

Audit Summary Report

February 2007



# **Audit of Final Accounts**

**Walsall Metropolitan Borough Council**

**Audit 2005/2006**

External audit is an essential element in the process of accountability for public money and makes an important contribution to the stewardship of public resources and the corporate governance of public services.

Audit in the public sector is underpinned by three fundamental principles.

- Auditors are appointed independently from the bodies being audited.
- The scope of auditors' work is extended to cover not only the audit of financial statements but also value for money and the conduct of public business.
- Auditors may report aspects of their work widely to the public and other key stakeholders.

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Appointed auditors act quite separately from the Commission and in meeting their statutory responsibilities are required to exercise their professional judgement independently of both the Commission and the audited body.

### **Status of our report**

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- any director/member or officer in their individual capacity; or
- any third party.

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## Introduction

- 1 The Council is responsible for the preparation of the Statement of Accounts and ensuring that it presents fairly the financial position as at 31 March 2006 and its income and expenditure for the year then ended.
- 2 We, as the external auditors, are required to audit the accounts in accordance with the Audit Commission Act 1998 and the Code of Audit Practice issued by the Audit Commission. The Code requires compliance with relevant auditing standards issued by the Auditing Practices Board.
- 3 We are required to give an opinion on whether the Council's financial statements present fairly the financial position of the Council as at 31 March 2006 and its income and expenditure for the year then ended.
- 4 The District Auditor issued an unqualified opinion on the Statement of Accounts 2005/06 on 29 September 2006.
- 5 This report outlines the issues arising from the audit whereby we feel that the Council would benefit from strengthening its arrangements. We have not included areas where the Council's arrangements are satisfactory.

## Background

- 6 The Audit Committee approved the draft accounts on 29 June 2006.
- 7 The audit period was June to September 2006.
- 8 Besides issuing the opinion, the District Auditor presented to the Audit Committee the Annual Governance ISA 260 report which outlined key issues and amendments arising from this audit.

## Audit approach

- 9 Our audit work is based on a risk based approach.
- 10 We have reviewed and tested key systems throughout 2005/6 to obtain, where appropriate, assurance that financial information feeding into the Statement of Accounts was free from material misstatement. Our 'Walsall MBC Interim Audit Report 2005/06' provides details of issues arising from the work done.
- 11 The results from the interim work coupled with review of the draft financial statements identified areas that we needed to focus on in the final accounts audit. During the audit, we were checking for compliance with ISA 500, that is evidence behind entries for:
  - occurrence;
  - completeness;
  - accuracy;

- cut off;
  - classification;
  - existence;
  - rights and obligations; and
  - valuation and allocation.
- 12 We also had periodic and fruitful meetings with officers to discuss and resolve issues arising from the work.

## **Main conclusions**

- 13 The financial statements had significant adjustments made with the agreement of the Council. There was minimal effect on the general fund balance.
- 14 Appendix 1 outlines the amendments to the accounts as reported to members in the ISA260 report. The amendments included changes to entries for cash and bank, debtors and creditors. Issues with Surestart and housing benefit grant claims, asset registers and system for automatic accruals were also commented upon.
- 15 It is our viewpoint reinforced by discussion with officers who were closely involved in co-ordinating the final accounts process that some of the Council's key processes in preparing the financial statements need to be strengthened.
- 16 Specific areas where final accounts process could be improved are:
- reconciliations of control accounts;
  - training staff to produce relevant information for final accounts in accordance with the Council's 'Final Accounts Guidelines' and ensuring that errors are not repeated each year. This is the second year that there have been issues relating to Surestart grant claims;
  - identifying new staff who have a key role in providing financial information and ensuring that they have sufficient training early enough to prepare the accounts; and
  - providing extra time for senior officer review. This is a generic point as errors could have been picked up before working papers were presented to audit.
- 17 The key points arising from the final accounts audit are outlined in the report overleaf.
- 18 A more detailed report of the issues has also been given to officers.

## **Final accounts guidelines**

- 19 Officers responsible for co-ordinating and ensuring the smooth running of the final accounts have made considerable effort in doing presentations to colleagues who were involved in the closedown process and have also significantly improved the final accounts guidelines and working papers. We recognise the hard work done.

