

AUDIT COMMITTEE

Minutes of a meeting of the Audit Committee held on Tuesday, 27th January 2009 at 6.00pm in the Scrutiny Meeting Room, Civic Offices, Telford

PRESENT: D.Wright (Chairman), I.T.W.Fletcher (Vice-Chairman), R.K.Austin, L.Lomax and W.L.Tomlinson.

OFFICERS PRESENT: Ken Clarke – Head of Audit & Democracy and Jenny Marriott – Audit & Risk Manager.

AUC-38 MINUTES

RESOLVED – that the minutes of the meeting of the Audit Committee held on 30th October 2008 be confirmed and signed by the Chairman.

AUC-39 APOLOGY FOR ABSENCE

Councillor T.J.Hope.

The Head of Audit & Democracy reported to the Committee that Mr A Cardoza (KPMG) was unable to attend the meeting and accordingly there was a request to defer consideration of Agenda Item 10 – Appendix F to the next meeting. This request was approved by the Committee.

AUC-40 DECLARATIONS OF INTEREST

None.

AUC-41 QUARTER 3 – UPDATE REPORT

The joint report of the Head of Audit & Democracy and the Audit & Risk Manager was received which sought to update members on the work of Internal Audit during quarter three for the period October – December 2008.

Members were reminded that the Committee received quarterly reports on the work of Internal Audit within the Council. The report also provided an update on the progress of previous audit reports that had been issued in the period commencing July 2007 to September 2008. The Committee was informed that Internal Audit had principally focussed on the completion of audits as set out in the Internal Audit Plan. This particular quarter's report also included a number of internal audits which were used by the external auditor to inform and provide evidence for their final accounts work. It was also noted that the completion of this programmed work had been affected by the Leader requesting a review which was undertaken by two senior team members. Planned time had also been allocated towards the recruitment of a part time Auditor to replace an Auditor who had left at the end of October 2008.

The Committee were referred to the Appendices attached to the report which included a list of final reports that had been issued within quarter three with their respective grading, a schedule of all of the work that had lasted for more

than one day within the quarter, a list of all the graded reports from July 2007 to September 2008 and their current status and the provision of further information in connection with the two amber reports that had been issued during this particular quarter.

It was noted that Internal Audit were confident that controls had and would continue to improve in all areas where recommendations had been made and that assurance had been given by the appropriate management teams that the action plans would be delivered.

Members were in particular referred to the reports that had been originally published as red/amber that had remained as amber. The Committee were referred to Appendix D which provided summary reports in relation to follow-up Audits for the Ice Rink and also Oakengates Leisure Centre. Following a request from Members the Audit & Risk Manager stated that she would circulate full copies of the reports in connection with the Ice Rink and Oakengates Leisure Centre for information. It was also requested that the Head of Leisure should be invited to attend at the next Committee meeting so that he could provide assurance to Members in relation to improvements in the controls within Leisure Services.

The Committee were also referred to those areas which had resulted in Internal Audit expending more than 15 days in the quarter and the reasons for this. A number of Members enquired as to whether within the report the Committee could be advised of the number of planned days and actual time for each area of work. The Audit & Risk Manager stated that this may be not useful as the number of days allocated did vary from one quarter to the next. However it was agreed that for reports in Appendix A – audits completed that quarter – that in the future the amount of budgeted time and actual time would be included. This approach was agreed by the Committee

Members also requested that within the Annual Report that statistics be included of the number of audits that were undertaken per portfolio together with an analysis of the number and type of recommendations contained within each report which should help to identify any trends.

RESOLVED – that the update report in connection with Quarter Three (October – December 2008) be noted.

AUC-42 REVIEW OF THE EFFECTIVENESS OF THE SYSTEM OF INTERNAL AUDIT AND THE AUDIT COMMITTEE INCLUDING THE USE OF CO-OPTES

Members received this report which sought the Committee's approval to how they would on behalf of the Council meet the requirements of the Accounts & Audit Regulations 2003 as amended in 2006. This particular regulation required the Council to undertake an annual review of the effectiveness of its system of internal audit. The Committee were also required to agree how they would measure the effectiveness of the Audit Committee and also to decide whether any co-optees were required to support their work.

It was noted that the results of the review of Internal Audit would be presented to the meeting of the Committee to be held in June 2009 and the review of the effectiveness of the Audit Committee would be received at the March 2009 meeting.

The meeting was informed that in accordance with the Accounts and Audit (Amendment) (England) Regulations 2006 the Council was required to undertake an annual review of the effectiveness of its system of internal audit. However Members were informed that since the requirements came into force in April 2006 a brief explanation of the requirements were provided by the DCLG. This guidance was not prescriptive and had not clarified a defined system in order to assess the effectiveness of internal audit. The Committee were further informed that CIPFA had attempted through research and consultation to address this lack of guidance, with an updated draft having been submitted to the December 2008 CIPFA Audit Panel but this was subject to further review. The principles contained within this particular draft had been used as the basis of this report.

Members were requested to note that there was a further requirement that the Committee should agree who should undertake the review. The Committee noted that in February 2008 a survey of effectiveness was undertaken of the Audit activities of the Standards & Audit Committee and that this survey would need to be repeated in order to assess the effectiveness of the Audit Committee and also whether to appoint any co-optees.

In connection with the assessment of the effectiveness of Internal Audit the Committee were referred to the various elements of guidance received from CIPFA. The Committee were reminded of the existing assurance framework within the Council and of the existing mechanisms that were already in place for parts of the framework i.e. scrutiny, standards and Central government. In connection with the other areas the report indicated four options for review that had been previously presented to the Standards & Audit Committee. Members were referred to the Appendix attached to the report which provided further information on the pros and cons for each option. Following a discussion the Committee agreed to proceed with Option 1 contained within the report.

In relation to the assessment of the effectiveness of the Committee members were referred to the survey that had been taken in February 2008. The proposed survey form that had been annexed to the report was referred to Members for their approval with the addition of questions in connection with the possible appointment of co-optees. The Committee were also referred to the proposed list of officers and Members to which the survey should be forwarded. Following a discussion the list of proposed respondents were approved together with the inclusion of the Leader and the Democratic Services Officer who was responsible for the administration of the Committee.

RESOLVED –

Audit cttee min270109

- (a) that in connection with the assessment of the effectiveness of the system of Internal Audit that Option 1 as contained within 5.1 of the report be approved;
- (b) that the proposed list of respondents for the survey to assess the effectiveness of the Council's Audit Committee be approved subject to the inclusion of the Council Leader and the Democratic Services Officer who administers the Committee; and
- (c) that it is noted that following the reporting of the survey results to the meeting of the Audit Committee to be held in March 2008 that a decision would be taken in respect to co-optees.

AUC-43 REVIEW OF KEY STRATEGIC RISKS – SEPTEMBER 2008

Members received the report of the Corporate Director: Resources which required that members should note the revised Key Strategic Risk Register that had been approved by Cabinet at its meeting held on the 10th November that followed the review that had been undertaken in September/October 2008. The Committee were advised that a further report would be submitted to the Cabinet on the 23rd February 2009.

The Committee was reminded that the Council needed to regularly review the Key Strategic Risk Register in order to reflect the constant changes affecting the Council, its risks and the effectiveness of the controls implemented to manage these risks. Reference was made to Appendix A to the report which highlighted the changes following the results of the September 2008 review.

Members were referred to the proposed amendments for September 2008 as detailed both within the Appendix and also within paragraph 6 of the report.

Following a discussion the Committee suggested that in future the description of the risk was expanded slightly within the report to include an explanation and summary of the effects that could occur. Members also noted that there were limited actual timescales within the future actions column and it was questioned that these should be included. The Audit & Risk Manager noted the comments and stated that they would be considered to be included within the next review.

Members also requested more explanation on the risks from the risk owner. Following a discussion it was agreed that the risk identified as Risk 10 within the register – failure to deliver the housing growth agenda should be more fully considered. In order to achieve this it was agreed that the appropriate risk owner (officer) and relevant Cabinet Member should be invited to the next Committee to provide more information in connection with this particular risk.

