

Annual governance report

Dudley Metropolitan Borough Council

Audit 2011/12



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Key messages

This report summarises the findings from the 2011/12 audit which is substantially complete. It includes the messages arising from my audit of your financial statements and the results of the work I have undertaken to assess your arrangements to secure value for money in your use of resources.

Financial statements

As at 20 September I expect to issue an unqualified audit opinion. The adjustments needed to the Council's financial statements as a result of the audit were relatively few in number and none of them had any impact on the Council's overall financial position. The Council provided its financial statements for audit on 20 June, in advance of the statutory deadline of 30 June. The Council's officers, as in previous years, have answered audit queries promptly and consequently the audit has run very smoothly.

Value for money (VFM)

I expect to conclude that you have made proper arrangements to secure economy, efficiency and effectiveness in your use of resources. My review of the Council's medium-term financial plan, including arrangements for HRA self-financing, and budgetary control arrangements has not identified any significant issues to bring to your attention.

Certificate

Alongside my work on the financial statements, I also review and report to the National Audit Office on your Whole of Government Accounts return. As at 20 September I have not completed the procedures specified by the National Audit Office. I expect to complete my report by 30 September and hence expect to issue my certificate by this date.

Before I give my opinion and conclusion

My report includes only matters of governance interest that have come to my attention in performing my audit. I have not designed my audit to identify all matters that might be relevant to you.

Independence

I can confirm that I have complied with the Auditing Practices Board's ethical standards for auditors, including ES 1 (revised) - Integrity, Objectivity and Independence.

I am aware of the following relationship that might constitute a threat to independence and that I am required to report to you. I have therefore put in place the following safeguard to reduce the threat.

Table 1: **Threats and safeguards**

Threat	Safeguard
The spouse of one member of the audit team is a school governor at Gigmill Primary School.	To ensure that there is not any threat to our independence the auditor will not have any involvement in any audit work in respect of Gigmill Primary School.

The Audit Commission's Audit Practice has not undertaken any non-audit work for the Council during 2011/12.

I ask the Audit Committee to:

- take note of the adjustments to the financial statements included in this report (appendix 2);
- approve the letter of representation (appendix 3), on behalf of the Council before I issue my opinion and conclusion; and
- agree your response to the proposed action plan (appendix 5).

Financial statements

The Council's financial statements and annual governance statement are important means by which the Council accounts for its stewardship of public funds. As elected Members you have final responsibility for these statements. It is important that you consider my findings before you adopt the financial statements and the annual governance statement.

Opinion on the financial statements

Subject to satisfactory clearance of outstanding matters, I plan to issue an audit report including an unqualified opinion on the financial statements. Appendix 1 contains a copy of my draft audit report.

Corrected errors

During the audit, management agreed to a number of adjustments to the financial statements. Most of these adjustments were in respect of disclosures made in the notes to the statements and none of them had any impact on the Council's usable reserves. The most significant of the adjustments made are detailed further in appendix 2. The following adjustments have been made to the financial statements.

- A number of assets were incorrectly classified as community assets, eg Dudley Museum and Art Gallery. These assets have been re-classified and revalued where necessary. As a result, the value of community assets has decreased by £2,001k whilst the value of other land and buildings has increased by £832k and the value of infrastructure has increased by £216k.
- The Council's investment in Birmingham Airport has been revalued upwards by £2,079k to reflect its fair value as at 31 March 2012. A corresponding adjustment has been made to the available for sale financial instruments reserve.
- The value of cash and cash equivalents on the balance sheet has been increased by £6,654k so that cash balances held by the Council on behalf of trust funds are included. A corresponding increase of £6,654k has been made to the short term creditors balance to recognise that these cash balances are repayable by the Council to the trust funds.
- The capital adjustment account was credited with £16,650k upon recognition of heritage assets at 1 April 2010. This credit entry should have been made to the revaluation reserve.

Uncertainty

There is an uncertainty arising from the non-application of component accounting in 2010/11. I am satisfied that this has not resulted in the material misstatement of the financial statements. This issue is detailed further in table 2 below.

