

Final Accounts Audit

Walsall Metropolitan Borough Council

Audit 2006/07

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Summary report

Introduction

- 1 This report provides a summary of the main issues arising from the opinion audit for Walsall MBC. This report is intended to supplement and expand on the issues included within the ISA+260 Governance report tabled at the September 2007 Audit Committee.

Background

- 2 The Council is responsible for the preparation of the Statement of Accounts ensuring that it presents fairly the financial position as at 31 March 2007. The accounts were audited in accordance with the Code of Practice and the District Auditor issued an unqualified opinion on the Statement of Accounts 25 September 2007.
- 3 We are pleased to note that the Council has implemented majority of the recommendations raised during last year's final accounts process. As a result of this we recognised real improvement in the quality of working papers provided for audit compared with the previous year.
- 4 This report sets out further observations to aid improvement in the Council's final accounts process with the aim of demonstrating continued improvement against the financial reporting element of the Use of Resources criteria.

Main conclusions

- 5 The Council has worked hard to ensure that the financial statements for 2005/06 and 2006/07 comply with the new SORP 2006 requirements. It has continued to strengthen its final accounts process thus ensuring that the final accounts audit ran smoothly. To assist continual improvement, the Council should ensure that all requirements of our working paper schedule are appropriately met before the start of audit.
- 6 The financial statements, approved 28 June 2007, were subsequently amended prior to audit for adjustments to fixed assets and reserves. To minimise the risk of amendments being required to approved accounts in future years, the process for management review of the financial statements prior to approval should be reviewed and further strengthened.
- 7 A summary of issues raised is included in Appendix 1.

Detailed report

General matters

- 8 A number of minor errors were identified. There were examples where figures in the accounts did not agree to working papers, accruals not identified or cut off not applied. This could have been eliminated by strengthening the robust closedown process including senior officer review.
- 9 A review of the statement of accounting policies identified a number of areas where the financial statements were not in line with the SORP (2006). The Corporate Final Accounts Team should confirm that the financial statements comply with SORP as part of the closedown process.

Recommendations

R1 The process for management review of the financial statements prior to approval should be strengthened to minimise the risk of errors.

R2 The corporate final accounts team should confirm that the financial statements comply with SORP.

Income and Expenditure Account

- 10 The Income and Expenditure Account was adjusted by £777k for the understatement of pension costs. This is the amount the actual superannuation needed to be increased to reflect the actuaries estimate. The Council should ensure that the entries in the financial statements which relate to pension costs should reconcile to relevant information supplied by the actuaries.
- 11 Unreconciled discrepancies were identified between the payroll and debtors system and the general ledger. The variance from the payroll system was £193 and the debtor control account showed a variance of £481. While the figures involved are insignificant, this does identify a concern with the operation of a key control within these systems. Action should be taken to ensure these systems can be fully reconciled to the ledger.

Recommendations

R3 The Council should ensure that all entries in the Statement of Accounts which relate to pension costs should reconcile to relevant information supplied by actuaries.

R4 The Council should ensure that all key financial systems can be fully reconciled to the general ledger.

Balance sheet

Tangible fixed assets

- 12 The processes for identifying the Council's tangible fixed assets should be reviewed and strengthened. The Council identified errors and made adjustments to the original balance sheet entries for disposal of magistrate courts of £13.7m, the Wharf and later on for Oak Park Leisure Centre.
- 13 In our testing of fixed assets, the Council was unable to locate the deeds for Dolphin Close Hostel, New Invention Junior School, Education Development Centre, Leather Museum, and New Art Gallery. Other evidence was provided to give assurance that the Council had rights and obligations to these assets.
- 14 Internal processes should be improved to ensure that all tangible fixed assets can be supported by working papers to provide assurance over title, rights and obligations.

