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Interim Audit Report 2010/11

Telford & Wrekin Council

June 2011



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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 which is available on the Audit Commission's website at www.auditcommission.gov.uk.

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, the appointed engagement lead to the Authority, who will try to resolve your complaint. If you are dissatisfied with your response please contact Trevor Rees on 0161 246 4000, or by email to 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 Unit Manager, Audit Commission, Westward House, Lime Kiln Close, Stoke Gifford, Bristol, BS34 8SR or by email to complaints@audit-commission.gov.uk. Their telephone number is 0844 798 3131, textphone (minicom) 020 7630 0421.

This document summarises the key findings arising from our work to date in relation to both the audit of the Authority's 2010/11 financial statements and the 2010/11 VFM conclusion.

Scope of this report

This report summarises the key findings arising from:

- our interim audit work at Telford & Wrekin Council (the Authority) in relation to the 2010/11 financial statements; and
- our work to support our 2010/11 value for money (VFM) conclusion up to May 2011.

Financial statements

Our *Financial Statements Audit Plan 2010/11*, presented to you in March 2011, set out the four stages of our financial statements audit process.



During February to March 2011 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;
- assessment of the Internal Audit function and its work;
- review of the Authority's accounts production process, including work to address prior year audit recommendations and the specific risk areas we have identified for this year; and
- review of the Authority's work to restate the 2009/10 financial statements under International Financial Reporting Standards (IFRS).

Structure of this report

This report is structured as follows:

- Section 2 summarises the headline messages.
- Section 3 sets out our key findings from our interim audit work in relation to the 2010/11 financial statements.

Our recommendations are included in Appendix 1. We have also reviewed the Authority's progress in implementing prior recommendations and this is detailed at page 8.

Acknowledgements

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

This table summarises the headline messages. The remainder of this report provides further details on each area.

Organisational and IT control environment	We consider the Authority's organisational control environment to be effective overall. However, we have made recommendations in relation to controls over the IT environment where minor weaknesses regarding network and application access have been identified.
Controls over key financial systems	We have tested key controls in relation to all key finance systems with the exception of grant income and year end related controls. We found no significant weaknesses in the operation of these controls, however, we have made recommendations in respect of some more minor system weaknesses. These are reported in Appendix 1.
Review of Internal Audit	We have noted continued improvements in our review of Internal Audit's files this year and are satisfied that they are compliant with the <i>Code of Practice for Internal Audit in Local Government</i> . We were able to place reliance on their work on the key financial systems.
Accounts production and specific risk areas	We consider that the overall process for the preparation of the Authority's financial statements is adequate. However, the Authority is still completing its IFRS restatement work for 2009/10 and a new financial ledger system is to be implemented in July 2011. As a result of these factors it will be essential for the Authority to pay particular attention to the closedown timetable. In doing so the Authority should ensure that they identify any slippage against timetable on a timely basis and implement plans to rectify such issues.
IFRS restatement	<p>Whilst the Authority has completed the majority of the restatement of its 2009/10 financial statements in accordance with IFRS, it has experienced some delays and is yet to conclude this exercise. Work is continuing with regards to the review of non-current assets, and completion of notes to the accounts. These delays have arisen due to the extent of the data which has had to be collected from the various areas of the Authority and the time pressures upon those involved in the process.</p> <p>Working papers for most affected areas have now been provided, we are still awaiting the evidence relating to our sample testing of contracts.</p> <p>Due to the delays encountered we have not been able to carry out the planned sample testing during the course of our interim work in order to provide early assurance over the Authority's IFRS restatement work in relation to those areas mentioned above.</p>

The Authority's organisational control environment is effective overall.

Work completed

Controls operated at an organisational level often have an impact on controls at an operational level and if there were weaknesses this would have implications for our audit.

In previous years we used our work on the Use of Resources assessment to inform our findings in these areas. Due to the reduced scope of the VFM assessment we have to complete more specific work to support our financial statements opinion.

We obtain an understanding of the Authority's overall control environment and determine if appropriate controls have been implemented. We do not complete detailed testing of these controls.

Key findings

We consider that the Authority's organisational controls are effective overall. However, please note the comments made in relation to the IFRS Restatement at page 9.

