

Audit Committee – 20 June 2011

External Audit Interim Audit

1. Summary of report

- 1.1 This report is intended to provide additional details regarding the external audit approach, as set out in Grant Thornton's Audit Approach Memorandum presented to Audit Committee on 22 February 2011, as well as an update on audit's response to key risks from the results of interim audit work carried out to date.

2. Recommendations

- 2.1 Audit Committee are requested to note the report and comment as appropriate.



James Walsh
Chief Finance Officer
13 June 2011

3. Governance

- 3.1 Each year the council's external auditors, Grant Thornton, report to the Audit Committee on the Interim audit of the accounts. The report highlights 8 recommendations and includes the council's action plan setting out how it intends to respond to these.

4. Resource and legal considerations

- 4.1 None directly arising from this report.

5. Performance and risk management issues

- 5.1 The report provides an update on the accounts audit risk assessment, results of interim audit work, findings of the review of adequacy of the council's arrangements for implementation of International Financial Reporting Standards (IFRS) and a Value for Money Interim update. Recommendations relating to these have been highlighted and the council's actions set out in Appendix C.

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
Audit Approach Memorandum

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Walsall Metropolitan Borough Council

Interim report

May 2011



BALANCE SHEET
1910-11 1911-12 1912-13

	1910-11	1911-12	1912-13
Capital and Reserves	£ 100,000	£ 100,000	£ 100,000
Fixed Assets	£ 50,000	£ 50,000	£ 50,000
Current Assets	£ 50,000	£ 50,000	£ 50,000
Liabilities	£ 50,000	£ 50,000	£ 50,000
Total	£ 200,000	£ 200,000	£ 200,000

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1. Introduction

Introduction

This report is intended to provide additional details regarding our audit approach, as set out in our Audit Approach Memorandum presented to Audit Committee on 22 February 2011, as well as an update on our response to key risks from the results of interim audit work carried out to date.

Use of this report

This report has been prepared to advise you of the matters arising from our interim work and should not be used for any other purpose or be given to third parties without our prior written consent.

Our report is part of a continuing dialogue between the Council and ourselves and should not be relied upon to detect all errors, systems or control weaknesses or opportunities for improvements in management arrangements that might exist.

The Council should assess the wider implications of our conclusions and recommendations before deciding whether to accept or implement them, seeking your own specialist advice as appropriate.

We accept no responsibility in the event that any third party incurs claims, or liabilities, or sustains loss, or damage, as a result of their having relied on anything contained within this report.

The way forward

We have set out our findings and recommendations in the appendices to this report. We have agreed action to implement the recommendations made with the Associate Director of Finance.

Acknowledgements

We would like to record our appreciation for the assistance and co-operation provided to us during our interim audit by the Council's staff.

Grant Thornton UK LLP
May 2011



2. Executive Summary

The table below provides a summary for the Audit Committee of the work performed during the year to date and our key findings. For further detail refer to the relevant section within the report. How this work has been performed, is outlined in the Audit Approach section of the report, on pages 4 to 6.

Risk assessment	<ul style="list-style-type: none">• Our audit risks were outlined in our 2010/11 Audit Approach Memorandum. We have identified two additional risks to bring to the attention of the Audit Committee relating to the valuation of the Council's holding in Birmingham International Airport and the treatment of foundation and voluntary controlled schools, as detailed on page 9.
Review of internal controls	<ul style="list-style-type: none">• We have evaluated the design effectiveness of internal controls over the financial reporting process through a combination of inquiry and observation procedures, and, where appropriate, systems walkthroughs.• We have raised 5 recommendations from our review of controls, which are shown in Appendix C.
Detailed review of internal audit	<ul style="list-style-type: none">• We have concluded that the Internal Audit service continues to provide an independent and satisfactory service to the Council and that we can take assurance from their work in contributing to an effective internal control environment at the Council.• We have raised 4 recommendations from our review of internal audit and related documents.
IFRS arrangements review	<ul style="list-style-type: none">• Our review identified that the Council is making good progress in its transition to IFRS. We acknowledge that there is still some work being undertaken by the Council to collate and review all relevant information and we have noted the next steps required by the Council on pages 16 and 17 of this report.• We will review this work during the final accounts audit.
Value for Money	<ul style="list-style-type: none">• Following the new Value for Money framework, we have completed an initial risk assessment and prioritised the amber-rated risk areas for further review, namely obtaining an up to date Medium Term Financial Plan and conducting a review of sickness absence.

3. Our accounts audit approach

Audit approach

We will:

- work closely with the finance team to ensure that we meet audit deadlines and conduct the audit efficiently
- plan our audit on an individual task basis at the start of the audit, and agree timetables with all staff involved
- consider the materiality of transactions when planning our audit and when reporting our findings
- review the processes and position of the Council for its transition to International Financial Reporting Standards (IFRS).

