

Telford & Wrekin
C O U N C I L

TREASURY MANAGEMENT AUDIT COMMISSION RISK & RETURN REPORT FOLLOW UP AUDIT JANUARY 2010

To: Ken Clarke, Head of Finance
P.Harris, Corporate Finance
B.Morris, Finance Manager

Manager

Date

Original Report Date	July 2009
Original Report Grade	Yellow
Follow Up Undertaken	January 2010
Follow Up reviewed By	Jenny Marriott, Audit & Risk Manager
Follow Up Grade	Green

TELFORD & WREKIN COUNCIL
AUDIT RECOMMENDATION FOLLOW UP & AGREED REPORT RECOMMENDATIONS

System	Treasury Management – AC Risk & Return Report	Prepared By (Audit Services) Reviewed By (Audit Services)	M. Costello J. Marriott	Date Date	18 January 2010 19 January 2010
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Detailed Findings and Recommendations					
Rec Ref	Audit Findings	Recommendation	Agreed Action & date to be implemented	Status ID	Current Status
1	The treasury framework does not set out responsibilities for elected members. Treasury Management reports and policies are not currently scrutinised by a specialist committee as recommended in the Audit Commissions Risk & Return report. However from September 2009 it has been agreed that the Audit Committee will see treasury reports, and this will be shown in their terms of reference. A training session is planned for members in October 2009. The training will be carried out by Sector, who are T&W treasury advisors.	Member's roles and responsibilities for treasury activities should be documented in the TMP5 of the treasury management practices.	Action : Agreed. Date: A Training session has been arranged for October 2008	1	This has been completed (section 5.4.7) Training for members was held in October 2009. A further training session has been arranged for 26 January 2010

Status: 1=Complete, 2=In Progress, 3=Agreed To Not Implement, 4=Not Implemented, 5=Superseded.
Please provide evidence for completed recommendations and comment on others.

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2	The Audit Commission Risk & Return report states that Local Authorities should put controls in place to enable them to make a systematic assessment of risk and reward including the potential for loss. Although risks are taken into account prior to making investments through the counterparty lists and Fitch rating this is not documented and there is no evidence that there is a systematic approach to managing risks,	In order for T&W to demonstrate compliance with their Treasury Management Practices and their criteria for investing and borrowing they need to ensure they can demonstrate the management of risks. For each investment/loan the form could be amended to include a checklist which is based on local practices and procedures. For example it could show: <ul style="list-style-type: none"> • Transaction fully checked against market and found to be competitive • Alternative interest rates have been 	Action : Agreed in principle Date: Jan 2010	1	This has been implemented. There is a checklist for a Record of Temporary Loan and Record of a Deposit

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		<ul style="list-style-type: none"> • considered • Treasury advisors called to confirm daily rate • Appropriate time periods taken into account in light of cash flow and duration as recommended by Sector • Fitch rating falls within specified criteria <p>Category: Policy & Procedure</p>	
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3	The Audit Commission's risk and return report states that risks associated with liquidity, security and yield should be taken into account. The T&W policy does not state the risk associated with yield.	The treasury management policy should be updated to include the risks associated with yield as recommended by the Audit Commission. Category: Policy & Procedure	Action : Agreed in principle Date: Jan 2010	1	The Annual Investment Strategy which is going to Cabinet 23 Feb 2010 details the Council's exposure to risk in particular Credit risk, liquidity risk, Market (yield) risk and Price risk.
4	The Treasury Management Practice (TMP) part 2 section 6.5 refers to Periodic Monitoring to Committee but there is no detail recorded in this section	TMP part 2 section 6.5 should be updated to show which committee periodic Monitoring reports go to and how often Category: Policy & Procedure	Action : Agreed in principle Date: Jan 2010	2	This is currently being updated. The Audit Committee will receive summaries of the Treasury Board meeting minutes The TMP will be updated by 31.03.10

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5	There is a Treasury Board that meets monthly. During the audit terms of reference for the Treasury board could not be found.	Terms of reference should be in place for the Treasury Management Board with reference to them reporting to the Audit Committee Category: Policy & Procedure	Action Agreed in principle Date: Sept 2009	1	Terms of reference were agreed at the Treasury Board and the Audit Committee was provided with a summary of the meeting minutes and a copy of the terms of reference on 3 November 2009

