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[REDACTED]

Contact

Mr Andrew Cardoza

0121 232 3000

28 January 2011

Our ref

[REDACTED]

Dear [REDACTED]

#### **Telford and Wrekin Council – Dawley Town Hall**

I refer to the previous correspondence, in particular the concerns you submitted dated 11 August 2010, 31 August 2010 and subsequent e-mails between yourself and Mr Cardoza, on this matter.

I should like to draw your attention to the booklet "*Councils Accounts: Your rights*" issued by the Audit Commission and sent to you by Mr Cardoza. You will note from the booklet that my role is limited to determining whether Telford and Wrekin Council ("the Council") has included an item of account in its annual accounts that is contrary to law (Section 17 Audit Commission Act 1998 - "the Act") and considering whether I should issue a report in the Public Interest (Section 8 of the Act).

Dawley Town Hall was originally leased to the tenants for a period of 3 years, 2002 – 2005, and under that lease no rent was payable to the Council. The provisions of the second lease, running from 2005 until its surrender in March 2010 provided for rent in the sum of £6,000 per annum (£29,500 in total to date of surrender).

The second lease did include provisions that required the tenant to make the property available for public use at a rate recommended by the Council. On the basis of evidence of community use submitted to the Council, the Council would then calculate an abatement of rent.

The Council's Internal Audit team has looked into the process of renting these premises, and they have evidence that, after the lease was entered into, the Council's Revenues team were instructed not to collect the rent. This is inserted electronically on the 14/09/05, on what is known as an electronic "sticky note" onto the electronically saved lease document dated the 31/08/05, which notified the Council's Revenues, Accountancy and Land & Property teams of the completion of the lease. The "sticky note" stated: "*spoke to [REDACTED] who confirmed that no rent is to be charged as they let other users use the building & they pay ndr. [REDACTED] 14/9/05*". KPMG reviewed the Council's data management system and verified that the "sticky note" could not be altered once entered onto the electronic lease document and nor could the electronic date be changed from the exact date it was entered onto the system.

This information is in the public domain by reason of the Internal Audit investigation reported to the Council's Audit Committee on the 21 September 2010. However, when asked directly by KPMG [REDACTED] said that the decision not to charge rent for the property was reached through discussion between himself and the then Revenues Team Manager and the then Community Development Manager, both of whom have since left the Council, and as you know so too has [REDACTED]

The Council's Internal Audit report identified clear flaws in how this lease was managed and these are being addressed separately by the Council. However, it is accepted that no record of the management of the lease provisions were undertaken by the Council exists, nor is there any record that there was any positive/proactive action on the part of either the Council (for example to identify a rental rate for the properties) and the tenant (to report public use of the premises) to ensure full compliance with terms of the lease entered into by both parties. In addition it is accepted that there were lease provisions that required the tenant to report community use and that failure to do this would result in the tenant's liability for the full rent, which as a result and at the time of signing the lease agreement the rent was due and collectable.

Notwithstanding this no rent was ever sought because before any demand had been submitted to the tenant the Council's internal processes, via the insertion of the "sticky note" onto the lease agreement, meant that the Council's Revenues Team were notified that no rent was chargeable.

*It is the view of the Council's Monitoring Officer (MO) that "... Taking into account all the circumstances, principally the terms of the second lease, the fact that this leasehold relationship has been in existence since 2005 (and has since terminated) and most importantly the recorded note replicated previously in this note I am of the view that this rent is not due and owing: This is notwithstanding the fact that it is highly unlikely that whoever took the decision not to charge rent had the requisite actual authority to make the decision not to charge rent. In my view it would be sufficient, for the tenant to rely on the officer's "ostensible" authority and therefore argue that the Council had waived its right to claim that the rent was due and owing." In addition the MO has also stated that "...It is also material to this to note that neither the authority nor the tenant have complied with lease requirements regarding the payment of rent, further evidence that this provision had effectively been waived and both parties have acted in accordance with this de facto position."*

It is also the Council's MO view that the decision to lease the property in the first place was as a result of reduced/no use being made of the building and as a result of increasing maintenance costs. The Council has estimated that it would have faced costs in the region of £17,300 for the five years from 2001 (and more if you include extrapolated expenditure for the final 3 years of the lease as well – perhaps in the region of £22,500) which would have been a direct cost to the Council to maintain the unoccupied building. The Council informs us that it has evidence that the tenant has carried out improvements/repairs to the property that has resulted in recent Council undertaken condition surveys indicating that the overall condition of the property is better than it was when originally leased to the tenants.

