

Annual Governance Report

Dudley Metropolitan Borough Council

Audit 2009/10

23 September 2010

Contents

Key messages	4
Next steps	6
Financial statements	7
Value for money	13
Glossary	16
Appendix 1 – Independent auditor’s report to Members of Dudley Metropolitan Borough Council	17
Appendix 2 – Amendments to the draft accounts	20
Appendix 3 – Draft letter of representation	23
Appendix 4 – Value for money criteria	27
Appendix 5 – Action plan	28

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.
-

Ladies and Gentlemen

2009/10 Annual Governance Report

I am pleased to present the final version of my report on the results of my audit work for 2009/10.

I discussed and agreed a draft of the report with the Treasurer on 10 September 2010 and updated it as issues have been resolved.

My report sets out the key issues that you should consider before I complete the audit.

It asks you to:

- consider the matters raised in the report before approving the financial statements (pages 7 to 12);
- take note of the adjustments to the financial statements set out in this report (Appendix 2);
- approve the letter of representation on behalf of the Council before I issue my opinion and conclusion (Appendix 3); and
- consider your response to the proposed action plan (Appendix 5).

Yours faithfully

Tony Corcoran
District Auditor

23 September 2010

Key messages

This report summarises the findings from the 2009/10 audit which is substantially complete. It includes the messages arising from my 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.

Financial statements	Results	Page
Unqualified audit opinion	Yes	7
Financial statements free from material error	Yes	7
Adequate internal control environment	Yes	9
Value for money	Results	Page
Adequate arrangements to secure value for money	Yes	13

Audit opinion

- 1 I expect, once the remaining audit work is complete, to issue an unqualified opinion on the financial statements

Financial statements

- 2 My work on the financial statements is substantially complete. I plan to issue an unqualified audit opinion. A draft report is attached at Appendix 1.
- 3 During the audit, management agreed to a number of adjustments to the financial statements. Most of these adjustments were in respect of disclosures made in the statements. The most significant of these adjustments are detailed further in Appendix 2. These adjustments do not have an impact on the Council's General Fund balance or on its earmarked reserves.
- 4 I have identified a number of areas for improvement in your process of internal control. This is set out on pages 9 and 10.

Value for money

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

Key messages

Audit fees

- 6 The audit opinion plan presented to the Audit Committee on 15 April 2010 stated that I would be charging an additional fee in respect of reviewing the Council's accounting arrangements for PFI and similar contracts. This work was not completed until mid September and so I am not yet in a position to confirm what the additional fee will be. I will be reporting to management on this issue shortly.

Independence

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

Next steps

This report identifies the key messages that you should consider before I issue my financial statements opinion, value for money conclusion, and audit closure certificate. It includes only matters of governance interest that have come to my attention in performing my audit. My audit is not designed to identify all matters that might be relevant to you.

8 I ask the Audit Committee to:

- consider the matters raised in the report before approving the financial statements (pages 7 to 12);
- take note of the adjustments to the financial statements which are set out in this report (Appendix 2);
- approve the letter of representation on behalf of the Council before I issue my opinion and conclusion (Appendix 3); and
- consider your response to the proposed action plan (Appendix 5).

Financial statements

The Council's financial statements and annual governance statement are important means by which the Council accounts for its stewardship of public funds. As Council members you have final responsibility for these statements. It is important that you consider my findings before you adopt the financial statements and the annual governance statement.

Opinion on the financial statements

- 9 Subject to satisfactory clearance of outstanding matters, I plan to issue an audit report including an unqualified opinion on the financial statements. Appendix 1 contains a copy of my draft audit report.
 - 10 The only significant outstanding matter is in respect of the cash flow statement where outstanding queries are being discussed with officers.
-

Errors in the financial statements

- 11 The audit of the financial statements identified a number of errors. These errors have been corrected by management and the most significant of them are detailed below. These adjustments do not have an impact on the Council's General Fund balance or on its earmarked reserves.