RESOLVED – that the Committee notes the changes to the key risks as indicated within paragraph 6 and detailed in Appendix A to the report and the Council's continued commitment to the effective management of risks.

AUC-44 UPDATE OF THE RISK MANAGEMENT STRATEGY 2008

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The report of the Corporate Director: Resources was considered by the Committee in which they were requested to note the revised risk management strategy.

Members were advised that the risk management strategy had been reviewed in line with best practice and the requirements of the CPA 2008. The revised draft strategy also incorporated comments from the Corporate Risk Management Group. The Committee was referred to the amended Risk Management Strategy as outlined within Appendix 1 of the report, which also showed the track changes in order for the revisions to be easier noted. The changes centred on an increased emphasis on Business Managers responsibilities and improved communication.

A member of the Committee enquired as to whether the Audit Committee should be included within Part 5 on page 11 in relation to Communication of Risk Management and that the Committee should be named as a constituent part of future reviews. By way of response the Audit & Risk Manager confirmed that reference was made to the Audit Committee within the stated responsibilities for Risk Management but that their responsibilities towards the review of the strategy would be amplified in the next review of the document.

RESOLVED – that the revised Risk Management Strategy as attached within Appendix 1 and the comments within 5.2 of the report be noted.

AUC-45 DATES OF FUTURE MEETINGS OF THE COMMITTEE

It was noted that the date of the next meeting of the Committee would be held on Tuesday 31st March 2009.

AUC-46 EXCLUSION OF PRESS AND PUBLIC

RESOLVED – that the press and public be excluded from the meeting for the following items of business on the grounds that they may involve the likely disclosure of information, as defined in Paragraph 3 of Part 1 of Schedule 12A Local Government Act 1972.

AUC-47 KPMG – ANNUAL EXTERNAL AUDIT REPORT 2007/08

RESOLVED – that due to the unavoidable absence of the representative from KPMG that consideration of this particular item be deferred until the next meeting.

AUC-48 FEEDBACK FROM CIPFA INTERNAL AUDIT BENCHMARKING 2008 AND COMPARISON 2007

A report on the results of the CIPFA benchmarking exercise for Internal Audit 2008 written by the Audit & Risk Manager was received by the Committee.

The report indicated that the Internal Audit team was always striving to ensure that it provided value for money to the Council and the community whilst also providing a high quality service. The team regularly compared itself with other

local authorities and sharing good practice to ensure that it was adhering to the CIPFA Code of Practice for Internal Audit in Local Government 2006 and other recognised best practice. This occurred through membership of regional and national networking groups, membership of the CIPFA benchmarking club for Internal Audit and continued professional development.

This report set out the results of the benchmarking exercise for 2008 and provided additional information on staffing levels as requested by the Committee. The results demonstrated that the Council's Internal Audit Service compared very well with other unitary authorities.

In conclusion Members noted that for a relatively small unitary authority Internal Audit provided a high quality service as verified by external inspection - Audit Commission's Use of Resources (internal control top score of 4) and internally - the Corporate Support Services survey results (consistently one of the top 4 services). It was very difficult to achieve a top score of 4, and it was further noted that the Council were the only authority from the quoted sample within the report to have achieved this level.

The Committee were complimentary about the contents of the report and stated that the results should be used to inform and demonstrate the effectiveness of the system of internal audit as had been reported earlier within the meeting.

The meeting ended at 7.30 pm.

Chairman:

Date:



INFRASTRUCTURE, GOVERNMENT
& HEALTHCARE

**Annual External
Audit Report
2007/08**

**Telford and Wrekin
Council**

January 2009

AUDIT

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	Page
Executive summary	2
<ul style="list-style-type: none">1.1 Scope of this report1.2 Summary of findings1.3 Acknowledgements	
The Statement of Accounts	4
<ul style="list-style-type: none">2.1 Audit of the Authority's accounts2.2 Whole of Government Accounts2.3 The governance framework2.4 The Authority's financial position2.5 Questions and objections from electors2.6 Looking forward	
Use of Resources	8
<ul style="list-style-type: none">3.1 Summary of our assessment3.2 KLOE 1: Financial Reporting3.3 KLOE 2: Financial Management3.4 KLOE 3: Financial Standing3.5 KLOE 4: Internal Control3.6 KLOE 5: Value for Money	
Data Quality	15
<ul style="list-style-type: none">4.1 Summary of our assessment4.2 Management arrangements4.3 Data testing4.4 Overall summary	
Appendices	
<ul style="list-style-type: none">Appendix A: Summary of recommendations and action planAppendix B: Follow-up of prior year recommendationsAppendix C: Audit reports issuedAppendix D: Fee summary	

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

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

If you have any concerns or are dissatisfied with any part of KPMG LLP's work, in the first instance you should contact Mike McDonagh, who is the engagement partner to the Authority, telephone 0121 335 2440, e-mail michael.a.mcdonagh@kpmg.co.uk who will try to resolve your complaint. If you are dissatisfied with your response please contact Trevor Rees on 0161 246 4063, e-mail 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 Team, Nicholson House, Lime Kiln Close, Stoke Gifford, Bristol, BS34 8SU or by e-mail to: complaints@audit-commission.gov.uk. Their telephone number is 0844 798 3131, textphone (minicom) 020 7630 0421.

Section 1

Executive summary

1.1 Scope of this report

This report summarises the work carried out by KPMG LLP ("KPMG") at Telford and Wrekin Council ("the Authority") in our role as the Authority's external auditors. Our responsibilities are set out in the Audit Commission's *Code of Audit Practice* ("the Code"). Under the Code we are required to review and report on three main areas which we have used to structure this report.

- **The Statement of Accounts (section 2):** We are required to audit the Authority's statutory accounts, including its Annual Governance Statement. The findings from our work were reported previously in our *Report to those charged with Governance* (ISA260 report). This section summarises the findings of the audit of the accounts and the Authority's Whole of Government Accounts (WGA) submission. We have commented by exception on the issues arising from our audit. We have also described some of the ongoing challenges as International Financial Reporting Standards (IFRS) are introduced into local government.
- **Use of Resources (section 3):** We are required to conclude as to whether the Authority has adequate arrangements in place to ensure effective use of its resources. We also issue a scored judgement which gives a more detailed view of performance against criteria in 11 areas determined by the Audit Commission. This assessment will change significantly for the year 2008/09, and we have noted this as an area which the Authority will need to focus on.
- **Data Quality (section 4):** Good quality data is essential to both accurate financial reporting and effective performance management. This section considers the Authority's arrangements to ensure that its data is of high quality.

Our recommendations are summarised in Appendix A. Where significant recommendations from previous years have not been implemented, we have reiterated them; we have also summarised the status of all recommendations made in 2007 at Appendix B. Appendix C lists the reports which we have issued during the 2007/08 audit year, whilst a summary of our fees is included at Appendix D.

1.2 Summary of findings

The Statement of Accounts

On 26 September 2008, we issued an unqualified opinion and certificate on the Authority's 2007/08 accounts. We also issued our certificate, confirming that we have completed all work required for the 2007/08 financial year under our statutory responsibilities. We are currently reviewing the Authority's WGA pack to determine whether it is consistent with the statutory accounts.

This was our first year as the Authority's auditors. Inevitably in the first year working with new auditors, there will be challenge to accounting areas which may not have been reviewed for some time. Additionally, the Authority faced the challenge of the changes set out in the 2007 Statement of Recommended Practice (SORP) for local government accounting. Therefore, whilst historically, there have been relatively few issues arising from the audit of the Authority's accounts, the level of adjustments has been significantly higher this year.

In particular, like a number of authorities, the Authority found the new requirement for a Statement of Total Recognised Gains and Losses (STRGL) in 2006/07 a challenge; several large adjustments were needed in 2007/08 to correct it. However, the Authority addressed the majority of the current year's SORP changes well, with most adjustments being changes to disclosures only. Our audit was supported by generally good-quality working papers prepared by officers.