Significant risks and my findings

I reported to you in my 2011/12 Audit Plan the significant risks that I identified relevant to my audit of your financial statements. In Table 2 I report to you my findings against each of these risks.

Table 2: **Risks and findings**

Significant risks	Findings
<p>HRA reform</p> <p>The government plans to reform local authority housing finance by adopting a self-financing model from 1 April 2012. This will be through a one-off settlement payment to central government on or before 28 March 2012. This will increase the Council's debt by £335 million. Due to the complexity, magnitude and timing of the HRA reform there is risk that the financial statements will be materially misstated.</p>	<p>I have reviewed management's oversight of HRA reforms and transactions required by the Council. I have also performed tests of detail on the settlement payment. I have not identified any significant issues to bring to your attention.</p>
<p>Unequal pay</p> <p>The Council has made provision for outstanding settlements with current and former employees in respect of actual or potential claims under equal pay legislation. The process for settling these claims is underway and so the amounts involved and the payment timescale remain uncertain. Due to the magnitude and complexity of this issue there is a risk that the financial statements will be materially misstated.</p>	<p>I have reviewed the Council's controls over establishing an estimate for the unequal pay provision. I have also performed tests of detail on the unequal pay provision. I am satisfied that the provision of £44,788k is not materially misstated.</p>

Significant risks

Termination benefits

The Council is continuing to make a large number of redundancies in 2011/12. The Code requires disclosure of termination benefits where the nature and amount of the expense is material. Due to the sensitivity and complexity of this issue there is a risk that the financial statements will be materially misstated

Heritage Assets

The 2011/12 Code adopts the requirements of FRS 30 Heritage Assets. There is a risk that the Council may be unable to identify and account for all heritage assets and accurately distinguish between 'heritage assets' and 'community assets'. A heritage asset is a tangible asset with historical, artistic, scientific, technological, geophysical or environmental qualities that is held and maintained principally for its contribution to knowledge and culture. For the Council this is likely to include the collections of assets and artefacts either exhibited or stored in the Dudley Museum and Art Gallery, the glass collections at the Redhouse Cone and Broadfield House, and the archive material, currently held in Coseley.

Valuation of property, plant and equipment (PPE)

The Council is required to value PPE at fair value (with some exceptions). The valuation is usually an estimate and as such, the figures are inherently subjective. Moreover the monetary values presented under these line items can mean that even relatively modest changes in the assumptions and variables informing the valuation can have a material impact on the financial statements. Therefore, there is a risk that the valuation reported in the financial statements may be materially misstated.

Findings

I have reviewed the Council's controls over paying termination benefits. I have also performed tests of details on termination benefits. I have not identified any significant issues to bring to your attention.

I have evaluated the management controls you have in place to recognise and value heritage assets. I have also performed testing to check that the Council has accounted for heritage assets in accordance with FRS 30 and the Code and that the financial statements are not materially misstated. I have not identified any significant issues to bring to your attention.

I have reviewed the Council's controls over establishing estimates, including arrangements for instructing the valuer and controls over information provided to the valuer. I have performed procedures for relying on the work of the valuer. I have also performed tests of detail on valuations and associated depreciation calculations. I have not identified any significant issues to bring to your attention.

Significant risks

Academy schools

A number of the borough's schools have become academies during 2011/12. There may be a risk of material misstatement arising from incorrect accounting treatment of income and expenditure transactions in respect of these schools

Component accounting

The CIPFA Code of Practice on Local Authority Accounting (the 'Code') requires the Council to identify significant components of an asset that have a shorter life than the asset itself and to depreciate them separately. This is needed to ensure that the annual depreciation charge fully reflects the use of the asset. This requirement to componentise assets applies only to assets acquired, enhanced or revalued since 1 April 2010. Officers considered these assets and concluded that no componentisation was required for 2010/11 as the effect on depreciation was not material. Officers concluded that, in practice, the Council does not replace major components of buildings at less than 30-year intervals, and there was no reason to expect this period to shorten. For all assets which have a life of 30 years or under there was no change to depreciation as it would either be the same (for assets with a life of 30 years) or it would be incorrect to charge less depreciation when valuers had identified a total asset life below 30 years. Officers calculated that even if half of all components in these assets had a life of only 10 years then depreciation would only be understated by £1,630k. Officers estimated the financial impact of depreciating components within assets which have a life of over 30 years would be an increase in depreciation of £540k. I reviewed the Council's approach for 2010/11 and was satisfied that the Council's decision not to componentise assets and depreciate them accordingly did not result in a material error in the 2010/11 financial statements.