PFI and similar schemes

- 12 The most significant change which has affected the 2009/10 financial statements is in respect of accounting for PFI and similar schemes. This change in accounting policy was introduced by the 2009/10 Statement of Recommend Practice (SORP). Overall, the Council has implemented the changes in accounting treatment well. However, the Council originally valued the waste to energy plant on a depreciated construction cost basis instead of on depreciated replacement cost. The Council have re-valued the asset on the depreciated replacement cost basis and this increased its value on the balance sheet by £3.7m. The accounting treatment of this contract is technically complex and elements of the available guidance are not definitive. I do not agree with some of the assumptions that have been made in respect of the accounting treatment for the waste to energy plant but I am satisfied that this does not have a material impact on the financial statements.

Fixed assets

- 13 The Council added a new fixed assets module to its Agresso accounting system in 2010. This module was added to help ensure that the Council complies with the existing accounting requirements for fixed assets set out in the SORP and future

accounting requirements set out in International Financial Reporting Standards (IFRS). The addition of this module was not completed until August which resulted in significant delays to audit testing. Such delays should not occur in future years given that the implementation of the new module has been completed. The addition of the module resulted in a number of adjustments being required. The overall effect of the adjustments was to increase the total value of fixed assets on the balance sheet by £7.1m. These adjustments affected all categories of fixed assets on the balance sheet. The largest adjustment was in respect of 'other land & buildings' which increased in value by £5.6m.

14 The audit identified that the fixed assets figure on the balance sheet included assets which had been valued and classified incorrectly. In particular:

- Five assets were classified and valued as operational 'other land & buildings' assets when they should have been classified and valued as 'surplus assets'. These five assets were originally valued in the balance sheet at £3.6m and have now been re-valued at £1.4m. These assets include a swimming baths and a care home which both became non-operational during 2009/10
- Buildings located at St Marys Church of England Primary School were valued in the balance sheet at £1m but, following audit query, have been re-valued at £50k

Birmingham Airport

15 The Council has obtained a new valuation of its investment in Birmingham Airport. This investment is now valued at £20m which is £12.3m higher than its previous valuation. The value of long term investments on the balance sheet has been adjusted to reflect this new valuation.

Pooled budgets

16 Note 12 (Partnership Arrangements) has been amended so that it now discloses the pooled budget between the Council and Dudley Primary Care Trust (PCT) in respect of Learning Disability. The non-disclosure of this pooled budget was a material omission from the notes to the financial statements. The Council received funding of £8.4m from the PCT in respect of this service and incurred expenditure of £8.9m.

Other adjustments and disclosures

17 The audit identified a number of other adjustments and additional disclosures which were needed to ensure that the financial statements are fairly stated and comply with the SORP. The most significant of these other adjustments and additional disclosures are as follows:

- a post balance sheet event has been disclosed in note 6 (pension costs) in respect of the government's decision to increase public service pensions in line with the consumer price index (CPI) rather than the retail price index (RPI) and the estimated impact that this has on the Council's pension liabilities
- a material adjustment was made to the value of specific revenue grants disclosed in note 10 (related party transactions) increasing it by £56.8m from £253.3m to £310.1m

Financial statements

- an adjustment was made to the value of the Council's borrowing which matures within 12 months, as disclosed in note 42 (management of risk associated with financial instruments), increasing it by £4.3m from £6.8m to £11.1m
- the value of the grants deferred account was reduced by £2.2m to write off deferred grants in respect of schools no longer owned by the Council
- note 13 (government grants not attributable to specific services) has been amended so that it now discloses that area based grant of £21.6m includes supporting people grant of £6.5m
- the value of investment properties, assets under construction and surplus assets are now disclosed separately on the balance sheet rather than grouped together as non-operational assets
- the bad debt provision is now disclosed separately on the balance sheet rather than netted off the debtors balance
- an accounting policy in respect of accounting for National Non-Domestic Rates (NNDR) has been added to disclose the nature of the new accounting arrangements which applied from 1 April 2009.