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6	The April Treasury Board minutes state that the next agenda should include the Audit commission risk and return report, but these minutes were not available at the time of the audit as evidence to confirm this had been discussed. The Corporate Finance Manager confirmed that this discussion had taken place	The discussion around the Audit Commission's risk and return report should be shown in the Treasury Management Board minutes. Category: Policy & Procedure	The discussion around the Audit Commission's risk and return report should be shown in the Treasury Management Board minutes. Category: Policy & Procedure	1	Discussions have been documented

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7	During the audit the latest minutes available from the Treasury Management Board were for the period Feb-Apr 09	Minutes of the treasury board should be issued on a timely basis and ratified by all present. A summary of what was discussed and of treasury activities should be issued to the Cabinet Member Resources and members of the Audit Committee. Category: Policy & Procedures	Action Agreed Date: Immediate	1	It was agreed at the Audit Committee meeting on 3 Nov 2009 that minutes from the Treasury Bard would be forwarded to them after each meeting commencing December 2009.

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8	The annual investment strategy, which is issued to full council, does not clearly show what the local investment limits are.	The Annual investment strategy should be more explicit on what the local investment limits are. Details could be attached as an Appendix to the report. Category: Policy & Procedure	Action : Agreed. This will be done for 2010-11 Strategy Date: Jan 2010	1	Treasury limits for 2010/11 to 2012/13 have been included in the Treasury Management Strategy and Update report which is going to Cabinet 23 February 2010.
9	Part 2 of the treasury management practices shows the roles and responsibilities of various officers/Groups. It does not show the roles and responsibility of the Treasury officer	The treasury management policy should be updated to include the roles and responsibility of the Treasury Officer Category: Policy & Procedure	Action: Agreed Date: Jan 2010	1	This has been completed (section 5.4.6)

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10	The annual treasury report goes to full council in March. In future treasury reports will also go to the Audit Committee. There is currently a lot of information and sometimes it is difficult to understand.	Future reports for members should be relevant, in plain English and easy to understand in order for members to understand and challenge treasury activities. Category: Best Practice	Action: Agreed Date: For all future reports to Members	1	Ongoing commitment
11	TMP10 of the Treasury Management Practices part 2 should show treasury staff training and qualifications, but this is not completed	The Treasury Management Practices part 2 should be updated to include staff training and qualifications Category: Policy & Procedure	Action: Agreed Date: Jan 2010	1	This has been completed. The Treasury Officer is on an update course week commencing 25.01.10.

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12	During the audit it was noted that the Authority have investments with banks currently on 'negative watch' and one in particular was with Dexia for £5,000,000 from 1/10/08 – 1/10/13. The current duration recommended from Sector for this is now classed as N/C (No duration recommended, therefore it is recommended not to invest). The Manager Capital & Treasury confirmed that advice was taken from Sector and it was agreed to continue with the investment due to the cost of penalty clauses in removing the money early.	Any downgrades of banks or other institutions should be considered as a risk, discussed at the Treasury Board and the results recorded in the minutes. Category: Policy & Procedure	Action: Agreed Date: All future Treasury Board meetings	1	Implemented and on-going

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13	The report showing current investments, which is presented to full council, does not show the latest advice given by Sector and the reason for remaining with current investments if they are downgraded. It is also noted that since the Icelandic Bank collapse Sector are not recommending investments for more than 12months.	The Treasury Management Policy should be updated to demonstrate what to do if banks are downgraded for existing investments Category: Policy & Procedure	Action: Agreed Date: Jan 2010	1	Actions to be taken in the event of a downgrade are detailed in section 6.10 of the Treasury Management Strategy and Update report which is going to Cabinet 23 February 2010.

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14	The counterparty list provided by Sector, is split into countries and banks are shown within the country they belong. Limits are not set showing the appropriate split of investments to be made in the UK and non UK countries. Current investment reports do not show how much the Authority have invested with each country	The current investment report, which is issued to full council and will be issued to the Audit Committee (from Sept 2009), should show what the latest advice from Sector is in relation to these investments, specifically those on negative watch or where credit ratings have changed. Category: Policy & Procedure	Action: Agreed Date: Sept 09	1	The Treasury Management Strategy and Update report details the council's overall position and exposure as regards all of its investments.

