



GOVERNMENT

# Interim Audit Report 2009/10

**Telford and Wrekin Council**

July 2010

AUDIT

# Contents

## The contacts at KPMG in connection with this report are:

### Michael McDonagh

Partner

KPMG LLP (UK)

Tel: 0121 335 2440

michael.a.mcdonagh@kpmg.co.uk

### Andy Cardoza

Senior Manager

KPMG LLP (UK)

Tel: 0121 232 3418

andrew.cardoza@kpmg.co.uk

### Peter Evans

Assistant Manager

KPMG LLP (UK)

Tel: 0121 232 3320

peter.evans@kpmg.co.uk

Report Sections		Page
<b>Section One</b>	Executive summary	2
<b>Section Two</b>	Financial statements	3
Appendices		Page
<b>Appendix A</b>	Key issues and recommendations	10
<b>Appendix B</b>	Follow-up of prior year recommendations	11

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 Michael McDonagh, who is the engagement partner to the Authority, telephone 0121 335 2440, email 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, 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. Their telephone number is 0844 798 3131, textphone (minicom) 020 7630 0421

## Executive summary

### Scope of this report

This report summarises the key findings arising from our interim audit work at Telford and Wrekin Council ('the Authority') in relation to the 2009/10 financial statements.

Our *Financial Statements Audit Plan 2009/10*, presented to you in February 2010, set out the four stages of our financial statements audit process and identified a number of specific risk areas. During January to April 2010 we completed our planning and control evaluation work. This covered our:

- review of the Authority's general control environment, including the Authority's IT systems;
- testing of certain controls over the Authority's key financial systems with the help of Internal Audit;
- assessment of the Internal Audit function;
- review of the Authority's accounts production process, including work to address the specific risk areas and prior year audit recommendations.

This is covered in section 2 of this report.

### Headlines

The table below summarises the key findings from our work to date in relation to the financial statements audit.

<b>Organisational control environment</b>	We consider the organisational control environment to be <b>effective overall</b> .
<b>Controls over key financial systems</b>	We have reviewed the controls over the key financial systems and have concluded they are <b>adequate</b> .
<b>Review of internal audit</b>	We have been able to <b>place full reliance on Internal Audit's work</b> and have concluded that a recommendation we raised in our <i>Interim Report 2008/09</i> has been implemented.
<b>Accounts production</b>	We consider that the Authority's <b>accounts production process is robust</b> . We identified a risk in relation to the process in that responsibility for management of the process has been transferred to a different member of staff from previous years. However, we consider that this member of staff is being provided with adequate support from experienced members of staff but we will conclude fully in our ISA260 report following the audit of the accounts.
<b>Specific risk areas</b>	We are satisfied that the Authority is <b>taking appropriate action to address specific risks to the accounts production process</b> which we have identified. However, management will need to monitor progress in addressing these risks; in particular it will need to ensure that progress in respect of implementation of Single Status and accompanying accounting treatment is closely monitored.

### Acknowledgements

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

# Organisational and IT control environment

Your organisational and IT control environment is effective overall.

You are currently reviewing governance arrangements in light of your recent reorganisation. We will review this once complete.

## Work completed

- We review controls that operate across the organisation, such as risk management and ethics and conduct, since deficiencies may have implications for the audit of the financial statements. We obtain an understanding of the Authority's overall control environment and determine if appropriate controls have been implemented.
- The Authority relies on information technology (IT) to support both financial reporting and internal control processes. In order to satisfy ourselves that we can rely on the use of IT, we test controls over access to systems and data, system changes, system development and computer operations. We have also reviewed the procurement and implementation of the upgrade to the cash receipting system and have concluded that this has been effectively implemented.

## Key findings – organisational control environment

The Authority has undergone a major reorganisation during the year and with effect from 11 January 2010 the previous structure of four 'Portfolios' was abolished and the Authority is now organised into 'Service Delivery Units'; Corporate Directors are now responsible for delivery of Corporate Priorities rather than for Portfolios.

The Authority is currently undertaking a full review of its Governance arrangements. We will review these once this is complete.

## Key findings – IT control environment

We concluded that your IT control environment is effective overall. We made three recommendations in our *Interim Report 2008/09* in relation to controls over the IT environment:

**Access to the HR and Payroll system** – We reported that four members of the HR and Payroll Control Team could change any data on both the HR and Payroll systems. A compensating control is in place which we have tested and found to be operating effectively; however we consider that the risk of unauthorised amendment of data would be better mitigated through reconfiguring access rights. This recommendation was raised last year. However, the Authority did not propose to implement the recommendation. We therefore reiterate it.

