



GOVERNMENT

## **Interim Audit Report 2008/09**

**Telford & Wrekin  
Council**

10 July 2009

AUDIT

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This report is addressed to the Authority and has been prepared for the sole use of the Authority. We take no responsibility to any member of staff acting in their individual capacities, or to third parties. The Audit Commission has issued a document entitled Statement of Responsibilities of Auditors and Audited Bodies. This summarises where the responsibilities of auditors begin and end and what is expected from the audited body. We draw your attention to this document.

External auditors do not act as a substitute for the audited body’s own responsibility for putting in place proper arrangements to ensure that public business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively.

If you have any concerns or are dissatisfied with any part of KPMG’s work, in the first instance you should contact Mike McDonagh, who is the engagement partner to the Authority, telephone 0121 335 2440, email [michael.a.mcdonagh@kpmg.co.uk](mailto:michael.a.mcdonagh@kpmg.co.uk) who will try to resolve your complaint. If you are dissatisfied with your response please contact Trevor Rees on 0161 236 4000, email [trevor.rees@kpmg.co.uk](mailto:trevor.rees@kpmg.co.uk), who is the national contact partner for all of KPMG’s work with the Audit Commission. After this, if you are still dissatisfied with how your complaint has been handled you can access the Audit Commission’s complaints procedure. Put your complaint in writing to the Complaints Investigation Officer, Westward House, Lime Kiln Close, Stoke Gifford, Bristol, BS34 8SR or by e mail to: [complaints@audit-commission.gov.uk](mailto:complaints@audit-commission.gov.uk). Their telephone number is 0844 798 3131, textphone (minicom) 020 7630 0421

## Executive summary

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### Scope of this report

This report summarises our planning and interim audit work at Telford and Wrekin Council ('the Authority') in relation to the 2008/09 financial statements. A significant proportion of our accounts audit is completed before we receive your financial statements. In particular, our work to date covers the following areas:

- Audit planning and risk analysis: We have identified the key issues for the 2008/09 financial statements and discussed your progress in addressing these.
- Control evaluation: We have reviewed your progress with the closedown and accounts production process. We have also tested controls over the key financial systems. We rely on the work of Internal Audit wherever possible, and complete an assessment of the internal audit function as part of this work.

Section two provides further details of the work completed and sets out our findings.

In addition to our work on the financial statements, we have completed some early work on your 2008/09 Use of Resources (UoR) assessment. To date we have met Corporate Directors, Chief Officers and Members to help inform our judgement and we have provided feedback on the Authority's draft self assessment against the UoR Key Lines of Enquiry. Our formal UoR findings will be included in our *Report to Those Charged with Governance* ('ISA 260') later in the year. Section three summarises our work to date.

The Audit Commission carried out a review of all local authorities involved in investing with Icelandic Banks and issued its report 'Risk and return: English local authorities and the Icelandic banks' during March 2009. Section four summarises its conclusions on Telford & Wrekin's treasury management activity and policies. Also in section four is information on a question from a local elector which we responded to earlier in the financial year.

Our recommendations are included in Appendix A. We have also reviewed your progress in implementing our previous recommendations and this is detailed in Appendix B.

### Summary of findings

#### *Audit planning – risks in the accounts production process*

We have met with officers regularly to discuss changes in accounting requirements for 2008/09 and other factors which will affect the accounts production process such as the economic downturn and the impact this has for accounting estimates. We are satisfied that officers are taking adequate consideration of these factors but will conclude on the accounting treatment during our final accounts visit in July.

#### *Control environment*

We have reviewed the Authority's control environment and have concluded that it has generally strong financial controls. However we identified some weaknesses in controls over access to key IT systems and have made three recommendations in section two.

As part of our review of the control environment we seek to rely on the work of Internal Audit. We have concluded that they are carrying out work as agreed in our Joint Working Protocol and we were able to place reliance on their work. However we found some weaknesses in work performed by an external contractor the Authority uses to meet resource gaps in the Internal Audit department. We have made a recommendation on this in section two.

#### *Use of Resources Assessment*

We have undertaken preliminary work for the 2009 Use of Resources assessment. We will report on our final assessment in our *Report to Those Charged With Governance* (ISA 260) in September. However we note that the Authority has still not implemented Single Status, and consequently significant uncertainty remains in its future financial forecasting. We have made a recommendation in section three on monitoring progress of the implementation of Single Status.

#### *Treasury Management review*

The Audit Commission undertook a review of Authorities who have in the past placed investments with Icelandic banks. The review deemed Telford and Wrekin's investments to be a 'near miss' as the Authority's deposits matured shortly before these banks collapsed in October 2008. However the review concluded that the Authority has generally sound treasury management practices and the Authority did not place any new investments after May 2008

## Executive summary

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### *Elector's question*

We received a question from a local elector in 2008 which included allegations of maladministration and malpractice against the Authority and a contravention of the *Members' Code of Conduct*. In answering this question we dismissed these allegations; however we have made two recommendations in section four on improving communication with the public and the retention of documents. We have previously reported these issues to officers in our response to the question.

