

# The Audit Findings Report for Dudley Metropolitan Borough Council

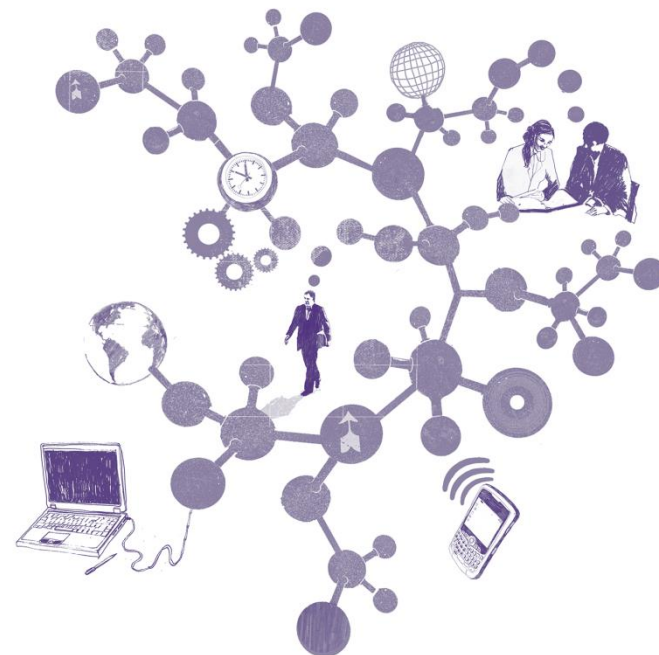
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**Year ended 31 March 2014**

8<sup>th</sup> September 2014

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## Appendices

- A Action plan
- B Audit opinion

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.

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# Section 1: Executive summary

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**04. Fees, non audit services and independence**

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# Executive summary

## Purpose of this report

This report highlights the key matters arising from our audit of Dudley Metropolitan Borough Council's ('the Council') financial statements for the year ended 31 March 2014. 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 presented in April 2014.

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

- review of the schools PFI operators model,
- 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
- 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. This includes a red, amber and green (RAG) rating against a number of themes. We are pleased to report that the majority of these have been rated as green. One area, Strategic financial planning, has been rated Amber, signifying that a residual risk exists.

This reflects the magnitude of the financial challenge that the Council is facing as it strives to continue making cost savings in an environment of significant reductions in local government funding.

### **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 2014**

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## Section 2: Audit findings

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# 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 17 April 2014. We have not made any changes to our Audit Plan. We also set out the adjustments to the financial statements arising from our audit work and our findings in respect of internal controls.