Findings

I have reviewed the Council's controls over the accounting treatment of schools which became academies in 2011/12. I have performed tests of detail on the accounting treatment of schools which became academies in 2011/12. I have not identified any significant issues to bring to your attention.

The Council has commenced component accounting from 2011/12. I have reviewed the Council's approach to component accounting and have not identified any significant issues to bring to your attention.

Significant risks

However, I recommended that this issue would need to be revisited for the 2011/12 financial statements.

Findings

Significant weaknesses in internal control

It is the responsibility of the Council to develop and implement systems of internal financial control and to put in place proper arrangements to monitor their adequacy and effectiveness in practice. My responsibility as your auditor is to consider whether the Council has put adequate arrangements in place to satisfy itself that the systems of internal financial control are both adequate and effective in practice.

I have tested the controls of the Council only to the extent necessary for me to complete my audit. I am not expressing an opinion on the overall effectiveness of internal control. I have reviewed the Annual Governance Statement and can confirm that:

- it complies with the requirements of CIPFA/SOLACE Delivering Good Governance in Local Government Framework; and
- it is consistent with other information that I am aware of from my audit of the financial statements.

The following weaknesses in internal control are only those I have identified during the audit that are relevant to preparing the financial statements.

Table 3: **Internal control issues and my findings**

Description of weakness	Potential impact	Management action
<p>Internal audit testing found that there were weaknesses in the Council's controls for ensuring that there is appropriate authorisation of:</p> <ul style="list-style-type: none">■ changes to the payroll; and■ timesheets.	<p>This prevented me from placing reliance on your controls in this area and I had to perform further testing as a result. Management have informed me that HR First was established to help address issues such as the one identified by internal audit's testing and that they expect authorisation processes to be far more robust in future.</p>	<p>Management should continue to test whether changes to the payroll and timesheets are appropriately authorised and take remedial action if any errors are found.</p>
<p>The Council has an IT disaster recovery plan in place. However, the Council has not undertaken tests involving restoration of key application systems, such as Agresso.</p>	<p>Undertaking regular restoration tests for key application systems will provide assurance on the robustness of the backup and disaster recovery arrangements.</p>	<p>Management should introduce a programme of regular restoration tests for key application systems.</p>

Recommendations

- R1** Management should continue to test whether changes to the payroll and timesheets are appropriately authorised and take remedial action if any errors are found.
- R2** Management should introduce a programme of regular restoration tests for key application systems.

Other matters

I am required to communicate to you significant findings from the audit and other matters that are significant to your oversight of the Council's financial reporting process including the following.

- Qualitative aspects of your accounting practices.
- Matters specifically required by other auditing standards to be communicated to those charged with governance. For example, issues about fraud, compliance with laws and regulations, external confirmations and related party transactions.
- Other audit matters of governance interest.

The matter I wish to report is detailed in table 4 below.

Table 4: **Other matters**

Issue	Finding
Fair value of borrowing Note 16 discloses the fair value of the Council's borrowing from the Public Works Loans Board (PWLB). The figures disclosed in the note have been obtained from the Council's treasury management advisors and uses new borrowing rates as the discount factor in estimating the fair value of the loans. The PWLB has provided the Audit Commission with their estimates of the fair value of the borrowing which uses premature repayment rates as the discount factor. The PWLB's estimate of the fair value of the loans is £128 million higher than the estimate which is reported in Note 16.	Members of the Audit and Standards Committee should note the difference in valuation of the fair value of borrowing which arises from using different valuation methodologies.

Issue

Finding

I am satisfied that the figure disclosed in Note 16 is a reasonable estimate but this difference in valuation is being reported so that members of the Audit and Standards Committee are aware of the difference in valuation which arises from using different valuation methodologies.