We have met with officers to discuss how the accounts production and audit process can be improved in 2009. We have also agreed a programme of monthly meetings during the closedown period, to enable earlier discussion and agreement of the impact of new accounting developments, and intend to discuss accounting changes at our February meeting.

The Authority will need to consider the impact of a range of accounting developments. These include the changes set out in the 2008 and 2009 SORPs and, most notably, International Financial Reporting Standards (IFRS), which will apply in full in 2010/11. We comment further on these developments in section 2.

Use of resources

Between July and September 2008, we completed our scored judgement on the Authority’s use of resources. This assesses the Authority against Key Lines of Enquiry (KLOEs) specified by the Audit Commission, resulting in a score on a scale between 1 (below minimum requirements) and 4 (performing strongly). The scores were reviewed by both KPMG’s local and national quality control processes and then by the Audit Commission to ensure consistency in scoring with other auditors and authorities.

KLOE	Score 2007	Score 2008
(1) Financial Reporting	3	2
(2) Financial Management	3	3
(3) Financial Standing	3	3
(4) Internal Control	4	4
(5) Value for Money	3	3

The Authority has, once again, achieved a score of 3 in the assessment overall. One notable achievement is that the score on Internal Control (KLOE 4.2) has increased to 4. Scores of 3 and 4 have been sustained in other areas despite increases in KLOE requirements.

The only decrease in score was on the statutory accounts process (KLOE 1.1). As described above, this year’s audit has been a challenging process, but we have an agreed way forward to help minimise the number of adjustments in 2008/09.

The Use of Resources assessment changes substantially in 2009 to support the Comprehensive Area Assessment (CAA) regime. The Audit Commission expects that the new methodology will be a significant challenge to many authorities. We will meet with officers early in 2009 to plan the work and to discuss its implications in more detail.

Data Quality

We are required annually to assess the Authority’s arrangements over the quality of its performance and other data, and to test a small number of indicators in detail.

In 2007, we concluded that the Authority had good arrangements in place; these have been further developed since the time of this assessment.

We tested four indicators, including two benefits indicators which the Audit Commission required us to test, and two other indicators which we selected on a risk basis. We identified no issues with the benefits indicators. However, some adjustments were required to both the other two indicators. The Authority should therefore consider whether there is scope for its corporate arrangements to become better embedded across Portfolios.

1.3 Acknowledgements

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

The Statement of Accounts

Our *Report to Those Charged with Governance* (ISA 260 report) set out our main findings on the Authority's 2007/08 accounts. In this report, we have summarised the outcome of the audit and provided an update on our ISA260 report, including the submission process for Whole of Government Accounts (WGA).

2.1 Audit of the accounts

Opinion and certificate

On 26 September 2008, we issued an unqualified opinion and certificate on the Authority's 2007/08 accounts. This report incorporated our Use of Resources conclusion, which is described further in section 3.1 of this report.

We also issued our certificate, confirming that we have completed all work required for the 2007/08 financial year under our statutory responsibilities. We are currently reviewing the Authority's WGA pack to determine whether it is consistent with the statutory accounts.

Summary of the audit process

This was our first year as auditors of the Authority's accounts. Inevitably in the first year working with new auditors, there will be challenge to accounting areas which may not have been reviewed for some time. Additionally, the Authority faced the challenge of the changes set out in the 2007 Statement of Recommended Practice (SORP) for local government accounting. Therefore, whilst historically, there have been relatively few issues arising from the audit of the Authority's accounts, the level of adjustments has been significantly higher this year.

In particular, like a number of authorities, the Authority found the new requirement for a Statement of Total Recognised Gains and Losses (STRGL) in 2006/07 a challenge; several large adjustments were needed in 2007/08 to correct it. However, the Authority addressed the majority of the current year's SORP changes well, with most adjustments being changes to disclosures only. Our audit was supported by generally good-quality working papers prepared by officers.

We have also reflected these issues in the Financial Reporting KLOE in the Use of Resources assessment, as set out in section 3.

In our ISA260 report, we recommended that the closedown process should be updated to consider accounting issues at an earlier stage. We have met with officers since the completion of the audit to discuss in more detail how the accounts production and audit process can be improved in 2009. As a result, we have agreed a programme of monthly meetings during the closedown period, to facilitate ongoing dialogue, and intend to discuss accounting changes at our February meeting. This should reduce the amount of work needed during our main audit visit, enable the audit to be concluded earlier and help to reduce the volume of adjustments.

2.2 Whole of Government Accounts

Whole of Government Accounts (WGA) are "commercial-style" accounts that cover the whole of the public sector and include some 1,300 separate bodies. Each of these bodies is required to submit a consolidation pack. This is based on, but separate from, their statutory accounts. We are currently reviewing the Authority's WGA pack to determine whether it is consistent with the statutory accounts.

2.3 The governance framework

The Annual Governance Statement

A new development for 2007/08 was the requirement to prepare an Annual Governance Statement (AGS). This superseded the previous requirement to prepare a Statement on Internal Control (SIC).

Section 2

The Statement of Accounts

We have commented on the Authority's accounts production and audit processes in section 2 and in previous reports. The audit was supported well by officers, with working papers and answers to queries being provided on a timely basis; the score of 2 on **KLOE 1.1** reflects the level of audit adjustments which was higher than in previous years. Our recommendations as to how processes could be further improved are set out in our ISA260 report which we presented to the Audit Committee on 16 September 2008.

The SIC considered issues of financial control – such as how the financial systems are managed and how the accounts are prepared – and the wider mechanisms which help ensure that the Authority achieves its objectives, such as performance management. The requirements over the AGS are broader and specify that the statement also needs to describe and evaluate governance processes – in other words, the role and effectiveness of members in governing the Authority.

Authorities therefore need to have explicitly identified the components of their governance framework and to have a mechanism to assess how effective each part is.

In 2006/07, the Authority prepared a statement which went beyond the core requirements for a SIC. This has eased the Authority's transition to producing an AGS, since systems were already in place to assess the effectiveness of some of the areas which are newly incorporated into the requirements. The Authority also has an assurance map in place which summarises the sources of evidence available for each element of the framework. This enabled the Authority to produce a clear AGS which complies fully with all SORP requirements.

The internal audit function

The internal audit function is a key component of the Authority's governance framework. As the Authority's external auditors, we avoid duplication by reviewing and relying on the work of its internal audit where possible.

In determining whether we are able to rely on internal audit work, we assess whether the service complies with the CIPFA *Code of Practice for Internal Audit*. We concluded that the Authority's internal audit service complied with the *Code* and we placed reliance on their work where it was relevant to our responsibilities. We have a Joint Working Protocol in place setting out our mutual responsibilities where our areas of work overlap; this has worked well in its first year, and we have discussed and agreed with Internal Audit the refinements which can be made for 2008/09.

2.4 The Authority's financial position

Revenue and capital expenditure

Budgeted use of balances in 2007/08 was £2.36m. The Authority's reported revenue outturn was an underspend of £0.3m. As a result, the Authority maintained its reserves above the target level which is determined annually on the basis of specific identified risks. We reviewed this risk assessment process as part of our Use of Resources work in 2007 and concluded that the process was soundly based.

The 2008/09 budget incorporates the use of £1.23m of reserves and balances; if achieved, the Authority would continue to meet the target level of balances determined at the budget-setting stage. However, the rapidly-changing economic environment and the resulting potential for tight funding settlements will present a number of risks to the Authority. For example:

- collection rates for council tax, business rates and other debtors may fall;
- there may be less scope to earn income from fees and charges; and
- a period of lower interest rates may reduce income from the Authority's investment portfolio.

We understand that officers are reviewing the target level of reserves in response to such risks. It will be important to keep this under regular review in the medium term.

These issues will also affect the capital programme. The capital programme for 2008/09 has increased in size from £54.4m to £78.8m, but some of the major projects, such as the Rail Freight Terminal and the Borough Towns Initiative, and some medium-term ambitions such as the regeneration of the town centre, have some dependence on capital receipts or contributions from commercial developers which may not be realised or may not achieve the planned levels, given the prevailing economic conditions.

