



GOVERNMENT

Report to those charged with governance (ISA 260) 2009/10

Telford and Wrekin Council

September 2010

AUDIT

Contents

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

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 Authority, 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

Scope of this report

This report summarises:

- the key issues identified during our audit of Telford and Wrekin Council's ('the Authority's) financial statements for the year ended 31 March 2010; and
- our assessment of the Authority's arrangements to secure value for money in its use of resources.

This report does not repeat matters we have previously communicated to you. In particular, we draw your attention to our *Interim Audit Report 2009/10*, presented to you on 28 July 2010, which summarised our planning and interim audit work.

Financial Statements

The table below summarises the key findings from our work in relation to the financial statements audit. Section two of this document provides further details.

Proposed opinion	We anticipate issuing an unqualified audit opinion by 30 September 2010. We will also report that the wording of your Annual Governance Statement accords with our understanding.
Critical accounting matters	<p>We have worked with officers throughout the year to discuss specific risk areas. The Authority addressed the majority of issues appropriately. However, in relation to those risks we identified, the following issues have not been fully addressed:</p> <ul style="list-style-type: none">• Implementation of Single Status – the Authority has postponed its implementation of Single Status. As a result it has made provision in its financial statements for backdated costs through estimation with reference to comparative data from other authorities.• Accounting for Council Tax - the 2009 Local Authority <i>Statement of Recommended Practice</i> ('the SORP') introduced changes in accounting for Council Tax. The Authority implemented the majority of these changes correctly; however, we did identify errors in the Cashflow statement in relation to this.

Accounts production and audit process

The Authority has produced good quality financial statements. Our audit of the statements identified some errors which in aggregate we consider material and these errors totaled £33.6m. These adjustments increase the deficit on the Income and Expenditure account by £0.4m and increase the net worth of the Authority by £11.4m.

We have raised two recommendations which if implemented will improve the accounts production process and therefore the quality of the Authority's draft accounts.

Audit differences

As stated above, our audit identified a total of eight audit adjustments with a total value of £33.6m. The impact of these adjustments is to:

- Increase the deficit on the income and expenditure account for the year by £0.4m; and
- Increase the net worth of the Authority as at 31 March 2010 by £11.4m.

Neither of these adjustments affect the General Fund balance since they relate to fixed assets. We have included a full list of significant audit adjustments at Appendix E. All of these were adjusted by Authority.

Completion

At the date of this report our audit of the financial statements is substantially complete.

Before we can issue our opinion we require a signed management representation letter from the Authority.

We confirm that we have complied with requirements on objectivity and independence in relation to this year's audit of the Authority's financial statements.

We have raised a number of recommendations in relation to the matters highlighted above, which are summarised in Appendix C. As in previous years we have raised a high priority recommendation on monitoring the on-going implementation of Single Status.

Use of Resources

The table below summarises the key findings from our assessment of the Authority's arrangements to secure value for money in its use of resources.

Our findings are detailed in section three of this report.

Proposed opinion	We have concluded that the Authority has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources.
Use of resources assessment	<p>Following the change in Government, the use of resources assessment at local authorities ceased with immediate effect in May 2010.</p> <p>The Authority will therefore not receive scores in respect of the 2010 assessment. However, in general we have seen improvements and have discussed areas for improvement with the Policy Forum. These are discussed in more detail in section 3.</p>
Specific use of resources risks	<p>Through review of the Authority's Use of Resources self assessment, interviews, workshops and specific documentation reviews, we considered the specific use of resources risks we set out in our <i>Audit Fee Letter 2009/10</i> which include the Building Schools for the Future scheme (BSF) and the construction of a Railfreight terminal in the Borough.</p> <p>Our work focussed on outcomes achieved in addressing these risks; for example the Authority has secured funding for BSF despite the programme being significantly cut by Central Government and it has entered negotiations to sign a contract with a major commercial partner for use of the Railfreight terminal.</p>

Exercise of other powers

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 to be brought to the attention of the public. In addition we have a range of other powers under the 1988 Act.

No issues have arisen that have required us to issue a report in the public interest in 2009/10.

Certificate

We are required to certify that we have completed the audit in accordance with the requirements of the Audit Commission Act 1998 and the Code of Audit Practice. If there are any circumstances under which we cannot issue a certificate, then we are required to report them to you and to issue a draft opinion on the financial statements.

At present there are no issues that would cause us to delay the issue of our certificate of completion of the audit. Under Regulation 13 of the Accounts and Audit Regulations 2003, registered local electors are eligible to raise objections to the Authority's accounts prior to issuing our certificate. To date we have received three questions from local electors following production of the draft account in June. We are currently undertaking work in response to these questions and will report to the Committee in due course

Acknowledgements

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

Introduction

We have completed our work on the 2009/10 financial statements.

We anticipate issuing an unqualified audit opinion by 30 September 2010.

The Authority's and our responsibilities

Telford and Wrekin Council is responsible for having effective systems of internal control to ensure the regularity and lawfulness of transactions, to maintain proper accounting records and to prepare financial statements that give a true and fair view of its financial position and its expenditure and income. It is also responsible for preparing and publishing an Annual Statement of Governance with its financial statements.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

The Audit Commission's Code of Audit Practice requires us to summarise the work we have carried out to discharge our statutory audit responsibilities together with any governance issues identified and we report to those charged with governance (in this case the Audit Committee) at the time they are considering the financial statements.

We are also required to comply with International Standard on Auditing (ISA) 260 which sets out our responsibilities for communicating with those charged with governance.

This report meets both these requirements.

Introduction

Our audit of the financial statements can be split into four phases:



We previously reported on our work on the first two stages in our *Interim Audit Report 2009/10* issued in July 2010.

This report focuses on the final two stages: **substantive procedures and completion.**

Substantive Procedures

Our final accounts visit on site took place between 5 and 30 July 2010. During these weeks, we carried out the following work:

Substantive Procedures

- Planning and performing substantive audit procedures
- Concluding on critical accounting matters
- Identifying audit adjustments
- Reviewing the Annual Governance Statement

We have substantially completed our audit of the Authority's 2009/10 financial statements.

Completion

We are now in the final phase of the audit. Some aspects are discharged through this report:

Completion

- Declaring our independence and objectivity
- Obtaining management representations
- Reporting matters of governance interest
- Forming our audit opinion

We anticipate issuing an unqualified audit opinion by 30 September 2010.

Accounts production and audit process

The Authority has implemented all of the recommendations in our *ISA 260 Report 2008/09* relating to the financial statements.

The wording of your Annual Governance Statement accords with our understanding.