- 20 However, colleagues need to reinforce that work as follows.
- Several amended pages to the financial statements were being presented to Audit Committee on 29 June.
  - We found some working papers had errors or did not agree to entries in the financial statements.
  - There was evidence that a small minority of officers were not complying with the Final Accounts Guidelines.
- 21 Officers have commented that some closedown deadlines were not met making it more difficult for others at the end of the process to review financial statements before presentation to members.

<b><i>Recommendations</i></b>
<i>R1 Officers should be reminded to follow the 'Final Accounts Guidelines'.</i>
<i>R2 The timetable for final account preparation should be reviewed and sufficient time incorporated for senior staff to check financial statements before submission to members and auditors.</i>
<i>R3 There should be a final accounts wash up session whether done centrally or by each directorate.</i>

### **Intangible assets**

- 22 The Balance Sheet initially showed intangible assets of £275k which was reduced to £161k after the audit. Evidence such as invoices was lacking to support the original balance.
- 23 The Council established that:
- some of the expenditure had been wrongly categorised and should have been fixed assets; and
  - software costs incurred in customising commercial software packages are not treated as part of related hardware. It would be helpful if the guidelines on the capitalisation of assets issued in 2001 were updated to cover such areas.

<b>Recommendations</b>
<i>R4 Relevant evidence should be provided to support entries on the Balance Sheet.</i>
<i>R5 Senior officers should review working papers before submission to audit.</i>
<i>R6 The guidelines on the capitalisation of assets should be reviewed and updated. Software costs incurred in customising software packages should be treated as part of related hardware.</i>

## Fixed assets

- 24 The balance sheet shows £864m of fixed assets which is 92 per cent of total assets less current liabilities. This is a material item in the financial statements which needs evidence to prove completeness and that valuation is correct.

### Fixed asset register

- 25 The fixed asset register does not include pockets of land that are included on the land terrier but have no value until they are sought by a developer in close proximity. The capital receipts included monies from ransom strips and freehold interests (130/140 Walstead Road). These assets have been excluded from the asset register. In a discussion with officers, it was concluded that the register may not reconcile to the land terrier.
- 26 We understand that there was a decision not to include ransom strips in the asset register. The strips have nil value until another development is proposed on adjacent land. Officers say that as there are changes to the SORP in respect of fixed assets, they will examine fixed assets for the 2006/07 accounts.
- 27 Fixed asset valuations have to be reviewed at least every five years. The last review was March 2004. The Council should avoid reviewing the majority of assets in year five but rather spread the revaluation over the period. Revaluation of all assets every five years is a major exercise entailing significant resources. In line with good practice, the Council should consider having a policy for annual review of a percentage of assets.

### Foundation schools

- 28 The values of foundation schools have been included in the fixed asset register but the Council have been unable to provide sufficient evidence to demonstrate that they had considered each school individually in accordance with FRS5. To comply with FRS5, the Council needs to provide evidence for the 2006/07 audit, that they have considered separately each foundation school in accordance with FRS5.

## Fixed asset amendments

- 29 The entries relating to fixed assets and related notes had amendments.
- FARA revaluation and restatement of fixed assets needed to be amended to agree to the relevant line in note 21 (£13.058m to £13.804m). Disposals were altered from +£373k to -£373k.
  - The useable capital receipts reserve was amended to reflect the actual amount received in the year of £5.372m. Fixed assets note 21 was understated because it did not include receipts from disposals for 130/140 Walstead Road and Tame Street allotments (£73k).
- 30 The above points should have been resolved before presentation of the accounts to audit. If the SORP disclosure checklist was used, avoidable errors would be minimised.

<b>Recommendations</b>
<i>R7 Fixed asset register should be reconciled to the land terrier.</i>
<i>R8 The Council should ensure that it has adequate resources to complete a full valuation review of fixed assets by 2009.</i>
<i>R9 The Council should provide evidence that they have considered each foundation school in accordance with FRS5 for 2006/07 accounts. Senior officers should review working papers before submission to audit.</i>
<i>R10 Officers compiling entries and notes to the financial statements should check that they are in accordance with SORP disclosure requirements.</i>

## Cash and bank

- 31 The significant adjustment to the cash in hand and overdrawn outlined in the ISA260 report arose because:
- there was not a full reconciliation to the ledger for the year end. The cash book was reconciled to the bank statements at 31 March 2006 but not to the ledger. The ledger was overstated and did not reflect the creditor payments at the year end. In our viewpoint, separate officers are doing parts of the reconciliation but there also needs to be a control check that at a point in time the cashbook reconciles to the bank statement and ledger; and
  - this was compounded by the 2004/05 audit adjustment which officers had not realised had not been put through the ledger in 2005/06.
- 32 There were also other issues identified indicating that attention to detail is important in preparing entries to the Statement of Accounts.
- The unrepresented cheques list had two payments made out to Walsall 002 account totalling £318k which were paid into the main bank account in April 2006. Cheques made out to the Council are cash in transit.



