

# Annual Audit Letter

Dudley Metropolitan Borough Council

Audit 2008/09

December 2009



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## Status of our reports

The Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission explains the respective responsibilities of auditors and of the audited body. Reports prepared by appointed auditors are addressed to non-executive directors/ members or officers. They are prepared for the sole use of the audited body. Auditors accept no responsibility to:

- any director/member or officer in their individual capacity; or
  - any third party.
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# Key messages

This report summarises the findings from our 2008/09 audit. It includes messages arising from the audit of your financial statements and the results of the work I have undertaken to assess your arrangements to secure value for money in your use of resources.

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## Audit opinion

- 1 I issued an unqualified opinion on the Council's financial statements.

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## Financial statements

- 2 During the audit, management agreed to some adjustments to the financial statements. There was one material adjustment in respect of the valuation of Council Dwellings. The value of these assets was reduced by £85.1m to reflect economic conditions. This adjustment did not have any impact on the Council's financial standing.

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## Value for money

- 3 My conclusion on arrangements for securing economy, efficiency and effectiveness in your use of resources at the Council was unqualified.

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**Table 1      Audit fees**

	Actual	Proposed	Variance
Financial statements and annual governance statement	£199,108	£199,108	£0
Value for money	£90,740	£90,740	£0
<b>Total audit fees</b>	<b>£289,848</b>	<b>£289,848</b>	<b>£0</b>
Non-audit work	£0	£0	£0
<b>Total</b>	<b>£289,848</b>	<b>£289,848</b>	<b>£0</b>

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## Independence

- 4 I can confirm that the audit has been carried out in accordance with the Audit Commission's policies on integrity, objectivity and independence.

# Financial statements and annual governance statement

**The Council's financial statements and annual governance statement are an important means by which the Council accounts for its stewardship of public funds.**

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## Significant issues arising from the audit

- 5 I issued an unqualified opinion on the Council's financial statements in September 2009. In my opinion the financial statements presented fairly the Council's financial position and of its income and expenditure for the year.
- 6 A member of the public has exercised their rights under the Audit Commission Act 1998 to question me about the financial statements. My initial investigations of the issues raised have not identified any concerns but I am still in correspondence with the member of the public. I will not be able to issue a certificate of closure until my consideration of this matter has been concluded.
- 7 The financial statements submitted for audit were adjusted to correct the following material error.
  - The valuation of Council Dwellings included in the financial statements had not been reduced to reflect changes in economic conditions. As part of the audit I requested that the Council's Valuer reconsider this. Following further consideration of the impact of falling property prices he determined that an 8 per cent fall in the value of Council Dwellings was appropriate. The overall impact of this was to reduce the value of Council Dwellings by £85.1m in the restated accounts. I concluded that the reduction in values of 8 per cent was reasonable.

This adjustment did not have any impact on the Council's financial standing.

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## Material weaknesses in internal control

- 8 I did not identify any significant weaknesses in your internal control arrangements. I performed a review of whether Audit Services complies with the standards outlined by CIPFA in its Code of Practice for Internal Audit in Local Government 2006 ('the Code'). I found that Audit Services continues to demonstrate a high level of compliance with the standards outlined in the Code. My work identified some areas of minor non-compliance with the Code where there is scope for improvements to be made. Recommendations for how these issues can be addressed have been agreed with Audit Services.

### Accounting practice and financial reporting

- 9 I considered the qualitative aspects of your financial reporting but did not identify any areas for improvement.

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### International Financial Reporting Standards (IFRS)

- 10 The Council's financial statements will need to comply with IFRS from 2010/11. The Council has made plans for implementing the changes that will be needed. However, a significant amount of work will be needed by officers to ensure that they comply with the new requirements. The Council should ensure that sufficient resources are made available to perform the additional work needed and that progress against key milestones is monitored regularly.

# Value for money and use of resources

I considered how well the Council is managing and using its resources to deliver value for money and better and sustainable outcomes for local people, and gave a scored use of resources judgement.

