

The Audit Findings for Calderdale Metropolitan Borough Council

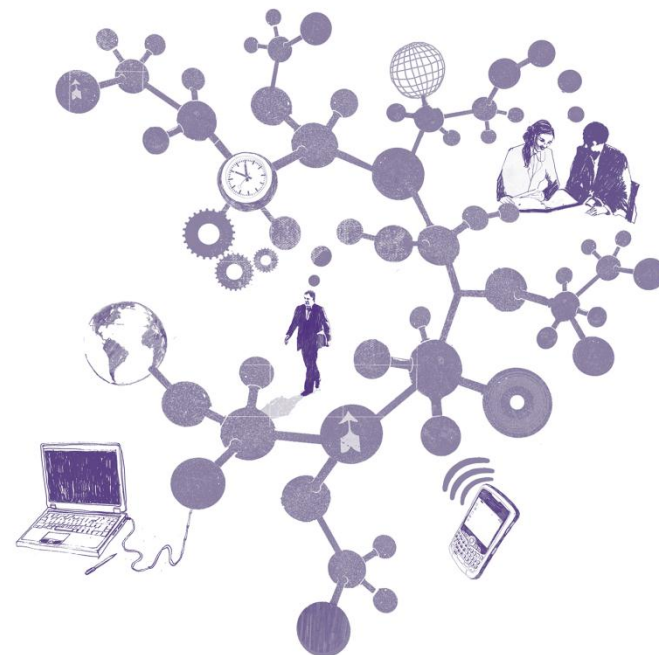
Year ended 31 March 2013

11 September 2013

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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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Section 1: Executive summary

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Executive summary

Purpose of this report

This report highlights the key matters arising from our audit of Calderdale 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 24 June 2013.

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

- obtaining a small number of outstanding bank confirmation letters;
- finalising our review of the work of the Council's estate valuation experts;
- review of the final version of the financial statements;
- obtaining and reviewing the final management letter of representation;
- review of final version of the Annual Governance Statement;

- updating our post balance sheet events review, to the date of signing the opinion;
- Whole of Government Accounts;
- our final review procedures.

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 outturn position. The financial statements recorded net expenditure of £38,485k.

We have identified one balance sheet adjustment which reduces the value of non-current assets by £6,488k.

A small number of adjustments have been made to improve the presentation of the financial statements and these are set out on page 16.

The key messages arising from our audit of the Council's financial statements are:

- the draft accounts and working papers were generally of a good quality
- the audit identified one misstatement impacting on the balance sheet position
- the audit identified a small number of disclosure and classification adjustments.

Further details are set out in section 2 of this report.

Executive summary (cont.)

Value for money conclusion

Based on our review of the Council's arrangements to secure economy, efficiency and effectiveness in its use of resources, we propose to give a qualified VFM conclusion.

The area of qualification relates to the improvement notice issued by the Under Secretary of State for Children and Families in April 2012 due to poor performance in Children's Social Services and which is still in place at the date of my report.

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. We have not identified any significant control issues.

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 Director of Finance.

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 Director of Finance 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
12 September 2013

Section 2: Audit findings

01. Executive summary

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Audit findings

In this section we present our findings in respect of matters and risks identified at the planning stage of the audit and additional matters that arose during the course of our work. We set out on the following pages the work we have performed and findings arising from our work in respect of the audit risks we identified in our audit plan, presented to the Audit Committee on 24 June. 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 had to change our Audit Plan as previously communicated to you on 24 June 2013.

Audit opinion

We anticipate that we will provide the Council with an unqualified opinion. Our audit opinion is set out in Appendix B.