Aspect	Assessment
Organisational structure	● (green)
Integrity and ethical values	● (green)
Philosophy and operating style	● (green)
Participation of those charged with governance	● (green)
Human resource policies and practices	● (green)
Risk assessment process	● (green)
Information systems relevant to financial reporting	● (green)
Communication	● (green)
Monitoring	● (green)

Key:

- (red) Significant gaps in the control environment.
- (amber) Minor deficiencies in respect of individual controls.
- (green) Generally sound control environment.

The Authority's IT control environment is effective overall.

We noted a number of areas for further improvement:

- Controls relating to periodic review of users, and removal of leavers, were found to be ineffective in relation to the Cash Receipting system.
- The retention of audit evidence in relation to granting users access to the IT network was not available for some users.

Work completed

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.

This has been complemented by our own testing of the IT Network and the following systems:

- General Ledger;
- Payroll;
- Revenues & Benefits; and
- Cash Receipting.

We had planned to undertake work in relation to the implementation of the new General Ledger system. However, this implementation was postponed until after the year end. And as a result of this no testing was undertaken by us at this time and we will undertake this work as part of our audit work next year.

Key findings

We found the Authority's IT control environment is effective overall, but we noted some areas that required further improvement, such as:

- The periodic review of user accounts for the Cash Receipting has not been undertaken since November 2010 due to the work undertaken in preparation for the new financial ledger system.
- The removal of user accounts for leavers is not being routinely completed in relation to the Cash Receipting System.
- Testing found that some forms authorising access to the IT network had not been retained and could not be provided as evidence.

These areas of weakness could result in exposing the Authority to some risk to with regards to its overall control framework . So by making these improvements these risks would be mitigated and the Authority's overall control environment would be improved.

Recommendations are included in Appendix 1.

Aspect	Assessment
Access to systems and data	● (amber)
System changes and maintenance	● (green)
Development of new systems and applications	N/A
Computer operations, incl. processing and backup	● (green)
End-user computing	● (green)

Key: ● (red) Significant gaps in the control environment.
 ● (amber) Deficiencies in respect of individual controls.
 ● (green) Generally sound control environment.

The controls over the key financial system are generally sound.

However, there are some weaknesses in respect of:

- Non-pay expenditure; and
- Financial reporting (in relation to journals).

This should not result in a need to complete additional substantive work in these areas at year-end.

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 of the processes within the systems 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 primarily concerned with 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 key financial systems are generally sound but we did note some weaknesses in respect of individual financial systems, which include:

- Review of Exception Reports: Our review of the use of exception reports in relation to purchases identified that in some instances there was no evidence independent, review of such reports. In addition, where such reports were reviewed the evidence of this was inconsistent and unclear as to the actions taken. As a result of this it was not possible to gain assurance that any exceptions identified had been investigated and, where necessary, rectified.
- Journal Authorisation: We reviewed testing undertaken by internal audit and confirmed that in 12 cases the authorising individual was not an authorised signatory for the accounts codes being used. This creates a risk that journal transactions are not being appropriately authorised prior to posting.

Internal Audit gave moderate assurance for these systems and

included recommendations in their reports as appropriate. As a result of this we have not raised any further recommendations in relation to these issues.

We have not yet fully assessed the controls over non-current assets and grant income. Many of the key controls in respect of these areas are operated during the closedown process and our testing will be supplemented by further work during our final accounts visit.

System	Assessment
Financial reporting	● (amber)
Grant income	TBC
Housing rents income	● (green)
Council tax income	● (green)
Business rates income	● (green)
Sundry income	● (green)
Payroll expenditure	● (green)
Non-pay expenditure	● (amber)
Benefits expenditure	● (green)
Cash	● (green)
Treasury management	● (green)
Capital expenditure	● (green)
Asset disposals	● (green)
Asset valuations	TBC

Key: ● (red) Significant gaps in the control environment.
 ● (amber) Deficiencies in respect of individual controls.
 ● (green) Generally sound control environment.
 TBC To be confirmed as part of our final accounts work

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

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 full 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

Internal Audit completed a self-assessment against the Code in March 2011. We reviewed their self-assessment and evidence to support it. We have updated our assessment based on that review and our knowledge gained through our work during 2010/11.