Accounts production and audit process

ISA 260 requires us to communicate to you our views about the qualitative aspects of the Authority's accounting practices and financial reporting.

We also assessed the Authority's process for preparing the accounts and its support for an efficient audit.

We considered the following criteria:

Element	Commentary
Accounting practices and financial reporting	The accounts were prepared by a different officer from previous years. We identified this as a risk in our planning process and have commented on this on page 6 of this report, where we have noted that there was no deterioration in the quality of the financial statements and supporting working papers produced.
Completeness of draft accounts	We received a complete set of draft accounts on 29 June 2010.
Quality of supporting working papers	Our Accounts Audit Protocol, which we issued in February set out our working paper requirements for the audit. The quality of working papers provided generally met the standards specified in our Accounts Audit Protocol. We will provide feedback to officers on how working papers can be improved, for example working papers provided for fixed assets,.

Element	Commentary
Response to audit queries	The majority of additional audit queries were resolved in a reasonable time. In a small number of cases we experienced delays, such as fixed assets. However, we were able to complete our audit work within the scheduled visit subject to a small number of queries which were resolved afterwards.

As a result of the above we have raised a recommendation in respect of the Authority's working papers which is included in Appendix C.

Prior year recommendations

In our *Interim Audit Report 2009/10* we commented on the Authority's progress in addressing the recommendations in our *ISA 260 Report 2008/09*.

The Authority has implemented all of the recommendations in our *ISA 260 Report 2008/09* relating to the financial statements.

Appendix D provides further details.

Annual Governance Statement

We have reviewed the Annual Governance Statement (AGS) and confirmed that :

- it complies with *Delivering Good Governance in Local Government: A Framework* published by CIPFA/SOLACE in June 2007; and
- it is not misleading or inconsistent with other information we are aware of from our audit of the financial statements.

We have made a number of comments in respect of the AGS content which the Authority amended as appropriate.

Critical accounting matters

We have worked with officers throughout the year to discuss specific risk areas. The Authority has considered issues appropriately.

Work completed

- In our *Financial Statements Audit Plan 2009/10*, presented to you in February 2010, we identified the key risks affecting the Authority's 2009/10 financial statements.
- We have now completed our testing of these areas and set out our final evaluation following our substantive work.



Key findings

- The Authority has postponed implementation of Single Status

and consequently has made provision in its accounts on the basis of estimates with reference to the costs incurred by other authorities.

- Other risks have been appropriately addressed. We have identified some adjustments in relation to changes in accounting requirements for PFI schemes and Council Tax which the Authority has agreed to adjust in its financial statements.

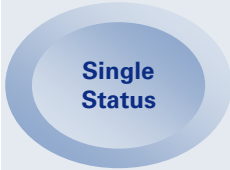


The table below sets out our detailed findings for each risk.

Key audit risk	Issue (as per Financial Statement Audit Plan 2009/10)	Findings
 <p>Private Finance Initiative</p>	<p>All local authority accounts will be based on International Financial Reporting Standards (IFRS) from 2010/11. As part of the transition process, the revised accounting requirements for Private Finance Initiative (PFI) schemes are applied early under the 2009 Code of Practice on Local Authority Accounting in the United Kingdom: A Statement of Recommended Practice (SORP), to the 2009/10 financial statements. This is a technically complex change and may result in some assets being accounted for in the Authority's balance sheet that previously were not.</p> <p>The Authority has one operational PFI contract, the Hadley Learning Community and JIGSAW. The Authority will need to re-evaluate this contract under IFRS and potentially model the payments over the life of the contract to calculate assets and liabilities to be accounted for. There are also changes to the disclosure requirements.</p> <p>In addition, there may be other schemes that are similar in nature to PFI schemes and the Authority will need to demonstrate that it has sufficiently considered such schemes.</p>	<p>The Authority has concluded that the Hadley Learning Community and JIGSAW should be included on its balance sheet under the new accounting requirements. Previously these assets were not recorded on its balance sheet. We have agreed with this treatment.</p> <p>We provided support and guidance in respect of the modelling of this scheme and provided the Authority with a model to assist it in preparing the necessary accounting entries.</p> <p>We have reviewed the accounting entries prepared by officers and have concluded that most entries prepared are correct. We identified an adjustment in respect of the liability recorded on the balance sheet to meet future capital payments which the Authority adjusted the accounts for.</p>
 <p>Accounts production process</p>	<p>The accounts production process is to be project-managed by a different member of staff from previous years, with support from the officer who has undertaken this role in previous years.</p> <p>The Authority has previously produced draft accounts of a good standard. It will need to ensure that this transfer of responsibility does not impact on the quality of the draft accounts.</p>	<p>Whilst we have identified several adjustments to the accounts which in aggregate we consider material, the number and level of adjustments is similar to previous years. Officers have responded to audit queries promptly and co-operatively and the audit has run smoothly.</p>

Critical accounting matters (continued)

The Authority decided to postpone its implementation of Single Status.

The Committee should monitor progress to the revised implementation date,

Key audit risk	Issue (as per Financial Statement Audit Plan 2009/10)	Findings
 <p>Single Status</p>	<p>The Authority has yet to implement Single Status and has postponed its implementation date. It completed the job evaluation stage of the process towards the end of 2009 and is currently undertaking pay modelling. It hopes to have concluded the process by October 2010.</p> <p>The Authority will need to ensure that any provision in its accounts for back pay costs is made on the basis of the most accurate and up to date information.</p>	<p>The Authority recognises the importance of implementing Single Status and now plans to conclude this process by June 2012.</p> <p>Consequently it has provided for back dated costs in its accounts by estimating the financial impact through reference to the costs incurred by authorities who have implemented Single Status.</p> <p>Whilst the Authority has used the best information available to date in determining its current provision, the changing nature of case law creates uncertainty in what the future costs of implementation will be. Consequently estimates will need to be continually revised and reviewed until full implementation is achieved.</p>
 <p>SORP Changes</p>	<p>In addition to the changes to the accounting for PFI schemes, the 2009 SORP introduces a number of other changes, which take effect in 2009/10, including:</p> <ul style="list-style-type: none"> • Changes to the accounting treatment for Business Rates (NNDR) and Council Tax in England; and • Changes to disclosure requirements. <p>The Authority needs to review and appropriately address these changes in the 2009/10 financial statements.</p>	<p>We have reviewed accounting entries for Council tax and NNDR. We identified that the Authority had incorrectly disclosed the proportion of the provision for bad Council Tax debts attributable to its preceptors (i.e. the Police and Fire Authorities).</p> <p>The Authority had also not correctly adjusted its cashflow statement to reflect the proportion of cash transactions attributable to its preceptors.</p> <p>The Authority has adjusted the financial statements for both these issues.</p>
 <p>Fixed Asset Valuation</p>	<p>The Authority is required to consider if there is a risk that the valuation of its asset base is materially misstated.</p> <p>The Authority conducted an exercise in 2008/09 in response to the economic climate and revalued its assets accordingly. It will need to review these valuations in light of current market conditions.</p>	<p>The Authority's valuers have reviewed its land and building portfolio and included impairments of £13.1m in the financial statements. We have reviewed the valuers' work and have concluded that these impairments are reasonable.</p>

Audit differences

Our audit identified a total of six audit adjustments.