In addition, the Council informed us that if the building had been left empty it would have faced additional NNDR (national non domestic rates) of some £1,900 per annum for the financial

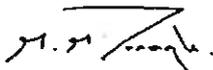
years 2008 and 2009 (i.e. approximately £3,800 for the two years), when “empty rates” would otherwise have been payable by the Council on the property.

Given the above factors, namely:

- 1) the doubt that exists, and as articulated by the Council’s MO, as to actual recoverability of the debt, due to the existence of the electronic “sticky note” clearly stating that no rent was to be collected on the second lease;
- 2) the benefits of this lease that the Council has secured through the occupation of this premises, principally the reduced costs to the public purse and protection of a potentially vulnerable asset were it to have been left unoccupied; and
- 3) the cost of undertaking further work in order to issue a public interest report (PIR) by ourselves would outweigh the uncollected rent in this circumstance, nor would a PIR add any more information into the public domain that is not already publicly available by virtue of this letter, the Council’s Internal Audit report and Audit Committee discussions on this matter.

I have therefore concluded that I do not consider that it is in the public interest to take any action to seek to recover or collect the rental payments under the second lease.

Yours sincerely



Michael McDonagh  
**Partner, KPMG LLP**

**cc: Victor Brownlees, Chief Executive, Telford & Wrekin Council**



*cutting through complexity™*

# Financial Statements Audit Plan 2010/11

**Telford and Wrekin Council**

February 2011

AUDIT



**The contacts at KPMG  
in connection with this  
report are:**

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	<b>Page</b>
<b>Summary</b>	3
<b>Our audit approach</b>	5
<b>Key financial statement audit risks</b>	10
<b>Audit team</b>	14
<b>Independence confirmation</b>	15
<b>Audit fees</b>	16
<b>Audit timeline and deliverables</b>	18
<b>Appendices</b>	20

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.

**This document describes how we will deliver our financial statements audit work for Telford and Wrekin Council.**

**We have identified a number of key risks that we will focus on during the audit of the 2010/11 financial statements.**

Our statutory responsibilities and powers are set out in the Audit Commission Act 1998, the Local Government Act 1999 and the Audit Commission's Code of Audit Practice.

The Code of Audit Practice summarises our responsibilities into two objectives, requiring us to review and report on your:

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

The Audit Commission's Statement of Responsibilities of Auditors and Audited Bodies sets out the respective responsibilities of the auditor and the Authority.

This document describes how we will deliver our financial statements audit work for Telford and Wrekin Council (the Authority). It supplements our Audit Fee Letter presented to you in April 2010.

We will issue a separate report setting out the new approach to local value for money (VFM) work, following the decision to abolish the use of resources assessment. This will also provide an updated VFM risk assessment.

We are required to satisfy ourselves that your accounts comply with statutory requirements and that proper practices have been observed in compiling them. We use a risk based audit approach. The audit planning process and risk assessment is an on-going process and the assessment and fees in this plan will be kept under review and updated if necessary.

The table below summarises the key risks identified this year for the financial statements audit. The remainder of this document provides further details on these risks as well as information on our approach, our audit team, our proposed work, timescales and fees for our work on the financial statements audit.

Area	Risk
Financial standing	There will be significant pressures on all Local Authorities due to funding cuts from Central Government and other sources such as Regional Development Agencies as a result of the Comprehensive Spending Review. Telford and Wrekin faces cuts of £13.6m in grant funding in 2011/12. It has filled the resulting funding gap through a combination of restructuring and other operational savings and one-off measures for 2011/12.
IFRS conversion	All local authorities are required to implement IFRS in 2010/11, including restating prior period figures. This will result in some fundamental differences in accounting and will require significant planning to ensure your financial statements reflect the new standards (see page 6 for more details).

## Summary (cont.)

We have identified a number of key risks that we will focus on during the audit of the 2010/11 financial statements.

Area	Risk
Single Status	The Authority has yet to implement Single Status. Implementation is likely to result in increased recurring pay costs for the Authority. The Authority will also need to make a provision in its 2010/11 accounts for the potential impact of Single Status.
Component accounting	In order to comply with the Code the Authority will need to introduce a component based approach to the recognition of assets. Where an overall asset is to be componentised, the Authority will need to ensure it is in line with component requirements (see page 10 for more details).
Contracts and leases	As part of the conversion process to IFRS the Authority will need to review all its significant contracts to identify potential aspects that may require specific accounting treatments under the new IFRS based Code. The Authority will need to ensure that there is a complete record of all contracts and leases in place. These will then require review under the requirements of IFRS (see page 11 for more details).