### **Acknowledgements**

We would like to take this opportunity to thank Officers and Members for their continuing help and co-operation throughout our audit work.

Introduction

Our work in respect of auditing the financial statements of the Authority is split into four stages as shown below:

Stage	Tasks	Timing	Completed
Planning	<ul style="list-style-type: none"><li>Updating our business understanding and risk assessment</li><li>Assessing the organisational control environment</li><li>Issuing our accounts audit protocol</li></ul>	December 2008 to February 2009	✓
Control Evaluation	<ul style="list-style-type: none"><li>Reviewing the accounts production process</li><li>Evaluating and testing controls over key financial systems</li><li>Review of internal audit</li></ul>	February to March 2009	✓
Substantive Testing	<ul style="list-style-type: none"><li>Planning and performing substantive work</li><li>Concluding on critical accounting matters</li></ul>	July 2009	-
Completion	<ul style="list-style-type: none"><li>Completion procedures</li><li>Forming our audit opinion</li></ul>	August to September 2009	-

Key issues in respect of each of these tasks is summarised below.

Planning - Risk assessment

Our 2008/09 *Audit and Inspection Plan*, presented to you in July 2008, included our initial assessment of the risks impacting on the 2008/09 financial statements. We have updated this and consider the following areas to be the key accounting issues for 2008/09.

- Compliance with the 2008 Statement of Recommended Practice on Local Authority Accounting the UK (SORP):** The 2008 SORP includes a number of changes, including a change in the valuation basis for pension assets and prohibiting the revaluation of fixed assets on disposal. Officers have considered the main changes to the 2008 SORP and we have discussed these with finance officers in our monthly meetings. We will conclude on the accounting treatment of these changes as part of our final accounts audit.
- Accounting estimates and valuations:** The current economic environment introduces a number of risks for the financial statements, in particular for estimates and valuations. This includes the valuation of fixed assets which are carried at market value (such as investment properties and surplus assets) and the assessment of recoverability of debts to determine appropriate provisions. We have met with officers from Asset and Property Management to discuss the implications of current market conditions for the valuation of the authority's fixed assets and methodologies to estimate movements in valuation. We will conclude on valuations as part of our final accounts visit.
- Minimum Revenue Provision:** In the past all capital expenditure has been treated the same when calculating the Minimum Revenue Provision (MRP). The *Local Authorities (Capital Finance and Accounting) (England) (Amendment) Regulations 2008* now require authorities to make a 'prudent' provision. The Authority will be basing the 2008/09 MRP on asset lives for capital expenditure financed by prudential borrowing. This is more complex than the methodology adopted previously and requires accurate fixed asset information. The Authority's policy includes interpretation of the regulations on the basis of guidance from advisers Sector which are not explicitly stated in those regulations. Officers raised this with us in February and have provided us with justification of the proposed MRP policy and set out why they believe it to be prudent. We are currently considering this and will conclude in due course.
- Single Status:** The Authority is in the process of implementing Single Status but has not yet finalised the pay modelling and negotiation process. The implementation date was 1 April 2007 and a provision was made in the 2007/08 accounts to cover costs for the year. The Authority has now completed the majority of its job evaluation process but has a minority of posts which it wishes to review following feedback from unions and the West Midlands Local Government Association. Once this is complete it will undertake full pay modelling; however, until then Officers are unable to produce accurate estimates of the cost of full implementation. Therefore the Authority is proposing to make provision for 2008/09 through a similar estimate to its 2007/08 provision. Implementation of Single Status is further discussed in section three.

## Financial statements (continued)

Further details are included in Appendix C, which also provides a summary of work completed to date to address these risks.

### Control Evaluation - Controls over key financial systems

We work with Internal Audit to:

- update our understanding of key financial systems;
- confirm our understanding of these systems by completing walkthrough testing; and
- document, evaluate and test the control framework for these systems.

We rely on any relevant work Internal Audit have completed for 2008/09 in line with our joint working protocol. For each of the key financial systems, they agreed to test the high level controls that we would expect to be in place. High level controls are strong controls that should address the key risks. Examples are reconciliations or exception reports.

We assessed your high level control framework as satisfactory overall. However, we noted the following weaknesses:

- A full reconciliation of the ledger to the bank account is not performed during the year since the Northgate system, which records and processes the Authority's Revenues & Benefits transactions, is not interfaced to the current ledger, OLAS. However as a compensating (albeit weaker) control the cashbook is reconciled to the bank account each month. Consequently there are minor unreconciled differences between the cash book and the bank account through the year. We reviewed the reconciliation for July and found that the unreconciled difference was approximately £6,000. Officers are currently working on a project plan to replace OLAS with a more sophisticated ledger. Currently this is expected to be implemented in time for the 2011/12 financial year.
- Reports produced by the Benefits Control team detailing unrepresented cheques and overpayments made are reviewed by the Control team to ensure that appropriate action is taken to recover overpayments and investigate unrepresented cheques. We noted that action is not consistently being taken on a timely basis and that not all unrepresented cheques are investigated. Internal Audit have raised this in their report on this area and so we have not repeated their recommendations in this report. However, we reiterate the importance of timely implementation of recommendations.