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	Employee remuneration understated Payroll tax obligations understated	No	None
Costs of services – housing & council tax benefit	Welfare expenditure	Other	Welfare benefits improperly computed	No	None
Cost of services – other revenues (fees & charges)	Other revenues	None		No	None

Account	Transaction cycle	Material misstatement risk?	Description of risk	Change to the audit plan	Audit findings
(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
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
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

Account	Transaction cycle	Material misstatement risk?	Description of risk	Change to the audit plan	Audit findings
PFI revenue support grant and other Government grants	Grant income	None		No	£5.4m misclassification of government grants identified
Capital grants & contributions (including those received in advance)	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 PPE improperly expensed Revaluation measurements not correct	No	£6.5m asset revaluation overstatement identified
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

Account	Transaction cycle	Material misstatement risk?	Description of risk	Change to the audit plan	Audit findings
Debtors (long & short term)	Revenue	None		No	None
Assets held for sale	Property, plant & equipment	None		No	None
Inventories	Inventories	None		No	None
Cash & cash equivalents	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	None
Provisions (long & short term)	Provision	None		No	None
Other liabilities (long & short term)	Operating expenses	None		No	None
Pension liability	Employee remuneration	None		No	None
Reserves	Equity	None		No	Enhanced disclosure required for earmarked reserves
Collection fund	Collection fund	None		No	Collection fund presentation amendment

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.	Improper revenue recognition Under ISA 240 there is a presumed risk that revenue may be misstated due to improper recognition	<ul style="list-style-type: none"> • review and testing of revenue recognition policies • testing of material revenue streams • review of unusual significant transactions 	Our audit work has not identified any issues in respect of revenue recognition.
2.	Management override of controls Under ISA 240 there is a presumed risk of management over-ride of controls	<ul style="list-style-type: none"> • review of accounting estimates, judgements and decisions made by management • testing of journal entries • review of unusual significant transactions 	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. We set out later in this section of the report our work and findings on key accounting estimates and judgments.

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	<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 operating expenses undertaken walkthrough of the key controls to assess whether those controls are designed effectively substantive testing of operating expenses including: <ul style="list-style-type: none"> I. analytical procedure to determine whether movements in operating expenditure are reasonable and materially correct II. attribute testing on a sample of operating expenses 	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	<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 creditors undertaken walkthrough of the key controls to assess whether those controls are designed effectively substantive testing of creditors including: <ul style="list-style-type: none"> I. test of a sample of payables and accruals II. search for unrecorded liabilities III. assessment of robustness of assumptions and estimates of underlying accruals and provisions 	Our audit work has not identified any significant issues in relation to the risk identified

Audit findings against other risks (cont.)

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	Employee remuneration expenses understated	<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 employee remuneration undertaken walkthrough of the key controls to assess the whether those controls are designed effectively Substantive testing of employee remuneration including: <ul style="list-style-type: none"> I. analytical procedure to determine whether movements in salaries and other pay related costs are reasonable and materially correct II. attribute testing on a sample of pay costs III. agreement of related disclosures to the payroll system or other appropriate source document 	Our audit work has not identified any significant issues in relation to the risk identified
Employee remuneration	Payroll tax obligations understated	<p>We have undertaken the following substantive testing in relation to this risk:</p> <ul style="list-style-type: none"> test of a sample of payroll tax obligations during the year recalculation of payroll tax obligations in year to determine whether amounts paid to HMRC are reasonable and materially correct 	Our audit work has not identified any significant issues in relation to the risk identified

Audit findings against other risks (cont.)

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
Welfare expenditure	Welfare benefits improperly computed	<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 welfare expenditure undertaken walkthrough of the key controls to assess the whether those controls are designed effectively substantive testing of welfare expenditure including: <ul style="list-style-type: none"> I. a review of the reconciliation between the housing and council tax benefit system and the general ledger II. analytical procedure to determine the reasonableness of housing and council tax benefit expenditure III. substantive testing of a sample of benefit payments to individual claimants to support our audit opinion on the accounts and our certification of the Council's Housing Benefit claim. 	Our audit work has not identified any significant issues in relation to the risk identified
Property, plant & equipment (PPE)	PPE improperly expensed	<p>We have undertaken the following substantive testing in relation to this risk:</p> <ul style="list-style-type: none"> review of the Council's analysis of spend in relation to capital projects, to determine whether spend which is revenue in nature is accounted for appropriately review of low value capitalised expenditure during the year to determine whether this should be accounted for as revenue expenditure 	Our audit work has not identified any significant issues in relation to the risk identified.