The logistic details of our annual accounts audit are detailed at Appendix A to this memorandum.

In summary our audit strategy comprises:

Stage	Approach
Planning	<ul style="list-style-type: none"> • Updating our understanding of the Council through discussions with management and a review of the management accounts • Review of IFRS transition arrangements
Control evaluation	<ul style="list-style-type: none"> • Reviewing the Council's management accounts • Reviewing your IFRS transition arrangements • Reviewing the design effectiveness and implementation of the Council's control framework
Substantive procedures	<ul style="list-style-type: none"> • Reviewing material disclosure issues in the financial statements • Performing analytical review • Verifying all material income and expenditure and balance sheet accounts, taking into consideration whether audit evidence is sufficient and appropriate
Completion	<ul style="list-style-type: none"> • Performing overall evaluation of the audit issues identified from our work • Determining an audit opinion • Reporting to the Audit Committee

3. Our accounts audit approach (continued)

Materiality

An item would be considered material to the financial statements if, through its omission or non-disclosure, the financial statements would no longer show a true or fair view.

Materiality is set at the outset of planning to ensure that an appropriate level of audit work is planned. It is then used throughout the audit process in order to assess the impact of any item on the financial statements. Any identified errors or differences greater than **2% of materiality** will be recorded on a schedule of potential misstatements.

These are assessed individually and in aggregate, discussed with you and, if you do not adjust, signed off by you in your letter of representation to us, confirming your view that they are immaterial to the financial statements.

An item of low value may be judged material by its nature, for example any item that affects the disclosure of directors' emoluments. An item of higher value may be judged not material if it does not distort the truth and fairness of the financial statements.

Internal audit

We will work with the internal audit function to ensure our audit approach takes account of the risks identified by them and the work they have conducted.

As part of our on-going liaison with the Council, we now meet regularly with the Head of Internal Audit and we are monitoring the developments within this service, which to date have been positive.

Review of IT and outsourced systems

Our audit approach assumes that our clients use a computer system for accounting applications that process a large number of transactions. Accordingly, our approach requires a review of the Council's internal controls in the information technology (IT) environment.

We have involved our IT specialist team members during the audit. This approach is based on the complexity of IT used in the Council's significant transaction cycles and a risk assessment of the relevant IT control.

3. Our accounts audit approach (continued)

Internal controls

Auditing standards require that we evaluate the design effectiveness of internal controls over the financial reporting process to identify areas of weakness that could lead to material misstatement. Therefore, we will focus our control review on the high risk areas of the financial statements.

We are also required to assess whether controls have been implemented as intended. We have done this through a combination of inquiry and observation procedures, and, where appropriate, systems walkthrough tests. However, our work cannot be relied upon necessarily to identify defalcations or other irregularities, or to include all possible improvements in internal control that a more extensive controls review exercise might identify.

Transition to International Financial Reporting Standards (IFRS)

The IFRS based Code of Practice on Local Authority Accounting in the United Kingdom (the Code) has effect from 1 April 2010. The 'transition date' to IFRS is therefore 1 April 2009.

The Council is responsible for the preparation of a restated opening balance sheet as at 1 April 2009 following the introduction of International Financial Reporting Standards (IFRS) and in accordance with the Code.

Auditors do not have any direct reporting responsibilities in respect of transition balances although they will form the opening balances for the comparative period.

Our work has taken the form of an arrangements review intended to provide feedback on the Council's approach to restatement and is not an audit of the restated balance sheet figures. Detailed work on the restated figures will take place during the 2010/11 final accounts audit. This assessment has focussed upon material balances either in regard to their value or nature.

Our review identified that the Council is making good progress in its transition to IFRS. The transition balance sheet was supported by working papers which clearly set out the approach adopted by the Council and justified the conclusions reached. The approach was confirmed as in accordance with the requirements of the Code and we did not identify any issues which had not already been considered by the Council.

4. Update on accounts audit risk assessment

As part of our planning and control evaluation work we have reviewed the audit risks identified in our Audit Approach Memorandum and have set out below the outcome of work completed to date and further work planned.

Our update of the audit risks facing the Council has identified two additional risks that we would like to bring to the attention of the Audit Committee. These are shown on page 9.

We will report our full findings and conclusions in respect of each risk identified in our Annual Report to Those Charged with Governance (ISA 260) on completion of our final accounts audit.

The areas of audit focus in response to the risks outlined on pages 7 to 9 of this report are at Appendix B.