#### Recommendation 1: Implementation of new general ledger

The Authority's new ledger implementation project should include a facility to interface its ledger with the Northgate system through the year to enable full bank reconciliations to be performed each month.

We also consider controls over the use of information technology (IT). We review access to systems, IT policies and procedures and security of data. We noted a number of issues with access to systems:

- The four members of the Human Resources and Payroll Control Team have 'super user' access to both the HR and Payroll systems. Consequently these officers can amend any data on both systems. We raised a recommendation in our 2007/08 Interim report that such access should be removed, however this recommendation has not been implemented. We have been informed that super user access is needed by these users to test amendments to the payroll system. As a compensating control a report which lists all changes to data by these users is independently reviewed to mitigate the risk of unauthorised amendment to data. However this risk would be better mitigated by reconfiguring access rights.
- There is no process for removing leavers' access to the cash receipting system. Our testing identified that leavers' user access is not disabled in a timely manner. This poses a risk of unauthorised access to systems by employees who have left the authority.
- Six users have 'super user' access to the cash receipting system, ICON. This poses a risk of unauthorised amendment of data on these systems. We have discussed this with officers who informed us that the system cannot be configured to restrict access. The Authority should enquire with the software supplier whether an amendment to the system can be made that would allow such access to be restricted.

#### Recommendation 2: Access to payroll and HR systems

The Authority should enquire with the software supplier as to whether amendments to the payroll system can be tested other than by inputting amendments to the 'live' payroll, for example through a parallel, 'test' version of the system. If so, 'super user' access to both systems should be disabled.

## Financial statements (continued)

### Recommendation 3: Removing leavers' access to systems

The Authority should implement a formal process for removing leavers' access to the cash receipting system. HR should notify the systems administrator when an officer leaves the Authority and the system administrator should confirm to HR that access has been removed.

### Recommendation 4: Reducing 'super user' access rights

The Authority should enquire with the software supplier as to whether the cash receipting system ICON can be reconfigured to reduce the number of users with 'super user' access.

## Control Evaluation - Review of internal audit

The *Accounts and Audit Regulations 2003* require public bodies to maintain an adequate and effective system of internal audit of their accounting records and of their system of internal control. For principal local authorities, guidance is contained in the *Code of Practice for Internal Audit in Local Government* ('the Code'). The Code defines the way in which internal audit should be established and operated and applies equally to in-house audit teams and those provided by external contractors.

We assessed internal audit against the requirements of the Code in conjunction with a self-assessment provided by Internal Audit. A summary of our assessment is included at Appendix D. Based on our assessment, Internal Audit complies with the Code.

Our Joint Working Protocol sets out high level financial controls which we review as part of our assessment of the Authority's control environment. As part of this Protocol Internal Audit review these controls and we seek to rely on their work through review and a small amount of reperformance of their work, as required by International Auditing Standards.

We were able to rely on most of the work of Internal Audit. However there were some instances where work performed by the external contractor, who are contracted to perform a portion of the Internal Audit Plan, did not meet our requirements. Documentation of testing a key control which we rely on related to the 2007/08 year and a walkthrough of a transaction had not been documented on file. Consequently we were delayed in completing our work and had to revisit the area reviewed by the contractor after completion of our onsite visit.

### Recommendation 5: Internal Audit work provided by external contractors

Internal Audit should ensure that the quality review process is applied consistently to work undertaken by external contractors to ensure that work is undertaken to the required standard. Where work undertaken is not to the required standard, the Authority should consider imposing penalties on the external contractor.

# Use of resources

### Introduction

Our 2008/09 *Audit and Inspection Plan* included our initial assessment of the risks impacting on our 2008/09 use of resources assessment and value for money conclusion.

We have completed our initial review of the following risk areas:

- Campus Telford & Wrekin.
- Single Status.
- Financial pressures.

Below we set out our preliminary findings in respect of these risks. We will report formally on the findings of the 2008/09 Use of Resources assessment in our 2008/09 *Report to those charged with governance*.

#### *Campus Telford & Wrekin*

We have discussed progress with the implementation of the 'Building Schools for the Future' programme, Campus Telford and Wrekin. The Authority's Outline Business Case has recently been approved by the Treasury and the Authority is now preparing specifications for invitations to tender for contracts to implement the plan. The scheme is monitored by a group of Officers and Members. The group will need to ensure that contracts awarded deliver value for money. We will continue to monitor progress and meet with relevant Officers as the scheme progresses.