Whole of Government Accounts

Alongside my work on the financial statements, I also review and report to the National Audit Office on your Whole of Government Accounts return. As at 20 September I have not completed the procedures specified by the National Audit Office. I expect to complete my report by 30 September.

Value for money

I am required to conclude whether the Council put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. This is the value for money conclusion.

I assess your arrangements against the two criteria specified by the Commission. In my 2011/12 Audit Plan I reported to you the significant risks that were relevant to my conclusion. I have set out below my conclusion on the two criteria, including the findings of my work addressing each of the risks I identified.

I intend to issue an unqualified conclusion stating that the Council has proper arrangements to secure economy, efficiency and effectiveness in the use of its resources. I include my draft conclusion in appendix 1.

Table 5: **Value for money conclusion criteria and my findings**

Criteria	Risk	Findings
<p>1. Financial resilience</p> <p>The organisation has proper arrangements in place to secure financial resilience.</p> <p>Focus for 2011/12:</p> <p>The organisation has robust systems and processes to manage effectively financial risks and opportunities, and to secure a stable financial position that enables it to continue to operate for the foreseeable future.</p>	<p>The Council faces significant challenges arising from the impact of the economic downturn and reductions in grant funding.</p>	<p>I have reviewed:</p> <ul style="list-style-type: none">■ the Council's medium-term financial plan, including arrangements for HRA self-financing, and the arrangements around developing, monitoring and adapting this plan; and■ budgetary control arrangements.
<p>2. Securing economy efficiency and effectiveness</p> <p>The organisation has proper arrangements for challenging how it secures economy, efficiency and effectiveness.</p>		

Criteria

Focus for 2011/12:

The organisation is prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity.

Risk**Findings**

I have not identified any significant issues to bring to your attention.

Fees

I reported my planned audit fee in the 2011/12 Audit Plan.

I will complete the audit within the planned fee.

Table 6: Fees

	Original scale fee (£)	Planned fee 2011/12 (£)	Expected fee 2011/12 (£)
Audit	296,961	296,961	296,961
Claims and returns		90,000	90,000
Non-audit work		0	0
Total		386,961	386,961

Appendix 1 – Draft independent auditor’s report

Independent auditor’s report to the members of Dudley Metropolitan Borough Council

Opinion on the Council’s financial statements

I have audited the financial statements of Dudley Metropolitan Borough Council for the year ended 31 March 2012 under the Audit Commission Act 1998. The financial statements comprise the Movement in Reserves Statement, the Comprehensive Income and Expenditure Statement, the Balance Sheet, the Cash Flow Statement, the Housing Revenue Account Income and Expenditure Statement, the Movement on the Housing Revenue Account Statement and Collection Fund and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2011/12.

This report is made solely to the members of Dudley Metropolitan Borough Council in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 48 of the Statement of Responsibilities of Auditors and Audited Bodies published by the Audit Commission in March 2010.

Respective responsibilities of the Treasurer and auditor

As explained more fully in the Statement of Responsibilities for the Statement of Accounts, the Treasurer is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom, and for being satisfied that they give a true and fair view. My responsibility is to audit and express an opinion on the accounting statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require me to comply with the Auditing Practices Board’s Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Council's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Treasurer; and the overall presentation of the financial statements. In addition, I read all the financial and non-financial information in the explanatory foreword to identify material inconsistencies with the audited financial statements. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my report.

Opinion on financial statements

In my opinion the financial statements:

- give a true and fair view of the financial position of Dudley Metropolitan Borough Council as at 31 March 2012 and of its expenditure and income for the year then ended; and
- have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2011/12.

Opinion on other matters

In my opinion, the information given in the explanatory foreword for the financial year for which the financial statements are prepared is consistent with the accounting statements.

Matters on which I report by exception

I report to you if :

in my opinion the annual governance statement does not reflect compliance with 'Delivering Good Governance in Local Government: a Framework' published by CIPFA/SOLACE in June 2007;

- I issue a report in the public interest under section 8 of the Audit Commission Act 1998;
- I designate under section 11 of the Audit Commission Act 1998 any recommendation as one that requires the Council to consider it at a public meeting and to decide what action to take in response; or
- I exercise any other special powers of the auditor under the Audit Commission Act 1998.