Work completed

In accordance with ISA 260 we are required to report uncorrected audit differences to you. We also report any material misstatements which have been corrected and which we believe should be communicated to you to help you meet your governance responsibilities.

Key findings

Our audit identified a total of six audit adjustments with a total value of £33.6m. The most significant adjustments in monetary value are as follows:

- A £12.5m increase in the value of fixed assets to correctly account for accumulated depreciation. The Authority uses a spreadsheet to prepare fixed asset accounting entries. The level of manual manipulation of data necessary to produce entries through this method increases the likelihood of such misstatements occurring. However, the Authority is acquiring a new general ledger software system which is due to go live in April 2011; purchasing a more sophisticated asset management system as part of this project would reduce the likelihood of such misstatements in future. This adjustment has no impact on the General Fund.
- A £7.4m adjustment to fixed asset additions to correct expenditure which should be disclosed as Revenue Expenditure Funded through Capital Under Statute (that is, expenditure that is capital in nature but which does not result in acquisition of an asset - for example capital expenditure funded by the Authority on schools which it does not own).
- Correction to understatement of both debtors and creditors of £2.1m for a debtor balance which had incorrectly been included with the creditor balance, thus understating both debtors and creditors. This adjustment relates to grant income less than 12 months old which is recorded in a control account with debtor and creditor balances recorded in this account. The Authority should review this account and revise how it processes grant income by separating income and expenditure control accounts.
- Reclassification of a £1.8m creditor balance from long term to

short term in relation to payments for the PFI scheme.

- Reclassification of a deposit of £1.2m from capital receipts to receipts in advance.

We have provided a summary of significant audit differences in Appendix E. The Authority's officers have agreed to include these adjustments in the final version of the financial statements.

In addition, we identified a number of presentational adjustments required to ensure that the accounts are compliant with the SORP. Again, the Authority's officers will be addressing these where significant.

The tables below illustrates the total impact of audit differences on the Authority's income and expenditure account for the year and balance sheet as at 31 March 2010.

Income & expenditure 2009/10	Pre-audit £m	Post-audit £m
Net cost of services	145.6	144.9
Other operating (income) & expenditure	(116.2)	(115.1)
(Surplus)/ deficit for the year	29.4	29.8
Net additional (debits)/ credits	(26.5)	(26.9)
Increase/ (decrease) in General Fund	(2.9)	(2.9)
Balance Sheet as at 31 March 2010	Pre-audit £m	Post-audit £m
Fixed assets	313.4	325.9
Other long term assets	40.4	40.4
Current assets	54.2	56.3
Current liabilities	(85.8)	(90.8)
Long term liabilities	(376.0)	(374.2)
Net worth	(53.8)	(42.4)
General Fund/Special fund	4.2	4.2
Other reserves	(58.0)	(46.6)
Total reserves	(53.8)	(42.4)

Completion

We confirm that we have complied with requirements on objectivity and independence in relation to this year's audit of the Authority's financial statements.

Before we can issue our opinion we require a signed management representation letter from the Authority, and have provided a draft version at Appendix G.

Once we have finalised our opinions and conclusions we will prepare our Annual Audit Letter and close our audit.

Declaration of independence and objectivity

As part of the finalisation process we are required to provide you with representations concerning our independence.

In relation to the audit of the financial statements of Telford and Wrekin Council for the year ending 31 March 2010, we confirm that there were no relationships between KPMG LLP and Telford and Wrekin Council, its directors and senior management and its affiliates that we consider may reasonably be thought to bear on the objectivity and independence of the audit engagement lead and audit staff. We also confirm that we have complied with Ethical Standards and the Audit Commission's requirements in relation to independence and objectivity.

We have provided a detailed declaration in Appendix F in accordance with ISA 260.

Management representations

You are required to provide us with representations on specific matters such as your financial standing and whether the transactions within the accounts are legal and unaffected by fraud. We have included a copy of a representation letter as Appendix G. We have provided a draft to the section 151 officer. We require a signed copy of your management representations before we issue our audit opinion.

Other matters

ISA 260 requires us to communicate "audit matters of governance interest that arise from the audit of the financial statements" to you which includes:

- material weaknesses in internal control identified during the audit;
- matters specifically required by other auditing standards to be communicated to those charged with governance (e.g. issues relating to fraud, compliance with laws and regulations, subsequent events etc); and
- other audit matters of governance interest.

There are no others matters which we wish to draw to your attention.

Opinion

We anticipate issuing an unqualified audit opinion by 30 September 2010.

Our proposed opinion on the financial statements is presented in Appendix A.

Introduction

We have concluded that the Authority has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

The Authority's and our responsibilities

The Authority is responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources and regularly reviewing their adequacy and effectiveness.

We are required to conclude whether the Authority has adequate arrangements in place to ensure effective use of its resources. We refer to this as the 'value for money (VFM) conclusion'.

Introduction

Our assessment previously drew mainly on the findings from the use of resources assessment (UoR) framework, as the specified criteria for the VFM conclusion were the same as the UoR Key Lines of Enquiry (KLoE).

In May 2010 the new government announced that the Comprehensive Area Assessment (CAA) would be abolished. The Audit Commission subsequently confirmed that work related to CAA should cease with immediate effect. This includes work for UoR assessments at local authorities.

However, there is no change to the requirement in the statutory Code of Audit Practice for auditors to issue a VFM conclusion.

At the time of the announcement, the vast majority of UoR work for 2010 had already been completed and this therefore informed our 2009/10 VFM conclusion.

We also identified a number of specific risks impacting on our 2009/10 value for money conclusion and undertook targeted work on these areas.

Conclusion

We have concluded that the Authority has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

Our proposed conclusion is set out in Appendix B.

VFM criterion	Met
Managing finances	
Financial planning	✓
Understanding costs and achieving efficiencies	✓
Financial reporting	✓
Governing the business	
Commissioning and procurement	✓
Data quality and use of information	✓
Governance	✓
Risk management and internal control	✓
Managing resources	
Use of natural resources	✓
Strategic asset management	✓
Workforce planning	✓

The following pages include further details on the use of resources assessment and specific risk-based work.

