

The Audit Findings for Dudley Metropolitan Borough Council

Year ended 31 March 2013

19 September 2013

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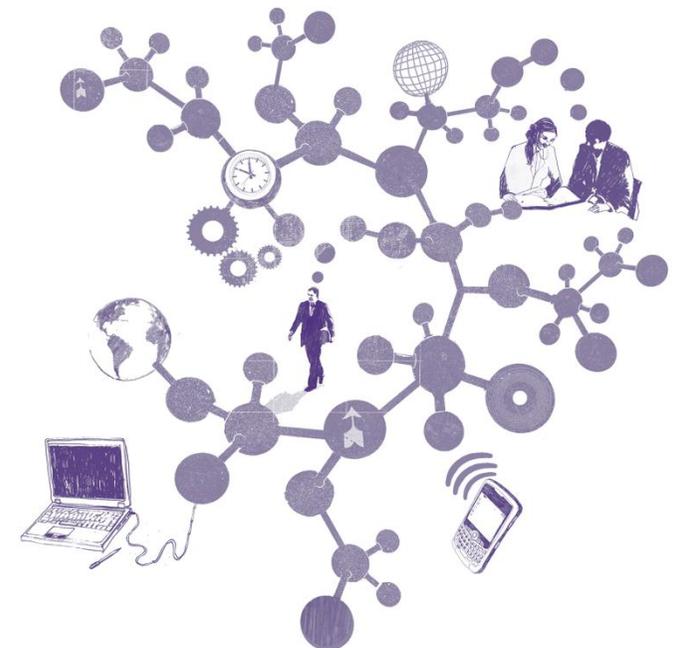
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The contents of this report relate only to those matters which came to our attention during the conduct of our normal audit procedures which are designed primarily for the purpose of expressing our opinion on the financial statements. Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify any control weaknesses, we will report these to you. In consequence, our work cannot be relied upon to disclose defalcations or other irregularities, or to include all possible improvements in internal control that a more extensive special examination might identify.

We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

Contents

Section	Page
1. Executive summary	5
2. Audit findings	8
3. Value for Money	21
4. Fees, non audit services and independence	24
5. Communication of audit matters	26

Appendices

- A Action plan
- B Audit opinion
- C Overview of audit findings

Section 1: Executive summary

01. Executive summary

02. Audit findings

03. Value for Money

04. Fees, non audit services and independence

05. Communication of audit matters

This report will be considered by the Audit and Standards Committee on 19 September. This report reflects the findings from our work on both the financial statements and the value for money conclusion. At the time of writing the audit is substantially complete. If further matters arise during the completion stages of our audit, we will raise these at the Audit and Standards Committee. We are planning to issue an unqualified opinion on the accounts and value for money conclusion.

Executive summary

Purpose of this report

This report highlights the key matters arising from our audit of Dudley Council's ('the Council') financial statements for the year ended 31 March 2013. It is also used to report our audit findings to management and those charged with governance in accordance with the requirements of International Standard on Auditing 260 (ISA).

Under the Audit Commission's Code of Audit Practice we are required to report whether, in our opinion, the Council's financial statements present a true and fair view of the financial position, its expenditure and income for the year and whether they have been properly prepared in accordance with the CIPFA Code of Practice on Local Authority Accounting. We are also required to reach a formal conclusion on whether the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources (the Value for Money conclusion).

Introduction

In the conduct of our audit we have not had to alter or change our planned audit approach, which we communicated to you in our Audit Plan dated June 2013.

Our audit is substantially complete although we are finalising our work in the following areas:

- review of the final version of the financial statements

- obtaining and reviewing the final management letter of representation
- updating our post balance sheet events review, to the date of signing the opinion and
- Whole of Government Accounts.

We received draft financial statements and accompanying working papers at the start of our audit, in accordance with the agreed timetable.

Key issues arising from our audit

Financial statements opinion

We anticipate providing an unqualified opinion on the financial statements.

We have not identified any adjustments affecting the Council's reported financial position. We have made a number of adjustments to improve the presentation of the financial statements. Further details are set out in section 2 of this report.

