

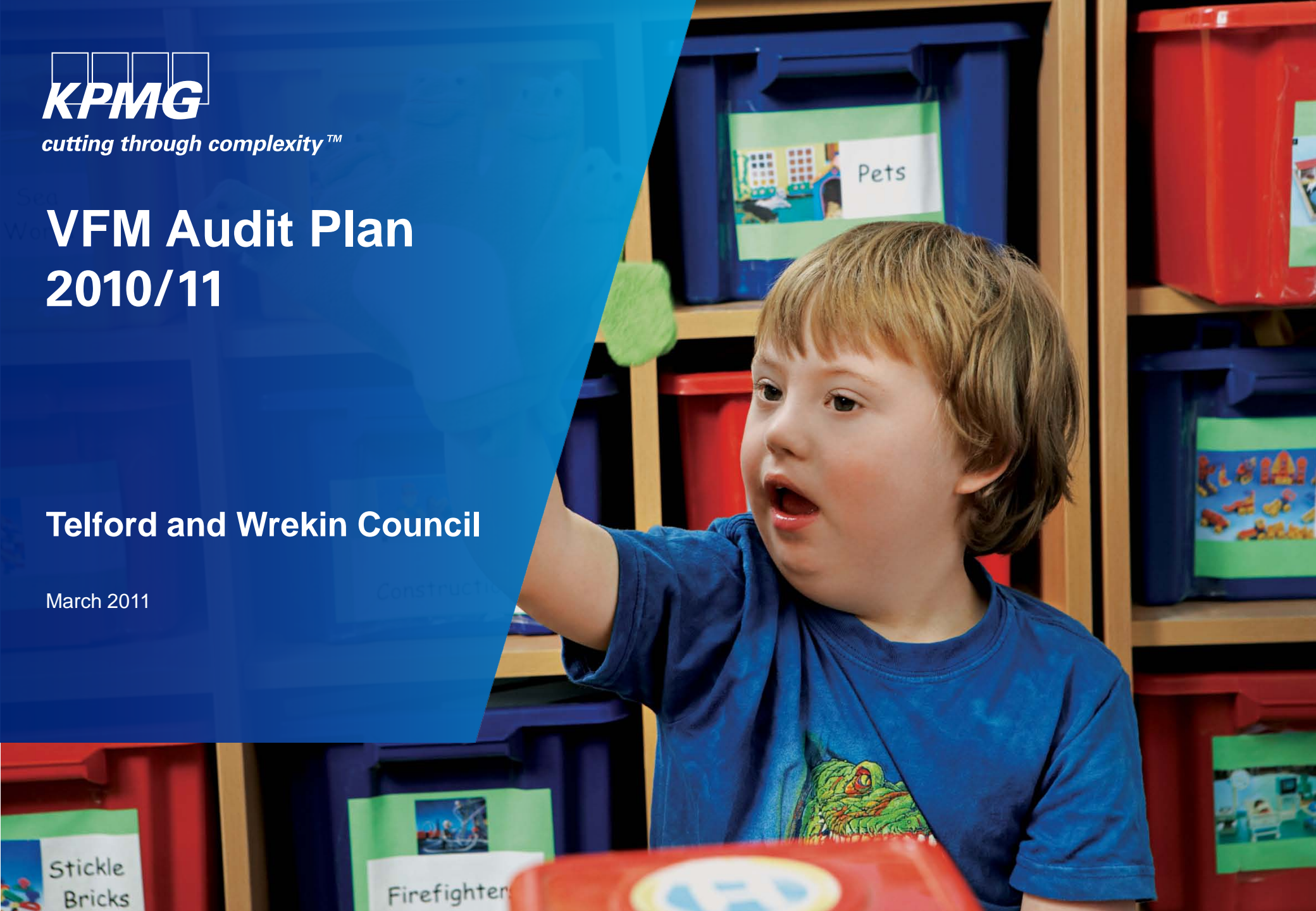


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VFM Audit Plan 2010/11

Telford and Wrekin Council

March 2011



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External auditors do not act as a substitute for the Council'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 lead to the Council (telephone 0121 335 2440 or 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 (0161 246 4000 or 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 describes how the new VFM audit approach will operate.