Accruals

18 As part of the audit I tested a sample of payments made in April 2010. One item in the sample related to 2009/10 but had not been accrued into the 2009/10 financial statements. This was because it was below the Council's £500 de-minimis level for accruals. I have extrapolated the results of my sample testing and am satisfied that the issue identified by testing is not evidence of a material misstatement in the financial statements. I am satisfied that the Council's policy of not accruing for items below £500 is reasonable. However, as part of its closedown process, the Council should identify the total value of receipts and payments below £500 which are received and made in the month following year end and assess whether the de-minimis level for accruals remains reasonable.

Recommendations

R1 Management should identify the total value of receipts and payments below £500 which are received and made in the month following year end and assess whether the de-minimis level for accruals remains reasonable

Weaknesses in internal control

19 The audit has identified a number of weaknesses in internal control. These are detailed further below.

Payroll system

20 Internal audit testing found that there were weaknesses in the Council's controls for ensuring that changes to the payroll are appropriately authorised within some Directorates. For example, new starters were authorised by staff not included in the list of delegated signatories. This prevented us from placing reliance on your controls in this area and we had to perform further testing as a result. This further testing did not identify any misstatements in respect of payroll expenditure.

Pooled budgets

21 The Section 75 Partnership Agreement for Lead Commissioning in respect of Learning Disability is still in draft form even though the partnership arrangements commenced on 1 April 2009. Management should ensure that this partnership agreement between the Council and Dudley PCT is finalised as soon as possible.

Journals

22 Journals are not authorised prior to input. The audit has not identified any errors in the financial statements that are attributable to inaccurate journals being processed but internal control could be improved if material journals were authorised prior to input. This should prevent any materially inaccurate journals from being processed rather than relying on identification of them after they have been processed.

Recommendation	
R2	Staff should be reminded that only payroll/personnel documentation signed by staff who are appropriately authorised as per the completed Directorate Financial Delegation Documents should be processed
R3	Management should ensure that the Section 75 Partnership Agreement for Lead Commissioning in respect of Learning Disabilities Health and Social Care Services is finalised as soon as possible
R4	Management should consider adding the authorisation of material journals prior to input to the existing controls in place for journals

Letter of representation

23 Before I issue my opinion, auditing standards require me to ask you and management for written representations about your financial statements and governance arrangements. Appendix 3 contains the draft letter of representation.

Key areas of judgement and audit risk

24 In planning my audit I identified specific risks and areas of judgement that I have considered as part of my audit.

Table 1 Key areas of judgement and audit risk

Issue or risk	Finding
The identification and accounting of PFI and similar contracts will need to be re-visited to comply with IFRS requirements introduced into the 2009 SORP.	I reviewed the Council's accounting treatment for PFI and similar contracts and am satisfied that the Council has complied with the 2009 SORP. I identified that the waste to energy plant had not been valued on the correct basis and the adjustment made following revaluation has been reported above
Accounting for equal pay settlements	I tested the accounting disclosures for the funding of the equal pay settlements to ensure compliance with the SORP, regulations and capitalisation direction. I concluded that the provision for equal pay settlements is fairly stated
Valuation of investment in Birmingham Airport	The Council obtained a new valuation of its investment in the airport after the financial statements were approved by the Audit Committee in June. The adjustment required to reflect this new valuation has been reported above. I have considered this valuation and am satisfied that it is fairly stated
Pooled budget and other partnership arrangements	I reviewed the Council's processes for identifying and accounting for pooled budgets and other partnerships. I identified that the notes to the financial statements did not disclose a material pooled budget in respect of learning disabilities health and social care services and that the partnership agreement in respect of this service has not yet been finalised
The accounting treatment of Council Tax & NNDR will need to be re-visited to comply with SORP 2009 requirements	I reviewed the Council's accounting treatment for Council Tax and NNDR and concluded that they comply with the requirements of the 2009 SORP. I identified that the Council's new accounting policy in respect of NNDR needed to be added to the financial statements
The recession has had a negative impact on asset values. There is a risk that the	I reviewed the Council's arrangements for revaluing its fixed and current assets and

Issue or risk	Finding
Council's assets may not have been appropriately impaired and are overvalued	am satisfied that its processes adequately considered the impact of the recession on asset values

Accounting practice and financial reporting

25 I consider the non-numeric content of your financial reporting. I have not identified any significant issues to raise with you from the work completed so far.