Audit findings against other risks (cont.)

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
Property, plant & equipment	PPE activity not valid	<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 capital transactions undertaken walkthrough of the key controls to assess the whether those controls are designed effectively substantive testing of capital transactions including: <ol style="list-style-type: none"> test of a sample of additions and disposals, to ensure that these were appropriately accounted for analytical procedure to determine the reasonableness of depreciation charged in year agreement of capital related disclosures to underlying source documents 	Our audit work has not identified any significant issues in relation to the risk identified.

Audit findings against other risks (cont.)

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
Property, plant & equipment	Revaluation measurement not correct	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> • test of a sample of revaluation and impairments to supporting documentation • review of the reasonableness of estimates and assumptions used by the Council's valuation experts • review of the accounting treatment for revaluation and impairments to determine compliance with the Code of Practice 	<p>It is best practice for a Council's finance team to formalise terms of reference with the Council's valuation experts. This should detail the valuation basis to be used, estimates and judgements to be made by each party, the assets to be revalued and the deliverables.</p> <ul style="list-style-type: none"> • Whilst the Council's finance team did communicate its requirements of the valuers, there was no formal agreement to this from the valuation team. Instead, a brief memo was received from the valuers which did not provide sufficient information on individual valuations. • Whilst a terms of reference agreement was in place in 2010/11, this has not been reaffirmed for subsequent periods. <p>We have therefore recommended in our action plan that a formal terms of reference agreement be agreed between the valuation and finance team prior to valuation work commencing in the future.</p> <p>It is best practice for a Council's finance team to formally document its assessment of the work of the Council's valuation experts, detailing what assurances it gains over the integrity of the estimates and assumptions relied upon for valuing assets.</p> <ul style="list-style-type: none"> • We identified that the value of a number of assets changed significantly (over £1m) on revaluation during the year. On further investigation of these asset movements, we identified that:

Audit findings against other risks (cont.)

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
Property, plant & equipment	Revaluation measurement not correct (cont.)		<ul style="list-style-type: none"> ○ The value of one asset had been 'double-counted', leading to an overstatement of £6.5m in the value of property at year end. ○ The basis of estimation for the valuation of two assets changed from an Income & Expenditure to a Depreciated Replacement Cost basis, causing an increase in asset values of approximately £3m. ○ One property increased in value by £1m; however there was no valuation workings to support the current valuation. <p>The Council's finance team should ensure that it documents it's assessment of the output of the valuation experts, and that comfort is sought over such movements as those identified above.</p> <p>It is best practice for a comprehensive impairment review to be performed each year, identifying whether conditions exist across one or more classes of assets which might necessitate an impairment.</p> <ul style="list-style-type: none"> ○ Whilst we noted that a draft valuation memo was provided by the valuation experts to the Council's finance team, this was not supported with auditable supporting documentation. <p>We recommend that a fully documented impairment review be performed going forward, supported with auditable documentation.</p>




Audit findings against other risks (cont.)