I also assessed whether the Council put in place adequate corporate arrangements for securing economy, efficiency and effectiveness in its use of resources. This is known as the value for money (VFM) conclusion.

## Use of resources judgements

- 11 In forming my scored use of resources judgements, I have used the methodology set out in the [use of resources framework](#). Judgements have been made for each key line of enquiry (KLOE) using the Audit Commission's current four point scale from 1 to 4, with 4 being the highest. Level 1 represents a failure to meet the minimum requirements at level 2.
- 12 I have also taken into account, where appropriate, findings from previous use of resources assessments (updating these for any changes or improvements) and any other relevant audit work.
- 13 The Council's use of resources theme scores are shown in Table 2 below. The key findings and conclusions for the three themes, and the underlying KLOE, are summarised in Appendix 1.

**Table 2** Use of resources theme scores

Use of resources theme	Scored judgement
Managing finances	3
Governing the business	3
Managing resources	2

## Managing finances

- 14 Overall, the Council performs well at managing its finances. The annual budget process is completed and approved in a timely manner with strong emphasis on medium term financial planning. The capital programme is linked to priorities and supporting service improvements. Public consultation results in changes to spending priorities and resources have been shifted from low to high priority areas. The Council continues to show strong performance whilst keeping costs within budget.

## Value for money and use of resources

- 15 Directorates have authority to identify their areas for efficiency but are called to account on their achievement and on their comparative outcomes on cost and performance. Efficiency targets are regularly achieved although this is recognised as a particular future challenge given increasingly tight budgets. The Council's processes for regular financial monitoring and forecasting throughout the year enables them to maintain a good track-record for prompt and accurate closedown, with draft accounts provided by the end of May.

## Governing the business

- 16 The Council has good arrangements in place to govern its business. It seeks to maximise efficiencies through procurement and promotes this through its procurement strategy and practices, a lean supply chain and a partnership approach with its contractors.
- 17 The Council is proactive in reviewing its data quality and has sound systems in place to support its decision making. The Corporate Improvement group is developing its scrutiny of performance indicators. Data quality is a focus area for the Council to strengthen further.
- 18 The Council is an ethical Council, which regularly refreshes governance policies and procedures. It puts a strong emphasis on good governance in partnership working and has a well established and effective Partnership Evaluation Tool (PET). The Audit Committee plays an effective role in ensuring governance policies and procedures are up to date. Risk Management is embedded in the Council's business practices and strong anti fraud and corruption arrangements are in place.

## Managing resources

- 19 The Council meets the minimum requirements in managing its resources. It takes a corporate, co-ordinated and proactive approach to making effective use of natural resources, which extends into its partnership working and leadership roles. Sound progress is already demonstrable in schools on transport plans and achievement of Eco Schools status, and in the establishment of Council baselines for energy consumption, staff travel and energy consumption.
- 20 The Council has a well established and sound approach to asset management. Asset management plans are in place at all levels of the organisation with ranking systems to establish priorities and a robust monthly monitoring system is in place. The Council recognises its estate is outdated and is now developing a business transformation strategy which may impact on its premises needs.

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## VFM Conclusion

- 21 I assessed your arrangements to secure economy, efficiency and effectiveness in your use of resources against criteria specified by the Audit Commission. From 2008/09, the Audit Commission will specify each year, which of the use of resources KLOE are the relevant criteria for the VFM conclusion at each type of audited body. My conclusions on each of the areas are set out in Appendix 1.

- 22 I issued an unqualified conclusion stating that the Council had adequate arrangements to secure economy, efficiency and effectiveness in its use of resources.