Value for money

I am required to decide whether the Council put in place satisfactory corporate arrangements for securing economy, efficiency and effectiveness in its use of resources. This is known as the value for money conclusion. I have based my conclusion on my work on the scored use of resources judgement.

Value for money conclusion

- 26** I assess your arrangements to secure economy, efficiency and effectiveness in your use of resources against criteria specified by the Audit Commission. I have shown my conclusions on each of the areas in Appendix 4.
- 27** I intend to issue an unqualified conclusion stating that the Council had adequate arrangements to secure economy, efficiency and effectiveness in the use of resources. Appendix 1 contains my draft report.
- 28** My conclusions have been informed by the findings of my use of resources work which I carried out earlier in the year, and my review of your arrangements for business transformation and tackling alcohol misuse, which I had identified in my audit plan as specific risk areas. I have produced separate reports on the outcomes of these reviews. My work on use of resources is summarised below.

Managing finances

- 29** The Council has arrangements in place to ensure that it manages its finances and delivers value for money. The annual budget process is completed and approved in a timely manner with strong emphasis on medium term financial planning. The council has reviewed and updated its Medium Term Financial Strategy in light of the current economic climate. There is strong leadership by Cabinet on issues of financial management. The Council is very aware of tight finances and has a culture of cost control underpinned by benchmarking. Overall it is a high performance low cost authority. The Council has strong processes in place for financial monitoring and forecasting which enables them to produce draft accounts by the end of May. The Council has commenced preparations for the implementation of International Financial Reporting Standards (IFRS).

Governing the business

- 30** The Council has arrangements in place to govern itself and commission services that provide value for money and deliver better outcomes for local people. The Council's vision is customer centric services. It is the core of the outline Business Transformation strategy and already the focus for services and initiatives.
- 31** The Council is focussed on continually improving data quality but further progress is needed to ensure that it regularly meets the required standards. Audit Commission

testing found concerns in respect of the processes in place for calculating National Indicator 179 (efficiency savings). The Council needs to demonstrate clear outcomes from the use of an interactive mapping system (GIS-MO). The Council also needs to obtain evidence from third parties that the data they provide to the Council is quality assured.

- 32** The Council has principles of governance in place. The council's leadership has a clear focus on ensuring that there is a strong ethical framework. The Council 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.
- 33** Risk Management is embedded in the Council's processes and is clearly linked to strategic planning, financial planning, policy making and review, performance management and project management. Joint risk registers are being used and maintained with partnerships on joint projects. Good anti fraud and corruption arrangements are in place. The Council has a sound system of internal control. Chief officers attend meetings of the Audit Committee to explain what action they are taking in respect of internal control issues raised in respect of their Directorates. There is scope for improvement in how the Council follows up matches identified by the Audit Commission's National Fraud Initiative.

Recommendations

- R5** Re-examine the processes in place for calculating National Indicator 179 (efficiency savings) so as to ensure that it is accurate, follows national guidance and is supported by strong evidence
- R6** Ensure that clear outcomes from the use of GIS-MO can be demonstrated
- R7** Obtain evidence from third parties that their data is quality assured. The proposed action at present is for senior level sign off of data by partners. Stronger assurance could be obtained if the data sign off was to come from, or be supported by, partners' internal audit function or similar
- R8** Ensure that robust mechanisms are in place for following up data matches identified by the Audit Commission's National Fraud Initiative