#### *Single Status*

As mentioned in section 2, the Authority has not yet agreed a settlement for the implementation of Single Status. The Authority has completed the majority of its job evaluation programme, with a small number remaining which Officers wish to review following consultation with unions and the West Midlands Local Government Association. A project plan is in place for completion of the process and implementation is planned by the end of the financial year. It is important that implementation is concluded according to this schedule since ongoing uncertainty regarding full implementation of Single Status will continue to create an element of uncertainty within the Authority's financial and organisational planning.

### Recommendation 6: Implementation of Single Status

The Authority should ensure that progress on the Single Status project plan is monitored to minimise the uncertainties within financial and organisational planning that are associated with late or non-implementation.

#### *Financial pressures*

The recession in the wider economy is putting severe pressures on all local authorities' resources, and the outlook for the medium term suggests pressures will increase. Authorities will therefore face difficult decisions in prioritising the allocation of resources and will need to keep close control of factors such as collection of Council Tax.

The Authority has reviewed its management structure and reduced the number of Portfolios from five to four. This has generated approximately £1m of savings which has enabled it to keep the Council Tax increase for 2009/10 to 2.5%.

The developing problems with funding in the wider public sector will likely mean that future Comprehensive Spending Reviews will prove challenging for all local authorities. The Authority will therefore need to review its spending and priorities further and maintain strong control of income collection. We note that collection rates at the Authority have fallen during the year, in common with national trends.

### 2009 Use of Resources Assessment

The 2009 Use of Resources assessment framework has changed considerably from previous years. Consequently we have met Officers, Directors and Members to discuss the new arrangements and help us form our judgement. We have also reviewed the Authority's self-assessment and provided feedback on this. We will report on our final assessment in our *Report to Those Charged with Governance* (ISA260) in September 2009.



# Treasury management and electors question

## Treasury Management Review

The Audit Commission carried out a review of all those local authorities involved in investing with Icelandic Banks and issued its report 'Risk and Return: English local authorities and the Icelandic banks' during March 2009. Key points arising from the report included the following.

The collapse of Lehman Brothers on 15 September 2008 drew attention to instability in global financial markets. On 29 September 2008 the Icelandic Government announced that it was taking control of Glitnir bank which was also widely publicised. On 30 September 2008 the main credit rating agencies issued press releases drawing attention to the country risks in Iceland and the rating agency Fitch downgraded four Icelandic banks. The national investment framework applying to local authorities requires priority to be given to the security and liquidity of funds; prudent authorities should have been alert to the greatly increased, and well publicised, risks. The report comments that those with investments already in Iceland should have considered the consequences of these. Any authority considering making an investment in Icelandic banks after 30 September 2008 should have taken the risks into consideration and verified the credit rating before making any deposit.

The Audit Commission deemed Telford & Wrekin's investments to be a "near miss" because the Authority's deposits matured in September 2008. The Authority had between £130m to £150m of cash investments/deposits during the year, of which £4m is in supranational bonds and £58m is placed with three fund managers. The Audit Commission's report on Telford and Wrekin's Treasury Management policies, the governance arrangements and the advice received was mostly positive and the comments have been noted. The Authority placed no further investments with Icelandic banks after May 2008. There were some areas for future improvement - such as the need to minimise borrowing and decrease the need for investment cash; to be more aware of market changes; and to consider changing its Treasury Management policy with a view to tightening it up. However, on this point the Audit Commission pointed out that this was not official advice to the Authority. All these recommendations are being considered by the Authority and we will follow up the action taken by the Authority during our final accounts work and report progress made within our 2008/09 ISA260 Report.

## Elector's Question

We are obliged under the Audit Commission Act 1998 to consider questions we receive from local electors and provide a formal response where appropriate.

We received one such question in 2008 where a resident of the Borough made an allegation of malpractice and maladministration against the Authority leading to the misuse of public funds in relation to the Woodside Regeneration Scheme. An allegation that Members were in contravention of the *Code of Conduct* was also made. Having reviewed the facts we concluded that the Authority had not acted unlawfully and that Members had not contravened the *Code* and dismissed the objection.

However, our work highlighted some areas where improvements could be made by the Authority. We identified that the Authority had not been forthcoming in providing affected local residents with revised plans and proposals following public consultation on the regeneration scheme. We were also unable to agree a valuation of an affected property to the valuer's documentation as this had not been retained on file. We therefore made the following recommendations:

### Recommendation 7: Consultation with residents

The Authority should ensure that interested parties are fully informed where significant planning decisions are made. Where plans and proposals are changed following public consultation, the Authority should clearly articulate this to interested parties.

### Recommendation 8: Retention of documentation



The Authority should ensure that staff are aware of document retention periods for valuation documentation. Valuation documentation should be retained on file to support current and future key decisions.