Value for money conclusion

We are pleased to report that, based on our review of the Council's arrangements to secure economy, efficiency and effectiveness in its use of resources, we propose to give an unqualified VFM conclusion.

Further detail of our work on Value for Money is set out in section 3 of this report.

Whole of Government Accounts (WGA)

We will complete our work in respect of the Whole of Government Accounts in accordance with the national timetable.

Controls

The Council's management is responsible for the identification, assessment, management and monitoring of risk, and for developing, operating and monitoring the system of internal control.

Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify any control weaknesses, we report these to the Council.

Our work has not identified any control weaknesses which we wish to highlight for your attention.

Further details are provided within section 2 of this report.

The way forward

Matters arising from the financial statements audit and review of the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources have been discussed with the Treasurer.

We have made a number of recommendations, which are set out in the action plan in Appendix A. Recommendations have been discussed and agreed with the Treasurer and the finance team.

Acknowledgment

We would like to take this opportunity to record our appreciation for the assistance provided by the finance team and other staff during our audit.

Grant Thornton UK LLP
September 2013

Section 2: Audit findings

01. Executive summary

02. Audit findings

03. Value for Money

04. Fees, non audit services and independence

05. Communication of audit matters

There have been no significant changes to the audit plan from that presented to the Audit and Standards Committee. The approach adopted for the opinion audit broadly followed the approach outlined in that plan, as detailed at Appendix C.

No changes were made to the accounts that impacted on the Council's overall financial position.

Audit findings

In this section we present our findings in respect of matters and risks identified at the planning stage of the audit and additional matters that arose during the course of our work. We set out on the following pages the work we have performed and findings arising from our work in respect of the audit risks we identified in our audit plan, presented to the Audit and Standards Committee on 9 July 2013. We also set out the adjustments to the financial statements from our audit work and our findings in respect of internal controls.

Changes to Audit Plan

We have not made any changes to our Audit Plan as previously communicated to you on 9 July 2013.

Status of the Audit

Our work is substantially complete and there are currently no matters of which we are aware which would require modification of our audit opinion, subject to the outstanding matters detailed below:

1. review of the final version of the financial statements
2. obtaining and reviewing the final management letter of representation
3. updating our post balance sheet events review, to the date of signing the opinion and
4. Whole of Government Accounts

Audit opinion

We anticipate that we will provide the Council with an unmodified opinion. Our audit opinion is set out in Appendix B.

Audit findings against significant risks

"Significant risks often relate to significant non-routine transactions and judgmental matters. Non-routine transactions are transactions that are unusual, either due to size or nature, and that therefore occur infrequently. Judgmental matters may include the development of accounting estimates for which there is significant measurement uncertainty" (ISA 315).

In this section we detail our response to the significant risks of material misstatement which we identified in the Audit Plan. As we noted in our plan, there are two presumed significant risks which are applicable to all audits under auditing standards.

	Risks identified in our audit plan	Work completed	Assurance gained and issues arising
1.	<p>Improper revenue recognition</p> <p>Under ISA 240 there is a presumed risk that revenue may be misstated due to improper recognition</p>	<ul style="list-style-type: none"> • review and testing of revenue recognition policies • testing of material revenue streams • review of unusual significant transactions 	<p>Our audit work has not identified any issues in respect of revenue recognition.</p>
2.	<p>Management override of controls</p> <p>Under ISA 240 there is a presumed risk of management over-ride of controls</p>	<ul style="list-style-type: none"> • review of accounting estimates, judgements and decisions made by management • testing of journals entries • review of accounting estimates, judgements and decisions made by management • review of unusual significant transactions 	<p>Our audit work has not identified any evidence of management override of controls. In particular the findings of our review of journal controls and testing of journal entries has not identified any significant issues.</p> <p>We set out later in this section of the report our work and findings on key accounting estimates and judgments.</p>

Audit findings against other risks

In this section we detail our response to the other risks of material misstatement which we identified in the Audit Plan. Recommendations, together with management responses, are attached at Appendix A.