## **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.	<b>Improper revenue recognition</b> Under ISA 240 there is a presumed risk that revenue may be misstated due to improper recognition	<ul style="list-style-type: none"> <li>• review and testing of revenue recognition policies</li> <li>• testing of material revenue streams.</li> </ul>	Our audit work has not identified any issues in respect of revenue recognition.
2.	<b>Management override of controls</b> Under ISA 240 there is a presumed risk of management over-ride of controls	<ul style="list-style-type: none"> <li>• review of accounting estimates, judgements and decisions made by management</li> <li>• testing of journal entries</li> <li>• review of unusual significant transactions.</li> </ul>	<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>However our testing did identify an issue regarding a number of journals being posted with no description. This could lead to an increased risk of fraud although, no fraud was identified from our testing. A recommendation has been included at Appendix A.</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 and issues arising
<b>Operating expenses</b>	Creditors understated or not recorded in the correct period	<p>We planned to undertake a mix of tests to provide sufficient assurance that expenditure is not understated and is recorded in the correct period. This included:</p> <ul style="list-style-type: none"> <li>• Documentation of the processes and controls in place around the accounting for non pay expenditure</li> <li>• Walkthrough tests to confirm the operation of key controls</li> <li>• Testing of the monthly control account reconciliation processes</li> <li>• Reviewed the year end closedown process to ensure appropriate processes are in place</li> <li>• Testing of a sample of payments made before and after the year end</li> <li>• Testing of a sample of purchase orders raised either side of the year end</li> <li>• Testing of a sample of expenditure made during the year and creditors outstanding at the year end.</li> </ul>	<p>Our initial sample of 10 payments made in March 2014 identified 2 payments that related to goods and services to be provided in April 2014. Our initial sample of 10 payments in April 2014 identified 2 payments that related to goods and services provided in March 2014 that had not been accrued for at 31/3/14. In both instances we extended our testing by 20 payments and we found no further errors in the March 2014 but a further 2 errors in the April 2014 population. If these were replicated across the whole population the potential error would be £1,357k from the March 2014 payments and £584k from the April 2014 payments, giving a net position of £773k.</p> <p>These have been included in the unadjusted misstatements on page 18. Given the low value of the individual errors identified, we have recommended that the Council consider a de minimus policy for expenditure accruals, as set out in Appendix A.</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 and issues arising
<b>Employee remuneration</b>	Employee remuneration accrual understated	<p>We planned to undertake a mix of tests to provide sufficient assurance that employee remuneration is not materially understated. This included:</p> <ul style="list-style-type: none"> <li>• Documentation of the processes and controls in place around the accounting for pay costs</li> <li>• Walkthrough tests to confirm the operation of the key controls</li> <li>• Testing of the monthly control reconciliations</li> <li>• Testing of a sample of payments made to employees during the year</li> <li>• Testing of year end payroll creditors</li> <li>• Trend analysis of monthly movement of payroll amounts to identify unusual movements</li> <li>• Testing of the Senior Officers Remuneration disclosure</li> <li>• Testing of the disclosures relating to the defined benefit contribution pension scheme.</li> </ul>	Our audit work has not identified any significant issues in relation to the risk identified.
<b>Welfare expenditure</b>	Welfare benefit expenditure improperly computed	<ul style="list-style-type: none"> <li>• Documentation and walkthrough of processes and controls surrounding council tax reduction and housing benefit expenditure</li> <li>• Testing of the final Housing Benefit claim using the HB COUNT methodology.</li> <li>• Testing of the calculation of a sample of council tax reductions.</li> </ul>	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 and issues arising
<b>Housing Rent Revenue Account</b>	Revenue transactions not recorded	<ul style="list-style-type: none"> <li>Documentation and walkthrough of processes and controls surrounding rents</li> <li>Detailed analytical review to provide sufficient assurance that housing rents are not materially understated.</li> <li>Testing of a sample of rents received.</li> </ul>	Our audit work has not identified any significant issues in relation to the risk identified.
<b>Property, plant and equipment</b>	PPE activity not valid Revaluation measurement not correct	<ul style="list-style-type: none"> <li>Documentation and walkthrough of processes and controls surrounding valuation of assets and the validity of activity</li> <li>Review of the Council's arrangements for instructing the valuer</li> <li>Procedures for relying on the work of the valuer and tests of detail on valuations</li> <li>Substantive tests to provide sufficient assurance that activity (additions and disposals) in year was valid.</li> </ul>	<p>Our testing of capital asset additions identified an invoice that included expenditure on both a new installation and on repairs. £10k of the £21k invoice should have been treated as revenue rather than capital expenditure. Extrapolating this error over the whole of capital additions would give a potential error of £2.1m. This has been included in the unadjusted misstatements on page 18.</p> <p>During the year the Council identified that it did not hold the title deeds to Netherton CofE Primary School (held by the Official Custodian for Charities). This means that the opening assets balances were overstated by £1.5m. However as this is not considered material, the Council has correctly treated this as a disposal in year. A recommendation that the Council undertakes a review of its assets, to ensure it does not inadvertently have assets on its balance sheet that it does not have the right to, is included at Appendix A.</p>