Based on our assessment, Internal Audit complies with the Code. Internal Audit have identified a limited number of areas for further improvement and have implemented a formal action plan in relation to these. We have identified no further areas for improvement in relation to compliance with the Code.

We did not identify any significant issues with Internal Audit's work and are pleased to report that we were again able to place full reliance on Internal Audit's work on the key financial systems.

We particularly noted improvements in terms of the quality of system documentation, and the adequacy of sample sizes used by Internal Audit.

There are, however, still some improvements that could be made to further enhance the quality of Internal Audit's work and reduce the level of top up testing we are required to complete to satisfy our audit requirements. Specifically, Internal Audit provide their working papers electronically. The working papers include hyperlinks to the evidence retained by Internal Audit. When the working papers are provided to us these links become broken and the supporting evidence is not clearly identifiable by file name. As a result the time taken to review this work was increased and we had to go back to the team for assistance on a number of instances.

This issue has been discussed with the Audit & Assurance Manager and we are considering ways in which we can gain access to these hyperlinks to ensure our audit review is as efficient as possible.

The Authority's overall process for the preparation of the financial statements is adequate.

The Authority is in the process of completing the implementation of the recommendations in our *ISA 260 Report 2009/10* relating to the financial statements.

Work completed

We issued our Accounts Audit Protocol to Bernie Morris (Finance Manager) in April 2011. This important document sets out the working papers and other evidence we require the Authority to provide to support our audit work. We discussed our requirements in detail in a meeting on 5 April 2011.

We continued to meet with Bernie Morris (Finance Manager) and Pauline Harris (Senior Finance Manager) on a monthly basis to support them during the financial year end closedown and accounts preparation.

As part of our interim work we specifically reviewed the Authority's progress in addressing the recommendations in our *ISA 260 Report 2009/10*.

Key findings

We consider that the overall process for the preparation of the Authority's financial statements is adequate. Given the position of the work in relation to the IFRS Restatement of the 2009/10 Accounts it will be essential to pay particular attention to the closedown timetable in order to ensure that required controls and work are undertaken to schedule.

The Authority is in the process of completing the implementation of the recommendations in our *ISA 260 Report 2009/10* relating to the financial statements in line with the timescales of the action plan. In particular we noted that:

- The Authority is still monitoring the process against implementing Single Status. Such monitoring includes remaining up to date of case law and other information. In addition, there continue to be frequent meetings between the Authority and KPMG in order to

monitor the progress made in relation to this issue.

- The implementation of a new Financial System has been delayed and is now scheduled for 4 July 2011. The implementation of this system will help to address a number of the recommendations we made in our *ISA 260 Report 2009/10* with regards to the accounts production process.

The Authority has partly restated its 2009/10 financial statements under IFRS.

Outstanding areas include non-current assets and the completion of a skeleton set of accounts and disclosures.

We have reviewed the restatement work and are content that the key changes have been appropriately identified and addressed.

Work completed

From 2010/11 local authorities are required to prepare their financial statements under the IFRS based *Code of Practice for Local Authority Accounting in the United Kingdom*. This contains a number of significant differences compared to the previous financial reporting regime.

We have reviewed the work the Authority has undertaken to restate its 2009/10 financial statements under IFRS and its preparations for producing 2010/11 balances in its accounts under IFRS.

Key findings

The Authority has completed the majority of the restatement of its 2009/10 financial statements under IFRS. At the time of our audit work the review of non-current assets and grants was outstanding, as was the completion of a skeleton set of accounts and disclosures.

We did not identify any specific issues with the restatement work that we have reviewed to date. Particularly we identified that:

- The Authority has calculated an adequate estimate for employee benefits owed at the year end. This was achieved by way of staff returns being used to calculate an average level of outstanding leave at year end and applying this throughout the Authority.
- The assessment of leases, in order to determine the appropriate classification and accounting entries, has been undertaken by an appropriately qualified external expert whose findings we have been able to place reliance upon.
- The Authority's assessment of its group boundaries appear reasonable and are in accordance with our understanding of the Authority and its interactions with other parties.

We are still awaiting the evidence in relation to the review of contracts however. The results of our sample testing in relation to this area, along with the work relating to other currently outstanding areas, will have a significant impact upon the amount of additional work that is required.

