

Annual governance report

Dudley MBC

Audit 2010/11



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Key messages

This report summarises the findings from the 2010/11 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.

	Our findings
Unqualified audit opinion	●
Proper arrangements to secure value for money	●

Audit opinion and financial statements

- Subject to satisfactory clearance of outstanding matters, I plan to issue an audit report including an unqualified opinion on the financial statements. 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 did not have any impact on the Council's usable reserves. The only adjustment which affected usable reserves was in respect of accrued expenditure on termination benefits and this resulted in General Fund reserves increasing by £420k and schools reserves decreasing by £147k
- I have identified a number of ways in which the quality of your financial statements could be improved and have made recommendations to management as to how this could be done.

Significant weaknesses in internal control

- I have identified some significant weaknesses in internal control during the course of the audit in respect of housing benefits and payroll systems and property, plant and equipment. I have made recommendations to management as to how these weaknesses could be addressed

Value for money

- I intend to issue an unqualified conclusion stating that the Council had proper arrangements to secure economy, efficiency and effectiveness in your use of resources

Before I complete my audit

I confirm to you

My report includes only matters of governance interest that have come to my attention in performing my audit. My audit is not designed 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 can also confirm there were no relationships resulting in a threat to independence, objectivity and integrity.

The Audit Commission's Audit Practice has not undertaken any non-audit work for the Council during 2010/11.

I ask you to confirm to me

I ask the audit committee to:

- take note of the adjustments to the financial statements which are set out in this report (Appendix 2);
 - approve the letter of representation, provided alongside this report, on behalf of the Council before I issue my opinion and conclusion; and
 - request that officers consider the proposed action plan (Appendix 6).
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Financial statements

Subject to satisfactory clearance of outstanding matters, I plan to issue an audit report including an unqualified opinion on the financial statements. 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 did not have any impact on the Council's usable reserves. The only adjustment which affected usable reserves was in respect of accrued expenditure on termination benefits and this resulted in General Fund reserves increasing by £420k and schools reserves decreasing by £147k.

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 report.

Errors in the financial statements

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 did not have any impact on the Council's usable reserves. The most significant of the adjustments made are detailed further in Appendix 2. The only adjustment which affected usable reserves was in respect of accrued expenditure on termination benefits which management have revised since submitting the financial statements for audit. The adjustment was made in order to reflect the actual termination benefits paid after the year end. The adjustments in respect of termination benefits resulted in General Fund reserves increasing by £420k and schools reserves decreasing by £147k. The following adjustments have been made to the financial statements which do not have any effect on the Council's usable reserves:

- the value of the Council's long term assets has been reduced by £7,852k due to writing off past expenditure on community assets where the Council's records do not show the nature of the expenditure and so the Council cannot demonstrate that benefit is still being received from the historic spend (£5,494k) and a change in the basis of valuation for two of the Council's assets (£2,358k)

- the value of the Council's current liabilities has decreased by £50,722k due to re-classification of part of the unequal pay provision to long term liabilities (62,400k), re-classification of part of the grants received in advance to current liabilities (-£10,168k), an adjustment in respect of accrued expenditure on termination benefits (£273k) and a re-classification of long term deferred liabilities to short term deferred liabilities (-£1,783k)
- the value of the Council's long term liabilities has increased by £50,593k due to the re-classifications in respect of the unequal pay provision, grants received in advance and deferred liabilities referred to above and an adjustment of £144k in respect of pension liabilities arising from adjustments to termination benefits referred to above
- the value of the Council's unusable reserves has decreased by £7,996k due to the adjustments in respect of writing off of community assets, the change in basis of valuation of two assets and pension liabilities which are all referred to above.

The audit identified a small numbers of errors for which management have not adjusted the financial statements. These uncorrected errors are not material and are detailed further in Appendix 3.

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 Council 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.

In planning my audit I identified specific risks and areas of judgement that I have considered as part of my audit.