- The debtor for Part 111 accommodation included £24,191 on the bank statement for social care account number 6752383. This was not included in the cash and bank reconciliation.
  - That Social Care received £43,052 between the 24 March 2006 to 31 March 2006 which was not banked until after the year end. There is contravention of Financial Procedures Rules 2004 8.1.10 which says 'Ensure that income is paid fully and promptly into the appropriate Council bank account in the form in which it is received, except where schools' delegated powers provide otherwise.' Monies received prior to the 31 March 2006 should be reflected in the bank and debtors reduced accordingly.
  - The HSBC Walsall Small Business Loan Account has a balance of £97,826 and is not receiving interest and has been open for several years.
- 33** A number of errors could have been identified and dealt with before the accounts were given to audit. They indicate that the bank reconciliation process needs to be improved, agreed audit adjustments put in the ledger and that senior officer review of working papers should be more rigorous.

<b>Recommendations</b>
<i>R11 There should be periodic bank reconciliations reconciling bank statements to cash book to ledger.</i>
<i>R12 Officers should ensure that agreed audit adjustments have been put through the ledger in the following year.</i>
<i>R13 All bank accounts should be scrutinised to ensure that they are included in the financial statements.</i>
<i>R14 Officers should be reminded to bank money promptly in accordance with Financial Procedures Rules (now replaced by Financial and Contract Rules).</i>

## Debtors

- 34** At the beginning of the final accounts planning process in March 2006, we asked officers to ensure that relevant debtors and creditors should be reconciled to grant claims. The Final Accounts Guidelines section 15 - Government Grants outline the documentation required to support entries in the financial statements.
- 35** Despite requests since August for evidence that the Surestart debtors be reconciled to grant claims, we did not have the working papers until towards the end of the audit. These amounted to over £2m. This is the second year that our concerns regarding these claims have been raised.

- 36 In our view, this performance is not acceptable. Whilst we understand the difficulties with obtaining information for these grant claims, the audit requirement was flagged up in March. To ensure that the issue does not re-occur, the Council should proactively explore all avenues available with the company that runs its education services to ensure that the working papers are promptly available to audit for next year.

<b>Recommendations</b>
<i>R15 Ensure that preparers of Sure Start grant claims are fully aware of the need to provide evidence to support the figures in the accounts.</i>
<i>R16 The Council should actively explore all possible options with the Sure Start grant claims and ensure that working papers are promptly available to audit for next year.</i>

## Creditors

- 37 There were process errors in the automatic accruals process provided from the oracles system. The accruals included items which related to the following financial year.
- 38 The Council's Final Accounts Guidelines give guidance for dealing with accruals (Section 8). The errors in the automatic accruals process indicate that some officers need extra guidance in this area.
- 39 The interest accrual on long term borrowing was understated by £211k. This was due to an error on a spreadsheet which should have been identified before papers were submitted for audit.
- 40 The housing benefit subsidy claim was altered from creditor £243k to debtor £443k. This is the second year that housing benefit entry in the financial statements had to be revised and the Council have submitted an estimated housing subsidy and council tax benefit final claim to the DWP.

<b>Recommendation</b>
<i>R17 Senior officers should review the housing benefit claim and obtain sufficient evidence to give them assurance that the debtor/creditor entry in the financial statements is not significantly misstated.</i>

## Capital commitments

- 41 Note 48 to the financial statements had £21.641m which was revised to £11.688m. Non contractual commitments had been erroneously included in the note.