Whilst we have identified no issues in relation to those areas where our work is completed, a number of technically challenging issues will need to be addressed in relation to the outstanding areas. As a result of this, such areas are seen as being of higher risk.

Further commentary is included below on the specific risk areas we identified in our *Financial Statements Audit Plan 2010/11* regarding the implementation of IFRS.

Specific risk areas

The Authority has taken the key risk areas we identified seriously and made good progress in addressing them.

However, these still present significant challenges that require careful management and focus. We will revisit these areas during our final accounts audit.

Work completed

In our *Financial Statements Audit Plan 2010/11*, presented to you in March 2011, we identified the key risks affecting the Authority's 2010/11 financial statements.


Our audit strategy and plan remain flexible as risks and issues change throughout the year. To date there have been no changes to the risks previously communicated to you.

We have been discussing these risks with Bernie Morris (Finance Manager) and Pauline Harris (Senior Finance Manager) as part of our monthly meetings. In addition, we sought to review relevant workings and evidence and agree the accounting treatment as part of our interim work.

Key findings

You have taken these issues seriously and made good progress in addressing them. However, these still present significant challenges that require careful management and focus. We will revisit these areas during our final accounts audit.


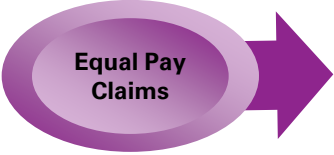
The table below provides a summary of the work the Authority has completed to date to address these risks.

Key audit risk	Issue	Progress
	<p>The preparation of financial statements under IFRS contains a number of significant differences compared to the previous financial reporting regime. The Authority will need to ensure that compliance with each standard is achieved.</p>	<p>Our work on the IFRS restatement during the interim visit has focused on a review of the processes and methodology undertaken by the Authority, but we have not been able to conclude our sample testing of specific areas.</p> <p>The Authority is yet to finalise its restatement of the 2009/10 accounts and we will conduct additional work in July 2011, as part of our final accounts visit.</p> <p>During the final accounts audit itself we will audit the 2010/11 financial statements figures in line with the requirements of IFRS.</p> <p>Further details are included on page 9 of this report.</p>

Specific risk areas (cont)

The Authority has taken the key risk areas we identified seriously and made good progress in addressing them.

However, these still present significant challenges that require careful management and focus. We will revisit these areas during our final accounts audit.

Key audit risk	Issue	Progress
 <p>Financial standing</p>	<p>The Authority faces a cut in grant funding of £13.6m in 2011/12 as central government's cuts to local authority funding are 'front-loaded'. Telford and Wrekin have responded to the challenge with a comprehensive review and restructure of its corporate management team and is in the process of a systematic review and restructure of its services.</p> <p>This, along with one-off savings and a £1.4m use of balances, has plugged the gap for the 2011/12 budget.</p>	<p>We are reporting our early findings in relation to this issue in Section 4.</p> <p>Further work will be undertaken during June 2011 as part of our VFM assessment.</p>
 <p>Equal Pay Claims</p>	<p>The Authority has yet to implement Single Status and has postponed its original 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>We are continuing to meet with relevant staff in order to discuss the Authority's progress in relation to Single Status.</p> <p>We will continue to meet with the lead officers throughout the audit process in order to review the methodology adopted and their assessment of the need for any provision in the financial statements.</p>

We follow a new VFM audit approach this year.

Our VFM conclusion will consider how the Authority secures financial resilience and challenges how it secures economy, efficiency and effectiveness.

Our VFM Audit Plan 2010/11 describes in more detail how the new VFM audit approach operates and includes our assessment of the risks impacting on our VFM conclusion.

We will report on the result of our work in our ISA 260 Report 2010/11.

Background

For 2010/11, auditors are required to give their statutory VFM conclusion based on two criteria specified by the Audit Commission. These consider whether the Authority has proper arrangements in place for:

- securing financial resilience: looking at the Authority's financial governance, financial planning and financial control processes; and
- challenging how it secures economy, efficiency and effectiveness: looking at how the Authority is prioritising resources and improving efficiency and productivity.

There are no scored judgements under the new approach and the VFM conclusion is the only output. This remains a 'pass / fail' style assessment.