Issue	Audit areas affected	Work completed	Further work planned
Accounting under IFRS	All areas of the financial statements	<ul style="list-style-type: none"> We have undertaken a review of the Council's arrangement for completing the transition to IFRS. Our findings from this review are reported at Section 6. 	<ul style="list-style-type: none"> Material areas which are impacted by the transition to IFRS will be reviewed in detail at the time of the final accounts audit.
Financial performance pressures	All areas of the financial statements	<ul style="list-style-type: none"> We have reviewed the Council's financial controls and its budgetary pressures to enable us to update our financial statements plan and value for money risk assessment as required. 	<ul style="list-style-type: none"> Our audit work is to be tailored to meet the risks identified and we will continue to maintain a watching brief in this area.

4. Update on accounts audit risk assessment (continued)

Issue	Audit areas affected	Work completed	Further work planned
<p>Back pay arising from unequal pay claims</p>	<p>All areas of the financial statements</p>	<ul style="list-style-type: none"> As part of our on-going dialogue on this matter, we have discussed the expected treatment of related balances and disclosures in the accounts and the evidence we require to support this. 	<ul style="list-style-type: none"> We will review this evidence to ensure that the treatment adopted by the Council is appropriate.
<p>Revaluation of non-current assets</p>	<p>Pension liability</p>	<ul style="list-style-type: none"> We have considered the professional competence, reputation and experience of the scheme's actuary and concluded that they have the necessary skills and knowledge to meet the objectives and scope of the work to be performed. 	<ul style="list-style-type: none"> The year end valuation was not yet available from the scheme's actuary as at the time of our interim work. The actuarial report will be reviewed as part of our final audit visit.
<p>Follow up of 2009/10 findings</p>	<p>All areas of the financial statements</p>	<ul style="list-style-type: none"> Due to their nature, several recommendations made during the 2009/10 audit can only be followed up once the final accounts audit is underway. The findings that we have been able to follow up are noted at Appendix C. 	<ul style="list-style-type: none"> We will follow up all remaining recommendations during the final accounts audit and report our findings to you in our ISA260.

4. Update on accounts audit risk assessment (continued)

The following **additional risks** have been identified since we presented our Audit Approach Memorandum to the Audit Committee in February 2011.

Issue	Audit areas affected	Work completed	Further work planned
Accounting treatment of schools	Property, plant and equipment	<ul style="list-style-type: none"> From our on-going discussions with Council officers, we are aware that the Council is reconsidering its treatment of foundation and voluntary controlled schools. These are currently held on balance sheet. 	<ul style="list-style-type: none"> We understand that a technical paper is being prepared by the Finance team on this matter and we will discuss this with officers as soon as it is available.
Shareholding in Birmingham Airport	Investments	<ul style="list-style-type: none"> In previous years, Birmingham City Council (BCC) has taken a lead in commissioning a valuation of Birmingham Airport Holdings Limited which has then been used by other West Midland authorities, including Walsall. <p>Under IFRS, BCC has determined that it is able to account for its shares as an associate at cost, due to the influence it has. We have discussed this with Council officers and have concluded that the Council is unable to account for the airport in this way and should continue to account for the investment at fair value.</p>	<ul style="list-style-type: none"> We will review the fair value calculations provided by the Council to ensure that the shareholding in the airport is accounted for appropriately at fair value. We will continue to liaise with the auditors of the shareholding consortia to ensure that the approach taken by Walsall MBC complies with IFRS requirements.

5. Results of interim audit work

Scope

As part of the interim audit, and in advance of our final accounts audit visit, we considered:

- the effectiveness of the Internal Audit function
- internal audit's work on the Council's key financial systems
- a review of closedown procedures in preparation for the final accounts under International Financial Reporting Standards (IFRS)
- review of Information Technology controls.

We have set out recommendations identified by our work in the appendices to this report. We have agreed actions to implement the recommendations with the Associate Director of Finance.

The internal audit function

We reviewed internal audit's overall arrangements against the 2006 CIPFA Internal Audit Standards. Where the arrangements are deemed to be adequate, we can gain assurance from the overall work undertaken by internal audit and can conclude that the service itself is contributing positively to the internal control environment and overall governance arrangements within the Council.

In assessing the effectiveness of internal audit work, we reviewed three internal audit files to ensure that:

- systems were adequately documented
- key controls have been identified and evaluated
- key controls have been tested
- weaknesses have been reported to management.

We were pleased to note from these files that no significant issues were identified with internal audit's work. We did however note that the Project Summary Sheet for the Broadway review contained budget information that was inconsistent with the audit plan and have raised a recommendation with regard to this matter at Appendix C.

5. Results of interim audit work (continued)

Closedown procedures

We have reviewed the annual accounts closedown schedule and guidance issued to the finance team. The closedown schedule is comprehensive and outlines the necessary information required and the timescale for the preparation of the financial statements.