Recommendation 1: Monitoring the impact of economic conditions

Since the Authority's ambitious plans in terms of regeneration, such as the town centre redevelopment, have significant reliance on commercial investment, the Authority should keep the scope and timetable of its plans under review to ensure that they reflect the current and ongoing economic situation.

Treasury management

In the week beginning 6 October 2008, a number of Icelandic banks went into administration. The difficulties experienced by the Icelandic banks are a symptom of the problems experienced in the global financial markets during the latter half of 2008. A large number of local authorities and other public bodies were directly affected by the collapse of the Icelandic institutions, and many more have been affected by market conditions more generally.

Telford has previously invested with these institutions, though all deposits had been returned prior to their collapse, so the Authority did not face any losses. The Authority has also responded well to the risk of a recurrence of the issue, strengthening credit checking procedures to include assessing the ability of each nation to support its banking system when determining where funds should be placed.

2.5 Questions and objections from electors

We have a duty under section 8 of the Audit Commission Act 1998 to consider whether, in the public interest, to report on any matter that comes to our attention in order for it brought to the attention of the public. In addition we have a range of other responsibilities under the 1998 Act, including investigating questions or objections on the accounts received from the Authority's electors.

We have received one letter which constituted an objection related to the 2007/08 financial year. Having investigated the matter reported to us, we concluded that there was no evidence of unlawful expenditure being incurred or of any other issue which we are required to address under our statutory powers. Our fee for work conducted in response to this letter is shown in appendix D to this report.

2.6 Looking forward

Over the next few years, local authorities will face a range of challenges to their accounts production processes. The 2008 SORP introduces some amendments to local authority accounting for 2008/09 which will require thorough review.

International Financial Reporting Standards (IFRS) will also be relevant. All local authorities are required to produce IFRS-compliant accounts from 2010/11, so 1 April 2009 is the date of transition to IFRS in local government.

Based on our experience of assisting both the corporate and the health sector with their IFRS conversion, the Authority should aim, by the date of transition, to have:

- established a project team;
- reviewed which standards will have the biggest impact and which will be the most complex;
- completed the information-gathering stage - for example, gathering the information on all leased assets in order to review whether they are finance or operating leases under IFRS; and
- engaged the audit team with the process.

Therefore, the Authority will need to give early consideration to the following issues.

- The Authority will need to review all current leases and account for them under the new requirements. This has the potential to be time-consuming and may present challenges if original documentation for long-standing leases cannot be located. Depending on the Authority's circumstances, other standards may also require a similar exercise to be undertaken.
- CIPFA has issued an Invitation To Comment on the 2009 SORP. Amongst the areas for consultation is the proposal to adopt the Treasury's interpretation of IFRS requirements for PFI schemes from 2009/10.

Section 2

The Statement of Accounts

Whilst IFRS is being introduced to local government later than in other areas of the public sector, the intervening period must be used wisely if some of the problems experienced by companies in moving to IFRS are to be avoided. We will work with the Authority from early 2009 to review its approach to IFRS conversion.

Recommendation 2: Project planning for IFRS conversion

The Authority should create a project plan setting out the steps to achieving IFRS conversion and when each will be completed. The project plan should be monitored regularly by the Audit Committee.

3.1 Summary of our assessment

The Use of Resources assessment is based around five Key Lines of Enquiry (KLOEs): Financial Reporting, Financial Management, Financial Standing, Internal Control and Value for Money. Following KPMG’s internal quality control at a local and national level and a consistency check by the Audit Commission, we can confirm that the Authority’s final scores for the five individual KLOEs are as follows.

KLOE	Score 2007	Score 2008	Direction of travel
(1) Financial Reporting	3	2	↓
(2) Financial Management	3	3	↔
(3) Financial Standing	3	3	↔
(4) Internal Control	4	4	↔
(5) Value for Money	3	3	↔

Key achievements include increasing the score of KLOE 4.2 (Internal Control) from 3 to 4 and maintaining scores of 4 on three other KLOEs. Scores have also been maintained in a number of areas where the KLOEs are now more demanding than at the time of our previous assessment.

The only KLOE whose score has decreased is KLOE 1 (Financial Reporting). This is a consequence of a greater number of adjustments needed to the accounts this year, as described in section 2. As we have described above and in our ISA260 report, we have discussed in detail what actions officers can take to improve the closedown process and how we will work with them during the closedown and audit period in 2009.

In addition to the scored judgement, we are required to give an annual conclusion on the Authority’s use of resources. This is based on whether the Authority meets 12 criteria specified by the Audit Commission, and is unqualified where these are all met and qualified if there are areas where the minimum standards are not fully achieved. Our conclusion draws on our scored judgement, our audit of data quality and a review of the Authority’s most recent Corporate Assessment and Direction of Travel statement.

We reported our conclusion on the Authority’s use of resources as part of our audit report on the Authority’s accounts. This was issued on 26 September 2008 and was an unqualified conclusion, indicating that all criteria have been successfully met.

We have set out below the good practice points and improvement opportunities identified within each area of our Use of Resources scored judgement.

3.2 KLOE 1: Financial Reporting

KLOE	Score 2007	Score 2008	Direction of travel
1.1: Production of statutory annual accounts	3	2	↓
1.2: Promoting external accountability	3	3	↔
Overall score for KLOE 1	3	2	↓

The overall aim of the financial reporting assessment is to understand the effectiveness of the Authority’s arrangements for producing and publicising its statutory accounts.

Section 3

Use of Resources

The Authority has maintained a score of 3 on **KLOE 1.2**, despite additional requirements being added to the KLOEs. The Authority has further refined the format of its Annual Report considering the need of stakeholders, publishing the statutory financial statements separately to aid the readability of the Annual Report itself. Information on the Authority’s carbon footprint has also been added to the document for the first time.

As KLOE 1.1 has a higher weighting than KLOE 1.2, this results in a score of 2 overall for the Financial Reporting KLOE.

3.3 KLOE 2: Financial Management

KLOE	Score 2007	Score 2008	Direction of travel
2.1: Financial planning and budget setting	3	3	↔
2.2: Managing performance against budgets	3	3	↔
2.3: Asset management	4	4	↔
Overall score for KLOE 2	3	3	↔

The overall aim of the financial management assessment is to understand how well the Authority plans its finances and delivers on these plans.

The Authority has maintained good arrangements in this area, and strong arrangements over asset management, despite additional requirements in the KLOEs. The arrangements have been further strengthened in the year following the recommendations made in our 2007 report. Examples include introducing a system of arrows to highlight the most significant budget variances; this has improved the usability of budget reports.

In 2007, we recommended that the Authority formally review its financial management arrangements. This action is currently in progress as part of the review of the Authority’s financial management system.

3.4 KLOE 3: Financial Standing

KLOE	Score 2007	Score 2008	Direction of travel
3.1: Managing spending within available resources	3	3	↔
Overall score for KLOE 3	3	3	↔

The overall aim of the financial standing assessment is to evaluate the Authority’s arrangements for managing its spending within the available resources, including how it ensures that its finances are sustainable.

As we reported in 2007, the Authority has a sound approach to determining its target level of reserves. This target level continues to be achieved in practice, which ensures that the Authority’s financial standing is soundly based. The Authority also continues to meet KLOE requirements in the areas which have been made more demanding as part of the 2008 assessment, with good arrangements for setting and achieving challenging targets for debt collection.

Whilst the Authority’s arrangements for managing its financial position are sound, as we have recommended above, it will be important in the present environment to continue to monitor the situation closely, considering the potential impact on the organisation’s finances and plans.

3.5 KLOE 4: Internal Control

KLOE	Score 2007	Score 2008	Direction of travel
4.1: Risk management	4	4	↔
4.2: Internal control	3	4	↑
4.3: Ethics and conduct	4	4	↔
Overall score for KLOE 4	4	4	↔

The overall aim of the internal control assessment is to understand the Authority’s governance arrangements, including the internal control framework and how the Authority ensures a high standard of conduct by members and officers, and how it manages risk.