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### Managing performance

- 23 The Audit Commission also assesses how well the Council manages and improves its services and contributes to wider community outcomes. The assessment considers how successful the Council is in delivering its corporate priorities. The priorities have been drawn from what matters most to local people.
- 24 The Council scores 3 out of 4 for managing its performance (the scoring mechanism is as for Use of Resources).
- 25 Children and adult care services are good. However, there are some areas that need further improvement. For example, support for some carers and the number of safeguarding referrals received. Also the gap in achievement between children and young people whose circumstances make them vulnerable and their peers is variable and shows no consistent trend.
- 26 There are areas where vulnerable people receive good service. People who claim housing benefit receive a quick payment. Council tenants receive a prompt letting and repairs service. Money saved by the Council is being invested to improve services like the foster care and services for elderly people.
- 27 The Council has been successful in attracting external funds. Money from the Big Lottery and the government are funding the 'Just Enjoy' and 'Lets Go Outside' initiatives. Dudley has been awarded Healthy Town status. Future Skills for Dudley has won a government contract to help the long term unemployed back in to work. It is the only council to be awarded such a contract. There is also funding for major regeneration projects.
- 28 The Council is improving the overall appearance of the borough. Levels of litter and fly-posting are low, but graffiti is still a problem. Most people are satisfied with the waste collection service. The Council knows that it needs to increase its improving household recycling rate and has plans in place to do so. It has worked with its partners, such as the police, to reduce crime and anti-social behaviour significantly making the borough a safer place for residents.
- 29 The Council is making good progress on providing affordable homes and raising the standards of existing homes. It expects that by 2010 all homes will be at the decent standard. Regenerating of North Priory Estate is progressing well and this will provide 314 new homes.
- 30 The recession has had an affect on the local economy with unemployment having risen by more than 50 per cent from June 2008 levels. The Council is focusing its support through its 10 point plan 'Dudley Means Business'. Strong links with local employers and the plans to regenerate the town centres are seen as opportunities for creating jobs.



## Value for money and use of resources

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### Overall organisational assessment

- 31 The Use of Resources and Managing Performance assessments are combined to give an overall organisational assessment judgement for the Council. The Audit Commission has determined that the organisational assessment judgement for Dudley Metropolitan Borough Council is that it performs well.
- 32 It manages performance well and provides good value for money. The Council is working well with its partners to tackle local people's priorities such as crime, making the area a clean place to live and providing things for young people to do. Seventy-seven per cent of people are satisfied with their local area as a place to live, which compares well with similar councils.
- 33 The Council's Managing Performance and Organisational Assessment are being reported separately by the Audit Commission's Comprehensive Area Assessment Lead for Dudley, Gary Stevens.

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### Single Status Implementation

- 34 The Council's arrangements for implementing the outcome of the pay and grading review are adequate. The project is not yet complete.
- 35 The Council has made reasonable provision for the potential costs of single status and equal pay. The Council's staged and programmed approach is sensible and coherent. It has good project plans and sound project management in place to implement this high risk programme. Councillors and senior staff are fully involved and supportive.
- 36 The final costs of equal pay remain uncertain but capitalisation directions have been received from the Department of Communities and Local Government (DCLG) to help fund the costs. The Council is working towards, and committed, to taking significant steps to come to a collective agreement.

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### Financial Standing

- 37 The last year has seen the country enter a significant economic recession. The consequence locally, is an increasing demand for public services and the likelihood of reduced levels of central government funding. Together, these provide a significant challenge for the Council as you seek to continue to provide services to local residents, whilst maintaining a sound financial position. The impacts of the recession will continue to present a challenge to the Council in the coming financial year. I will continue to monitor the Council's response and actions in this key area.

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### Treasury management

- 38 The Council's treasury management processes are sound. The Council did not make any investments in Icelandic banks and so has avoided the uncertainty over recovery of such funds which is affecting other local authorities. The officers who perform the Council's treasury management function are experienced and knowledgeable and they also take advice from external treasury management advisors.

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# Closing remarks

- 39 I have discussed and agreed this letter with the Chief Executive and the Interim Director of Finance. I will present this letter at the Audit Committee on 11 February 2010 and to Cabinet on 17 March 2010 and will provide copies to all Cabinet and Audit Committee members.
- 40 Further detailed findings, conclusions and recommendations in the areas covered by our audit are included in the reports issued to the Council during the year.