### **Recommendation**

*R18 The note on capital commitments should be compiled in accordance with SORP.*

## Collection Fund

- 42 Due to key staff absence, the Collection Fund Statement was compiled by an officer new to the task and at short notice.
- 43 Upon audit, the statement had to be redrafted as it did not reconcile to the SX3 system. In addition, the information on the SX3 system has not been reconciled to the District Valuer's list of property amendments since October 2005.
- 44 We understand that due to problems with resources in the Revenues and Benefits Service, the Council Tax and Business Rates section were unable to input all amendments from the District Valuer's lists when the lists were received. The problem is more acute with NNDR than council tax.
- 45 There were 430 properties arising from 20 District Valuer's lists going back to October which were not entered into the SX3 system by March 2006. Consequently, the gross debit was not correct for 2005/06.
- 46 The Council have taken steps to resolve the backlog and it has now significantly reduced. However, it is good practice that amendments from District Valuer's are implemented upon receipt and the SX3 system is reconciled to their lists.
- 47 The Collection Fund has cumulative deficit of £846k derived over three years. The Council should ensure this is made good in setting future budgets.

### **Recommendations**

*R19 All amendments from the District Valuer's lists should be input onto SX3 upon receipt. The information on SX3 should then be reconciled to the list.*

*R20 The Council should review the Collection Fund deficit and take action to resolve it.*

## Trust Funds

We have audited the Trust Fund accounts and found that the funds have been dormant for several years. The Council should ensure that they are discharging their duties of stewardship and should therefore do a review to ensure that they have discharged their responsibilities under the terms of each trust.

### ***Recommendation***

*R21 The Council should review each Trust Fund account and ensure that they are discharging their responsibilities as trustee.*

## CIPFA's Statement Of Recommended Practice 2006

- 48 The SORP 2006 will have a significant impact on the 2006/07 Statement of Accounts. The SORP has been revised to simplify local authority accounts and make them accessible to a wider range of stakeholders.
- 49 The Audit Committee is responsible for approving the Council's Statement of Accounts. Members should therefore note and understand the changes to their accounts.
- 50 The main changes are:
- the removal of the requirement to make a capital financing charge in local authority accounts;
  - the Consolidated Revenue Account and the Statement of Total Movement in Reserves will be replaced by Income and Expenditure Account, Statement of Movement of the General Fund, Statement of Total Recognised Gains and Losses;
  - the measures to harmonise group accounts with single entity accounts; and
  - to the accounting arrangements for landfill allowances trading scheme for England.

Officers are assessing the implications of SORP 2006 and identifying the adjustments to make to the 2005/06 and 2006/07 accounts to ensure compliance with the requirements. We understand that they will be making a presentation to members about the changes.

## Appendix 1 – Extract from ISA 260 report

- 1 The ISA260 report highlighted the following areas where the accounts had to be adjusted for significant misstatements.
  - The bank credit balance of £3.5m changed to credit balance of £2.5m. The cash overdrawn changed from nil to £3.1m. The adjustment arose because of £2.3m error made in the reconciliation of the bank statement to the Council's accounting records and the way that timing differences in payments of £2.2m had been treated.
  - Creditors were reduced by £315k as there were process errors in the automatic accruals provided from the oracles system. The accounts presented for audit included items which related to the following financial year.
  - Creditors increased by £211k as the interest accrual on long term borrowing was understated due to an error on a spreadsheet.
  - Creditors reduced by £240k and debtors increased by £443k due to revised housing benefit and council tax claim.
  - Housing benefit bad debt provision increased by £288k and the single status reserve by £405k.
- 2 We also drew members attention to:
  - the system for automatic accruals in oracle was not fully understood by all users leading to an overstatement of creditors;
  - the fixed asset register did not have ransom strips which are of little intrinsic value until another development is proposed on adjacent land; and
  - there were a number of surestart grant claim balances in the accounts which were unsupported by claims working papers until very late in the audit process.