Key audit risk and our findings

Key audit risk	Finding
<p>1. International Financial Reporting Standards</p> <p>The Council is required to produce the financial statements in accordance with the CIPFA Code of Practice on Local Authority Accounting (the 'Code') which is based on International Financial Reporting Standards (IFRS)</p>	<p>I have reviewed the financial statements and am satisfied that the Council has produced financial statements which are in accordance with the CIPFA Code which is based on IFRS. The audit identified a number of errors in the financial statements submitted for audit which arose from non-compliance with the requirements of the Code. These errors have been corrected and are detailed further in Appendix 2.</p>
<p>2. Unequal pay</p> <p>Accounting for equal pay settlements</p>	<p>I tested the Council's total provision for outstanding settlements with current and former employees in respect of actual or potential claims under equal pay legislation and have concluded that it is fairly stated. My audit work identified a material error in the classification of the provision between current and long term liabilities on the balance sheet. This error has been corrected and is detailed further in Appendix 2</p>
<p>3. Termination benefits</p> <p>The Council is planning to make a large number of redundancies. The precise number, timing and cost to the Council of these redundancies are uncertain at present. The</p>	<p>I have reviewed the disclosures made in the financial statements in respect of termination benefits and am satisfied that they are fairly stated</p>

Key audit risk

Code requires disclosure of termination benefits where the nature and amount of the expense is material

Finding**4. Birmingham Airport**

Valuation of investment in Birmingham Airport

I have reviewed the Council's valuation of its investment in the Airport and am satisfied that it is fairly stated

Financial statements

Significant weaknesses in internal control

I have identified some significant weaknesses in internal control during the course of the audit in respect of housing benefits and payroll systems and property, plant and equipment. I have made recommendations to management as to how these weaknesses could be addressed

These weaknesses are only those I identified during the course of the audit that are relevant to preparing the financial statements. I am not expressing an opinion on the overall effectiveness of internal control.

Internal control issues and our findings

Description of weakness	Potential effect	Management action
<p>1. Housing Benefits</p> <p>The Quality Control Team check the accuracy of processing of housing benefit claims. Between 5/4/10 and 3/4/11 they found that errors had been made in the processing of 4.15% of all claims checked</p>	<p>I am satisfied that this level of error could not lead to a material misstatement of the accounts. However, errors made in processing housing benefit claims could lead to incorrect levels of benefit being paid to claimants and reductions in the level of subsidy that the Council can claim from the Department of Works and Pensions</p>	<p>Management should continue to check the accuracy of processing of housing benefit claims and to use the results to inform staff training and development</p>
<p>2. Property, plant and equipment (except for-council dwellings)</p> <p>The Council does not have controls in place which require officers to confirm annually that all property, plant and equipment on the balance sheet are still owned and/or used by the Council</p>	<p>There is a risk that assets are disposed of but continue to be recorded on the Council's balance sheet. Introducing this control would help to ensure that this risk is mitigated</p>	<p>Management should require appropriate officers to confirm annually that all property, plant and equipment on the balance sheet is still owned and/or used by the Council</p>
<p>3. Property, plant and equipment (council dwellings)</p> <p>The Council maintains a register of all council</p>	<p>There is a risk that council dwellings are disposed of but continue to be recorded on the Council's balance sheet. Introducing this control would help to ensure</p>	<p>Management should use the results of the HomeCheck inspection process to check that its register of council dwellings used</p>

Description of weakness	Potential effect	Management action
<p>dwelling which records the valuation for each council dwelling. This register is used to calculate the total value of council dwellings recorded on the balance sheet. The Council also has a HomeCheck inspection process which aims to inspect all council dwellings over a period of years. The Council could improve its internal controls by using the results of the HomeCheck inspection process to check that its register of council dwellings used for accounting purposes remains accurate</p>	<p>that this risk is mitigated</p>	<p>for accounting purposes remains accurate</p>
<p>4. Payroll system Internal audit testing found that there were weaknesses in the Council's controls for ensuring that changes to the payroll are appropriately authorised within some Directorates.</p>	<p>This prevented me from placing reliance on your controls in this area and I had to perform further testing as a result. This further testing did not identify any misstatements in respect of payroll expenditure. 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 are appropriately authorised and take remedial action if any errors are found</p>

Recommendation

- R1** Management should continue to check the accuracy of processing of housing benefit claims and to use the results to inform staff training and development
- R2** Management should require appropriate officers to confirm annually that all property, plant and equipment on the balance sheet is still owned and/or used by the Council
- R3** Management should use the results of the HomeCheck inspection process to check that its register of council dwellings used for accounting purposes remains accurate

Recommendation

R4 Management should continue to test whether changes to the payroll are appropriately authorised and take remedial action if any errors are found

Financial statements

Quality of your financial statements

I have identified a number of ways in which the quality of your financial statements could be improved and have made recommendations to management as to how this could be done.

