

AUDIT AND STANDARDS COMMITTEE

THURSDAY 19TH SEPTEMBER 2013

**AT 6.00PM
IN COMMITTEE ROOM 3
THE COUNCIL HOUSE
DUDLEY**

If you (or anyone you know) is attending the meeting and requires assistance to access the venue and/or its facilities, could you please contact Democratic Services in advance and we will do our best to help you

**KAREN TAYLOR
DEMOCRATIC SERVICES OFFICER
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**Email: Karen.taylor@dudley.gov.uk
You can view information about Dudley MBC on
www.dudley.gov.uk**

IMPORTANT NOTICE

MEETINGS IN DUDLEY COUNCIL HOUSE

Welcome to Dudley Council House

In the event of the alarm sounding, please leave the building by the nearest exit. There are Officers who will assist you in the event of this happening, please follow their instructions.

There is to be no smoking on the premises in line with national legislation. It is an offence to smoke in or on these premises.

Please turn off your mobile phones and mobile communication devices during the meeting.

Thank you for your co-operation.

Your ref:	Our ref:	Please ask for:	Telephone No.
	KT/kt	Mrs K Taylor	01384 818116

11th September, 2013

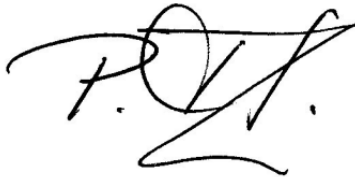
Dear Member

Audit and Standards Committee – Thursday 19th September, 2013.

You are requested to attend a meeting of the Audit and Standards Committee to be held on Thursday 19th September, 2013 at 6.00pm in Committee Room 3 at the Council House, Dudley to consider the business set out in the Agenda below.

The agenda and public reports are available on the Council's Website www.dudley.gov.uk and follow the links to Councillors in Dudley and Committee Management Information System.

Yours sincerely



Director of Corporate Resources

A G E N D A

- 1 APOLOGIES FOR ABSENCE**
To receive apologies for absence from the meeting.
- 2. APPOINTMENT OF SUBSTITUE MEMBERS**
To report the appointment of any substitute members serving for this meeting of the Committee.
- 3. DECLARATIONS OF INTEREST**
To receive Declarations of Interest in accordance with the Members' Code of Conduct.

4. MINUTES

To approve as a correct record and sign the Minutes of the meeting of the Committee held on 9th July, 2013 (copy attached).

5. EXTERNAL AUDIT FINDINGS REPORT 2012/13 AND REVIEW OF THE COUNCIL'S ARRANGEMENTS FOR SECURING FINANCIAL RESILIENCE (PAGES 1 - 76)

To consider a report of the Treasurer

6. CODE OF CONDUCT FOR EMPLOYEES (PAGES 77 - 94)

To consider a report of the Director of Corporate Resources

7. STATEMENT OF ACCOUNTS 2012/13 (PAGES 95 - 98)

To consider a report of the Treasurer

8. ANNUAL GOVERNANCE STATEMENT (PAGES 99 – 110)

To consider a report of the Treasurer

9. TREASURY MANAGEMENT (PAGES 111 – 119)

To consider a report of the Treasurer

10. TO ANSWER QUESTIONS UNDER COUNCIL PROCEDURE RULE 11.8 (IF ANY)

PRIVATE SESSION

In accordance with Paragraph 10 of Schedule 12A to the Local Government Act 1972, the Proper Officer has determined that there will be no advance disclosure of the following reports because the public interest in disclosing the information set out in the following items is outweighed by the public interest in maintaining the exemption from disclosure

11. RESOLUTION TO EXCLUDE THE PUBLIC

To consider the adoption of the following resolution:-

That the public be excluded from the meeting for the following items of business on the grounds that they involve the likely disclosure of exempt information as defined in Part 1 of Schedule 12A to the Local Government Act 1972 as indicated below:-

<u>Agenda Item No</u>	<u>Description of Item</u>	<u>Relevant Paragraph(s) of Part I of Schedule 12A</u>
12	Annual Audit Report in relation to the Directorate of the Urban Environment	2 and 7
13	Audit Services Interim Performance Report	2 and 7
14	Report Required under Standing Orders	2 and 7

12. ANNUAL AUDIT REPORT IN RELATION TO THE DIRECTORATE OF THE URBAN ENVIRONMENT (PAGES 120 – 145)

To consider a report of the Treasurer

13. AUDIT SERVICES INTERIM PERFORMANCE REPORT (PAGES 146 – 160)

To consider a report of the Treasurer

14. REPORT REQUIRED UNDER STANDING ORDERS (PAGES 161 – 164)

To consider a report of the Treasurer

To: All Members of the Audit and Standards Committee, namely:

Arshad	Cowell	Harris	Hill	Mrs. P Martin
Russell	Taylor	Tyler	C. Wilson	

AUDIT AND STANDARDS COMMITTEE

Tuesday, 9th July, 2013 at 6.00 p.m.
in Committee Room 3, The Council House, Dudley

PRESENT:-

Councillor Cowell (Chair)
Councillor Arshad (Vice-Chair)
Councillors Harris, Hill, Mrs. Martin, Russell, Taylor and K. Turner

Officers

Treasurer, Head of Audit Services, Director of Corporate Resources, Assistant Director, Law and Governance (Directorate of Corporate Resources), Audit Managers, Principal Auditor, Assistant Director, Policy and Improvement (Chief Executive's Directorate) and Mr. J. Jablonski (Directorate of Corporate Resources).

Also in Attendance

Ms. K. Bellingall (Director) (Grant Thornton)
Mr. S. Turner (Manager) (Grant Thornton)

1. **APOLOGIES FOR ABSENCE**

Apologies for absence from the meeting were submitted on behalf of Councillors Tyler and C. Wilson.

2. **APPOINTMENT OF SUBSTITUTE MEMBERS**

It was reported that Councillor K. Turner had been appointed as a substitute member for Councillor C. Wilson for this meeting of the Committee only.

3. **DECLARATIONS OF INTEREST**

No Member made a declaration of interest in accordance with Members' Code of Conduct in respect of any matter to be considered at this meeting.

4. MINUTES

Arising from consideration of the minutes, Councillor Taylor referred to the pre-ambles to Minute 40 and reported that he had still not received a response from the Director of Adult, Community and Housing Services in relation to the introduction of a policy for deceased client's balances.

The Chair undertook to take this matter up.

RESOLVED

That the minutes of the meeting held on 25th April, 2013, be approved as a correct record and signed.

5. GRANT THORNTON AUDIT OPINION PLAN 2012/13

A report of the Treasurer was submitted on the External Auditor's Audit Opinion Plan for 2012/13 attached as Appendix 1 to the report submitted.

Ms. K. Bellingall commented on the content of the Appendix which assessed the risk of material misstatements in the Accounts and set out audit procedures to address those risks.

RESOLVED

That the information contained in the report, and Appendix 1 to the report, submitted on the External Auditor's Audit Opinion Plan for 2012/13, be noted.

6. INTERNAL AUDIT SERVICES ANNUAL PERFORMANCE AND REVIEW REPORT 2012/2013

A report of the Treasurer was submitted on an overview of the performance of the Dudley Audit Services in the year to the 31st March, 2013 and to inform members of the Head of Audit Services' review of Audit Services in line with the Accounts and Audit Regulations, 2011 which require the Council to conduct an annual review of the effectiveness of internal audit. The Head of Audit is also required to give an opinion on the system of risk management and internal control and this was referred to in paragraphs 19 and 20 of the report submitted.

Following a presentation of the content of the report and related Appendices to the report submitted, lettered A to D, members commented, in particular, on the content of Appendix D - CIPFA "A Toolkit for Local Authority Audit Committees".

In this connection, it was suggested that further consideration be given to members of the Committee carrying out a self-assessment as to their skills and experiences possibly leading to training given for identified gaps; the Committee holding a meeting in private to discuss issues with the Head of Internal Audit and a similar meeting with the external auditors, and to the possible production of a formal annual report on the work of the Committee and performance during the year to full Council.

It was also noted that training for new members of the Committee was to be arranged in due course by the Head of Audit Services.

The Head of Audit also advised that additional information on benchmarking would be presented to the September meeting.

Arising from consideration of the training referred to in paragraph 7 of the report submitted, it was suggested that an evaluation of the effectiveness of workshops/briefings provided to school staff and Governors be carried out and it was reported that this would receive consideration.

Regarding the number of post-audit questionnaires returned in 2012/13, some 50% of those issued, concerns were raised by members of the Committee at this low rate of return.

RESOLVED

That the information contained in the report, and Appendices to the report, submitted on the performance and review of Audit Services in 2012/13, be accepted and that the Head of Audit Services be requested to write to the Chief Executive and Directors of the Council asking that they take steps to ensure that post-audit questionnaires were returned following audits in their respective directorates.

7. REVIEW OF CURRENT CORPORATE RISKS

A report of the Treasurer was submitted on current corporate risks, as most recently reviewed by the Corporate Board, and to advise on future scrutiny arrangements of these risks. Appendix 1 to the report submitted showed details of corporate risks as reviewed by Corporate Board on 4th June, 2013.

During his presentation of the content of the report, and Appendix 1 to the report submitted, the Treasurer referred, in particular, to the Committee giving consideration to identifying and scrutinising a specific risk from those shown in the Appendix for consideration when the Committee next considered the issue of corporate risks at its meeting in December, 2013.

RESOLVED

That the information contained in the report, and Appendix 1 to the report, submitted on current corporate risks, be noted and that risk ORG0017 - Welfare Reforms - be the particular risk identified for closer scrutiny the next time a risk report was referred for consideration by the Committee, on 10th December, 2013.

8. COMMITTEE WORK PLAN, 2013/14

A report of the Treasurer and the Director of Corporate Resources was submitted on a Committee Work Plan for 2013/14

Arising from consideration of the content of Appendix 1 to the report which set out the Schedule of Agenda Items, it was agreed that a further statement as to exceptions to Standing Orders would be included in an Audit Services Interim Performance Report so as to increase the number of occasions on which this issue was reported on, to three.

RESOLVED

That the information contained in the report, and Appendix 1 to the report, submitted be approved together with the addition referred to above.

9. RE-APPOINTMENT OF THE STANDARDS SUB-COMMITTEE

A report of the Director of Corporate Resources was submitted on the re-appointment of the Standards Sub-Committee.

RESOLVED

That the Standards Sub-Committee be re-appointed for 2013/14 with its existing Terms of Reference and that the membership of the Sub-Committee comprise Councillors Cowell, Mrs. Martin, Taylor and Tyler, two members from each of the political groups on the Committee with proportionality waived as to membership.

10. EXCLUSION OF THE PUBLIC

That the public be excluded from the meeting for the following items of business on the grounds that they involve the likely disclosure of exempt information as defined in Part 1 of Schedule 12A to the Local Government Act, 1972, as indicated below; and that in all the circumstances, the public interest in disclosing the information is outweighed by the public interest in maintaining the exception from disclosure.

Description of Item

Relevant Paragraphs
of Part 1 of Schedule
12A

Annual Audit Report in relation to the Chief Executive's Directorate 2 and 7

Annual Audit Report in relation to the Directorate of Corporate Resources 2 and 7

11. ANNUAL AUDIT REPORT IN RELATION TO THE CHIEF EXECUTIVE'S DIRECTORATE

A report of the Treasurer was submitted on the Audit work undertaken in the Chief Executive's Directorate for the financial year 2012/13 and incorporating details of the more important findings.

RESOLVED

That the findings of the 2012/13 Audit work, be accepted.

12. ANNUAL AUDIT REPORT IN RELATION TO THE DIRECTORATE OF CORPORATE RESOURCES

A report of the Treasurer was submitted on the Audit work undertaken in the Directorate of Corporate Resources for the financial year 2012/13 and incorporating details of the more important findings.

RESOLVED

That the findings of the 2012/13 Audit work, be accepted.

The meeting ended at 7.45 p.m.

CHAIRMAN

Audit and Standards Committee – 19th September 2013

Report of the Treasurer

External Audit Findings Report 2012/13 and Review of the Council's Arrangements for Securing Financial Resilience.

Purpose of Report

1. To present to the Audit and Standards Committee two reports from the Council's external auditors, Grant Thornton UK LLP:
 - Audit Findings Report 2012/13
 - Review of the Council's Arrangements for Securing Financial Resilience
2. To present to the Audit and Standards Committee, for approval and signing, the Letter of Representation from the Council to the external auditors.

Background

3. The Audit Commission's Code of Audit Practice 2005 requires external auditors to report to those charged with governance on the results of their work, and their review of value for money. This year the work on value for money includes the additional report on arrangements for securing financial resilience .
4. The Grant Thornton Audit Findings Report is attached as Appendix 1. It covers the findings of their work on the Statement of Accounts, and on value for money.
5. The Grant Thornton Review of the Council's arrangements for securing Financial Resilience is attached as Appendix 2. It considers whether the Council has robust systems to manage financial risks and opportunities, and to secure a stable financial position.
6. The Council's Letter of Representation, addressed to Grant Thornton, is attached as Appendix 3. It is signed by the Treasurer and, with the approval of this Committee, by the Chair.

Finance

7. This report refers to various aspects of financial management, but does not give rise to any direct costs.

Law

8. Legislation appertaining to Local Authority Audit and Accounts is contained in the Local Government Act 1972, part 2 of the Audit Commission Act, 1998, and regulations made thereunder.

Equality Impact

9. The proposals take into account the Council's Policy on Equality and Diversity.

Recommendation

10. It is recommended that:-
- the Committee considers the Audit Findings Report 2012/13, and the auditor's comments.
 - the Committee considers the Review of the Council's Arrangements for Securing Financial Resilience and the auditor's comments.
 - the Committee approves the Letter of Representation.
 - the Chair of the Committee signs and dates the Letter of Representation to give evidence of the approval above.



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Iain Newman
Treasurer

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List of Background Papers

Audit Findings Report 2012/13
Review of the Council's Arrangements for Securing Financial Resilience
for Dudley Metropolitan Borough Council

The Audit Findings for Dudley Metropolitan Borough Council

Year ended 31 March 2013

19 September 2013

Kyla Bellingall

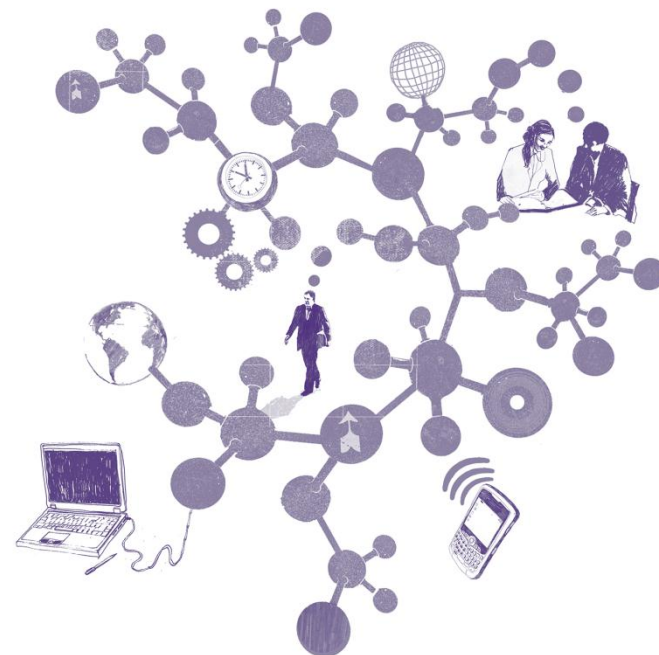
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The contents of this report relate only to those matters which came to our attention during the conduct of our normal audit procedures which are designed primarily for the purpose of expressing our opinion on the financial statements. Our audit is 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.