# Accounting policies, estimates and 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
<b>Revenue recognition</b>	<ul style="list-style-type: none"> <li>Fees, charges and rents due from customers and tenants are accounted for a income at the date the Council provides the relevant goods, services or accommodation.</li> </ul>	The Council's accounting policy for revenue recognition is appropriate and in line with common practice for local government bodies. It is disclosed in sufficient detail.	 <b>Green</b>
<b>Judgements and estimates</b>	<ul style="list-style-type: none"> <li>Key estimates and judgements include :               <ul style="list-style-type: none"> <li>Use of the major repairs allowance (MRA) as a proxy for depreciating council dwellings</li> <li>Valuation of investment in Birmingham Airport</li> </ul> </li> </ul>	<p><u>MRA</u></p> <p>We have reviewed the Council's justification for using MRA as a proxy for depreciation. The Council has demonstrated that calculating depreciation on an alternative basis produces a trivial (£26k) difference. Therefore, we are satisfied that is reasonable to use MRA as a proxy.</p> <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>	 <b>Green</b>

## 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 and judgements


Accounting area	Summary of policy	Comments	Assessment
<b>Judgements and estimates</b>	<ul style="list-style-type: none"> <li>Key estimates and judgements include :               <ul style="list-style-type: none"> <li>Provision of unequal pay</li> <li>Provision of Business Rate Appeals.</li> </ul> </li> </ul>	<p><u>Unequal pay provision</u></p> <p>The Council has made a provision for outstanding settlements with current and former employees in respect of actual and 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 estimated value of the settlement. 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. As a large proportion of claims have now been settled, we have included a recommendation, at Appendix A, that the Council takes account of recent claim and settlements patterns when considering the estimate process for the 2014/15.</p> <p><u>Business Rates Appeal Provision</u></p> <p>The Council has made a provision for the Business Rate appeals that have been received but not settled at year end. The Council, like most authorities, has based its estimate on the outcomes to date of appeals against the current (2010) ratings listing which appears reasonable.</p> <p>However, no provision has been made for appeals that have not yet been received . We have discussed why the Council feel that it cannot make a reliable estimate of potential claims with senior finance staff. We are satisfied that the provision is not materially misstated. However we are seeking confirmations in the Letter of Representation (LoR) to support the Council's view that it is not possible to arrive at a reliable estimate to the value of potential appeals not yet lodged.</p>	 <b>Green</b>

## 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 and judgements



Accounting area	Summary of policy	Comments	Assessment
<b>Judgements and estimates</b>	<ul style="list-style-type: none"> <li>Key estimates and judgements include :               <ul style="list-style-type: none"> <li>Pension Liabilities.</li> </ul> </li> </ul>	<p><u>Pensions 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.</p>	 <b>Green</b>

## 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 and judgements

Accounting area	Summary of policy	Comments	Assessment
<b>Judgements and estimates - PPE</b>	<ul style="list-style-type: none"> <li>Page 48 of the draft accounts sets out the Council's rolling programme of asset revaluations. This shows that the date of valuations vary between 2009 and 2013.</li> </ul>	<p>The Code requires the Council's to value all items within a class of property, plant and equipment simultaneously. A rolling basis of revaluation is only permitted when:</p> <ul style="list-style-type: none"> <li>- the revaluation of the class of assets is completed within a 'short period'</li> <li>- the revaluations are kept up to date</li> </ul> <p>We would normally expect this 'short period' to be within a single financial year. This is because the purpose of simultaneous valuations is to 'avoid reporting a mixture of costs and values as at different dates'. This purpose is not met where a revaluation programme for a class of assets straddles more than one financial year.</p> <p>However the Council has assured itself that these valuations reflect current valuations at 31/3/2014 by undertaking a desktop review of all assets.</p> <p>This approach is similar to many other authorities and whilst not compliant with the Code we are satisfied that the carrying amount of Property, Plant and Equipment (based on these valuations) does not differ materially from the fair value at 31 March 2014.</p> <p>As a result, whilst we have accepted the approach for 31/3/2014 we have included a recommendation at Appendix A that this will be reviewed for 2014/15.</p>	 <b>Amber</b>
<b>Other accounting policies</b>	<ul style="list-style-type: none"> <li>We have reviewed the Council's policies against the requirements of the CIPFA Code and accounting standards.</li> </ul>	<p>Our review of accounting policies has not highlighted any issues which we wish to bring to your attention</p>	 <b>Green</b>