**Removing leavers' access to the cash receipting system** – We reported that there was no formal process for removing leavers' access to the cash receipting. The Authority has since introduced a process whereby HR provide the cash receipting team with a monthly list of leavers to ensure access is removed. We found this control to be operating effectively.

**Access rights to the cash receipting system** – We also reported that we considered that the levels of access rights users of the cash receipting system had was in appropriate. The version of the system in operation at the time would not allow reconfiguration of access rights. The Authority has since procured an upgrade to the system and access rights have been amended; we concluded that access rights are now appropriate.

Aspect	Assessment
Access to systems and data	Satisfactory
System changes and maintenance	Satisfactory
Development of new systems and applications	Satisfactory
Computer operations, incl. processing and backup	Satisfactory
End-user computing	Satisfactory

## Controls over key financial systems

**We have identified some weaknesses in controls operating over benefits expenditure and collection of local taxes.**

**We have not identified significant weaknesses in other systems.**

### Work completed

- We work with the Authority's Internal Auditors to update our understanding of the Authority's key financial processes where these are relevant to our final accounts audit. We confirm our understanding by completing walkthroughs for these systems. We then test selected controls that address key risks within these systems. The strength of the control framework informs the substantive testing we complete during our final accounts visit.
- Our assessment of a key system will not always be in line with the Internal Auditors' opinion on that system. This is because we are solely interested in whether our audit risks are mitigated through effective controls, i.e. whether the system is likely to produce materially reliable figures for inclusion in the financial statements.

### Key findings

- The controls over the majority of the key financial system are generally sound.
- We noted some weaknesses in respect of controls operating over benefits expenditure and the collection of local taxes through our review of the work of Internal Audit. Internal Audit identified weaknesses in the reconciliation between the Northgate system (through which both benefits expenditure and local taxes are processed) and the cash receipting system. These were included in Internal Audit's report on these systems therefore we have not repeated their recommendations in this report. We will review year end reconciliations during our main audit in July and consider whether there are implications for the Authority's financial statements at that point.

Key system	Assessment
Financial reporting	Effective controls
Benefits expenditure	Some weaknesses
Sundry income	Effective controls
Payroll expenditure	Effective controls
Non-pay expenditure	Effective controls
Cash	Effective controls
Treasury management	Effective controls
Capital expenditure	Effective controls
Asset valuations	Effective controls
Local taxes	Some weaknesses

# Review of Internal Audit

**Internal Audit complies with the *Code of Practice for Internal Audit in Local Government*.**

**We have noted improvements in the quality of Internal Audit's work and have been able to place full reliance on it**

## Work completed

- We work with the Authority's Internal Auditors to assess the control framework for key financial systems and seek to rely on any relevant work they have completed to minimise unnecessary duplication of work. Our audit fee is set on the assumption that we can place reliance on their work.
- Where we intend to rely on Internal Audit's work in respect of the Authority's key financial systems, auditing standards require us to complete an overall assessment of the Internal Audit function and to evaluate and test aspects of their work.
- The *Code of Practice for Internal Audit in Local Government* ('the Code') defines the way in which the Internal Audit service should undertake its functions. We assessed Internal Audit against the eleven standards set out in the Code.
- We reviewed Internal Audit's work on the key financial systems and re-performed a sample of tests completed by them.

## Key findings

- We updated our assessment of Internal Audit against the Code of Practice from 2008/09 through discussion with officers and review of Internal Audit's work. Based on our assessment, Internal Audit continues to comply with the Code.
- We raised a recommendation in our *Interim Report 2008/09* relating to the quality of work undertaken by external contractors on Internal Audit's behalf. We noted an improvement in the quality of such work in 2009/10 with minor deficiencies in documentation which we highlighted were satisfactorily addressed during our visit
- We have been able to place reliance on their work.

Standard	Assessment
Scope of Internal Audit	Compliant
Independence	Compliant
Ethics for Internal Auditors	Compliant
Audit Committee	Compliant
Relationships with management, other auditors and other review bodies	Compliant
Staffing, training and development	Compliant
Audit strategy and planning	Compliant
Undertaking audit work	Compliant
Audit strategy and planning	Compliant
Due professional care	Compliant
Reporting	Compliant

## Accounts production process

**The Authority has assigned responsibility for the accounts production process to a different officer from previous years.**

**We consider that appropriate input and support is being provided by more experienced officers; however we will comment fully on this following completion of our accounts audit in September.**

### Work completed

- We issued our Accounts Audit Protocol to the Senior Finance Manager (Corporate and Leisure) on 15 March 2010. This important document sets out our audit approach and timetable which also summarises the working papers and other evidence we require the Authority to provide to support our audit work.
- We have continued to meet regularly with the Senior Finance Manager and the Finance Managers involved in the accounts production process.
- We also discussed your progress in preparing for the transition to International Financial Reporting Standards (IFRS), which local authorities are required to adopt from the 2010/11 financial year, and provided a training session for Members.