The Authority continues to have strong arrangements in place in this area and these have been improved further during the year.

Risk management arrangements (**KLOE 4.1**) remain strong; as a result, the maximum score of 4 has been sustained.

The effectiveness of the Standards and Audit Committee has been assessed and the structure strengthened by separating the audit and standards functions into separate committees. This enabled the score on Internal Control (**KLOE 4.2**) to increase from 3 to 4.

Arrangements over ethics and conduct (**KLOE 4.3**) have also been developed further. In 2007, we recommended that the Authority should assess the effectiveness of its arrangements to promote high standards of conduct. This has now been achieved through applying the Audit Commission’s Ethical Governance Toolkit. The Toolkit uses a questionnaire to assess members’ and officers’ awareness and understanding of the organisation’s policies. A report with action plans was presented to Standards Committee in October 2008. This will contribute to our 2008/09 assessment.

3.6 KLOE 5: Value for Money

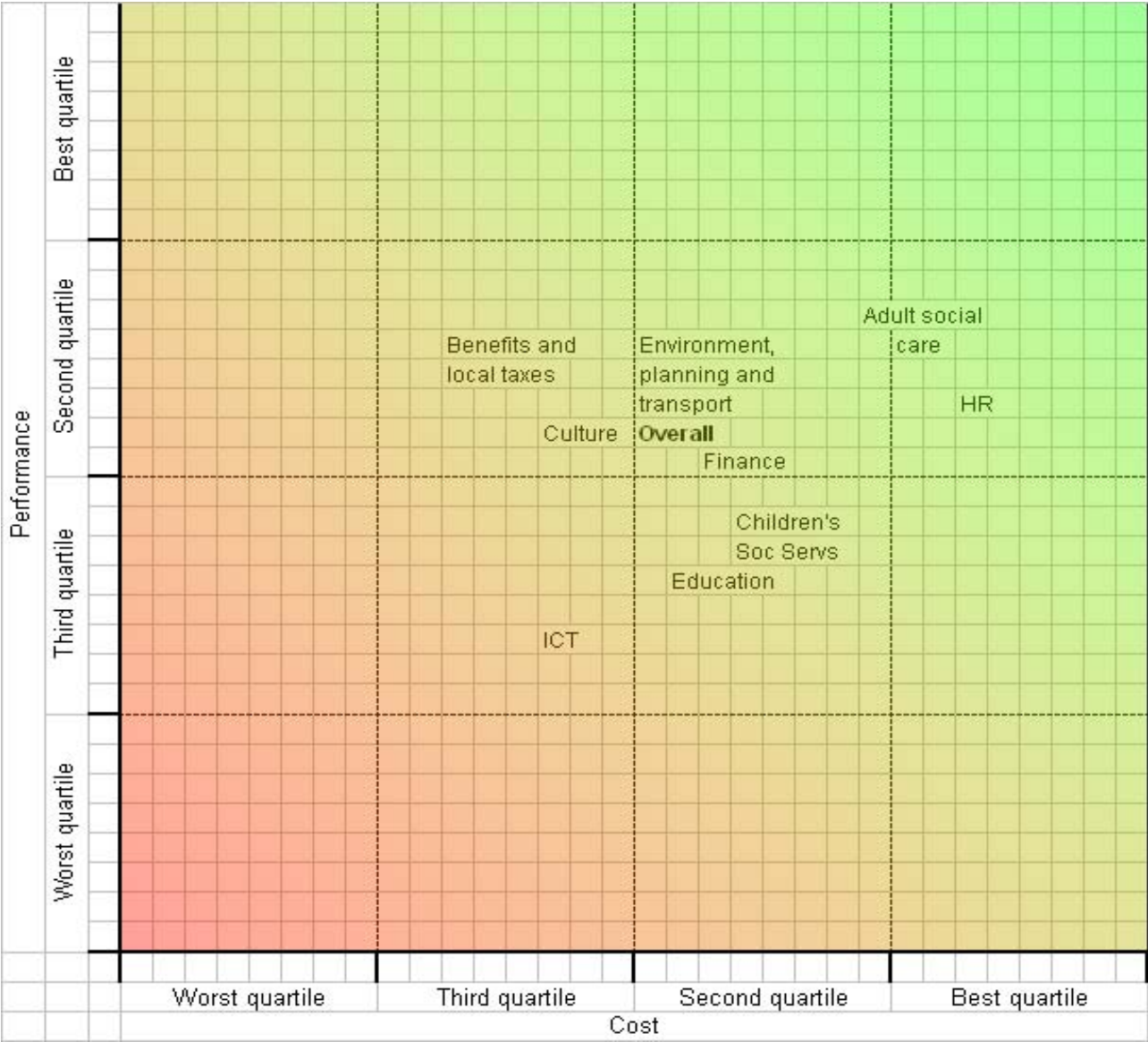
KLOE	Score 2007	Score 2008	Direction of travel
5.1: Achievement of value for money	3	3	↔
5.2: Processes to improve value for money	3	3	↔
Overall score for KLOE 5	3	3	↔

The overall aim of the Value for Money (VFM) assessment is to evaluate how well the Authority can demonstrate that it achieves VFM. As such, an important component of the work is the consideration of the information which the Authority has available and uses, not just external data. The assessment also takes account of local circumstances provided that the Authority can demonstrate that local factors and priorities have influenced cost and performance.

KLOE 5.1: Achieving VFM

To form an overview of the Authority’s services, we plot performance against cost for the main service blocks. We draw mainly on the Audit Commission’s profiles to do this to ensure comparability with other authorities. The chart is used to assist our internal quality assurance process, enabling authorities to be compared on a consistent basis.

The chart below compares Telford’s performance against all unitary authorities. Highest cost and lowest performance is in the bottom left corner; lowest cost and highest performance is in the top right.



We have commented below on some of the main points arising from this chart.

Overall: The chart indicates that the Authority’s performance is just above the unitary authority median and costs are just below median.

In considering relative performance and, particularly, costs, it is important to consider how local factors could have an effect. Deprivation is such a factor, since it is a significant part of the formula grant regime. Authorities with higher level of deprivation will typically have higher expenditure, not least because their grant allocation per head from central government is normally higher.

Section 3

Use of Resources

Whilst the Authority's deprivation ranks 112th against all authorities on the 2007 average score measure, it is in the mid-range of the comparator group used for the chart above (all unitary authorities). As such, this suggests that it is not a significant factor in the Authority's relative cost and performance when compared to this group.

The cost of the Authority's **education** service is above average on a per head basis, though below average when measured per pupil. Improving educational attainment is a priority for the Authority. Costs within schools are generally below average, whilst LEA central costs are slightly above average.

School improvement is above the average for unitary authorities, though absolute performance remains below the median in a number of the Key Stage 2-4 measures.

Whilst the rate of improvement is a positive factor, our assessment is based on absolute performance and cost. The Authority needs to continue to improve its absolute performance relative to its peers in order to improve how the service is assessed.

The cost of the Authority's **adult social services** is significantly below the median. Within this, there is significant variation in cost per head, with services for adults with learning disabilities being in the lowest cost quartile, while the cost of services for those with physical disabilities is close to the median. This variation is driven in part by demographic factors. For example, the 2001 Census shows a lower proportion of older people compared to the general population, with 12.40% of the population over 65, compared to 15.98% in the country as a whole. This therefore influences the demand for services, and hence the unit cost.

Performance is good across this area of service. In particular, the proportion of adults with physical or learning disabilities who were supported in their own homes rather than in residential care is in the top quartile, as is the timeliness of new assessments of older people.

The cost of the Authority's **children's social services** is below the median compared to unitary authorities. Performance is in the mid-range, with foster care placement stability above average, but educational attainment of care leavers is below the median.

