

Audit Committee – 18 January 2011
Annual Audit Letter 2009/10

1. Summary of report

- 1.1 This report is the external auditor's annual audit letter for 2009/10 which summarises the key issues arising from the work that Grant Thornton carried out in relation to the year ending 31 March 2010.

2. Recommendations

- 2.1 Audit Committee is requested to note the report.



Vicky Buckley
Head of Finance
10 January 2011

3. Governance

- 3.1 The annual audit letter is a key component of the council's governance arrangements and is used to review the effectiveness of these arrangements in the Annual Governance Statement which is presented and approved by Audit Committee.

4. Resource and legal considerations

- 4.1 None directly related to this report.

5. Performance and risk management issues

- 5.1 The annual audit letter provides a summary of key work carried out by Grant Thornton.

6. Equality implications

- 6.1 None directly associated with this report.

7. Consultation

- 7.1 The report is prepared by Grant Thornton in consultation with senior officers across the council.

8. Background papers: Various reports and documents.

Walsall Metropolitan Borough Council

Annual Audit Letter 2009/10

16 December 2010

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1 Introduction and Key Messages

Purpose of this Letter

- 1.1 This Annual Audit Letter (“Letter”) summarises the key issues arising from the work that we have carried out at Walsall Metropolitan Borough Council (the “Council”) during our 2009/10 audit. The Letter is designed to communicate our key messages to the Council and external stakeholders, including members of the public. The letter will be published on the Audit Commission's website at www.audit-commission.gov.uk and also on the Council's website.

Responsibilities of the external auditors and the Council

- 1.2 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).
- 1.3 We have been appointed as the Council's independent external auditor by the Audit Commission, the body responsible for appointing external auditors to local public bodies in England. As external auditors, we have a broad remit covering finance and governance matters.
- 1.4 Our annual work programme is set in accordance with the Code of Audit Practice (the Code) issued by the Audit Commission and includes nationally prescribed and locally determined work. Our work considers the Council's key risks, when reaching our Code conclusions.
- 1.5 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.

What this Letter covers

- 1.6 This Letter covers our 2009/10 Code audit, including key messages and conclusions from our work on:
- auditing the 2009/10 year end accounts (Section 2);
 - the accuracy of grant claims and returns to various government departments and other agencies (Section 2); and
 - assessing the Council's arrangements for securing economy, efficiency and effectiveness in the use of its resources, including a significant report on the Council's European Structural Fund Objective 2 Programme (Section 3).
- 1.7 A list of all the reports issued during the year is provided at Appendix A, whilst Appendix B sets out our actual and budgeted fees for 2009/10.

The Economy

- 1.8 In the current financial climate, the Government's most urgent priority is to reduce the deficit whilst ensuring the economic recovery continues. Savings of over £6 billion are planned from Government spending during this financial year, including some £1.1 billion in reduced grants to local government. At the same time, the Government aims to reduce top-down government and devolve power and greater financial autonomy to local authorities by a range of measures including:

- abolishing Comprehensive Area Assessment
- reducing ring-fenced central government grants; and
- undertaking a full review of local government finance.

- 1.9 Council tax in England is also to be frozen for at least one year, with a possible freeze for a second year in partnership with local authorities.

Most recently, the Comprehensive Spending Review (CSR) announced annual cuts to the local authority budget of 7.1% pa over each of the next four years, along with cuts to other central government budgets that will impact significantly on the Council's finances, particularly in the latter years of the CSR. In addition, at the time of writing, there was uncertainty over the Black Country Local Enterprise Partnership bid, in which the Council was playing a major role.

- 1.10 This Annual Audit Letter has been written in the context of the significant change agenda in which the Council is operating, including the management of the impact of the emergency budget statement, which for Walsall is a reduction in total grant of £7.762m.