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**Table 3**

Report	Date issued
Audit and Inspection Plan	April 2008
Review of Audit Services	February 2009
Single Status Implementation	June 2009
Annual Governance Report	September 2009

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- 41 The Council has taken a positive and constructive approach to our audit. I wish to thank the Council's staff for their support and co-operation during the audit.

Tony Corcoran  
District Auditor  
December 2009

# Appendix 1 – Use of resources key findings and conclusions

The following tables summarise the key findings and conclusions for each of the three use of resources themes.

## Managing finances

<p><b>KLOE 1.1 (financial planning)</b></p> <p><b>Score</b></p> <p><b>VFM criterion met</b></p>	<p><b>3</b></p> <p><b>Yes</b></p>
<p><b>Key findings and conclusions</b></p> <p>Overall, Dudley MBC performs well at managing its finances. The annual budget process is completed and approved in a timely manner with strong emphasis on medium term financial planning. The capital programme is linked to priorities and supporting service improvements. Savings and efficiencies are considered by the budget review process to ensure that resources are re-directed in line with council priorities and are included in provisional budgets for three years. Charges for services are reviewed to achieve efficiencies and other savings as part of the budget strategy which is inherently linked to the strategic priorities. There is a comprehensive financial risk assessment for all parts of the revenue and capital budgets which are amalgamated with the budget setting process. Public consultation was undertaken through the Internet and Citizens Panel to inform the budget and council tax proposals for 2009/10. Consultations were undertaken with the public and partnerships on spending in specific areas, including vulnerable and hard to reach groups. Joint financial plans were agreed with key partnerships, including their medium term financial commitments to ensure they are consistent with the council's financial planning. Collection rates for Council Tax and housing rents continue to be above average for Metropolitan Authorities. The Council continues to show strong performance whilst keeping costs within budget.</p>	

## Appendix 1 – Use of resources key findings and conclusions

<p><b>KLOE 1.2 (understanding costs and achieving efficiencies)</b></p> <p><b>Score</b></p> <p><b>VFM criterion met</b></p>	<p><b>3</b></p> <p><b>Yes</b></p>
<p><b>Key findings and conclusions</b></p>	
<p>The Council is very aware of tight finances and as a result has a culture of cost control underpinned by benchmarking. Overall it is a high performance low cost authority which manages its costs through a corporate process which involves rather than polices directorates. Directorates have authority to identify their areas for efficiency but are called to account on their achievement and on their comparative outcomes on cost and performance. Efficiency targets are regularly achieved although this is recognised as a particular future challenge. The total spend per head of population remains one of the lowest for a met and spend is less than most of its 16 neighbours in most service areas. Efficiency targets for 2008/09 exceeded the 3 per cent target. The Council routinely uses whole life costing and consideration of sustainability factors in its decision making. Its procurement guidance on options appraisal covers whole life costing in detail while it has separate guidance on sustainability. Options appraisal is well used. Individual directorates engage in benchmarking of their areas such as Housemark and CIPFA benchmarking.</p>	
<p><b>KLOE 1.3 (financial reporting)</b></p> <p><b>Score</b></p> <p><b>VFM criterion met</b></p>	<p><b>3</b></p> <p><b>Yes</b></p>
<p><b>Key findings and conclusions</b></p>	
<p>Budget monitoring is supported by financial information made available to managers electronically through the Agresso system. The system is updated daily for most categories of income and expenditure and updated for staff costs after fortnightly and monthly payroll runs. Reporting tools enable budget managers to drill down to prime transactions. Users are provided with training on their use. Finance collect internal customer survey data on speed of response, quality of information and meeting user need. Ninety four per cent of respondents rated financial services as either good or excellent. The Council's processes for regular financial monitoring and forecasting throughout the year enables them to maintain a good track-record for prompt and accurate closedown, with draft accounts provided by the end of May. Financial forecasts are subject to risk and sensitivity analysis and monitoring information is produced on a profiled basis. The Statement of Recommended Practice for the year in question is reviewed well in advance of the year end. There is evidence that the Council is seeking the views of stakeholders on its external financial reporting.</p>	