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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	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 • 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	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 • 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. 	The Council's accounting policy for revenue recognition is appropriate, in line with common practice for local government bodies and disclosures are sufficient.	 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
 Birmingham
 West Midlands
 B4 6AT

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

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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Review of the Council's Arrangements for Securing Financial Resilience for Dudley Metropolitan Borough Council

Year ended 31 March 2013

September 2013

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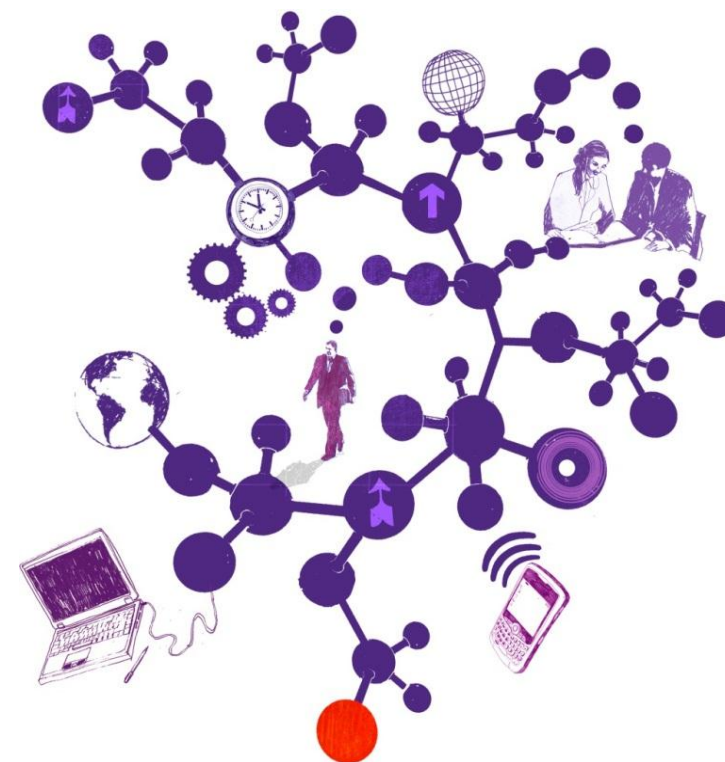
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The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit process. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible to you for reporting all of the risks which may affect the Council or any weaknesses in your internal controls. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. 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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1 Executive Summary

2 Key Indicators

3 Strategic Financial Planning

4 Financial Governance

5 Financial Control

Appendix - Key indicators of financial performance

Executive Summary

Our approach

Value for Money Conclusion

Our work supporting our Value for Money (VfM) conclusion, as part of the statutory external audit, includes a review to determine if the Council has proper arrangements in place for securing financial resilience.

In so doing we have considered whether the Council has robust financial systems and processes in place to manage its financial risks and opportunities, and to secure a stable financial position that enables it to continue to operate for the foreseeable future. We have carried out our work in discussion and agreement with officers and completed it in such a way as to minimise disruption to them.

The definition of foreseeable future for the purposes of this financial resilience review is 12 months from the date of this report.

We have reviewed the financial resilience of the Council by looking at:

- Key indicators of financial performance;
- Its approach to strategic financial planning;
- Its approach to financial governance; and
- Its approach to financial control.

Further detail on each of these areas is provided in the sections of the report that follow. Our overall conclusion is that whilst the Council faces challenges during 2013/14 and beyond, its current arrangements for achieving financial resilience are adequate. There is scope to improve the quality of reporting of financial performance to Cabinet and the Council's comparatively high levels of sickness absence needs to be addressed.

We have used a red/amber/green (RAG) rating with the following definitions.

Green	Arrangements meet or exceed adequate standards. Adequate arrangements identified and key characteristics of good practice appear to be in place.
Amber	Potential risks and/or weaknesses. Adequate arrangements and characteristics are in place in some respects, but not all. Evidence that the Council is taking forward areas where arrangements need to be strengthened.
Red	High risk: The Council's arrangements are generally inadequate or may have a high risk of not succeeding

Executive Summary

National and Local Context

National Context

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. In addition, local government funding reductions were frontloaded, with 8% cash reductions in 2011-12. This followed a period of sustained growth in local government spending, which increased by 45% during the period 1997 to 2007.

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 continue to be protected in line with the Government's policy set out in SR10, local government will continue to face significant funding reductions. The Department for Communities and Local Government will contribute £470m of these additional savings, £445m of which will come from local authority funding during 2014-15, with local authorities being exempt from additional savings in 2013-14. 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.

Local Context

The Metropolitan Borough of Dudley is in the Black Country, West Midlands. The borough includes the five main towns of Dudley, Brierley Hill, Halesowen, Stourbridge and Sedgeley. Dudley is densely populated with over 300,000 people, composed of a higher proportion of older people. The area consists of a higher proportion of white British residents, with more ethnic diversity focused South West of Dudley town centre. The overall levels of deprivation in Dudley differ little from the national average. However, there are pockets of severe deprivation. The Borough is facing tough challenges in the current economic climate.



Executive Summary

Overview of Arrangements

Risk area	Summary observations	High level risk assessment
<p>Key Indicators of Performance</p>	<ul style="list-style-type: none"> • 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 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) • 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 and so expects the school balances figure to reduce significantly at 31/3/14. 	<p style="text-align: center;">  Green </p>
<p>Strategic Financial Planning</p>	<ul style="list-style-type: none"> • 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. 	<p style="text-align: center;">  Green </p>

Executive Summary

Overview of Arrangements

Risk area	Summary observations	High level risk assessment
Financial Governance	<ul style="list-style-type: none">Financial reporting processes are robust. However, the in-year revenue budgetary position was only reported to the Cabinet twice in 2012/13 and seven months of the financial year elapsed before the position against the revenue budget was first reported to Cabinet.There is scope to improve the quality of financial reporting to Cabinet, both in respect of revenue and capital budgets and other key financial data such as debtor collection rates and speed of payment of suppliers.	 Green
Financial Control	<ul style="list-style-type: none">The Council's financial control is demonstrated by its ability to achieve cost savings within the continually challenging economic climate.There is scope to improve the quality of reporting to Cabinet in respect of the savings programme.Cash is being managed appropriately in terms of market conditions and counterparty and interest rate risksThe Council has a sound risk management framework in place.	 Green

Executive Summary

Next Steps

Area of review	Key points for consideration	Responsibility	Timescale	Management response
Key Indicators of Performance	The Council should monitor the effectiveness of the new attendance management policy and assess whether it is resulting in decreasing sickness absence	Assistant Director of Corporate Resources (HR and Organisational Development)	Ongoing	The effectiveness of the policy is being monitored through its impact on absence levels reported in Quarterly Performance Reports
	The Council should encourage schools to review their reserves and ensure that they are not held for any longer than is necessary	Treasurer	Ongoing	Dudley's Scheme for Financing Schools includes a section on controls on surplus balances in line with the DfEs recommendation. Schools' are advised to review their reserves at least annually. Specifically they are advised to apply earmarked reserves where possible to meet Equal Pay settlement costs. However, it should be noted that delegated authority for managing school budgets rests with governing bodies
Financial Governance	Consideration should be given to reporting performance against the revenue budget to Cabinet at more frequent intervals than twice a year	Treasurer	Ongoing	Performance is reported to individual Cabinet members monthly. Performance was reported to Cabinet as a whole in June 2013 and will be reported on at least two further occasions in October and February

Executive Summary

Next Steps

Area of review	Key points for consideration	Responsibility	Timescale	Management response
	Consideration should be given to summarising the performance of each Directorate against their revenue budget in finance monitoring reports to Cabinet	Treasurer	December 2013	Cabinet reports focus on individual directorates on an exception basis. The report to Cabinet in June 2013 highlighted a risk in relation to the Looked After Children budget and Cabinet agreed to receive further detailed reports on this issue. Consideration will be given (in consultation with the Cabinet Member for Finance) to reporting more detail on a routine basis.
	Consideration should be given as to how best to align financial reporting to Cabinet in respect of the HRA with the approach adopted for other service areas	Treasurer	December 2013	Separate HRA reports reflect the HRA ring-fence and the nature of the decisions that Cabinet are required to make (e.g. rent-setting and investment in the housing stock). This approach will be reconsidered (in consultation with the Cabinet Member for Finance).
	Consideration should be given to expanding capital programme monitoring reports to Cabinet so that they provide an update on progress on the most significant capital schemes, both in terms of project completion against timescale and spend against budget	Treasurer	December 2013	Consideration will be given (in consultation with the Cabinet Member for Finance) to including additional progress reporting on large projects.

Executive Summary

Area of review	Key points for consideration	Responsibility	Timescale	Management response
	Consideration should be given to reporting key financial data, such as debtor collection rates and speed of payment of suppliers, to Cabinet on a regular basis	Treasurer	December 2013	Consideration will be given (in consultation with the Cabinet Member for Finance) to including this additional information.
	Consideration should be given to including an update of the overall capital financing position in capital programme monitoring reports to Cabinet	Treasurer	December 2013	Consideration will be given (in consultation with the Cabinet Member for Finance) to including this additional information
Financial Control	Consideration should be given to reporting progress on savings programmes to Cabinet during the financial year, highlighting any significant expected under or over delivery	Treasurer	December 2013	This information is currently reported on an exception basis. Consideration will be given (in consultation with the Cabinet Member for Finance) to reporting on a routine basis.
	Consideration should be given to expanding the year-end outturn report to detail what savings were actually made against each proposed savings programme and to explain any significant under or over delivery	Treasurer	December 2013	Year end outturn reports include explanations for over and under-spending. Consideration will be given (in consultation with the Cabinet Member for Finance) to providing these explanations at a greater level of detail.

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Appendix - Key indicators of financial performance

Key Indicators

Introduction

This section of the report includes analysis of key indicators of financial performance, benchmarked where this data is available. These indicators include:



- Working capital ratio
- Long term borrowing to tax revenue
- Long term borrowing to long term assets
- Sickness absence levels
- Out-turn against budget
- Useable Reserves: Gross Revenue Expenditure
- Schools Reserves - Balances to DSG allocations

We have used the Audit Commission's nearest neighbours benchmarking group comprising the following authorities:

St Helens Metropolitan BC
Walsall Metropolitan BC
Stockton-on-Tees Borough Council
Tameside Metropolitan BC
Calderdale Metropolitan BC
Bolton Metropolitan Borough Council
Coventry City Council
City of Wakefield Metropolitan District Council
Derby City Council
Stoke on Trent City Council
Wigan Council
Kirklees Metropolitan Council
Darlington Borough Council
Doncaster Metropolitan Borough Council
Rotherham Metropolitan Borough Council





Key Indicators

Overview of performance

Area of focus	Summary observations	Assessment
Liquidity	<ul style="list-style-type: none">• The working capital ratio indicates whether a council has enough current assets to cover its immediate liabilities. The Council's working capital ratio was 0.35 at 31 March 2013, an increase on 2011/12 of 0.23 but still very low when compared to the Audit Commission Nearest Neighbour Benchmark Group for liquidity (see page 27). However, the Council is not experiencing any difficulties in meeting its liabilities so there is no evidence that the low working capital ratio is currently having a detrimental effect on the Council's finances• The Council's council tax collection rate for 2012/13 was 98.0% (slightly down on 98.2% for 2011/12) compared to the average of 96.2% for metropolitan districts in England. The Council also has the third highest collection rate in the West Midlands• The Council's business rates collection rate for 2012/13 was 97.2% (down slightly from 97.3% for 2011/12) compared to the average of 96.7% for metropolitan districts in England. The Council has the third highest collection rate in the West Midlands	 Green
Borrowing	<ul style="list-style-type: none">• The Council's borrowing was £542m at year end (excluding ex-West Midlands County Council debt for which Dudley Council is the administering authority). Nearly all of this debt is long term. This is in line with the Council's Treasury Management Strategy• According to the Audit Commission Nearest Neighbour Benchmark data for 2011/12, the Council shows very high borrowing levels for the Nearest Neighbour Benchmark Group. However, this is a reflection of the fact that the Council holds ex-West Midlands County Council debt on its balance sheet and that it also had to borrow £335m in 2011/12 as part of the establishment of HRA self-financing arrangements• The Council's actual external debt is well within the operational boundary and authorised limit and there are no indications that these limits will be breached in the medium term.	 Green

Key Indicators

Overview of performance

Area of focus	Summary observations	Assessment
Workforce	<ul style="list-style-type: none"> The Council's sickness levels have been improving in recent years, although they were still above the average for the local government, public and private sectors. However, in 2012/13 sickness levels have risen to 10.63 days per FTE. This is the highest level since 2006/07. The average sickness level for local government in 2011/12 was 8 days per FTE (see page 32). The Council introduced a new Absence Management Policy in May 2013 which it expects to result in decreasing levels of sickness absence 	 Amber
Performance Against Budgets: revenue & capital	<ul style="list-style-type: none"> The Council's performance against the revenue budget is strong. No overspends have occurred in the last three years and underspends have not been significant. The underspend at the 2012/13 year end was £1.697m against a revised budget of £232.8m, enabling a transfer to reserves 6.9% of the capital budget was slipped or rephased into following years but there were no over or underspends of any significance on the remaining capital budget 	 Green
Reserve Balances	<ul style="list-style-type: none"> The Council's usable reserves are lower than most of its comparator group. This is due to the Council having lower earmarked reserves than many of these other authorities. The Council's General Fund reserves, which have been increasing in recent years, are around the average for this group of authorities. General Fund reserves were £19.4m at 31 March 2013 (up from £12.2m a year earlier). These increasing reserves will be available to help the Council to manage the effect of on-going cuts to Central Government funding 	 Green
Schools Balances	<ul style="list-style-type: none"> Dudley's school balances are amongst the highest for comparable authorities and the level of schools reserves has been increasing significantly. In 2010/11 they totalled £14.7m and in 2011/12 it was £20.1m, although they have fallen back slightly to £19.9m at 31 March 2013. Dudley's schools balances are higher than comparable authorities because they 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 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. If these equal pay reserves are excluded then the school balances fall by around 30% and are then around the average for comparable authorities 	 Amber

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Appendix - Key indicators of financial performance

Strategic Financial Planning




Key characteristics of good strategic financial planning

In conducting our review of strategic financial planning we have assessed the Council's performance against the following indicators:

- Focus on achievement of corporate priorities is evident through the financial planning process. The MTFP focuses resources on priorities.
- The MTFP includes outcome measures, scenario planning, benchmarking, resource planning and details on partnership working. Targets have been set for future periods in respect of reserve balances, prudential indicators etc.
- Annual financial plans follow the longer term financial strategy.
- There is regular review of the MTFP and the assumptions made within it. The Council responds to changing circumstances and manages its financial risks.
- The Council has performed stress testing on its model using a range of economic assumptions including CSR.
- The MTFP is linked to and is consistent with other key strategies, including workforce.
- KPIs can be derived for future periods from the information included within the MTFP.



Strategic Financial Planning

Medium Term Financial Strategy

Area of focus	Summary observations	Assessment
Focus of the MTFS	<ul style="list-style-type: none"> The Council has an MTFS which is updated to reflect the changing economic climate. There are regular updates to reflect changes and these are reported to Cabinet. The MTFS is closely linked to the corporate objectives. The current MTFS covers the period up to 2015/16 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. 	 Green
Adequacy of planning assumptions	<ul style="list-style-type: none"> The MTFS makes key planning assumptions in respect of income-generating activities, inflation and managing assets effectively to help deliver strategic priorities and service need The assumptions in the MTFS are regularly updated as new information becomes available The Council has assessed its strategic priorities and effectiveness of current priorities. 	 Green
Scope of the MTFP and links to annual planning	<ul style="list-style-type: none"> The MTFS links to other Council plans, corporate objectives and the budget planning process. The proposals in the MTFS and the budget for 2013/14 are adequately reflected in the Capital Strategy and HR Strategy and vice versa. 	 Green

Strategic Financial Planning

Medium Term Financial Strategy

Area of focus	Summary observations	Assessment
Review processes	<ul style="list-style-type: none"> The Council updates its MTFS on an annual basis to reflect changing events and circumstances, such as changing assumptions in respect of pay and prices and changes in grant funding arrangements The Council holds a series of Budget Summits throughout the year, involving Cabinet members and chief officers, where alternative spending plans are considered prior to Cabinet recommending the budget and council tax to Full Council Savings plans are monitored and managed throughout the year and reported to Cabinet. 	 Green
Responsiveness of the Plan	<ul style="list-style-type: none"> As part of the process for drawing up the MTFS, the Council considers best and worst case scenarios for key areas such as grant funding, Council Tax income, local business rate income, inflation and interest rates The Council regularly reviews the assumptions made in the MTFS and models the impact of changing assumptions on service provision The Council has been challenging delivery methods and seeking alternative ways of delivering services such as remodelling of services to people with a learning disability which will see more people supported in community based settings. 	 Green

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Financial Governance

Key characteristics of effective financial governance

In conducting our review of financial governance we have assessed the Council's performance against the following indicators:

Understanding

- There is a clear understanding of the financial environment the Council is operating within:
 - Regular reporting to Members. Reports include detail of action planning and variance analysis etc.
 - Actions have been taken to address key risk areas.
 - Officers and managers understand the financial implications of current and alternative policies, programmes and activities.