We have provided the Council with an arrangements letter which sets out our working paper requirements for the final accounts audit.

Journal entry controls

Our review of journal controls identified that there is no approval process for journal users with an unlimited posting limit. There are 132 system users with such limits. Protocol issued by the ORACLE team states that journals created by such users should be posted by a member of the accountancy section in the first instance or a member of the ORACLE team if posting is urgent.

Manual journals are not subsequently reviewed for accuracy upon posting. This introduces a risk as the journal manually authorised may not be the same as that physically posted.

We do not consider this to be an appropriate measure to mitigate the risk of unauthorised journals being posted as the proposal could lead to authorisers instructing posters to post a journal on their behalf, which does not constitute an authorisation process.

We have included recommendations at Appendix C that all journals are subject to independent authorisation and that manual journals are periodically tested, on a sample basis, for accuracy of posting to ensure entries are being processed correctly.

We understand that journals in excess of £50,000 are authorised by an approver, (except as above when the poster has no limits to their posting value). We identified an instance during our journals testing whereby in the interests of urgency, a user had overridden journal controls by breaking a £124k adjustment into three separate lines of less than £50k to avoid the requirement for separate approval.

We have recommended at Appendix C that financial procedures are amended to expressly prohibit authorisation limits being circumvented in this way. Staff should be reminded that they must seek authorisation for all journal entries over £50,000. The design and operation of journal controls are fundamental to reducing the risk of fraud in any organisation and as such, we have rated these matters as high priority recommendations.

5. Results of interim audit work (continued)

Policies

We undertook a review of the Council's overarching entity level controls and identified that the Budget Management and Control Manual, detailing the process and authorisation limits for budget virements, has not been updated since 2005/06.

We have made a recommendation at Appendix C that this be updated.

Related parties

As at the time of our work a list of related parties was not available but we were able to review member's interests. From our review of 61 statements we noted that 46 had not been updated for 2011 and 52 had not been counter signed by the Monitoring Officer.

From subsequent discussions with the Monitoring Office, we note that an annual declaration is not required as the Council considers that this would detract from the continuous (and legal) obligation placed on members to declare an interest. As a result, we have not made a recommendation in this respect.

We have however recommended at Appendix C that members' statements are countersigned by the Monitoring Officer as required by the Council's constitution.

Review of information technology controls

Our information systems specialist performed a high level review of the general IT control environment, as part of the overall review of the internal controls system, and concluded that, from the work undertaken to date, there are no material weaknesses which are likely to adversely impact on the Council's financial statements.

We have, however, identified a number of areas where improvements could be made. We do not consider these to pose a significant risk to the accounts, but they are listed below for completeness. Further detail is included in Appendix C.

- Line managers should notify the Service Desk of leavers as soon as they are aware to help ensure their access is terminated on a timely basis. Also, the Service Desk should receive a regular report of leavers (at least monthly) from the HR team.
- Management should implement audit logs for changes to the Oracle database to help ensure all changes are logged appropriately.

Prior year recommendations

As part of our planned programme of work, we followed up the recommendations made during the 2009-10 audit cycle. The results of this work are shown at Appendix D for our findings. Where follow up was not possible until the final accounts audit, our findings will be reported to you in our ISA260.

6. Review of arrangements for implementation of International Financial Reporting Standards (IFRS)

Introduction and Background

Local authorities are required to comply with the Code of Practice on Local Authority Accounting in the United Kingdom (the Code). From 2010/11 this Code will be based in International Financial Reporting Standards (IFRS) rather than a UK GAAP based Statement of Recommended Practice (SORP). The Code requires a restated balance sheet at 1 April 2009, restated 2009/10 accounts and full published IFRS accounts for 2010/11.

Basis of assessment

This report details the findings of our review. For each significant balance sheet item, we have considered the Council's arrangements against each of the following questions:

- Are the Council's arrangements for identifying and reporting their accounting policy adequate?
- Are the Council's arrangements for identifying and reporting their adjusted UK GAAP values at 1 April 2009 and 1 April 2010 adequate?
- Are the Council's arrangements for reporting IFRS values adequate?
- Are the Council's arrangements for restating their notes to the balance sheet adequate?
- Are the Council's arrangements for preparing quality supporting working papers adequate?

The Council's arrangements for each line in the balance sheet have been assessed using a red/amber/green RAG rating using the following definitions:

Green (G)	Adequate arrangements appear to be in place for the balance sheet area to provide not materially misstated amounts for the restatement.
Amber (A)	Adequate arrangements are in place in some respects for the balance sheet area to provide not materially misstated amounts for the restatement. Evidence that the Council is taking forward areas where arrangements need to be strengthened.
Red (R)	The Council's arrangements are generally inadequate to provide not materially misstated amounts for the restatement.