Key areas for Council action

- 1.11 We have set out below, the key areas where action should be taken by the Council to further improve its arrangements during 2010/11:

- The Council has identified that £11 million of savings are required in 2010/11. The latest financial position for the year to September 2010 shows a shortfall in the cost improvements which have currently been identified amounting to £1.1 million. The Council has identified action plans to mitigate these pressures in year.
- The Council's IFRS project plan to restate the 2009/10 accounts by 31 December 2010 is on track. We will review the revised opening balances as part of our interim audit next year so that any issues can be identified and resolved prior to the 2010/11 year end accounts process.
- The Council should continue to implement the agreed action plan, in response to our audit on European Structural Fund.

- 1.12 The context for these key messages can be found in this Letter. Management has agreed to the implementation of these recommendations.

2 Audit of Accounts

Introduction

- 2.1 We issued an unqualified opinion on the Council's 2009/10 accounts on 28 September 2010, ahead of the statutory certification deadline. Our opinion confirms that the accounts give a true and fair view of Council's financial affairs at 31 March 2010 and of its income and expenditure for the year.
- 2.2 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 Annual Report to those Charged with Governance to the Audit Committee on 28 September and summarise only the key messages in this Letter.

Audit of the accounts

- 2.3 The Council performed well in producing a timely set of accounts against a tight timetable. We were presented with the draft financial statements on 21 June 2010 and the majority of supporting working papers in accordance with the agreed timetable for audit. .
- 2.4 The two significant accounting issues were dealt with during the audit.

Shareholding in Birmingham Airport

- 2.5 A professional valuation of the shareholding in Birmingham Airport Holdings Limited was received by the Council subsequent to the issue of the draft accounts. The Chief Finance Officer reported to Audit Committee at the time of the submission of the draft accounts, that this matter was still outstanding as it was necessary for all of the West Midland authorities to have a single agreed valuation of the airport. This matter was led by Birmingham City Council. The shareholding was valued £10.8 million higher than the carrying value held in the draft accounts. This amendment was processed by officers, the overall net effect of which was to increase the net assets of the Council by £10.8 million. There was no impact on the Council's income and expenditure position and the adjustment had no impact on the Council's general fund reserve.

Equal Pay

- 2.6 Many Councils, including Walsall Metropolitan Borough Council, are experiencing large numbers of claims for back pay from appeals about unequal pay arising from the implementation of the single status agreement.
- 2.7 The Council made a provision for equal pay, the majority of which was treated as capital expenditure in accordance with Government directions. There was some uncertainty around the amounts as well as the timing of any payments due to complex legal processes, timing of any settlement negotiation meetings, potential ACAS availability and continuing development of case law. Subject to the amendment reported below in paragraph 2.9, we accepted the Council's accounting treatment in this context but required further disclosures to be made within the draft statement of accounts.
- 2.8 The Council expects to begin negotiating settlement during the 2010/11 financial year and therefore this will continue to be an issue of potential uncertainty as the actual payments required in settling the liabilities brought about as a result of equal pay legislation, or in

settlement negotiations, may be significantly different to the amounts which have been provided for in the accounts. We will continue to keep this matter under review as part of our 2010/11 audit.

- 2.9 As part of our work in this area, we also identified an amendment to the accounts of £489,000 which was processed. The adjustment related to an error in the calculation supporting the provision that the Council had made for the future costs of implementing these equal pay measures for its workforce. The overall effect of the adjusted misstatement was to increase the provision and the Income and Expenditure Account charge by £489,000; the general fund remained unaltered.