Engagement




- There is engagement with stakeholders including budget consultations.

Monitoring and review

- There are comprehensive policies and procedures in place for Members, Officers and budget holders which clearly outline responsibilities.
- Number of internal and external recommendations overdue for implementation.
- Committees and Cabinet regularly review performance and it is subject to appropriate levels of scrutiny.
- There are effective recovery plans in place (if required).



Financial Governance

Understanding and engagement

Area of focus	Summary observations	Assessment
Understanding the Financial Environment	<ul style="list-style-type: none">• Senior officers, in particular the Treasurer, regularly update members on financial matters• The Council's approach to risk management is well developed and embedded throughout the organisation• The Annual Governance Statement outlines actions taken and those needed to address current concerns. This is underpinned by the risk management culture of the organisation• The Audit and Standards Committee provides scrutiny of the Council's governance arrangements• Financial management responsibilities are clearly set out in the 'Financial Management Regime' which forms part of the Council's Constitution.	 Green
Executive and Member Engagement	<ul style="list-style-type: none">• Minuted meetings provide evidence that executive and members are given the opportunity to scrutinise and challenge the financial environment and are equipped with the skills to do so• The 'Budget Summit' process enables Cabinet members to challenge existing budgets and scrutinise pressures and savings• Public consultation takes place on all spending proposals• The Treasurer forms part of the leadership team.	 Green
Overview for controls over key cost categories	<ul style="list-style-type: none">• Effective monitoring of unit costs is enabled through the budget monitoring process and budgets are formally assigned• There is a process in place for reporting progress against revenue and capital budgets to Cabinet.	 Green

Financial Governance

Understanding and engagement

Area of focus	Summary observations	Assessment
Budget reporting: revenue and capital	<ul style="list-style-type: none"> Financial reporting processes are robust. However, the in-year revenue budgetary position was only reported to the Cabinet twice in 2012/13 and seven months of the financial year elapsed before the position against the revenue budget was first reported to Cabinet The level of detail in the financial reporting to Cabinet is quite brief. Key financial issues for the Council are reported, for example, but performance against budget for each directorate is not. A greater level of detail is provided to Cabinet in respect of the HRA than for other service areas but we have not identified any particular reasons for this There is frequent reporting to the Cabinet in respect of the capital programme. However, the reports do not set out progress on the most significant capital schemes, either in terms of project completion or spend against budget. 	 Amber
Adequacy of other Committee/Cabinet Reporting	<ul style="list-style-type: none"> Financial reporting to Cabinet is clear and concise. However, there is scope to make improvements in respect of the quality of financial reporting. Key financial data, such as debtor collection rates and speed of payment of suppliers, for example are not reported to Cabinet on a regular basis. Capital programme monitoring reports also do not include an update of the overall capital financing position. 	 Amber

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Financial Control

Key characteristics of effective financial control

In conducting our review of financial control we have assessed the Council's performance against the following indicators:

Budget setting and budget monitoring

- Budgets are robust and prepared in a timely fashion.
- Budgets are monitored at an officer, member and Cabinet level and officers are held accountable for budgetary performance.
- Financial forecasting is well-developed and forecasts are subject to regular review.

Savings Plans

- Processes for identifying, delivering and monitoring savings plan schemes are robust, well thought through and effective.

Financial Systems

- Key financial systems have received satisfactory reports from internal and external audit.
- Financial systems are adequate for future needs.

Finance Department




- The capacity and capability of the Finance Department is fit for purpose.

Internal Control

- There is an effective internal audit which has the proper profile within the organisation. Agreed Internal Audit recommendations are routinely implemented in a timely manner.
- There is an assurance framework in place which is used effectively by the Council and business risks are managed and controlled.





Financial Control

Internal arrangements

Area of focus	Summary observations	Assessment
Budget setting and monitoring - revenue and capital	<ul style="list-style-type: none">• The Council has sound processes in place for budget preparation and sets reliable, achievable budgets• The 'Budget Summit' process enables alternative options to be considered before the final budget is agreed and approved• Sound processes are in place for re-forecasting and monitoring budgets during the year• Cash is being managed appropriately in terms of market conditions and counterparty and interest rate risks.	 Green
Performance against Savings Plans	<ul style="list-style-type: none">• The Council has sound processes in place to prepare the annual savings programme• The Council has a strong history of delivering its savings plans and underspent its 2012/13 revenue budget by £1,697m• There is scope to improve the quality of reporting to Cabinet in respect of the savings programme. Progress on delivering each savings programme is not reported to Cabinet during the financial year, nor is any significant expected under or over delivery highlighted. The year-end outturn report does not detail what savings were actually made against each proposed savings programme nor does it explain any significant under or over delivery.	 Amber
Key Financial Accounting Systems	<ul style="list-style-type: none">• The key finance system used is Agresso. The financial statements and the Council's internal management accounts reconcile which ensures both internal and external information is reported consistently• Audit Services reviews of critical financial systems over the last year have not identified any significant weaknesses.	 Green

Financial Control

Internal and external assurances

Area of focus	Summary observations	Assessment
Finance Department Resourcing	<ul style="list-style-type: none"> The Finance Department has long serving experienced members of staff and has obtained strong feedback from service users. 	 Green
Internal audit arrangements	<ul style="list-style-type: none"> Audit Services continue to provide an independent service to the Council and we can take assurance from its work in contributing to an effective internal control environment at the Council. Audit Services annual plan is approved by the Audit and Standards Committee annually. Status updates are presented to the Audit and Standards Committee and management regularly. 	 Green
External audit arrangements	<ul style="list-style-type: none"> No recommendations were made in the last Annual Audit Letter (October 2012) in respect of financial resilience. 	 Green
Assurance framework/risk management	<ul style="list-style-type: none"> The Council has a sound risk management framework in place, with risks being mapped to corporate objectives, allocated to a named senior officer and RAG rated The size and number of risks reported are pitched appropriately to allow the Cabinet to keep the main risks under adequate review. 	 Green

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Key Indicators of Financial Performance

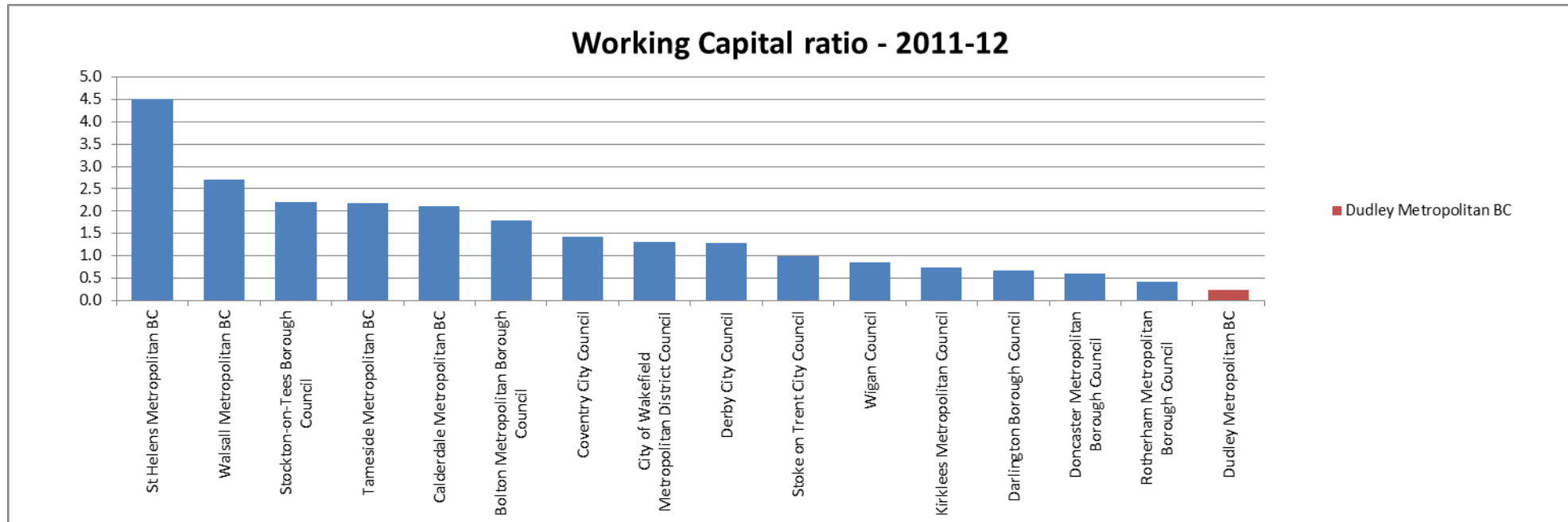
Working Capital - Benchmarked

Definition

The working capital ratio indicates if an authority has enough current assets, or resources, to cover its immediate liabilities - i.e. those liabilities to be met over the next twelve month period. A ratio of assets to liabilities of 2:1 is usually considered to be acceptable, whilst a ratio of less than one - i.e. current liabilities exceed current assets - indicates potential liquidity problems. It should be noted that a high working capital ratio isn't always a good thing; it could indicate that an authority is not effectively investing its excess cash.

Findings

The Council's working capital ratio is very low when compared to the Audit Commission Nearest Neighbour Benchmark Group. However, the Council are not experiencing any difficulties in meeting their liabilities so there is no evidence that their low working capital ratio is having a detrimental effect on the Council's finances



Key Indicators of Financial Performance

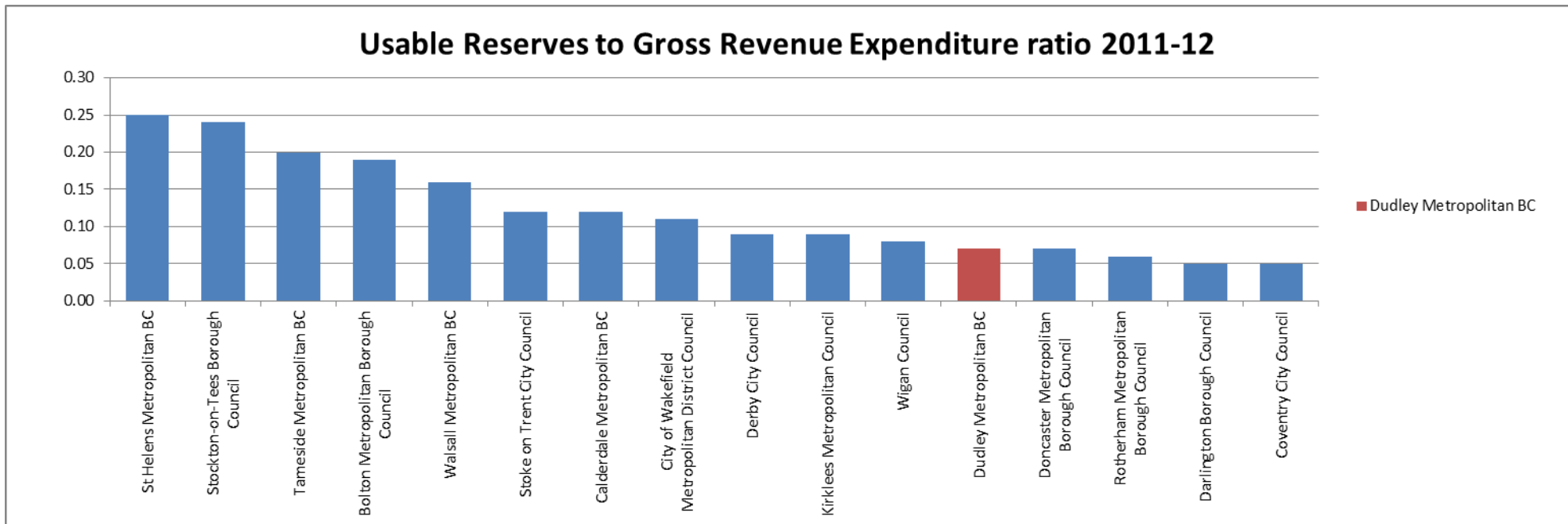
Useable Reserves - Benchmarked

Definition

This shows useable capital and revenue reserves as a share of expenditure. A ratio of one means the total reserves matches the level of expenditure.

Findings

The Council's useable reserves are lower than most of its comparator group. However, this is due to the Council having lower earmarked reserves than other authorities. Its General Fund reserves, which have been increasing in recent years, are around the average for this group of authorities



Source: Audit Commission's Technical Directory

Key Indicators of Financial Performance

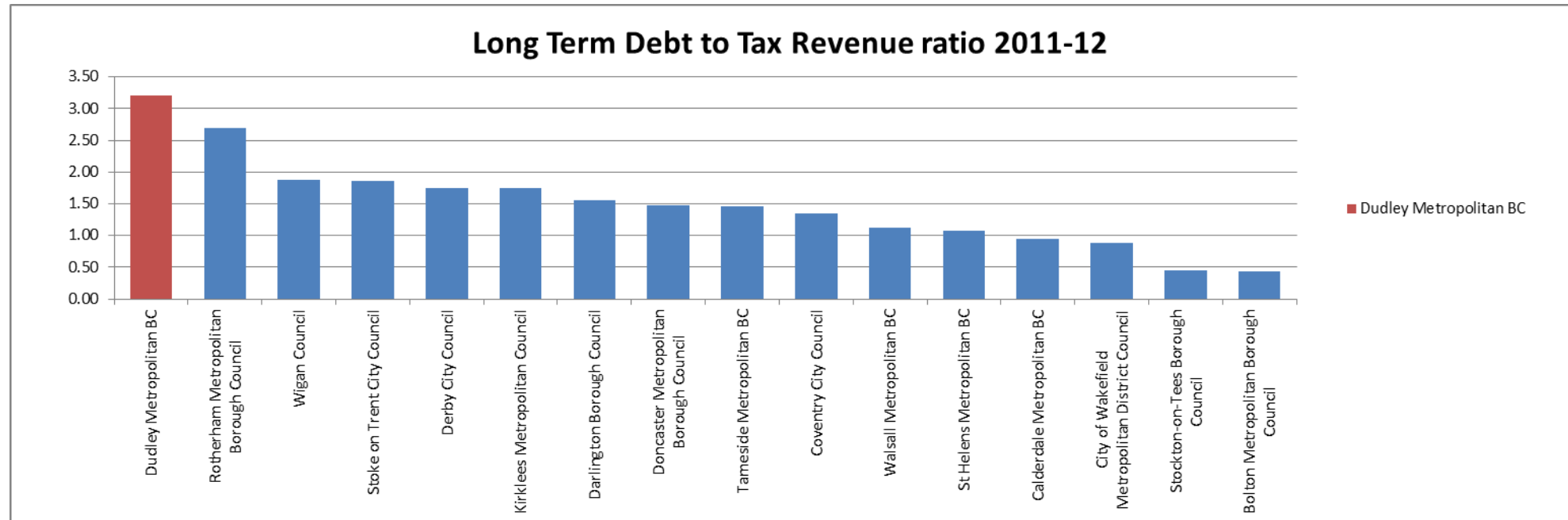
Long Term Borrowing to Tax Revenue - Benchmarked

Definition

Shows long term borrowing as a share of tax revenue. A ratio of more than one means that long term borrowing exceeds council tax revenue.

Findings

The Council's long term borrowing is over 3 times higher than its incoming resources. This is the highest ratio of its comparator group. However, these figures are affected by the inclusion of Ex-West Midlands County Council debt which the Council is responsible for administering and which is held on their balance sheet. If this debt is excluded, the Council's long term debt is still very high in comparison to other local authorities but this is a reflection of the fact that the Council had to borrow £335m in 2011/12 as part of the HRA self-financing arrangements. Without this additional borrowing, the Council's total borrowing and borrowing to tax revenue ratio would be below the average for the comparator group.



