

**Audit Committee – 30 January 2012**

**Annual Audit Letter 2010/11**

**Summary of report**

This report presents Grant Thornton's Annual Audit letter 2010/11. It summarises the key issues arising from the work that the external auditors have carried out at Walsall during 2010/11. The letter is designed to communicate their key messages and conclusions to the council and external stakeholders, including members of the public. The letter covers the following work areas:

- auditing the 2010/11 year end accounts (Section 2)
- assessing the Council's arrangements for securing economy, efficiency and effectiveness to ensure Value for Money (VfM) is achieved (Section 3)
- certification of grant claims and returns to various government departments and other agencies (Section 4).

Audit Committee are requested to formally consider the attached document.

**Recommendations**

Audit Committee are requested to formally consider and receive the external Annual Audit letter 2010/11.



**Vicky Buckley**  
**Head of Finance**

**9 January 2012**

**Governance**

Grant Thornton have been appointed as the council's independent external auditors by the Audit Commission. The Annual Audit Letter summarises the key work areas and audit conclusions arising from these, to assist the council in maintaining strong governance arrangements.

## **Resource and legal considerations**

There are no direct implications arising from this report.

## **Performance management and risk management issues**

The council is assessed as “Green” overall for both aspects of the VFM criteria.

## **Equality implications**

There are no direct implications arising from this report.

## **Consultation**

The report is prepared in consultation with various managers and the Chief Finance Officer.

## **Background papers**

Various report and working papers, statutory and other guidance.

## **Author**

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Walsall Metropolitan Borough Council  
Annual Audit Letter 2010/11

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December 2011

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# 1. Executive summary

## **Purpose of this letter**

This Annual Audit Letter ('Letter') summarises the key issues arising from the work that we have carried out at Walsall Metropolitan Borough Council ('the Council') during our 2010/11 audit. The Letter is designed to communicate our key messages to the Council and external stakeholders, including members of the public. The letter will be published on the Audit Commission's website at [www.audit-commission.gov.uk](http://www.audit-commission.gov.uk) and also on the Council's website.

## **What this Letter covers**

This Letter covers our 2010/11 audit, including key messages and conclusions from our work in:

- auditing the 2010/11 year end accounts (Section 2)
- assessing the Council's arrangements for securing economy, efficiency and effectiveness to ensure Value for Money (VfM) is achieved (Section 3)
- certification of grant claims and returns to various government departments and other agencies (Section 4).

## **Responsibilities of the external auditors and the Council**

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

We have been appointed as the Council's independent external auditors by the Audit Commission, the body responsible for appointing external auditors to local public bodies in England. As external auditors, we have a broad remit covering finance and governance matters.

Our annual work programme is set in accordance with the Code of Audit Practice ('the Code') issued by the Audit Commission and includes nationally prescribed and locally determined work. Our work considers the Council's key risks when reaching our conclusions under the Code.

It is the responsibility of the Council to ensure that proper arrangements are in place for the conduct of its business, and that public money is safeguarded and properly accounted for. We have considered how the Council is fulfilling these responsibilities.

## **Our main audit conclusions for the year**

**The 2010/11 accounts give a true and fair view of Council's financial affairs and of the income and expenditure recorded by the Council.**

**The Council made proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2011.**

## Context

In the current financial climate, the Coalition Government's continuing priority is to reduce the UK's national deficit, whilst ensuring the economic recovery continues. Savings of over £81 billion are planned from Government spending by 2015, including a 26% reduction in grants to local government over the four year period. At the same time, the Government has stated that its aim is to reduce top-down government and devolve power and greater financial autonomy to local authorities by a range of measures including:

- further reducing ring-fenced central government grants
- planned changes to the administration of business rates, so that any council that expands its business base would see increased business rates that it would be able to keep.

This Letter has been written in the context of the significant change agenda in which Walsall Council is operating. In addition to more than 350 redundancies in 2010/11, the Council is experiencing increases in demand for services such as housing and housing benefits. Whilst the Council has an adequate level of general reserves and is not currently planning on using these to support the revenue budget, like all other local authorities it needs to meet the significant savings targets within its Medium Term Financial Strategy. The Council is well placed to meet these challenges following the implementation of the Working Smarter programme.

## Key messages

### Accounts audit

We issued an unqualified audit opinion on 29 September 2011. The Council completed a successful implementation of IFRS. We consider that your officers have done particularly well in presenting a clear and readable document, whilst complying with the technical reporting requirements of IFRS. Further details can be found in section 2 of this Letter.

### Value for Money

We reached an unqualified VFM conclusion on 29 September 2011, which means that we concluded that the Council had made proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2011. Further details can be found in section 3 of this Letter.

### Grants certification

To date we have certified six claims, of which none were qualified but two were amended. Further details can be found in section 4 of this Letter.