Transaction cycle	Description of risk	Work completed	Assurance gained & issues arising
Operating expenses	Operating expenses understated	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> • documented our understanding of processes and key controls over the transaction cycle • undertaken walkthrough of the key controls to assess the whether those controls are designed effectively • tested key controls • substantive testing of material expenditure streams • review of accounting estimates, judgments and decisions made by management 	Our audit work has not identified any significant issues in relation to the risk identified.
Operating expenses	Creditors understated or not recorded in the correct period	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> • documented our understanding of processes and key controls over the transaction cycle • undertaken walkthrough of the key controls to assess the whether those controls are designed effectively • tested key controls • substantive testing of material expenditure streams • review of accounting estimates, judgments and decisions made by management 	Our audit work has not identified any significant issues in relation to the risk identified.

Audit findings against other risks

In this section we detail our response to the other risks of material misstatement which we identified in the Audit Plan. Recommendations, together with management responses, are attached at Appendix A.

Transaction cycle	Description of risk	Work completed	Assurance gained & issues arising
Employee remuneration	Remuneration expenses not correct	We have undertaken the following work in relation to this risk: <ul style="list-style-type: none"> • documented our understanding of processes and key controls over the transaction cycle • undertaken walkthrough of the key controls to assess the whether those controls are designed effectively • attribute testing of material expenditure streams • review of accounting estimates, judgments and decisions made by management 	Our audit work has not identified any significant issues in relation to the risk identified.
Welfare expenditure	Welfare benefits improperly computed	We have undertaken the following work in relation to this risk: <ul style="list-style-type: none"> • documented our understanding of processes and key controls over the transaction cycle • undertaken walkthrough of the key controls to assess the whether those controls are designed effectively • testing of the final Housing Benefit claim completed using the HB COUNT methodology, with assurance for the financial statements taken from the testing of the initial sample of 20 cases per benefit category 	Our audit work has not identified any significant issues in relation to the risk identified.

Audit findings against other risks

In this section we detail our response to the other risks of material misstatement which we identified in the Audit Plan. Recommendations, together with management responses, are attached at Appendix A.

Transaction cycle	Description of risk	Work completed	Assurance gained & issues arising
Housing rent	Revenue transactions not recorded.	We have undertaken the following work in relation to this risk: <ul style="list-style-type: none"> • documented our understanding of processes and key controls over the transaction cycle • undertaken walkthrough of the key controls to assess the whether those controls are designed effectively • attribute testing of material income streams • review of accounting estimates, judgments and decisions made by management 	Our audit work has not identified any significant issues in relation to the risk identified.
Property, plant & equipment	PPE activity not valid	We have undertaken the following work in relation to this risk: <ul style="list-style-type: none"> • documented our understanding of processes and key controls over the transaction cycle • undertaken walkthrough of the key controls to assess the whether those controls are designed effectively • sample testing of material expenditure streams • review of accounting estimates, judgments and decisions made by management 	Our audit work has not identified any significant issues in relation to the risk identified.

Audit findings against other risks

In this section we detail our response to the other risks of material misstatement which we identified in the Audit Plan. Recommendations, together with management responses, are attached at Appendix A.

Transaction cycle	Description of risk	Work completed	Assurance gained & issues arising
<p>Property, plant & equipment</p>	<p>Revaluation measurement not correct</p>	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> • documented our understanding of processes and key controls over the transaction cycle • undertaken walkthrough of the key controls to assess the whether those controls are designed effectively • reviewed the Council's arrangements for instructing the valuer • performance of procedures for relying on the work of the valuer • performance of tests of detail on valuations • review of accounting estimates, judgments and decisions made by management including the assessment of whether valuations remain current between valuation dates. 	<p>Our audit work has not identified any significant issues in relation to the risk identified.</p>

Accounting policies, estimates & judgements

In this section we report on our consideration of accounting policies, in particular revenue recognition policies, and key estimates and judgements made and included with the Council's financial statements.