Recommendations
<i>R5 The Council should review and strengthen its internal processes for identifying tangible fixed assets.</i>
<i>R6 The Council should locate the deeds for Dolphin Close Hostel, New Invention Junior School, Education Development Centre, Leather Museum and New Art Gallery.</i>

Debtors

- 15 Various issues were identified when auditing the debtors entry in the balances sheet.
 - The property charges debtor of £1.5m was reduced by £546k because it incorrectly included amounts for 2007/8.
 - The ERDF debtor was recorded as net when it should have been gross. Amendments of £575k to debtors and creditors were made.
 - Debtors and creditors were increased by £379k for the March income and payment for Learning Net Project which were omitted from the Balance Sheet.
- 16 The Corporate Final Accounts Team will be incorporating the issues arising from this year's audit in its final accounts training presentations for 2007/08.

Provisions

- 17 The Housing Benefit Transitional Benefit Scheme provision of £3.2m was set up to provide for potential clawback of benefit by DWP. It was for periods 2004/05 to 2006/07. The provision was reduced by £1.9m because the Council received notification in September which indicated that there was a surplus in the fund set aside for 2005/06.
- 18 We have had discussion with the DWP regarding the Housing Benefit Transitional Benefit Scheme as the scheme ended in 2006/07. Whilst the Council is being prudent and has £1.2m to cover potential clawback for 2006/7, the Council should review this provision in 2007/08 as it is likely that the repayment will be significantly less than anticipated.

Recommendation

R7 The Council should review its provision for Housing Benefit Transitional Benefit Scheme.

Other issues

- 19 Some issues reported in previous years have reoccurred albeit on a minor scale. The Council continues to include internal debtors and creditors in its financial statements.
 - An internal creditor of £42k was identified in the accounts payable system.
 - There was a catering debtor of £53k but working papers showed that the Council received the money in March 2007.
 - Early Years creditor accrual of £248k was incorrect because it was the carried forward balance on NNI Birchills for nursery provision. The project is self financing.
- 20 The closedown process should include specific checks to ensure any internal balances are excluded from the statements.
- 21 A review of the stocktake has identified minor instances where there has been a failure to follow Council procedures. These include the need to ensure stock certificates are signed by two officers and for stock certificates to clearly indicate the method of valuation used. Additional guidance should be provided to show how the Council is able to ensure third party stocks are omitted from the count.

Recommendations
<p><i>R8 The closedown process should include a check to verify that internal debtors and creditors have been excluded from the financial statements.</i></p> <p><i>R9 The Council should review the process which ensures that creditor balances are accurate.</i></p> <p><i>R10 Officers should be reminded to follow Council procedures for completing the year end stock take.</i></p>

Collection Fund

The Collection Fund statement was amended to reflect the 2005/06 audited accounts and to show clearly the impact on the Fund's reserves arising from the change in methodology for calculating the bad debt provision.

Appendix 1 – Issues arising from 2006/07

Exception	Issue	Outcome
	General	
1	<p>The following were found when checking the financial statements for compliance with SORP checklist:</p> <ul style="list-style-type: none"> • some areas of the statement of accounting policies were not in line with SORP (2006); • the core financial statements should be in a specified order; and • the building control account should disclose the 2005/06 non chargeable and chargeable elements. 	Amendments to the accounts were agreed and implemented.
2	<p>The following did not agree to working papers:</p> <ul style="list-style-type: none"> • figures in the CFR calculation for 31/3/07 did not agree to the financial statements. We required revised working paper showing CFR at 31/3/07 and reconciliation of the closing capital financing requirement to the core financial statements on how capital expenditure has been financed; • the deferred LOBO interest for 2004/56 was incorrect; • Note 22 Tangible Fixed Assets figures for depreciation for Buildings, Vehicles, Plant and Equipment, Non operational assets; • Note 35 Deferred Discounts on Early Redemption of Debt where the amount discharged to revenue and amortised were incorrect; • Note 42 Capital Grants did not reflect the late adjustment for s106 monies; 	<p>Revised working papers were provided.</p> <p>The Council considered amendments, did them where required but did not make adjustments when it considered the amounts to be immaterial.</p>