We have previously reported these issues to officers in our response to the question.

Appendices

# Appendix A: Recommendations

We have given each recommendation a risk rating (as explained below) and agreed what action management will need to take. We will follow up these recommendations next year.

Priority rating for recommendation		
<p><b>Priority one:</b> issues that are fundamental and material to your system of internal control. We believe that these issues might mean that you do not meet a system objective or reduce (mitigate) a risk.</p> 	<p><b>Priority two:</b> issues that have an important effect on internal controls but do not need immediate action. You may still meet a system objective in full or in part or reduce (mitigate) a risk adequately but the weakness remains in the system.</p> 	<p><b>Priority three:</b> issues that would, if corrected, improve the internal control in general but are not vital to the overall system. These are generally issues of best practice that we feel would benefit you if you introduced them.</p> 

No.	Risk	Issue and recommendation	Management response	Officer and due date
1	 (two)	<p><b>Implementation of new general ledger</b></p> <p>The Authority's new ledger implementation project should include a facility to interface its ledger with the Northgate system through the year to enable full bank reconciliations to be performed each month.</p>	<p>Full Bank reconciliations are performed every month: the Cash Book (which is Civica) is fully reconciled to the bank statement each month and the Northgate system is fully reconciled to the Cash Book each month (in fact this is done on a daily basis). NNDR and Council Tax transactions are not posted to GL during the year but are held and reconciled in the Northgate system; GL is updated at year end once the final reconciliation is completed. Therefore the cash book on GL will not reconcile to the Cash Book on Civica each month, however full bank reconciliations are being undertaken.</p> <p>We feel that developing an interface between Northgate and Olas would not add any value to the current reconciliation process – it would merely introduce another step, which would involve more staffing time to analyse and reconcile, and therefore costs, together with initial development costs.</p>	Head of Finance & Audit - Ken Clarke
2	 (two)	<p><b>Access to payroll and HR systems</b></p> <p>The Authority should enquire with the software supplier as to whether amendments to the payroll system can be tested other than by inputting amendments to the 'live' payroll, for example through a parallel, 'test' version of the system. If so, 'super user' access to both systems should be disabled.</p>	<p>There is a full test environment for the application.</p> <p>PS Admin is the highest level super user and this is only assigned to ICT with the intention it is only used in the test environment. The Employment Services Manager receives daily reports to show if it has been used in live. The Support Team user profile that provides extensive access and is used in the live environment, is configured that way to ensure records can be deleted in a controlled manner without corrupting the system due to blocked access to certain tables. Each authorised deletion received is entered on a spreadsheet with details of the call reference (Quetzal) and this is checked against a system generated report by the team leader, it also identifies any other deletions that have taken place as the fields are audited. The further use of this access is monitored through reports i.e. the daily audit reports but in addition a report is sent to Employment Services Manager to list any transactions to create a new employee number for any access other than HR.</p>	<p>Head of HR – David Johnson</p> <p>Head of ICT – Mike Weston</p>

Appendix A: Recommendations

No.	Risk	Issue and recommendation	Management response	Officer and due date
3	<div><div></div><div>(one)</div></div>	<p><b>Removing leavers' access to systems</b></p> <p>The Authority should implement a formal process for removing leavers' access to the cash receipting system. HR should notify the systems administrator when an officer leaves the Authority and the system administrator should confirm to HR that access has been removed.</p>	<p>HR produce a monthly leavers report which will now be distributed to Cash Receipting staff so that they can remove leavers from this system.</p>	<p>Head of Finance &amp; Audit – Ken Clarke</p> <p>Head of ICT – Mike Weston</p>
4	<div><div></div><div>(one)</div></div>	<p><b>Reducing 'super user' access rights</b></p> <p>The Authority should enquire with the software supplier as to whether the cash receipting system ICON can be reconfigured to reduce the number of users with 'super user' access.</p>	<p>T&amp;W believe that the number of super users quoted includes some 'internal' user ID which belong to the applications within ICON – they do not have a password associated with them and users do not have access to them, they are purely for the relevant ICON application to write to the main tables. Following contact with the supplier cash receipting staff have now lowered the access levels for these 'internal' user IDs for the ICON applications.</p>	<p>Head of ICT – Mike Weston</p> <p>Head of Finance &amp; Audit – Ken Clarke</p>
5	<div><div></div><div>(two)</div></div>	<p><b>Internal Audit work provided by external contractors</b></p> <p>Internal Audit should ensure that the quality review process is applied consistently to work undertaken by external contractors to ensure that work is undertaken to the required standard. Where work undertaken is not to the required standard, the Authority should consider imposing penalties on the external contractor.</p>	<p>The Council has concerns about the accuracy of this recommendation as there had been no indication from KPMG to the Audit &amp; Risk Manager or CD Resources that there had been any issues requiring reporting in respect to the work undertaken by Internal Audit (in house or otherwise). The work provided to KPMG on the key financial systems to support the final accounts audit is the responsibility of the Audit &amp; Risk Manager, on behalf of the CD Resources (s151 officer). Any issue that KPMG may have with the quality of that work and the reliance they can place on it is with the Council. If the Council chooses to buy in assistance and there are any issues arising for KPMG, then this should be discussed with the Audit &amp; Risk Manager who would take appropriate action. To date the Council has not had any issues with the standard of the work undertaken by this external contractor. Internal Audit will continue to operate their quality control processes and standards for all work and request KPMG to raise any issues with them for discussion prior to reporting, if necessary.</p>	<p>Audit &amp; Risk Manager – Jenny Marriott</p>