It also sets out our revised risk assessment for our VFM conclusion.

Our responsibilities

Our statutory responsibilities and powers are set out in the Audit Commission Act 1998 (the Act) and the Commission's *Code of Audit Practice* (the Code). The Code summarises our responsibilities into two objectives, requiring us to review and report on your:

- *use of resources*: concluding on the arrangements in place for securing economy, efficiency and effectiveness in your use of resources: the value for money (VFM) conclusion; and
- *financial statements (including the Annual Governance Statement)*: providing an opinion on your accounts.

We have already provided information on our detailed financial statements audit approach in our separate Financial Statements Audit Plan 2010/11.

This document focuses on our VFM audit. It describes the new approach introduced this year by the Audit Commission and highlights the key changes compared to the previous Use of Resources (UoR) auditor's scored judgements regime.

It also sets out our revised risk assessment for our VFM conclusion.

We have issued a separate Financial Statements Audit Plan, which also includes other aspects we are required to communicate, such as independence declarations and fee disclosures.

VFM audit approach

The new approach is structured around two criteria:

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

These replace the ten criteria/ key lines of enquiry under the previous UoR audit regime. 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 will follow a risk based approach to target audit effort on the areas of greatest audit risk. We will consider the arrangements put in place by the Council to mitigate these risks and plan our work accordingly.

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

This document describes how the new VFM audit approach will operate.

It also sets out our revised risk assessment for our VFM conclusion.

Risk assessment

The risks to our VFM conclusion we have identified are:

Risk	Description
Managing with less	<p>Telford and Wrekin faces cuts of £13.6m in grant funding in 2011/12. It has filled the resulting funding gap through a combination of efficiency savings and one-off measures for 2011/12.</p> <p>We will review the Council's financial stability following the 2011/12 settlement, focusing in particular on the capacity of the Council's 2011/12 draft budgets to secure this stability. We will also consider the actions used by the Council to secure the necessary savings in its 2011/12 draft budget and any resulting implications for service provision.</p>
Restructuring and service review programme	<p>The Council restructured its operations into Service Delivery Units (SDUs) in 2009/10, removing the former portfolio . It instigated a systematic, phased service-by-service restructuring programme in November 2010 to generate savings to meet forthcoming funding cuts and to better align resources to the Council's priorities.</p> <p>We will review the robustness of these reviews and the impact they may have on service delivery.</p>
Capital programme	<p>The Council's capital programme over the medium term includes ambitious plans including a radical overhaul of the new town centre, regeneration of the traditional centres of the Borough, large scale house building and relocation from its current Civic Office headquarters.</p> <p>These plans are to a significant degree dependent on capital receipts from sale of assets such as the Civic Offices. The recent recession has had a significant negative impact on the sale of such assets and the market currently remains depressed.</p> <p>The Council will need to monitor its capital receipts and adapt its proposals should receipts not be realised in the timescale envisaged.</p>
Single Status	<p>The Council has revised its timetable for implementing Single Status to accommodate its restructuring programme and is now scheduled to implement this by June 2014.</p> <p>We will meet with officers to discuss progress in implementation and review information about the likely cost as it becomes available.</p>
Railfreight Terminal	<p>The Council's newly constructed Railfreight terminal became operation during 2009/10; however, it has not generated the level of income envisaged and is currently running at a loss.</p> <p>We understand the Council is in negotiations with a private company who are interested in using the terminal and acting as a major customer. The Council will need to secure major customers so that the terminal generates a profit.</p>

Our work this year on your use of resources arrangements will follow a new approach introduced by the Audit Commission.

Background to new approach to local VFM work

The financial environment in which public sector audited bodies operate has changed significantly in the last two years. In particular, the recession, the state of the UK's public finances, and the scale of funding cuts have led to increased pressure on public spending.