Exception	Issue	Outcome
	<ul style="list-style-type: none"> Note 46 Statement of Net Assets Employed split between Foundation Schools and General Fund did not reflect the amounts in Fixed Assets Restatement Account; and Note 47 Analysis of Tangible Fixed Assets nursery school figure should be amended to included Sure Start Birchills and Sure Start Blakenall. The figures for Depots and Tractors were incorrect. 	
	Income and Expenditure	
3	The actuaries' estimate of cost of superannuation is £777k more than actually paid by the Council. Net cost of services has therefore been understated. An adjustment should be made so that actuaries' estimate is reflected in the net cost of services.	Amendment agreed.
4	<p>Interest and Investment Income in the I&E is £5,332K compared to £1,240K in 2005/06 an increase of £4,092K.</p> <p>The movement is due to the restatement of the CRA to the I&E. In the 2005/06 accounts there was one line for interest and investment income (where interest payable and income were netted off each other). When the restatement took place there is still an amount netted off the interest and investment income figure for the 2005/06 comparative figure. The amount still netted off is £2,623K. This needs to be re-classified as Interest payable.</p>	Amendment agreed.

Exception	Issue	Outcome
	Fixed assets	
5	<p>The Deeds could not be located for the following:</p> <ul style="list-style-type: none"> • New Invention Junior School, Cannock Road Willenhall. • Education Development Centre, Pelsall Lane Rushall • Leather Museum, 53-56 Wisemore - Cobbetts solicitors say that they have not got them. • New Art Gallery, Town Wharf - Cobbetts solicitors say that they have not got them • Dolphin Close, Hostel - Goscote Walsall <p>We need assurance that Walsall has title, rights and obligations to these assets.</p>	The Council agreed that it was a process issue for 2007/08 but other evidence was provided to indicate that the Council had rights and obligations to the assets e.g. insurance.
6	The magistrate courts £13.773m were transferred 1/4/05. The Council identified the error when it reviewed the accounts and did further accounts adjustments per briefing note of 20/7/07.	The amendment was done in accordance with the briefing note issued by the Council.
7	The changes to the intangible fixed assets have not been reflected in the general ledger in 2006/07. The ledger still shows the b/f value from 2005/06, i.e. total intangible fixed asset value of £160881.34 and it should be £131420.67.	Amendment agreed.
8	Note 12 records specific additions as Nil but working paper indicates there was an acquisition in Highways for £196,726.58.	Amendment agreed to note 22 tangible fixed assets.

Exception	Issue	Outcome
9	<p>The Council has updated its guidance on capitalisation. However, the guidance;</p> <ul style="list-style-type: none"> • does not explicitly cover assets acquired on terms meeting the definition of a finance lease or where it is acquired for other than a cash consideration where payments are deferred. • does not outline acquisition of share or loan capital in any corporate body • does not cover the repayment of any grant or other financial assistance given to the local authority for the purpose of expenditure which is capital expenditure. 	The Council agreed that the guidance will be further updated for 2007/08.
	Stock	
10	<p>A review of working papers showed;</p> <ul style="list-style-type: none"> • The stock certificate for Blackwood Primary records a Food and Vending stock figure of £13,614.09 but from the back up sheets it should only be £1,278.53 (£1,232.78 plus £45.75). The consumption figure of £13,614.09 has been picked up in error (plus £45.75). • Four out of six stock certificates have only been signed by one officer in the 'officers responsible for stock take' section - but the guidance says that two officers should undertake the stock take. • Three out of the six stock certificates do not clearly indicate the method of valuation used. 	No amendment as it was immaterial. Process issue noted.

Exception	Issue	Outcome
	Debtors	
11	Debtors had property charges £1.5m. The spreadsheet of list of clients indicate that that it should be long term debtor and amendment needs to be done as the amounts for 2007/8 amounts have been included.	The property charges were reduced by £546k for 2007/8 amounts. The note on debtors was amended to explain that these debts may not be receivable within twelve months.
12	VAT may have not been correctly accounted for with regard to three New Deal payments. Debtors may be understated by £90k.	The Council has made a voluntary disclosure to HMRC and a recharge is being arranged with New Deal for this. New Deal are being allowed to retrospectively reclaim this VAT from GOWM in line with the grant regime. Any interest incurred due to the voluntary disclosure will also be recharged to New Deal.
13	Salaries for general administrative staff of £466,267 have been included in the expenditure for the Backlog Aids and Adaptation scheme. The staff include Housing Improvement Officers, Case Workers, the Principal Environmental Health Officer and the Housing Standards, and Improvement Manager. Because the duties of these staff are not specifically confined to the scheme, funding their salaries from the capital funds may not be appropriate (SORP (2006), para K9iii).	The Council will ensure that there is supporting evidence in future to show that salaries charged to capital should be capitalised.
14	The ERDF debtor of £550k is incorrect as it is the net amount. It should be £1,125k and creditor should be £569k. The error arose because it was cleared down by service type and should have been cleared down by cost centre.	Amendment agreed.