I consider aspects of your accounting practices, accounting policies, accounting estimates and financial statements disclosures. These are the issues I want to raise with you.

Accounting practices, policies, estimates and financial closures

Issue	Findings and recommendations
<p>1. Financial statements submitted for audit</p> <p>The preparation of financial statements under International Financial Reporting Standards (IFRS) has been a difficult and time consuming exercise for officers. The additional workload reduced the time available for checking the financial statements prior to submission for audit, leading to incorrect casting of figures, figures not being consistent between different areas of the financial statements and inconsistent use of brackets for debit and credit balances</p>	<p>Management should ensure that the financial statements are checked for casting, cross referencing and consistent use of terminology before they are submitted for audit</p>
<p>2. Component accounting</p> <p>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</p>	<p>Management must revisit component accounting for the 2011/12 financial statements to ensure that their approach to componentisation does not result in a material misstatement</p>

Issue

Findings and recommendations

charge to CI&ES 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 as the effect on depreciation would not be material. Officers concluded that, in practice, the Council does not replace major components of buildings at less than 30 year intervals, and there is 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 am satisfied that the Council has demonstrated that their decision not to componentise assets and depreciate them accordingly has not resulted in a material error.

The Council is not routinely de-recognising old components of assets when enhancement expenditure is incurred. Not doing so results in both the old and new components being included in the carrying value of the asset. Officers have considered the impact of this approach and have concluded that it could result in between £230k - £470k of old

Issue

components being included in the carrying value of assets when they should have been derecognised. I am satisfied that this is not a material error.

3. Ledger coding

Sample testing of grant income in Note 38 found that one grant had been miscoded on the ledger. This miscoding resulted in an overstatement of Childrens Services income and expenditure in the CI&ES by £127k and a consequent error in Note 38. An adjustment has been made to the financial statements to correct this error. I am unable to conclude that this is an isolated error as it was caused by ledger miscoding which could have occurred elsewhere. The extrapolated effect of this error is £1,661k. I am satisfied that this is not evidence of a material misstatement

4. Fair value of borrowing

Note 15 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 £50m higher than the estimate which is reported in Note 15. I am satisfied that the figure disclosed in Note 15 is a reasonable estimate but this

Findings and recommendations

Management should continue to impress on staff the need for income and expenditure to be correctly coded on the ledger

Members of the Audit Committee should note the difference in valuation of the fair value of borrowing which arises from using different valuation methodologies

Issue

difference in valuation is being reported so that members of the Audit Committee are aware of the difference in valuation which arises from using different valuation methodologies.

Findings and recommendations

Recommendation

- R5** Management should ensure that the financial statements are checked for casting, cross referencing and consistent use of terminology before they are submitted for audit
 - R6** Management must revisit component accounting for the 2011/12 financial statements to ensure that their approach to componentisation does not result in a material misstatement
 - R7** Management should continue to impress on staff the need for income and expenditure to be correctly coded on the ledger
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Financial statements

Letter of representation

Before I issue my opinion, auditing standards require me to ask you and management for written representations about your financial statements and governance arrangements. The letter is attached at Appendix 4.

Value for money

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

I assess your arrangements to secure economy, efficiency and effectiveness in your use of resources against two criteria specified by the Audit Commission. My conclusion on each of the two areas is set out below.

I intend to issue an unqualified conclusion stating that the Council had proper arrangements to secure economy, efficiency and effectiveness in your use of resources.

Value for money criteria and our findings

Criterion	Findings
<p>1. Financial resilience</p> <p>The organisation has proper arrangements in place to secure financial resilience.</p> <p>Focus for 2010/11:</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>I have assessed whether the Council has proper arrangements in place to secure financial resilience. In performing this assessment I reviewed the Council's response to the Comprehensive Spending Review (CSR) and its impact on budget setting for 2011/12 and medium term financial planning. I found that the Council has robust systems and processes to manage effectively the financial risks arising from the CSR, and to secure a stable financial position that enables it to continue to operate for the foreseeable future.</p>
<p>2. Securing economy efficiency and effectiveness</p> <p>The organisation has proper arrangements for challenging how it secures economy, efficiency</p>	<p>I have assessed whether the Council has proper arrangements for challenging how it secures economy, efficiency and effectiveness. In performing this assessment I reviewed:</p> <ul style="list-style-type: none">■ the Council's response to the CSR and its impact on budget setting for 2011/12 and

Criterion

and effectiveness.