## 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 primary statements and the reported financial position.

Detail		Comprehensive Income and Expenditure Account £'000	Balance Sheet £'000	Impact on total net expenditure £000
1	The current service cost effect on HRA costs was not picked up properly, so spend was understated in the HRA stand alone statement, and the surplus on services overstated, by £1,212k. (This represents the difference between employers contributions to LGPS and current service cost, for HRA employees). The MiRS figures remain unchanged which means that the HRA reserve figure is unaffected.	£1,212	n/a	n/a
Overall impact		£1,212	n/a	n/a

# Misclassifications and 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	various	various	We noted a number of errors between the prior year comparators, included in the 2013/14 financial statements, and prior year audited financial statements. These have been amended.
2 Disclosure	18,060	CIES – public health	Additional disclosure have been added to reflect the transfer of public health responsibilities in 2013/14.
3 Disclosure	15,030	Other receipt from Investment Activities - Cashflow	Additional disclosure have been added to provide readers of the accounts with further information on this material balance..
4 Disclosure	various	Defined benefit pension scheme (note 28) Additional note required	We noted a number of inconsistencies between the pensions disclosures in the accounts (note 28 and CIES) and the supporting schedules provided by the scheme actuary from Mercers. Changes to IAS 19 required a number of changes to terminology and a prior period adjustment note to reflect changes required to the 12/13 comparators.
5 Disclosure	6,700	NDR provision	Additional disclosures have been added to provide the readers of the accounts with further information on the estimation uncertainties.

# Unadjusted misstatements



The table below provides details of adjustments identified which we request be processed but which have not been made within the final set of financial statements. The Audit and Standards Committee should consider whether it is satisfied with management's proposed treatment of all items recorded within the table below:

Detail		Comprehensive Income and Expenditure Account £'000	Balance Sheet £'000	Reason for not adjusting
1	Cut off error (see page 9)	CR 773	DR 773	Extrapolated error
2	PPE additions error (see page 11)	DR 2,031	CR 2,031	Extrapolated error
Overall impact		DR £1,258	CR £1,258	

# Other qualitative issues

The purpose of an audit is to express an opinion on the financial statements. The matters reported here are limited to those issues that are qualitative in nature that we have identified during the course of our audit and that we have concluded are of sufficient importance to merit being reported to you in accordance with auditing standards.

These and other recommendations, together with management responses, are included in the action plan attached at Appendix A.

	Assessment	Issue and risk	Recommendations
1.	 <b>Deficiency</b>	<u>Capitalisation of staff costs</u> From our testing we identified that the capitalised staff costs within housing were not supported by timesheets. Further investigation revealed that these individuals worked solely on capital projects and that it was appropriate to capitalise these costs. However without detailed time records the cost cannot be accurately apportioned to the relevant schemes and the practice within housing is inconsistent with the rest of the Council.	<ul style="list-style-type: none"> <li>The Council should ensure that all capitalised staff costs are supported by timesheets.</li> </ul>
2.	 <b>Deficiency</b>	<u>Accumulated absences</u> The Council has not updated its accumulated absence accrual since 2010/11. Whilst the process of estimation is not unreasonable the Council should periodically review the underlying assumptions to ensure they remain up-to-date.	<ul style="list-style-type: none"> <li>The Council should ensure it periodically reviews its accumulated absence accounts to ensure the assumptions remain up-to-date and valid.</li> </ul>

## Assessment

-  Significant – risk of significant misstatement
-  Deficiency – risk of inconsequential misstatement