Accounting area	Summary of policy	Comments	Assessment
Revenue recognition	<ul style="list-style-type: none"> Fees, charges, and rents due from customers and tenants are accounted for as income at the date the council provides the relevant goods, services, or accommodation. 	<p>The Council's accounting policy for revenue recognition is appropriate, in line with common practice for local government bodies and disclosures are sufficient.</p>	 Green
Judgements and estimates	<ul style="list-style-type: none"> Key estimates and judgements include: <ul style="list-style-type: none"> Revaluation of PPE Use of the major repairs allowance (MRA) as a proxy when depreciating council dwellings 	<p><u>Revaluation of PPE</u></p> <p>The Council hired an external valuer (Countrywide Social Housing) to carry out a full revaluation of its housing stock in 2012/13. We reviewed the Council's arrangements for instructing the valuer and performed procedures to confirm our ability to rely on the valuer's work. We performed tests of detail on valuations to confirm that they were appropriately reflected in the accounts. Our work did not identify any areas of concern.</p> <p>The Council carries out a rolling programme of valuations over a five year cycle for its other land and buildings assets. We assessed the Council's arrangements for ensuring that valuations for assets which were not revalued in 2012/13 remain current. We concluded that the arrangements in place are adequate as they would identify any material changes in value.</p> <p><u>MRA</u></p> <p>We have reviewed the Council's justification for using MRA as a proxy for depreciation. The Council have demonstrated that calculating depreciation on an alternative basis (based on the cost and useful life of key components of council dwellings such as roofs, windows, doors, etc) produces a very similar result. Therefore, we are satisfied that it is reasonable to use MRA as a proxy for depreciation.</p>	 Green

Assessment

-  Marginal accounting policy which could potentially attract attention from regulators
-  Accounting policy appropriate and disclosures sufficient

-  Accounting policy appropriate but scope for improved disclosure

Accounting policies, estimates & judgements

In this section we report on our consideration of accounting policies, in particular revenue recognition policies, and key estimates and judgements made and included with the Council's financial statements.

Accounting area	Summary of policy	Comments	Assessment
<p>Judgements and estimates</p>	<ul style="list-style-type: none"> • Key estimates and judgements include: <ul style="list-style-type: none"> – Valuation of investment in Birmingham Airport – Unequal pay provision 	<p><u>Birmingham Airport</u></p> <p>The Council holds shares in Birmingham Airport Holdings Limited (BAHL). The Council is required to record this investment in the accounts at fair value. As shares in this company are not traded frequently the Council has had to estimate the value of its investment. The Council has drafted an estimation approach in conjunction with other West Midlands Metropolitan Councils that also hold shares in BAHL. We have reviewed the approach used and are satisfied that it produces a valuation which is not materially misstated.</p> <p><u>Unequal pay provision</u></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. We have discussed progress to settle these claims with senior finance staff during the audit and have reviewed the Council's estimate of the provision within the financial statements. The Council's estimate is based on the likelihood of various types of claims having to be settled and the value at which they are likely to be settled at. We are satisfied that the provision is not materially misstated as the Council has made reasonable assumptions about the number of claims that it will have to settle and the likely cost of settling these claims.</p>	<p style="text-align: center;">  Green </p>

Assessment

- Marginal accounting policy which could potentially attract attention from regulators
- Accounting policy appropriate and disclosures sufficient

- Accounting policy appropriate but scope for improved disclosure

Accounting policies, estimates & judgements

In this section we report on our consideration of accounting policies, in particular revenue recognition policies, and key estimates and judgements made and included with the Council's financial statements.

Accounting area	Summary of policy	Comments	Assessment
Judgements and estimates	<ul style="list-style-type: none"> Key estimates and judgements include: <ul style="list-style-type: none"> Pension liabilities 	<p><u>Pension liabilities</u></p> <p>A firm of consulting actuaries (Mercers) is engaged to provide the Council with expert advice about the assumptions to be applied when valuing pension liabilities. These assumptions cover areas such as mortality rates, inflation and future increases in salaries and pensions. We have reviewed the assumptions used by the actuary and are satisfied that they are reasonable and do not result in material misstatement of the pension liabilities.</p>	 Green
Other accounting policies	<ul style="list-style-type: none"> The Council has adopted accounting policies which are based on those outlined in the CIPFA Code and accounting standards 	<p>We have reviewed the Council's policies against the requirements of the CIPFA Code and accounting standards and have concluded that these policies are appropriate and are sufficiently disclosed.</p>	 Green

Assessment

-  Marginal accounting policy which could potentially attract attention from regulators
-  Accounting policy appropriate and disclosures sufficient

-  Accounting policy appropriate but scope for improved disclosure

Adjusted misstatements

A number of adjustments to the draft financial statements have been identified during the audit process. We are required to report all misstatements to those charged with governance, whether or not the financial statements have been adjusted by management. The table below summarises the adjustments arising from the audit which have been processed by management.