Use of resources assessment

The Audit Commission announced that its use of resources assessment at local authorities ceased with immediate effect in May 2010.

The Authority will therefore not receive scores in respect of the 2010 assessment.

Work completed

- We completed work on the 2010 use of resources assessment between February and May 2010.
- Our work involved review of the Authority's self-assessment, discussions with senior members and key officers for all areas, review of relevant internal and external documentation and a challenge workshop with the Corporate Management Team and Members.
- We also completed additional work during June to July where we considered this to be still relevant to our VFM conclusion. This included our data quality spot checks.

Key findings

- Even though the 2010 UoR assessment was substantially completed, we have been advised by the Audit Commission that we cannot share indicative scores with audited bodies.
- We have therefore only included general messages in this report about the Authority's performance in each area. In particular, we have highlighted the key issues which we consider should be brought to the attention of those charged with governance.

Below we set out our findings arising at the time of our review in respect of each area.

		Areas of strength	Areas for improvement
Managing finances		<ul style="list-style-type: none"> • Key Members (including the Leader, Deputy Leader, Performance Management lead member and the Authority's Cabinet) and officers show clear understanding of the financial challenges facing the authority and strong leadership in setting an agenda to deal with this, including decisive action to deliver savings over the medium term. • The Authority has undertaken innovative participatory activities, such as organising an exercise with members of the public who were encouraged to provide solutions to funding shortfalls in hypothetical scenarios with regards to the Authority's budget. • The Authority's internal financial monitoring demonstrates it has understanding of cost drivers and how costs behave, for example in its understanding of costs in looked after children placements. • Financial management through the year forecasts and remodels budget for known and anticipated trends and variances from original budget. 	<ul style="list-style-type: none"> • The Authority needs to further its efforts in understanding how its costs compare with its peers so it has understanding across all service areas. • Environmental reporting needs to be improved to more fully explain the Authority's environmental impact and more fully explain what methodology the authority has used in assessing its impact. • The Authority has procured a new general ledger system which will go live in April 2011; this will improve the functionality of real-time financial monitoring for budget holders. • If and where appropriate, the Authority should work more closely with other Public Sector and Third Sector organisations in order to deliver more of its services via the Shared Services route.

Use of resources assessment (continued)

	Governing the business	Areas of strength <ul style="list-style-type: none"> The Authority benchmarks its data handling procedures against recognised quality standards (ISO 27001) and has made progress since the last assessment. Performance Indicator spot checks we have undertaken did not identify weakness in the indicators reviewed. The Authority has a strong track of risk management and delivery of risky projects, so while it needs to update its understanding of risks following its reorganisation we have no reason believe risk management will not operate effectively going forward. The Authority has a sound track record with respect to identifying and prosecuting fraud. The Authority has a programme of service reviews in place which is informing how it delivers services and identifies efficiencies. The creation of the new post of Sustainable Procurement officer should support the authority in ensuring sustainable procurement practices. 	Areas for improvement <ul style="list-style-type: none"> The Authority does use imperfect data where appropriate, but does need to do more work where national data is not available, such as benchmarking data and comparative performance information. The new vision set out for the authority by senior officers and members needs to be embedded quickly which then demonstrate that both officers and members are clear about their roles and responsibilities, and that working relationships continue to be developed with the aim of becoming excellent. The Authority decided in 2009/10 to close Transforming Telford, which became operational during 2006/07. It will need to ensure that worst case scenarios such as reversal of decisions are considered at planning stage. The Authority should ensure that effective risk management is in place with its public sector partners, as their involvement in delivering local needs becomes increasingly important.
		Managing resources	
	Managing resources	Areas of strength <ul style="list-style-type: none"> The Authority has entered into partnerships with local firms to deliver multiple priorities, for example it has formed a partnership with the firm Kier to build schools as part of the Building Schools for Future programme in the Borough including offering apprenticeships to young people from the area. The Authority is actively managing its operational asset base through a property rationalisation programme. As part of this it has agreed the sale of its current main premises, the Civic Centre, with the proceeds being used to support the redevelopment of the Town Centre, one of its corporate priorities and a flagship capital programmes. The Authority has an in-house NVQ centre and high satisfaction rates with training provided. It has also provided evidence of actions to address skills and capacity gaps; for example a review of Social Care resulted in pay review to improve recruitment. The Authority undertakes a bi-annual staff survey and develops action plans to respond and address areas of concern and weakness. 	Areas for improvement <ul style="list-style-type: none"> The Authority's investment property portfolio has produced returns above the national average in recent years; however, voids have increased during the recent recession and the value of these properties have been impaired in both 2008/09 and 2009/10. The Authority should make further explore joint work force planning with strategic partners. Whilst significant improvements in the provision of housing the Borough have been made, the Authority needs to continue to focus on this to alleviate the current shortfall and assist in addressing homelessness issues.

Appendix A: Proposed Opinion on the Financial Statements

Our opinion states whether the accounting statements and related notes give a true and fair view of the financial position of the Authority and its income and expenditure for the year.

Independent auditors' report to the Members of Telford and Wrekin Council

Opinion on the accounting statements

We have audited the accounting statements and related notes of Telford and Wrekin Council for the year ended 31 March 2010 under the Audit Commission Act 1998. The accounting statements comprise the Income and Expenditure Account, the Statement of Movement on the General Fund Balance, the Balance Sheet, the Statement of Total Recognised Gains and Losses, the Cash Flow Statement, and the Collection Fund. The accounting statements have been prepared under the accounting policies set out in the Statement of Accounting Policies.

This report is made solely to Telford and Wrekin Council, as a body, in accordance with Part II of the Audit Commission Act 1998. Our audit work has been undertaken so that we might state to Telford and Wrekin Council, as a body, those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than Telford and Wrekin Council, as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of the Section 151 and auditors

The Section 151 officer responsibilities for preparing the financial statements, in accordance with relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2009 are set out in the Statement of Responsibilities for the Statement of Accounts.

Our responsibility is to audit the accounting statements and related notes in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the accounting statements and related notes give a true and fair view, in accordance with relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2009, of the financial position of the Authority and its income and expenditure for the year.

We review whether the governance statement reflects compliance with 'Delivering Good Governance in Local Government: A Framework' published by CIPFA/SOLACE in June 2007. We report if it does not comply with proper practices specified by CIPFA/SOLACE or if the statement is misleading or inconsistent with other information we are aware of from our audit of the financial statements. We are not required to consider, nor have we considered, whether the governance statement covers all risks and controls. Neither are we required to form an opinion on the effectiveness of the Authority's corporate governance procedures or its risk and control procedures.