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15		Thresholds should be set and documented on the appropriate split of investments to be made in the UK and non UK countries. Current investment reports should show how much is invested with each country. Category: Policy & Procedure	Action: Agreed Date: Jan 2010	1	This is detailed in the Treasury Management Strategy and Update report

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16	T&W policy shows different types of credit rating, the limit to invest and the duration of the investment but it is not made clear the meaning of these ratings.	The treasury management policy should be updated to show the definition of the different types of credit rating, an example of this is shown in Appendix 3 of the Audit Commissions risk and return report. This information should also be shown in reports which go to full council and the Audit Committee. Category: Policy & Procedure	Action: Agreed Date: Jan 2010	1	This is detailed in the Treasury Management Strategy and Update report

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17	The Treasury Management Policies are currently being reviewed. There are sections in TM part 2 which have not been completed, these include, 9.2, 8.1, 8.2, 8.5, 8.6, 8.7, 8.8, 7.1, 7.2, 7.3,6.5 & 5.13	During the treasury management policy review all sections should be fully completed, where appropriate Category: Policy & Procedure	Action: Agreed Date: Jan 2010	2	This work is in progress and will be completed by 31.03.10. CIPFA have produced a revised guide 'Treasury Management in the Public Sector' code of practice & cross sectoral guidance notes 2009. The treasury team are checking that the T&W documentation complies with tis guidance

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18	No spot checks are undertaken by the Manager on treasury activities to ensure procedures are being followed and that the best rates are being obtained.	Spot checks should be undertaken by the Manager, at month end, on a sample of investments and loans to ensure procedures are being followed and the best deals are always being obtained. Once checked they should be signed and dated as evidence that this has been done Category: Best Practice	Action: Agreed Date: Sept 09	1	In place and ongoing.

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I certify at the time of completion the above information is correct:

Business Manager

 _____

Date

20/1/10 _____

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PUBLIC SECTOR

Annual Audit Letter 2008/09

Telford and Wrekin Council
January 2010

AUDIT

The contacts at KPMG in connection with this report are:

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Use of resources 4

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Appendices 6

1. Key recommendations
2. Use of Resources scores
3. Reports issued

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

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

If you have any concerns or are dissatisfied with any part of KPMG's work, in the first instance you should contact Michael McDonagh, who is the engagement partner to the Council, telephone 0121 335 2440, email michael.a.mcdonagh@kpmg.co.uk who will try to resolve your complaint. If you are dissatisfied with your response please contact Trevor Rees on 0161 236 4000, email trevor.rees@kpmg.co.uk, who is the national contact partner for all of KPMG's work with the Audit Commission. After this, if you are still dissatisfied with how your complaint has been handled you can access the Audit Commission's complaints procedure. Put your complaint in writing to the Complaints Investigation Officer, Westward House, Lime Kiln Close, Stoke Gifford, Bristol, BS34 8SR or by e mail to: complaints@audit-commission.gov.uk. Their telephone number is 0844 798 3131, textphone (minicom) 020 7630 0421

Executive Summary

Purpose

This Annual Audit Letter (the letter) summarises the key issues arising from our 2008/09 audit at Telford and Wrekin Council (the Council). Although this letter is addressed to the Members of the Council and its Senior Officers, it is also intended to communicate these issues to key external stakeholders, including members of the public. The letter will also be published on the Audit Commission website at www.audit-commission.gov.uk. It is the responsibility of the Council to publish the letter on its website. Throughout our audit we have highlighted areas of good performance and also provided recommendations to help you improve performance. A summary of our key recommendations is summarised in Appendix 1. We have reported all the conclusions in this letter to you throughout the year and a list of all reports we have issued is provided in Appendix 3.

Scope of our audit

The statutory responsibilities and powers of appointed auditors are set out in the Audit Commission Act 1998. Our main responsibility is to carry out an audit that meets the requirements of the Audit Commission's *Code of Audit Practice* (the *Code*) which requires us to review and report on your:

- *Use of Resources* - whether you have made proper arrangements for securing economy, efficiency and effectiveness ('value for money') in your Use of Resources (UoR). Our work in this area is summarised in section 2; and
- *accounts* – the Financial Statements and the Annual Governance Statement, summarised in section 3.