Impact of adjusted misstatements

All adjusted misstatements are set out below along with the impact on the key statements and the reported financial position.

Detail	Comprehensive Income and Expenditure Account £'000	Balance Sheet £'000	Impact on total net expenditure £000
1 Internal transactions in respect of Building Services were incorrectly recorded in the Short Term Debtors and Short Term Creditors figures in the Balance Sheet	0	1,651 (1,651)	0
Overall impact	£0	£0	£0

Misclassifications & disclosure changes

The table below provides details of misclassification and disclosure changes identified during the audit which have been made in the final set of financial statements.

Adjustment type	Value £'000	Account balance	Impact on the financial statements
1 Disclosure	n/a	Note 3 – Critical judgements in applying accounting policies	<p>Significant adjustments were needed to Note 3 to the accounts to ensure that it complied with the requirements of the CIPFA Code. Following audit, the note was expanded to disclose:</p> <ul style="list-style-type: none"> • why future funding levels for local government have not resulted in changes to the Council's accounting policies • judgements applied in respect of the unequal pay provision • judgements applied in respect of the investment in Birmingham Airport • judgements applied in respect of pension scheme liabilities.
2 Disclosure	19,586	Note 37 – Related parties	The note has been expanded to shows the organisations to which the Council made payments in the year of over £1m where members of the Council had an interest.
3 Disclosure	24,710	Note 39 - Leases	The note has been expanded to disclose the value of land and buildings where the Council is the lessor
4 Disclosure	6,057	Note 40 – PFI and similar contracts	The unitary payments for the waste to energy plant for future years have risen by £6,057k to reflect the estimated increase in costs through rising gate fees.
5 Disclosure	4,052	Note 40 – PFI and similar contracts	The unitary payments for the Paragon schools for future years have risen by £4,052k to reflect to an additional indexed element of the base charge which had been mistakenly omitted

Other communication requirements

We set out below details of other matters which we are required by auditing standards to communicate to those charged with governance.

	Issue	Commentary
1.	Matters in relation to fraud	We have corresponded with the Chair of the Audit and Standards Committee and with management in respect of the risk of fraud. We have not been made aware of any significant incidents of fraud in the period and no other issues have been identified during the course of our audit procedures.
2.	Matters in relation to laws and regulations	We are not aware of any significant incidences of non-compliance with relevant laws and regulations. We are aware that the Council is currently reviewing the employment status of individuals who perform work for the Council but who are not on the Council's payroll. The purpose of this exercise is to ensure that these individuals are treated correctly from an employment tax perspective. We are satisfied that this issue does not have a material impact on the accounts but it is an issue which the Council needs to consider and respond to accordingly.
3.	Written representations	A standard letter of representation has been requested from the Council. This includes specific representations from management in respect of the significant assumptions used in making accounting estimates for the unequal pay provision.
4.	Disclosures	Our review found a number of areas where adjustments were needed to information disclosed in the notes to the accounts. The most significant of these adjustments have been reported in the section above on 'Misclassifications & disclosure changes'. These have now been addressed in the final version of the accounts. We are satisfied that there are no material disclosures omitted. The explanatory foreword by the Treasurer is compliant with the requirements of the CIPFA Code but for 2013/14 the Council should consider whether the foreword could be improved so as to provide a clearer summary of the most significant matters reported in the accounts. The Council should compare their explanatory foreword to that of other local authorities to identify how this could best be done.
5.	Matters in relation to related parties	The note on related parties has been expanded to show the organisations to which the Council made payments in the year of over £1m where members of the Council had an interest. We are not aware of any related party transactions which have not been disclosed.
6.	Going concern	Our work has not identified any reason to challenge the Council's decision to prepare the financial statements on a going concern basis.