We follow a risk based approach to target audit effort on the areas of greatest audit risk. We consider the arrangements put in place by the Authority to mitigate these risks and plan our work accordingly.

Our VFM audit draws heavily on other audit work which is relevant to our VFM responsibilities and the results of last year's VFM audit. We then assess if more detailed audit work is required in specific areas. The Audit Commission has developed a range of audit tools and review guides which we can draw upon where relevant.

Overview of the new VFM audit approach

The key elements of the VFM audit approach are summarised below.



We have completed our initial work to assess the Authority's financial resilience following the funding settlement for 2011-2013.

Whereas there has been some slippage within individual service areas, the Authority 's officers believe they are on target to deliver its planned 2010/11 savings in overall terms, and are currently forecasting an underspend against budget.

Work completed

We have reviewed the documents supporting the Authority's *Service and Financial Planning 2011/12 to 2013/14 Overview and Revenue Budget*, as well as the process followed to arrive at these.

We have specifically assessed:

- the actions used by the Authority to secure the necessary savings in its 2011/12 draft budget; and
- the capacity of the Authority's 2011/12 budget to secure financial stability.

This early work was specifically completed to support an Audit Commission study on the impact of the 2011/12 local government settlement on authorities' finances. It is also a key part of our work programme on the financial resilience criterion of the VFM conclusion.

As part of our work we have compared the Authority to its 'nearest neighbours' across a number of indicators. 'Nearest neighbours' are authorities with like demographic features. We have used the latest groups defined by CIPFA for this.

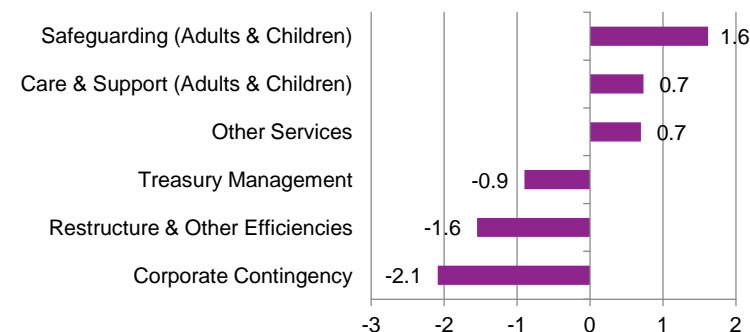
We will complete further work on the Authority's financial resilience during the coming months before we issue our VFM conclusion.

2010/11 financial performance

The original 2010/11 budget included savings proposals of £4.7 million. The Authority also allowed for total contingencies of £2.7 million, which were set aside to meet any unforeseen expenditure.

As at February 2011, the Authority was forecasting to be within budget at year end. This is after setting aside £1.4 million from the restructure and operational efficiencies delivered in 2010/11 for the 2011/12 budget strategy.

Forecast outturn variations against 2010/11 budget as at February 2011 (£m)



Source: 2010/11 Financial Monitoring report to Cabinet, February 2011

The main in year cost pressures related to:

- Children in Care – a projected overspend of £1.7 million for both placements and the use of agency workers (after the agreed use of a specific contingency of £0.5 million); and
- Adult Social Care – a projected overspend of £1.0 million due to the loss of continuing health care funding, which has had an impact on all client groups.

The Authority did not have to fully utilise its contingency fund which contributed £2.1 million. Restructure and operational efficiencies delivered early in 2010/11 will be set aside to support the 2011/12 budget strategy. The Authority also benefited from low interest rates.

The Authority 's officers have reported that the Authority has achieved its planned and additional 2010/11 savings, which helped cover its grant loss for that year and in addition has been able to contribute some £1.4 million towards its savings target for 2011/12 year.

The Authority had been preparing for funding cuts for some time and had reviewed its priorities ahead of the final settlement.

We are satisfied that the leadership team understands the financial management challenges facing the Authority and that there has been effective challenge from Members. However, the significance of the challenge ahead cannot be underestimated.

We have not audited the numbers in the Authority's savings plans.

Preparation for the Local Government Finance Settlement

The Authority's Medium Term Financial Plan (MTFP) 2010-13, agreed in February 2010 was based upon the provisional funding settlement issued in November 2009. In addition to the information contained in the settlement it was assumed that there would be 5% reductions in Revenue Support Grant and specific grants for both 2011/12 and 2012/13.