## Appendix 1 – Use of resources key findings and conclusions

### Governing the business

<p><b>KLOE 2.1 (commissioning and procurement)</b></p> <p><b>Score</b></p> <p><b>VFM criterion met</b></p>	<p><b>3</b></p> <p><b>Yes</b></p>
<p><b>Key findings and conclusions</b></p>	
<p>The Council's culture is to maximise efficiencies through procurement. It promotes this through its Procurement Strategy and practices, such as the use of mobile technology and home working. The Council also responds to pressures from rising community needs through new service approaches such as personal budgets for older adults. The Council has developed and promotes the use of procurement guidelines on both environmental purchasing and sustainability. These criteria were applied to the Brierley Hill Parallel Route where 'in situ' laying of replacement road surfacing considerably reduced environmental impact in terms of reduced tyre recycling and reduced use of aggregate. The painting contract has moved away from multiple small contracts to single five year contracts with a contractor and a paint supplier. A similar approach has been taken with the gas contract and the boiler contract is just being moved onto this basis.</p>	
<p><b>KLOE 2.2 (data quality and use of information)</b></p> <p><b>Score</b></p> <p><b>VFM criterion met</b></p>	<p><b>2</b></p> <p><b>Yes</b></p>
<p><b>Key findings and conclusions</b></p>	
<p>The Council is proactive in reviewing its data quality and has sound systems to support its decision making. It is an area on which it is focussing its attention to strengthen it further. The quality of data is being reviewed to ensure that its quality, depth and presentation are of an equal standard in all Directorate plans. The Corporate Improvement Group is developing its scrutiny function, examining and drilling down through performance indicators. The Council has developed a data quality awareness course for staff and also has a data quality toolkit which can be adapted to any service area and is already being used to test information systems using a red-amber-green scoring method. An overarching data sharing protocol, developed in partnership with the PCT, DCP and Dudley CVS is in place to provide safe governance around the sharing of all types of data. The protocol is complemented by a growing number of specific Data Exchange Agreements for specific service areas and partnerships.</p>	

## Appendix 1 – Use of resources key findings and conclusions

<p><b>KLOE 2.3 (good governance)</b></p> <p><b>Score</b></p> <p><b>VFM criterion met</b></p>	<p><b>3</b></p> <p><b>Yes</b></p>
<p><b>Key findings and conclusions</b></p>	
<p>The Council is an ethical Council and regularly refreshes governance policies and procedures. It puts a strong emphasis on good governance in partnership working and has a well established and effective Partnership Evaluation Tool (PET) it uses for this purpose. The PET is used to annually review the governance arrangements of key partnerships which then produce improvement action plans. The council's leadership has a clear vision of what it wants to achieve for its local communities, founded on a robust assessment of local needs and is committed to engaging with stakeholders and local people, including minority and vulnerable groups. The Council has worked with key partners and the community to prepare documents such as the Dudley Borough Community Strategy 2005–2020 and the Dudley Council Plan which sets out the vision and associated key objectives. The Elected Members' Training and Development Group takes the lead in setting and reviewing the annual member's training programme, based around the Council's six priorities. This clearly labels courses as mandatory, desirable and helpful.</p>	
<p><b>KLOE 2.4 (risk management and internal control)</b></p> <p><b>Score</b></p> <p><b>VFM criterion met</b></p>	<p><b>3</b></p> <p><b>Yes</b></p>
<p><b>Key findings and conclusions</b></p>	
<p>The Council have demonstrated that they have self assessed service business risk by directorates includes risks relating to significant partnerships. Partnership Evaluation Tools are used to evaluate both organisation risk of using the partnership and risks in the partnership itself. Joint risk registers are being used and maintained with partnerships on joint projects and evidence has been provided of risks being identified and mitigated on partnership construction projects. Risk Management is embedded in the production of the Council plan, with its priorities linked to strategic planning, financial planning, policy making &amp; review, performance management and project management. Risk management awareness training has been undertake by members during the year and is available upon request at any time. Training has been undertaken for members of the Audit Committee and for the Cabinet member for finance.</p>	