Environment, Planning and Transport service block costs are close to the median for the comparator group. Performance is generally good across the areas of service within this block, with recycling rates, environmental cleanliness and principal road condition in the top quartile. The Authority has plans in place to address the remaining challenges, including increasing waste satisfaction, which is currently in the bottom quartile.

The Authority's **support services** have been benchmarked using data from the CIPFA/KPMG corporate services benchmarking tool. The **HR** service is in the best quartile for cost and also for user satisfaction. Performance on other HR indicators is fair, with staff turnover higher than average and the number of working days lost to sickness in the mid-range.

The cost of the **revenues and benefits** service is slightly above average. For the benefits service, costs are higher both in absolute terms and on the basis of its caseload. However, speed of processing and satisfaction are both above average. Council tax collection performance, adjusted for deprivation, is also good.

The running costs of the **ICT** function are just above the group average, while the acquisition cost of each workstation is in the bottom quartile (ie. highest cost). User satisfaction and the proportion of incidents resolved within target times are in the lower mid-range.

The cost of the **Finance** function is in the lower mid-range, while satisfaction is in the top quartile. The time taken to provide monthly reports to budget holders is close to the median, whilst performance on the checklist on the use of "modern practices", such as Procure-to-Pay systems, is in the lower mid-range.

Section 3

Use of Resources

In 2007, we recommended that the Authority should review how local factors affect the quality and cost of local services. As part of the 2008/09 business planning process, Portfolios have completed their first VFM self assessments as a way to address this. The self assessments were then subject to quality review by the Policy, Performance and Partnerships team, which identified that, in some cases, further work was needed to achieve a robust assessment. As such, whilst the factors affecting certain services are known (such as the area of open space in the Borough, which increases the cost of environmental maintenance if measured on a per capita, rather than area, basis), the Authority is still developing the evidence base needed to articulate fully the reasons for each service's relative cost and performance.

A related issue is the need to understand the impact on performance where additional investment is made in a service. The example of Education is cited above, where the Authority has consciously sustained school budgets with the aim of improving educational attainment. However, we have not seen evidence of how the expenditure above the median specifically links to improvement in outcomes. As such, it is difficult to conclude as to whether this additional investment provides good value for money.

Forming a fuller picture of the factors which affect costs and performance, and how additional funding links directly to improved outcomes, would help in assessing VFM, in that it would indicate the areas where past investment has been most effective and where the greatest VFM improvements could be achieved in the future.

Recommendation 3: Prioritising VFM improvement

The Authority should ensure that the scope for improving VFM is well understood in each major service area, based on an understanding of what factors influence existing cost and performance. The VFM Scrutiny Group will need to demonstrate that it is effectively monitoring and facilitating improvement with regards to VFM across the Authority's priority areas.

Overall, the score of 3 reflects the generally good performance of the Authority's services, and the cost base which is lower than average for the majority of service areas. The services where VFM is currently less strong include ICT, which is an area of significant ongoing change, and Education, where improving educational attainment continues to be one of the Authority's priorities.

Whilst the Use of Resources regime will change significantly in 2009, as set out below, improving VFM in these areas, and demonstrating the impact on local people, would contribute to improving the Authority's assessment in the future.

KLOE 5.2: Managing and improving VFM

This part of the assessment considers how the Authority reviews efficiency, and its track record for improving VFM.

The Authority has made good progress in a range of areas which are relevant to this assessment. Strengths include:

- successfully achieving and exceeding annual efficiency targets for each year of the Gershon regime;
- attracting external funding and applying it to the organisation's priorities; and
- completing and responding to a review of expenditure to ensure that effective procurement practices are followed.

As a result, the Authority has improved 55% of the basket of PIs included within the Audit Commission's PI profile. This places the Authority below the median for unitary authorities. (The Authority has compiled figures for all statutory PIs – BVPI and PAF indicators – which shows a 60% improvement, though we do not have comparator data on the same basis at present.) In absolute terms, the proportion of PIs in the top quartile is close to the median, so represents sound performance, though the Authority would need to improve this proportion to match the best of its peers.

Section 3

Use of Resources

The future of the VFM assessment

The 2009 Use of Resources assessment will be the first to be performed under the Audit Commission's new methodology. This approach contributes to the Comprehensive Area Assessment (CAA) regime which replaces the current framework of Comprehensive Performance Assessment (CPA).

The most important issue to note is that VFM is no longer a standalone KLOE. However, it remains a vital part of the Use of Resources assessment, and is embedded within each of the new KLOE themes. These are:

- Managing finances
- Governing the business; and
- Managing resources.

Another important issue to note is that, across all areas of the assessment, the new KLOEs are more like the old VFM assessment, in that the assessment is based on “best fit” against descriptors, rather than simply ticking off arrangements in a set list. This means that demonstrating innovation, as well as accepted best practice, will be increasingly important when seeking the higher scores.

Moreover, level 4 is made more open to judgement – the Commission has not defined criteria at level 4. This again increases the importance of authorities demonstrating that they follow and actively contribute to leading practice.

Additionally, a number of the level 4 criteria from the 2008 KLOEs become prerequisites to achieving a level 3 in 2009.

KPMG has engaged with the Audit Commission during the development of the methodology and has tested it at a large unitary authority. In our experience, the form and content of the self assessment requires careful and early consideration, since a document which simply presents the policies and other arrangements which the Authority has in place is unlikely to achieve a score higher than 2, whereas many of the present KLOEs are relatively “mechanistic” even up to level 3.

To aid both the self assessment process and the audit, we will meet with officers early in 2009 to discuss the new KLOEs. This will enable us jointly to identify the areas where the KLOEs have changed most significantly and where we will need most additional audit evidence beyond our existing knowledge of the Authority.

Recommendation 4: Planning for CAA Use of Resources

The Authority should review the KLOEs and guidance for the CAA Use of Resources framework and should identify the areas where new requirements not yet in place at the Authority could be implemented to benefit its services. It should also review how to demonstrate the impact of existing arrangements in areas where it believes scores of 3 or 4 are achievable.

4.1 Summary of our assessment

Our review of data quality was performed following Audit Guides specified by the Audit Commission. These divide our work into three phases.

- **Stage 1: Review of management arrangements.** We consider the Authority's objectives and targets for data quality and the arrangements in place to ensure that they are achieved. The work considers a range of aspects of data quality, including policies, systems and training.
- **Stage 2: Comparison to other authorities.** This stage involves investigating queries raised by the Audit Commission on the Authority's data based on the Commission's analysis of historical trends and comparison to other authorities. We feed back to the Audit Commission on our findings and also notify officers if this validation process identifies any indicators which require amendment.
- **Stage 3: Data testing.** We test a sample of indicators in detail. The Audit Commission specifies some indicators based on their knowledge of where problems arise and prepares an audit guide for each of these; we perform the tests set out in the audit guide. If we identify a specific risk, we may audit an indicator which is not on this list, in which case we will perform an equivalent level of testing. The number of indicators tested depends upon our assessment of management arrangements in Stage 1.

The main output of Stage 2 is a confirmation to the Audit Commission that no issues have been identified through the variance review. Therefore, this report focuses on stages 1 and 3 of the methodology.

4.2 Management arrangements

The Audit Commission has published a document entitled *Improving Information to Support Decision Making - Standards for Better Quality Data*, authored jointly with CIPFA and other UK audit agencies, which sets out how organisations should seek to achieve high-quality data which meets their needs. Our audit of management arrangements considers each of the areas set out in this publication, which are as follows.

- **Governance and accountability for data quality:** This area considers leadership over data quality, including how responsibilities for data quality are defined and communicated, the data quality objectives in place, and how standards for data quality are monitored and reviewed.
- **Policies and procedures:** This area considers the Authority's policies in relation to data quality and how they are implemented.
- **Information systems and processes:** Fundamental to the reliability of the Authority's information is the robustness of the systems which store the underlying data. This area considers the robustness of the systems in place, including management's action in relation to previously identified weaknesses, and consideration of data security and integrity. It also considers the systems for collating indicators and sharing information.
- **People and skills:** The areas set out above require a range of skills for successful implementation – whether knowledge of information systems or the knowledge of processes in order to ensure that they are appropriately designed to deliver high-quality data. It is, therefore, important for the Authority to consider the skills it needs to deliver its data quality objectives. Once these have been identified, it will be necessary to implement training programmes and briefings in order to develop staff skills.
- **Data use and reporting:** In order to gain the greatest benefit from the collection of performance data, this information needs to be used in decision-making. There should be evidence of action being taken as a result of the review of performance information. Moreover, there should be evidence of consideration of the appropriateness of performance information reported to management and members – for example, the timeliness of information, and thorough review processes by senior staff before information is presented.