Focus for 2010/11:

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

Findings

medium term financial planning

- the adequacy of processes that the Council has in place to deliver cost savings and service efficiencies arising from the redesign of services for older people
- the Council's arrangements for improving the range of cross directorate single coordinated services.

I found that, for each of these areas, the Council is prioritising its resources within tighter budgets and is taking appropriate action to improve efficiency and productivity.

Appendix 1 – Draft audit report

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF DUDLEY METROPOLITAN BOROUGH COUNCIL

Opinion on the Authority accounting statements

I have audited the accounting statements of Dudley Metropolitan Borough Council for the year ended 31 March 2011 under the Audit Commission Act 1998. The accounting statements comprise the Movement in Reserves Statement, the Comprehensive Income and Expenditure Statement, the Balance Sheet, the Cash Flow Statement, the Housing Revenue Account, the Movement on the Housing Revenue Account Statement and Collection Fund and the related notes. These accounting statements have been prepared under the accounting policies set out in the Statement of Accounting Policies.

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 Authority's Statement of Accounts in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom. My responsibility is to audit 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 Practice's 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 accounting statements sufficient to give reasonable assurance that the accounting 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 Authority's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Authority; and the overall presentation of the accounting statements. I read all the information in the explanatory foreword to identify material inconsistencies with the audited accounting statements. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my report.

Opinion on accounting statements

In my opinion the accounting statements:

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

Opinion on other matters

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

Matters on which I report by exception

I have nothing to report in respect of the governance statement on which I report to you if, in my opinion the governance statement does not reflect compliance with 'Delivering Good Governance in Local Government: a Framework' published by CIPFA/SOLACE in June 2007.

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

Authority's responsibilities

The Authority 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.

Auditor's responsibilities

I am required under Section 5 of the Audit Commission Act 1998 to satisfy myself that the Authority 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 Authority 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 Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

Basis of conclusion

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 2010, as to whether the Authority 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 Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2011.

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 Authority 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 2010, 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 ending 31 March 2011.

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.

[Signature]

Tony Corcoran
Officer of the Audit Commission
Audit Commission
1st Floor
No. 1 Friarsgate
1011 Stratford Road
Solihull
B90 4EB

[Date]

Appendix 2 – Amendments to the draft financial statements

I identified the following misstatements during my audit and management have adjusted the financial statements. I bring them to your attention to aid you in fulfilling your governance responsibilities.

Table 1 – amendments affecting CI&ES and balance sheet		Comprehensive income and expenditure statement (CI&ES)		Balance sheet	
Adjusted misstatement	Nature of adjustment	Dr £000s	Cr £000s	Dr £000s	Cr £000s
Exceptional items (revaluation loss on housing stock and past service gain to pension scheme due to change from RPI to CPI)	The two exceptional items were amalgamated into one line in the CI&ES but these two items are now reported separately	133,796	133,796		
Grants receipts in advance	Revenue grants receipts in advance had been classified as long term liabilities but are now classified as current liabilities			10,168	10,168
Unequal pay provision	The provision had been classified as a current liability but has now been split between current and long term liabilities. The current liability has been reduced by £62,400k and a			62,400	62,400

Table 1 – amendments affecting CI&ES and balance sheet

Comprehensive income and expenditure statement (CI&ES)

Balance sheet

long term liability of £62,400k is now reported

Table 2 – amendments affecting the cash flow statement, notes to the financial statements and prior year comparatives

Adjusted misstatement	Nature of adjustment
Balance sheet	Short term borrowing at 1 April 2009 was amended from £12,191k to £21,491k. Long term borrowing at 1 April 2009 was amended from £432,119k to £422,820k
Balance sheet	The value of other land and buildings assets at 31/3/10 was overstated by £7,904k and the value of surplus assets was understated by £7,904k due to an error made in the recording of the results of the IFRS restatement exercise
Cash flow statement	Adjustments to net surplus or deficit on the provision of services for non cash movements and operating activities was amended from £204,283k to £212,659
Explanatory foreword by the Treasurer	The value of termination benefits were mistakenly omitted from the explanatory foreword but has now been added
Note 3 – Critical judgements in applying accounting policies	The note has been expanded so that it discloses what judgements were made and what the financial effect of these judgements were
Note 4 – Assumptions made about the future and other major sources of estimation uncertainty	The note has been expanded so that it discloses what assumptions were made and what the financial effect of these assumptions were
Note 7 - Adjustments between accounting basis and funding basis under regulations	<p>The following material adjustments have been made in respect of 2010/11 entries in the note:</p> <ul style="list-style-type: none"> ■ charges for depreciation and amortisation of non-current assets has been amended from £34,967k to £25,009k

