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Interim Audit Report 2011/12

Telford & Wrekin Council

June 2012



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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 2011/12 financial statements and the 2011/12 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 2011/12 financial statements.

We also set out the work we have carried out up to April 2012 and summarise the work that we plan to perform in relation to Value for Money (VFM) during the coming months. This work is designed to provide the assurance necessary for us to issue our VFM opinion by the end of September 2012.

Financial statements

Our *External Audit Plan 2011/12*, presented to you in January 2012, set out the four stages of our financial statements audit process.



During February to April 2012 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; and
- 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.

In relation to the above, our work around the Authority's IT systems is ongoing due to power outages encountered by the Authority during our on site visit. As a result our work will be completed prior to our substantive testing being undertaken in July 2012.

Value for Money

Our *External Audit Plan 2011/12* explained our risk-based approach to VFM work, which follows guidance provided by the Audit Commission. We have completed our assessment of the Authority's arrangements to secure VFM in order to identify the specific matters requiring work to be undertaken in order to provide the assurance necessary for our VFM conclusion.

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 2011/12 financial statements.
- Section 4 outlines our work carried out on the VFM conclusion to date.

Our recommendations are included in Appendix 1. We have also reviewed your progress in implementing previous recommendations made by us. The findings in relation to these recommendations are detailed in Appendix 2.

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 our headline messages arising out of our audit work to date. The remainder of this report provides further details on each area.

Organisational and IT control environment	<p>We consider the Authority's organisational control environment to be effective overall.</p> <p>Our work in relation the Authority's IT systems is still ongoing due to power outages encountered by the Authority during our on site visit, which resulted in our contact for the Payroll system being unavailable. Based upon our work to date we consider the Authority's IT control environment to be generally sound in relation to those systems tested. However, we have made recommendations in relation to controls over the IT environment where minor weaknesses regarding application access and change have been identified. In addition, Internal Audit raised concerns over the level of resourcing and training provided to the IT team responsible for supporting the new financial ledger system.</p>
Controls over key financial systems	<p>We have used the work of Internal Audit to document the effectiveness of the controls in relation to all the Authority's key financial systems, with the exception of those controls which are year end related. From this we have concluded that the controls over the majority of the key financial systems are generally sound, however, Internal Audit have identified weaknesses in relation to:</p> <ul style="list-style-type: none"> ■ financial reporting; ■ sundry income; and ■ non-pay expenditure. <p>All of the issues identified have already been reported to management by Internal Audit. As a result of this, no further recommendations are being raised by us in this report.</p> <p>In addition, as a result of the above weaknesses we will need to undertake additional substantive testing during our final accounts audit visit in relation to the affected areas. Such work will include, but is not limited to, a thorough review of suspense account balances and more extensive testing in relation to year end debtors and creditors.</p>
Review of Internal Audit	<p>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.</p>
Accounts production and specific risk areas	<p>We consider the overall process for the preparation of the Authority's financial statements to be adequate. Whilst the Authority is still in the process of implementing the recommendations raised as a result of our work in 2010/11, we note that significant progress has been made in relation to the issues highlighted.</p>
Value for Money	<p>We have completed our assessment of the specific matters relevant to undertaking the audit work required in order for us to conclude on the Authority's arrangements to deliver value for money. As a result we have determined that specific work will be required in relation to the Authority's ongoing financial standing as a result of its implementation of savings plans and staff restructuring.</p> <p>In February 2012 we met with the Authority's Executive Directors in order to offer a constructive challenge to the Authority's Medium Term Financial Plan (MTFP) development and monitoring processes as part of our assessment of financial resilience. We will report the outcomes of all our work in our <i>ISA 260 Report 2011/12</i>.</p>

Section three – financial statements

Organisational control environment

Your 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 your organisational controls are effective overall.

Aspect	Assessment
Management's philosophy and operating style	3
Culture of honesty and ethical behaviour	3
Oversight by those charged with governance	3
Related parties	3
Risk assessment process	3
Internal communications	3
External communications	3
Monitoring process	3
Monitoring information	3

Key:

- 1 Significant gaps in the control environment.
- 2 Deficiencies in respect of individual controls.
- 3 Generally sound control environment.

Your IT control environment relating to those systems we have tested is effective overall.

We are still to complete our testing in relation to the Payroll System.

Work completed

The Authority relies on information technology (IT) to support both its 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.

In completing this work we undertook testing of the key controls and processes operating in relation to the Authority's IT network and core IT systems relevant to our financial statements audit.