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
Property, plant & equipment	Revaluation measurement not correct (cont.)		<ul style="list-style-type: none">○ A £6.5m adjustment is required to correct the double-counted asset valuation identified. <p>Through investigation and corroboration of the majority of large (over £1m) valuation movements, we have gained sufficient assurance that the accounts are not materially misstated due to valuation uncertainties or inaccuracies.</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"> Revenue is recognised in line with the CIPFA Code of Practice and IAS 18. 	<ul style="list-style-type: none"> The Council's revenue recognition policy is appropriately designed, in line with the CIPFA Code of Practice. Adequate disclosure of the Council's revenue recognition policy is made within the accounts. 	
Judgements and estimates	<ul style="list-style-type: none"> Key estimates and judgements include: <ul style="list-style-type: none"> – useful life of capital equipment – pension fund valuations and settlements – revaluations & impairments – provisions. 	<ul style="list-style-type: none"> Judgements and estimates used by the Council are broadly sound. However, we have identified scope for improvement in the communication between the Council's valuation experts and the finance team regarding the use of estimation in property valuation. A recommendation has been raised in Appendix A in relation to this. 	
Other accounting policies	<ul style="list-style-type: none"> The Council adopts policies in line with the CIPFA Code and the International Financial Reporting Standards which underpin this. Where national guidance is unavailable or unclear, the Council adopts an informed interpretation which it applies consistently. 	<p>National guidance on the accounting treatment for schools remains under consultation by CIPFA. The outcome of this is expected in 2013/14. In the absence of this guidance, the Council has established reasonable accounting policies, which it applies consistently from year to year. However, there is a related accounting policy which we would like to bring to the attention of the Audit Committee:</p> <p>Accounting for Foundation schools which are funded through the use of PFI. The Council's policy is to not hold foundation school assets on the balance sheet, as control of the assets is held by a third party. However, the Council has retained the one PFI funded Foundation school in the Authority on its balance sheet. This has been done to ensure that the accounts present the assets as well as the liability and related income and expenditure for the PFI arrangement.</p>	

Accounting policies, estimates & judgements (cont.)

Accounting area	Summary of policy	Comments	Assessment
Other accounting policies (cont.)		<ul style="list-style-type: none"> Given the absence of guidance by CIPFA on these accounting matter, and the fact that the Council has established reasonable accounting policies, which it applies consistently, we are not minded to challenge the Council's accounting policy in this area. We will review the compliance of the Council's accounting policies for schools when CIPFA releases the national guidance. Our review of accounting policies has not highlighted any further matters which we wish to bring to your attention. 	

Assessment

- Marginal accounting policy which could potentially attract attention from regulators
- Accounting policy appropriate but scope for improved disclosure
- Accounting policy appropriate and disclosures sufficient

Adjusted misstatements

One adjustment to the draft financial statements has 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 adjustment arising from the audit which has been processed by management.

Detail		Comprehensive Income and Expenditure Account £'000	Balance Sheet £'000	Impact on total net expenditure £000
1	<p>Valuation of the combined Lower Valley Day Centre and Highbury School site</p> <p>The valuation experts double-counted the valuation of the above site. The valuation of £6.5m was incorrectly accounted for as £13m as a result.</p> <p>This results in a £1.2m impairment as opposed to a £5.3m increase in value. The impairment is absorbed by the existing revaluation reserve balance.</p>			
Overall impact		£0	£6,488	£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	Misclassification	5,201	Note 11 – Government Grants	Government Grants disclosure note 11 overstated. £5.4m of non-government grant income incorrectly presented as government grant income. Nil impact on the CIES.
2	Disclosure	N/A	Note 10 – Earmarked Reserves	We have requested that the Council should disclose the movements in and out of earmarked reserves during the year, as well as the year end balance on each reserve.
3	Disclosure	N/A	PFI	Disclosure required to detail the Council's accounting treatment for PFI lifecycle costs.
4	Disclosure	N/A	Collection Fund	Collection fund disclosure enhancement required to improve the analysis of the collection fund and movement on fund balances.

Internal controls

The purpose of an audit is to express an opinion on the financial statements.

Our audit included consideration of internal controls relevant to the preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of internal control. The matters reported here are limited to those deficiencies that we have identified during the course of our audit and that we have concluded are of sufficient importance to merit being reported to you in accordance with auditing standards.

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

	Assessment	Issue and risk	Recommendations
1.		<p>The Council's accounts preparation process relies on the integrity of information received from directorate finance leads, and experts such as the Council's valuation team.</p> <p>Inaccuracies in information received by the Council's central finance team led to two audit findings reported in the previous sections of this report:</p> <ul style="list-style-type: none"> • An asset valuation was double-counted by the valuation team, causing a £6.5m overstatement in asset values; • A disclosure misclassification of £5.4m was identified in relation to government grants received by the Children and Young People directorate. <p>There is a risk of misstatement to the accounts where accounting entries, prepared by individuals outside of central finance, are not sufficiently scrutinised by central finance.</p>	<p>The Council should formalise its procedures for scrutinising information collated during the accounts closedown process. This is particularly important for material accounting entries, including:</p> <ul style="list-style-type: none"> • Property valuations • Schools related grant income.