The Authority has good arrangements in place in each of these areas, and further progress has been made since the time of our previous assessment.

At the time of our 2007 assessment, the first Corporate Data Quality Policy had been drafted. Significant progress has since been made in this area, with a revised Policy prepared and adopted corporately, with Portfolio-level procedures supporting this and applying it to the specific circumstances of each area of the Authority. This should help ensure that expectations of staff are clearly recorded in policies and procedures.

Another area where significant progress has been made is in training. The first data quality training sessions aimed mainly to raise awareness of what data quality is; the training programme has subsequently been developed further, with greater emphasis on considering data quality in practice, making use of case studies from around the organisation. Portfolios have also undertaken their own training based on areas for improvement which they have identified through data quality action plans.

4.3 Data testing

As we have assessed the Authority’s data quality arrangements as sound, we selected four indicators for testing.

The Audit Commission requires us to test two housing benefits indicators. These measure the average time taken to make a decision on a new benefit claim, and the time taken to process a change in benefit entitlement where a claimant’s circumstances change.

The two further indicators selected were the cost per library visit (information required for the IPF libraries return) and a BVPI measuring how long people who have ceased to be classed as homeless during the year spent in bed and breakfast accommodation during the period that they met the statutory definition of homelessness.

The table below summarises our findings, including whether the indicator value was changed as a result of our audit and whether we concluded that it was unreliable (qualified the indicator).

Indicator reference	Indicator description	Satisfactory?	Amended?	Qualified?
BV183b	Homelessness: Average length of stay in bed and breakfast accommodation	✗	Yes	-
IPF data	Cost per library visit	✗	Yes	-
BV78a	Average time to process new benefit claims	✓	-	-
BV78b	Average time to process changes of circumstance	✓	-	-

BV183b: Average length of stay in bed and breakfast accommodation

One of the indicators which we tested in 2007 was BV214, which measures the proportion of households accepted as homeless who had been homeless in the previous two years. Whilst we did not qualify the indicator, we noted that extensive manual intervention is needed to calculate the indicator, because the system used (Academy) did not identify all and only relevant cases for inclusion in the indicator. We selected BV183b for testing this year because it uses the same information system.

Academy was upgraded during 2007/08. The first three quarters’ data were run on the old version of the system, with the final quarter being run on the new system.

In our testing of a sample of 20 cases, we identified four cases where the household concerned still met the statutory definition of homelessness; these cases should not be included in the indicator. We also identified three cases where a stay in a women’s refuge had been counted as a stay in a hostel; again these cases should be excluded. We then reviewed all remaining cases in order to calculate an amended value for the indicator. The indicator value (average number of weeks) moved from 16.4 to 19.3 – a movement of 18%.

We understand that officers have revised the system report used to calculate this indicator with effect from the first quarter of 2008/09. However, at the time of our fieldwork, we were not able to test in detail whether the new report successfully addresses these issues. We will therefore need to follow this up as part of our audit work in 2009. We will seek to work collaboratively with Internal Audit where possible when we receive clarification from the Audit Commission on the revised methodology for review of indicators in 2008/09.

IPF indicator: Cost per library visit

This indicator is estimated from manual tallies of library visits during a sample week. This significant manual component of the data collection process increases the chance of clerical errors affecting the accuracy of the indicator. In the course of our testing, we identified one case in which the tally sheet had been added incorrectly. We considered that this was an isolated case, so amended the indicator value to reflect the finding. We also identified a calculation error affecting how one library's sample week's tally sheet was converted into an annual figure.

On examining how the cost figure was compiled, we identified that it included capital charges. The definition requires that these are excluded. Again, the indicator was amended to address this issue.

However, the cumulative effect of these three adjustments was not significant, since the figures for cost and for visitor numbers both reduced by approximately 2%. Therefore, we concluded that the indicator was fairly stated, as amended.

BV78a, b: Time for processing new claims and changes of circumstance

Under the Audit Commission's new methodology, our work on these BVPIs is integrated with our testing of the Housing and Council Tax Benefit subsidy claim. We have now completed this area of work and have concluded that the PIs and subsidy claim have been correctly compiled, and do not require amendment.

We noted that good arrangements are in place to ensure high quality data. For example, benefit assessors' work is checked on a risk basis, with a greater proportion of cases independently checked for new assessors. This helps ensure that testing reflects the level of risk and also aids the training of new staff.

4.4 Overall summary

The Authority has good arrangements in place to ensure that data used by both internal and external stakeholders is of high quality. Our findings in relation to BV183b and the IPF indicator show that there is scope for further embedding of the arrangements. The Authority should consider the findings of our data testing to identify how arrangements, such as checking and review procedures, need to improve in relation to the specific indicators which we tested, but also any refinements which could be made at a corporate level.

Recommendation 5: Embedding data quality arrangements

The Authority should review its data quality arrangements in the light of our findings and those of Internal Audit. In particular, it should identify what enhancements are necessary to its training procedures and to testing and verification at service level.

From 2009, our work on data quality is subsumed within the CAA framework, described in the previous section. As for the other areas of the assessment, the Authority would need to demonstrate the impact of its arrangements. This could include assessing the level of understanding of data quality issues as method to understand the effectiveness of the training programme.

Appendix A: Summary of recommendations and action plan

	Recommendation title	Recommendation	Priority	Management response	Officer and timescale
1	Monitoring the impact of economic conditions	Since the Authority’s ambitious plans in terms of regeneration, such as the town centre redevelopment, have significant reliance on commercial investment, the Authority should keep the scope and timetable of its plans under review to ensure that they reflect the current and ongoing economic situation.	Medium	In light of the current economic conditions, a review of the main capital programme is underway which will feed into the 2009/10 to 2011/12 Service & Financial Planning Strategy; this will focus on the availability of capital receipts. All key assumptions built into the budget strategy are also being reviewed, including inflation provisions and investment & borrowing assumptions. Further the impact of the recession on Council services is also being closely monitored.	Paul Clifford February 2009 and ongoing
2	Project planning for IFRS conversion	The Authority should create a project plan setting out the steps to achieving IFRS conversion and when each will be completed. The project plan should be monitored regularly by the Audit Committee.	High	A project plan is being prepared in relation to IFRS. This will be monitored and reviewed at the fortnightly Finance Board meetings which are in place (inviting other officers as appropriate). Updates will be provided to the Audit Committee	Paul Clifford January 2009 and ongoing
3	Prioritising VFM improvement	The Authority should ensure that the scope for improving VFM is well understood in each major service area, based on an understanding of what factors influence existing cost and performance. The VFM Scrutiny Group will need to demonstrate that it is effectively monitoring and facilitating improvement with regards to VFM across the Authority’s priority areas.	High	Value for money continues to be reviewed as appropriate across the Council. The value for Money Scrutiny Group will continue to monitor this.	Richard Partington Ongoing

Appendices

Appendix A: Summary of recommendations and action plan

	Recommendation title	Recommendation	Priority	Management response	Officer and timescale
4	Planning for CAA Use of Resources	The Authority should review the KLOEs and guidance for the CAA Use of Resources framework and should identify the areas where new requirements not yet in place at the Authority could be implemented to benefit its services. It should also review how to demonstrate the impact of existing arrangements in areas where it believes scores of 3 or 4 are achievable.	Medium	The Council continues to prepare for CAA Use of Resources.	Richard Partington Ongoing
5	Embedding data quality arrangements	The Authority should review its data quality arrangements in the light of our findings and those of Internal Audit. In particular, it should identify what enhancements are necessary to its training procedures and to testing and verification at service level.	Medium	All Data Quality review results are reported to Policy, Performance & Partnership and the Information Governance Board. Appropriate action is taken when identified.	Hilary Knight On-going

Appendix B: Follow-up of prior year recommendations

This appendix sets out the recommendations which we made in our reports last year and summarises the progress been made in implementing them.