During 2011/12 the Authority implemented a new financial ledger system (Agresso). We undertook specific testing in relation to the migration of data from the legacy system (OLAS) to its replacement.

Key findings

We found your IT control environment relating to those system we have tested is effective overall but we noted some areas for further improvement, including:

- No clear audit trail is being maintained in relation to the testing and authorisation of upgrades to the Cash Receipting system. We note, however, that the System Administrator was involved in such testing and has confirmed that she is satisfied with the ongoing functionality of the system; and
- Our testing over the development of new systems and applications confirmed that the key controls had operated effectively in relation to the implementation of the Authority's new financial ledger system. Despite this we are aware that there were a number of technical difficulties encountered in relation to this implementation.

Recommendations are included in Appendix 1.

These weaknesses expose the Authority to additional risk with regards to its overall control framework. By making the recommended improvements, such as completing formal periodic review of user access rights, these risks would be mitigated and the Authority's overall control environment would be improved.

Due to power outages impacting upon the Authority we experienced reduced availability of specific members of the Authority's IT Department. As a result of this we were unable to complete all of our testing in relation to the Payroll System (PSE). We will complete this testing prior to the completion of our substantive work in July 2012.

Aspect	Assessment
Access to systems and data	2
System changes and maintenance	2
Development of new systems and applications	3
Computer operations, incl. Processing, Backup and End-User Computing	3

Key:

- 1 Significant gaps in the control environment.
- 2 Deficiencies in respect of individual controls.
- 3 Generally sound control environment.

Section three – financial statements

Controls over key financial systems

The controls over the majority of the key financial systems are generally sound.

There are weaknesses in respect of:

- Financial reporting (in relation to suspense accounts);
- Sundry income; and
- Non-pay expenditure.

We will need to complete additional substantive work in these areas during our year-end audit work.

Work completed

We work with your 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 walkthrough reviews 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 Authority's key financial systems are generally sound but we noted some weaknesses in respect of individual financial systems, namely:

- Suspense Accounts: Our review of suspense accounts indicated that transactions within these accounts were not being cleared on a periodic and timely basis.
- Debt Chasing: We identified that payments received were not being matched appropriately to the invoices that the payment related to. As a result, the Authority has not been chasing debts as thoroughly as in prior years due to the risk that the wrong debtor may be chased.
- Write-Offs: It was identified that the finance system writes-off all invoices at 20% VAT. As a result of this, where the original invoice was for a lower VAT rate the total value of the write-off will exceed the original value of the invoice and a credit balance.
- Reconciliation Processes: Our review of the design of controls

indicated that insufficient training has been provided to those undertaking reconciliations in relation to the sales ledger. As a result discrepancies identified through these reconciliations are not appropriately investigated by the Sales Ledger Team.

- Non-Pay Expenditure: We note that there is no process for validating the completeness of invoices imported into the purchase ledger. As a result there is an increased risk of invoices not being paid and open orders being inaccurately identified at year end.

System	Assessment
Financial reporting	2
Grant income	See page 7
Council tax income	3
Business rates income	3
Sundry income	2
Payroll expenditure	3
Non-pay expenditure	2
Benefits expenditure	3
Cash	3
Treasury management	3
Capital expenditure	3
Asset valuations	See page 7

- Key:
- 1 Significant gaps in the control environment.
 - 2 Deficiencies in respect of individual controls.
 - 3 Generally sound control environment.

Controls over key financial systems (cont..)

The controls over the majority of the key financial systems are generally sound.

There are weaknesses in respect of:

- **Financial reporting (in relation to suspense accounts);**
- **Sundry income; and**
- **Non-pay expenditure.**

We will need to complete additional substantive work in these areas during our year-end audit work.

Key findings (cont...)

Internal Audit gave reasonable/ limited assurance for these systems and included recommendations in their reports as appropriate.

We have not yet assessed the controls over grant income and asset valuations. 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.

The weaknesses identified mean that we will need to complete additional substantive work at year-end. We will discuss the need to undertake additional work with the Assistant Director: Finance, Audit and Information Governance, the Finance Manager and the Finance Team Leader during May 2012.

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

We were able to place full reliance on Internal Audit's work on the key financial systems.

Work completed

We work with your 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 2012. We reviewed their self-assessment and supporting evidence and used this as the basis for completing a full assessment of Internal Audit this year.

Based on our assessment, Internal Audit fully complies with the Code.