In response to the changing financial environment, the Audit Commission has introduced a new approach to local VFM work at those bodies previously subject to a UoR assessment. The new, more focused approach will focus the work auditors do on areas of identified audit risk to meet their statutory VFM responsibilities.

In meeting their statutory responsibilities relating to economy, efficiency and effectiveness, the Commission's Code requires auditors to:

- plan their work based on consideration of the significant risks of giving a wrong conclusion (audit risk); and
- carry out only as much work as is appropriate to enable them to give a safe VFM conclusion.

Revised VFM criteria

The new approach is structured around two criteria, as summarised below.

Specified criteria	Focus of the criteria	Topic areas
The organisation has proper arrangements in place for securing financial resilience .	The organisation has robust systems and processes to: <ul style="list-style-type: none"> ■ manage effectively financial risks and opportunities; and ■ secure a stable financial position that enables it to continue to operate for the foreseeable future. 	<ul style="list-style-type: none"> ■ Financial governance ■ Financial planning ■ Financial control
The organisation has proper arrangements for challenging how it secures economy, efficiency and effectiveness .	The organisation is prioritising its resources within tighter budgets, for example by: <ul style="list-style-type: none"> ■ achieving cost reductions; and ■ improving efficiency and productivity. 	<ul style="list-style-type: none"> ■ Prioritising resources ■ Improving efficiency and productivity

We will take a rounded view when considering our judgement against the specified criteria - topic areas are used for ease of reference and will not be assessed in isolation.

VFM audit approach (continued)

We will follow a risk based approach to target audit effort on the areas of greatest audit risk.

Overview of the VFM audit approach

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



Each of these stages are summarised further below.

VFM audit stage	Audit approach
	<p>VFM audit risk assessment</p> <p>We consider the relevance and significance of the potential business risks faced by all local authorities, and other risks that apply specifically to the Council. These are the significant operational and financial risks in achieving statutory functions and objectives, which are relevant to auditors' responsibilities under the Code. In doing so we consider:</p> <ul style="list-style-type: none"> the Council's own assessment of the risks it faces, and its arrangements to manage and address its risks; information from the Audit Commission's VFM profile tool and financial ratios tool; evidence gained from previous audit work, including the response to that work; and the work of the Audit Commission, other inspectorates and review agencies. <p>Our Audit Fee Letter 2010/11 included the initial risk assessment for our VFM audit work. We have updated this in light of the revised criteria and a summary of risks is included in the next section of this report.</p>

VFM audit approach (continued)

Our VFM audit will draw heavily on other audit work which is relevant to our VFM responsibilities and the results of last year's VFM audit.

We will then form an assessment of residual audit risk to identify the areas where more detailed VFM audit work is required.

VFM audit stage	Audit approach
	<p>Linkages with financial statements and other audit work</p> <p>There is a degree of overlap between the work we do as part of the VFM audit and our financial statements audit. For example, our financial statements audit includes an assessment and testing of the Council's organisational control environment, including the Council's financial management and governance arrangements, many aspects of which are relevant to our VFM audit responsibilities.</p> <p>We have always sought to avoid duplication of audit effort by integrating our financial statements and VFM work, and this will continue. We will therefore draw upon relevant aspects of our financial statements audit work to inform the VFM audit.</p>
	<p>Assessment of residual audit risk</p> <p>It is possible that our financial statements audit and previous VFM audit work may provide the assurance we need for the VFM audit. However, it is likely that further audit work will be necessary in some areas to ensure comprehensive coverage of the two VFM criteria.</p> <p>In practice, this work will involve a range of interviews with relevant officers, and review of documents such as policies, plans and minutes. We will also refer to any self assessment the Council may prepare against the characteristics.</p> <p>To inform any further work we must draw together an assessment of residual audit risk, taking account of the work undertaken already. This will identify those areas requiring further specific audit work to inform the VFM conclusion.</p> <p>At this stage it is not possible to indicate the number or type of residual audit risks that might require additional audit work, and therefore the overall scale of work cannot be easily predicted.</p>
	<p>Identification of specific VFM audit work</p> <p>If we identify residual audit risks, then we will highlight the risk to the Council and consider the most appropriate audit response in each case, including:</p> <ul style="list-style-type: none"> ■ considering the results of work by the Council, the Audit Commission, other inspectorates and review agencies; and ■ carrying out local risk-based work to form a view on the adequacy of the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources.