Assessment

 Significant deficiency – risk of significant misstatement

 Deficiency – risk of inconsequential misstatement

Other communication requirements

We set out below details of other matters which we are required by auditing standards to communicate to those charged with governance.

	Issue	Commentary
1.	Matters in relation to fraud	<ul style="list-style-type: none">We have previously discussed the risk of fraud with the Audit Committee. We have not been made aware of any incidents 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	<ul style="list-style-type: none">We are not aware of any significant incidences of non-compliance with relevant laws and regulations.
3.	Written representations	<ul style="list-style-type: none">A standard letter of representation has been requested from the Council.
4.	Disclosures	<ul style="list-style-type: none">Our review found no material omissions in the financial statements.
5.	Matters in relation to related parties	<ul style="list-style-type: none">We are not aware of any related party transactions which have not been disclosed.
6.	Going concern	<ul style="list-style-type: none">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

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Value for Money

Value for Money conclusion

The Code of Audit Practice 2010 (the Code) describes the Council's responsibilities to put in place proper arrangements to:

- secure economy, efficiency and effectiveness in its use of resources
- ensure proper stewardship and governance
- 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

To support our VFM conclusion against the specified criteria we performed a risk assessment against VFM risk indicators specified by the Audit Commission. Following completion of our work we have not identified any significant residual risks to our VFM conclusion.

Our overall conclusion is that whilst the Council continues to face challenges, both in the medium term and longer term – its current arrangements for securing financial resilience are good.

A separate report on our review of the council's financial resilience arrangements has been prepared and agreed with management. It is due to be presented to the Audit Committee on 19 September and forms a key part of our work to inform our overall VFM conclusion.

Challenging economy, efficiency and effectiveness

We have reviewed whether the Council has prioritised its resources to take account of the tighter constraints it is required to operate within, and whether it has achieved cost reductions and improved productivity and efficiencies.

Our work concentrated on how the Council has delivered its £40.5m savings plan for 2012-13 and its plans for delivering further savings of £13.7m over the next two years

Our conclusion is that the Council is responding well to the challenges of the Local Government Financial Settlement, delivering savings and targeting its resources effectively.

Value for Money (cont)

We are also required to consider the work and reports of regulators, particularly where this may have an impact on our assessment of the effectiveness of the Council.

In April 2012, the Council received an improvement notice issued by the Under Secretary of State for Children and Families due to poor performance in Children's Social Services. This notice had been issued following an Ofsted inspection of safeguarding arrangements in 2010.

In December 2012, an Ofsted inspection of the Council's arrangements to protect children judged the quality of practice and overall effectiveness to be inadequate.

In response to the improvement notice the Council worked to develop strategic partnerships and introduced a Single Integrated Improvement Plan. Other improvements included developing early intervention services and increasing partner engagement in the common assessment framework.

A more recent Ofsted inspection in June 2013, identified a number of improvements, however it also identified a number of key areas such as assessment and planning within the contact referral and assessment services remain inadequate and therefore concluded that the effectiveness of overall arrangements remained inadequate.

In the absence of an Ofsted report concluding satisfactory arrangements are in place over the safeguarding of children, the Council remains under notice to improve.

Overall VFM conclusion

On the basis of our work, having regard to the guidance on the specified criteria published by the Audit Commission in November 2012, with exception of the matter reported above, we are satisfied that in all significant respects, Calderdale Metropolitan Borough 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

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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	163,085	163,085*
Grant certification	32,750	32,750
Total audit fees	195,835	195,835

* The planned fee for certification of grant claims and returns is based on the Audit Commission's scale fee. At present we do not anticipate any changes to the grants scale fee. However, the final grants fee will be confirmed in the Grants Report 2012-13, due to be discussed with management in December 2013.