Our work will encompass:

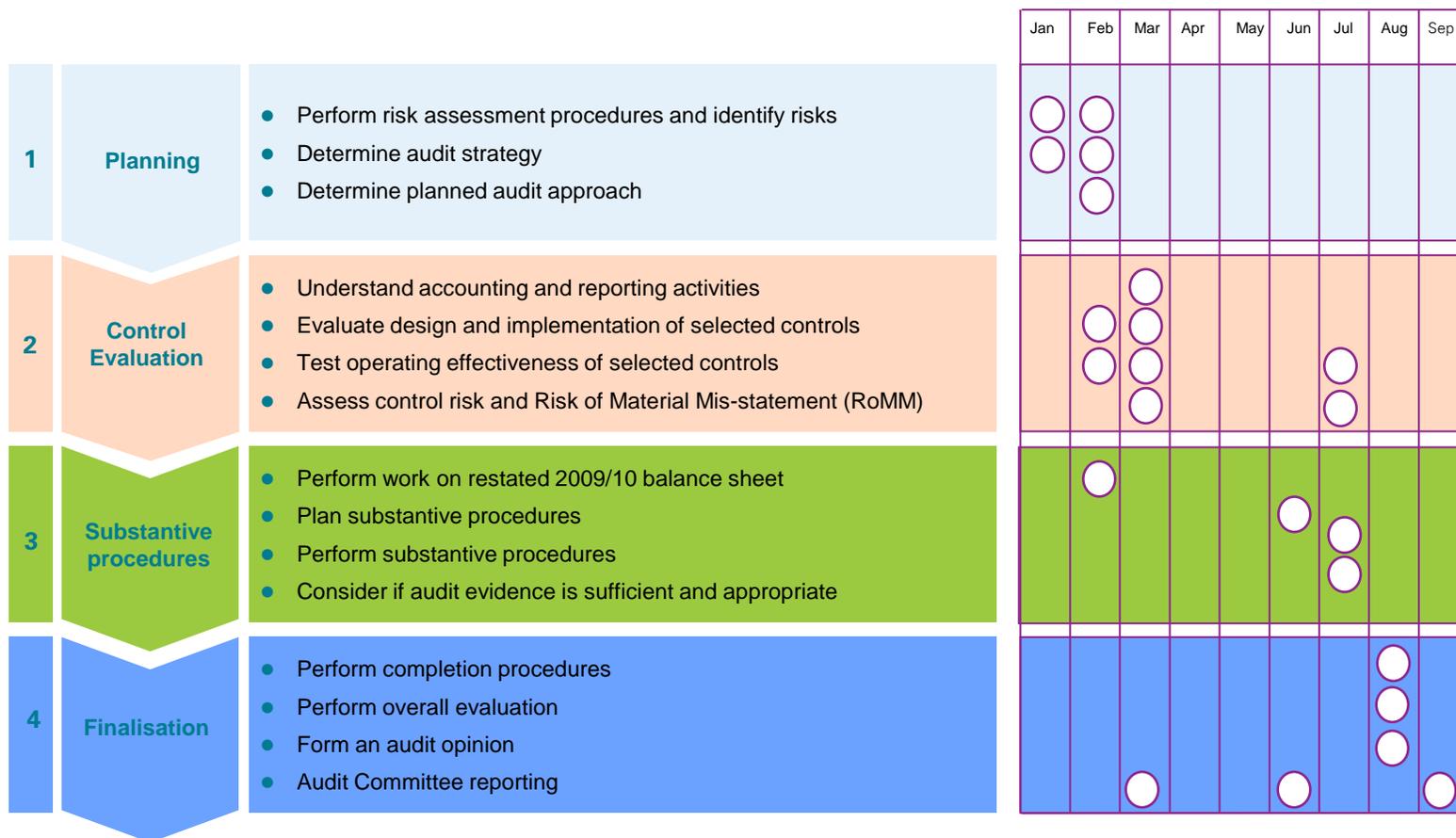
- Review of the controls over the completion of the accounts, relying on internal audit wherever possible to avoid duplication.
- A detailed audit of the financial statements, associated disclosure notes and the Annual Governance Statement.
- Review of the key risks identified, addressed through our detailed audit work and discussions with senior finance officers.