VFM audit approach (continued)

Where relevant, we draw upon the range of audit tools and review guides developed by the Audit Commission.

We will report on the results of the VFM audit through our Interim Audit Report and our Report to those charged with governance.

VFM audit stage	Audit approach
<p>Local risk-based work</p>	<p>Delivery of local risk based work</p> <p>Depending on the nature of the residual audit risk identified, we will be able to draw on audit tools and sources of guidance when undertaking specific local risk-based audit work, such as:</p> <ul style="list-style-type: none"> local savings review guides based on selected previous Audit Commission national studies; and update briefings for previous Audit Commission studies. <p>The tools and guides will support our work where we have identified a local risk that is relevant to them. For any residual audit risks that relate to issues not covered by one of these tools, we will develop an appropriate audit approach drawing on the detailed VFM guidance and other sources of information.</p>
<p>Conclude on arrangements</p>	<p>Concluding on VFM arrangements</p> <p>At the conclusion of the VFM audit we will consider the results of the work undertaken and assess the assurance obtained against each of the VFM themes regarding the adequacy of the Council's arrangements for securing economy, efficiency and effectiveness in the use of resources.</p> <p>If any issues are identified that may be significant to this assessment, and in particular if there are issues that indicate we may need to consider qualifying our VFM conclusion, we will discuss these with management as soon as possible. Such issues will also be considered more widely as part of KPMG's quality control processes, to help ensure the consistency of auditors' decisions.</p>
<p>Reporting</p>	<p>Reporting</p> <p>We do not plan to produce a separate report on the VFM audit, either overall or for any specific reviews that we may undertake. Instead, we will report on the results of the VFM audit through our ISA 260 Report. This report will summarise our progress in delivering the VFM audit, the results and any specific matters arising, and the basis for our overall conclusion.</p> <p>The key output from the work will be the VFM conclusion (i.e. our opinion on the Council's arrangements for securing VFM), which forms part of our audit report.</p>

There are many similarities to the previous Use of Resources approach, but also some notable differences.

Comparison to the previous Use of Resources audit regime

Although the purpose of the VFM audit remains the same – to form a view on the adequacy of the Council’s arrangements for securing economy, efficiency and effectiveness in the use of its resources – and there are many similarities in the new approach, there are also some notable differences. These are summarised in the table below.

Previous Use of Resources audit regime	New VFM audit regime
<ul style="list-style-type: none"> Three themes (managing finances, governing the business and managing resources) covering ten key lines of enquiry (KLOE). VFM criteria equate to KLOE. 	<ul style="list-style-type: none"> Reduced to two VFM criteria (financial resilience and securing VFM). There remains considerable overlap in coverage, but some aspects (e.g. natural resources) are not now considered.
<ul style="list-style-type: none"> Scored judgements overall, for each of the three themes and each KLOE. These scores informed the VFM conclusion. 	<ul style="list-style-type: none"> No scored judgements. The VFM conclusion is the only output, which remains a ‘pass / fail’ style assessment.
<ul style="list-style-type: none"> Detailed guidance available for each KLOE describing the standards and performance required to achieve levels 2 and 3. 	<ul style="list-style-type: none"> More summarised characteristics replace the previous KLOEs. These have an austerity flavour and are more concerned with the current focus on issues such as savings and efficiencies.
<ul style="list-style-type: none"> Strong emphasis on the need to demonstrate impact and positive outcomes to achieve higher scores. 	<ul style="list-style-type: none"> Focus is on the adequacy of the arrangements to deliver economy, efficiency and effectiveness in the use of resources.
<ul style="list-style-type: none"> Some cyclical variation each year, but Use of Resources audits were applied in the same way at every audited body. 	<ul style="list-style-type: none"> Risk-based approach with the level of audit work varying at each audited body.