Financial performance

- 2.10 The Council reported a £84.3m deficit for the year ending 31 March 2010. After statutory adjustments, such as the removal of depreciation, impairments and FRS17 entries in relation to pension costs are applied; the Council shows an overall surplus for the general fund of £3.2m for the year. The Council has set a balanced budget for 2010/11 and for the period of the current Medium Term Financial Strategy (MTFS). General fund reserves increased from £5.1m to £8.3m in year, demonstrating that the Council continues to maintain a prudent level of reserves, at this time.
- 2.11 However, the Council's financial position remains extremely challenging as it seeks to remain in financial balance whilst facing significant cost pressures impacting across local government. The latest budget monitoring report (September 2010) shows that the overall Income and Expenditure position is a deficit of £1.3m. The Council's budget remains under pressure, particularly from children's services and, as at September 2010, there were £1.1m of new savings/efficiencies of a total of £11.0m that were not expected to be realised.
- 2.12 In October 2010 the Chancellor announced the Government's Comprehensive Spending Review (CSR), which reduced local government funding nationally by 7.1% per annum for each of the next four years, as well as cuts to the other central government budgets that will impact significantly on the Council's finances, particularly in the latter stages of the CSR.
- 2.13 The scale of the challenge faced has been recognised by Members. We will continue to keep the Council's financial position under review as part of our 2010/11 audit, as well as discussing with officers the efficiency of your planned response.

Financial systems

- 2.14 We undertake sufficient work on key financial controls for the purpose of designing our programme of work for the financial statements audit. Our evaluation of the Council's key financial control systems did not identify any control issues that presented a material risk to the accuracy of the financial statements.
- 2.15 We reviewed the work of internal audit and concluded that the scope and conduct of internal audit work was appropriate to support our work in auditing the Council's 2009/10 accounts. We also performed a high level review of the general IT control environment as part of the overall review of the internal control system and concluded that there were no material weaknesses within the IT arrangements that would adversely impact our audit of the accounts.

Annual Governance Statement

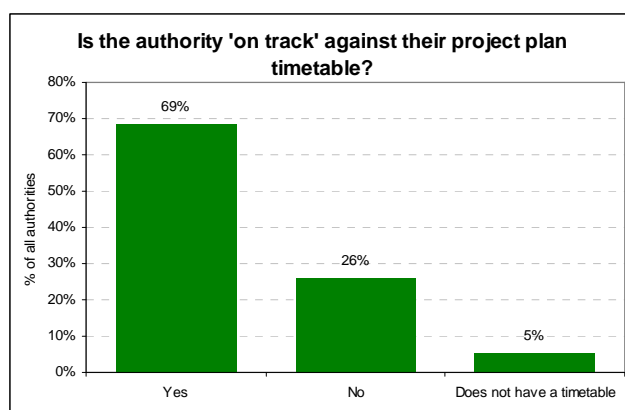
- 2.16 We examined the Council's arrangements and process for compiling the Annual Governance Statement (AGS). In addition, we read the AGS and considered whether the statement was in accordance with our knowledge of the Council. Our work confirmed that

the AGS was consistent with our knowledge of the Council and no issues arose from our work.

International Financial Reporting Standards

- 2.17 The Council is required to prepare its accounts in accordance with International Financial Reporting Standards (IFRS) from 2010/11. The IFRS transition at the Council is being informed by a clear project plan.
- 2.18 A survey on IFRS progress was undertaken by the Audit Commission during July 2010. The survey indicated that whilst most authorities had made adequate progress against their project plans, nearly a third had not as can be seen in the following Exhibit.

**Exhibit 1: IFRS Progress all authorities (source - Audit Commission)
(422 authorities in total)**



- 2.19 Our work confirms that for Walsall Metropolitan Borough Council, the overall project plan remains on track with the project board receiving assurances that the key date of 31 December 2010, for the restated 2009/10 accounts and skeleton IFRS compliant statements, will be achieved. We will continue to review progress as part of our planned programme of work for 2010/11 and will look to review the restatement as part of our 2010/11 interim audit.