Appendix A: Recommendations

No.	Risk	Issue and recommendation	Management response	Officer and due date
6	<div><div></div><div>(one)</div></div>	<p><b>Implementation of Single Status</b></p> <p>The Authority should ensure that progress on the Single Status project plan is monitored to minimise the uncertainties within financial and organisational planning that are associated with late or non-implementation.</p>	<p>The Single Status Project Plan continues to be monitored by the Single Status negotiation Group on a monthly basis with further reports as appropriate to Corporate Management Team and the Personnel Board. The Project Plan is also refreshed to build in the outcome of risk analysis activity which is undertaken by the Negotiation Group on a regular basis facilitated by the authority's risk manager. At present we are aiming to send a first general letter to staff before Christmas and a second outlining the implications for their own job and grading by around April/May 2010. This will be subject to both the Union approach and the staff consultation response.</p>	<p>Head of HR – David Johnson</p>
7	<div><div></div><div>(three)</div></div>	<p><b>Consultation with residents</b></p> <p>The Authority should ensure that interested parties are fully informed where significant planning decisions are made. Where plans and proposals are changed following public consultation, the Authority should clearly articulate this to interested parties.</p>	<p>Transforming Telford has since this incident ensured that where proposals are altered as a result of consultation then residents are informed of these changes prior to implementation.</p>	<p>CD E&amp;R – Meredith Evans</p> <p>Transforming Telford</p>
8	<div><div></div><div>(three)</div></div>	<p><b>Retention of documentation</b></p> <p>The Authority should ensure that staff are aware of document retention periods for valuation documentation. Valuation documentation should be retained on file to support current and future key decisions.</p>	<p>All valuation material is held on hard copy filing/electronic filing system within Asset &amp; Property Management (Estates &amp; Investment team) to ensure evidence is available and comparable for future reference and use.</p>	<p>Head of Asset &amp; Property Management – Dave Sidaway</p>

Appendix B: Prior year recommendations

This appendix summarises the progress made to implement the recommendations identified in our previous reports.

Report	Number of recommendations that were:		
	Included in original report	Implemented in year or superseded	Remain outstanding (re-iterated below)
Interim Audit Report 2007/08	Five	Three	Two
ISA260 Report 2007/08	Three	Three	None
Total	Eight	Six	Two

No	Risk	Issue and recommendation	Management response	Officer and due date	Status at April 2009
Interim Audit Report 2007/08					
1	● (two)	<b>Managing changes to the SORP</b>  Whilst we recognise that the Authority is making progress in addressing this year's SORP changes, we would reiterate the importance of focusing on technical accounting changes in order that they are implemented correctly.	To increase capacity, we are reorganising resources within Finance to bring in an additional senior accounting resource recognising the increasing requirements and workloads on the Corporate Finance team.	Head of Finance 30/09/2008	An extra member of staff has been recruited. We have met with finance officers regularly to discuss accounting issues and changes to the SORP. We will review further at final accounts stage.
2	● (two)	<b>IT security</b>  The Authority should discuss with its HR/payroll software supplier whether access rights to the system can be amended so that payroll staff are prevented from amending HR data. Where the change could be implemented but would attract a cost, this should be compared with the benefits and savings which would arise in reaching a decision.	HR management agree to approach the system supplier again to discuss the issue in the context to the changes we are making to maintain the establishment control as per the response to recommendation 3 below in relation to payroll controls.	Head of HR 31/12/2008	Our review of access controls has highlighted that this recommendation has not been implemented. We therefore reiterate.
3	● (three)	<b>High level controls – payroll</b>  Establishment lists should be issued regularly to officers across the Authority, who should formally confirm the results of their review to HR staff.	The Council is currently in the process of introducing a new dynamic monitoring tool to ensure that managers have access to establishment data that will be agreed and subsequently used for payroll purposes.	Head of HR 31/03/2009	Staff on the payroll are reviewed by business managers as part of regular financial monitoring, therefore a compensating control is in place.
4	● (three)	<b>National Fraud Initiative</b>  The Authority should formalise its approach to the National Fraud initiative in a policy document – for example, as part of the Anti Fraud and Corruption Strategy.	This change will be included in the update of the Anti-Fraud & Corruption Policy which is due in September 2008.	Audit and Risk Manager 30/09/2008	Internal Audit have developed a formal protocol setting out responsibilities and approach for dealing with NFI data matches.  Recommendation implemented.