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

Through our review of the work undertaken by Internal Audit we noted that there had been improvements in relation to their working papers and particularly the way in which supporting evidence was referenced and retained.

Aspect	Assessment
Scope of Internal Audit	3
Independence	3
Ethics for Internal Auditors	3
Audit Committee	3
Relationships with management, other auditors and other review bodies	3
Staffing, training and development	3
Audit strategy and planning	3
Undertaking audit work	3
Audit strategy and planning	3
Due professional care	3
Reporting	3

Key:

- 1 Non-compliance with the standard.
- 2 Areas for improvement.
- 3 Full compliance with the standard.

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

The Authority has implemented the majority of the recommendations in our ISA 260 Report 2010/11 relating to the financial statements.

Work completed

We issued our Accounts Audit Protocol to the Finance Team Leader in March 2012. This document sets out our audit approach and timetable. It also summarises 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 26 March 2012.

We continue to liaise with the Assistant Director: Finance, Audit and Information Governance, the Finance Manager and the Finance Team Leader on a regular 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 2010/11*.

Key findings

The Authority has incorporated a number of measures into its accounts closedown plan to further improve the project management of this complex process. This includes the creation of a SharePoint site where all working papers will be stored for access by members of our external audit team.

We consider that the overall process for the preparation of your financial statements is adequate. We will review the working papers immediately prior to the final audit visit and will highlight any deficiencies so that these can be rectified prior to our audit.

The Authority has implemented the majority of the recommendations in our *ISA 260 Report 2010/11* relating to the financial statements in line with the timescales of the action plan. Where recommendations have not been implemented this is generally due to the recommendation relating to closedown activities. The table below sets out the Authority's progress against high priority recommendations.

2010/11 Issue	Progress
<p>A substantial number of the audit differences identified during the audit of the 2010/11 financial statements arose due to the failure to fully understand the changes arising due to the move from UK GAAP to IFRS as implemented by the Code.</p> <p>The Authority should undertake a thorough review of the Code and IFRS on an annual basis to ensure that any changes are identified, understood and actioned in the preparation of the financial statements.</p>	<p>In Progress</p> <p>The 2010/11 financial year was the first year of applying IFRS in local government. As a result of this there were a larger than normal number of changes to accounting treatments.</p> <p>The Authority has increased the resources applied to the production of the financial statements for 2011/12. As a result of this a more thorough review of the Code is possible.</p> <p>In addition, the review process around the production of the financial statements has been made more rigorous, including presenting a draft copy of the financial statements to the Audit Committee prior to the commencement of our substantive testing.</p> <p>We will review the impact of these measures as part of our work in July 2012 and report any issues identified in our <i>ISA 260 Report 2011/12</i>.</p>

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 *External Audit Plan 2011/12*, presented to you in January 2012, we identified the key risks affecting the Authority's 2011/12 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 the Assistant Director: Finance, Audit and Information Governance, the Finance Manager and the Finance Team Leader as part of our regular meetings. In addition, we reviewed 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>As at December 2011, the Authority was forecasting that it would deliver its 2011/12 budget in overall terms. This included a savings programme totalling £13.2 million.</p> <p>The Authority estimated that another £19.1 million in savings will need to be achieved during 2012/13 rising to a total of around £33 million by 2014/15 as part of the General Fund strategy to address the reductions to local authority funding. Against a backdrop of continued demand pressures in Adult Social Care and Children's Services it will become more and more difficult to deliver these savings in a way that secures longer term financial and operational sustainability, whilst not affecting standards of service delivery.</p> <p>If there are any related liabilities at year end, e.g. through severance packages, these will need to be accounted for in the 2011/12 financial statements as appropriate.</p>	<p>The Authority continues to progress its savings plans and reports to the Cabinet on progress made as part of its regular reporting processes. No significant delays in achieving savings have been identified to date through these monitoring processes.</p> <p>On 27 February 2012 we met with the Executive Directors to facilitate a challenge of their Medium Term Financial Planning (MTFP) processes. This meeting included reviewing the achievability of the Authority's savings plans and measures taken where slippages had occurred against these plans. No issues were identified as a result of this meeting</p>