### Key findings

- Our Financial Statements Audit Plan, issued in February 2010, identified a risk in the accounts production process in that responsibility for management of the process had been transferred to a different officer from previous years. From our regular meetings we consider that key members of staff with experience of management of the process from previous years are providing appropriate support and input into the process to mitigate this risk. However, we will comment fully on this following completion of our financial statements audit in our *ISA260* report in September 2010.
- Pages 7 to 9 of this report comment in more detail on the risks we identified in our 2009/10 Financial Statements Audit Plan.

# Specific risk areas

**The Authority is taking appropriate action to address specific risks to the accounts production process.**


**However, the Authority must ensure that implementation of Single Status is closely monitored and that accounting entries in the 2009/10 financial statement are based on the most up to date information.**

## Work completed

- In our *Financial Statements Audit Plan 2009/10*, presented to you in February, we identified the key risks affecting the Authority’s 2009/10 financial statements.
- Our audit strategy and plan remain flexible as risks and issues change throughout the year. There have been no changes to the risk previously communicated to date.
- We have been discussing these risks with the Senior Finance Manager (Corporate & Leisure) and the Finance Managers responsible for co-ordinating closedown as part of our monthly meetings. In addition, we sought to review relevant working papers and evidence and agree the accounting treatment as part of our interim work.



## Key findings

- Through discussion with officers and review of documentation provided, we have concluded that the Authority is taking appropriate action to address the risks we have identified.
- However, the Authority will need to closely monitor progress in implementing Single Status and ensure that entries in its 2009/10 accounts relating to Single Status are on the basis of the most up to date information.
- Our assessment of progress to date is summarised in the table below.

Key audit risk	Issue	Progress
	<p>The Authority has yet to implement Single Status and has postponed its implementation date.</p> <p>The Authority will need to ensure that any provision in its accounts for back pay costs is made on the basis of the most accurate and up to date information.</p>	<p>The Authority has revised its methodology for implementation of Single Status. It has further postponed its implementation date and is now planning to conclude the process by May 2012.</p> <p>We will meet with the lead officers to discuss the revised approach and their assessment of any provisions required in the financial statements for backdated payments.</p>



## Specific risk areas

The Authority taking appropriate action to address specific risks to the accounts production process.

Key audit risk	Issue	Progress
 <p><b>Private Finance Initiative</b></p>	<p>All local authority accounts will be based on International Financial Reporting Standards (IFRS) from 2010/11. As part of the transition process, the revised accounting requirements for Private Finance Initiative (PFI) schemes are applied early under the 2009 Code of Practice on Local Authority Accounting in the United Kingdom: A Statement of Recommended Practice (SORP), to the 2009/10 financial statements. This is a technically complex change and may result in some assets being accounted for in the Authority's balance sheet that previously were not.</p> <p>The Authority has one operational PFI contract, the Hadley Learning Community and JIGSAW. The Authority will need to re-evaluate this contract under IFRS and potentially model the payments over the life of the contract to calculate assets and liabilities to be accounted for. There are also changes to the disclosure requirements.</p> <p>In addition, there may be other schemes that are similar in nature to PFI schemes and the Authority will need to demonstrate that it has sufficiently considered such schemes.</p>	<p>We have discussed the Authority's PFI schemes with officers and agree that the assets associated with the scheme should be brought onto the Authority's balance sheet.</p> <p>We have provided the Authority with a template model for preparing the necessary accounting entries; however we have not yet been provided with the Authority's detailed workings therefore we will review this as part of the accounts audit.</p>
 <p><b>Fixed Asset Valuation</b></p>	<p>The Authority is required to consider if there is a risk that the valuation of its asset base is materially misstated.</p> <p>The Authority conducted an exercise in 2008/09 in response to the economic climate and revalued its assets accordingly. It will need to review these valuations in light of current market conditions.</p>	<p>We have discussed the Authority's valuation exercise for 2009/10 with relevant officers and are satisfied that adequate consideration is being given to current market conditions.</p> <p>We will review the detailed results of the exercise as part of our fixed asset accounts audit.</p>

## Specific risk areas

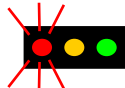

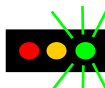
The Authority is taking appropriate action to address specific risks to the accounts production process.