Key Messages

The key areas from our 2008/09 audit work which we draw to your attention are:

- Our Use of Resources assessment, the first under the Audit Commission's new UoR regime, demonstrated that the Council has got sound processes in place and there is evidence of positive outcomes in all three themes (managing finances, governing the business and managing resources). The Council has been assessed as level 2 (performing adequately) against each of these themes. Each of the three themes are scored with reference to areas within the themes; in two areas within the three themes, Risk Management and Internal Control, and Strategic Asset Management, there is strong evidence that the Council is delivering outcomes and we awarded scores of 3 (performing well) for these two areas.
- The Audit Commission also assesses how well the Council manages and improves its services and contributes to wider community outcomes. The assessment considers how successful the Council is in delivering its corporate priorities. The Council scores 2 out of 4 for managing its performance (the scoring mechanism is as for Use of Resources). The Council has some good and excellent services, such as Adult Social Care. However there are other key services and priority areas where the Council has not made enough progress, for example the educational attainment and aspirations of young people from disadvantaged backgrounds.
- We issued an unqualified opinion on the Council's accounts on 25 September 2009. We identified a number of adjustments to the Council's 2008/09 draft accounts which in aggregate we considered material. Officers amended the accounts for these adjustments and we issued our opinion in advance of the statutory deadline for publication of local Council accounts. The number and magnitude of adjustments was less than in 2007/08, our first year as auditors of the Council. We also noted an improvement in the quality of the working papers provided in support of the accounts.

We have reported more fully on both the Use of Resources assessment and accounts audit in our *Report to Those Charged With Governance* issued in September and our *Interim Report* issued in July 2009. Messages from these reports are summarised in this letter.

In addition, we have completed certification of all relevant claims and returns. We received no questions or objections from electors during the year. Consequently we have now concluded all of our statutory work for the 2008/09 year.

Fees

Our fee for the 2008/09 audit was £221,000 (excluding fees for the certification of grants and returns).

Executive Summary (continued)

Future Issues

- From 2010/11 local government bodies are required to prepare their financial statements under International Financial Reporting Standards (IFRS) and therefore the Council will need to be preparing for this transition. We have met with officers to discuss preparations and have agreed areas where we can provide assistance. We have included a significant amount of time in our 2009/10 audit plan for this issue.
- Sustainability performance - HM Treasury is developing guidance for 2010/2011 which will require all public sector bodies to report publicly on sustainability performance in annual reports. CIPFA is in discussion with the Treasury about when and in what form this requirement will be formalised for local authorities. The reported information will be subject to audit and scrutiny. Sustainability reporting will be difficult to implement and many organisations will need to act now to implement new information gathering processes.
- UK public expenditure forecasts indicate that there will be significant pressure on local authorities' funding in the medium term. Future financial settlements will be extremely tight, increasing the need for local authorities to have comprehensive efficiency programmes supported by sound financial management arrangements. It is likely that bold measures will be required to generate sufficient savings to mitigate the impact on priority services. In response, the Council has re-organised its management structure and reduced the number of portfolios from five to four in an attempt to reduce its cost base. It is also currently developing plans to move from a portfolio structure altogether. The Council will need to continue to remain focussed on maintaining sound financial health in light of future uncertainties over resources.

Acknowledgement

This has been KPMG's second year as the Council's external auditor following our appointment by the Audit Commission in 2007. We would like to thank the Council's management and staff for the help, support and co-operation they have provided throughout our audit. We recently agreed our audit plan for our 2009/10 audit and look forward to working closely with the Council in the coming year to deliver this programme of work.

Use of resources

The main elements of our use of resources work are:

- *Use of Resources* - from 2008/09, the Audit Commission introduced a new UoR assessment framework which forms part of the Comprehensive Area Assessment (CAA). This replaced the former UoR assessment which was predominantly focused on processes – the scope of the new regime is wider as it also considers whether public bodies have achieved significant and sustainable outcomes. UoR assessment comprises three themes which consider:
 - Managing finances – focusing on sound and strategic financial management;
 - Governing the business – focusing on strategic commissioning and good governance; and
 - Managing resources – focusing on the management of natural resources, assets and people.
- *Value for money conclusion* – we issue a conclusion on whether we are satisfied that you have put in place proper arrangements for securing economy, efficiency and effectiveness in your use of resources. This is based on the UoR assessment.

The findings from this work are summarised below.