Managing resources

- 34** The Council has arrangements in place to manage its physical assets and people. The IT and physical assets strategies are still awaiting finalisation of the business transformation strategy. Once developed into action this will give clarity on the Council's future needs. The Council recognises that its estate is on multiple outdated sites. Its Corporate Property Group explored options to rationalise and modernise the Council's estate but the costs exceed its resources.
- 35** Directorate asset management plans are in place but how well they are maintained varies between directorates. The cost to make good backlog repairs (as a percentage of operational asset value, including schools), has decreased but without a strategic estate solution some more major problems are expected. The Council needs to identify

Value for money

whether there is further scope for rationalising asset management contracts. For example, the corporate rationalisation of window cleaning contracts reduced the number of contracts from sixteen to one in the central campus area.

- 36** Many directorates and services do individually workforce plan well but full use is not made of new working approaches. The Council takes a serious approach to training its staff. Organisational change is well managed and successful due to time being given to communication and negotiation and redeployment being facilitated, although there is a drop in staff holding this view. However, the libraries modernisation programme has resulted in working arrangements being changed and customer and IT skills being enhanced. Sickness absence has been brought down from an average of 9 to 7.3 days.

Recommendation	
R9	Draft and implement clear premises and people strategies which will deliver the business transformation strategy
R10	Ensure that all directorate asset management plans are produced to the same high standard
R11	Identify whether there is scope for rationalising asset management contracts
R12	Identify and consider opportunities for new working approaches such as expanding the use of home working

Glossary

Annual governance statement

37 A statement of internal control prepared by an audited body and published with the financial statements.

Audit closure certificate

38 A certificate that I have completed the audit following statutory requirements. This marks the point when I have completed my responsibilities for the audit of the period covered by the certificate.

Audit opinion

39 On completion of the audit of the accounts, auditors must give their opinion on the financial statements, including:

- whether they give a true and fair view of the financial position of the audited body and its spending and income for the year in question;
- whether they have been prepared properly, following the relevant accounting rules; and
- for local probation boards and trusts, on the regularity of their spending and income.

Qualified

40 The auditor has some reservations or concerns.

Unqualified

41 The auditor does not have any reservations.

Value for money conclusion

42 The auditor's conclusion on whether the audited body has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

Appendix 1 – Independent auditor’s report to Members of Dudley Metropolitan Borough Council

Opinion on the accounting statements

I have audited the Authority accounting statements and related notes of Dudley Metropolitan Borough Council for the year ended 31 March 2010 under the Audit Commission Act 1998. The accounting statements comprise the Income and Expenditure Account, the Statement of Movement on the General Fund Balance, the Balance Sheet, the Statement of Total Recognised Gains and Losses, the Cash Flow Statement, the Housing Revenue Account, the Statement of Movement on the Housing Revenue Account, the Collection Fund and the related notes. These accounting statements have been prepared under the accounting policies set out in the Statement of Accounting Policies.

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 49 of the Statement of Responsibilities of Auditors and of Audited Bodies published by the Audit Commission in April 2008.

Respective responsibilities of the Treasurer and auditor

The Treasurer's responsibilities for preparing the accounting statements in accordance with relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2009: A Statement of Recommended Practice are set out in the Statement of Responsibilities for the Statement of Accounts.

My responsibility is to audit the accounting statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

I report to you my opinion as to whether the accounting statements give a true and fair view, in accordance with relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2009: A Statement of Recommended Practice, of the financial position of the Authority and its income and expenditure for the year.

I review whether the governance statement reflects compliance with ‘Delivering Good Governance in Local Government: A Framework’ published by CIPFA/SOLACE in June 2007. I report if it does not comply with proper practices specified by CIPFA/SOLACE or if the statement is misleading or inconsistent with other information I am aware of from my audit of the accounting statements. I am not required to consider, nor have I considered, whether the governance statement covers all risks and controls. Neither am I required to form an opinion on the effectiveness of the Authority’s corporate governance procedures or its risk and control procedures.