We have identified a number of significant risks to our VFM conclusion.

We will consider the arrangements put in place by the Council to mitigate these risks and plan our work accordingly.

VFM risks identified

Our Audit Fee Letter 2010/11 included the initial risk assessment for our VFM audit work. We have updated this in light of the revised criteria and a summary of risks is included in the table below.

In most cases, it is not possible to indicate at this stage exactly what audit work will be required. As described earlier in this report, our work is likely to include interviews with relevant officers, and review of documents such as policies, plans and minutes. Depending on our residual audit risk, we may then need to complete targeted further work.

Risk	Focus of work
<p>Managing with less</p> <p>There will be significant pressures on all Local Authorities due to funding cuts from Central Government and other sources such as Regional Development Agencies as a result of the Comprehensive Spending Review. Telford and Wrekin faces cuts of £13.6m in grant funding in 2011/12. It has filled the resulting funding gap through a combination of efficiency savings and one-off measures for 2011/12.</p>	<p>The Commission will be publishing a national study in May 2011 on the impact of the 2011/12 local government settlement on councils' finances. The study will examine the approaches taken by councils in responding to the need to make savings and to managing with less.</p> <p>To support the study, we are required to complete a survey which will capture:</p> <ul style="list-style-type: none"> information on the financial stability of the Council following the 2011/12 settlement, focusing in particular on the capacity of the Council's 2011/12 draft budgets to secure this stability; and actions used by the Council to secure the necessary savings in its 2011/12 draft budget and any resulting implications for service provision. <p>The information collected in the survey will be closely based on the financial resilience criterion of the value for money conclusion and forms a mandatory part of auditors' work programmes at all single-tier, county and district councils.</p>
<p>Service restructuring programme</p> <p>The Council restructured its operations into Service Delivery Units (SDUs) in 2009/10 to cut costs and align resources better to priorities.</p> <p>Starting in November 2010, it has embarked on a systematic restructuring programme for each SDU to further cut costs and align resources to priorities.</p>	<p>We will review the Council's restructuring programme and assess the robustness of proposals for delivering savings necessary to meet funding reductions.</p> <p>We will meet key officers to discuss the approach for restructuring, the impact on services and the capacity to deliver required savings.</p>

We have identified a number of significant risks to our VFM conclusion.

We will consider the arrangements put in place by the Council to mitigate these risks and plan our work accordingly.

Risk	Focus of work
<p>Capital programme</p> <p>The Council's capital programme over the medium term includes ambitious plans including a radical overhaul of the new town centre, regeneration of the traditional centres of the Borough, large scale house building and relocation from its current Civic Office headquarters.</p> <p>These plans are to a significant degree dependent on capital receipts from sale of assets such as the Civic Offices. The recent recession has had a significant negative impact on the sale of such assets and the market currently remains depressed.</p>	<p>We will review the Council's capital programme and projections of capital receipts. We will discuss with key officers the likelihood of projected receipts materialising, and assess whether necessary action is being taken if projections of receipts change as a result of market conditions.</p>
<p>Single Status</p> <p>The Council is yet to implement Single Status. It has revised its implementation timetable during 2010/11 to accommodate its phased restructuring programme and now plans to have completed implementation this by June 2014.</p> <p>This will continue to present significant uncertainty in financial planning.</p>	<p>We will discuss progress in its implementation plan with officers and review the likely financial implications as its pay modelling progresses.</p>
<p>Railfreight terminal</p> <p>The Council's completed construction of its Railfreight terminal in 2009/10. However, the terminal failed to secure significant customers when it first became operational and has not generated the level of income anticipated.</p> <p>Major customers will need to be attracted to ensure its financial viability.</p>	<p>We will discuss with relevant officers progress made in securing major customers for the terminal. We will review monitoring of the financial viability of the terminal and the robustness of projections for future use and income.</p>



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