Key Indicators of Financial Performance

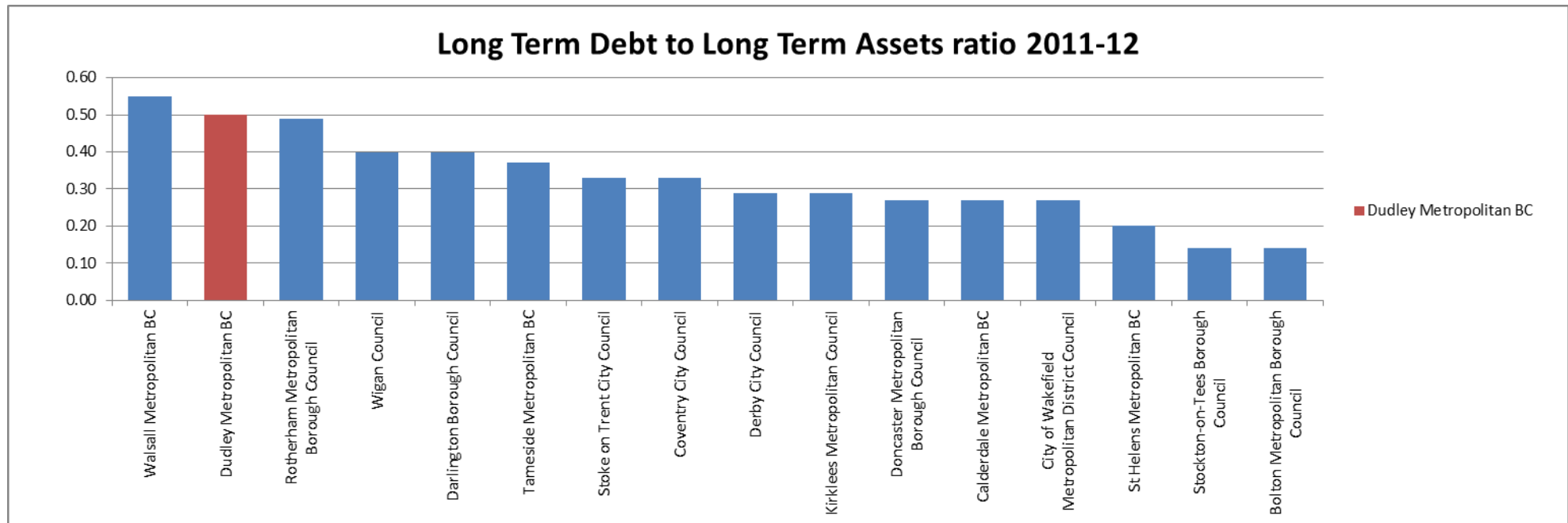
Long-term borrowing to Long-term assets - Benchmarked

Definition

This ratio shows long term borrowing as a share of long term assets. A ratio of more than one means that long term borrowing exceeds the value of long term assets.

Findings

DMBC's long term debt to long term assets ratio is 0.5. This is the second highest ratio of its comparator group. However, these figures are affected by the inclusion of Ex-West Midlands County Council debt which the Council is responsible for administering and which is held on their balance sheet. If this debt is excluded then the Council's long term debt to long term assets ratio falls to 0.37 which is just above the average for the comparator group.



Key Indicators of Financial Performance

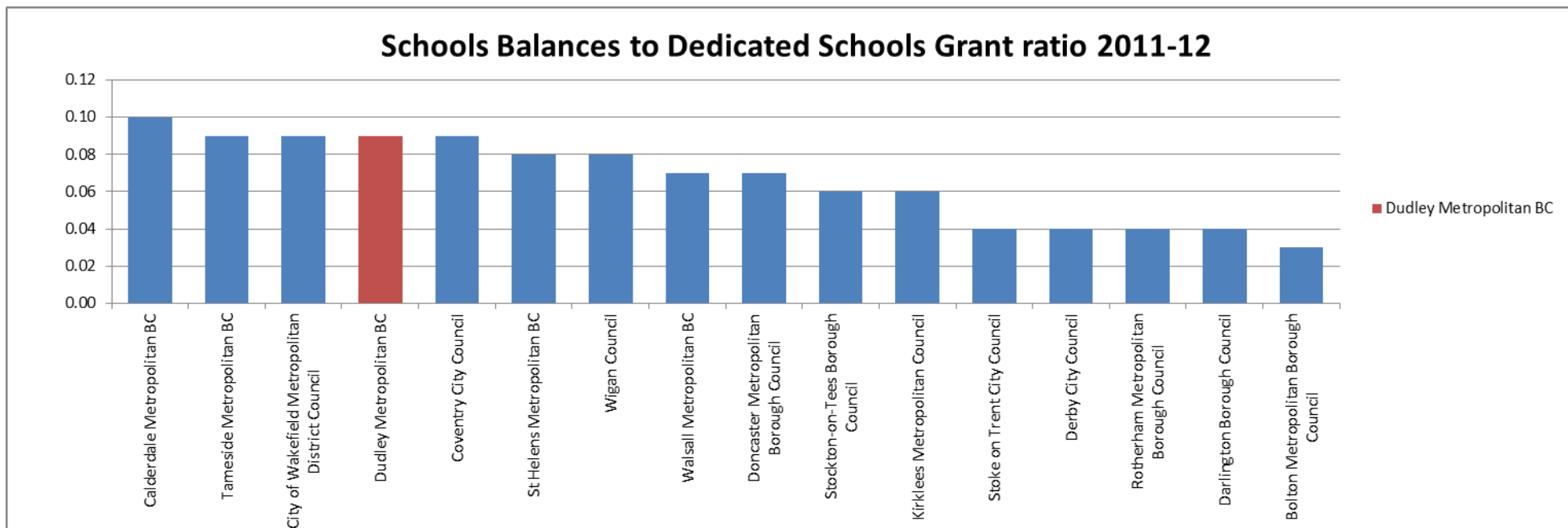
Schools balances to DSG allocation - Benchmarked

Definition

This shows the share of schools balances in relation to the total DSG allocation received for the year. For example a ratio of 0.02 means that 2 per cent of the total DSG allocation remained unspent at the end of the year.

Findings

Dudley's school balances are amongst the highest for comparable authorities. The level of schools reserves have been increasing significantly. In 2010/11 they totalled £14.7m and in 2011/12 it was £20.1m, though they have fallen back slightly to £19.9m at 31 March 2013. Dudley's schools balances are higher than comparable authorities because they 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 as at 31 March 2013. The Council expects these equal pay claims to be settled within the next 12 months and so expects the school balances figure to reduce significantly at 31/3/14. If these equal pay reserves are ignored then Dudley's school balances fall by around 30% and are then around the average for comparable authorities



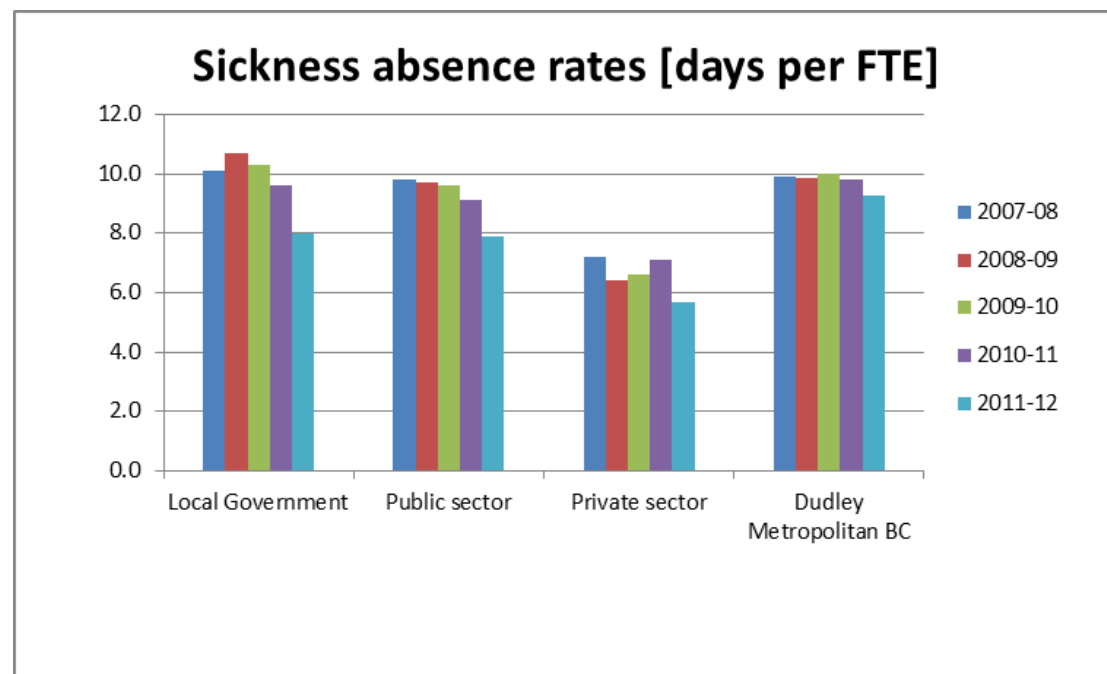
Key Indicators of Financial Performance

Sickness Absence Levels

Background

The average sickness absence level for local government is 8 days per FTE, whilst the public and private sector averages are 7.9 and 5.7 days respectively.

Costs that accrue from sickness absence relate to the hiring of agency staff to cover staff gaps, or from holding a larger workforce complement than is desirable. Absence also damages service levels either through staff shortage or lack of continuity. Reducing absenteeism saves money, improves productivity and can have a positive customer benefit. Absence management will be a particular challenge for all authorities, given the context of significant pressures on staff to deliver "more for less".



Findings

From 2007/08 to 2009/10 the Council's sickness levels were above the average for the public and private sectors but below the local government average. From 2010/11 the Council's sickness levels have also risen above the average for local government. The Council's absence rates were improving, albeit not as quickly as the overall local government and public sectors. However, in 2012/13 sickness levels per FTE have risen to 10.63 days. This is the highest level since 2006/07 and is a reverse against the decreasing trend.

Source: CIPD Annual Survey Reports on Absence Management



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Grant Thornton UK LLP
Colmore Plaza
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B4 6AT

19th September 2013

Dear Sirs,

Dudley Metropolitan Borough Council
Financial Statements for the year ended 31 March 2013

This representation letter is provided in connection with the audit of the financial statements of Dudley Metropolitan Borough Council for the year ended 31 March 2013 for the purpose of expressing an opinion as to whether the financial statements give a true and fair view in accordance with International Financial Reporting.

We confirm that to the best of our knowledge and belief having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves:

Financial Statements

- i We have fulfilled our responsibilities for the preparation of the financial statements in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in Great Britain ("the Code") as adapted for International Financial Reporting Standards; in particular the financial statements give a true and fair view in accordance therewith.
- ii We have complied with the requirements of all statutory directions and these matters have been appropriately reflected and disclosed in the financial statements.
- iii We acknowledge our responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud.
- iv Significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable.
- v We are satisfied that the material judgements used by us in the preparation of the financial statements are soundly based, in accordance with the Code, and adequately disclosed in the financial statements. There are no further material judgements that need to be disclosed.

- vi We confirm that we are satisfied that the actuarial assumptions underlying the valuation of pension scheme liabilities for IAS19 disclosures are consistent with our knowledge. We confirm that all settlements and curtailments have been identified and properly accounted for. We also confirm that all significant retirement benefits have been identified and properly accounted for (including any arrangements that are statutory, contractual or implicit in the employer's actions, that arise in the UK or overseas, that are funded or unfunded).
- vii Related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the requirements of International Financial Reporting Standards and the code.
- viii All events subsequent to the date of the financial statements and for which International Financial Reporting Standards and the code requires adjustment or disclosure have been adjusted or disclosed.
- ix We have not adjusted the misstatements brought to our attention in the Audit Findings report, which are considered to be immaterial to the results of the Council and its financial position at the year-end. The financial statements are free of material misstatements, including omissions.
- x We have no plans or intentions that may materially alter the carrying value or classification of assets and liabilities reflected in the financial statements.
- xi We believe that the Council's financial statements should be prepared on a going concern basis, and that no further disclosures relating to the Council's ability to continue as a going concern need to be made in the financial statements
- xii We are satisfied that the assumptions made by us in estimating the unequal pay provision are soundly based, in accordance with the Code, and adequately disclosed in the financial statements.

Information Provided

- xiii We have provided you with:
 - a. access to all information of which we are aware that is relevant to the preparation of the financial statements such as records, documentation and other matters;
 - b. additional information that you have requested from us for the purpose of your audit; and
 - c. unrestricted access to persons within the Council from whom you determined it necessary to obtain audit evidence.

- xiv We have communicated to you all deficiencies in internal control of which management is aware.
- xv All transactions have been recorded in the accounting records and are reflected in the financial statements.
- xvi We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.
- xvii We have disclosed to you all information in relation to fraud or suspected fraud that we are aware of and that affects the Council and involves:
 - a. management;
 - b. employees who have significant roles in internal control; or
 - c. others where the fraud could have a material effect on the financial statements.
- xviii We have disclosed to you all information in relation to allegations of fraud, or suspected fraud, affecting the Council's financial statements communicated by employees, former employees, regulators or others.
- xix We have disclosed to you all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing financial statements.
- xx We have disclosed to you the entirety of the Council's related parties and all the related party relationships and transactions of which we are aware.

Annual Governance Statement

- xxi We are satisfied that the Annual Governance Statement (AGS) fairly reflects the Council's risk assurance and governance framework and we confirm that we are not aware of any significant risks that are not disclosed within the AGS

Directorate of Corporate Resources

Director of Corporate Resources, The Council House, Priory Road, Dudley, West Midlands. DY1 1HF
Tel: (01384) 815300 Fax: (01384) 815379
Email: Philip.tart@dudley.gov.uk
www.dudley.gov.uk



Approval

The approval of this letter of representation was minuted by the Council's Audit and Standards Committee at its meeting on 19 September 2013.

Signed on behalf of Dudley Metropolitan Borough Council

.....

Mr Iain Newman
Treasurer
Dudley Metropolitan Borough Council

.....

Councillor Jackie Cowell
Chair of the Audit and Standards Committee
Dudley Metropolitan Borough Council

Date 19 September 2013

Audit and Standards Committee – 19th September 2013

Report of the Director of Corporate Resources

Code of Conduct for Employees

Purpose of Report

1. To consider the Code of Conduct for Employees.

Background

2. On 20th September 2012, the Standards Committee approved the latest version of the Code of Conduct for Employees.
3. The Code of Conduct for Employees, was consulted on with Trade Unions, the HR Policy Group, Assistant Directors Group, Corporate Equality and Leadership Group, and Corporate Board and an updated Code of Conduct was implemented on 1st December 2012.
4. The Code of Conduct for Employees is reviewed on an annual basis. Due to the substantial update in 2012, the 2013 review has only resulted in minor amendments as follows:
 - Inclusion of the Seven Principles of Public Life, as included in the Member's Code of Conduct.
 - Clarification in the Criminal Charges and Convictions Section to confirm that Employees are required to tell the authority if they are found by the Council's Benefit Fraud Team to have committed Benefit Fraud.
 - Updates to some of the links to other Policies and Procedures referred to in the Code of Conduct.
 - Clarification that employees must not use Council Contracts for personal use.
5. It is important that employees are aware of the contents of the Code and of the implications of not following it, as it may be used for disciplinary purposes. HR will therefore communicate the new Code of Conduct for Employees to Directorate Management Teams in November for an implementation date of 1st December 2013. The Code will be communicated to staff through:-
 - a. Team Meetings
 - b. Message of the Day
 - c. Yourself message
 - d. New principal statements being issued

- e. Use of established communication channels set up with employees who do not have access to ICT
- 6. All previously agreed amendments to the Code have been implemented and incorporated in the Constitution as will the proposed changes set out in this report.
- 7. The Localism Act 2011 does not affect the Council's Officer Code of Conduct. Subject to the recommended amendments in this report, the existing Code for Employees will therefore remain operational until such time as any national code or other amendments are introduced.

Finance

- 8. There are no financial implications arising from this report.

Law

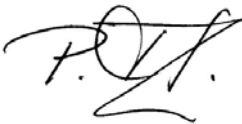
- 9. Section 111 of the Local Government Act 1972 enables the Council to do anything that is calculated to facilitate or is conducive or incidental to the discharge of its various statutory functions.

Equality Impact

- 10. Section 6 of the Code makes specific reference to Equality issues and there are no particular issues arising from this report with regard to children and young persons.

Recommendation

- 11. That the Committee considers the proposed amendments to the Code of Conduct for Employees and recommends that the Council adopts the revised Code as set out in Appendix 1.



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Philip Tart
Director of Corporate Resources

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List of Background Papers

The Council's Constitution

CODE OF CONDUCT FOR EMPLOYEES

COUNCIL POLICY

This policy applies to all employees and workers of the council in its entirety apart from those employed by School Governing Bodies.