# Our audit approach

We undertake our work on your financial statements in four key stages during 2011:

- **Planning** (January/February);
- **Control Evaluation** (February/March);
- **Substantive Procedures** (July);
- **Completion** (September).

We have summarised the four key stages of our financial statements audit process for you below:



**We work with your finance team and internal audit team to enhance the efficiency of the accounts audit.**

We are required to satisfy ourselves that your accounts comply with statutory requirements and that proper practices have been observed in compiling them. We are required to provide an audit opinion on the accounts.

We are also required to satisfy ourselves that your AGS is consistent with our understanding of your operations. Our review of the work of internal audit and consideration of your risk management and governance arrangements are key to this opinion.

In addition to the Authority's financial statements, we are also required to audit and provide an opinion on the Whole of Government Accounts ('WGA') return submitted to central government.

As part of our audit process, we will work closely with the finance team to understand and continually improve the accounts production process. At the planning stage of our audit we will issue the Authority with a 'prepared by client' list which will include a detailed schedule of information requests to support the financial statements.

Our audit procedures also include an assessment of your arrangements to deliver your responsibilities to prevent and detect fraud. The auditing standard for fraud, ISA240 (revised), responds to the increased sensitivity to fraud and the importance given to auditors' work on fraud. Additionally, the Fraud Act 2006 and the Government Review of Fraud 2006 may impact on your responsibilities to manage fraud.

### **Liaising with Internal Audit**

We have a strong working relationship with Internal Audit and we will continue to work closely with them to maximise the effectiveness of their work on core financial systems and governance at the Authority. This is in accordance with our joint working protocols.

### **International Financial Reporting Standards (IFRS)**

All Local Authorities are required to implement IFRS, moving away from UK GAAP for 2010/11 financial statements. We will continue to work closely with the finance team to ensure the smooth transition to IFRS. We have provided advice on support on key areas in relation to IFRS implementation already, for example on accounting for PFI schemes and delivered a training session for members. We will audit the restated 2009/10 balances prior to the final visit in order to provide early assurance on key aspects of your IFRS migration work, identify any issues on a timely basis and also ensure some accounting and audit effort is brought forward to alleviate the busy closedown and final accounts audit season over the summer. We will report on the outcomes of this work as part of our Interim Report.

### **Whole of government accounts (WGA)**

KPMG are required to review and report on your WGA consolidation pack in accordance with the approach agreed with HM Treasury and the National Audit Office. The 2010/11 WGA consolidated pack will need to be produced in accordance with the International Financial Reporting Standards (IFRS).

### **National Fraud Initiative**

The Authority participates in the National Fraud Initiative, which is the Audit Commission's computerised data matching exercise designed to detect fraud perpetrated against public bodies. During our audit we will review the Authority's progress and actions in following up the matches identified.

**We may need to undertake additional work if we receive objections to the accounts from local electors.**

### **Elector Challenge**

The Audit Commission Act 1998 gives electors certain rights. These are:

- the right to inspect the accounts;
- the right to ask the auditor questions about the accounts; and
- the right to object to the accounts.

As a result of these rights, in particular the right to object to the accounts, we may need to undertake additional work to form our decision on any elector's objection. The additional work could range from a small piece of work where we interview an officer and review evidence to form our decision, to a more detailed piece of work, where we have to interview a range of officers, review significant amounts of evidence and seek legal representations on the issues raised. The costs incurred in responding to questions or objections raised by electors is not part of the fee. This work will be charged in accordance with the Audit Commission's fee scales.

## Our audit approach – substantive procedures

**During July and August we will be on site for our substantive work.**

**We complete detailed testing of accounts and disclosures and conclude on critical accounting matters, such as specific risk areas.**

**We agree any audit adjustments required to the financial statements.**

**We review the Annual Governance Statement for consistency with our understanding.**

**We will present our ISA 260 Report to the Audit Committee in September.**

Our final accounts visit on site is currently scheduled for the period 18 July to 12 August 2011. During these four weeks, we will complete the following work:

### **Substantive audit procedures**

We complete detailed testing on significant balances and disclosures. The extent of our work is determined by the Engagement Partner based on various factors such as our overall assessment of the Authority's control environment, the effectiveness of controls over individual systems and the management of specific risk factors.

### **Critical accounting matters**

We conclude our testing of the key risk areas as identified at the planning stage and any additional issues that may have emerged since.

### **Audit adjustments**

During our on-site work we will meet with the Corporate Accounting Team on a weekly basis to discuss the progress of the audit, any differences found and any other issues emerging.