Appendix A: Proposed Opinion on the Financial Statements (continued)

Our proposed opinion is unqualified.

There are no expected modifications to the auditors' report.

We read other information published with the accounting statements and related notes and consider whether it is consistent with the audited accounting statements and related notes. This other information comprises only the Explanatory Foreword. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the accounting statements and related notes. Our responsibilities do not extend to any other information.

Basis of audit opinion

We conducted our audit in accordance with the Audit Commission Act 1998, the Code of Audit Practice issued by the Audit Commission and International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the accounting statements and related notes. It also includes an assessment of the significant estimates and judgments made by the Authority in the preparation of the accounting statements and related notes, and of whether the accounting policies are appropriate to the Authority's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the accounting statements and related notes are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the accounting statements and related notes.

Opinion

In our opinion the accounting statements and related notes give a true and fair view, in accordance with relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2009, of the financial position of the Authority as at 31 March 2010 and its income and expenditure for the year then ended.

Michael McDonagh (Senior Statutory Auditor)

for and on behalf of KPMG LLP, Statutory Auditor

Chartered Accountants

Birmingham

Appendix B: Proposed use of resources conclusion

Our proposed use of resources conclusion is unqualified.

Conclusion on Telford and Wrekin Council's arrangements for securing economy, efficiency and effectiveness in the use of resources

Authority's Responsibilities

The Authority is responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance and regularly to review the adequacy and effectiveness of these arrangements.

Auditors' Responsibilities

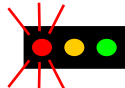


We are required by the Audit Commission Act 1998 to be satisfied that proper arrangements have been made by the Authority for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the Audit Commission requires us to report to you our conclusion in relation to proper arrangements, having regard to relevant criteria specified by the Audit Commission for principal local authorities. We report if significant matters have come to our attention which prevent us from concluding that the Authority has made such proper arrangements. We are not required to consider, nor have we considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

Conclusion

We have undertaken our audit in accordance with the Code of Audit Practice. Having regard to the criteria for principal local authorities specified by the Audit Commission and published in May 2008 and updated in February 2009, we are satisfied that, in all significant respects, Telford and Wrekin Council made proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2010.

Appendix C: Recommendations

We have given each recommendation a risk rating (as explained below) and agreed what action management will need to take. We will follow up these recommendations next year.

Priority rating for recommendation			
<p>Priority one: issues that are fundamental and material to your system of internal control. We believe that these issues might mean that you do not meet a system objective or reduce (mitigate) a risk.</p> 		<p>Priority two: issues that have an important effect on internal controls but do not need immediate action. You may still meet a system objective in full or in part or reduce (mitigate) a risk adequately but the weakness remains in the system.</p> 	
		<p>Priority three: issues that would, if corrected, improve the internal control in general but are not vital to the overall system. These are generally issues of best practice that we feel would benefit you if you introduced them.</p> 	
No.	Priority	Issue & Recommendation	Management Response / Responsible Officer / Due Date
1	1	<p>The Authority must ensure it implements Single Status by June 2012 with appropriate monitoring of milestones through the year to ensure this achieved.</p> <p>In addition, as implementation progresses, the Authority should ensure that it uses the most up to date information and relevant case law precedents, whilst taking into account any other changing circumstances so that it more accurately reflects the likely financial cost within its Medium Term Financial Strategy.</p>	<p>Meredith Evans, Corporate Director has lead responsibility for the implementation of Single Status.</p> <p>The Council will monitor any financial implications of the implementation of single status and adjust medium term financial plans accordingly.</p> <p>Quarterly update meetings on Single Status will be arranged between the Lead Officer, Head of Finance and KPMG.</p>
2	2	<p>The Authority should procure an asset management module as part of its Financial Management ledger system.</p> <p>This module will aid in the preparation of more accurate financial statements, reducing the likelihood of misstatement in draft statements and improving internal financial reporting.</p>	<p>We do not agree with this recommendation as there are no resources available and the Council would test the market rather than just use what Agresso has to offer.</p>

Appendix C: Recommendations

No.	Priority	Issue & Recommendation	Management Response / Responsible Officer / Due Date
3	2	<p>Finance officers should revise processes for recording grant income and expenditure. Separate control accounts for income and expenditure should be created rather than a composite control account.</p> <p>This will facilitate reviewing utilisation of grant in addition to the preparation of financial statements.</p>	<p>Ken Clarke – Head of Finance</p> <p>This will be reviewed as part of the development of the financial arrangements for the implementation of the new financial management system.</p> <p>31/03/11</p>
4	2	<p>The Authority should review the findings of the Use of Resources assessment and put in place the action plan discussed improve in areas as highlighted by the assessment. The action plan should also be monitored and progress reviewed at Audit Committee. In particular the Authority must focus on:</p> <ul style="list-style-type: none"> • delivering excellent quality services through systematic service reviews and increased understanding of costs and cost drivers; • ensuring it understands the needs of its community and commissioning services in ways best suited to meeting these needs; and • minimising its environmental impact and optimising its use of natural resources. <p>The action plan should also be regularly monitored and progress reviewed at Audit Committee.</p>	<p>Officers will review the feedback from the assessment and compare it to the Council's priorities and actions in the Council's priority plans. If they have not already been identified they will be included, if appropriate.</p> <p>Priority plans are reviewed regularly by CMT and Cabinet. Any key issues will be reported to the Audit Committee as part of the AGS</p> <p>Responsible officer – Assistant Chief Executive Richard Partington - on going during review of priority plans.</p>

Appendix D: Follow-up of prior year recommendations

The Authority has implemented the majority of the recommendations in our *ISA 260 Report 2008/09*.

This appendix summarises the progress made to implement the recommendations identified in our *ISA 260 Report 2008/09* and re-iterates any recommendations that are still outstanding.