Element of work	Key findings								
Use of Resources	<p>Our assessment of Telford and Wrekin Council against the three themes resulted in the following scores on a scale of one (inadequate) to four (performing strongly):</p> <table border="1" style="margin-left: auto; margin-right: auto;"> <thead> <tr> <th style="background-color: #003366; color: white;">UoR Theme</th> <th style="background-color: #003366; color: white;">Score</th> </tr> </thead> <tbody> <tr> <td>Managing money</td> <td style="text-align: center;">2</td> </tr> <tr> <td>Governing the business</td> <td style="text-align: center;">2</td> </tr> <tr> <td>Managing resources</td> <td style="text-align: center;">2</td> </tr> </tbody> </table> <p>These scores build on last year's UoR assessment when the Council scored level 3 (performing well) against the financial reporting, financial standing, financial management and value for money themes and level 4 against internal control. It should be noted, however, that direct comparisons cannot be made between the previous UoR scores and those awarded this year due to the differences in each assessment framework.</p> <p>The three themes are broken down into further areas for the purposes of the assessment. Governing the Business is broken down into four areas, including Internal Control and Risk Management. The Council was able to demonstrate that its strong arrangements and processes in this area had delivered strong outcomes, for example the delivery of more risky projects such as the Railfreight terminal. Similarly within Managing Resources, the Council's record of generating rates of return significantly above the national average from its investment property portfolio together with its effective use of its wider property portfolio to support corporate priorities earned a score of 3 for the Strategic Asset Management area.</p> <p>The reduction in scores for 2008/09 from 2007/08 is a reflection of the fact that the 2008/09 assessment is a 'harder test'. To put this in context, we have shown all authorities' results for 2008/09 in appendix two.</p>	UoR Theme	Score	Managing money	2	Governing the business	2	Managing resources	2
UoR Theme	Score								
Managing money	2								
Governing the business	2								
Managing resources	2								
Value for money conclusion	<p>We issued an unqualified value for money conclusion for 2008/09 on 25 September 2009.</p> <p>This means that we are satisfied that you put in place proper arrangements for securing economy, efficiency and effectiveness in your use of resources.</p>								

Managing Performance

The Audit Commission also assesses how well the Council manages and improves its services and contributes to wider community outcomes. The assessment considers how successful the Council is in delivering its corporate priorities. The Council scores 2 out of 4 for managing its performance (the scoring mechanism is as for Use of Resources). It has some good services, such as Adult Social Care where the Council works well with partners and which is recognised as 'excellent'. The Council has also responded well to the economic recession and is providing help and support to local people and businesses. Other services are in need of improvement, for example the gap between achievement of young people from poorer backgrounds and the rest of the borough has been widening. However the Council shows ambition to improve services in the future and has shown ability to secure government funding for priority areas.

Audit opinion

We issued an unqualified opinion on your accounts on 25 September 2009. This means that we believe the accounts give a true and fair view of the financial affairs of the Council and of the income and expenditure recorded during the year.

Before we give our opinion on the accounts, we are required to report to 'those charged with governance' any significant matters identified. We did this in our report to the Audit Committee meeting on the 23 September 2009 and the key issues are summarised here.

Accounts production and adjustments to the accounts

- We received a complete set of draft accounts by the 30 June 2009 deadline supported by good quality working papers.
- Our audit identified several adjustments which in aggregate we considered material. These were adjusted by the Council and we issued an unqualified audit opinion on 25 September 2009, in advance of the statutory deadline for publication of authorities' accounts. The number and magnitude of adjustments was less than in 2007/08; we also noted an improvement in the quality of working papers provided to support the accounts.
- Our audit resulted in six recommendations regarding financial controls. Officers have either set implementation dates or responded that the risk in relation to these areas will be borne by the Council.

Since issuing our audit opinion we have met with officers to discuss how the accounts production and audit process can be improved further for 2009/10.

There were no other issues raised for the attention of the Council.

Future issues

From 2010/11 local government bodies are required to prepare their financial statements under IFRS. There is a transitional process that needs to be followed, starting with assessing the areas where IFRS will require re-statement of aspects of the Council's accounts to comply with IFRS. The Council will need to prepare for this transition and ensure that its financial systems and other arrangements have been reviewed and updated as necessary, and that finance staff receive necessary training. We have met with officers to discuss preparations and have agreed areas where we can provide assistance and have included time in our 2009/10 audit plan for this.