Where items and areas have been assessed as amber we have discussed these with officers and as appropriate made recommendations within the following pages. We are pleased to note that no areas have been assessed as red.

6. Adequacy of arrangements - findings

Assets

Balance sheet item	Accounting policies	UK GAAP values	IFRS values	Supporting notes	Working papers	Overall assessment
Property, plant & equipment	G	G	G	A	A	G
Investment properties	G	G	A	A	A	A
Non-current investments	G	G	G	G	G	G
Non-current trade & other receivables	G	G	G	G	G	G
Current trade and other receivables	G	G	G	A	G	G
Investments	G	G	G	A	G	G
Cash and cash equivalents	G	G	G	A	G	G
Assets classified as held for sale	G	G	G	A	G	G

6. Adequacy of arrangements - findings

Liabilities

Balance sheet item	Accounting policies	UK GAAP values	IFRS values	Supporting notes	Working papers	Overall assessment
Trade & other payables	G	G	G	A	G	G
Current liabilities	A	G	A	A	A	A
Non-current borrowings	G	G	G	A	G	G
Non-current provisions	G	G	G	A	G	G
Non-current other liabilities	A	G	G	A	A	A
Taxpayers' equity						G

We have considered the arrangements of the Council's IFRS transition process under three main themes: project planning, restatement and classification.

Project Planning - Green

The Council have a project plan in place which is being updated on an on-going basis and is comprehensive, including not only review of accounting standards and preparation of transition journals but also includes provision of training to the finance team and Audit Committee.

Restatement - Amber

Significant work has been done to map the adjustments to the balance sheet and to support the movements proposed but there are currently no draft financial statements. We acknowledge that work is on-going by the IFRS project team and to that end we include a list of next steps on the pages 16 and 17.

Classification - Green

The Council has undertaken a classification exercise to translate UK balance sheet categories to IFRS balance sheet categories in line with guidance.

6. Adequacy of arrangements – amber ratings

Balance sheet item	Reason for rating	Next steps
Majority of areas	<p>Supporting notes Re-stated disclosure notes had not been completed at the time of our review.</p>	Supporting notes and disclosures to be drafted and agreed to supporting working papers.
Property, plant and equipment	<p>Lease register As at the time of our review there were conclusions outstanding on the lease register and the split between land and property was unclear.</p>	The Council should finalise its conclusions on the lease register and make any necessary adjustments to the balances.
Investment properties	<p>Supporting workpapers The adjustments provided in respect of investment properties were traced back to the asset register but there was no supporting documentation to justify the reclassification.</p>	Justification to be produced on an asset by asset basis to support the reclassification of the investment properties, either into land and buildings or surplus assets held for disposal
Non-current other liabilities	<p>Disclosure of finance lease liability The finance lease liability entered into the re-stated balance sheet is held in its entirety within non-current liabilities. The element to be paid within the next 12 months is required to be disclosed within current other liabilities.</p>	Finance lease liability due in less than one year to be calculated and reflected within the re-stated balance sheet and supporting notes.

6. Adequacy of arrangements – amber ratings

Balance sheet item	Reason for rating	Next steps
Current liabilities - employee benefits accrual	<p>Schools accrual As at the time of review the 'ceased employment' element of the teachers accrual in respect of the 2009/10 balance was yet to be calculated.</p>	The Council should finalise its accounting policies in respect of disposals, capital grants and employee benefits and back pay arising from unequal pay claims and remove accounting policies that are not considered relevant, eg acquired operations
Current liabilities - employee benefits accrual	<p>Data gathering Responses to requests for information to inform the accruals from each directorate have been mixed. For example the response rates from the Resources and Children and Young People Directorates were 89% and 7% respectively.</p>	The Council should chase responses from the directorates with low response rates and provide justification of how the sample arising is representative of the Council as a whole.
Grants	<p>Supporting information The transfer of government grants to either the capital grants unapplied account or the capital adjustment account is dependent on whether there are any conditions attached to the grant and whether the condition has yet to be satisfied. The IFRS project team has gathered information from accountants but was in the process of reviewing grant terms to finalise the proposed treatment at the time of our review.</p>	The Council should ensure it is able to justify on a grant by grant basis which account in the balance sheet the balance is being transferred to and why.

7. Value for Money Interim Update

Introduction and Background

The Use of Resources framework has been replaced by a new Value for Money framework which has no annual scored judgements and is risk-based. The Value for Money conclusion is now based on the criteria of the Council's arrangements for

- securing financial resilience; and
- challenging how it secures economy, efficiency and effectiveness.