The Authority has an established integrated financial planning process. As part of this, the Authority considered scenarios of funding reductions up to 7 percent for formula specific grants in 2011/12.

Savings of £13.2 million for 2011/12 were identified through the planning process. In addition it was determined that a further £4 million could be recovered by way of suspending contributions to the single status provision and use of council tax surplus.

The final funding settlement was reported to Cabinet in February 2011. The report identified a shortfall of £2.8 million in 2011/12. The Authority decided that this shortfall could be achieved centrally by way of a council tax freeze grant of £1.4 million with the remaining gap being funded from use of balances and priorities have not had to be changed.

Revenue budget 2011/12

The final settlement for 2011/12 saw reductions to:

- formula grant by 10.7 percent to £70.9 million; and
- 'revenue spending power' by 5.5 percent to £144.2 million.

As well as formula grant, 'revenue spending power' includes Authority tax and other Government revenue grants, including the new NHS funding for social care.

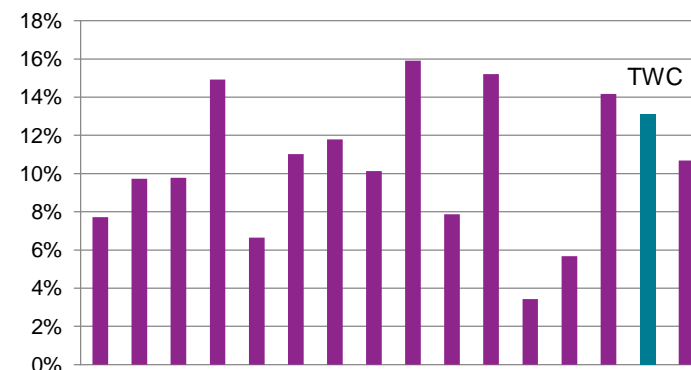
The final 2011/12 budget approved in March 2011 included required

savings of £20.0 million, including:

- savings from staff restructure of £5.1 million;
- other savings proposals including additional income of £8.1 million;
- Council tax freeze grants and specific one-offs of £5.4 million; and
- Use of balances of £1.4 million.

The Authority has recognised the continued demand pressures, and these have therefore had some protection from reductions as well as receiving additional investment, such as Adult Social Care which received £1.66 million of reinvested funding and Looked After Children which received £1.4m.

Gross savings plans 2011/12 as a percentage of revenue spending power 2010/11 – comparison with nearest neighbours



Source: LG Finance Settlement data, Council budgets 2011/12

Current reserve levels – at 2.8% - are below the median for the Authority's statistical neighbours - at 5.2%.

The Authority is planning to utilise some of its earmarked reserves but is anticipating being able to maintain the General Fund Balance at current levels.

The Authority's total planned savings for 2011/12 equate to 13.1 percent of its revenue spending power for 2010/11. This is above average compared to its statistical neighbours. The size of the challenge ahead cannot be underestimated.

The Authority acknowledges that it faces considerable uncertainties during 2011/12 and has included an additional £1.1 million one-off contingency in the 2011/12 budget.

Following the May elections the new Labour Administration has stated that it will produce a 100 Day Budget by mid July 2011. As part of this budget exercise all the Authority's Capital and Revenue spend will be critically reviewed. The review will consider what is absolutely necessary, what can be changed, reduced and/or stopped, and with this will come new monitoring arrangements to ensure that these changes are being delivered.

This work will need to dovetail with the Authority's restructuring plans and current savings delivery plans together with those going into 2012/13.

We will monitor this area closely as part of our on-going work with the Authority.