### Key areas for Council action

We highlight the following key areas, where the Council should take action to further improve its arrangements in 2011/12:

- the Council needs to maintain its continued attention to the overall financial position and the quality of services that it provides
- reducing levels of sickness absence continues to be a challenge for local authorities nationally and we are pleased to note that the Council has reduced its sickness absence rate in 2010/11. It is important that this momentum is continued
- as school balances rose in 2010/11, the Council should ensure that this is closely monitored. Throughout England, the general trend is one of declining balances. Given the plans for some schools to become academies in the near future, this provides a further need for the Council to address this issue as a priority.

The context for these key messages can be found in this Letter. A list of the reports issued during the year can be found at Appendix A. Recommendations have been raised within the reports listed and the Council should ensure that these recommendations are implemented as planned. Appendix B sets out our actual and budgeted fees for 2010/11.

### Acknowledgements

This Letter has been agreed with the Assistant Director Finance (S151 Officer) and will be presented to the Audit Committee on 30 January 2012.

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

**Grant Thornton UK LLP**  
**December 2011**

## 2. Audit of the accounts

### Introduction

We issued an unqualified opinion on the Council's 2010/11 accounts on 29 September 2011, ahead of the statutory certification deadline of 30 September 2011. Our opinion confirmed that the accounts give a true and fair view of the Council's financial affairs at 31 March 2011 and of its income and expenditure for the year.

Prior to giving our opinion on the accounts, we are required to report significant matters arising from the audit to 'those charged with governance' (defined as the Audit Committee at the Council). We presented our Annual Report to those Charged with Governance to the Audit Committee on 26 September and summarise only the key messages in this Letter.

We were presented with a draft statement of accounts on 30 June 2011 in accordance with the statutory deadline of 30 June 2011. The accompanying working papers were also provided in accordance with the agreed timetable for the audit. The working papers were of a good standard and regular liaison meetings were held between the audit team and key finance officers on an on-going basis throughout the course of our audit. We would like to place on record our appreciation to those officers involved in this process, which we consider to have worked particularly well, as it allowed issues to be raised, discussed and resolved expeditiously.

### International Financial Reporting Standards

2010/11 was the first year that councils were required to prepare their accounts under International Financial Reporting Standards (IFRS). We undertook a review of the Council's preparedness in March 2011 and assessed the arrangements for re-stating each line of the balance sheet on a Red, Amber, Green (RAG) basis. Overall we rated the Council's arrangements as being Green.

As part of the work undertaken on the Audit of the accounts, we assessed whether there had been any departures from the requirements of the CIPFA Accounting Code, which is IFRS compliant. We did not identify any significant departures from these requirements.



### Audit of the accounts

We recommended 15 adjustments to the draft accounts, the most significant of these being:

- \* Ryders Hayes Primary School transferred from community school to academy status as of 1 April 2011. The asset has been impaired within the accounts to reflect the £nil transfer value, which reduced the value stated in the draft balance sheet by £1.8m
- \* the Council had omitted to register a building project as complete with the result that it was incorrectly categorised as assets under construction. An adjustment of £5.1m was required to reclassify this to operational land and buildings
- \* the valuation of shareholding in Birmingham Airport Holdings Ltd was updated by £237k, to reflect information that was received after the draft accounts had been completed by the finance team. This reflected the decrease to the fair value of the investment in accordance with the valuation as at 31 March 2011.

Officers agreed to make these adjustments, which resulted in the reported Comprehensive Income and Expenditure Statement deficit increasing by £7.129m from £122.447m to £129.576m but had no overall impact on the General Fund, which remained unaltered at £13.748m.

The actions agreed with the Council to minimise the chance of these issues occurring in the 2011/12 accounts were included in our Annual Report to those Charged with Governance and we will follow up on progress as part of our 2011/12 audit.

### Financial performance

After taking into account a planned transfer to the General Fund of £2.992 million and additional transfers of just over £2.075 million arising from unspent earmarked reserve allocations, the net position for the Council for 2010/11 was an underspend of £0.414 million.

The Council's forecast revenue outturn for 2011/12 (based on the position as at the end of June 2011) is an underspend against budget of £156k (net of the use of earmarked reserves). This is expected to result in a break even position at the year end.

Our review of VfM concluded that the level of the Council's General Fund reserves at 31 March 2011 was broadly consistent with other metropolitan borough councils. However it should be noted that General Fund reserves represent only one source of funding for future years' costs and the Council has access to further earmarked reserves. Overall, it is our view that the Council's level of available reserves and contingencies at this time provide adequate cover for known future financial risks.

We will continue to keep the Council's financial position under review as part of our 2011/12 audit, through the follow-up work we have planned on the Financial Resilience element of our VfM review.