**Directorate of Corporate Resources
HR & Organisational Development Division
December 2013**

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1.0 Introduction

The public is entitled to expect the highest standards of conduct from all employees of Dudley Council. It is therefore important that you understand your roles and responsibilities whilst at work. It is also important, where necessary for you to understand how your behaviour and activities outside work may impact upon your ability to do your work during working hours.

This Code of Conduct is based on the Council's Standing Orders and Financial Regulations, the provisions of the general law as well as your conditions of service.

As the Code applies to all employees, please take time to read it fully and ensure that your conduct is at all times consistent with its requirements. This document forms part of your contract of employment and you are required to comply with its contents. School staff employed by Governors will be subject to separate rules. Democratic local government can not be taken for granted – all of us involved in the service have to make a special effort to retain public confidence. Compliance with the Code will help maintain the reputation of local government in Dudley.

I am sure I can rely on you all to play your part in up-holding the highest standards in public life.

John Polychronakis
Chief Executive

2.0 Standards

The principles of public life apply to anyone who works as a public office-holder. This includes all those who are elected or appointed to public office, nationally and locally, and all people appointed to work in the civil service, local government, the police, courts and probation services, NDPBs, and in the health, education, social and care services. All public office-holders are both servants of the public and stewards of public resources.

The principles of public life are as follows:

- Selflessness – Holders of public office should act solely in terms of the public interest.
- Integrity – Holders of public office must avoid placing themselves under any obligation to people or organisations that might try inappropriately to influence them in their work. They should not act or take decisions in order to gain financial or other material benefits for themselves, their family, or their friends. They must declare and resolve any interests and relationships.
- Objectivity – Holders of public office must act and take decisions impartially, fairly and on merit, using the best evidence and without discrimination or bias.
- Accountability – Holders of public office are accountable to the public for their decisions and actions and must submit themselves to the scrutiny necessary to ensure this.
- Openness – Holders of public office should act and take decisions in an open and transparent manner. Information should not be withheld from the public unless there are clear and lawful reasons for doing so.
- Honesty – Holders of public office should be truthful.
- Leadership – Holders of public office should exhibit these principles in their own behaviour. They should actively promote and robustly support the principles and be willing to challenge poor behaviour wherever it occurs.

Dudley Council's employees are expected to give the highest possible standard of service to the public and where it is part of their duties, to provide appropriate advice to Elected Members and fellow employees with impartiality. Employees will be expected, through agreed procedures and without fear of recrimination, to bring to the attention of the appropriate level of management any deficiency in the provision of service. Employees must report to the appropriate manager any impropriety or breach of procedure.

In summary employees are required to:

- Attend work in a condition where they are able to carry out their duties safely and effectively
- Act honestly
- Act with dignity and treat all others with dignity and respect
- Be committed to delivering quality services to service users
- Understand and act in accordance with the Council's vision and values as set out in the Council Plan, policy and procedures
- Work in accordance with the terms and conditions of their principal statement of employment and job description
- Understand and apply the Council's rules, policies and procedures applicable to them and their role

2.1 Standards of Behaviour

2.1.1 Personal conduct and behaviour in the workplace

Employees are expected to treat members of the public, Elected Members and colleagues, with dignity and respect, this is expected in the manner in which they communicate whether verbal or written.

More specifically employees must:

- Ensure that their conduct is not discriminatory, bullying or harassing to others
- Ensure that their behaviour and performance meets workplace standards at any time that they are at work, representing the Council or are likely to be identified or associated with their role as a public official (whether or not they are working at the time)
- Make sure that they are familiar with and follow the Council's equality policies and aim to advance equality of opportunity and foster good relations.

2.1.2 Misconduct

The Code of Conduct acts as a guide for employees on the standards expected of them when acting in good faith. This document forms part of their contract of employment and employees are required to comply with its contents. Failure to comply with the Code of Conduct may be considered to be gross misconduct and may lead to disciplinary action under the Employee Improvement and Disciplinary Procedure, including dismissal.

http://insidedudley/corporate/info&res/policiesguidanc_/personnelpolici_/employeeimprove-1/default.htm

2.1.3 Alcohol and Drugs

Employees must not consume alcohol, use illicit drugs or illegal substances while at work or prior to attending work if likely to impact on their ability to do their job. When an employee is on call or standby they must ensure that any alcohol consumption is within the legal limit for driving in the event that they are recalled to work. Any alcohol consumed outside of work must not affect the employee's ability to do their work.

If an employee is taking legally prescribed or over-the-counter medication, they must ensure that the use of them does not affect their work performance and the safety of themselves and others. Where an employee is prescribed medication that affects their work performance their line manager should liaise with HR to consult with Occupational Health. Further guidance is available in the Substance Misuse Policy and Procedure on the following link:

http://insidedudley/corporate/info&res/policiesguidanc_/personnelpolici_/substancemisuse/default.htm.

2.1.4 Health, Safety and Well-being

All employees must comply with the Health and Safety Work Act 1974 and associated regulations, Guidance or Approved Codes of Practice. Employees are required to comply with the Corporate Health and Safety Policy and take reasonable care for the health and safety of themselves and of other persons who may be affected by their acts

or omissions. For specific details of the responsibilities for employees and managers reference to the Corporate Health & Safety Policy must be made:
<http://insidedudley/corporate/info&res/healthsafety/safetymanagemen/safetypolicy/default.htm>.

3.0 Protecting the Council and its employees

3.1 Other Employment and conduct outside working time

Employees paid at grade 8 to 15 have conditions of service which require them to obtain written consent to take any outside secondary employment. This will be detailed in the employee's principal statement of employment. All employees should be clear about contractual obligations and must not take outside employment which conflicts with their position or with the Council's interests. Any additional employment must be in accordance with any legislation that may apply such as the Working Time Regulations (1998) (as amended). They must also ensure that Council time and/or resources are not utilised in connection with any approved private employment.

Generally, what an employee does outside work is of their own concern (unless professional standards state otherwise), but they must avoid doing anything that might adversely affect the reputation of the Council or impact on the Council's or their profession's confidence in their ability to do their job. This includes use of social media and the Internet. If in doubt, employees should seek the advice of the Council's Monitoring Officer, Head of Communications and Public Affairs.

Employees should be aware of the "Guide for Councillors and Officers on Organisations Outside the Council".

3.2 Criminal charges and convictions

Unless covered by the Rehabilitation of Offenders Act, all applicants are required to disclose any live criminal convictions or charges. Certain positions are exempt from the Rehabilitation of Offenders Act and require DBS (Disclosure and Barring Service) clearance before the applicant is offered a post. Where a post is subject to a DBS clearance, employees in the post will be required to participate in further DBS checks in line with regulatory requirements and/or the Council's Policy. Please refer to the DBS Policy for further guidance.

If during the course of employment with the Council an employee is charged, convicted of a crime or receives a caution or other form of reprimand in relation to a criminal offence, even if the offence does not relate to their employment, they must report the charge, conviction or caution or other form of reprimand within 5 working days to their line manager or the HR team. If they are on leave when they receive the charge, conviction or caution or other form of reprimand they must report it within 5 working days on their return from leave.

If an employee is found by the Council's benefit fraud team to have claimed benefits to which they were not entitled, and this results in action taken, either through prosecution, or by means of a local authority caution and/or administrative penalty issued by the benefits team as an alternative to prosecution, the employee is required to bring this to the attention of their line manager within 5 working days.

Failure to notify the Council within the specified timescale may lead to disciplinary action under the Employee Improvement and Disciplinary Policy and Procedure.

Where an employee is charged, convicted of a crime, receives a caution or other form of reprimand the line manager will consult with the HR team and the Assistant Director for HR and Organisational Development, who will consider the impact upon the employee's position and if there has been a breach of Council Policies and Procedures, and whether disciplinary action under the Employee Improvement and Disciplinary Procedure should be invoked, including dismissal.

Dependent upon the employee's position, consideration must be given to whether the employee poses a risk to children, or young people or to adults who access any health and social care services and a referral through safeguarding procedures may be necessary.

3.3 Use of Council property, facilities and equipment

Council facilities are to be used for Council business and for no other purpose unless the employee has their Assistant Director's approval beforehand.

Reasonable use of telephones and photocopiers is allowed in exceptional circumstances provided the employee has been authorised to do so by their manager. However, no paid or non council work may be carried out in the Council's time, or on the Council's premises or with the use of the Council's equipment.

Employees may use the internet for incidental and occasional personal use, as a recognition that familiarity with this technology is imperative to the Modernisation of Local Government. Consequently employees will be able to use the Internet during their own time for personal use i.e. during lunch breaks. Further guidance can be found in the Internet Acceptable Usage Policy and Use of Emails Policy on the following links:

<http://insidedudley/corporate/infogov/library/informationsecu /documentsandpol /internet accepta/default.htm?Internet>

<http://insidedudley/corporate/infogov/library/informationsecu /documentsandpol /emailpolicyv11/default.htm>

Misuse of the internet may lead to disciplinary action taking place under the Employee Improvement and Disciplinary Policy and Procedure.

3.4 Use of Social Networking Sites

For most employees the use of social networking sites is prohibited in the workplace. However, such restrictions do not apply when employees are using their own equipment in their own time. Employees must not use council equipment to access social media for personal use, unless equipment is specifically provided for this purpose.

Comments and messages posted on the internet are available to millions of users worldwide to view and employees of Dudley Council should be aware of this when posting information or making comments that might relate directly or indirectly about their work, customers of the council and work colleagues. Employees who do not directly identify themselves as a Dudley Council employee when using social media for

personal purposes at home, should be aware that the content they post on social media websites could still be construed as relevant to their employment at Dudley Council. For example employees **must not** write or report on conversations, meetings or matters that are meant to be private or internal to Dudley Council. The Council has a duty of care towards its employees and would therefore treat any comments or messages posted on websites which cause offence seriously. This includes messages and comments posted in the employees own time that relate to fellow colleagues and the workplace, even when Dudley Council may not have been specifically referred to but may be linked to the comments.

Care should be taken to ensure that there is nothing posted that could bring the Council into disrepute or would be potentially dangerous. Posting of defamatory or potentially damaging comments about the Council, its employees or clients would be considered gross misconduct. Posts of either nature on to the internet or social networking sites may lead to disciplinary action for misconduct/gross misconduct under the Employee Improvement and Disciplinary Procedure.

Employees must not do anything including inappropriate contact/communication with children, young people or vulnerable adults that puts them in a potentially compromising situation in relation to their employment e.g. accepting friendships with any children, young people who access Dudley MBC services, or to adults who access any health or social care services provided by Dudley MBC, on social networking sites. This is potentially a breach of confidence and trust as well as being unprofessional. Any inappropriate relationships within social networking sites that are brought to the Council's attention will be fully investigated and may lead to disciplinary action for misconduct/gross misconduct under the Employee Improvement and Disciplinary Procedure. A referral through safeguarding procedures may also be necessary.

Further information can be found in the Social Media Policy on the following link:
<http://idudley/idudley/policies-and-guidance/social-media-policy/>

3.5 Use of Authority

Employees must not use their official position, status, powers or authority to seek to improperly influence a decision or action.

Employees are expected to provide honest, impartial and comprehensive advice regardless of their personal feelings on a matter. If an employee's personal views conflict with the performance of their official duties or if they believe they cannot act impartially, they should contact their line manager and attempt to resolve the conflict.

In their role of Council employee or personal capacity, employees must not allow their personal interests to conflict with the Council's requirements or use their position to improperly confer an advantage or disadvantage on any person.

When exercising a discretionary power, employees should ensure that the power is being used properly, impartially, equitably and is consistent with relevant legislation, delegations, procedures or guidelines. In exercising any power associated with their employment, employees must ensure that they are either statutorily authorised to do so or that they have been delegated the power by a person with the necessary authority to issue the delegation.

3.6 Use of Financial Resources

Employees must ensure that they use public funds entrusted to them in a responsible and lawful manner. They must strive to ensure value for money to the local community and to avoid legal challenge to the Council. Employees with budgetary/purchasing control must ensure that they understand and comply with the Council's Standing Orders and Financial Regulations. Employees must ensure that any expenditure is within the limits that they are personally authorised to incur. Failure to comply with the Council's Standing Orders and Financial Regulations may lead to disciplinary action under the Employee Improvement and Disciplinary Procedure. Standing Orders can be found on the following link:

http://insidedudley/finance/purchasing/info&res/standingorders_/standingordersj-1/default.htm

And Financial Regulations can be found on the following link:

http://insidedudley/finance/audit/documents/financialregula_/financialregula-3/default.htm.

3.7 Contractors

Employees are reminded of the requirements of paragraph 5.1. of Contract Standing Orders which states that:-

“No..... officer nor any company, partnership or firm in which any officer has an interest nor any employer, nominee, spouse or other close relative of an officer, shall undertake the execution of works on behalf of the Council or shall accept an order for the supply or disposal of goods or materials from the Council or shall provide services for the Council unless such works or order for goods or materials or services have been offered or secured or provided by competitive Tender or Quotation”

“Other close relative” includes a person cohabiting on a similar basis to a spouse, a civil partner, a parent, grandparent, uncle, aunt, son, daughter, grandson, grand-daughter, brother, sister, niece or nephew of the officer or their spouse or cohabitee whether the

relationship is through blood, marriage or adoption.

All such relationships of a business or private nature with external contractors, or potential contractors, must be declared to Legal and Democratic Services (using a pro forma provided for this purpose) who will notify the relevant Assistant Director (or in the case of a school, the Headteacher) and any other appropriate employee of this declaration. The requirement to make a declaration under this paragraph also applies to employees who engage or supervise contractors or have any other official relationship with contractors and have previously had or currently have a relationship in a private or domestic capacity with a contractor.

Orders and contracts must be awarded on merit by fair competition and no special favour may be shown to any business run by, for example, friends, partners or relatives, in the tendering process. No part of the local community may be discriminated against.

Council contracts are for official purposes only and employees must not use these for personal use.

3.8 Separation of Roles During Tendering

Employees involved in the tendering process and dealing with contractors need to be clear of the separation of client and contractor roles within the Council. Senior employees who have both a client and contractor responsibility must be aware of the need for accountability and openness.

Employees in contractor or client units must exercise fairness and impartiality when dealing with all customers, suppliers, other contractors and sub-contractors.

Employees who are privy to confidential information on tenders or costs for either internal or external contractors must not disclose that information to any unauthorised party or organisation.

Employees contemplating a management buyout must, as soon as they have formed a definite intent, inform the appropriate manager and withdraw from the contract awarding processes.

Employees must ensure that no special favour is shown to current or former employees or their partners, close relatives or associates in awarding contracts to businesses run by them or employing them in a senior or relevant managerial capacity.

3.9 Conflict of Interest

Where an employee faces a conflict between their private interests and public duties they must resolve the conflict in favour of their public duties. Where a conflict of interest is likely to occur due to their personal or immediate family private interests the employee must inform their manager, who will ensure that the Council is not compromised. This is particularly pertinent where the employee is involved in making decisions affecting contracting, tendering or regulatory functions.

Examples of possible conflicts of interests are as follows:

- Employees with access to computer databases of customers updating their own

- Employees being contracted to provide services to the Council outside their paid employment
- In a purchasing capacity liaising with a supplier who employs a close relative
- Generating work which involves travel to provide an opportunity to visit friends
- A supervisor who is in a position to approve higher duties or provide other benefits to a subordinate where a close personal relationship exists
- Involvement with an interview panel when a relationship exists with one of the applicants.

3.10 Personal Interests

Employees must declare to Law and Governance (using a pro forma provided for this purpose) any financial or non-financial interests, whether direct or indirect, which could conflict with the interests of the Council. This would include any cases where the employee is a company director, company secretary or voluntary organisation trustee. Law and Governance will notify the relevant Assistant Director (or in the case of a school, the Headteacher) and any other appropriate employee of this declaration.

3.11 Appointment and Other Employment Matters

Employees involved in appointments must ensure that these are made on the basis of merit. It would be unlawful for an employee to make an appointment which was based on anything other than the ability of the candidate to undertake the duties of the post. In order to avoid any possible accusation of bias, employees must not be involved in an appointment where they are related to an applicant, or have a close personal relationship outside work with him or her.

Similarly, employees must not be involved in decisions relating to recruitment, discipline, promotion or pay adjustments for any other employee who is a relative, partner, etc.