# 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.	<b>Matters in relation to fraud</b>	<ul style="list-style-type: none"> <li>We have not been made aware of any material incidents in the period and no other issues have been identified during the course of our audit.</li> </ul>
2.	<b>Matters in relation to laws and regulations</b>	<ul style="list-style-type: none"> <li>We are not aware of any significant incidences of non-compliance with relevant laws and regulations.</li> </ul>
3.	<b>Written representations</b>	<ul style="list-style-type: none"> <li>A letter of representation has been requested from the Council.</li> <li>In particular, representations will be requested from management in respect of the significant assumptions used in making accounting estimates for the Business Rate appeals provisions.</li> </ul>
4.	<b>Disclosures</b>	<ul style="list-style-type: none"> <li>Our review found no material omissions in the financial statements. However we noted a number of areas where amendments were needed and the most significant of these are included on page 17.</li> </ul>
5.	<b>Matters in relation to related parties</b>	<ul style="list-style-type: none"> <li>We are not aware of any related party transactions which have not been disclosed.</li> </ul>
6.	<b>Going concern</b>	<ul style="list-style-type: none"> <li>Our work has not identified any reason to challenge the Council's decision to prepare the financial statements on a going concern basis.</li> </ul>

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## Section 3: Value for Money

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# 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; and
- review regularly the adequacy and effectiveness of these arrangements.

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

**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 considered the Council's arrangements to secure financial resilience against the following themes:

- Key financial performance indicators
- Financial governance
- Strategic financial planning
- Financial control

### Challenging economy, efficiency and effectiveness

We have considered the Council's arrangements to challenge economy, efficiency and effectiveness against the following themes:

- Prioritising resources
- Improving efficiency and productivity

Using a RAG rating, we have assessed 5 of the 6 themes as green. We have assessed Strategic financial planning as amber, highlighting that we consider a residual risk in this area. This reflects the facts that whilst the Council has a track record of delivering savings year on year, the level of funding reductions affecting the local government sector is such that the current identified savings plans and reserves will not be sufficient to bridge the funding gap by 2017/18 (as identified in the Council's MTFS).

## 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 has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2014.

We set out below our detailed findings against six risk areas which have been used to assess the Council's performance against the Audit Commission's criteria. Our assessment covers the 2013/14 financial year but also looks forward 12 months. We summarise our assessment of each risk area using a red, amber or green (RAG) rating, based on the following definitions:

<b>Green</b>	Adequate arrangements
<b>Amber</b>	Adequate arrangements, with areas for development
<b>Red</b>	Inadequate arrangements

The table below and overleaf summarises our overall rating for each of the themes reviewed:

Theme	Summary findings	RAG rating 2012-13	RAG rating 2013-14
<b>Key indicators of performance.</b> The characteristics we consider include: <ul style="list-style-type: none"> <li>• Liquidity</li> <li>• Borrowing</li> <li>• Workforce</li> <li>• Performance against budgets</li> <li>• Reserves (including schools)</li> </ul>	<p>We have not identified any risks with the Council's liquidity or borrowing levels.</p> <p>In 2012/13 we identified a deterioration in the performance indicators for sickness absence. The Council set itself a target of 9 days sickness for each full time equivalent employee (FTE). The outturn for 2013/14 was 9.52 days. This is the lowest that this has been for over 8 years. In addition the Council has looked at long term and short term sickness absence and whilst long term remains static the short sickness absence has considerably reduced, which was the aim of the new absence management policy. The performance also compares well to the CIPD annual survey on absence management which calculates the average number of days lost per employee as 9 days for local government.</p> <p>Performance against the revenue budget has been good over the last 3 years with the Council achieving its revenue budget and savings plans. An overspend occurred in looked after children during 2013/14 year. The Council was able to mitigate the impact on the overall financial position by redirecting funds from other areas such as dividend receipts from its airport shares. The Council instigated an investigation to look at the underlying reasons behind this and the associated recommendations have been factored into its future years savings plans. On the HRA the 2013/14 outturn position is also more favourable than that budgeted.</p> <p>In relation to capital, the proportion of the capital budget that has been slipped or rephrased is significant in 2013/14 (£10m rephasing of the budget). Whilst the explanations included in the cabinet reports confirm the scheme is progressing and the budget will be spent there has been limited explanation as to why the schemes are delayed.</p> <p>Overall the Council holds an appropriate level of earmarked and general fund reserves. Whilst the Local Management Scheme element of schools balances has reduced as expected, the increase in underspent Dedicated Schools Grant has meant that schools reserves overall have not reduced.</p>	<b>Green</b>	<b>Green</b>