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>Component Accounting</p>	<p>We reported in our 2010/11 <i>Annual Audit Letter</i> that the Authority had implemented a policy in relation to the IFRS requirements for component accounting. This policy was based upon the application of a series of thresholds relating to the asset's value and useful economic life. The policy was designed to ensure that componentisation was applied so as to account for all material asset components.</p> <p>The application of this policy to additions and revalued assets in 2010/11 resulted in no componentisation being undertaken in relation to the 2010/11 Financial Statements.</p>	<p>The Authority will be preparing the 2011/12 financial statements using the same componentisation policy as that applied for 2010/11.</p> <p>In the event that no componentisation results from the application of this policy in 2011/12 the Authority has agreed to prepare an analysis of the potential impact of amending the policy to use lower thresholds. This analysis will then be reviewed as part of our substantive work in order to identify whether the impact would be material.</p>
 <p>Capital Accounting Thresholds</p>	<p>In our 2010/11 <i>Annual Audit Letter</i> we reported that the Authority had historically operated two de minimis thresholds in relation to Capital Accounting resulting in capital expenditure between £1k and £50k being capitalized but then immediately impaired to nil net book value.</p> <p>The Authority has proposed a revised policy which will be implemented in relation to the 2011/12 Financial Statements. This policy makes use of a single threshold of £10k in all except a limited number of exceptions such as where the aggregate value of a purchase programme exceeds the de minimis levels.</p> <p>The previous policy resulted in £9m of asset additions being recognised in the 2010/11 Financial Statements which were then fully impaired as a result of the policy rather than as the result of a specific impairment issue.</p>	<p>We have reviewed the revised policy and currently in discussions with the Authority's officers in relation to the proposed exceptions to the policy.</p> <p>The Authority has provided an initial analysis of the impact of this policy and we have asked additional questions in order to clarify the position and the proposed accounting.</p> <p>Management is now in the process of providing an updated analysis in order to respond to our queries. Once this analysis is complete we will review it in order to confirm that it fully resolves the issue identified in 2010/11.</p>

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>The 2011/12 <i>Code</i> includes a number of accounting changes, including a new requirement to carry 'heritage assets' at valuation. Heritage Assets include historical buildings, museum and gallery collections and works of art.</p> <p>The 2011/12 <i>Code</i> also clarifies requirements in a number of areas where ambiguity was identified in the 2010/11 <i>Code</i>.</p> <p>In addition, 2011/12 sees the move from preparing financial statements under the Best Value Accounting Code of Practice (BVACOP) to the Service Reporting Code of Practice (SeRCOP).</p> <p>The Authority needs to review and appropriately address these changes in its 2011/12 financial statements.</p>	<p>In relation to Heritage Assets the Authority is in the process of identifying any assets which could potentially fall under the new requirements and assessing whether they should be accounted for as Heritage Assets. The Authority is also assessing the costs that would be incurred in relation to the valuation of the identified assets. This will be assessed against the benefit of reporting the information in the financial statements.</p> <p>In previous years the Authority has opted to increase the level of disclosure beyond that required by the BVACOP. As a result of this the differences between the format used in previous years and that required by the SeRCOP is significantly reduced.</p> <p>We will continue to meet with the relevant officers in order to monitor the progress made in relation to heritage assets, and other Code Changes, in the lead up to our audit work in July 2012.</p>

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

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

Our External Audit Plan 2011/12 describes in more detail how the VFM audit approach operates.

Background

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.

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 VFM audit approach

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



To date we have identified **one specific matter relevant to our VFM conclusion.**

We will meet with the Authority's senior officers and Members in May 2012 in order to discuss the Authority's arrangements to secure value for money.

As part of our discussions we will assess progress made in relation to

- **Restructuring;**
- **Single Status; and**
- **Co-operative Council**

Work completed


In line with the risk-based approach set out on the previous page, we have assessed the Authority's key business developments which are relevant to our assessment of the Authority's arrangements to secure value for money.

During February 2012 we met with the Authority's Executive Directors in order to offer a constructive challenge to the Authority's MTFP development and monitoring processes, the results of which are summarised in the table below.

Key findings

Based on our work to date we have identified one specific matter affecting financial resilience and economy, efficiency and effectiveness which we deem to be of significance for our VFM conclusion. In May 2012 we will meet with senior officers and Members to discuss the processes in place, and measures taken, in relation to this matter and any other subsequently identified.

Below we set out our assessment of the specific matter relevant to our VFM conclusion and the approach our work will take.