3.12 Gifts and Hospitality

Employees must be aware that it is a serious criminal offence for them to corruptly receive or give any gift, loan, fee, reward or advantage for doing, or not doing, anything or showing favour, or disfavour, to any person in their official capacity as a Council employee. If an allegation is made it is for the employee to demonstrate that any such rewards have not been corruptly obtained.

Employees must only accept offers of hospitality if there is a genuine need to impart information or represent the Council in the community. Offers to attend purely social or sporting functions must be accepted only when these are part of the life of the community or where the Council must be seen to be represented. They must be properly authorised and recorded in the Gifts and Hospitality Register maintained for this purpose by each Directorate.

When the hospitality has to be declined those making the offer need to be courteously but firmly informed of the procedures and standards operating within the Council. Although declined a record of the offer must be recorded in the Gifts and Hospitality Register.

Employees may only accept insignificant items of token value [i.e. less than £10]. Other

items must be handed to the mayors office for a prize in any raffle or tombola for charity if they are none perishable, or flowers must be used to display in public areas. In any instance these must all be recorded in the Gifts and Hospitality Register.

Employees must not accept significant personal gifts from contractors and outside suppliers and they should notify their Director or Assistant Director of any such offers.

Any refusals of hospitality, sponsorship, gifts or bequests must also be recorded in the Gifts and Hospitality Register to ensure there is an accurate, detailed and auditable trail of all offers whether accepted or refused.

When receiving authorised hospitality employees need to be particularly sensitive as to its timings in relation to decisions which the Council may be taking affecting those providing the hospitality.

Acceptance by employees of hospitality through attendance at relevant conferences and courses is acceptable where it is clear the hospitality is corporate rather than personal, where the Director or Assistant Director gives consent in advance and where the Council is satisfied that any purchasing decisions are not compromised. Where visits to inspect equipment, etc. are required, employees must ensure that the Council meets the cost of such visits and any meals to avoid jeopardising the integrity of subsequent purchasing decisions. All such matters should be recorded in the Gifts & Hospitality Register.

Employees who are bequeathed gifts or money in the will of a service user that they know from their working capacity must not accept the gifts or money unless they are insignificant items of token value (i.e. less than £10). When the gifts/money has to be declined the executor of the will needs to be courteously but firmly informed of the procedures and standards operating within the Council.

3.13 Sponsorship – Giving and Receiving

Where an outside organisation wishes to sponsor or is seeking to sponsor a local government activity, whether by invitation, tender, negotiation or voluntarily, the basic conventions concerning acceptance of gifts or hospitality apply. Particular care must be taken when dealing with contractors or potential contractors.

Where the Council wishes to sponsor an event or service neither an employee nor any partner, spouse or relative must benefit from such sponsorship in a direct way without there being full disclosure to an appropriate manager of any such interest. Similarly, where the Council through sponsorship, grant aid, financial or other means, gives support in the community, employees must ensure that impartial advice is given and that there is no conflict of interest involved.

3.14 Political Neutrality

Employees serve the Council as a whole. It follows they must serve all Elected Members and not just those of the controlling group, and must ensure that the individual rights of all Elected Members are respected.

Employees, whether or not politically restricted, must follow every lawful expressed policy of the authority and must not allow their personal or political opinions to interfere with their work. They must be seen to be able, to remain unbiased in the performance of their

duties. Failure to follow this may lead to disciplinary action under the Employee Improvement and Disciplinary Procedure.

For further information on politically restricted posts and restrictions applied to these posts please refer to the policy on the attached link http://insidedudley/corporate/info&res/policiesguidanc_/personnelpolici_/politicallyrest-1/default.htm.

3.15 Professional and Trade Union Activity

Members of professions are expected to uphold the standards of performance and conduct set by the relevant professional association and this Code of Conduct. Employees are expected to raise any concerns they may have regarding a conflict of interest between their role at the Council and the standards of their profession.

When speaking in the capacity of workplace or trade union representative or profession association, it must be made clear that the opinion is made on behalf of the union or association represented and not the Council.

3.16 Disclosure of Information

It is generally accepted that open government is best. The law requires that certain types of information must be available to members, auditors, government departments, service users and the public. The Council itself may decide to be open about other types of information. Employees must be aware of which information their Council is and is not open about, and act accordingly.

In the course of their employment employees may obtain information that has not been made public and is still confidential. Employees must never disclose confidential information given in confidence by anyone, or information which they acquire which they believe may be confidential in nature, without the consent of a person authorised to give it unless they are required to do so by law.

Employees must not use any information obtained through their work for the Council for personal gain or benefit, nor may they pass it on to others who might use it in such a way. Any particular information received by an employee from a councillor which is personal to that councillor and does not belong to the authority must not be divulged by the employee without the prior approval of that councillor, except where such disclosure is required or sanctioned by the law.

Employees have legal obligations towards privacy and security whilst processing personal information relating to any living individual. Such information must be processed in accordance with the Council's Data Protection Code of Practice and Freedom Of Information Act 2000. Breach of confidentiality may be considered a disciplinary offence under the Employee Improvement and Disciplinary Policy and Procedure.

In the event that, during the course of their employment with the Council an employee has been employed within a traded services area and/or during their employment acquired access to confidential information relating to the trade then the following principles will apply:

- The employee shall not for 6 months after the end of their employment, solicit or endeavour to entice away from the Council the custom of a client/customer with whom they have had contact with during the period of their employment, with a view to providing goods or services to that client/customer.
- The employee shall not for 6 months after the end of their employment offer to employ or engage or otherwise endeavour to entice away from the Council and person employed or engaged by the Council who was involved in any capacity within the traded services area and with whom they have dealt with.

3.17 Intellectual Property

Under copyright law the Council owns any material made by the Council or under its direction. As an employee or contractor, any material produced in the course of work belongs to the Council unless otherwise explicitly provided for in the contract of employment. Therefore, to use any work owned by the Council the employee must seek permission from their Assistant Director.

3.18 Public communication

All media requests for information and enquiries that relate to policy and procedures and operational activities must be responded to by the Communications and Public Affairs Team.

When making a public comment in an official capacity employees must:

- Ensure that it is part of their official role
- Ensure that the facts are not misrepresented
- Ensure that the Data Protection Act is not contravened
- Respect the confidentiality of information that has not been approved for release either by Cabinet or through official Council channels.

As private citizens employees have the same rights as members of the public to openly discuss or comment on community and social issues. Employees must make it clear that when commenting in this capacity that it is their personal opinion and not that of the Council and they are not abusing their position of knowledge gained from their role as a council officer.

3.19 Internal Audit

Where an internal audit is conducted on a function all employees are required to contribute to this work. Where an employee has been identified in an agreed action plan to carry out some work, it is their responsibility to ensure that it is undertaken within the agreed timescale.

4.0 Ways of Working

4.1 Working with Elected Members

Employees are responsible to the Council through its senior managers. For some, their role is to give advice to Elected Members and senior managers and all are there to carry out the Council's work. Mutual respect between employees and Elected Members is

essential to good local government.

Employees dealing with Elected Members should be aware of the “Protocol for Relationships between Members and Officers of Dudley MBC” as set out in the Constitution.

4.2 Working with Local Community and Service Users

Employees must always remember their responsibilities to the community they serve and ensure courteous, efficient and impartial service delivery to all groups and individuals within that community as defined by the policies of the Council.

4.3 Agile Working

Through modernisation of the Council's workforce and working arrangements, the relationship between the Council and its employees relies ever more heavily upon trust and the management of outcomes rather than presence at an office base, where applicable. Any abuse of the policies, procedures, guidance and or flexibility afforded will be fully investigated and may lead to disciplinary action being taken. Please refer to the Agile Working Policy for further information.

5.0 Whistleblowing

Since 1999 the Council has had a policy on confidential reporting, i.e., whistleblowing. Under this policy employees who have serious concerns about any aspect of the Council's work are encouraged to come forward and voice those concerns. A copy of the policy can be obtained from your directorate or the Director of Corporate Resources or on the attached link.

http://insidedudley/corporate/info&res/policiesguidanc_/otherpoliciespr_/confidentialrep-1/default.htm

The policy explains the procedure for raising concerns internally or, if preferred, employees may seek free independent and confidential help from the charity, Public Concern at Work.

6.0 Equality Issues

All Dudley Council's employees must ensure that our policies and practices relating to equality issues are complied with in addition to the requirements of the law. All members of the local community, customers and other employees have the right to be treated with fairness and equity.

7.0 Interpretation

If an employee is unsure about any aspect of the Code of Conduct they must raise this with their line manager immediately. Employees of the Council who disagree with the interpretation of this document (as it may affect them) have the right to raise the matter through the Council's Official Grievance Procedure.

8.0 Document Revision History

Revision Number	Date	Amendment	Document Manager	Document Author
00	November 2011	Creation and amendments of document	Philip Tart	Steve Griffiths
01	December 2012	Revision of document to include HR policies e.g social networking	Teresa Reilly	Sabeena Khanna
02	December 2013	Review of document	Teresa Reilly	Emma Wright

Audit and Standards Committee – 19th September 2013

Report of the Treasurer

Statement of Accounts 2012/13

Purpose of Report

1. To present the Statement of Accounts to the Audit and Standards Committee for consideration and approval and to inform the Audit and Standards Committee of the outcome of the audit of the accounts. The Statement of Accounts, and the audit of them, are the main formal and public report on the financial standing of the authority.

Background

2. The Accounts and Audit Regulations 2011 give the requirements for approving and publishing the Council's annual accounts as follows:
 - Unaudited accounts are to be certified by the Treasurer as the Responsible Financial Officer no later than 30 June; and
 - Audited accounts are to be re-certified by the Responsible Financial Officer and formally approved by Members, then published no later than 30 September.
3. The audited Statement of Accounts is circulated with the papers. There have been a number of changes from the unaudited accounts arising from the audit. These mainly comprise expansions of the disclosure notes, and one change to the main statements. These changes are referred to in the auditor's Annual Audit Report. None of these changes affect the general fund balance.
4. These accounts are prepared under International Financial Reporting Standards (IFRS) as adopted for local authorities by the Code of Practice on Local Authority Accounting published by the Chartered Institute of Public Finance and Accountancy (CIPFA).

General Fund outturn

5. I reported the General Fund outturn to Cabinet on 20th June 2013 as £231.068m. The Statement of Accounts presented to this Committee is consistent with this outturn position. A reconciliation of the outturn to the Statement of Accounts is included in the explanatory foreword to the Statement of Accounts.

Statement of Accounts

6. The layout of the Statement of Accounts is as last year, with the Movement in Reserves (MiRS), which sets out a summary of the changes to General Fund Balance, Housing Revenue Account (HRA) balance and other reserves over the year, presented as the first key statement.
7. The 2012/13 Code has not introduced significant changes to the accounts. Changes to the housing finance regime include the ending of housing subsidy, which was negative for Dudley. Also charges to the HRA relating to non-dwelling assets are now a charge against the HRA balance.
8. A summary of the key financial statements is detailed below:

Movement in Reserves Statement (MiRS)

9. This statement shows the movements on the Authority's reserves, analysed into 'usable reserves' (i.e. those that can be applied to fund expenditure or reduce local taxation) and 'unusable' reserves.
10. The Surplus or Deficit on Provision of Services shows the true economic cost of providing the authority's services, more details of which are shown in the Comprehensive Income and Expenditure Statement (CIES). Other Comprehensive Income and Expenditure shows unrealised valuation gains and losses on property, and on pension assets and liabilities which only affect the unusable reserves.
11. The accounting charges in the Surplus or Deficit above are different from the statutory amounts required to be charged to the General Fund Balance and the Housing Revenue Account for Council Tax setting and rent setting purposes. Adjustments between accounting basis and funding basis under regulations reverse out the accounting charges (such as actuarial pensions costs) and insert the statutory ones, such as actual payments for pension provision. From these accounts onwards, depreciation is to be a real charge to the Housing Revenue Account. It is no longer reversed out.
12. After transfers to and from earmarked reserves, the year end balance on the General Fund has increased by £7.196m from £12.204m to £19.400m. This is consistent with the outturn reported to Cabinet.

Comprehensive Income and Expenditure Statement (CIES)

13. This statement agrees to the change in value of the Balance Sheet. In order to be comparable across different authorities, it is based on the CIPFA Service Reporting Code of Practice (SeRCOP), rather than the Council's directorate structure.
14. The net effect of income and expenditure items results in a deficit on the provision of services of £62.857m. This is a technical deficit intended to represent the Council's revenue position as it would be if calculated according to IFRS. As such it differs from the movement on the General Fund shown in the MiRS and in the outturn report. This is adjusted by Other Comprehensive Income and Expenditure items (balance sheet adjustments) to arrive at a total

Comprehensive Income and Expenditure figure of £159.245m. This matches the fall in balance sheet net assets value from £285.068m to £125.823m.

Balance Sheet

15. The Balance Sheet shows that the value of total net assets has reduced by £159.245m between 31st March 2012 and 31st March 2013, largely as a result of a fall in the value of the housing stock, and an increase in the intermediate valuation of pension liabilities due to changing economic conditions.
16. The lower half of the Balance Sheet summarises the usable and unusable reserves held by the Authority. The General Fund balance has increased by £7.196m as discussed above. HRA, Schools and general fund earmarked reserves have all increased. The changes in unusable reserves mirror the main changes described above.

Audit of the Accounts

17. The audit of the accounts for 2012/13 is substantially complete and the audited accounts are expected to be published by 30th September in accordance with regulations.
18. The Code of Audit Practice requires the auditors to report the results of their audit work to the approving body before signing their audit opinion. This report will be presented at this meeting of the Audit and Standards Committee.

Finance

19. This report is entirely financial in content, but does not give rise to any direct costs.

Law

20. Legislation appertaining to Local Authority Audit and Accounts is contained in the Local Government Act 1972, part 2 of the Audit Commission Act, 1998, and regulations made thereunder.

Equality Impact

21. The proposals take into account the Council's Policy on Equality and Diversity.

Recommendation

22. It is recommended that:-

- The Committee consider the Statement of Accounts.
- The Committee approve the Statement of Accounts.
- The Chair of the Committee signs and dates the Statement of Accounts to give evidence of the approval above.



.....
Iain Newman
Treasurer

List of Background Papers

Working and supporting papers for the accounts.
Code of Practice on Local Authority Accounting in the UK 2012/13
Service Reporting Code of Practice.

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Audit and Standards Committee – 19th September 2013

Report of the Treasurer

Annual Governance Statement

Purpose of the Report

1. This report deals with the Annual Governance Statement [AGS] that is to accompany the accounts for the financial year 2012/2013.

Background

2. The requirement to produce an AGS is contained in the Accounts and Audit Regulations 2011, guidance from the Society of Local Authority Chief Executives (SOLACE) and the Chartered Institute of Public Finance and Accountancy (CIPFA) issued in 2007, and classification to what constitutes “proper practice” from the Department for Communities and Local Government.
3. The AGS encompasses all aspects of good governance.
4. CIPFA/SOLACE guidance on good governance identifies six core principles, focusing on the systems and processes for the direction and control of the organisation and its activities, through which it accounts to, engages with and leads the community, i.e. :-
 - a. Focusing on the purpose of the authority and on outcomes for the community and creating and implementing a vision for the local area
 - b. Members and officers working together to achieve a common purpose with clearly defined functions and roles
 - c. Promoting values for the authority and demonstrating the values of good governance through upholding high standards of conduct and behaviour
 - d. Taking informed and transparent decisions which are subject to effective scrutiny and managing risk
 - e. Developing the capacity and capability of members and officers to be effective
 - f. Engaging with local people and other stakeholders to ensure robust accountability
5. CIPFA/SOLACE provide further guidance in the form of a series of stated expectations around the role of officers and members in the organisation in supporting the governance framework. The Code of Corporate Governance, which sets out the Council’s overall Governance Framework, was approved by Audit & Standards Committee in April 2013.