At the end of our on-site work we will hold a closure meeting, where we will provide a schedule of audit differences and agree a timetable for the completion stage and the accounts sign off.

To comply with auditing standards we are required to report uncorrected audit differences to the Audit Committee. 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.

### **Annual Governance Statement**

We are also required to satisfy ourselves that your Annual Governance Statement complies with the applicable framework and is consistent with our understanding of your operations. Our review of the work of internal audit and consideration of your risk management and governance arrangements are key to this.

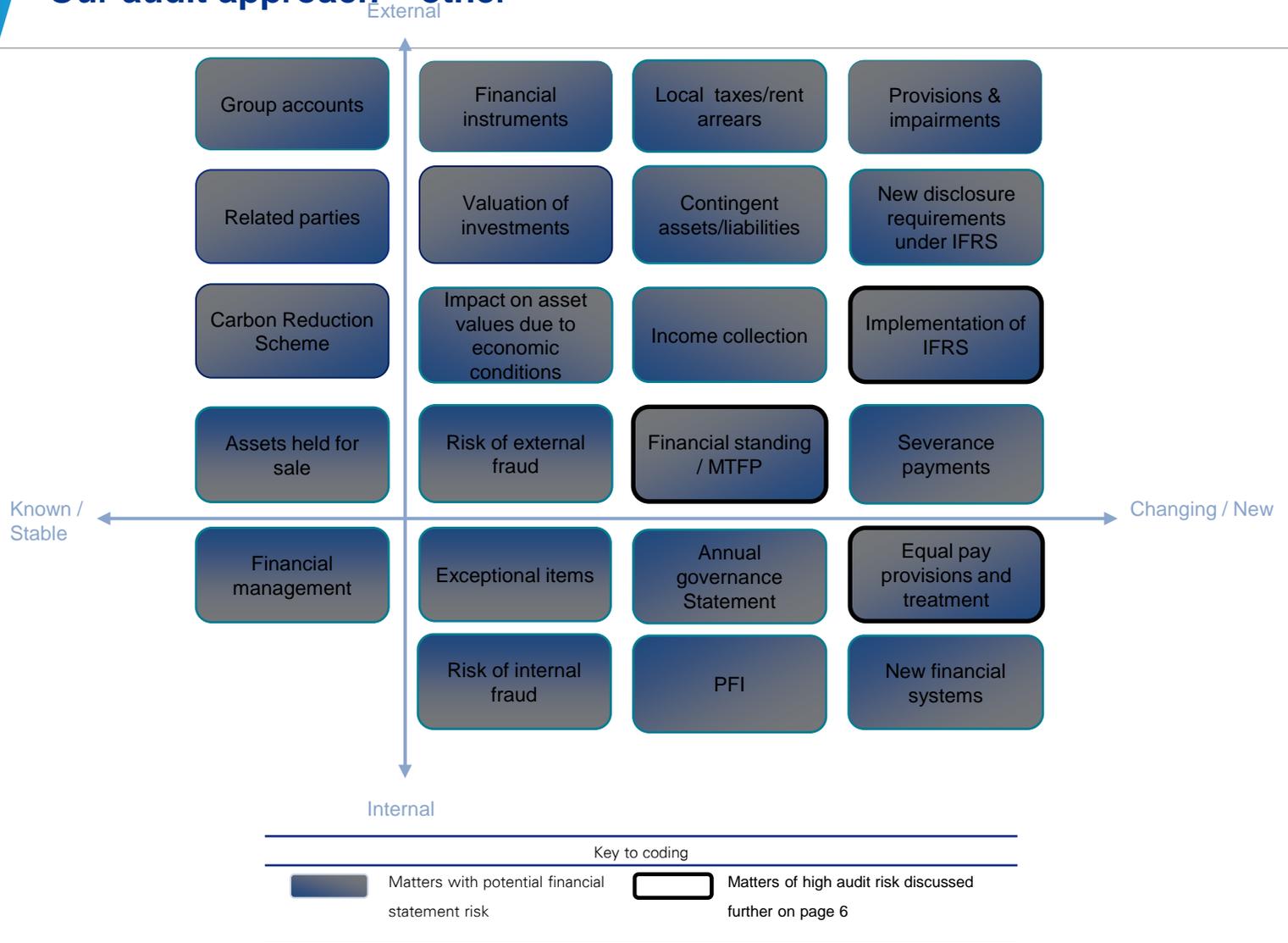
We report the findings of our final accounts work in our annual Report to those Charged with Governance (ISA 260 Report).

