the audit and that there were no fees for the provision of non audit services.

Fees

	Per Audit plan £	Actual fees £
Audit Fee	189,000	189,000
Grant certification fee	30,150	*

* To be confirmed on completion of work and reported in Grants Certification Report 2013/14.

Fees for other services

Service	Fees £
None	Nil

Reports issued

Report	Date issued
Audit Plan	June 2013
Audit Findings Report	September 2013
VfM – Financial Resilience Report	September 2013
Annual Audit Letter	November 2013
Certification report	January 2014 (planned)



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Audit Committee - 11 November 2013

The Annual Audit Letter for Walsall Metropolitan Borough Council – Year ended March 2013 (Actions arising from Annual Audit Letter)

1. Purpose of report

To report to Audit Committee the actions arising from the work Grant Thornton have carried out at Walsall Metropolitan Borough Council for the year ended 31st March 2013 in relation to the section 11 recommendation hereto.

2. Recommendations

- 2.1 That the Audit Committee note the content of the Annual Audit letter.
- 2.2 That Audit Committee refer the Annual Audit letter to Council for consideration in accordance with the recommendations contained in the Annual Audit letter, at pages 5 and 6 of the same, and decide on the relevant action required as a consequence.
- 2.3 To note the establishment of a governance group and the work activity.



James T Walsh
Assistant Director of Finance
(Chief Finance Officer)
1 November 2013



Anthony Cox
Head of Legal and Democratic Services
1 November 2013

3. Report detail

- 3.1 The audit committee has received the annual audit letter which is on tonight's agenda. This report details the actions necessary to respond to the section 11 recommendation and details the work and action undertaken so far.

The council's external auditors, Grant Thornton issues an annual audit letter which summarises their key findings arising from work they have carried out with the council for the year ended 31 March 2013 (Appendix 1 hereto agenda item 11). The work comprises three main areas:

- Auditing the 2012/13 accounts and Whole of Government Accounts submission.
- Assessing the council's arrangements for securing economy, efficiency and effectiveness in its use of resources.
- Certification of grant claims

The letter is intended to communicate key messages to the council and external stakeholders, including members of the public.

The council is responsible for preparing and publishing its accounts, accompanied by an Annual Governance Statement. It is also responsible for putting in place proper arrangements to secure economy efficiency and effectiveness in its use of resources.

The Annual Audit letter identifies governance as a key area for the Council to be aware of following the council itself recognising significant governance issues that have occurred during 2011/12 and 2012/13. This is detailed at page 5 of the Annual Audit letter.

Prior to publication of the Annual Audit letter the council has established a corporate Governance Forum; chaired by the Chief Executive, to carry out a review of governance, to try to ensure that risks of governance failure are minimised. The group will be reviewing the policies and procedures comprising the governance framework and the ethics of the organisation. The Corporate Governance group met in May 2013.

The purpose of the group is to ensure that the Council's governance arrangements are as fit for purpose for the future as they can be.

- The review will form part of the production of the Annual Governance Statement for 2013/14.
- The group will identify any gaps in governance and make recommendations to rectify the same.
- The groups actions will be reported back to elected members through Audit Committee.

The group have reviewed the Local Code of Governance and this will be presented at the next Audit Committee meeting for consideration and endorsement.

Grant Thornton have acknowledged the action that the council has taken which therefore meant they did not have to qualify the Value for Money conclusion in its annual audit letter, and could certify the audit as complete. They have however made a formal recommendation in the Annual Audit letter, under s11 of the Audit Commission Act 1998 that the council consider the following recommendation at a public meeting of the Council and decide what action to take in response.

The recommendation is:

“The Council should review existing governance processes and procedures including a review of 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.”

4.0 Resource and legal considerations

The council are required by s11 Audit Commission Act 1998 to report the recommendation contained in the Annual Audit letter at a public meeting of the council. S12(1) of the same act requires that the council give at least seven clear days notice of the meeting, such notice to be given through advertisement in a newspaper circulating in the area of the council concerned, setting out the purpose of the meeting to consider the recommendations as set out.

5.0 Citizen impact

At the meeting a summary of the decisions made either agreeing or disagreeing with the recommendations have to be placed in the same newspaper within seven days of the meeting.

The committee's work is a major aspect of the council's corporate governance framework. Its wide-ranging remit includes ensuring that effective systems of internal control and internal audit are in operation, considering internal audit reports (including management responses to agreed action plans), reviewing the quality assurance and performance management processes and calling officers and members to inform its work. This also provides assurance to local tax payers and other stakeholders regarding the security of the council's operations.

6.0 Environment impact

None arising directly from this report.

7.0 Performance and Risk Management Issues

The audit committee plays an important role in considering the arrangements for, and the merits of, operating governance and performance management processes. This includes a key role in reviewing the mechanisms for the assessment and management of risk and overall arrangements as set out in the corporate integrated planning and performance framework.

8.0 Equality Implications

Sound systems of governance and ethical behaviour are essential to the fair delivery of service.

Background papers

Annual Audit Letter, Grant Thornton LLP October 2013.

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