### Financial systems

We undertook work on key financial systems that was sufficient to support our approach to the accounts audit. The work was in three main areas:

- a review of key financial controls, for the purpose of designing our programme of work for the financial statements audit
- an assessment of the work of internal audit, to help inform our risk assessment of the adequacy of the Council's financial systems for producing the 2010/11 accounts
- a high level review of the general IT control environment.

Our work did not identify any control issues that presented a material risk to the accuracy of the financial statements.

However, we identified a number of areas where controls should be strengthened, including:

- staff members who have the ability to authorise journals should either have their own journals authorised by a different member of staff, or the ability to self-authorise removed
- 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.

The actions agreed with the Council to resolve these weaknesses were included in our interim report and we will follow up on progress as part of our 2011/12 audit.

### Annual Governance Statement and Explanatory Foreword

We examined the Council's arrangements and processes for compiling the Annual Governance Statement (AGS) and read the AGS and Explanatory Foreword to consider whether they were in accordance with our knowledge of the Council. Our review of internal audit also supported our review of the AGS which in turn informs our VfM conclusion and our audit of the financial statements.

We concluded that the AGS and Explanatory Foreword were consistent with our knowledge of the Council, subject to a small number of proposed adjustments, which officers incorporated into the final versions of the documents. The Council had adequate processes in place to ensure that the AGS was updated to reflect developments up to the date of the signing of the accounts.

### Certification arrangements

We received no questions or objections in respect of the financial statements for the year ended 31 March 2011 and were able to issue our audit certificate on the same date as signing the accounts.

### Whole of Government Accounts (WGA)

The Council submitted its draft WGA L Pack for audit by the Department for Communities & Local Government (CLG) deadline of 29 July. We submitted the audited WGA to the CLG by the deadline of 30 September.

**Legality**

We reviewed the following significant decisions the Council had taken in the year to ensure there were no issues that we needed to be concerned about from an audit perspective:

- \* proposed severance payment
- \* building services land transaction.

In both cases we were satisfied that there were no audit issues that we needed to take forward and we commend the Council for its proactive approach.

## 3. Value for money

### Introduction

The Code of Audit Practice 2010 (the Code) describes the Council's responsibilities to put in place proper arrangements to:

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

We were required to give our conclusion based on the following two criteria specified by the Audit Commission:

- the Council has proper arrangements in place for securing financial resilience
- the Council has proper arrangements for challenging how it secures economy, efficiency and effectiveness.

In discharging this responsibility, we are required to review and, where appropriate, examine evidence that is relevant to the Council's corporate performance management and financial management arrangements.

### Key conclusions

We issued our annual VfM conclusion on 29 September 2011, at the same time as our accounts opinion, meeting the required deadline of 30 September 2011. We concluded that the Council had made proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2011.

Although we have assessed the Council as having proper arrangements in place to meet all the Code criteria, there are some areas where the Council can improve its arrangements, in particular:

- reducing levels of sickness absence continues to be a challenge for local authorities nationally and we are pleased to note that the Council has reduced its sickness absence rate in 2010/11. It is important that this momentum is continued
- as school balances rose in 2010/11, the Council should ensure that this is closely monitored. Throughout England, the general trend is one of declining balances. Given the plans for some schools to become academies in the near future, this provides a further need for the Council to address this issue as a priority.

**Value for money**

We undertook a review of the Council's overall arrangements to inform our VfM conclusion. Key findings are within the table below.

Area of review	Summary observations
Key indicators of performance	The Council is generally showing a strong position, particularly given the challenging economic circumstances it is currently operating within. Its implementation of the Working Smarter programme for efficiencies has delivered benefits.
Strategic financial planning	The Council maintains up to date corporate plans which are regularly reviewed and challenged, enabling swift responses to external factors. These are closely linked to budgets. Planning arrangements have been strengthened in the light of the Comprehensive Spending Review, using a collaborative approach combined with scenario planning to aid the prioritisation of resources.
Financial governance	The governance arrangements are generally fit for purpose. The Council has good structures to promote its financial governance including risk management, internal audit and engagement with CMT and Members.
Financial control	The Council has strong financial performance management and budgeting systems, with an inclusive approach for all stakeholders. These underpin its financial control.
Prioritising resources	The Council's political and managerial leadership encourages an environment of ensuring that resources are prioritised to meet the requirements of citizens. It encourages consultation with stakeholders to ensure views are gathered and acted upon. This is underpinned by the 'Systems Thinking' approach to resource prioritisation which the Council has developed through its Working Smarter Programme.
Improving efficiency and productivity	The Council has a good understanding of its costs, aided by the use of benchmarking tools. It also has in place procedures for challenging methods of service delivery to drive out further efficiencies.