# Appendix B: Prior year recommendations

No.	Risk	Issue and recommendation	Management response	Officer and due date	Status at April 2009
5	● (two)	<p><b>The impact of Single Status on service and financial planning</b></p> <p>The Authority should continue to work towards implementing the Single Status Agreement. In particular, in completing this work, it should have regard to the uncertainties which Single Status creates within service and financial planning, identifying and implementing as early as possible those stages which would inform planning and help reduce these uncertainties.</p>	<p>There are robust governance arrangements for the implementation of Single Status and the negotiation team includes the Heads of Audit &amp; Democratic Services, Finance and HR amongst others. There is a Project Plan which identifies the related financial tasks and timings. These include modelling and scenarios with which the Corporate Finance team will be involved alongside union representatives and other officers. When this work commences in the next few months it will feed into the service and financial planning process as it progresses to give a firmer view of possible impacts, though the final package is unlikely to be concluded before the 2009/10 budget is set. The process over the next few months should however help to reduce these uncertainties.</p>	<p>Head of HR</p> <p>Ongoing during Single Status implementation</p>	<p>The Authority has not yet implemented Single Status but has completed the majority of the job evaluation phase which has been reviewed by unions and the West Midlands LGA. However, because of this it has been unable to complete its full pay modelling and so continues to estimate costs on the basis of national average figures.</p>
<b>ISA260 Report 2007/08</b>					
1	● (two)	<p><b>Enhancing the accounts closedown process</b></p> <p>The Authority should update its accounts closedown process to include detailed consideration of accounting changes at an early stage. The closedown timetable should also identify which working papers can be prepared and reviewed earlier.</p>	<p>As flagged previously in response to the interim report, additional resources were already planned and are now in place in Corporate Finance which will provide capacity to focus and plan for accounting changes at an earlier stage in the closedown process. The closedown timetable will be reviewed to assess whether any working papers can be produced earlier.</p>	<p>Head of Finance</p> <p>30/09/2008</p>	<p>We have met with officers regularly through the year to discuss accounting issues and proposed treatment of new and contentious items.</p>
2	● (two)	<p><b>Calculating the provision for doubtful debts</b></p> <p>The Authority should review its methodology for providing against doubtful debts and ensure that this is applied to a consistent standard by all Portfolios.</p>	<p>Agree. The methodology will be reviewed across all Portfolios prior to the 2008/09 final accounts but needs to take account of the nature of different debts involved so consistency doesn't have to mean the same % provision etc.</p>	<p>Head of Finance</p> <p>30/09/2008</p>	<p>This will be reviewed as part of out final accounts visit.</p>
3	● (two)	<p><b>Capital accounting</b></p> <p>The Authority should accrue for retentions on capital contracts once the contracted work is complete. The Authority should review the methodology for capitalising salary costs to ensure that only costs directly attributable to acquisition and construction of fixed assets are capitalised. Costs capitalised should be supported by adequate records.</p>	<p>Officers quantified the value of the retentions at £278k for 2007/08 which is not material and therefore the adjustment was not made. The policy will be reviewed for 2008/09 and retentions will be accrued as appropriate. Further guidance will be issued to Finance Officers on the methodology for capitalising salary costs and the need to ensure adequate records are maintained.</p>	<p>Head of Finance</p> <p>30/09/2008</p>	<p>We have discussed this with the Corporate Finance Manager and understand that retentions will be accrued for in the 2008/09 statements. This will be reviewed as part of out final accounts visit.</p>



## Appendix C: Accounts risks

This appendix summarises the key accounting issues for the 2008/09 financial statements and the progress you have made to date to address these.