## Our audit approach – other

These are the key financial statement risks identified for 2010/11 and some examples of other risks that we will consider during the audit. We seek to tailor our audit approach to reflect this risk assessment.

We have increased our risk assessment in the following area:

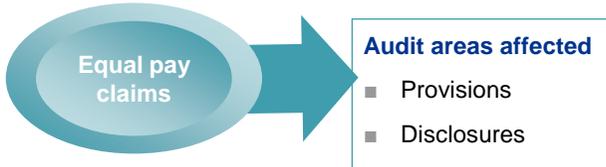
- Implementation of IFRS
- Financial Standing
- Single Status



## Key financial statement audit risks

For each key audit risk area we have outlined the impact on our audit plan.

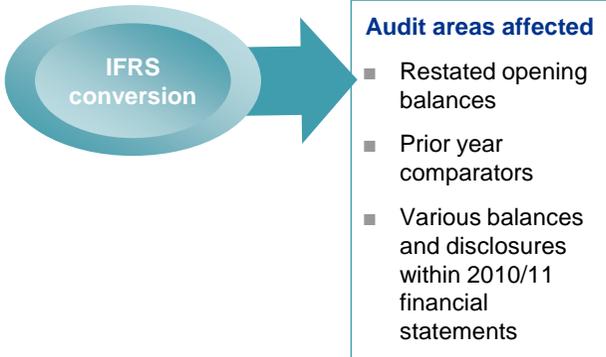
We will provide an update on how the Authority is managing these risks in our Interim Audit Report.

Key audit risks	Impact on audit plan
 <p><b>Financial standing</b></p> <p><b>Audit areas affected</b></p> <ul style="list-style-type: none"> <li>Reserves and balances</li> </ul>	<p><b>Financial standing / medium term financial planning</b></p> <ul style="list-style-type: none"> <li>Linking with our use of resources audit work, we will consider the Authority's general financial standing and in particular its approach to medium term financial planning. The Authority faces a cut in grant funding of £13.6m in 2011/12 as central government's cuts to local authority funding are 'front-loaded'. Telford and Wrekin have responded to the challenge with a comprehensive review and restructure of its corporate management team and is in the process of a systematic review and restructure of its services.</li> <li>This, along with one-off savings and a £1.4m use of balances, has plugged the gap for the 2011/12 budget. However, we will review in detail the robustness of its savings plans, service reviews and use of balances to assess the long term financial resilience of the Authority.</li> <li>We will consider the potential impact of the outcome from this work on our financial statements audit.</li> </ul>
 <p><b>Equal pay claims</b></p> <p><b>Audit areas affected</b></p> <ul style="list-style-type: none"> <li>Provisions</li> <li>Disclosures</li> </ul>	<p><b>Equal Pay Provisions &amp; Treatment</b></p> <ul style="list-style-type: none"> <li>We will monitor the progress the Authority is making in respect of the implementation of Single Status.</li> <li>As part of our final accounts work we will review the Authority's provision, including the methodology, assumptions and calculations supporting the provision.</li> </ul>

## Key financial statement audit risks (cont.)

For each key audit risk area we have outlined the impact on our audit plan.

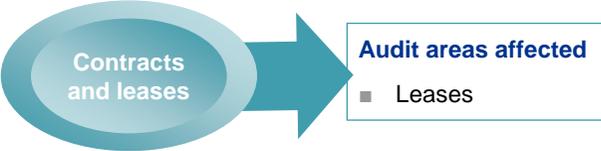
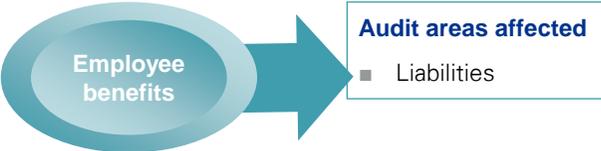
We will provide an update on how the Authority is managing these risks in our Interim Audit Report.