I read other information published with the accounting statements, and consider whether it is consistent with the audited accounting statements. This other information comprises the Explanatory Foreword and the Summary of the 2009/10 Financial Year. I consider the implications for my report if I become aware of any apparent misstatements or material inconsistencies with the accounting statements. My responsibilities do not extend to any other information.

Basis of audit opinion

I conducted my audit in accordance with the Audit Commission Act 1998, the Code of Audit Practice issued by the Audit Commission and International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the accounting statements and related notes. It also includes an assessment of the significant estimates and judgments made by the Authority in the preparation of the accounting statements and related notes, and of whether the accounting policies are appropriate to the Authority’s circumstances, consistently applied and adequately disclosed.

I planned and performed my audit so as to obtain all the information and explanations which I considered necessary in order to provide me with sufficient evidence to give reasonable assurance that the accounting statements and related notes are free from material misstatement, whether caused by fraud or other irregularity or error. In forming my opinion I also evaluated the overall adequacy of the presentation of information in the accounting statements and related notes.

Opinion

In my opinion the Authority accounting statements give a true and fair view, in accordance with relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2009: A Statement of Recommended Practice, of the financial position of the Authority as at 31 March 2010 and its income and expenditure for the year then ended.

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

Authority’s Responsibilities

The Authority is responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources, to ensure proper

Appendix 1 – Independent auditor’s report to Members of Dudley Metropolitan Borough Council

stewardship and governance and regularly to review the adequacy and effectiveness of these arrangements.

Auditor’s Responsibilities

I am required by the Audit Commission Act 1998 to be satisfied that proper arrangements have been made by the Authority for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the Audit Commission requires me to report to you my conclusion in relation to proper arrangements, having regard to relevant criteria for principal local authorities specified by the Audit Commission and published in May 2008 and updated in October 2009,. I report if significant matters have come to my attention which prevent me from concluding that the Authority has made such proper arrangements. I am not required to consider, nor have I considered, whether all aspects of the Authority’s arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

Conclusion

I have undertaken my audit in accordance with the Code of Audit Practice and having regard to the criteria for principal local authorities specified by the Audit Commission and published in May 2008 and updated in October 2009, and the supporting guidance, I am satisfied that, in all significant respects, Dudley Metropolitan Borough Council made proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2010.

Certificate

I certify that I have completed the audit of the accounts in accordance with the requirements of the Audit Commission Act 1998 and the Code of Audit Practice issued by the Audit Commission.

Tony Corcoran
Officer of the Audit Commission
Ground Floor, Suite 1
Observer House
Horsefair
Abbey Forgate
Shrewsbury
SY2 6BL

XX September 2010

Appendix 2 – Amendments to the draft accounts

I identified the following misstatements during my audit and managers have made the necessary adjustments. I bring them to your attention to aid you in fulfilling your governance responsibilities.

Table 2

		Income and Expenditure Account		Balance sheet	
Adjusted misstatements	Nature of adjustment	Dr £000s	Cr £000s	Dr £000s	Cr £000s
Income and expenditure account	Additional entry within net operating expenditure in respect of impairment of assets not linked to any service. This is due to the correction of errors identified through the implementation of the fixed assets module and the re-classification of other land and buildings assets as surplus assets	4,327			
Income and expenditure account	Loss on disposal of assets has become a gain on disposal following the writing off of balances relating to schools no longer owned by the Council		2,227		
Fixed assets -	Net increase in value of			4,644	

Appendix 2 – Amendments to the draft accounts

		Income and Expenditure Account		Balance sheet	
other land and buildings	assets. This is due to the correction of errors identified through the implementation of the fixed assets module, the revaluation of primary school assets, the re-classification of other land and buildings assets as surplus assets and the revaluation of the waste to energy plant				
Fixed assets - surplus assets	Increase in value of assets. This is due to the correction of errors identified through the implementation of the fixed assets module and the re-classification of other land and buildings assets as surplus assets			4,053	
Long term investments	Increase in value due to revaluation of investment in Birmingham Airport			12,329	
Grants deferred account	Decrease in value due to writing off of balances relating to schools no longer owned by the Council			2,227	
Revaluation reserve	Increase in value due to the correction of errors identified through the implementation of the fixed assets module and the revaluation of the waste to energy				13,190