Appendix 1: Key recommendations

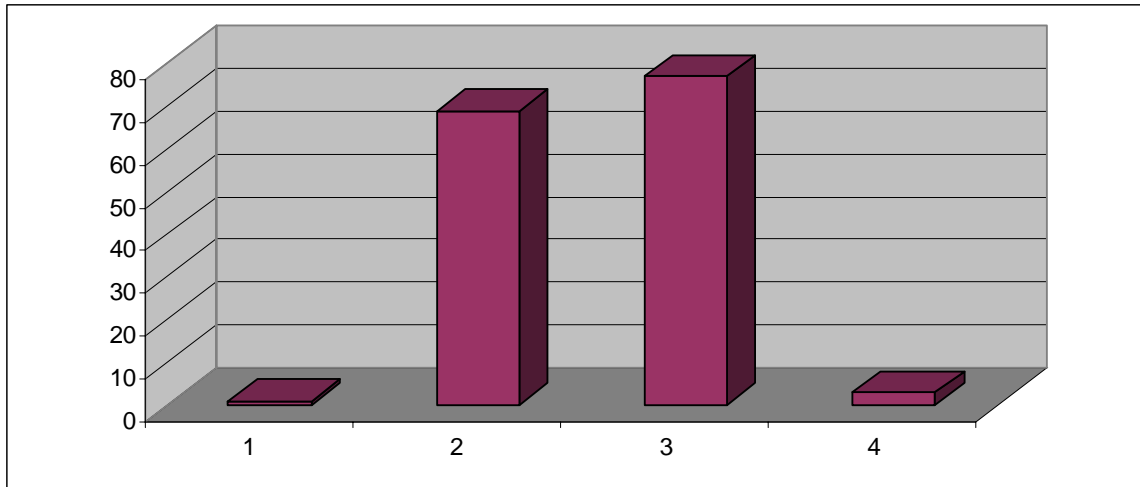
This appendix summarises the main high priority recommendations that we have identified during 2008/09, along with your response to them.

Issue/ Recommendation	Management Response / Timescale for implementation
<p><u>Issue</u> Our review of access to the cash receipting system identified that there was no formalised process for removing leavers' access to the system. We identified that leavers' user access was not being disabled in a timely manner.</p> <p><u>Recommendation</u> The Council should implement a formal process for removing leavers' access to the cash receipting system. HR should notify the systems administrator when an officer leaves the Council and the system administrator should confirm to HR that access has been removed.</p>	<p>HR produce a monthly leavers report which will now be distributed to Cash Receipting staff so that they can remove leavers from this system. <u>Officer and due date</u> Head of Finance & Audit – Ken Clarke Head of ICT – Mike Weston Due: implemented</p>
<p><u>Issue</u> The review of access to the cash receipting system also identified six users having 'super user' access to the system, meaning that these users can amend any data on the system.</p> <p><u>Recommendation</u> The Council should enquire with the software supplier as to whether the cash receipting system ICON can be reconfigured to reduce the number of users with 'super user' access.</p>	<p>T&W believe that the number of super users quoted includes some 'internal' user ID which belong to the applications within ICON – they do not have a password associated with them and users do not have access to them, they are purely for the relevant ICON application to write to the main tables. Following contact with the supplier cash receipting staff have now lowered the access levels for these 'internal' user IDs for the ICON applications. <u>Officer and due date</u> Head of ICT – Mike Weston Head of Finance & Audit – Ken Clarke Due: implemented</p>
<p><u>Issue</u> Single Status is the process by which local authorities are reviewing employees' pay and remodelling pay to ensure compliance with equalities legislation. The Authority has not yet completed this process or reached agreement with interested parties on a final settlement.</p> <p><u>Recommendation</u> The Council should ensure that progress on the Single Status project plan is monitored to minimise the uncertainties within financial and organisational planning that are associated with late or non-implementation.</p>	<p>The Single Status Project Plan continues to be monitored by the Single Status negotiation Group on a monthly basis with further reports as appropriate to Corporate Management Team and the Personnel Board. The Project Plan is also refreshed to build in the outcome of risk analysis activity which is undertaken by the Negotiation Group on a regular basis facilitated by the Council's risk manager. The main Job Evaluation phase of the project is now complete and the pay modelling stage has now commenced. Formal pay and grading negotiations will commence in January 2010 with a view to completion by April 2010. The Council expects to make formal proposals for consultation with the workforce in April 2010. Implementation is expected to follow during Autumn 2010. <u>Officer and due date</u> Head of HR – David Johnson Due: Autumn 2010</p>

Appendix 2: Use of Resources scores

The table below shows overall Use of Resources scores for all Single Tier and County Council authorities and is illustrated with the graph below. The Council's overall score was **2**.

Overall Use of Resources score	Number of Authorities	Percentage
1	1	1%
2	69	46%
3	77	53%
4	3	2%



Appendix 3: Audit reports issued

A summary of the reports issued in the year to date is set out below.

Report	Date issued
Audit and Inspection Plan 2008/09	June 2008
Annual Audit Fee letter 2009/10	June 2009
Interim Audit Report 2008/09	July 2009
Report to those charged with governance 2008/09	September 2009