Section 3: Value for Money

01. Executive summary

02. Audit findings

03. Value for Money

04. Fees, non audit services and independence

05. Communication of audit matters

On the basis of our work, and having regard to the guidance on the specified criteria published by the Audit Commission, we are satisfied that in all significant respects the Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2013.

Value for Money

Value for Money conclusion

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 are required to give our VFM conclusion based on the following two criteria specified by the Audit Commission which support our reporting responsibilities under the Code.

- **The Council has proper arrangements in place for securing financial resilience.** The Council 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.
- **The Council has proper arrangements for challenging how it secures economy, efficiency and effectiveness.** The Council is prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity.

Key findings

Securing financial resilience

We have undertaken a review which considered the Council's arrangements against the following three expected characteristics of proper arrangements as defined by the Audit Commission:

- Financial governance;
- Financial planning; and
- Financial control

Overall our work highlighted:

- The Council's Medium Term Financial Strategy (MTFS) is regularly updated to reflect the changing economic climate
- The current MTFS has identified £58m of savings over the next three years. Almost two thirds of these savings are to be made by the Directorate of Adult, Community and Housing and the Directorate of Children's Services
- The Council carried out a large public consultation to inform its budget setting process, supported by detailed consultation with groups identified as being potentially affected by the specific savings proposals, with a particular emphasis on equality issues
- The Council's financial control is demonstrated by its ability to achieve cost savings within the continually challenging economic climate
- Cash is being managed appropriately in terms of market conditions and counterparty and interest rate risks
- The Council has a sound risk management framework in place
- Financial reporting processes are robust. However, there is scope to improve the quality of financial reporting to Cabinet, in respect of spend against revenue and capital budgets, other key financial data such as debtor collection rates and speed of payment of suppliers and the savings programme.

Value for Money

Challenging economy, efficiency and effectiveness

We have reviewed whether the Council has prioritised its resources to take account of the tighter constraints it is required to operate within. Overall, our work highlighted:

- The Council achieved an underspend against revised budget of £1.697m in 2012/13, enabling a transfer to reserves
- Council tax and business rates collection rates continue to be above average for English metropolitan districts
- The Council's sickness levels rose to 10.63 days per FTE in 2012/13. This is the highest level since 2006/07. The average sickness levels for local government in 2011/12 was 8 days per FTE. The Council introduced a new Absence Management Policy in May 2013 which they expect to result in decreasing levels of sickness absence
- The Council's General Fund reserves have been increasing in recent years,. General Fund reserves were £19.4m at 31 March 2013 (up from £12.2m a year earlier) and are projected to rise to £20m by 31 March 2014
- Dudley's school balances have been increasing significantly and are higher than comparable authorities because schools have been encouraged to keep reserves in respect of equal pay claims that they may need to settle. This totalled around £6m of total school balances of £19.9m as at 31 March 2013. The Council expects these equal pay claims to be settled within the next 12 months which will result in the school balances reducing significantly by 31 March 2014.

We have produced a separate report on financial resilience which provides greater detail on the work that we have performed, our findings and key areas where the Council needs to take action.

Overall VFM conclusion

On the basis of our work, and having regard to the guidance on the specified criteria published by the Audit Commission, we are satisfied that in all significant respects the Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2013.

Section 4: Fees, non audit services and independence

01. Executive summary

02. Audit findings

03. Value for Money

04. Fees, non audit services and independence

05. Communication of audit matters

The Audit Commission publish a scale fee for all Councils. The fee for Dudley MBC was set in accordance with the scale fee and is referred to in the audit plan. We have not sought any further variation to that fee.

Fees, non audit services and independence

We confirm below our final fees charged for the audit and confirm there were no fees for the provision of non audit services

Fees

	Per Audit plan £	Actual fees £
Council audit	178,177	178,177
Grant certification – indicative fee	41,000	TBC
Total audit fees	219,177	TBC

Grant certification work is currently underway and will not be completed until 30 November 2013. Therefore, we are not in a position to confirm actual fees for grant certification work at this point in time.