Our Approach

We have conducted a risk assessment to identify key areas where the Council's ability to secure value for money may be compromised. In completing this we have gathered evidence and relied on our continuing audit knowledge to support our judgements. In some cases full information may not be known until the year end accounts are finalised.

To assess the Council on financial resilience, we have reviewed its key performance indicators using the Audit Commission's Value for Money benchmarking statistics and financial ratios, arrangements for strategic financial planning, financial governance and financial control.

To assess the Council on securing economy, efficiency and effectiveness, we have reviewed its ability regarding prioritising resources and improving efficiencies.

Our Interim Findings

The table overleaf shows the summary observations and risk ratings for each area under review based on the current status of our on-going work.

Next Steps

Throughout the process we are engaged in a continuous dialogue with the Council to provide a transparent approach and to discuss our findings with key staff. We will maintain this approach through regular meetings until our conclusion is published in September. In particular, we will focus on the amber rated risk areas identified, namely obtaining an up to date Medium Term Financial Plan and a review of sickness absence.

The Council's arrangements for each line in the balance sheet have been assessed using a red/amber/green RAG rating using the following definitions:

Green (G)	No causes for concern
Amber (A)	Potential risks and/or weaknesses in this area
Red (R)	High risk area

7. Value for Money Interim Update (continued)

Risk area	Summary observations	High level risk assessment
Financial Resilience		
Key Indicators of Performance	<ul style="list-style-type: none"> Liquidity and borrowing were relatively high in the benchmark group Sickness absence levels have been a cause for concern. Policy and procedure in this area are the subject of an internal audit review. 	A
Financial governance	<ul style="list-style-type: none"> The Council has good structures in place to promote financial governance including risk management. The leadership team is aware of the external pressures faced. 	G
Financial planning	<ul style="list-style-type: none"> The MTFP reflecting the Council's response to the current economic landscape has not yet been published. This poses a risk that long term plans are not documented. 	A
Financial control	<ul style="list-style-type: none"> The Council has strong performance management and budgeting systems and processes with an inclusive approach across stakeholders. 	G
Economy, efficiency & effectiveness		
Prioritising resources	<ul style="list-style-type: none"> Economic and demographic changes and trends, emerging pressures and stakeholder views are all incorporated into resource modelling, 	G
Improving efficiencies	<ul style="list-style-type: none"> Opportunities for additional savings and efficiencies are constantly being identified such as by challenging service delivery methods. 	G

Appendix A. Logistics

Timetables and milestones

The following proposed timetable and deadlines have been set:

Event	Date
Pre year end fieldwork including internal controls review	February & March 2011
Interim audit report	May 2011
Commence accounts audit fieldwork	4 July 2011
Report to those charged with governance (ISA 260)	September 2011
Annual Audit Letter	December 2011

The audit process is underpinned by effective project management to ensure that we co-ordinate and apply our resources efficiently to meet your deadlines. It is therefore essential that we work closely with your team to achieve this timetable.

Information requirements

The information and working paper requirements that would assist us in an efficient and timely audit of the year-end financial statements have been communicated to the finance team within our Arrangements Letter, which was issued to the Lead Accountant, Financial Reporting and Capital Planning in March 2011.

Engagement team

In accordance with our Audit Approach Memorandum the main engagement team for the accounts audit will include:

Name	Role	Contact details
Jon Roberts	Engagement Partner	T: 0121 212 4000 M: 07919 380840 E: jon.roberts@uk.gt.com
Kyla Bellingall	Senior Manager	T: 0121 232 5359 M: 07786 198735 E: kyla.bellingall@uk.gt.com
Nicola Coombe	Assistant Manager	T: 0121 232 5206 M: 07814 393215 E: nicola.coombe@uk.gt.com

Appendix B. Accounts risks

An audit risk is an area of the accounts where we believe there is a higher risk of a material misstatement occurring in the accounts. These areas are detailed below and are where we will focus our audit work through an appropriate response.

Grant Revenues

Risks	Response
Grant debtors may be erroneous	<ul style="list-style-type: none"> • We will perform analytical procedures to ascertain whether the value of debtors is in line with expectations • We will undertake after date testing to confirm the validity and accuracy of the debtor as at the balance sheet date

Financial instruments

Risks	Response
Fair value measurements not correct	<ul style="list-style-type: none"> • We will determine whether the shareholding in the airport is accounted for appropriately at fair value
Counterparties not able to fulfil obligations	<ul style="list-style-type: none"> • We will liaise with the auditors of the shareholding Councils in the West Midlands to ensure that the approach taken by Walsall MBC is consistent, and complies with IFRS requirements

Appendix B. Accounts risks (continued)