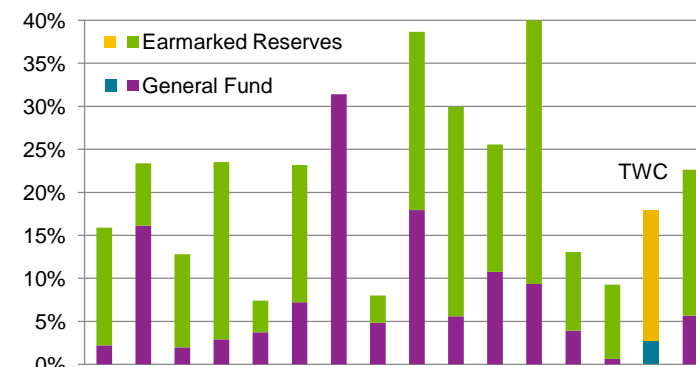
Usable Reserves

As at 31 March 2010 the Authority had a General Fund Balance of £4.2 million, which equates to 2.8 percent of its 2011/12 revenue spending power. This is below the median across its statistical neighbours of 5.2 percent.

Total usable reserves (including earmarked reserves, special fund and controllable service balance, but excluding schools balances) stood at £27.6 million as at 31 March 2010.

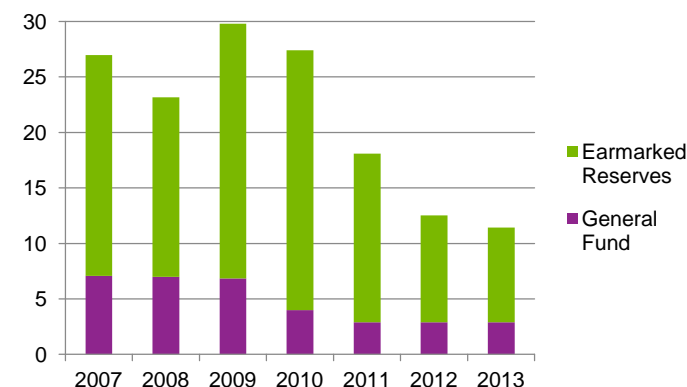
The Authority is forecasting that its General Fund Balance as at 31 March 2013 is expected to be £1.8 million.

Useable Reserves as at 31 March 2010 as a percentage of Revenue Spending Power 2011/12 – comparison with nearest neighbours



Source: Ratio tool - Audit Commission website, LG Finance Settlement data

General fund balances and reserves 2007 to 2013 (£m)



Source: Statements of Accounts, Service & Financial Planning 2011-14

We have given each recommendation a risk rating and agreed what action management will need to take.

The Authority should closely monitor progress in addressing specific risks and implementing our recommendations.

We will formally follow up these recommendations next year.

Priority rating for recommendations		
● Priority one: 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.	● Priority two: 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.	● Priority three: 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.

No.	Risk	Issue and recommendation	Management response/ responsible officer/ due date
1	● (two)	<p>The preparation for the implementation of the new financial ledger system has created significant time pressures on those involved in the process. As a result of this, the periodic review of user accounts for the Cash Receipting system has not been undertaken since November 2010 despite it being designed as a quarterly control. This results in an increased risk that the access rights granted to the system are not appropriate.</p> <p>The Authority should ensure that the review is undertaken on a quarterly basis and that this review is documented so as to evidence the actions taken</p>	<p>The Council will ensure that quarterly reviews are undertaken following the implementation of the new financial management system.</p> <p>Corporate Finance & Customer Services Manager After 4th July 2011</p>
2	● (two)	<p>The removal of user accounts for leavers is not being routinely completed in relation to the Cash Receipting System.</p> <p>The Authority should implement controls to ensure that all leavers are identified on a timely basis and that access to the systems is removed.</p>	<p>This was included in a revised leavers process/checklist implemented in April 2011.</p> <p>The Corporate Finance & Customer Services Manager. July 2011</p>

We have given each recommendation a risk rating and agreed what action management will need to take.

The Authority should closely monitor progress in addressing specific risks and implementing our recommendations.

We will formally follow up these recommendations next year.

No.	Risk	Issue and recommendation	Management response/ responsible officer/ due date
3	● (three)	<p>We selected a sample of IT Network user accounts for testing so as to ensure that the creation of the accounts had been appropriately authorised. As a result of this testing we identified that for five of the accounts, from a total of 14 being tested, the forms authorising access to the IT Network had not been retained as audit evidence.</p> <p>The Authority should ensure that all the authorisation forms approving access to the IT Network are retained in a manner which enables them to be retrieved when needed.</p>	<p>All IT network access authorisation forms will be retained in future.</p> <p>ICT Service Delivery Manager June 2011</p>



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