Table 2 – amendments affecting the cash flow statement, notes to the financial statements and prior year comparatives

Note 12 – Property, plant and equipment	<ul style="list-style-type: none"> ■ revaluation losses on property, plant and equipment has been amended from £0 to £17,494k <p>Note 12 mistakenly disclosed that council dwellings were valued at fair value as at 1 April 2010 at £993,509k and needed to be amended to £674,558k</p> <p>The net book value of other land and buildings assets at 31 March 2010 was amended from £398,302k to £390,399k and the net book value of surplus assets at 31 March 2010 was amended from £1,770k to £9,674k</p> <p>Other movements in cost or valuation for other land and buildings assets at 1 April 2009 was amended from £21,209k to £11,396k</p> <p>In movements on balances in 2010/11, revaluation increases recognised in the revaluation reserve for other land and buildings has been amended from (£6,887k) to 15,645k</p> <p>In movements on balances in 2010/11, revaluation decreases recognised in the surplus/deficit on the provision of services has been amended from £0 to (£17,494k)</p>
Note 15 – Financial instruments	<p>Short term debtors are now reported net of the bad debt provision of £14,990k. The gross short term debtors balance was reported in the financial statements submitted for audit</p>
Note 27 - Cash flow statement - financing activities and non cash movements	<p>The analysis of non-cash movements was mistakenly omitted from the financial statements submitted for audit</p>
Note 28 - Amounts reported for resource allocation decisions	<p>The following material adjustments were made to in the section of the note on 'reconciliation to subjective analysis' for 2010/11:</p> <ul style="list-style-type: none"> ■ depreciation, amortisation & impairment was amended from 241,931k to 250,038k <p>The following material adjustments were made to in the section of the note on 'reconciliation to net cost of services in CI&ES' for 2009/10:</p>

Table 2 – amendments affecting the cash flow statement, notes to the financial statements and prior year comparatives

	<ul style="list-style-type: none"> ■ adjustments between accounting basis and funding basis under regulation was amended from 34,281k to 13,565k ■ other operating exp was amended from 23,035k to 68,657k ■ financing and investment income & expenditure was amended from 34,256k to 14,283k ■ transfers to General Fund balance from earmarked reserves was amended from 12,051k to 1,000k
Note 35 – Officers’ remuneration	Additional disclosure in respect of the remuneration of the Director of Childrens Services and Acting Director of Childrens Services was required
Note 40 - Capital expenditure and capital financing	The 2009/10 comparatives in the note have been amended to reflect the introduction of international financial reporting standards
Note 41 - Leases	There was a material omission from Note 41. The note now discloses discounted minimum lease payments in respect of finance lease liabilities of £9,321k. This disclosure had been omitted from the financial statements submitted for audit
Note 42 – PFI and similar contracts	<p>The unitary payment and service charges for the waste to energy plant were materially misstated. The total service charges have been amended from £101,391k to £22,965k and the total unitary payment has been amended from £126,978k to £48,552k</p> <p>The note has been expanded to disclose long term and short term finance lease creditor liabilities</p> <p>The note has been expanded to disclose prior year comparatives for the movement in the carrying amount of the assets and liabilities</p>
Note 47 – Defined benefit pension schemes	The present value of liabilities shown in the scheme history was materially misstated. It was reported as £931,575k and needed to be amended to £916,301k
Note 52 – First time adoption of IFRS	This note was not included in the financial statements submitted for

Table 2 – amendments affecting the cash flow statement, notes to the financial statements and prior year comparatives

	audit but is now included. The note explains how the transition from previous UK GAAP to IFRS has affected the Council's reported financial position and financial performance
Note 10 to the Housing Revenue Account	This note has been expanded to include comparatives for the 2009/10 financial year
Notes 15, 16, 18, 19, 21 and 41	These notes have been expanded so that they disclose balances as at 1 April 2009. These balances had been omitted from the financial statements submitted for audit

Appendix 3 – Unadjusted misstatements to the financial statements

I identified the following misstatements during my audit, including uncorrected misstatements from earlier years, but management has not adjusted the financial statements. I bring them to your attention to help you in fulfilling your governance responsibilities and ask you to correct these misstatements.