Key audit risk	Issue	Progress
 <p><b>SORP changes</b></p>	<p>In addition to the changes to the accounting for PFI schemes, the 2009 SORP introduces a number of other changes, which take effect in 2009/10, including:</p> <ul style="list-style-type: none"> <li>• Changes to the accounting treatment for Business Rates (NNDR) and Council Tax in England; and</li> <li>• Changes to disclosure requirements.</li> </ul> <p>The Authority need to be review and appropriately address these changes in the 2009/10 financial statements.</p>	<p>We have discussed the changes to accounting requirements and are satisfied that the Authority is appropriately considering their implications and is fully aware of the accounting requirements.</p> <p>We will review in full during our accounts audit.</p>
 <p><b>Accounts production</b></p>	<p>The accounts production process is to be project-managed by a different member of staff from previous years, with support from the officer who has undertaken this role in previous years.</p> <p>The Authority has previously produced draft accounts of a good standard. It will need to ensure that this transfer of responsibility does not impact on the quality of the draft accounts.</p>	<p>We have met with the Authority's key officers in the accounts production process regularly throughout the year and are satisfied that adequate support and input is being provided by officers more experienced in managing the process.</p> <p>We will comment more fully following conclusion of the accounts audit in our ISA260 report in September,</p>

## Appendix A – Key issues and recommendations

**The Authority should closely monitor progress in implementing Single Status.**

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 / Responsible Officer / Due Date
1	● (one)	<p><b>Single Status</b></p> <p>The Authority must monitor progress in implementing Single Status to ensure that the associated effects on the workforce are minimised.</p> <p>In addition, the Authority must ensure that entries made in the 2009/10 draft financial statements are made on the basis of a robust assessment of the latest information.</p>	<p>Meredith Evans, Corporate Director has recently taken lead responsibility for the implementation of Single Status.</p> <p>Meredith Evans and Ken Clarke (Head of Finance) are meeting with KPMG to update them on the revised methodology and timetable – by 31/07/10</p> <p>Any entries in the draft financial statements will be based on the latest information – 31/07/10</p> <p>Quarterly update meetings on Single Status will be arranged between the Lead Officer, Head of Finance and KPMG.</p>

## Appendix B – Follow-up of prior year recommendations

This appendix summarises the progress made to implement the recommendations identified in our *Interim Audit Report 2008/09* and re-iterates any recommendations still outstanding.

Number of recommendations that were:		
Included in original report	Implemented in year or not re-iterated	Not implemented/remain outstanding
8	7	1

No.	Risk	Issue and Recommendation	Officer Responsible and Due Date	Status as at June 2010
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>	N/a	The Authority did not accept this recommendation as it believes its current reconciliation processes mitigate this risk. Our accounts audit 2008/09 identified differences between systems at year end but we considered these to be insignificant.
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>	N/a	The Authority has a compensating control in place and whilst we consider that implementation of our recommendation would more effectively mitigate the risk posed, our testing of the compensating control found it to be effective.
3	● (one)	<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>	Head of Finance & Audit – Ken Clarke Head of ICT – Mike Weston	HR provide the cash receipting team with a list of leavers each month to ensure leavers' access is removed. Our testing of this control found it to be operating effectively.

The Authority has not fully implemented all of the recommendations in our *Interim Audit Report 2008/09*.

We re-iterate the importance of the outstanding recommendations and recommend that these are implemented as a matter of urgency.

## Appendix B – Follow-up of prior year recommendations

No.	Risk	Issue and Recommendation	Officer Responsible and Due Date	Status as at June 2010
4	● (one)	<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>Head of ICT – Mike Weston</p> <p>Head of Finance &amp; Audit – Ken Clarke</p>	<p>The Authority has procured an upgrade to the ICON system during 2009/10 and access rights have been reconfigured.</p> <p>We consider revised access rights to be appropriate.</p>
5	● (two)	<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>Audit &amp; Risk Manager – Jenny Marriott</p>	<p>Our assessment of Internal Audit showed improvements in the quality of work undertaken by external contractors. Minor documentation issues were addressed during our on site visit and we were therefore able to place full reliance on Internal Audit’s work.</p>
6	● (one)	<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>Meredith Evans, Corporate Director</p>	<p>The Authority is continuing to work towards implementation. We have raised recommendation 1 in appendix A in respect of Single Status.</p>
7	● (three)	<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>Meredith Evans, Corporate Director</p>	<p>The Authority has demonstrated that it has improved consultation with the public on important decisions.</p>
8	● (three)	<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>Head of Property &amp; Design – Dave Sidaway</p>	<p>We undertake detailed testing of valuations as part of our financial statements work and will therefore review implementation of during our financial statements audit.</p>