## Appendix 2 – Action plan

Page no.	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
6	R1 Officers should be reminded to follow the 'Final Accounts Guidelines'.	3	All. Group Accountant, Final Accounts Team	Yes	Guidelines to be re-written for 2006/07 year end. All officers are reminded to use and comply with these.	February 2007
6	R2 The timetable for final account preparation should be reviewed and sufficient time incorporated for senior staff to check financial statements before submission to members and auditors.	3	Group Accountant, Final Accounts Team	Yes	Two week review period built into June timetable.	February 2007
6	R3 There should be a final accounts wash up session whether done centrally or by each directorate.	3	Capital Performance and Treasury Manager. Group Accountant, Final Accounts Team	Yes	Lessons Learned Report and Action Plan.	February 2007
7	R4 Relevant evidence should be provided to support entries on the Balance Sheet.	3	Group Accountant, Final Accounts Team	Yes	All working paper files should be complete and contain all relevant documentation.	June 2007
7	R5 Senior officers should review working papers before submission to audit.	3	Heads of Finance	Yes	Senior officers from each directorate are responsible for checking working paper files, and must sign and date these files to endorse the information contained within.	June 2007

Page no.	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
7	R6 The guidelines on the capitalisation of assets should be reviewed and updated. Software costs incurred in customising software packages should be treated as part of related hardware.	2	Principal Accountant, Capital Team	Yes	Guidelines need to be reviewed (Capital Team only).  Directorates and the capital team should ensure all costs are treated correctly.	February 2007  Ongoing
8	R7 Fixed asset register should be reconciled to the land terrier.	3	Capital Performance and Treasury Manager	Yes	Ransom strips to be included at nil value.	February 2007
8	R8 The Council should ensure that it has adequate resources to complete a full valuation review of fixed assets by 2009.	3	Estates Manager	Yes	Walsall MBC currently has a policy to review it's assets over a rolling five year period.	March 2007
8	R9 The Council should provide evidence that they have considered each foundation school in accordance with FRS5 for 2006/07 accounts. Senior officers should review working papers before submission to audit.	3	Capital Performance and Treasury Manager	Yes	Evidence to be supplied to audit.	June 2007
8	R10 Officers compiling entries and notes to the financial statements should check that they are in accordance with SORP disclosure requirements.	3	Group Accountant, Final Accounts Team	Yes	Continue to comply with current SORP.	Ongoing
9	R11 There should be periodic bank reconciliations reconciling bank statements to cash book to ledger.	3	Capital Performance and Treasury Manager	Yes	Maintain reconciliations.	Ongoing
9	R12 Officers should ensure that agreed audit adjustments have been put through the ledger in the following year.	3	Group Accountant, Final Accounts Team	Yes	Complete.	N/A

16 Audit of Final Accounts | Appendix 2 – Action plan

Page no.	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
9	R13 All bank accounts should be scrutinised to ensure that they are included in the financial statements.	3	Capital Performance and Treasury Manager	Yes	Directorates should ensure all bank accounts are accounted for.	March 2007
9	R14 Officers should be reminded to bank money promptly in accordance with Financial Procedures Rules (now replaced by Financial and Contract Rules).	3	Group Accountant, Final Accounts Team	Yes	All money should be banked promptly.  Reminder to be sent out.	February 2007
10	R15 Ensure that preparers of Sure Start grant claims are fully aware of the need to provide evidence to support the figures in the accounts.	3	Head of Finance - Childrens	Yes	Supporting documentation should be included with grant claims.	Ongoing
10	R16 The Council should actively explore all possible options with the Sure Start grants and ensure that working papers are promptly available to audit for next year.	3	Head of Finance - Childrens	Yes	Grant claims and associated working papers should be complete on time.	Ongoing
10	R17 Senior officers should review the housing benefit claim and obtain sufficient evidence to give them assurance that the debtor/creditor entry in the financial statements is not significantly misstated.	3	Capital Performance and Treasury Manager	Yes	Sufficient evidence needs to be provided to enable a review.	June 2007
11	R18 The note on capital commitments should be compiled in accordance with SORP.	3	Principal Accountant, Capital Team	Yes	Continue to comply with current SORPs.	Ongoing
11	R19 All amendments from the District Valuer's lists should be input onto SX3 upon receipt. The information on SX3 should then be reconciled to the list.	3	Joint Heads of Revenues and Benefits	Yes	All entries should be made promptly and reconciled on a regular basis.	June 2007



Page no.	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
11	R20 The Council should review the Collection Fund deficit and take action to resolve it.	3	Capital Performance and Treasury Manager.	Yes	A thorough review to take place.	March 2007
12	R21 The Council should review each Trust Fund account and ensure that they are discharging their responsibilities as trustee.	3	Capital Performance and Treasury Manager.	Yes	A thorough review to take place.	March 2007