Property, plant and equipment

Risks	Response
Property, plant and equipment might include erroneous entries	<ul style="list-style-type: none"> • Significant additions and disposals during the year will be reviewed for appropriate treatment and classification. • Revaluation and depreciation entries will be reviewed where significant. • Items of a capital nature that have been expensed during the year will be reviewed to assess if treatment is correct.
Revaluations and/or impairments of property may not be done correctly	<ul style="list-style-type: none"> • Approach used to determine whether revaluations and/or impairments are required will be reviewed and where experts have been used we will evaluate the work done.
Recognition of foundation schools	The Council is reviewing its treatment of foundation schools and considering de-recognition. We will review this treatment against International Financial Reporting Standards and the 2011/11 code.

Operating Expenses

Risks	Response
Cut-off of expenditure has not been observed appropriately.	<ul style="list-style-type: none"> • Year end creditors and accruals will be tested for completeness.

Debt

Risks	Response
Loan liabilities are not fully recognised	<ul style="list-style-type: none"> • We will review Treasury Panel meeting minutes to corroborate borrowing levels • We will confirm significant debt obligations directly with the lender

Appendix C. Action plan

Rec No.	Recommendation	Priority	Management Comments	Implementation date and responsibility
1	All journals should be subject to independent authorisation.	High	We will commit to undertake a review of the current process of journal approvals based on the findings of External Audit. We will look back at journals that have been processed in the past and identify how we can improve the approval process to address the concerns raised by these findings with a view to re-training staff where appropriate.	30 September 2011 Treasury and Financial Systems Manager – Michael Tomlinson
2	Manual journals should be periodically tested on a sample basis for accuracy of posting to ensure entries are being processed correctly.	High	See Above.	30 September 2011 Treasury and Financial Systems Manager – Michael Tomlinson
3	The Council should remind staff of the need to comply with journal entry procedures, and particularly that they must seek authorisation for all journal entries over £50,000.	High	A reminder will be sent.	30 June 2011 Treasury and Financial Systems Manager – Michael Tomlinson
4	It was noted that the Budget Management and Control Manual detailing the process and authorisation limits for budget virements has not been updated since 2005/06. We therefore recommend that this document is reviewed and refreshed to ensure it is up to date and reflects the current operations at the Council.	Medium	A final draft of the revised Budget Management & Control Manual has been produced. This will be made available to all managers via a link to our intranet and will be included in the vital skills 2 financial training over the coming months.	Financial Planning Manager 30 June 2011

Appendix C. Action plan

Rec No.	Recommendation	Priority	Management Comments	Implementation date and responsibility
5	When signing off the Project Summary Sheet the reviewer should ensure that the budget information is consistent with the internal audit plan. If not there is a risk that too much or insufficient resource will be spent on a review.	Medium	<p>On this occasion, the project summary sheet did not include reviewers' time. On internal audit's quarterly housekeeping / reporting, a cross match is undertaken between TROJAN (time recording system) and the sections PI database. This would have been identified and rectified as part of this process</p> <p>Auditors' time budgets are robustly monitored via their timesheet input to TROJAN rather than through the project summary sheet. Auditors have, however, been reminded to ensure that budget information on project summary sheets includes reviewer time, and is consistent with the audit plan.</p>	<p>Implemented</p> <p>Head of Internal Audit</p>
6	We recommend that members' statements are countersigned by the Monitoring Officer as required by the constitution.	Low	Agreed.	<p>Monitoring Officer – Tony Cox</p> <p>Immediate</p>

Appendix C. Action plan

Rec No.	Recommendation	Priority	Management Comments	Implementation date and responsibility
7	<p>There is a leavers process in place whereby line managers notify IT of leavers so that their leaving date can be entered on to the system and the user account becomes inactive. There is also no regular report from Human Resources showing leavers from the system.</p> <p>However we understand that in practice this policy is not always adhered to.</p> <p>We recommend that line managers notify the Service Desk of leavers as soon as they are aware to help ensure their access is terminated on a timely basis. Also, the Service Desk should receive a regular report of leavers (at least monthly) from the Human Resources team.</p>	Medium	Agreed.	<p>Head of Shared Services & Procurement - Martin Sadler</p> <p>Process in place by 30 September 2011</p> <p>Automated process by 31 December 2011</p>
8	<p>There is currently no system generated audit log in place to record changes made to the Finance system and data at the Oracle database level. A manual log of changes is kept in a change control spreadsheet but this does not manage the risk that unauthorised changes could be made to the database by the database administrators or the third party support team without them being logged in the spreadsheet.</p> <p>We recommend that management implement audit logs for changes to the Oracle database to help ensure that all changes are logged appropriately and the integrity of the system is maintained.</p>	Medium	<p>Auditing of database access by privileged users (DBA): Database accesses by SYSDBA accounts will be recorded with a timestamp – this information consumes CPU time and additional storage within the database. The level of auditing versus the risks will be assessed and a review of controls undertaken to determine their suitability. Internal audit will be consulted.</p> <p>Auditing of changes to the database: This requires specific triggers to be written on tables where the data needs to be audited. This is fine-grained auditing that requires careful design and is likely to cause significant performance degradation as well as considerable disk storage. The level of auditing versus the risks will be assessed and a review of controls undertaken to determine their</p>	<p>Head of Shared Services & Procurement - Martin Sadler</p> <p>30 September 2011</p>