If you decide not to amend, please tell me why in the representation letter. If you believe the effect of the uncorrected errors, individually and collectively, is immaterial, please reflect this in the representation letter. Please attach a schedule of the uncorrected errors to the representation letter.

		Comprehensive income and expenditure statement		Balance sheet	
Unadjusted misstatement	Nature of required adjustment	Dr £000s	Cr £000s	Dr £000s	Cr £000s
A payment of £271 in respect of room hire in January 2011 has not been recognised in the 2010/11 financial statements. This error arose because the payment was made in April 2011 and was not accrued into 2010/11. The Council has a policy of not accruing for	Expenditure understated by £0.0271k (£250k extrapolated) Short term creditors understated by £0.0271k (£250k extrapolated)	£0.0271k (£250k extrapolated)			£0.0271k (£250k extrapolated)

items below £500. The extrapolated error from this testing is £250k which is not material to the financial statements

No evidence could be provided to support a creditor balance of £26 in respect of Long Lane/Shell Corner Service Charge

Expenditure overstated by £0.0026k (£14k extrapolated)
Short term creditors overstated by £0.0026k (£14k extrapolated)

£0.0026k (£14k extrapolated)

£0.0026k (£14k extrapolated)

A short term creditor balance of £1,125 in respect of a deposit paid by a tenant in Arcade Lower Gornal has been classified as a current liability. This should be classified as a long term liability as it doesn't need to be repaid until 2013

Short term creditors overstated by £0.01k (625k extrapolated)
Long term deferred liabilities overstated by £0.01k (£625k extrapolated)

£0.01k (£625k extrapolated) £0.01k (£625k extrapolated)

As part of the 2009/10 audit I tested a sample of payments made in April 2010. One item in the sample related to 2009/10 but had not been accrued into the 2009/10 financial statements. This was because it was below the Council's £500 de-minimis level for accruals. This error also affects the 2010/11 financial statements as the expenditure was incorrectly included with 2010/11 expenditure. I have extrapolated the results of my sample testing and the

Expenditure overstated by £0.0027k (£200k extrapolated)
Short term creditors understated by £0.0027k (£200k extrapolated)

£0.0027k (£200k extrapolated)

£0.0027k (£200k extrapolated)

Comprehensive income and expenditure statement

Balance sheet

extrapolated error is £200k

Note 12 discloses a revaluation decrease of £24,445k in respect of other land and buildings assets in 2009/10. Officers have been able to provide working papers to support a figure of £24,716k but have not been able to explain the difference of £271k between these two figures

No adjustment can be made as it is not certain whether the figure of £271k is an error

£271k

£271k

£271k

£271k

Appendix 4 – Letter of representation

To:

Tony Corcoran
District Auditor
Audit Commission
1st Floor
No. 1 Friarsgate
1011 Stratford Road
Solihull
B90 4EB

Dudley Metropolitan Borough Council - Audit for the year ended 31 March 2011

I confirm to the best of my knowledge and belief, having made appropriate enquiries of other officers of the Council, the following representations given to you in connection with your audit of the Council's financial statements for the year ended 31 March 2011.

Compliance with the statutory authorities

I have fulfilled my responsibility under the relevant statutory authorities for preparing the financial statements in accordance with the Code of Practice for 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.

Uncorrected misstatements

The effects of uncorrected financial statements misstatements summarised in the section of the report on 'Quality of your Financial Statements' on pages 12 to 15 and also in Appendix 3 are not material to the financial statements, either individually or in aggregate.

Supporting records

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

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 that 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 termination benefits, unequal pay and the long term investment in Birmingham Airport, I confirm:

- the appropriateness of the measurement method, including related assumptions and models, and the consistency in application of the process;

- 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 completeness and appropriateness under the financial reporting framework; and
- subsequent events do not require adjustment to accounting estimates and disclosure included within 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 requirement of the framework.

Subsequent events

All events subsequent to the date of the financial statements, which would require additional adjustment or disclosure in the financial statements, have been adjusted or disclosed.

Unfunded liabilities

All unfunded liabilities e.g. discretionary added years awarded to staff in the LGPS and discretionary benefits awarded to teachers under the Teachers Pension scheme are included within the IAS 19 liability figures.