Our overall conclusion is that the Council had proper arrangements for securing value for money but there were some areas where improvements should be made. These included sickness absence levels and schools balances. We presented our report to the Audit Committee on 26 September, which included an agreed action plan to deal with the issues raised. We will follow up progress in implementing the plan as part of our 2011/12 audit.

It is important that the Council continues to constantly monitor its financial position in the challenging current economic climate. In addition, the Council needs to ensure that it maintains the level of services it provides to the public, whilst facing the challenge of an increasing demand for services.

### **Challenging VfM**

We undertook the following reviews during the year to inform this aspect of our VfM conclusion.

#### **Sickness absence**

In order to assess the Council's arrangements, we have reviewed the Council's systems and processes for ensuring that sickness absence is avoided as much as possible and, where it does occur, is managed properly.

To establish to what extent sickness absence is being effectively managed, we have conducted a review comprising:

- an examination of relevant documents
- interviews with relevant officers to understand more about how they believe progress is being made, where there are opportunities to improve and what arrangements are being put in place to address these and promote a stronger control environment.

We found that the Council has been successful in reducing sickness absence levels since 2009/10 and is likely to achieve its target of 8 days sickness absence per full-time equivalent member of staff annually in 2011/12

We are satisfied that the Council is responding well to the issue of sickness absence. Continued progress, along with the implementation of our recommendations, should ensure a Green rating is achieved within next year's VfM conclusion.

### **Approach to local VfM work 2011/12**

At time of writing there are no changes proposed to the approach to local Value for Money work in 2011/12. We will focus on the two key reporting criteria, namely:

- the Council has proper arrangements in place for securing financial resilience
- the Council has proper arrangements for challenging how it secures economy, efficiency and effectiveness.

We will determine a local programme of VfM audit work based on our audit risk assessment, informed by the criteria above and our statutory responsibilities and agree this with the Council. Local risks for the Council to consider at this stage include:

- post year end the Council announced that it would be terminating its education support services contract with Serco. The Council does not expect this to result in a deterioration in service delivery but it will need to be monitored on 2011/12 to ensure standards are maintained
- as school balances rose in 2010/11, the Council should ensure that this is closely monitored, and that the recommendations from our previous report are implemented fully.



## 4. Grants certification

### **Introduction**

Each year we review and certify a number of grant claims and returns in accordance with the arrangements put in place by the Audit Commission. Following the completion of the 2009/10 certification work we reported that performance had generally improved against the key performance measures but identified that the Council should work to continually reduce the number of claims requiring amendment.

### **Summary of 2010/11 findings to date**

The Council has submitted eight claims and returns for certification. At the time of writing our work is complete on six of these claims. Of these, none were qualified and two were amended.

### **Housing & Council Tax Benefit Claim**

This claim is the most significant area of our grants certification work. Two errors were identified during our work, which resulted in amendments to the claim, and the claim was certified accordingly. The claim was not qualified.

### **National Non Domestic Rates Return**

This claim was certified as amended. An error was identified, which required a reduction in mandatory relief for charities and an addition to community amateur sports clubs' mandatory relief by the same amount.

This was determined to be an isolated error and as such the claim was amended but the impact of error was not extrapolated over the whole population. As both types of relief attract the same subsidy there was a nil impact on the overall claim.

### **Disabled Facilities Grant (DFG)**

Work has been completed on the DFG. This was certified without amendment or qualification.

### **Other Claims**

Work has also been completed four other claims and returns (the Sure Start, Early Years and Childcare and Aiming High for Disabled Children Grant, Single Programme Advantage West Midlands and the Teachers' Pensions Return. All have been certified without amendment or qualification.

Work is on-going on the two remaining claims (New Deals for Communities and Local Transport Plan Major Projects), which both have 31 December 2011 audit submission deadlines and are due to be completed by the deadline. The outcomes will be reported in our Grants Certification Report to the Audit Committee in early 2012.

# Appendices



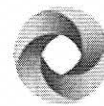
# A. 2010/11 reports issued

Report	Date Issued
Audit Approach Memorandum	January 2011
Interim Report	April 2011
Report to Those Charged With Governance (ISA 260)	September 2011
Value for Money Report	September 2011
Sickness Absence Report	November 2011
Annual Audit Letter	November 2011
Grants Certification Report	Due early 2012

# B. Audit and other fees 2010/11

Audit area	Budget 2010/11	Actual 2010/11
Financial statements	242,000	242,000
Value for Money conclusion	100,000	100,000
IFRS conversion - PFI	8,000	8,000
Total Code of Practice fee	£350,000	£350,000
Certification of grant claims and returns*	£69,000	TBC
Non Audit - Employer solutions	NIL	£4,350

\*The quoted fee for grant certification work is an estimate only and will be charged at published hourly rates.



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