

The Annual Audit Letter for Dudley Metropolitan Borough Council

Year ended 31 March 2013

16 October 2013

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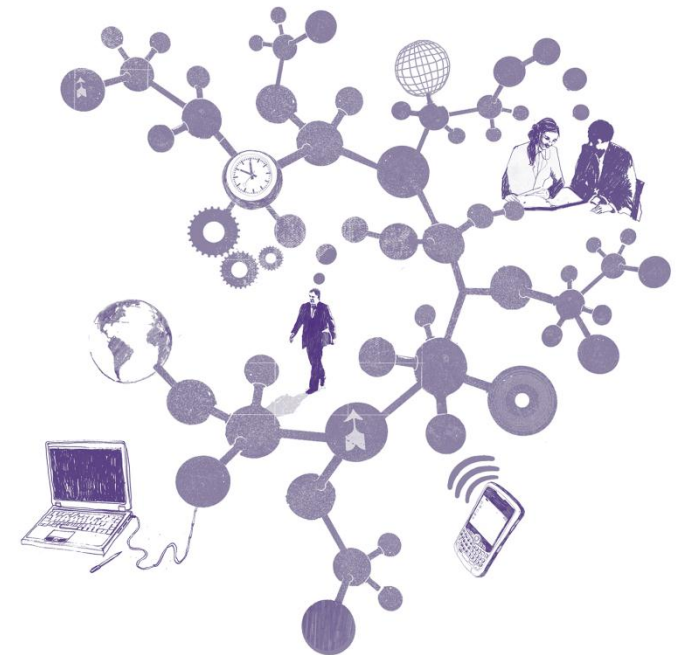
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Section 1: Executive summary

01. Executive summary

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This Letter will be considered by the Audit and Standards Committee on 10 December. This report reflects the findings from our work on both the financial statements and the value for money conclusion.

Executive summary

Purpose of this Letter

Our Annual Audit Letter ('Letter') summarises the key findings arising from the following work that we have carried out at Dudley Metropolitan Borough Council ('the Council') for the year ended 31 March 2013:

- auditing the 2012/13 accounts and Whole of Government Accounts submission (Section two)
- assessing the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources (Section three)
- certification of grant claims and returns (Section four).

The Letter is intended to communicate key messages to the Council and external stakeholders, including members of the public. We reported the detailed findings from our audit work to those charged with governance in the Audit Findings Report on 19 September 2013.

Responsibilities of the external auditors and the Council

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

The Council is responsible for preparing and publishing its accounts, accompanied by an Annual Governance Statement. It is also responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources (Value for Money).

Our annual work programme, which includes nationally prescribed and locally determined work, has been undertaken in accordance with the Audit Plan that we issued on 9 July 2013 and was conducted in accordance with the Audit Commission's Code of Audit Practice ('the Code'), International Standards on Auditing (UK and Ireland) and other guidance issued by the Audit Commission.

Audit conclusions

The audit conclusions which we have provided in relation to 2012/13 are as follows:

- an unqualified opinion on the accounts which give a true and fair view of the Council's financial position as at 31 March 2013 and its income and expenditure for the year
- an unqualified conclusion in respect of the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources
- an unqualified opinion on the council's Whole of Government Accounts submission.

Executive Summary

Key areas for Council attention

We summarise here the key messages arising from our audit for the Council to consider as well as highlighting key issues facing the Council in the future.

The Chancellor of the Exchequer announced the current Spending Review (SR10) to Parliament on 20 October 2010. SR10 represented the largest reductions in public spending since the 1920s. Revenue funding to local government was to reduce by 19% by 2014-15 (excluding schools, fire and police). After allowing for inflation, this equates to a 28% reduction in real terms with local government facing some of the largest cuts in the public sector.

The Chancellor of the Exchequer, in his Autumn Statement in November 2011, announced further public spending reductions of 0.9% in real terms in both 2015-16 and 2016-17.