Theme	Summary findings	RAG rating 2012-13	RAG rating 2013-14
<b>Strategic financial planning</b> The characteristics we consider include: <ul style="list-style-type: none"> <li>• Focus of the Medium Term Financial Strategy (MTFS)</li> <li>• Adequacy of planning assumptions</li> <li>• Links to the annual and other plans</li> <li>• Review process</li> <li>• Responsiveness of the plan</li> </ul>	<p>The Councils MTFS has been regularly updated throughout the year, in line with the annual planning process. The updates include expected and known changes to government funding arrangements, spending pressures and the impact of implementing transformation plans. The MTFS has led the Council during 2013/4 to consider wider transformational schemes such as outsourcing and consider the implications of savings plans on staffing levels.</p> <p>We have considered the Council's approach to a range of assumptions including income, inflation and interest rates, investment in assets and borrowing. The council's approach is reasonable. There has been no indication that there is a deterioration in the value of assets that would impact on the Councils MTFS.</p> <p>The 2014/15 budget requires a savings plan of £4.1m which is 2% of the base budget and include a range of schemes to deliver this saving. The MTFS also includes the schemes for the next 3 years and in 2015/16 the Council is required to make savings of £28.6m which is 12% of its base budget. This is significantly higher than any savings plan the Council has attempted to achieve before. Significant elements of the plans include:</p> <ul style="list-style-type: none"> <li>• £7m savings from the Better Care Fund</li> <li>• £2.5m savings from commissioning of Looked after Children</li> <li>• £3.5m from restructuring the Urban Environment</li> </ul> <p>Financial monitoring of 2014/15 indicates that the Directorate of Children's Services is at risk of an overspend in excess of £2m in the current year. That directorate is working on plans to ensure that it gets back on track to deliver savings from children's commissioning from next year onwards.</p> <p>In addition the MTFS highlighted that identified savings and the use of reserves will not be sufficient to fully close the finding gap. For 2017/18 the Council's current MTFS forecasts a deficit budget position of £13.5m.</p> <p>A longer term residual risk therefore exists which is reflected in our Amber rating.</p>	Green	Amber