Grant Claims and Returns

- 2.20 Each year we review and certify a number of grant claims and returns in accordance with the arrangements put in place by the Audit Commission. Whilst the Council has good overall arrangements in place and uses a dedicated grant co-ordinator to ensure timely identification and submission of claims, its previous record in this area has not been as good as it demands, with relatively high levels of amendments and qualification reported on previous years' claims. A general conclusion from this work is that it remains a priority for all those involved in grant claims compilation, including officers in decentralised service departments, to comply fully with the Council's corporate arrangements for grants.
- 2.21 This year we expect to review in total 8 claims and returns, with a total claim value in excess of around £220m. Work on most of these claims is still ongoing as at the time of writing. We will inform the Council of the results of this work in a dedicated Grants Report which we plan to issue in the New Year.

3 Use of Resources

Introduction

- 3.1 We issued our annual Value for Money (VfM) conclusion on 28 September 2010, at the same time as our accounts opinion, and ahead of the required deadline. We concluded that, for 2009/10, the Council made proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2010.
- 3.2 Prior to giving our VfM conclusion, we set out the basis of this conclusion and the results of our assessment against the Use of Resources (UoR), in our report presented to the Audit Committee on 28 September. In this Letter, we summarise the key messages from this work alongside relevant findings.

2009/10 VfM conclusion and UoR assessment

- 3.3 The Audit Commission's Code of Audit Practice requires us to assess whether the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. In discharging this responsibility, we are required to review and, where appropriate, examine evidence that is relevant to the Council's corporate performance management and financial management arrangements.
- 3.4 Our 2010 VfM conclusion has been informed by work carried out on UoR up until the abolition of Comprehensive Area Assessment and other local risk based work carried out in accordance with our 2009/10 Audit Plan.
- 3.5 The key developments in the Council's arrangements include:
- Improvements in commissioning and procuring quality services and supplies, tailored to local needs, to deliver sustainable outcomes and value for money. The Council has improved management arrangements; in particular a range of demand management measures have been implemented to address budget shortfalls and the Council has further developed its understanding of the supply market through collaborative working with the West Midlands Care Association; and
 - Improvements producing relevant and reliable data and information to support decision making and manage performance. The Council has improved management arrangements in this area; in particular, it has continued to build upon robust data quality procedures to ensure the reliability of data, including through effective partnership working and continues to improve upon its data quality arrangements extending the work to partnership protocols.
- 3.6 The main areas where further action is required by the Council include:
- Improving the effectiveness of internal control arrangements: the Council is reviewing its internal audit arrangements as a result of a number of findings relating to the work of Internal Audit, which, whilst fit for purpose, requires developing to provide a more strategic risk assurance service for the organisation; and
 - Improving the effectiveness of governance arrangements: the Council needs to ensure that its overall governance arrangements are fully effective following the clawback of European funding, referred to in the next section of this letter.

Use of Resources reviews

- 3.7 To support our assessment of the Council's use of resources, we completed specific pieces of work:

- Investigation into the European Structural Fund Objective 2 action plan
- Audit Committee Effectiveness
- School Balances

Investigation into the European Structural Fund Objective 2 action plan

- 3.8 This year we completed a review of the Council's conduct and arrangements in managing and administering the European grant funded Objective 2, 'Action Plan'. The work was prompted by a £2.5m loss of grant funds, as a result of non compliance with the funding body's rules, which we initially reported on in last year's Annual Audit Letter. The Council called for a full investigation into this matter, which we undertook using statutory audit powers. Our main findings were reported to the Audit Committee of 23 March 2009.

- 3.9 Our report received full consideration in the public session of the March Audit Committee and members fully supported the remedial actions that we and the Council's senior officers proposed. Following the Committee meeting, officers formulated a detailed response to each of our recommendations, to ensure that, to the best of its ability, problems of this nature should not recur in future. We will monitor the Council's response against each of our recommendations, as part of our following years' audits.