## Appendix 1 – Use of resources key findings and conclusions

<b>KLOE 2.4 (risk management and internal control)</b>	
<b>Score</b>	<b>3</b>
<b>VFM criterion met</b>	<b>Yes</b>
Good anti fraud and corruption arrangements are in place. The Benefit Services Counter Fraud business plan stresses the need to publicise prosecutions through the local media, posters and internet. Fraud awareness training is undertaken to enforce a preventive culture together with the use fraud awareness and helpline pages on the internet. Counter fraud and corruption arrangements have been self-assessed by Audit Services against the CIPFA Better Governance Forum ‘Red Book’. Standing orders and the scheme of delegation makes specific reference to partnerships.	

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### Managing resources

<b>KLOE 3.1 (use of natural resources)</b>	
<b>Score</b>	<b>2</b>
<b>VFM criterion met</b>	<b>Yes</b>
<b>Key findings and conclusions</b>	
The Council takes a corporate co-ordinated and proactive approach to making effective use of natural resources, which extends into its partnership working and leadership roles. Sound progress is already demonstrable in schools on transport plans and achievement of Eco Schools status, and in the establishment of Council baselines for energy consumption, staff travel and energy consumption. It has a designated senior corporate lead at Assistant Director level (Planning & Environmental Health) who reports to a Director led Corporate Sustainability Group to deliver the Greener Dudley Initiative, which in turn reports to the Corporate Management Team. A Council Sustainability Action Plan has been developed. The Council has recently established carbon dioxide/ energy use baselines for all its premises which it will now monitor progress in reduction against. A sustainable appraisal tool has been developed for use in appraising regeneration projects.	

## Appendix 1 – Use of resources key findings and conclusions

<p><b>KLOE 3.2 (strategic asset management)</b></p> <p><b>Score</b></p> <p><b>VFM criterion met</b></p>	<p><b>2</b></p> <p><b>Yes</b></p>
<p>Key findings and conclusions</p>	
<p>The Council has a well established and sound approach to asset management. Asset management plans are in place at all levels of the organisation with ranking systems to establish priorities and a robust monthly monitoring system is in place. The Council recognises its estate is outdated and on multiple sites. It has considered a significant consolidation and modernisation option but the costs exceed its resources. It is now developing a business transformation strategy which may impact on its premises needs. The Council has a comprehensive corporate asset strategy and plan supported by an asset plan for each directorate and individual Premises Plans for the property directorates occupy. Directorates also have property/capital working groups that they use to plan, implement and review their asset plans through each year. The Council has comprehensive data on each property it owns and these are in good condition. Data on asset condition is captured and held on the database each year with the cost to make good backlog repairs to a good condition expressed as a percentage of operational asset value. Including schools, this percentage has decreased from 13.09 per cent in 2003 to 8.4 per cent in 2008. The Council works particularly well in partnership on asset development. With the PCT and LIFT funding it has developed a specialist learning disability assessment and treatment centre. It is working in partnership with the local community, a Housing Association and private sector developer to regenerate the North Priory housing estate with plans to build some 300 mixed tenure homes, a community centre, training and job opportunities for local people.</p>	



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# The Audit Commission

The Audit Commission is an independent watchdog, driving economy, efficiency and effectiveness in local public services to deliver better outcomes for everyone.

Our work across local government, health, housing, community safety and fire and rescue services means that we have a unique perspective. We promote value for money for taxpayers, auditing the £200 billion spent by 11,000 local public bodies.

As a force for improvement, we work in partnership to assess local public services and make practical recommendations for promoting a better quality of life for local people.

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