Theme	Summary findings	RAG rating 2012-13	RAG rating 2013-14
<b>Financial Governance</b> The characteristics we consider include: <ul style="list-style-type: none"> <li>• Understanding of financial environment</li> <li>• Executive and Member engagement</li> <li>• Budget Reporting</li> <li>• Adequacy of other committee reporting</li> </ul>	<p>The Cabinet are regularly informed of the financial position (revenue, capital and HRA). The Quarterly Performance reports include two financial indicators (the speed of payment of invoices and the percentage of debt paid with 6 months). Based on our review, the Cabinet receive a good range of financial information to enable it to manage the financial position of the Council.</p> <p>During our attendance at the meetings of the Audit and Standards Committee we have witnessed members challenging officers in respect of performance and providing leadership on financial governance issues. During 2013/14 the Committee has focused on key risks, inviting management from different directorates, across the Council, to report on the management of risks.</p> <p>The budget setting process for 2014/15 included internal and external consultation on the saving and financial priorities. The saving plans cover all directorates and a wide area of Council services. The Council also performed a detailed consultation exercise in respect of the 2014/15 budget. This involved advertisements in local newspapers and on the website. The Council received 2,488 responses. In addition, the Council also undertook a detailed consultation on the potential closure of the children's centres. It is clear that the Council has consulted widely and has taken into account the views of those who were consulted.</p>	Green	Green
<b>Financial Control</b> The characteristics we consider include: <ul style="list-style-type: none"> <li>• Budget setting and monitoring</li> <li>• Savings setting and monitoring</li> <li>• Financial Accounting systems</li> <li>• Finance Department Resourcing</li> <li>• Adequacy of Internal Audit</li> <li>• External Audit Conclusions</li> <li>• Assurance Framework</li> </ul>	<p>The Council's financial control is demonstrated by its ability to achieve cost savings within the continually challenging environment.</p> <p>Each directorate is tasked with identifying savings projects as part of the annual budget setting exercise. Each directorate is given a savings target that they have to meet and are given authority to determine where and how the savings will be made. Directorates look to make efficiencies first, for example through not filling vacant posts and then at more fundamental changes. The outturn position for 2013/14 shows a better than forecast year end position, which evidences the steps the Council has taken to manage in year costs/savings. However, there is no reporting to Cabinet of what savings have actually been achieved against plans for specific schemes and so it is not transparent which activities have under or over performed.</p> <p>As already reported significant savings are required in the period 2015-2018. During this period the identified savings schemes alone are not sufficient and the Council is planning to utilise its reserves. For 2017/18 these reserve will be fully utilised and the Council is forecasting a £13.5m deficit. A longer term residual risk therefore exists which is reflected in our Amber rating of Strategic financial planning rather than within financial control.</p>	Green	Green

Theme	Summary findings	RAG rating 2012-13	RAG rating 2013-14
<b>Financial Control (continued)</b>	<p>The finance department has a long history of providing good quality, relatively low-cost services. The team are proactive and open to new challenges and ideas and are working closely with us on ensuring we would all be in a position to sign off the financial statement by the end of July (once the new audit regulations come into force).</p> <p>Internal audit are well regarded. They reported that 89% of the planned work had been completed by the end of the year (compared with 93% in 2012/13). The reduction was largely due to staff leaving and Internal Audit appropriately re prioritised their work to focus on high risk areas.</p> <p>Any recommendations made by us are given a high priority and implemented quickly.</p> <p>The Council has sound risk management framework in place .</p>	<b>Green</b>	<b>Green</b>
<b>Prioritising resources</b> The characteristics we consider include: <ul style="list-style-type: none"> <li>• Leadership and challenge</li> <li>• Consultation with stakeholders</li> <li>• Basis for decision making</li> <li>• Understanding the impact and outcome of decisions</li> </ul>	<p>Our work on financial resilience have not found a lack of leadership on financial issues.</p> <p>The Council has consulted widely with both internal and external stakeholder during the production of its 2014/15 budget and MTFS (see financial governance) and taken action to review the cost effectiveness of services and challenge existing delivery models. Our work on Council's savings plans has not identified any evidence that they have inadequate arrangements to monitor achievement of efficiencies and reductions in unit costs, and the impact on service quality and provision.</p> <p>As at the end of April 2014 the Health and Well Being Board had a joint Better Care Fund plan in place and submitted by the required deadline (early April 2014). They had also started to make good progress in identifying its transformational plans for 2015/16.</p>	<b>Green</b>	<b>Green</b>