Audit Committee Effectiveness

- 3.10 The Council is keen to develop its Audit Committee function to demonstrate that it is achieving best practice for governance and internal control arrangements. To this end, we undertook a review of the Council's Audit Committee in order to appraise the effectiveness of the Committee as an important aspect of the Council's governance and assurance processes. The key messages arising from this review are noted below:

- Audit Committee members feel that there is a lack of clarity regarding the level of analysis required on their part, compared with that of management;
- The Audit Committee is concerned that it may not review all of the key areas it should;
- The Audit Committee feels that the addition of an independent Audit Committee would enhance its skill mix;
- Additional training was raised by the Audit Committee as a requirement to support it in the discharge of its duties;
- There is scope for the Audit Committee to gain a better understanding of the role of External Audit;
- There is general concern over potential delays between a matter arising and it being brought for review to the Audit Committee; and
- There was concern that the Audit Committee becomes too involved in the detail of an issue.

- 3.11 Recommendations were raised with and agreed by the Audit Committee in response to the key messages noted above. The Council's Internal Audit Department has produced an action plan to ensure that these recommendations are implemented. This was presented at the Audit Committee meeting on 25 October 2010.

School Balances

- 3.12 In its 2009 report 'Valuable Lessons – Improving economy and efficiency in schools', the Audit Commission found that the overall level of schools' unspent revenue balances was substantial and exceeded £2 billion, which it considered to be an inefficient use of public money. The Commission's view is that balances nationally need to reduce in order to avoid imposed reductions by the Department of Children, Schools and Families (DCSF). We undertook a review of school balances at the Council, the key messages from which are noted below:
- Whilst levels of uncommitted balances are generally in line with performance elsewhere and DCSF guidelines, some schools in Walsall have higher than expected levels of committed balances that have not, in our view, been sufficiently challenged by the Council;
 - Procedures are in place to verify balances and manage them throughout the year. However, the Council recognises that these are onerous to administer and have insufficient impact in terms of reducing balances;
 - Significant changes in process are necessary to tackle the issues around the current system to ensure that schools spend a greater proportion of their revenue funds, as intended; and
 - There are a number of initiatives being employed by the Council to address surplus balances, some of which encompass the wider issue of school spending to minimise the build up of such balances. However, in our opinion, an approach ensuring that only appropriate commitments are carried forward and managed must now take priority, which would, in turn, reduce the overall levels of school balances in Walsall.
- 3.13 Recommendations were raised in a report which will be presented to a future Audit Committee.
- 3.14 On the basis of reviews undertaken with regard to Use of Resources, including, but not limited to the specific reviews noted above, we issued an unqualified Value for Money conclusion.

Follow-up of Previous Reports

- 3.15 As part of our planned programme of work for 2009/10, we followed up progress made by the Council in implementing outstanding recommendations from current and previous years' reports issued. This work was completed during our interim review and was presented to the Audit Committee on 21 June 2010. At that time it had been noted that good progress was being made with all seven recommendations expected to be fully implemented by July 2010.
- 3.16 From work done during our final accounts audit it was confirmed that action to address all recommendations had been completed.

Approach to local value for money audit work from 2010/11

- 3.17 The Audit Commission has reviewed its work programme for 2010/11 onwards given the scale of the pressures facing public bodies in the current economic climate. As part of this exercise, it has been discussing possible options for a new approach to local value for money audit work with key national stakeholders.

- 3.18 From 2010/11 we will apply a new, more targeted approach to our local VfM audit work. This will be based on a reduced number of reporting criteria specified by the Audit Commission, concentrating on:
- securing financial resilience; and
 - prioritising resources within tighter budgets.
- 3.19 We will determine a local programme of VfM audit work based on our audit risk assessment, informed by these criteria and our statutory responsibilities. We will no longer make annual scored judgements relating to our local VfM audit work. Instead we will report the results of all the local VfM audit work and the key messages for the audited body in our annual report to those charged with governance and in the Annual Audit Letter.