Exception	Issue	Outcome
15	Catering working papers show that the Council had the money in March but banked it in April 2007. It should not be a debtor - £53k.	The Council considered amendment but did not do so as the amount was immaterial.
16	The Council have invoiced LSC for £379k(4/4/07) for learning net project for March 2007. This amount is not in debtors or creditors. It should be in both as the Council 'passports' the grant to Black Country Learning Consortium.	Amendment agreed.
17	Debtors control account of £10,972,738.24 did not reconcile to the ledger by £480.78. The Council needs to review its reconciliation process as the working paper also indicates that last year's reconciliation also did not balance.	Debtors control reconciliation will be reviewed.
18	The grant claims for the Bus Showcase and Red Routes did not reconcile to capital debtors by £25,860.58 and £17,572.80 respectively.	The officers responsible for the claims and capital accounting will meet quarterly to ensure that records and claims will reconcile.
	Creditors	
19	Evidence required to show that NNI Birchills creditor of £248k is valid.	This was not a creditor as it was balance carried forward. It was 'profit' arising from fees probably from crèche/nursery less salaries. NNI Birchills scheme was based on being self financing. The Council considered amendment but did adjust the accounts as the amount was non trivial.

Exception	Issue	Outcome
20	<p>In the testing of creditors, Norwest Holst Ltd interim certificate no 9 shows that tender total was £11.8m and that value of work to 31/3/07 was £3.7m. So remaining contract value is £8.1m.</p> <p>Note 52 Capital Commitments Regeneration and Neighbourhood has commitments of £8.2m for that directorate. We would expect the figure to have been higher.</p> <p>The Council should check that capital commitments note is not understated.</p>	Note amended.
21	At year end there was -£5,735,416.52 in the accounts payable system. A tabulation showing the creditors which make up that figure had £41,820.30 where the creditor was Walsall MBC 002.	The Council will review internal debtors and creditors process for 2007/08.
22	The two biggest payroll creditor amounts (PAYE £2,436,410.60 and NI £2,226,901.96) were reviewed for the audit trail between ledger and payroll system. Neither reconciliation balanced by £162.95 and £35.44 respectively.	The process for doing payroll reconciliations will be reviewed to ensure full reconciliations occur.
23	<p>There was a £64k creditor relating to matchfunding contribution to Work first - Steps to Work. It transpired that it should be excluded from debtors and creditors. The Council raised the invoice 30/3/07, received money 24/4/07 and it was for 2007/08 activity. We understand that the journals used to correct the error were incorrect.</p> <p>Debtors and creditors are overstated by £64k.</p>	The Council considered amendment but did not make adjustment as the amount was immaterial.

Exception	Issue	Outcome
	Provisions	
24	Provisions Note 34 Government Grant £3.210m (HB transitional protection scheme): The DWP had clawed back £107k in respect of 2004/05 and the clawback for 2006/7 would probably be less than this amount based on our discussions with the DWP.	The Council had a DWP letter in August which indicated that the Council was going to get £248k back (net effect of clawback and increase in subsidy arising from 2004/05 audited claim). The provision will be reduced by £1.9m.
	Cashflow	
25	The movement on Debtors of £7,500k in note 55 does not agree to balance sheet. Movement on balance sheet is £6,161K a variance of £1,339k. This is because an adjustment was made to Debtors for Section 106, which was not followed through to the cash flow.	Amendment agreed.
26	The creditors movement of £5,811K does not agree to balance sheet. The movement on balance sheet is £5,293K a variance of £518K. This is because when removing capital creditors the movement has been taken out the wrong way. The actual movement should be £4,775k. This will need to be adjusted.	Amendment agreed.
27	The movement on reserves in note 55 of (£6,600K) is incorrect, as it has not picked up the change to the collection fund from the change in policy on bad debts. The figure should be (£5,263K), the rest of the balance will need to be included under revenue activities on balance sheet.	Amendment agreed.