In his Autumn Statement on 5 December 2012, the Chancellor reinforced austerity measures announcing a further £6.6bn of savings during 2013-14 and 2014-15. Whilst health and schools will be continue to be protected in line with the Government's policy set out in SR10, local government will continue to face significant funding reductions.

In his March 2013 Budget the Chancellor announced further departmental 1% savings during each of 2013-14 and 2014-15. The NHS and schools remain protected, but police and local government will need to find an additional 0.5% over both years.

The next spending round period, 2015-16, was announced by the Chancellor on 26 June 2013. Local government will face a further 10% funding reduction for this period.

These funding reductions come at a time when demographic and recession based factors are increasing demand for some services, and there is a decreasing demand for some services, such as car parking, where customers pay a fee or charge. Financial austerity is expected to continue until at least 2017.

The increasingly tight financial situation is the most significant issue facing the Council at present. If the Council is to continue to set a balanced budget then it will have to make substantial savings. The Council has been able to absorb funding cuts to date but, if it is to deliver the further savings required in the future, it will need to keep this issue at the top of its agenda.

The Council's sickness levels have been falling in recent years but, in 2012/13, they started to rise again and are above the average for local government. The Council introduced a new Absence Management Policy in May 2013 which it expects to result in decreasing levels of sickness absence. The Council will need to monitor the effectiveness of the policy and assess whether it is resulting in decreasing sickness absence.

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.

Executive Summary

Acknowledgements

This Letter has been agreed with the Treasurer and will be presented to Audit and Standards Committee on 10 December 2013.

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

Grant Thornton UK LLP
October 2013

Section 2: Audit of the accounts

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An unqualified opinion on the accounts which give a true and fair view of the Council's financial position as at 31 March 2013 and its income and expenditure for the year was provided. No changes were made to the accounts that impacted on the Council's overall financial position

Audit of the accounts

Audit of the accounts

The key findings of our audit of the accounts are summarised below:

Preparation of the accounts

The Council presented us with draft accounts on 17 June 2013, which was in advance of the national deadline of 30 June 2013. Appropriate working papers were made available from the start of the audit fieldwork, which commenced on 24 June 2013.

Issues arising from the audit of the accounts

We did not identify any adjustments affecting the Council's reported financial position. We made a number of adjustments to improve the presentation of the financial statements. Details of the most significant of these adjustments were reported in our Audit Findings Report which we presented to the Audit and Standards Committee on 19 September 2013.

Conclusion

Prior to giving our opinion on the accounts, we are required to report significant matters arising from the audit to 'those charged with governance' (defined as the Audit and Standards Committee at the Council). We presented our report to the Audit and Standards Committee on 19 September 2013 and summarise only the key messages in this Letter.

We issued an unqualified opinion on the Council's 2012/13 accounts on 26 September 2013, meeting the deadline set by the Department for Communities and Local Government. Our opinion confirms that the accounts give a true and fair view of the Council's financial position and of the income and expenditure recorded by the Council.

Section 3: Value for Money

01. Executive summary

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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

Scope of work

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 a 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 three expected characteristics of proper arrangements as defined by the Audit Commission:

- financial governance
- financial planning
- 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.

Further details are provided in our Financial Resilience report issued in September 2013.

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 and whether it has achieved cost reductions and improved productivity and efficiencies.

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.

Further details are provided in our Financial Resilience report issued in September 2013.

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: Certification of grant claims and returns

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Our work on certification of grant claims is on-going. Our work to date has not identified any issues which we wish to highlight. The detailed findings of our work will be reported in our Grant Certification report upon completion of our work.

Appendices

Appendix A: Reports issued and fees

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

Fees

	Per Audit plan £	Actual fees £
Audit Fee	178,177	178,177
Grant certification fee	41,000	TBC
Total 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

Reports issued

Report	Date issued
Audit Plan	9 July 2013
Audit Findings Report	19 September 2013
VfM – Financial Resilience Report	19 September 2013
Annual Audit Letter	16 October 2013



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