6. CIPFA also provided technical guidance on the preparation of the AGS in relation to the corporate governance and the guidance was followed in preparing the AGS and principally involves completion of an extensive checklists.
7. In 2010 CIPFA provided guidance on the role of the Chief Finance Officer [CFO] in local government. They produced a series of principles which should define the core activities and behaviours for the CFO. An assessment against current practice indicates the majority of the principles are applied in Dudley. The principles include a requirement that the CFO is a key member of the Leadership Team and should report directly to the Chief Executive with status at least equivalent to other members. They also state that if this is not the case then the reasons should be explained publicly in the AGS. It is considered in Dudley that whilst the Treasurer does not directly report to the Chief Executive he does have a reporting line. He is a full member of Corporate Board and has equivalent status to other members in terms of decision making and access to all confidential papers/matters.
8. In December 2012 CIPFA/SOLACE issued an addendum review of their original guidance to ensure it remained 'fit for purpose', which they deemed it did. They stated that local government has been undergoing significant change and the environment in which it works is increasing in complexity. In addition to economic and financial challenge, the Localism Act and other key legislation has brought new roles and opportunities and greater flexibility for authorities.

They went on to say that local authorities are changing the way in which they operate and undertake service provision including services delivered directly, through partnerships and collaboration and through commissioning. The introduction of new structures and ways of working provide challenges for managing risk, ensuring transparency and demonstrating accountability. Good governance enables an authority to pursue its vision effectively as well as underpinning that vision with control and the management of risk. A one-size-fits-all approach to governance is inappropriate.

9. The new guidance from CIPFA/SOLACE reiterated that the AGS should provide a brief communication regarding the review of governance that has taken place and the role of the governance structures involved (such as the authority and the audit and other committees). It should be high level, strategic and written in an open and readable style. It should be focused on outcomes and value for money and relate to the authority's vision for the area.
10. CIPFA guidance on the AGS assurance gathering process is illustrated in Appendix A, and a map of the assurance process is provided at Appendix B. A Corporate Governance Group of senior officers has assisted the process of producing the proposed AGS set out at Appendix C. The Corporate Governance Group is tasked with :-
 - a. Collating and reviewing reports from external inspection agencies in terms of impact on control and governance
 - b. Collating and reviewing information on any significant governance weaknesses, including details of remedial action
 - c. Reviewing the Code of Corporate Governance.

11. The AGS summarises the governance framework within the Council and highlights any areas of concern. The governance framework includes matters such as :-
- | | |
|-------------------------------|--|
| Performance management | Business strategy and planning process |
| Annual budget | Budgetary control |
| People strategy | Information Governance |
| Code of Corporate Governance | Constitution |
| Risk management strategy | Confidential Reporting policy |
| Standing Orders | Financial Regulations |
| Anti-Fraud and Corruption | Ethical governance |
| Financial policies/procedures | Codes of conduct |
12. The aim of the various elements of the framework is to ensure that :-
- The Council's policies are put into practice
 - The organisation's values are met
 - Laws and regulations are complied with
 - Required processes are adhered to
 - Financial statements and other published information are accurate and reliable
 - Human, financial and other resources are managed efficiently and effectively
13. This review of the Council's overall governance arrangements has not identified any significant governance issues requiring attention.

Finance

14. This report has no direct financial implications.

Law

15. The Account and Audit Regulations 2011 require that the relevant body shall conduct a review at least once a year of the effectiveness of its system of internal control and the findings of the review shall be considered by a committee of the relevant body. Following that consideration, they shall approve an AGS, prepared in accordance with proper practices. CIPFA have provided guidance to the effect an AGS will incorporate the review of internal control.

Equality Impact

16. This report does not raise any equal opportunities issues.
17. Whilst children and young people are not directly consulted on, or involved with the development of the AGS, it will help ensure their interests are protected.

Recommendations

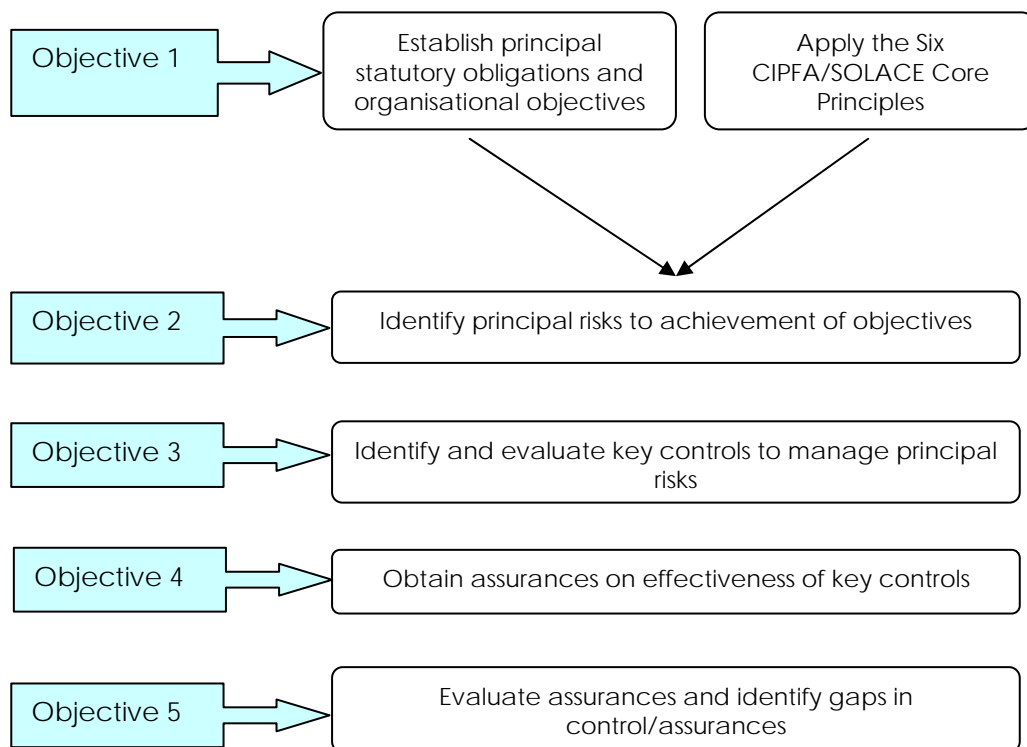
18. The Committee is recommended to approve the Annual Governance Statement as set out at Appendix C and refer it to the Leader of the Council and Chief Executive for signature.



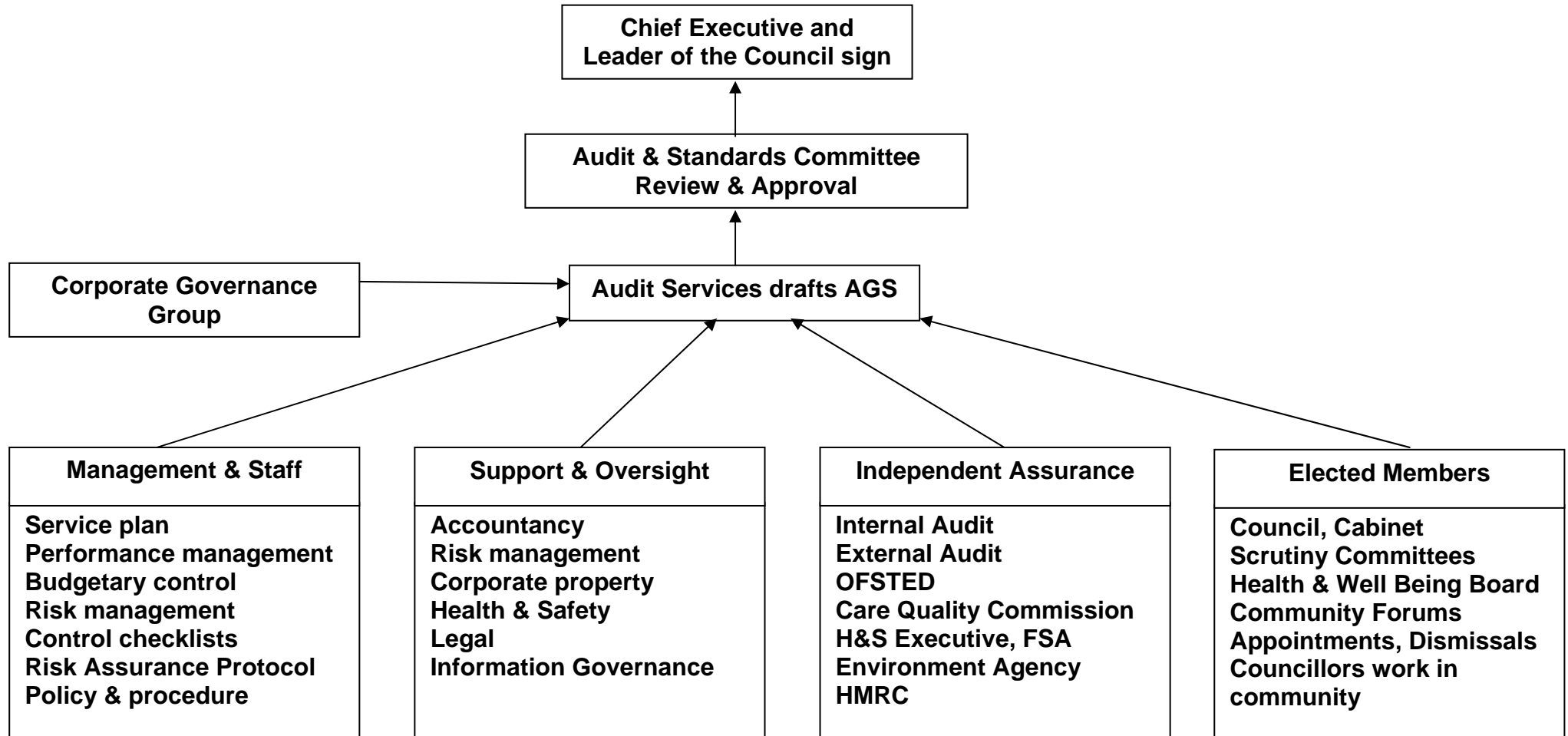
Iain Newman
Treasurer

Contact Officer : Les Bradshaw 4853, Les.Bradshaw@dudley.gov.uk

Appendix A : Review of Annual Governance Statement and the Assurance Gathering Process



Appendix B : Assurance Framework in support of the Annual Governance Statement



Appendix C : Draft Annual Governance Statement 2012/13

1. Scope of Responsibility

Dudley Metropolitan Borough Council is responsible for ensuring that its business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively. The Council also has a duty under the Local Government Act 1999 to make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness.

In discharging this overall responsibility, the Council is responsible for putting in place proper arrangements for the governance of its affairs, facilitating the effective exercise of its functions, and which includes arrangements for the management of risk.

The Audit & Standards Committee has now approved a revised Code of Corporate Governance, which is consistent with the principles of the CIPFA/SOLACE Framework Delivering Good Governance in Local Government, and also the Localism Act. A copy of the Code has been placed on the website following full Council approval.

This statement explains how the Council meets the requirements of the Accounts & Audit Regulations 2011, which requires the publication of an annual governance statement.

2. The Purpose of the Governance Framework

The governance framework comprises the systems and processes, and culture and values, by which the Council is directed and controlled and its activities through which it accounts to, engages with and leads the community. It enables the Council to monitor the achievements of its strategic objectives and to consider whether those objectives have led to the delivery of appropriate, cost-effective services.

Risk management and internal control are a significant part of the governance framework and are designed to manage risk to a reasonable level. They cannot eliminate all risk of failure to achieve policies, aims and objectives and can therefore only provide reasonable and not absolute assurance of effectiveness. The systems of risk management and internal control are based on an ongoing process designed to identify and prioritise the risks to the achievement of the Council's policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically.

A governance framework has been in place at the Council for the year ended 31 March 2013 and up to the date of approval of this statement.

3. The Governance Framework

The cornerstone of the governance framework is the Council's Constitution, which sets out how the Council operates, how decisions are made and the procedures that are followed to ensure that these are efficient, transparent and accountable to local people. Some of these processes are required by law, while others are a matter for the Council to determine. The Council's Constitution also contains detailed codes and protocols, such as Standing Orders (defining how contracts must be let) and Financial Regulations (setting out procedures and principles for proper financial management).

The Constitution defines and documents the roles and responsibilities of the Cabinet, other Member Committees and senior officer functions, with clear delegation arrangements. The key senior officers identified in the Constitution include statutory positions :-

- a. Head of the Paid Service (Chief Executive) must ensure that the Council is properly organised and staffed
- b. Monitoring Officer (Director of Corporate Resources) must ensure the lawfulness and fairness of decision-making
- c. Chief Finance Officer (Treasurer) must ensure the lawfulness and financial prudence of decision-making. The Treasurer is also responsible for the proper administration of the Council's financial affairs.

In 2010 CIPFA provided guidance on the role of the Chief Finance Officer [CFO] in local government. They produced a series of principles which, should define the core activities and behaviours for the CFO. An assessment against current practice indicates the majority of the principles are applied in Dudley. The principles include a requirement that the CFO is a key member of the Leadership Team and should report directly to the Chief Executive with status at least equivalent to other members. They also state that if this is not the case then the reasons should be explained publicly in the AGS. It is considered in Dudley that whilst the Treasurer does not directly report to the Chief Executive he does have a reporting line to him. He is a full member of Corporate Board and has equivalent status to other members in terms of decision making and has access to all confidential papers/matters.

Responsibility for reviewing and updating all elements of the Constitution have been delegated to senior officers e.g. the Monitoring Officer has responsibility for operating the Scheme of Delegation.

In identifying and communicating the authority's vision of its purpose and intended outcomes for citizens and services users, the Council engages with all parts of the community, and this now includes a larger number of Community Forums.

The Council's most important objectives are consolidated in the Council Plan, and an associated assurance framework is in place whereby the key objectives of the Council now include formal consideration and documentation of any risks which might prevent objectives being achieved.

In reviewing the authority's vision and its implications for the authority's governance arrangements, the Council carries out an annual review of the Council Plan to ensure it remains focused on current and long term issues. The Constitution is reviewed at least annually to ensure the governance framework is fit for purpose.

The Council Plan is supplemented by strategies and plans within each Directorate.

In measuring the quality of services for users, ensuring they are delivered in accordance with the authority's objectives and ensuring that they represent the best use of resources the Council uses a Corporate Performance Management system. This is monitored by Corporate Board and Cabinet each quarter. Each Directorate will also set, and monitor, quality of service measures for each service as part of the Corporate Strategic Planning framework.

The Council recognises it has a legal duty to secure economy, efficiency and effectiveness in its use of resources and continuous improvement in its services. This duty is recognised in establishing the Council's policy agenda.

Effective financial management is an essential aspect of the Council's governance framework. This is achieved in particular through :-

- a. Comprehensive revenue and capital budgeting and reporting systems
- b. A medium term financial planning process
- c. Regular reporting and monitoring of actual performance against forecast;

Responsibility for developing, communicating and embedding codes of conduct, which define the standards of behaviour for members and staff has been delegated to the Audit & Standards Committee, which also monitors the Council's Confidential Reporting Policy and Fraud Hotline. The Council also operates a complaints system for the public and the use of the system is monitored by Senior Officers and Members.

The Council has an Audit & Standards Committee with a remit to oversee the effective operation of both the internal and external audit function, and to ensure that appropriate action is taken in relation to audit recommendations. It also has responsibility for corporate governance arrangements, and the promotion and maintenance of high standards of conduct within the Council.

The Audit & Standards Committee annually endorses the Risk Management Strategy which now incorporates a Risk Assurance Protocol which requires Senior Officers to regularly certify that the assurance framework has been reviewed and mitigating controls are operating as intended. The results are collated and monitored centrally. The Audit & Standards Committee are also now scheduled to receive additional reports on risk management throughout the municipal year.

Corporate Board and Cabinet also review the most significant risks in the Corporate Risk Register each quarter.

There is a statutory requirement for the Council to undertake an adequate and effective internal audit of its accounting record and system of internal control. This is a responsibility delegated to the Treasurer. Internal Audit has operated in accordance with the Code of Practice for Internal Audit in Local Government until April 2013 when the new Public Sector Internal Audit Standards were adopted. Internal Audit is under the day-to-day control of the Head of Audit Services who acts independently. Internal Audit's primary role is to independently review and report on whether risks facing the Council are effectively managed and controlled. It has a rolling programme of audits that, over a period of years, is intended to review all areas of major risk within the Council. The priority of different areas of the programme is determined by Internal Audit's own assessment of risks [including the Corporate Risk Register], controls and overall assurance framework. Internal Audit Plans are approved by the Audit & Standards Committee and the Plan is designed to ensure coverage of all significant elements of the governance framework e.g. human resources and, project management.