Exception	Issue	Outcome
	Collection Fund	
28	The Council is of the opinion that due to a change in accounting policy on the calculation of bad debt provisions in the Collection Fund, it changed the 2005/06 audited figures to provide better comparative information.	The 2005/06 audited accounts were reinstated with explanation for reader of impact of change in calculating the bad debt provision.

Appendix 2 – Action plan

Page no.	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
5	R1 The process for management review of the financial statements prior to approval should be strengthened to minimise the risk of errors.	3	Corporate Finance Manager, Final Accounts Team, Senior Management	Yes	Although a strong review process is already in place more time will be built into the timetable for senior management to question and challenge the working papers. This will be achieved by a more efficient process and tighter deadlines. There will be a continued focus on the bigger and higher risk areas.	January 2008 Plan for 2007/08 final accounts
5	R2 The corporate final accounts team should confirm that the financial statements comply with SORP.	3	Group Accountant, Final Accounts Team	Yes	To minimise risk compliance with the SORP will be reviewed annually with the SORP Guidance Notes. In addition to this the SORP checklist will be completed earlier in the year end process.	June 2008
5	R3 The Council should ensure that all entries in the Statement of Accounts which relate to pension costs should reconcile to relevant information supplied by actuaries.	3	Group Accountant, Final Accounts Team	Yes	A manual and checklist are being developed to ensure this is not a future area of concern.	December 2007
5	R4 The Council should ensure that all key financial systems can be fully reconciled to the general ledger.	3	Capital, Performance and Treasury Manager	Yes	Process review to be undertaken All systems to be fully reconciled. Ongoing balance sheet review will highlight variances before the year end.	31 December 2007 for process review

Page no.	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
6	R5 The Council should review and strengthen its internal processes for identifying tangible fixed assets.	3	Group Accountant, Final Accounts Team	Yes	It should be noted that these areas quoted in the report were identified by Council officers to the audit team. Extensive testing resulted in no further issues being identified. The timeliness of checks and a risk driven approach will be adopted for 2007/08.	Ongoing
6	R6 The Council should locate the deeds for Dolphin Close Hostel, New Invention Junior School, Education Development Centre, Leather Museum and New Art Gallery.	3	Estates Manager Principal Accountant, Capital Team	Yes	Principal Accountant to work closely with estates to ensure ongoing review of documentation.	Ongoing
7	R7 The Council should review its provision for Housing Benefit Transitional Benefit Scheme.	3	Principal Accountant, Corporate Finance	Already done	A thorough review of this provision will be undertaken as planned and based on notifications from DWP. All provisions are reviewed annually.	March 2008
8	R8 The closedown process should include a check to verify that internal debtors and creditors have been excluded from the financial statements.	3	Group Accountant, Final Accounts Team	Yes	Training sessions to be organised by the final accounts team to include a section on this subject. It is also the responsibility of Finance Managers and Group Accountants when reviewing the accounts to ensure internal debtors and creditors are excluded – a reminder will be issued and final accounts guidelines reviewed to ensure guidance is clear.	February 2008
8	R9 The Council should review the process which ensures that creditor balances are accurate.	3	Group Accountant, Final Accounts Team	Yes	Further emphasis in order to strengthen this process will be included in the revised Final Accounts Guidelines for 2007/08.	January 2008

Page no.	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
8	R10 Officers should be reminded to follow Council procedures for completing the year end stock take.	3	Group Accountant, Final Accounts Team	Yes	Further emphasis in order to strengthen this process will be included in the revised Final Accounts Guidelines for 2007/08.	January 2008