Appendix 2 – Amendments to the draft accounts

		Income and Expenditure Account		Balance sheet	
	plant				
Available for sale financial instruments reserve	Creation of reserve following revaluation of investment in Birmingham Airport				12,329
Capital adjustment account	Decrease in value due to the correction of errors identified through the implementation of the fixed assets module, the revaluation of primary school assets, the re-classification of other land and buildings assets as surplus assets and writing off of balances relating to schools no longer owned by the Council			3,170	

Appendix 3 – Draft letter of representation

To:

Tony Corcoran
District Auditor
Audit Commission
Ground Floor, Suite 1
Observer House
Horsefair
Abbey Forgate
Shrewsbury
SY2 6BL

Dudley Metropolitan Borough Council - Audit for the year ended 31 March 2010

I confirm to the best of my knowledge and belief, having made appropriate enquiries of other officers of Dudley Metropolitan Borough Council, the following representations given to you in connection with your audit of the Council's financial statements for the year ended 31 March 2010. All representations cover the Council's accounts included within the financial statements.

Compliance with the statutory authorities

I acknowledge my responsibility under the relevant statutory authorities for preparing the financial statements in accordance with the Code of Practice for Local Authority Accounting in the United Kingdom: A Statement of Recommended Practice which give a true and fair view of the financial position and financial performance of the Council and for making accurate representations to you.

Supporting records

All the accounting records have been made available to you for the purpose of your audit and all the transactions undertaken by the Council have been properly reflected and recorded in the accounting records. All other records and related information, including minutes of all Council and Committee meetings, have been made available to you.

Irregularities

I acknowledge my responsibility for the design and implementation of internal control systems to prevent and detect fraud or error.

There have been no:

- irregularities involving management or employees who have significant roles in the system of internal accounting control;
- irregularities involving other employees that could have a material effect on the financial statements; or
- communications from regulatory agencies concerning non-compliance with, or deficiencies on, financial reporting practices which could have a material effect on the financial statements.

I also confirm that I have disclosed:

- my knowledge of fraud, or suspected fraud, involving either management, employees who have significant roles in internal control or others where fraud could have a material effect on the financial statements; and
- my knowledge of any allegations of fraud, or suspected fraud, affecting the entity's financial statements communicated by employees, former employees, analysts, regulators or others.

Law, regulations, contractual arrangements and codes of practice

There are no instances of non-compliance with laws, regulations and codes of practice, likely to have a significant effect on the finances or operations of the Council.

The Council has complied with all aspects of contractual arrangements that could have a material effect on the financial statements in the event of non-compliance. There has been no non-compliance with requirements of regulatory authorities that could have a material effect on the financial statements in the event of non-compliance.

Fair Values

I confirm the reasonableness of the significant assumptions within the financial statements. For the valuation of land and buildings, residual interest in the Council's PFI and similar contracts, long term investments, debtors, creditors and provisions assumptions, I confirm:

- the appropriateness of the measurement method;
- the basis used by management to overcome the presumption under the financial reporting framework;
- the completeness and appropriateness under the financial reporting framework; and
- that subsequent events do not require adjustment to the fair value measurement.

Appendix 3 – Draft letter of representation

Assets

The following have been properly recorded and, where appropriate, adequately disclosed in the financial statements:

- losses arising from sale & purchase commitments;
- agreements & options to buy back assets previously sold; and
- assets pledged as collateral.

Compensating arrangements

There are no formal or informal compensating balancing arrangements with any of our cash and investment accounts. Except as disclosed in Note 25 to the financial statements we have no other lines of credit arrangements.