I have nothing to report in these respects.

Conclusion on the Council's arrangements for securing economy, efficiency and effectiveness in the use of resources

Respective responsibilities of the Council and the auditor

The Council is responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance, and to review regularly the adequacy and effectiveness of these arrangements.

I am required under Section 5 of the Audit Commission Act 1998 to satisfy myself that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the Audit Commission requires me to report to you my conclusion relating to proper arrangements, having regard to relevant criteria specified by the Audit Commission.

I report if significant matters have come to my attention which prevent me from concluding that the Council has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. I am not required to consider, nor have I considered, whether all aspects of the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

Scope of the review of arrangements for securing economy, efficiency and effectiveness in the use of resources

I have undertaken my audit in accordance with the Code of Audit Practice, having regard to the guidance on the specified criteria, published by the Audit Commission in October 2011, as to whether the Council has proper arrangements for:

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

The Audit Commission has determined these two criteria as those necessary for me to consider under the Code of Audit Practice in satisfying myself whether the Council put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2012.

I planned my work in accordance with the Code of Audit Practice. Based on my risk assessment, I undertook such work as I considered necessary to form a view on whether, in all significant respects, the Council had put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

Conclusion

On the basis of my work, having regard to the guidance on the specified criteria published by the Audit Commission in October 2011, I am satisfied that, in all significant respects, Dudley Metropolitan Borough Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2012.

Certificate

I certify that I have completed the audit of the accounts of Dudley Metropolitan Borough Council in accordance with the requirements of the Audit Commission Act 1998 and the Code of Audit Practice issued by the Audit Commission.

Tony Corcoran

District Auditor

Audit Commission

1st Floor

No. 1 Friarsgate

1011 Stratford Road

Solihull

B90 4EB

XX September 2012

Appendix 2 – Corrected errors

I identified the following errors during the audit which management have addressed in the revised financial statements.

Table 1 – adjustments affecting CIES and balance sheet		Comprehensive income and expenditure statement (CIES)		Balance sheet	
Item of account	Nature of error	Dr £'000s	Cr £'000s	Dr £'000s	Cr £'000s
CIES and balance sheet	A number of assets were incorrectly classified as community assets, e.g. Dudley Museum and Art Gallery. These assets have been re-classified and revalued where necessary.	1506	553	953	953
Balance sheet	The Council's investment in Birmingham Airport has been revalued upwards to reflect its fair value as at 31 March 2012. A corresponding adjustment has been made to the available for sale financial instruments reserve. This adjustment was needed because the revaluation of the investment was provided to the Council after it had prepared and submitted the financial statements for audit.			2,079	2,079

Table 1 – adjustments affecting CIES and balance sheet		Comprehensive income and expenditure statement (CIES)		Balance sheet	
Item of account	Nature of error	Dr £'000s	Cr £'000s	Dr £'000s	Cr £'000s
Balance sheet	The value of cash and cash equivalents on the balance sheet has been increased so that cash balances held by the Council on behalf of trust funds are included. A corresponding increase has been made to the short term creditors balance to recognise that these cash balances are repayable by the Council to the trust funds.			6,654	6,654
Balance sheet	The capital adjustment account was credited upon recognition of heritage assets at 1 April 2010. This credit entry should have been made to the revaluation reserve.			16,650	16,650

Table 2 – adjustments affecting the format of the CIES, cash flow statement, housing revenue account, notes to the core statements and prior year comparatives	
Item of account	Nature of error
CIES	The following sub-headings had to be added to the CIES to ensure that the format of the CIES complied with the requirements of the CIPFA Service Reporting Code of Practice: <ul style="list-style-type: none"> ■ Education and Children's Services ■ Housing Services ■ Central Services
Cash flow statement	The line 'net cash flows from interest & dividends' was reported below the sub-heading 'net cash flows from operating activities' but is now reported above it. This line reports net cash flows from interest & dividends of £10,695k in 2011/12 and £15,926k in 2010/11

Table 2 – adjustments affecting the format of the CIES, cash flow statement, housing revenue account, notes to the core statements and prior year comparatives