Signed on behalf of Dudley Metropolitan Borough Council

I confirm that the this letter has been discussed and agreed by the Audit Committee on [\[date\]](#)

Signed

Iain Newman
Treasurer
Dudley Metropolitan Borough Council

Date XXX

Appendix 5 – Glossary

Annual governance statement

A statement of internal control prepared by an audited body and published with the financial statements.

Audit closure certificate

A certificate that I have completed the audit following statutory requirements. This marks the point when I have completed my responsibilities for the audit of the period covered by the financial statements.

Audit opinion

On completion of the audit of the financial statements, I must give my opinion on the financial statements, including:

- whether they give a true and fair view of the financial position of the audited body and its spending and income for the year in question; and
- whether they have been prepared properly, following the relevant accounting rules.

Opinion [where there is no regularity leg]

If I agree that the financial statements give a true and fair view, I issue an unqualified opinion. I issue a qualified opinion if:

- I find the statements do not give a true and fair view; or
- I cannot confirm that the statements give a true and fair view.

[Where there is a regularity leg]

- I find that some spending or income was irregular.

Materiality and significance

The Auditing Practices Board (APB) defines this concept as ‘an expression of the relative significance or importance of a particular matter for the financial statements as a whole. A matter is material if its omission would reasonably influence users of the financial statements, such as the addressees of the auditor’s report; also a misstatement is material if it would have a similar influence. Materiality may also be considered for any individual primary statement within the financial statements or of individual items included in them. We cannot define materiality mathematically, as it has both numerical and non-numerical 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’ applies to these wider responsibilities and auditors adopt a level of significance that may differ from the materiality level applied to their audit in relation to the financial statements. Significance has both qualitative and quantitative aspects.

Weaknesses in internal control

A weakness in internal control exists when:

- a control is designed, set up or used in such a way that it is unable to prevent, or detect and correct, misstatements in the financial statements quickly; or
- a control necessary to prevent, or detect and correct, misstatements in the financial statements quickly is missing.

An important weakness in internal control is a weakness, or a combination of weaknesses that, in my professional judgement, are important enough that I should report them to you.

Value for money conclusion

The auditor’s conclusion on whether the audited body has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources based on criteria specified by the Audit Commission.

The Code of Audit Practice defines proper arrangements as corporate performance management and financial management arrangements that form a key part of the system of internal control. These comprise the arrangements for:

- planning finances effectively to deliver strategic priorities and secure sound financial health;
- having a sound understanding of costs and performance and achieving efficiencies in activities;
- reliable and timely financial reporting that meets the needs of internal users, stakeholders and local people;
- commissioning and buying quality services and supplies that are tailored to local needs and deliver sustainable outcomes and value for money;

- producing relevant and reliable data and information to support decision making and manage performance;
- promoting and displaying the principles and values of good governance;
- managing risks and maintaining a sound system of internal control;
- making effective use of natural resources;
- managing assets effectively to help deliver strategic priorities and service needs; and
- planning, organising and developing the workforce effectively to support the achievement of strategic priorities.

If I find that the audited body had adequate arrangements, I issue an unqualified conclusion. If I find that it did not, I issue a qualified conclusion.

Appendix 6 – Action plan

Recommendations

Recommendation 1

Management should continue to check the accuracy of processing of housing benefit claims and to use the results to inform staff training and development

Responsibility

Priority High

Date

Comments

Recommendation 2

Management should require appropriate officers to confirm annually that all property, plant and equipment on the balance sheet is still owned and/or used by the Council

Responsibility

Priority High

Date

Comments

Recommendation 3

Management should use the results of the HomeCheck inspection process to check that its register of council dwellings used for accounting purposes remains accurate

Responsibility

Priority High

Date

Comments

Recommendation 4

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

Responsibility

Priority High

Date

Comments

Recommendation 5

Management should ensure that the financial statements are checked for casting, cross referencing and consistent use of terminology before they are submitted for audit

Responsibility

Priority High

Date

Comments

Recommendation 6

Management must revisit component accounting for the 2011/12 financial statements to ensure that their approach to componentisation does not result in a material misstatement

Responsibility

Priority High

Date

Comments

Recommendation 7

Management should continue to impress on staff the need for income and expenditure to be correctly coded on the ledger

Responsibility

Priority Medium

Date

Comments

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0844 798 7070

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