Appendix D. Follow up of prior year recommendations

Rec No.	Recommendation	Follow up in 2010/11
1	<p>Valuation assumptions We recommend that any assumptions used by the Council's valuers in future valuations, are recorded and evidenced at the time of the valuation to avoid delaying the audit process. This will also enable the finance team to understand the assumptions applied and why prior to the audit work commencing.</p>	<p>Update We understand that the finance team have engaged with the valuers and provided them with instructions of what needs to be valued and the timeline in which all information needs to be received. This will be followed up as part of our final accounts audit</p>
2	<p>Bank account maintenance We recommend that a central monitoring arrangements for the creation and deletion of bank accounts is introduced in order that the Council can be sure that all relevant accounts are being reconciled on a frequent basis.</p>	<p>This will be followed up as part of our final accounts audit.</p>
3	<p>Petty cash We recommend that the Council reviews its petty cash arrangements to satisfy itself that it is appropriate for these levels of cash (£119k) to be maintained.</p>	<p>This will be followed up as part of our final accounts audit.</p>
4	<p>Grant Management A number of errors were identified from our work on the financial statements which led to reclassification of several grants from one line of the accounts to another. We recommend that the Council addresses how it classifies grants, which will resolve the issue of incorrect grant accounting in the future.</p>	<p>Update The accounting treatment of grants has changed for 2010/11 as IFRS is now being applied rather than the SORP. This will be followed up as part of our final accounts audit, where the number of errors identified in the grants disclosure will determine whether this recommendation has been addressed.</p>

Appendix D. Follow up of prior year recommendations

Rec No.	Recommendation	Follow up in 2010/11
5	<p>IT Security Officer We recommend that management should consider the appointment of a dedicated IT Security Officer</p>	<p>Update This appointment of a dedicated IT security officer was considered but one not appointed..</p> <p>Management comments This will be considered as part of the restructure of the Business Improvement team as IT security and information security should be treated by the same organisation.</p>
6	<p>Segregation of access rights Best practice would be to restrict developers access to the live environment to READ only, and ensure that either separate users performed patch and bug releases, or a temporary account was used by developers, with the access levels monitored.</p>	<p>Update This recommendation has not been implemented.</p> <p>Management comments There is a release process in place to make changes to live systems, and changes to live systems are peer-checked. Current resource issues where there is often only one expert for a specific system prevents us from being able to dedicate resources to monitoring access. We will develop a process to ensure all data fixes are recorded.</p>
7	<p>Credit to council tax accounts There is no approval process for the application of reliefs and exemptions in the council tax system for national non domestic rates (NNDR) and council tax. Therefore the onus is on the tax payer to inform the Council of any mistakes. We acknowledge that it is impractical for all such adjustments to be reviewed but recommend that all allowances are checked for reasonableness on a monthly basis, to provide assurance that they are being awarded appropriately.</p>	<p>This will be followed up as part of our final accounts audit.</p>

Appendix D. Follow up of prior year recommendations

Rec No.	Recommendation	Follow up in 2010/11
8	<p>Reconciliations</p> <p>Our walkthroughs of council tax and NNDR processes identified that reconciliations to the sub ledger had not been performed in a timely manner, and indeed were outstanding for all months of the 2009/10 financial year to date as at the time of the request. We recommend the Council should ensure that there are done on a timely basis as non-reconciling items may go unnoticed for longer periods and errors and/or omissions may become more difficult to detect.</p>	<p>Implemented</p> <p>Walkthroughs of the council tax and NNDR processes as part of the 2010/11 audit confirmed that reconciliations are being undertaken on a timely basis.</p>
9	<p>Residual values</p> <p>We advise the Council to undertake preliminary work in this area which may demonstrate that the effect of implementing residual values is not significant. If this is the case, then no adjustment would be required.</p>	<p>Update</p> <p>We understand that going forward residual values will be a consideration of the valuation team in determining any revisions to values. We will follow this up during our final accounts audit to determine that evidence is available from the valuers to show that this is indeed the case.</p>



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