Fees for other services

Service	Fees £
None	Nil

Independence and ethics

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Auditing Practices Board's Ethical Standards and therefore we confirm that we are independent and are able to express an objective opinion on the financial statements.

We confirm that we have implemented policies and procedures to meet the requirements of the Auditing Practices Board's Ethical Standards.

Section 5: Communication of audit matters

01. Executive summary

02. Audit findings

03. Value for Money

04. Fees, non audit services and independence

05. Communication of audit matters

This section outlines the matters that we are required to report to Those Charged with Governance. There are no matters to report that are additional to the standard matters that we expect to report for a Council.

Communication of audit matters to those charged with governance

International Standard on Auditing (ISA) 260, as well as other ISAs, prescribe matters which we are required to communicate with those charged with governance, and which we set out in the table opposite.

The Audit Plan outlined our audit strategy and plan to deliver the audit, while this Audit Findings report presents the key issues and other matters arising from the audit, together with an explanation as to how these have been resolved.

Respective responsibilities

The Audit Findings Report 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).

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 communication plan	Audit Plan	Audit Findings
Respective responsibilities of auditor and management/those charged with governance	✓	
Overview of the planned scope and timing of the audit. Form, timing and expected general content of communications	✓	
Views about the qualitative aspects of the entity's accounting and financial reporting practices, significant matters and issues arising during the audit and written representations that have been sought		✓
Confirmation of independence and objectivity	✓	✓
A statement that we have complied with relevant ethical requirements regarding independence, relationships and other matters which might be thought to bear on independence. Details of non-audit work performed by Grant Thornton UK LLP and network firms, together with fees charged Details of safeguards applied to threats to independence	✓	✓
Material weaknesses in internal control identified during the audit		✓
Identification or suspicion of fraud involving management and/or others which results in material misstatement of the financial statements		✓
Compliance with laws and regulations		✓
Expected auditor's report		✓
Uncorrected misstatements		✓
Significant matters arising in connection with related parties		✓
Significant matters in relation to going concern		✓

Appendices

Appendix A: Action plan

Priority

High - Significant effect on control system

Medium - Effect on control system

Low - Best practice

Rec No.	Recommendation	Priority	Management response	Implementation date & responsibility
1	The Council should consider whether the explanatory foreword could be improved so as to provide a clearer summary of the most significant matters reported in the accounts. The Council should compare their explanatory foreword to that of other local authorities to identify how this could best be done	Low	We will review our explanatory foreword for next years statement of accounts so as to provide a clear summary of the most significant matters reported in the accounts.	March 2014 – Head of Accountancy.
2	The Council should conclude its review of the employment status of individuals who perform work for the Council but who are not on the Council's payroll and ensure that these individuals are treated correctly from an employment tax perspective	Medium	The review is on-going and will be concluded shortly. Training is to be provided to Directorate and school staff to ensure that they are aware of the correct processes and procedures in checking employment statuses of individuals.	December 2013 – Head of Accountancy.

Appendix B: Audit opinion

We anticipate we will provide the Council with an unmodified audit report

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

Opinion on the Authority financial statements

We have audited the financial statements of Dudley Metropolitan Borough Council for the year ended 31 March 2013 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 2012/13.

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. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority and the Authority's Members as a body, for our audit work, for this report, or for the opinions we have formed.

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. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us 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 Authority'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, we read all the financial and non-financial information in the explanatory foreword to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements: give a true and fair view of the financial position of Dudley Metropolitan Borough Council as at 31 March 2013 and of its expenditure and income 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 2012/13.

Opinion on other matters

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

Matters on which we report by exception

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

We have nothing to report in these respects.

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

Respective responsibilities of the Authority and the auditor

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.

We are required under Section 5 of the Audit Commission Act 1998 to satisfy ourselves 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 us to report to you our conclusion relating to proper arrangements, having regard to relevant criteria specified by the Audit Commission.