Number of recommendations that were:		
Included in original report	Implemented in year or superseded	Remain outstanding (re-iterated below)
3	2	1

No.	Priority	Recommendation	Officer Responsible and Due Date	Status as at August 2010
1	2	Use of Resources assessment <p>The Authority should review the findings of the Use of Resources assessment and put in place the action plan discussed improve in areas as highlighted by the assessment. The action plan should also be monitored and progress reviewed at Audit Committee. In particular the Authority must focus on:</p> <ul style="list-style-type: none"> delivering excellent quality services through systematic service reviews and increased understanding of costs and cost drivers; ensuring it understands the needs of its community and commissioning services in ways best suited to meeting these needs; and minimising its environmental impact and optimising its use of natural resources. <p>The action plan should also be regularly monitored and progress reviewed at Audit Committee.</p>	Richard Partington/Paul Clifford On going but by 31st March 2010.	<p>The Use of Resources assessment has been discontinued by the new Coalition Government. However, as stated previously in this report, we completed the majority of our work for the 2009/10 assessment before this announcement was made and have provided feedback in this report and separately to officers.</p> <p>We therefore reiterate this recommendation as recommendation 4.</p>
2	2	Reconciliation of the cash book to the general ledger <p>The Authority should review the reconciliation of the cash book to the general ledger and ensure that this is fully reconciled..</p>	Ken Clarke 31st March 2010	<p>We have not identified issues with the reconciliation this year.</p> <p>Recommendation implemented.</p>
3	3	Processing invoices <p>The Authority should ensure that staff posting accruals at the year end have sufficient training and knowledge as to when an accrual is needed.</p>	Ken Clarke 31st March 2010	<p>We have not identified issues in relation to this this year.</p> <p>Recommendation implemented.</p>

Appendix E: Audit differences

We are required by ISA 260 to report all uncorrected misstatements, other than those that we believe are clearly trivial, to those charged with governance (which in the Authority's case is the Audit Committee). We are also required to report all material misstatements that have been corrected but that we believe should be communicated to you to assist you in fulfilling your governance responsibilities. All differences have been corrected by the Authority.

The following table sets out the significant audit differences identified by our audit of Telford and Wrekin Council's financial statements for the year ended 31 March 2010. In addition to these adjustments we identified adjustments relating to the restated balance for creditors relating to the PFI liability and adjustments to the cashflow to correctly reflect new requirements in respect of Council Tax.

Impact					Basis of audit difference
Income and expenditure	Statement of Movement on GF Balance	Assets	Liabilities	Reserves	
Cr Net cost of services £0.7m	Dr Depreciation and impairments £0.7m	Dr Fixed assets £12.5m		Cr CAA £3.9m Cr Revaluation Reserve £8.6m	Accumulated depreciation has not been written out following revaluation resulting in the value of fixed assets being understated. This has also resulted in an increased depreciation charge and a reduced impairment charge.
	Dr REFCUS £7.4m Cr Impairments £7.4m	Dr Fixed asset impairments £7.4m Cr Additions £7.4m			Capital expenditure which has not resulted in acquisition of an asset for the authority has been incorrectly classified.
		Dr Debtors £2.1m	Cr Creditors £2.1m		A grant debtor has incorrectly been netted off creditors balances.
			Dr Creditors > 1 year £1.8m Cr Creditors < 1 year £1.8m		Payments due for the PFI contract have been incorrectly classified.
		Dr Bad debt provision £0.4m Cr Debtors £0.4m			The Authority has incorrectly included the share of the bad debt provision for Council Tax debtors attributable to preceptors in its own provision.

Impact					Basis of audit difference
Income and expenditure	Statement of Movement on GF Balance	Assets	Liabilities	Reserves	
Dr Gain on disposal of fixed assets £1.2m			Cr Receipts in advance £1.2m	Dr Useable Capital Receipts £1.2m	The Authority has incorrectly classified a deposit on a sale of a fixed asset as a useable capital receipt.
Cr £0.7m	Dr £0.7m	Dr £14.6m	Cr £3.3m	Cr £11.3m	Total impact of adjustments

Appendix F: Declaration of independence and objectivity

The Code of Audit Practice requires us to exercise our professional judgement and act independently of both the Commission and the Authority.

Requirements

Auditors appointed by the Audit Commission must comply with the *Code of Audit Practice* (the Code) which states that:

“Auditors and their staff should exercise their professional judgement and act independently of both the Commission and the audited body. Auditors, or any firm with which an auditor is associated, should not carry out work for an audited body that does not relate directly to the discharge of auditors’ functions, if it would impair the auditors’ independence or might give rise to a reasonable perception that their independence could be impaired.”

In considering issues of independence and objectivity we consider relevant professional, regulatory and legal requirements and guidance, including the provisions of the Code, the detailed provisions of the Statement of Independence included within the Audit Commission’s *Standing guidance for local government auditors* (‘Audit Commission Guidance’) and the requirements of APB Ethical Standard 1 *Integrity, Objectivity and Independence* (‘Ethical Standards’).

The Code states that, in carrying out their audit of the financial statements, auditors should comply with auditing standards currently in force, and as may be amended from time to time. Audit Commission Guidance requires appointed auditors to follow the provisions of ISA (UK &I) 260 *Communication of Audit Matters with Those Charged with Governance* that are applicable to the audit of listed companies. This means that the appointed auditor must disclose in writing:

- Details of all relationships between the auditor and the client, its directors and senior management and its affiliates, including all services provided by the audit firm and its network to the client, its directors and senior management and its affiliates, that the auditor considers may reasonably be thought to bear on the auditor’s objectivity and independence.
- The related safeguards that are in place.
- The total amount of fees that the auditor and the auditor’s network firms have charged to the client and its affiliates for the provision of services during the reporting period, analysed into appropriate categories, for example, statutory audit services, further audit services, tax advisory services and other non-audit services. For each category, the amounts of any future services which have been contracted or where a written proposal has been submitted are separately disclosed.

Appointed auditors are also required to confirm in writing that they have complied with Ethical Standards and that, in the auditor’s professional judgement, the auditor is independent and the auditor’s objectivity is not compromised, or otherwise declare that the auditor has concerns that the auditor’s objectivity and independence may be compromised and explaining the actions which necessarily follow from his. These matters should be discussed with the Audit Committee.

Ethical Standards require us to communicate to those charged with governance in writing at least annually all significant facts and matters, including those related to the provision of non-audit services and the safeguards put in place that, in our professional judgement, may reasonably be thought to bear on our independence and the objectivity of the Audit Partner and the audit team.

Appendix F: Declaration of independence and objectivity (continued)

We confirm that we have complied with requirements on objectivity and independence in relation to this year's audit of the Authority's financial statements.

General procedures to safeguard independence and objectivity

KPMG's reputation is built, in great part, upon the conduct of our professionals and their ability to deliver objective and independent advice and opinions. That integrity and objectivity underpins the work that KPMG performs and is important to the regulatory environments in which we operate. All partners and staff have an obligation to maintain the relevant level of required independence and to identify and evaluate circumstances and relationships that may impair that independence.

Acting as an auditor places specific obligations on the firm, partners and staff in order to demonstrate the firm's required independence. KPMG's policies and procedures regarding independence matters are detailed in the Ethics and Independence Manual ('the Manual'). The Manual sets out the overriding principles and summarises the policies and regulations which all partners and staff must adhere to in the area of professional conduct and in dealings with clients and others.