Key audit risks	Impact on audit plan
 <p><b>Audit areas affected</b></p> <ul style="list-style-type: none"> <li>Restated opening balances</li> <li>Prior year comparators</li> <li>Various balances and disclosures within 2010/11 financial statements</li> </ul>	<p><b>Impact of conversion process</b></p> <ul style="list-style-type: none"> <li>Significant planning and resources will be required in order to ensure that the Authority's transition to IFRS is a smooth and successful process.</li> </ul> <p><b>Our audit work</b></p> <ul style="list-style-type: none"> <li>We will audit the re-stated 2009/10 financial statement figures in February. During this time we will assess the processes being undertaken by the Authority and provide advice on how this can be improved to ensure the final years figures are compliant with the standards. We will report on the outcomes of this work as part of our Interim Report.</li> <li>We will keep in regular contact with the finance team during this period, discussing emerging issues and current guidelines.</li> <li>During the final accounts audit we will audit all figures in line with IFRS.</li> </ul>
 <p><b>Audit areas affected</b></p> <ul style="list-style-type: none"> <li>Tangible fixed assets</li> </ul>	<p><b>Expected impact of IAS 16</b></p> <ul style="list-style-type: none"> <li>Local authorities are to component account for any additions or valuations on or after 1 April 2010. This means when an item of property, plant and equipment comprises individual components for which different depreciation methods or rates are appropriate each component is accounted for separately.</li> </ul> <p><b>Our audit work</b></p> <ul style="list-style-type: none"> <li>During the interim visit we will assess the controls in place to ensure that additions/valuations are being addressed as components and appropriately recorded in the fixed asset register.</li> <li>During the final phase of our audit we will substantively test additions and valuations to ensure that these are correctly accounted for in line with the component requirements of IAS 16.</li> </ul>

## Key financial statement audit risks (cont.)

For each key audit risk area we have outlined the impact on our audit plan.

We will provide an update on how the Authority is managing these risks in our Interim Audit Report.

Key audit risks	Impact on audit plan
	<p><b>Impact of IAS 17</b></p> <ul style="list-style-type: none"> <li>Likelihood of an increased number of finance leases as IAS 17 gives a broader definition of finance leases than SSAP 21 resulting in more assets coming on to balance sheet.</li> </ul> <p><b>Our audit work</b></p> <ul style="list-style-type: none"> <li>During the interim review we will assess the Authority's process for ensuring that there is a complete record of all leases and these are reviewed under the requirements of IAS 17.</li> <li>During the final phase we will review all material leases and contracts to determine whether they been correctly treated as an operating lease or finance lease under IAS 17.</li> </ul>
	<p><b>Impact of IAS 19</b></p> <ul style="list-style-type: none"> <li>New liability to be recognised on the balance sheet where there is a requirement to pay wages and salaries, bonuses and holiday pay.</li> </ul> <p><b>Our audit work</b></p> <ul style="list-style-type: none"> <li>During the audit of the re-stated 2009/10 balances we will assess whether the Authority with the current payroll system can provide the information needed to calculate the obligation.</li> <li>During the final process we will audit the balance using the data collated by the Authority to ensure it is line with the requirements of the standard.</li> </ul>

## Key financial statement audit risks (cont.)

For each key audit risk area we have outlined the impact on our audit plan.

We will provide an update on how the Authority is managing these risks in our Interim Audit Report.

Key audit risks	Impact on audit plan
 <p><b>Consolidations &amp; Associates</b></p> <p><b>Audit areas affected</b></p> <ul style="list-style-type: none"> <li>■ Group accounts</li> </ul>	<p><b>Expected impact of IAS 27 &amp; 28</b></p> <ul style="list-style-type: none"> <li>■ UK GAAP emphasises the substance of control whereas IFRS considers the power to control. As a result there may be a different interpretation of those entities consolidated into group.</li> </ul> <p><b>Our audit work</b></p> <ul style="list-style-type: none"> <li>■ During the interim audit we will consider the Authority's evaluation of its relationships with external partners to assess whether they should now be consolidated under the new standards.</li> <li>■ We will audit the consolidated statements during the final phase in line with IAS 27 &amp; 28.</li> </ul>

Our audit team were all part of the Telford and Wrekin Council audit last year. Contact details are shown on page 1.

The audit team will be assisted by other specialist KPMG staff as necessary.



### Mike McDonagh

Engagement Lead

My role is to lead our team and ensure that we deliver a high quality external audit opinion and add value. I will be the main point of contact for the Audit Committee and the Chief Executive.



### Andy Cardoza

Senior Manager

I will ensure that the team adds value during the audit process. I will work closely with Mike to ensure a high quality audit is delivered and will liaise with the Audit Committee, Section 151 officer and Head of Finance.



### Peter Evans

Audit Manager

I will direct and help coordinate the audit and will work closely with Mike and Andy to ensure we add value. I will be the main contact for the Head of Finance, Head of Internal Audit and executive directors.



### Adam Bunting

Assistant Manager

I will be your day to day contact and will work closely with Peter to deliver a coordinated and efficient audit.