Issue	Risk and implications	Progress
<p><b>Compliance with the 2008 SORP</b></p> <p>The 2008 SORP includes a number of changes such as a change in the valuation basis for pension assets and prohibiting the revaluation of fixed assets on disposal.</p> <p>The introduction of the STRGL in the 2006/07 statements proved challenging for the Authority and consequently several prior period adjustments were required in the 2007/08.</p>	<p>There is a risk that changes to the 2008 SORP will not be implemented correctly, which may result in increased audit resource and cost for the financial statement audit.</p>	<p>We have met with officers regularly throughout the year to discuss proposed treatment for new and contentious items. The SORP requires a change in valuation basis for pension assets. The Authority has requested information from its actuaries to determine whether the difference between the valuation of assets on the previous valuation basis as per the 2007/08 is materially differently from valuation on the new basis. Once we have received this information we will conclude whether a prior period adjustment is required for the 2007/08 comparative balances.</p> <p>The use of Depreciated Replacement Cost (DRC) as a valuation basis for fixed assets is restricted under the new SORP. The Authority holds a limited number of assets at DRC and has consulted with its advisers on whether active markets exist for these assets to allow a valuation to be made at market value. We are satisfied that those assets the Authority is proposing to continue to value at DRC are allowable under the SORP.</p>
<p><b>Accounting estimates and valuations</b></p> <p>The current economic environment introduces a number of risks for the financial statements, in particular for estimates and valuations. This includes the valuation of fixed assets which are carried at market value (such as investment properties and surplus assets) and the assessment of recoverability of debts to determine appropriate provisions.</p>	<p>There is a risk that valuation of assets held at market value in the financial statements are not valued accurately. The recoverability of debts may also be misstated in the accounts.</p>	<p>We have met officers from both finance and asset and property management to discuss potential impairment of assets held at market value. We have requested that officers undertake an exercise to assess the impact of the deterioration in market conditions on asset values and will conclude on this at our final accounts visit.</p> <p>We will also conclude on provision made for irrecoverable debts at our final accounts visit.</p>
<p><b>Minimum Revenue Provision</b></p> <p>The <i>Local Authorities (Capital Finance and Accounting) (England) (Amendment) Regulations 2008</i> now require authorities to make a 'prudent' provision. The Authority will be basing the 2008/09 MRP on asset lives for capital expenditure financed by prudential borrowing. This is more complex than the methodology adopted previously and requires accurate fixed asset information.</p>	<p>There is a risk that the Authority's chosen methodology for determining MRP does not make prudent provision for the repayment of debt.</p>	<p>Officers notified us of their proposals in February. We have reviewed the Authority's MRP policy and are currently formulating an opinion nationally to ensure that a consistent opinion is given on Authorities' policies.</p>

Appendices

## Appendix C: Accounts risks

This appendix summarises the key accounting issues for the 2008/09 financial statements and the progress you have made to date to address these.

Issue	Risk and implications	Progress
<p><b>Single Status</b></p> <p>Single Status is the process by which local authorities are reviewing employees’ pay and remodelling pay to ensure compliance with equalities legislation. The Authority has not yet completed this process or reached agreement with interested parties on a final settlement.</p>	<p>The Authority faces the risk of legal challenge from unions and employees if implementation does not satisfy legislation.</p>	<p>The Authority has completed the job evaluation process for the majority of its employees but wishes to reconsider a minority of these following input from unions and the West Midlands LGA. It expects to have fully completed all evaluations and pay modelling by the end of the 2009/10 year.</p> <p>However this timetable is dependent on reaching agreement with trades unions. Furthermore the ongoing uncertainty regarding full implementation of Single Status will continue to create an element of uncertainty in financial planning..</p> <p>The Authority will need to closely monitor progress in implementation.</p>



Appendices

# Appendix D: Review of Internal Audit

The following table summarises the findings of our review of your internal audit function against the standards set out in the *Code of Practice for Internal Audit in Local Government*:

Standard	Commentary on your internal audit
Scope of internal audit	The Internal Audit plan for 2008/09 was approved by the Standards & Audit Committee on 3 April 2008, covering all core financial systems as well as other operational, strategic and ICT reviews. The plan also includes scope for fraud work.
Independence	Internal Audit performs some operational work such as credit checks and comment on proposed controls over systems under development, however we do not believe that independence is compromised in performing these duties.
Ethics for internal auditors	Internal Audit staff complete annual declarations of interest and a Code of Conduct is in place which staff are required to comply with.
Audit Committee (or equivalent)	The Standards and Audit Committee was split at the beginning of the municipal year and there is now a separate Audit Committee which receives quarterly reports from Internal Audit and approves the annual plan. The Committee also reviews its own effectiveness.
Relationships with management, other auditors and other review bodies	Internal Audit have a Joint Working Protocol with KPMG and we have been able to largely rely on their work. We have made a recommendation in this report to further strengthen joint working.
Staffing, training and development	Internal Audit staff are appropriately qualified. Contractors are used to fill resource needs during the year.
Audit strategy and planning	The Internal Audit plan is formulated with reference to strategic and portfolio risk registers and in consultation with the s151 officer, other Directors, Heads of Service and Business Unit Managers.
Undertaking audit work	Reviews are planned setting out the scope, objectives and resourcing. Internal Audit have identified in their self-assessment against the Code the need for a review of its documentation retention policy and for a formal access policy for audit files and records.
Due professional care	Files are reviewed by Group Auditor or above prior to reports being issued.
Reporting	The Head of Internal Audit reports to the Audit Committee quarterly as a minimum. Heads of Service, Directors and Cabinet Members can be questioned by the Audit Committee if improvement is not made following 'Red' or 'Amber' status reports.
Performance, Quality and Effectiveness	Internal Audit benchmarks itself against other local authority Internal Audit functions. Performance Indicators on percentage of work completed are reported on quarterly.