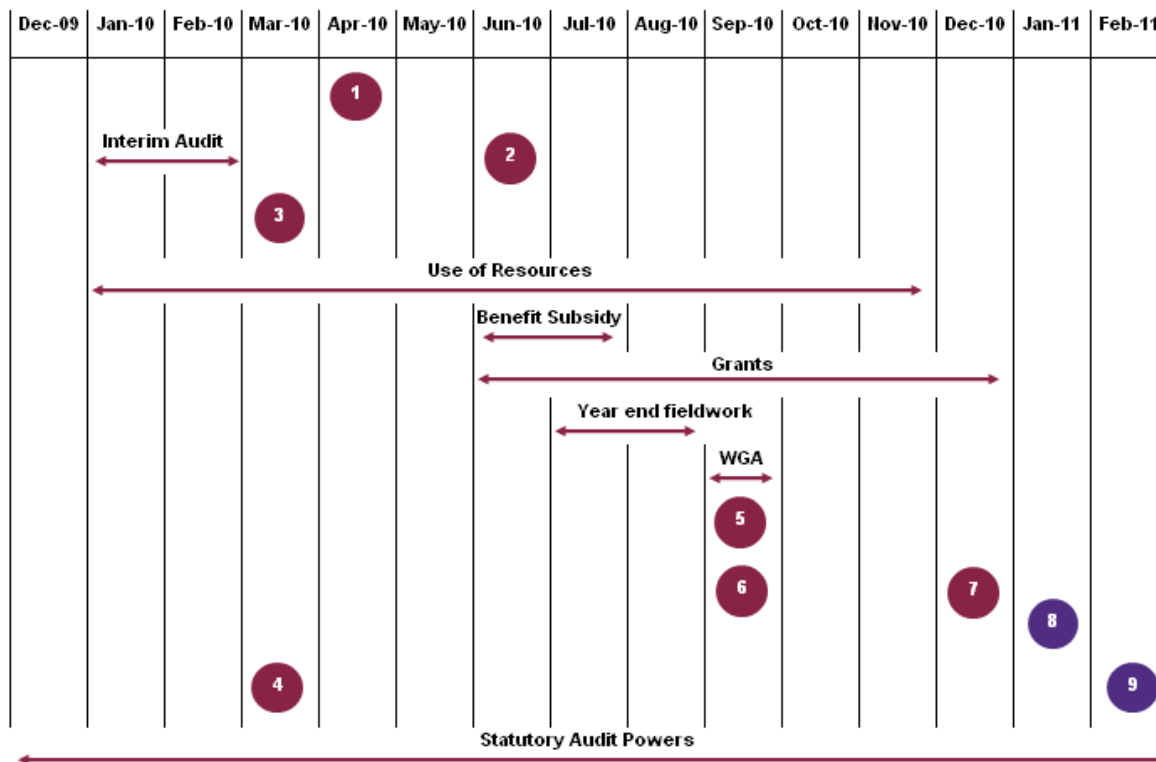
4 Closing Remarks

- 4.1 This Letter was discussed and agreed with the Section 151 Officer and the Head of Corporate Finance.
- 4.2 We would like to take this opportunity to express our appreciation for the assistance and co-operation provided during the course of the audit.

Grant Thornton UK LLP
16 December 2010

A Reports Issued

Reports presented to Audit Committee



- Reports issued**
- 1 Audit Approach Memorandum
 - 2 Interim audit report
 - 3 Audit requirements checklist
 - 4 Investigation into the European Structural Fund Objective 2 Action Plan
 - 5 ISA 260 Report
 - 6 Audit Committee Effectiveness
 - 7 Annual Audit Letter

- Reports to be issued**
- 8 Schools balances
 - 9 Grants Report

B Audit and Other Fees

Audit Area	Budget 2009/10 £	Actual 2009/10 £
Audit of accounts	196,000	196,000
Use of Resources	120,000	120,000
Formal audit powers	0	90,960
Total Code of Practice fee	316,000	406,690
Certification of grant claims and returns	67,000*	TBC**
	383,000	TBC**

* Budget for certification work based largely on actual bills in 2008/09 less charges for EUR01 and EUR02 grant claims as there is no certification of these claims in 2009/10.

** Work still ongoing.



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