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

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05. Communication of audit matters

Communication of audit matters to those charged with governance

International Standard on Auditing (ISA) 260, as well as other ISAs, prescribe matters which we are required to communicate with those charged with governance, and which we set out in the table opposite.

The Audit Plan outlined our audit strategy and plan to deliver the audit, while this Audit Findings report presents the key issues and other matters arising from the audit, together with an explanation as to how these have been resolved.

Respective responsibilities

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

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	Accounting for government grants The Council should formalise its process for reviewing the accuracy of accounting for government grants. Past errors - particularly in relation to Children's and Educational services - should be reviewed to ensure that these are not repeated.	Medium	The process for recording and identifying government grants within the accounts will be made more explicit. The application of that process to school and wider CYP grants will be overseen by CYP Finance Manager	A Goodwin Dec 2013 P Ward Dec 2013
2	Use of valuation experts The Council should ensure that there is a formally documented agreement between the finance team and valuation experts, detailing the terms of reference for valuation support services. The finance team should formally document their assessment of the output of the valuation and other experts relied upon for material entries for the accounts.	Medium	We will refresh the existing terms of engagement for 2013/14. The terms of engagement will be explicit in terms of requiring explanations to be provided for changes in valuation criteria.	M Bottomley Oct 2013 M Bottomley Oct 2013
3	Impairment review A comprehensive and fully documented impairment review be performed each year, supported with auditable documentation.	Medium	Valuers will prepare and retain supporting documentation for valuation opinions	P Fleming March 2014

Appendix A: Action plan (cont.)

Rec No.	Recommendation	Priority	Management response	Implementation date & responsibility
4	Estate rationalisation The Council should continue to review the basis on which it values its property as a result of the on-going estates rationalisation. For example, where property is due to be sold or demolished, the Council should ensure that this is appropriately reflected in the financial statements going forward.	Medium	Valuers will continue to review the basis on which property is valued as a result of the on-going estates rationalisation.	P Fleming March 2014

Appendix B: Audit opinion

We anticipate we will provide the Council with an unqualified audit opinion but a qualified value for money conclusion

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF CALDERDALE METROPOLITAN BOROUGH COUNCIL

Opinion on the Authority financial statements

We have audited the financial statements of Calderdale 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 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 Calderdale 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 Head of Finance and Auditor

As explained more fully in the Statement of the Head of Finance Responsibilities, the Head of Finance 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 Head of Finance; 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 Calderdale 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.

Appendix B: Audit opinion (cont.)

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.

Basis of qualified conclusion

In seeking to satisfy ourselves that the Council has made proper arrangements for securing economy, efficiency and effectiveness, we have considered the Improvement Notice issued to the Council in April 2012 by the Undersecretary of State for Children and Families due to poor performance in Children's Social Services. This Improvement Notice is still in place at the date of our Value for Money Conclusion.

Qualified Conclusion

On the basis of our work, having regard to the guidance on the specified criteria published by the Audit Commission in November 2012, with exception of the matter reported in the basis for qualified conclusion paragraph above, we are satisfied that in all significant respects, Calderdale Metropolitan Borough Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2013.

Certificate

We certify that we have completed the audit of the financial statements of Calderdale 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.

Mark Heap

Director
for and on behalf of Grant Thornton UK LLP, Appointed Auditor

Grant Thornton UK LLP
4 Hardman Street,
Spinningfields,
Manchester,
M3 3EB

September 2013

Appendix C: Letter of representation

Calderdale 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 Calderdale 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 on the grounds that current and future sources of funding or support will be more than adequate for the Council's needs. We believe that no further disclosures relating to the Council's ability to continue as a going concern need to be made in the financial statements.

Information Provided

- XII. 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.
- XIII. We have communicated to you all deficiencies in internal control of which management is aware.
- XIV. All transactions have been recorded in the accounting records and are reflected in the financial statements.
- XV. 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.
- XVI. 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.
- XVII. 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.
- XVIII. 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.
- XIX. We have disclosed to you the entity of the Council's related parties and all the related party relationships and transactions of which we are aware.

Annual Governance Statement

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.

Approval

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

Signed on behalf of the Board



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