The Account and Audit Regulations 2011 require the Council to conduct a review at least once a year of the effectiveness of its internal audit and that the findings of the review shall be considered by a committee of the relevant body. The Head of Audit Services has carried out the review and it has been subject to review by the Treasurer, Corporate Governance Group and Audit & Standards Committee. The review determined that Internal Audit is operating effectively. The Audit & Standards Committee also periodically undertakes an exercise to judge its own effectiveness using a toolkit supplied by CIPFA. The latest review concluded that it was operating effectively.

The Council has a number of Scrutiny Committees that carry out a programme of reviews of Council services and decisions.

The Council operates a comprehensive performance review system for identifying the development needs of senior officers and action plans are produced as appropriate. The Constitution also requires all political groups to identify any development needs of Members and a comprehensive training programme is available to meet their needs.

External Audit conduct annual audits of the Council and external inspectorates perform a number of reviews of Council services. All of these bodies contribute to the Council's governance framework.

4. Review of Effectiveness

The Council has responsibility for conducting, at least annually, a review of the effectiveness of its governance framework. The review of effectiveness is informed by the work of the Members and Senior Officers within the Council who have responsibility for the development and maintenance of the governance framework.

The Corporate Risk Register currently includes a number of significant risks which could affect the ability of the Council to achieve its objectives. These risks include :-

- a. Information governance
- b. Accommodation strategy
- c. Carbon reduction
- d. Medium term financial strategy
- e. Collaborative working
- f. Welfare reforms
- g. Transfer of Public Health
- h. Looked after children
- i. Community cohesion

Reports on these matters are presented to Corporate Board, Cabinet, or Scrutiny Committees as appropriate. A number of the risks are also subject to internal and/or external audit.

During 2012/13 Internal Audit carried out 136 planned audit reviews as part of their four-year strategic plan. The findings were reported to relevant line managers and senior management, and appropriate action agreed.

The Audit & Standards Committee receives an annual report summarising the performance of Internal Audit in the previous financial year, and plans for future years. The Committee also receives a series of reports setting out the results of Internal Audit work in each of the Council's Directorates. These reports detail the higher importance findings, any unimplemented recommendations, and management feedback about the action they have taken. The Committee also receives more detailed reports on other areas where they consider it necessary. The Treasurer will, under the Anti-Fraud and Corruption Strategy, report major losses, resulting from fraud and corruption, to the Audit & Standards Committee. One such report was necessary during 2012/13. A report on the prevention and detection of fraud was presented to the Committee, who also approved a revised Anti Fraud & Corruption Strategy.

Audit & Standards Committee approved a revised Code of Corporate Governance in April 2013 and have requested that they be kept informed of the status of actions identified in the Code. The first report will be presented to the September meeting.

When the External Auditors have completed their external audit for 2012/13, their Annual Audit and Inspection Letter will be presented to the Audit & Standards Committee and the Cabinet. The Annual Audit and Inspection Letter for the 2011/12 accounts presented an unqualified opinion on the accounts.

A number of other external bodies carried out reviews during the year, including Ofsted and the Care Quality Commission. The findings of their reports were also considered.

The Council's Scrutiny Committees also carried out an extensive programme of reviews of the Council's activities and decisions, and they report their work and findings to the Council. Their work has also been reviewed.

During the year, a number of the documents making up the governance framework were reviewed and any amendments were subject to approval by full Council or delegated Committees e.g. :-

- a. Code of Corporate Governance
- b. Codes of Conduct
- c. Anti Fraud & Corruption Strategy
- d. Standing Orders
- e. Financial Regulations

In carrying out its review of the governance framework, the Council has considered the evidence provided by all of the sources referred to above and has not identified any strategically serious deficiencies that would warrant mention in Section 5 of this report. We aim to ensure continuous improvement of the framework is in place.

There are a number of significant developments affecting local government such as the transfer of public health, welfare reforms, financial cuts etc. The effects of these developments on the governance of the Council will be monitored. It was also noted that various corporate groups have been formed to address these issues and they will report to Cabinet, Council or other Committees as required.

5. Significant Governance Issues

The review of the effectiveness of the governance framework has not identified any additional strategically significant issues which are not already covered by existing management and Member review. We will monitor the situation in 2013/14 to ensure the changes in local government operations do not impact adversely on the governance framework.

Councillor D.Sparks
Leader of the Council

J.Polychronakis
Chief Executive

Audit and Standards Committee – 19th September 2013

Report of the Treasurer

Treasury Management

Purpose of Report

1. To outline treasury activity during the financial year 2012/13 and in the current financial year up to August.

Background

2. The Treasury Management strategy for 2013/14 has been underpinned by the adoption of the Chartered Institute of Public Finance and Accountancy's (CIPFA) Code of Practice on Treasury Management 2011. The Code recommends that members are informed of Treasury Management activities at least twice a year. This report ensures that the Council is embracing best practice in accordance with CIPFA's recommendations.
3. Treasury Management entails the management of the Council's cash flows, its borrowings and investments, the management of the associated risks and the pursuit of the optimum performance or return consistent with those risks.
4. The Council undertakes treasury management activity on its own behalf and as administering authority for the West Midlands Debt Administration Fund (WMDAF). We are responsible for administering capital funding of approximately £778m on our own account and another £175m on behalf of other West Midlands councils in respect of the WMDAF. The treasury function is governed by the Council's Treasury Policy Statement and Treasury Management Practices.

Treasury activity in 2012/13 on the Dudley fund

5. Our treasury activities were undertaken in the context of the Treasury Strategy Statement 2012/13 approved by Audit Committee and Full Council in February 2012. The Strategy Statement stated:

“The primary factor in determining whether we undertake new long-term borrowing will be cash flow need. We may elect to borrow one or two years in advance of anticipated need if we judge that this is necessary in order to avoid being forced to borrow at higher rates at a later date.”

6. During 2012/13 our investments averaged around £38 million (with significant day to day variation as a result of cash flow). The average return on these investments was 0.61%. The majority of our investments were for less than one month or were in call accounts¹. All investments were placed with institutions that satisfied the criteria for credit-worthiness set out in the Treasury Strategy Statement 2012/13. Our investment activity for 2012/13 is set out in more detail in Appendix 1.
7. The average value of long-term borrowings in 2012/13 was £543 million. The average rate of interest on these borrowings was 4.11% (reduced from an average rate of 5.33% in 2011-12 due to the £336m of loans taken for Housing Self Financing at an average discounted rate of 3.36% in March 2012). The loans were due to mature on dates ranging from 2014 to 2061. The rate for a 50-year maturity loan from the Public Works Loan Board (PWLB) has fluctuated in 2012/13 between 3.96% and 4.59%.
8. The Council qualifies for borrowing at the "Certainty Rate" (0.20% below the standard PWLB rate) for a 12 month period from 1st November 2012. In April the Council submitted its application to the Department for Communities and Local Government to access this reduced rate for a further 12 month period from 1st November 2013. The "Project Rate" was announced in the Chancellor's Autumn Statement in December 2012 and will be set at 0.4% below PWLB rates but will only be available for single projects identified by Local Enterprise Partnerships.
9. In the light of these rates, together with forecasts for future rates and the availability of investment balances to meet cash flow, we did not enter into any new long-term borrowing during the year.
10. Due to cashflow requirements at the end of 2011/12, it was necessary to undertake one short-term borrowing in March 2012 which matured in April 2012. This loan was for £7m at 0.4% for a duration of 11 days in 2012-13. No new short term borrowing was undertaken in 2012-13. Daily cashflow was managed by the use of call accounts.

Treasury activity in 2012/13 on the WMDAF

11. Our borrowing activities in 2005/6 placed us in a position where it was not necessary to undertake any new longer-term borrowing in the financial years from 2006/7 to 2012/13. Having consulted with our treasury advisors at Arlingclose, we did not identify any opportunities to improve our position by restructuring of debt.

¹ A call account is a deposit account with a financial institution without a fixed maturity date. The deposit can be "called" (withdrawn) at any time and deposits can also be made at any time. Call accounts and the specific terms associated with them differ depending upon the bank offering the account.

Performance comparisons 2012/13

12. We have compared our performance, both for Dudley and the WMDAF, with four of our neighbours in the West Midlands. Two of the neighbours did not send their performance data in time for this report. The results are summarised in the following table:

West Midlands performance comparisons 2012/13

	Dudley	WMDAF	West Midlands average
Gross average borrowing rate (the cost of borrowing, ignoring the return on investments)	4.19%	6.41%	4.82%
Investment return rate (the return on investments, ignoring the cost of borrowing)	0.61%	0.29%	1.01%
Net average borrowing rate (a combination of the above, representing the cost of borrowing net of the return on investments)	4.45%	6.43%	6.02%
Lender's Option Borrower's Option (LOBO)² loans as a proportion of all borrowing	2%	5%	17%

13. Our cost of borrowing in 2012/13 was lower than the average and the return on our investments was slightly lower than the average of our neighbours. We were less exposed than the average of our neighbours to the potential volatility of LOBO loans (see footnote). The cash flow position during the year constrained both our investment and borrowing activities and our policy on investments has been very cautious. The performance figures for the four other councils included in the performance comparisons are detailed individually in appendix 4 in an anonymised format.
14. In respect of the WMDAF we have been constrained by the statutory timetable for closure of the fund (March 2026) and have not been able to take advantage of very cheap long-term debt that has been available in recent years.
15. It should be remembered that treasury performance measurement is not an exact science. These statistics represent the cumulative effect of decisions dating back over many years and the performance of our neighbours may have been achieved in circumstances different from our own.

² The lender has the option (at regular intervals stipulated in the loan agreement) to vary the rate of interest. The borrower then has the option to either accept the new interest rate or repay the loan.

Prudential indicators 2012/13

16. The 2003 Prudential Code for Capital Finance in Local Authorities sets out a framework for the consideration and approval of capital spending plans. In so doing, it requires the Council to set a number of prudential indicators, some of which concern matters of treasury management. Appendix 2 outlines those indicators for 2012/13. In all cases, actual outturn was within the targets and limits set by the Council.

Treasury activity 2013/14 to August

17. Treasury activities in the current year have been undertaken in the context of the Treasury Strategy Statement 2013/14 approved by Audit Committee and Full Council in February of this year. In that document we anticipated that long term borrowing would be required in the next 12 months due to cash flow need.
18. Our investments up to the end of August have averaged around £62 million (with significant day to day variation as a result of cash flow). The average return on these investments was 0.54%. All investments were placed with institutions that satisfied the criteria for credit-worthiness set out in the Treasury Strategy Statement 2012/13. Our investment activity for 2012/13 is set out in more detail in Appendix 3.
19. In July the Monetary Policy Committee (MPC) announced its forward guidance policy which will be centred on a 7% unemployment rate. This is a major change from the erstwhile 'take each meeting as it comes' approach. The MPC intends to keep the Bank Rate at the current level of 0.5% (subject to certain constraints mainly around rises in inflation) until the unemployment rate has fallen to a threshold of 7%. This is projected to occur in the third quarter of 2016 therefore there is unlikely to be a base rate rise in the short term, keeping investment yields low.
20. On-going stress in financial markets and numerous credit rating downgrades have led to local authority lending lists being severely restricted in recent years. In order to mitigate this situation, a Custodian account was opened with King and Shaxson in 2012 which will allow the Council to diversify its strategy by buying up Treasury Bills, Certificates of Deposits (CD's) and UK Government Gilts. However, the vast majority of the Council's investments continue to be made as short term deposits or call accounts at UK banks with the highest credit ratings or the UK government's Debt Management Office.
21. The average value of long-term borrowings up to the end of August has been £541.9 million. The average rate of interest on Dudley's loans is 4.11%. The maturity dates for the loans range from the current year to 2061. It has not as yet been necessary to undertake any new long-term borrowing in the current year, but we are monitoring interest rates and cash flow closely. We continue to anticipate that action may be required before the financial year end.
22. It has not been necessary to undertake any short-term borrowing in the current year to date. Daily cash flow has been managed through the use of call accounts.
23. There has been no change to the position on the WMDAF.

Finance

24. Forecasts of performance against budget for treasury management activities are highly sensitive to movements in cash flow and interest rates.

Law

25. These matters are governed by Part IV of the Local Government and Housing Act 1989 and Section 111 of the Local Government Act 1972, which empowers the Council to do anything which is calculated to facilitate or is conducive or incidental to the discharge of its various statutory functions.

Equality Impact

26. The treasury management activities considered in this report have no direct impact on issues of equality.

Recommendation

27. That the Committee:
- notes the treasury activities outlined in this report;
 - refers all of the above for approval by full Council at its meeting on 7th October.



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Iain Newman
Treasurer

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List of Background Papers

- Treasury Policy Statement, Treasury Management Practices and Schedules to the Treasury Management Practices.

Investment Activity 2012/13

Counterparty name	Number of investments	Average value £ million	Average rate %	Average duration (days)
Barclays Treasury Direct	24	5.60	0.39	17
Debt Management Office	77	8.66	0.25	6
Nationwide Building Society	7	3.22	0.40	15
Bank of Scotland Call Account	N/A	10.00	0.75	Call
Santander	N/A	0.54	0.80	Call
Nat West	N/A	1.27	0.80	Call
HSBC	N/A	7.90	0.32	Call
Yorkshire Bank	N/A	0.01	0.75	Call
Salford MDC	1	0.50	11.25	Matures in 2020

The table above includes investments that commenced during 2011/12 and matured in 2012/13. It also includes investments that commenced during 2012/13 and were due to mature in 2013/14.

There is also a fixed term deposit of £500,000.00 with Salford MDC at an interest rate of 11.25% that was made in 1985 and is due to mature in 2020.

Prudential indicators relating to treasury management 2012/13**External debt**

These indicators are intended to ensure that levels of external borrowing are affordable, prudent and sustainable. The authorised limit for external debt is a statutory limit (section 3 of the Local Government Act 2003) that should not be breached under any circumstances. The operational boundary is a lower threshold allowing for a prudent but not worst case scenario for cash flow.

	£m
Authorised limit for external borrowing	983.0
Operational boundary for external borrowing	876.0
Outturn - actual maximum external borrowing	737.0

CIPFA Code of Practice for Treasury Management in the Public Services

The Council adopted the Revised CIPFA Treasury Management in the Public Services Code of Practice in February 2010.

Interest rate exposures and maturity structure of borrowing and investments

These indicators allow the Council to manage the extent to which it is exposed to changes in interest rates.

	Indicator	Outturn
Upper limit for fixed interest rate exposure	100%	98.2%
Upper limit for variable rate exposure	10%	1.8%
Upper limit of principal maturing in any one year for sums invested for over 364 days	£10m	nil
Maturity structure of fixed rate borrowing:-		
under 12 months	0-10%	2.0%
12 months and within 24 months	0-10%	1.2%
24 months and within 5 years	0-15%	5.4%
5 years and within 10 years	0-25%	15.1%
10 years and above	40-100%	76.2%

Investment Activity 2013/14 to August

Counterparty name	Number of investments	Average value £ million	Average rate %	Average duration (days)
Barclays Treasury Direct	14	10.50	0.39	21
Debt Management Office	22	10.25	0.25	13
Nationwide Building Society	10	13.53	0.40	29
Bank of Scotland Call Account	N/A	15.56	0.75	
HSBC	N/A	11.44	0.32	
Nat West	N/A	0.01	0.80	
Santander	N/A	0.05	0.80	
Yorkshire Bank	N/A	0.01	0.75	
Salford MDC	1	0.5	11.25	Matures in 2020

The table above includes investments that commenced during 2012/13 and were due to mature in the current year. It also includes investments that commenced in the current year before August and were due to mature after August.

There is also a fixed term deposit of £500,000.00 with Salford MDC at an interest rate of 11.25% that was made in 1985 and is due to mature in 2020.

West Midlands performance comparisons 2012/13

	Council					
	Dudley	WMDAF	A	B	C	D
Gross average borrowing rate (the cost of borrowing, ignoring the return on investments)	4.19%	6.41%	4.44%	4.42%	4.98%	4.5%
Investment return rate (the return on investments, ignoring the cost of borrowing)	0.61%	0.29%	0.56%	0.71%	1.76%	2.15%
Net average borrowing rate (a combination of the above, representing the cost of borrowing net of the return on investments)	4.45%	6.43%	5.61%	4.64%	5.11%	9.89%
Lender's Option Borrower's Option (LOBO) loans as a proportion of all borrowing	2%	5%	16%	20%	6%	51%