Key VFM Matter	Matter arising and link to VFM conclusion	Focus of Work
	<p>There continues to be significant pressures on all Local Authorities due to ongoing funding cuts from Central Government and other funding bodies as a result of the Comprehensive Spending Review. In addition, the continued economic downturn has resulted in increased levels of demand for services provided by the Authority.</p> <p>Starting in November 2010, the Authority embarked on a systematic restructuring programme for each Service Delivery Unit to cut costs and align resources to priorities. During 2011/12 a further restructuring was commenced in relation to the Authority's senior management. This restructuring programme saw additional reductions in the number of senior managers and a realignment of responsibilities.</p> <p>At the same time, the Authority is moving to a Co-operative Council model and having to progress the implementation of Single Status.</p> <p>This is relevant to both the financial resilience and economy, efficiency and effectiveness criteria of our VFM conclusion.</p>	<p>In February 2012 we met with the Executive Directors in order to discuss the Authority's MTFP processes and the progress made in relation to the delivery of the Authority's savings plans. As part of this discussion we offered a constructive challenge of the processes in place. This meeting included reviewing the achievability of the Authority's savings plans and measures taken where slippages had occurred against these plans. No significant weaknesses were identified as a result of this meeting.</p> <p>Based upon the outcomes of this meeting we will continue to monitor the progress made in delivering the required savings packages throughout the Authority. Specifically we will review the processes in place to monitor this delivery and assess whether timely and appropriate action is taken where slippage occurs.</p> <p>We will review the Council's restructuring programme and assess the robustness of proposals for delivering savings necessary to meet funding reductions. We will also review the assessed impact on service delivery standards.</p> <p>We will meet key officers and Members to discuss the above issues during May 2012.</p>

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

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

We will formally follow up these recommendations as part of next year's interim audit work

Priority rating for recommendations			
1	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.	2	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.
3	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	2	<p>We undertook testing in relation to the processes for authorising and testing upgrades to the Authority's Cash Receipting System (ICON). The System Administrator confirmed that testing had been successfully undertaken prior to the implementation of the upgrade.</p> <p>However, there is no clear audit trail to indicate that the upgrade had been formally authorised, or that the testing had been formally signed off as satisfactorily completed.</p> <p>The Authority should ensure that any upgrades to its core IT systems are formally authorised and tested. Such authorisation and testing should be documented in a manner which maintains a clear audit trail. Such a process could be as simple as ensuring that internal emails relating to authorisation and testing sign-off are securely retained for future reference.</p>	<p>Confirmation that files had been successfully processed was obtained by e-mail for the different elements of the new FMS implementation. This included e-mails between Income Management, the FMS Support Team, ICT, Revenues & Benefits and Sales Ledger which evidence sign off. A more formal process will be put in place for future changes to the Income Management System.</p> <p>Finance Manager – 31/08/12</p>
2	2	<p>The Authority implemented a new financial ledger system (Agresso) commencing in July 2011. It encountered a number of technical difficulties during the implementation.</p> <p>Moving forward, the Authority should undertake a post implementation review in order to identify learning points which can be used to improve any future core IT system implementations.</p>	<p>The Project Team held post-implementation lessons learned session and a Lessons Learned Report was produced following the project closure. Further, a post-implementation audit is currently being finalised by internal audit, as part of their work-programme.</p> <p>Finance Manager – complete and in progress (due to be completed by 30/06/12)</p>

Follow-up of prior year recommendations

The Authority has implemented all of the recommendations in our *Interim Audit Report 2010/11*.

This appendix summarises the progress made to implement the recommendations identified in our *Interim Audit Report 2010/11* and re-iterates any recommendations still outstanding.

Number of recommendations that were:	
Included in original report	3
Implemented in year or superseded	3
Currently remain outstanding (re-iterated below)	0

No.	Risk	Issue and recommendation	Officer responsible and due date	Status as at April 2012
1	2	<p>The preparation for the implementation of the Authority's new financial ledger system (Agresso) has created significant time pressures on those officers 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 this 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 Authority 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>	<p>Implemented</p> <p>We confirmed that a full review of user accounts was undertaken during March 2012 and that this is intended to be repeated periodically.</p>

Follow-up of prior year recommendations (Cont...)

The Authority has implemented all of the recommendations in our *Interim Audit Report 2010/11*.

No.	Risk	Issue and recommendation	Officer responsible and due date	Status as at April 2012
2	②	<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.</p> <p>July 2011</p>	<p>Implemented</p> <p>We have tested the removal of leavers as part of our work in March 2012. As a result of this work we have confirmed that the removal of leavers is now being undertaken effectively.</p>
3	③	<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</p> <p>June 2011</p>	<p>Implemented</p> <p>We identified no issues in relation to the retention of authorisation forms as a result of our audit work in March 2012.</p>



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