KPMG is committed to ensuring that all partners and staff are aware of these principles. To facilitate this, a hard copy of the Manual is provided to everyone annually. The Manual is divided into two parts. Part 1 sets out KPMG's ethics and independence policies which partners and staff must observe both in relation to their personal dealings and in relation to the professional services they provide. Part 2 of the Manual summarises the key risk management policies which partners and staff are required to follow when providing such services.

All partners and staff must understand the personal responsibilities they have towards complying with the policies outlined in the Manual and follow them at all times. To acknowledge understanding of and adherence to the policies set out in the Manual, all partners and staff are required to submit an annual Ethics and Independence Confirmation. Failure to follow these policies can result in disciplinary action.

Auditor Declaration

In relation to the audit of the financial statements of Telford and Wrekin Council for the financial year ending 31 March 2010, we confirm that there were no relationships between KPMG LLP and Telford and Wrekin Council, its directors and senior management and its affiliates that we consider may reasonably be thought to bear on the objectivity and independence of the audit engagement lead and audit staff. We also confirm that we have complied with Ethical Standards and the Audit Commission's requirements in relation to independence and objectivity.

Appendix G: Draft management representation letter

We ask you to provide us with representations on specific matters such as your financial standing and whether the transactions within the accounts are legal and unaffected by fraud.

The wording for these representations is standard and prescribed by auditing standards.

We require a signed copy of your management representations before we issue our audit opinion.

Dear KPMG LLP,

We understand that auditing standards require you to obtain representations from management on certain matters material to your opinion. Accordingly we confirm to the best of our knowledge and belief, having made appropriate enquiries of other members of the Authority, the following representations given to you in connection with your audit of the financial statements for Telford and Wrekin Council for the year ended 31 March 2010.

All the accounting records have been made available to you for the purpose of your audit and the full effect of all the transactions undertaken by Telford and Wrekin Council has been properly reflected and recorded in the accounting records in accordance with agreements, including side agreements, amendments and oral agreements. All other records and related information, including minutes of all management and Committee meetings, have been made available to you.

We confirm that we have disclosed all material related party transactions relevant to the Authority and that we are not aware of any other such matters required to be disclosed in the financial statements, whether under FRS 8 or other requirements.

We confirm that we are not aware of any actual or potential non-compliance with laws and regulations that would have had a material effect on the ability of the Authority to conduct its business and therefore on the results and financial position to be disclosed in the financial statements for the year ended 31 March 2010.

We acknowledge that we are responsible for the fair presentation of the financial statements in accordance with the Local Government Statement of Recommended Practice ("SORP") and wider UK accounting standards. We have considered and approved the financial statements.

We confirm that we:

- understand that the term "fraud" includes misstatements resulting from fraudulent financial reporting and misstatements resulting from misappropriation of assets. Misstatements resulting from fraudulent financial reporting involve intentional misstatements or omissions of amount or disclosures in financial statements to deceive financial statement users. Misstatements resulting from misappropriation of assets involve the theft of an entity's assets, often accompanied by false or misleading records or documents in order to conceal the fact that the assets are missing or have been pledged without proper authorisation;
- are responsible for the design and implementation of internal control to prevent and detect fraud and error;
- have disclosed to you our knowledge of fraud or suspected fraud affecting the Authority involving:
 - management;
 - employees who have significant roles in internal control; or
 - others where the fraud could have a material effect on the financial statements.
- have disclosed to you our knowledge of any allegations of fraud, or suspected fraud, affecting the Authority's financial statements communicated by employees, former employees, analysts, regulators or others; and
- have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.

Appendix G: Draft management representation letter (continued)

We confirm that the presentation and disclosure of the fair value measurements of material assets, liabilities and components of equity are in accordance with applicable reporting standards. The amounts disclosed represent our best estimate of fair value of assets and liabilities required to be disclosed by these standards. The measurement methods and significant assumptions used in determining fair value have been applied on a consistent basis, are reasonable and they appropriately reflect our intent and ability to carry out specific courses of action on behalf of the Authority where relevant to the fair value measurements or disclosures.

We confirm that there are no other contingent liabilities, other than those that have been properly recorded and disclosed in the financial statements. In particular:

- there is no significant pending or threatened litigation, other than that already disclosed in the financial statements; and
- there are no material commitments or contractual issues, other than those already disclosed in the financial statements.

Finally, no additional significant post balance sheet events have occurred that would require additional adjustment or disclosure in the financial statements, over and above those events already disclosed.

This letter was tabled at the meeting of the Audit Committee on 21 September 2010.

Yours faithfully

Paul Clifford

Section 151 officer

On behalf of Telford and Wrekin Council

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Chair of Audit Committee
Telford and Wrekin Council
Civic Centre
Telford TW3 4WZ

Our ref mmcd/121/ds

Contact Donald Sadler
0121 232 3000
Ext 3660

27 July 2010

Dear Councillor Wright

Review of Members' Expenses – Councillors B and K Tomlinson

Further to your discussion with Donald Sadler, we write to confirm our completion of the above review.

This letter sets out:

- 1 Our conclusion.
- 2 An introduction to our review.
- 3 Background to the Council's review.
- 4 The process followed by the Council's Monitoring Officer, once the expense claims were referred for review.
- 5 The process followed for making and payment of the claims including the role of officers and how this compared with the Members' Allowances Scheme ("the Scheme") in place at the time.
- 6 The Internal Audit review.

Conclusion

We agreed with the Council's Chief Executive to review the governance arrangements in place in May 2007 in relation to Members' expenses and comment on the procedures followed in relation to the expenses claimed by Councillors B and K Tomlinson at that time.

Further, we wished to satisfy ourselves that the present arrangements are satisfactory and address the weakness found in relation to the above. Based on the information presented, we have concluded that the processes undertaken by the Council when the matter was brought to its attention was appropriate and the actions taken to address the shortcomings identified were also appropriate.

Based on the information made available to us regarding the claims and the subsequent action taken in 2009, we highlight the following:

- the expense claims were not allowable under the Scheme in operation at the time according to legal advice sought by the Council. However, it should be acknowledged that the sums claimed were repaid by the members concerned when this was brought to their attention;
- an independent review concluded that the advice given to the Councillors by the then Chief Executive was not correct;
- the independent review also concluded that the Councillors relied upon the advice of the then Chief Executive whose directorate was responsible for Members' expenses;
- the Senior Members Services Officer should not have completed the Expense Claim Forms for the Councillors, although the independent report concludes that the officer was acting under instruction by the then Executive Office Manager responsible for operating the Scheme. The completion of the claim is entirely the responsibility of the claimant concerned.