Item of account	Nature of error
Note 16 – financial instruments	The note has been adjusted to omit statutory debts totalling £182,188k and statutory creditors totalling £1,068k which are not financial instruments.
Note 27 – cash flow statement (non-cash movements and other movements)	The note was adjusted to disclose non-cash and other movements separately. This adjustment was made to improve the clarity of the note.
Note 28 – amounts reported for resource allocation decisions	Total income and total operating expenses in respect of the housing revenue account were adjusted so that they were consistent with the figures reported in the explanatory foreword. As a result, both total income and total operating expenses decreased by £3,756k.
Note 36 – grant income	The analysis of grant income credited to services has been adjusted to correct errors identified in how income had been classified between the bodies which provided the grants to the Council. The largest adjustment was in respect of the 'other' category which decreased by £1,395k.
Note 39 – leases (authority as lessor – operating leases)	The future minimum lease payments receivable under non-cancellable leases for later than five years was amended from £17,757k to £32,236k. The error arose because future lease payments in respect of the Crown Centre were mistakenly excluded.
Housing revenue account (HRA)	The revaluation loss on housing stock of £50,448k was disclosed as an exceptional item in the HRA. This was inconsistent with its treatment in the CIES as it was not disclosed as an exceptional item in the CIES. The HRA has been amended so that the revaluation loss is no longer disclosed as an exceptional item.
HRA	Prior year comparatives have been added to Notes 2, 4, 5, 6, 7, 8, 9 and 10 to the HRA .

Appendix 3 – Draft letter of management representation

Dudley Metropolitan Borough Council - Audit for the year ended 31 March 2012

I confirm to the best of my knowledge and belief, having made appropriate enquiries of other directors of Dudley Metropolitan Borough Council, the following representations given to you in connection with your audit of the Council's financial statements for the year ended 31 March 2012.

Compliance with the statutory authorities

I have fulfilled my responsibility under the relevant statutory authorities for preparing the financial statements in accordance with the Accounts and Audit (England) Regulations 2011 and the Code of Practice on Local Authority Accounting in the United Kingdom which give a true and fair view of the financial position and financial performance of the Council, for the completeness of the information provided to you, and for making accurate representations to you.

Uncertainty

The effects of the uncertainty in respect of component accounting reported in Table 2 are not material to the financial statements, either individually or in aggregate.

Supporting records

I have made available all relevant information and access to persons within the Council for the purpose of your audit. I have properly reflected and recorded in the financial statements all the transactions undertaken by the Council.

Irregularities

I acknowledge my responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud or error.

I also confirm that I have disclosed:

- my knowledge of fraud, or suspected fraud, involving either management, employees who have significant roles in internal control or others where fraud could have a material effect on the financial statements;
- my knowledge of any allegations of fraud, or suspected fraud, affecting the entity's financial statements communicated by employees, former employees, analysts, regulators or others; and
- the results of our assessment of the risk the financial statements may be materially misstated as a result of fraud.

Law, regulations, contractual arrangements and codes of practice

I have disclosed to you all known instances of non-compliance, or suspected non-compliance with laws, regulations and codes of practice, whose effects should be considered when preparing financial statements.

Transactions and events have been carried out in accordance with law, regulation or other authority. The Council has complied with all aspects of contractual arrangements that could have a material effect on the financial statements in the event of non-compliance.

All known actual or possible litigation and claims, whose effects should be considered when preparing the financial statements, have been disclosed to the auditor and accounted for and disclosed in accordance with the applicable financial reporting framework.

Accounting estimates including fair values

I confirm the reasonableness of the significant assumptions used in making the accounting estimates, including those measured at fair value.

For unequal pay, the long term investment in Birmingham Airport and fair values of borrowings, I confirm:

- the appropriateness of the measurement method, including related assumptions and models, and the consistency in application of the method;
- the assumptions appropriately reflect management's intent and ability to carry out specific courses of action on behalf of the Council, where relevant to the accounting estimates and disclosures;
- the disclosures relating to the accounting estimate are complete and appropriate under the Code; and
- that no subsequent event requires the Council to adjust the accounting estimate and related disclosures included in the financial statements.]