We report if significant matters have come to our attention which prevent us from concluding that the Authority has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We are not required to consider, nor have we considered, whether all aspects of the Authority'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

We have undertaken our audit in accordance with the Code of Audit Practice, having regard to the guidance on the specified criteria, published by the Audit Commission in November 2012, 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 us to consider under the Code of Audit Practice in satisfying ourselves 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 2013.

We planned our work in accordance with the Code of Audit Practice. Based on our risk assessment, we undertook such work as we 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 our work, having regard to the guidance on the specified criteria published by the Audit Commission in November 2012, we are 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 2013.

Certificate

We certify that we have completed the audit of the financial statements 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.

Kyla Bellingall
Director
for and on behalf of Grant Thornton UK LLP, Appointed Auditor

Colmore Plaza
20 Colmore Circus
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xx September 2013

Appendix C: Overview of audit findings

In this section we present our findings in respect of matters and risks identified at the planning stage of the audit and additional matters that arose during the course of our work.

We have not had to change our Audit Plan as previously communicated to you on 9 July 2013.

Account	Transaction cycle	Material misstatement risk?	Description of risk	Change to the audit plan	Audit findings
Cost of services - operating expenses	Operating expenses	Other	Operating expenses understated	No	None
Cost of services – employee remuneration	Employee remuneration	Other	Remuneration expenses not correct	No	None
Costs of services – Housing & council tax benefit	Welfare expenditure	Other	Welfare benefits improperly computed	No	None
Cost of services – Housing revenue	HRA	Other	Housing revenue transactions not recorded	No	None
Cost of services – other revenues (fees & charges)	Other revenues	None		No	None
(Gains)/ Loss on disposal of non current assets	Property, Plant and Equipment	None		No	None
Payments to Housing Capital Receipts Pool	Property, Plant & Equipment	None		No	None
Precepts and Levies	Council Tax	None		No	None

Audit findings

Account	Transaction cycle	Material misstatement risk?	Description of risk	Change to the audit plan	Audit findings
Interest payable and similar charges	Borrowings	None		No	None
Pension Interest cost	Employee remuneration	None		No	None
Interest & investment income	Investments	None		No	None
Return on Pension assets	Employee remuneration	None		No	None
Dividends receivable	Revenue	None		No	None
Impairment of investments	Investments	None		No	None
Investment properties: Income expenditure, valuation, changes & gain on disposal	Property, Plant & Equipment	None		No	None
Income from council tax	Council Tax	None		No	None
NNDR Distribution	NNDR	None		No	None
Revenue support grant and other Government grants	Grant Income	None		No	None
Capital grants & Contributions (including those received in advance)	Property, Plant & Equipment	None		No	None

Account	Transaction cycle	Material misstatement risk?	Description of risk	Change to the audit plan	Audit findings
(Surplus)/ Deficit on revaluation of non current assets	Property, Plant & Equipment	None		No	None
Actuarial (gains)/ Losses on pension fund assets & liabilities	Employee remuneration	None		No	None
Other comprehensive (gains)/ Losses	Revenue/ Operating expenses	None		No	None
Property, Plant & Equipment	Property, Plant & Equipment	Other	PPE activity not valid Revaluation measurements not correct	No	None
Heritage assets & Investment property	Property, Plant & Equipment	None		No	None
Intangible assets	Intangible assets	None		No	None
Investments (long & short term)	Investments	None		No	None
Debtors (long & short term)	Revenue	None		No	Yes – see page 15
Assets held for sale	Property, Plant & Equipment	None		No	None
Inventories	Inventories	None		No	None

Account	Transaction cycle	Material misstatement risk?	Description of risk	Change to the audit plan	Audit findings
Cash and cash equivalents	Bank and cash	None		No	None
Borrowing (long & short term)	Debt	None		No	None
Creditors (long & Short term)	Operating Expenses	Other	Creditors understated or not recorded in the correct period	No	Yes – see page 15
Provisions (long & short term)	Provision	None		No	None
Deferred liabilities	Debt	None		No	None
Pension liability	Employee remuneration	None		No	None
Reserves	Equity	None		No	None



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