Theme	Summary findings	RAG rating 2012-13	RAG rating 2013-14
<b>Improving efficiency and productivity</b> The characteristics we consider include: <ul style="list-style-type: none"> <li>• Understanding costs</li> <li>• IT systems and Data Quality</li> <li>• Delivery of Savings and Service redesign</li> <li>• Effectiveness of key services</li> </ul>	<p>We considered the Audit Commissions VFM profiles as part of our risk assessments and there were no indication of excessive high cost services. During the production of the 2014/15 budget and MTFS the Council has taken action to review the cost effectiveness of services and challenge existing delivery models. In particular, the proposal to close the children's centres, the current review of the management structure, consideration of outsourcing and the external review of Looked after Children. Although outsourcing did not identify any significant savings, the review of Looked after Children identified significant changes to the way services are to be delivered and associated savings.</p> <p>There is no indication that the Council has poor data quality or IT systems</p> <p>The Council has achieved its savings plans over the last few years. The 2014/15 budget requires a savings plan of £4.1m which is 2% of the base budget and include a range of smaller schemes. The MTFS also include the schemes for the next 3 years and in 2015/16 the Council is required to make savings of £28.6m which is 12% of its base budget. This is significantly higher than any savings plan the Council has attempted to achieve before.</p> <p>Our work on Council's savings plans has found that it has a good record of achieving planned efficiencies and there is no indication that the effectiveness of key service is being significantly impacted by the level of savings so far. The outturn performance report to Cabinet shows that in the main services are performing well but does identify 10 targets where performance is below expectations. The report identifies detailed action plans and progress to improve performance which appear to be well on track. Given that significant changes are being made to these services it is not unexpected that performance will fluctuate in the short term. It should also be noted that the reductions in performance against the scorecard areas are marginal rather than significant.</p>	Green	Green

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## 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

# Fees, non audit services and independence

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

## Fees

	Per Audit plan £	Actual fees £
Council audit	178,177	179,657*
Grant certification	32,500	21,227**
<b>Total audit fees</b>	<b>210,677</b>	<b>200,884</b>

\*There is additional fee of £1,480 in respect of work on material business rates balances. This additional work was necessary as auditors are no longer required to carry out work to certify NDR3 claims. The additional fee is 50% of the average fee previously charged for NDR3 certifications for metropolitan borough councils and is subject to agreement by the Audit Commission.

\*\* New scale fee set by the Audit Commission. Revised to reflect there is no longer a requirement to certify Teachers Pensions, NDR 3 and the council tax element of the HB and Council Tax Grant.

## 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.

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## 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

# 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](http://www.audit-commission.gov.uk)).

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

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

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

Our 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

**Significant deficiency** – risk of significant misstatement

**Deficiency** - risk of inconsequential misstatement

Rec No.	Recommendation	Priority	Management response	Implementation date and responsibility
1	The Council should ensure that all journals contain an appropriate description.	Deficiency	Agreed. All Accountancy staff will be reminded about the importance of appropriate descriptions.	With immediate effect. Head of Accountancy.
2	The Council should review all land and building assets contained within its asset register to ensure it has the rights (e.g. title deeds) to those assets.	Deficiency	Agreed. All assets in the register will be reviewed to check that the Council has rights to the assets.	March 2015. Head of Property Services
3	The Council should take account of recent claim and settlements patterns when considering the estimate process for the 2014/15 provision.	Deficiency	Agreed. The review will take into account recent claim and settlement patterns when considering the estimate for the 2014/15 unequal pay provision.	March 2015 Head of Accountancy
4	The Council should consider a de minimus policy for smaller transactions at year end.	Deficiency	Agreed. This will be considered as part of our Closedown plan for the 2014/15 accounts.	Autumn 2014 Group Accountant Corporate Finance.
5	The Council should ensure that all capitalised staff costs are supported by timesheets.	Deficiency	Agreed. Supporting documents will be provided for the 2014/15 accounts.	March 2015 Housing Finance Manager
6	The Council should ensure it periodically reviews its accumulated absence accounts to ensure the assumptions remain up-to-date and valid.	Deficiency	Agreed. This will be considered as part of our Closedown plan for the 2014/15 accounts.	Autumn 2014 Group Accountant Corporate Finance.
7	The Council should review its approach to the revaluation of land and buildings in 2014/15.	Deficiency	Agreed. We will review our approach to valuation for 2014-15 accounts against the Accounting Code of Practice.	March 2015. Head of Property Services

# 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 2014 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 2013/14.

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 the Treasurers Responsibilities, 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 and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. 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 2014 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 2013/14 and applicable law.

### 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 October 2013, 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 2014.

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 October 2013, 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 2014.

**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  
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September 2014



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