Related party transactions

I confirm that I have disclosed the identity of the Council's related parties and all the related party relationships and transactions of which I am aware. I have appropriately accounted for and disclosed such relationships and transactions in accordance with the requirements of the Code.

Subsequent events

I have adjusted for or disclosed in the financial statements all relevant events subsequent to the date of the financial statements.

Signed on behalf of Dudley Metropolitan Borough Council

I confirm that the this letter has been discussed and agreed by the Audit and Standards Committee on 20 September 2012

Iain Newman

Treasurer

Dudley Metropolitan Borough Council

Date

Appendix 4 – Glossary

Annual Audit Letter

Letter issued by the auditor to the Council after the completion of the audit that summarises the audit work carried out in the period and significant issues arising from auditors' work.

Annual Governance Report

The auditor's report on matters arising from the audit of the financial statements presented to those charged with governance before the auditor issues their opinion [and conclusion].

Annual Governance Statement

The annual report on the Council's systems of internal control that supports the achievement of the Council's policies aims and objectives.

Audit of the accounts

The audit of the accounts of an audited body comprises all work carried out by an auditor under the Code to meet their statutory responsibilities under the Audit Commission Act 1998.

Audited body

A body to which the Audit Commission is responsible for appointing the external auditor.

Auditing Practices Board (APB)

The body responsible in the UK for issuing auditing standards, ethical standards and associated guidance to auditors. Its objectives are to establish high standards of auditing that meet the developing needs of users of financial information and to ensure public confidence in the auditing process.

Auditing standards

Pronouncements of the APB that contain basic principles and essential procedures with which auditors must comply, except where otherwise stated in the auditing standard concerned.

Auditor(s)

Auditors appointed by the Audit Commission.

Code (the)

The Code of Audit Practice for local government bodies issued by the Audit Commission and approved by Parliament.

Commission (the)

The Audit Commission for Local Authorities and the National Health Service in England.

Ethical Standards

Pronouncements of the APB that contain basic principles relating to independence, integrity and objectivity that apply to the conduct of audits and with which auditors must comply, except where otherwise stated in the standard concerned.

Financial statements

The annual statement of accounts that the Council is required to prepare, which report the financial performance and financial position of the Council in accordance with the Accounts and Audit (England) Regulations 2011 and the Code of Practice on Local Authority Accounting in the United Kingdom.

Group accounts

Consolidated financial statements of a Council and its subsidiaries, associates and jointly controlled entities.

Internal control

The whole system of controls, financial and otherwise, that the Council establishes to provide reasonable assurance of effective and efficient operations, internal financial control and compliance with laws and regulations.

Materiality

The APB defines this concept as 'an expression of the relative significance or importance of a particular matter in the context of the financial statements as a whole. A matter is material if its omission would reasonably influence the decisions of an addressee of the auditor's report; likewise a misstatement is material if it would have a similar influence. Materiality may also be considered in the context of any individual primary statement

within the financial statements or of individual items included in them. Materiality is not capable of general mathematical definition, as it has both qualitative and quantitative aspects’.

The term ‘materiality’ applies only to the financial statements. Auditors appointed by the Commission have responsibilities and duties under statute, as well as their responsibility to give an opinion on the financial statements, which do not necessarily affect their opinion on the financial statements.

Significance

The concept of ‘significance’ applies to these wider responsibilities and auditors adopt a level of significance that may differ from the materiality level applied to their audit of the financial statements. Significance has both qualitative and quantitative aspects.

Those charged with governance

Those entrusted with the supervision, control and direction of the Council. This term includes the members of the Council and its Audit Committee.

Whole of Government Accounts

A project leading to a set of consolidated accounts for the entire UK public sector on commercial accounting principles. The Council must submit a consolidation pack to the department for Communities and Local Government which is based on, but separate from, its financial statements.

Appendix 5 – Action plan

Recommendations

Recommendation 1

Management should continue to test whether changes to the payroll and timesheets are appropriately authorised and take remedial action if any errors are found.

Responsibility	Payroll Manager
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Priority	High
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Date	
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Comments	
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Recommendation 2

Management should introduce a programme of regular restoration tests for key application systems.

Responsibility	Head of ICT Services
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Priority	High
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Date	
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Comments	
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