Contingent liabilities

There are no other contingent liabilities, other than those that have been properly recorded and disclosed in the financial statements. In particular:

- there is no significant pending or threatened litigation, other than those already disclosed in the financial statements;
- there are no material commitments or contractual issues, other than those already disclosed in the financial statements; and
- no financial guarantees have been given to third parties.

Related party transactions

I confirm the completeness of the information disclosed regarding the identification of related parties.

The identity of, and balances and transactions with, related parties have been properly recorded and where appropriate, adequately disclosed in the financial statements

Post balance sheet events

Since the date of approval of the financial statements by the Council, no additional significant post balance sheet events have occurred which would require additional adjustment or disclosure in the financial statements.

The Council has no plans or intentions that may materially alter the carrying value or classification of assets and liabilities reflected in the financial statements.

Specific representations:

There are no other material amounts relating to unfunded liabilities, curtailments or settlements of past service costs relating to pension provision other than those which have been properly recorded and disclosed in the financial statements.

The Council's contractual dispute regarding the value of the unitary payment for a PFI scheme is referred to in note 24 to the financial statements. This dispute concerning the PFI contract continues to be subject to negotiation. In particular any final settlement sum cannot yet be quantified.

In respect of the waste to energy plant:

- the plant receives only minimal volumes of trade waste
- there have been no material contract variations for the contract to date
- there have been no material payment deductions for poor performance, unavailability or any refinancing gains since inception to present date.

In respect of the Paragon PFI scheme:

- there have been no material payment deductions for poor performance, unavailability or any refinancing gains since inception to present date
- the operators model for construction costs shows an entry of £16,053,782. This represents capital costs in line with the SORP and FRS15.

Signed on behalf of Dudley Metropolitan Borough Council

I confirm that the this letter has been discussed and agreed by the Audit Committee on 23 September 2010

Signed

Iain Newman
Treasurer
23 September 2010

Appendix 4 – Value for money criteria

KLOE	Met
Managing finances	
Planning for financial health	Yes
Understanding costs and achieving efficiencies	Yes
Financial reporting	Yes
Governing the business	
Commissioning and procurement	Yes
Use of information	Yes
Good governance	Yes
Risk management and internal control	Yes
Managing resources	
Strategic asset management	Yes
Workforce	Yes

Appendix 5 – Action plan

Page no.	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
Annual Governance Report 2009/10 - Recommendations						
9	R1 Management should identify the total value of receipts and payments below £500 which are received and made in the month following year end and assess whether the de-minimis level for accruals remains reasonable	2				
10	R2 Staff should be reminded that only payroll/personnel documentation signed by staff who are appropriately authorised as per the completed Directorate Financial Delegation Documents should be processed	3				
10	R3 Management should ensure that the Section 75 Partnership Agreement for Lead Commissioning in respect of Learning Disabilities Health and Social Care Services is finalised as soon as possible	3				
10	R4 Management should ensure that material	2				

Appendix 5 – Action plan

Page no.	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
	journals are authorised prior to input					
14	R5 Re-examine the processes in place for calculating National Indicator 179 (efficiency savings) so as to ensure that it is accurate, follows national guidance and is supported by strong evidence	2				
14	R6 Ensure that clear outcomes from the use of GIS-MO can be demonstrated	2				
14	R7 Obtain evidence from third parties that their data is quality assured. The proposed action at present is for senior level sign off of data by partners. Stronger assurance could be obtained if the data sign off was to come from, or be supported by, partners' internal audit function or similar	2				
14	R8 Ensure that robust mechanisms are in place for following up data matches identified by the Audit Commission's National Fraud Initiative	3				
15	R9 Draft and implement clear premises and people strategies which will deliver the business transformation strategy	3				

Page no.	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
15	R10 Ensure that all directorate asset management plans are produced to the same high standard	2				
15	R11 Identify whether there is scope for rationalising asset management contracts	2				
15	R12 Identify and consider opportunities for new working approaches such as expanding the use of home working	3				

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