Action taken by the Council

- the Internal Audit report dated 14 April 2010 provided reasonable assurance as to the robustness of the present arrangements and makes recommendations to address existing weaknesses in the present system including the design of the claim form and the provision of monthly reminders to Members on how to complete the form as well as escalation procedures in the event of any issues.

Introduction

Following our meeting with Victor Brownlees, the Council's current Chief Executive on 1 June 2010, we confirmed in writing that we would review the expense claims totalling £974.78 of Councillors K and B Tomlinson in respect of air flights on 25 May 2007 and the subsequent action taken in 2009 by the Council when the matter was drawn to attention.

We wished to satisfy ourselves as to the robustness of the arrangements in place at the time for advising Members on their expenses and whether the advice provided to them was consistent with the Scheme. Further, we wished to satisfy ourselves as to the robustness of the present arrangements.

Background to the Council's review

In June 2009, a member of the public sent an email to Mr Brownlees who was then Interim Chief Executive enquiring as to the reason why both Councillors had been paid the same amount. It was at this point that Mr Brownlees requested Mr Eatough, the Council's Monitoring Officer to investigate the matter.

The Council's Monitoring Officer's review process

Mr Eatough investigations highlighted a number of matters including the fact that the claims made did not appear to relate to journeys which they had been obliged to undertake in order to attend the Annual Council Meeting on 24 May 2007, but rather to journeys which they had undertaken on the day after the Meeting. Mr Eatough made the Councillors aware of this matter and sought a meeting with Councillor B Tomlinson in July 2009 who informed him that the then Chief Executive had given advice that the claim would be allowable. Following this meeting, Mr Eatough sought independent legal advice from Peter Keith-Lucas, the Local Government Partner of Bevan Brittan, Solicitors, as to whether the expense claim fell within the Scheme.

The advice received in September 2009 was that it could not be possibly argued that the journeys undertaken on 25 May 2007 had been undertaken "in connection with or relating to" attending the Meeting. This advice was shared with the Councillors and on 28 September 2009, Mr Eatough made the Councillors aware that he would raise the matter as a formal complaint with the Standards Committee. On 28 October 2009, the Referrals Sub-Committee decided that the allegations contained within the complaint merited investigation.

Since Mr Eatough was the complainant, it was felt that Mr Matthew Cumberbatch, Deputy Monitoring Officer should oversee the investigation. He approached Stewart Dobson, a Consultant and retired senior Council Officer to carry out an external independent investigation.

External Independent Investigation

In November 2009, the above external independent investigation was commissioned by the Council. The review included meetings with the Complainant, the Deputy Monitoring Officer, Councillors K and B Tomlinson (in the presence of their Solicitor) and Internal Audit.

We have reviewed the external independent investigator's report which sets out in detail the events surrounding the expense claims and noted his conclusions that the Councillors had not breached the Council's Code of Conduct for Members. Further, within the main body of the report, it states that "it was perfectly reasonable for the Councillors to have relied, and acted upon, the advice" provided by the then Chief Executive in relation to making the claim.

In addition, the report goes on to conclude that, "on the basis of the information which was available to him at the time, Mr Eatough acted quite correctly in lodging his formal complaint with the Standards Committee. This effectively ensured that the matter would be thoroughly and openly investigated. Given the publicity and rumours associated with the matter, it was plainly essential that there should be such an investigation."

We are satisfied with the processes followed by the Council in relation to investigating the expense claims.

Processing the expense claims

The Members' Allowance Scheme in place at the time stated that *"When reclaiming expenses incurred in line with the terms of the scheme, it is your responsibility to complete a claim form and return it to Member Services by the 4th of the month along with all supporting receipts.*

Claim can only be paid in accordance with the approved scheme, and therefore claims which do not meet the criteria will be omitted or amended as necessary, to so otherwise would be in breach of council policy."

Based on information contained with the external independent investigator's report, the Councillors followed the then Chief Executive's advice and presented the paid invoices for the flights to the then Executive Office Manager (responsible for Members Allowance Scheme) who, we understand from the same report supported the claim and requested Councillor K Tomlinson to sign a blank claim form and informed the Councillor that the team would process the claim.

The report also highlights that the claim was completed on two forms (one for each Councillor) and that Councillor B Tomlinson's form was signed by a member of staff within Member Services. This procedure is not in accordance with the requirements in place at the time. Councillors are required to complete and sign their own expense claim form; however we noted that neither Councillor had submitted a claim form for several years.

It is the responsibility of Members to complete and sign their own claim forms as set out in the Scheme and in the event of any doubt or query, such matters should be referred to the Council's Monitoring Officer or Chief Finance Officer for advice as implied in the Members' Code of Conduct Part 5, Section 1(7.1).

In summary, based on the external investigator's report, the expense claims were made following incorrect advice from the then Chief Executive. Repayment was made in November 2009 after the Council's Monitoring Officer shared the legal advice with the Councillors.

Internal Audit report

The Council's Internal Auditor has recently completed a review of Members' expenses for 2009/10 and concluded that reasonable assurance can be provided as to robustness of the arrangements.

During the audit a number of good practice areas within the process for Members Expenses were identified. These included:

- thorough checking of claims by the Senior Member Services Officer;
- improved layout on the amended members expense claim form;
- documented procedure notes for Members' Allowances and Expense Claims; and

- monthly reminders to Members with guidance on how to complete the claim forms.

The report made eight recommendations to strengthen the existing arrangements including:

- consideration should be given to amending the claim form to include a column for the authoriser to make comments and a statement in the declaration that the Member signing has completed the form in full before submitting for authorisation;
- there should be a written escalation procedure for the Senior Member Services Officer to follow when she has issues with particular claims from Members. For example when members submit forms which are incomplete or are incorrect and do not comply with the guidance that is issued on a monthly basis;
- a deputy for countersigning the Members expense forms should be formally agreed and they should have access to up to date procedure notes; and
- the Senior Member Services Officer should have a list of Members signatures that she can check against before authorising the claims. This could be done using the Declaration of Acceptance of Office form signed by each member.

The Democratic Services Manager has agreed all the recommendations and provided these are implemented and consistently applied, we believe that the Council should have increased assurance over the application of the Members' Allowances Scheme.

We are satisfied that the Council has taken appropriate steps to fully address this matter. Further, we endorse the proposed change in procedures. As a result, we do not believe that any further action is necessary. Our work is therefore concluded.

Please do not hesitate to contact me or Donald if you have any queries.

Yours sincerely

Mike McDonagh
Partner
KPMG LLP