By their nature, a number of these actions are ongoing. However, we are satisfied that the Authority has made good progress in addressing the issues we have raised.

	Recommendation title	Recommendation	Update
1	Developing communications with the public	In order to increase its score in this area, the Authority should review its annual report and related documents to determine how they can better achieve their objectives. It should consider reviewing leading practice from local authorities and other organisations.	The Authority has reviewed the structure of its annual report. As a result, the statutory accounts are now published as a separate document with summary information included in the annual report to make it easier for the public to understand.
2	Reviewing financial management	In order to increase its score in this area, the Authority should perform an overall review of its financial management arrangements. Members should be engaged with this review to ensure that they take a leadership role with respect to financial management.	This is currently in progress as part of the ongoing review of the Authority’s financial system.
3	Clarifying financial reports	In order to increase its score in this area, the Authority should review the format of its financial reports to determine how they can more effectively highlight financial issues.	The Authority has made good progress in this area, introducing a system to identify more significant budget variances visually. We understand that this change has been well-received by members and that further changes are under consideration.
4	Use of financial health indicators	In order to improve its score in this area, the Authority should develop a set of financial health indicators to monitor the performance of its financial management arrangements. These should be incorporated into financial reporting to members.	The Authority has reviewed the arrangements currently in place, and has satisfied itself that it has measures in place which assess the effectiveness of each aspect of financial management.
5	Reviewing the Standards and Audit Committee	The Authority should conduct an assessment of the effectiveness of the Standards and Audit Committee. To gain the greatest benefit from this review, it should make use of independent reviewers and/or draw on leading practice outside of the local government sector.	The Authority has now completed an assessment of the Standards and Audit Committee. Arrangements have been further strengthened by separating out the two functions of the committee into separate member groups. There will be a further review of effectiveness of the Audit Committee in quarter 4 2008/09
6	Role of partnerships in the assurance framework	The Authority should incorporate the findings of periodic reviews of partnership working into its assurance framework to enable its annual Assurance Statement to reflect the strengths and weaknesses of partnership working in practice.	The governance framework now formally incorporates the findings of partnership governance reviews when they occur.

Appendix B: Follow up of prior year recommendations

	Recommendation title	Recommendation	Update
7	Reviewing the effectiveness of arrangements over conduct	The Authority should review the effectiveness of the training and other activities to promote ethical conduct by assessing officers' and members' awareness of policies and Codes of Conduct and their views on ethical behaviour – for example, by applying the IDeA/Audit Commission Ethical Governance Toolkit.	The Authority has used the Audit Commission's Ethical Governance Toolkit to assess awareness of, and compliance with, its policies over members' and officers' conduct. The results have been reported to the Standards Committee and an action plan drawn up in response.
8	Providing a local context for assessing VFM	The Authority should explore further how to show the impact of specific local factors, on the costs and performance of its services. As the areas where the greatest VFM improvement is possible becomes clear, this should be used to focus the Authority's efforts to improve VFM.	Portfolios have completed the first round of VFM self-assessments and these have been quality reviewed by the Policy, Performance and Partnerships team. This review has identified some respects in which the self assessments could be improved. If these are addressed, then the self assessments would provide a framework to identify the impact of the Authority's circumstances on the cost and performance of service.
9	Data validation at Portfolio level	The Corporate Data Quality Policy should be updated to clarify what Portfolios should do to validate their performance information and other data.	Portfolios' responsibilities have been clarified within the revised Corporate Policy and within the policies developed at Portfolio level. However, the findings of our data testing suggest the need to revisit whether this is consistently applied across the organisation. We have recommended the Authority reviews validation procedures with regard to our findings.
10	Use of data quality standards	The Authority should introduce data quality standards, supported by targets in each Portfolio or service area. Achievement of the objectives and targets should be reported to the officer and member with responsibility for data quality.	Where Internal Audit review performance information, their reports set out any issues arising, and so will provide an indication of any area where data quality falls below the desired standards.

Appendices

Appendix B: Follow up of prior year recommendations

	Recommendation title	Recommendation	Update
11	Understanding information systems	PI coordinators and i-champions should review the key systems which contribute to their Portfolio's performance information and assess whether they appropriately and efficiently capture the information to calculate, and robustly support, performance indicators. A prioritised action plan should be developed to address identified improvement opportunities, balancing benefits with the resource requirements of the system change, including cost.	The Authority has introduced a cyclical review of these systems. Our data testing identified an issue in relation to one system, which has now been replaced. We will follow up the specific data testing issue found in 2009.
12	Use of protocols for data sharing	Portfolios' data quality action plans should identify where data is shared with third parties and introduce appropriate protocols as necessary, as required by the Corporate Data Quality Policy.	The Authority has made good progress to ensure that data sharing protocols are in place where required, and to develop a model protocol to use across the Authority's Local Area Agreement partners.
13	Evaluation of data quality training	Once the roll-out of data quality training has been completed, the training programme should be formally evaluated to assess how it contributes to improving the Authority's arrangements over data quality. This review should consider a range of sources of evidence, such as audit findings and Personal Performance Development Discussions.	As outlined above, the Authority has made progress in refining its training programme, including taking account of feedback. Given the issues which were identified through our data testing, the Authority should use available information on staff awareness to consider whether understanding of data quality is equally embedded across the organisation. We have recommended the Authority reviews training provision with regard to our findings.
14	Refining the Internal Audit work programme	In determining which indicators are subject to detailed validation, Internal Audit should assess the risk of misstatement of the indicator and the level of validation work completed by the service area itself.	This has been implemented by holding a planning discussion between Internal Audit and Performance staff to ensure that the programme of audits reflects known risk areas.

Appendices

Appendix C: Audit reports issued

The table below sets out the reports that we issued during the year.

Report title	Date issued
Annual Audit and Inspection Plan 2007/08	July 2007
Auditors’ report on the Best Value Performance Plan 2007/08	December 2007
Annual Audit and Inspection Plan 2008/09	June 2008
Interim Report	June 2008
Report to those charged with governance	September 2008
Auditors’ report on 2007/08 accounts (incorporating Use of Resources conclusion)	September 2008
Whole of Government Accounts opinion 2007/08	December 2008 (TBC)
Annual External Audit Report 2007/08	January 2009

Appendices

Appendix D: Fee summary

The table below summarises our fees for completing the 2007/08 audit.

Area of audit work	2007/08 planned fee /£	2007/08 actual fee /£
Audit of accounts	115,000	130,000
Use of Resources	35,000	35,000
Data Quality	25,000	25,000
Whole of Government Accounts and National Fraud Initiative	5,300	5,300
Grant certification	60,000*	50,000**
Total	240,300	245,300
Questions and objections	—	12,200
*: original estimate; **: revised estimate		

Given the challenges of the accounts audit, including the additional time needed to resolve the STRGL and other adjustments, we have agreed a variation to our accounts audit fee with officers. The additional fee has been determined by reference to the Audit Commission’s grade-related fees. After this adjustment, the audit fee remains 14% below the Audit Commission’s scale fee.

As we state in our Annual Audit and Inspection Plan, the overall planned fee does not include time taken to resolve questions and objections from electors, since it is not certain that such questions will be received. We therefore determine the charge made by reference to the Audit Commission’s grade-related fee scale.

Our work on the Authority’s grant claims and returns is not complete, so we are unable to provide an actual fee total at the present time; a revised estimate is included now that we have completed our work on housing and council tax benefits, the largest single claim. Once our work is complete, we will determine the fee in accordance with the Audit Commission’s grade-related fee scales based on the amount of time taken to complete the work.