**Our independence and objectivity responsibilities under the Code are summarised in Appendix 3.**

**We confirm our audit team's independence and objectivity is not impaired.**

### **Independence and objectivity confirmation**

Professional standards require auditors to communicate to those charged with governance, at least annually, all relationships that may bear on the firm's independence and the objectivity of the audit engagement partner and audit staff. The standards also place requirements on auditors in relation to integrity, objectivity and independence.

The ISA defines 'those charged with governance' as 'those persons entrusted with the supervision, control and direction of an entity'. In your case this is the Audit Committee.

KPMG LLP is committed to being and being seen to be independent. APB Ethical Standard 1 Integrity, Objectivity and Independence requires us to communicate to you in writing all significant facts and matters, including those related to the provision of non-audit services and the safeguards put in place, in our professional judgement, may reasonably be thought to bear on KPMG LLP's independence and the objectivity of the Engagement Lead and the audit team.

### **Confirmation statement**

We confirm that as of February 2011, in our professional judgement, KPMG LLP is independent within the meaning of regulatory and professional requirements and the objectivity of the Appointed Auditor and audit team is not impaired.

The audit fee has not changed from that agreed in the fee letter issued in April 2010.

We agreed our fee for the audit with the Authority earlier this year. The fee is calculated with reference to a number of factors including your turnover and our assessment of audit risk and control environment. This year's fee represents a 6% increase (after allowing for the reimbursement by the Audit Commission for the 'one-off' cost of transition to International Financial Reporting Standards (IFRS)) over last year (2009/10 = £255,000).

Element of the audit	Fee 2010/11	Fee 2009/10
Audit of Financial Statements	£174,500	£161,300
Value for money conclusion (including 2010 use of resources)	£88,500	£86,800
Whole of Government Accounts	£4,300	£4,200
National Fraud Initiative	£2,700	£2,700
IFRS Implementation	£17,200	-
<b>Subtotal</b>	<b>£287,200</b>	<b>£255,000</b>
Less: IFRS implementation Audit Commission reimbursement	-£17,200	-
<b>Total</b>	<b>£270,000</b>	<b>£255,000</b>

Compared to the prior year fee, we recognise that this is a significant fee increase, however the previous years fee level of £255,000 was 6% below the "mid point scale fee". The increase in fee is in line with the two-staged increase agreed with Audit Committee in 2009 necessary to bring the Authority's fee to the Audit Commission's scale of fees. This approach is consistent with the Audit Commission's guidance with regards to setting fees as per its publication: "Work programme and scales of fees 2009/10 indicative fee proposals for 2010/11 and 2011/12 (Local government, housing and community safety)".

We have increased our fee to that in line with the Audit Commission's published scale of fees for 2010/11 as we do not consider that the general level of risk in relation to the audit of the financial statements and the use of resources assessment to be materially different from that at an authority of similar size and complexity.

**Our audit fee is indicative and based on you meeting our expectations of your support.**

**Meeting these expectations will help to the delivery of our audit within the proposed audit fee.**

### **Audit fee assumptions**

The audit fee is indicative and is based on you meeting our agreed expectations as outlined in Appendix 2. In setting the fee, we have assumed:

- the level of risk in relation to the audit of the financial statements is not significantly different from that identified for 2009/10;
- you will inform us of any significant developments impacting on our audit;
- you will identify and implement any changes required under the CIPFA Code of Practice on Local Authority Accounting within your 2010/11 financial statements (note 2010/11 is the first year based on IFRS);
- your financial statements are made available for audit in line with the agreed timescales;
- you will make available the re-stated 2009/10 figures in line with the agreed timescales and ensure they are in line with IFRS requirements;
- good quality working papers and records will be provided at the start of the final accounts audit;
- requested information will be provided within the agreed timescales;
- prompt responses will be provided to queries and draft reports;
- internal audit meets appropriate professional standards;
- internal audit completes appropriate work on all systems that provide material figures for the financial statements and we can place reliance on them for our audit; and
- additional work will not be required to address questions or objections raised by local government electors.

Meeting these expectations will help ensure the delivery of our audit within the agreed audit fee.

### **Changes to the audit plan**

Changes to this plan and the audit fee may be necessary if:

- new significant audit risks emerge;
- additional work is required of us by the Audit Commission or other regulators; and
- additional work is required as a result of changes in legislation, professional standards or financial reporting requirements.

If changes to this plan and the audit fee are required, we will discuss and agree these initially with the Head of Finance.

## Audit timeline and deliverables

Our key deliverables will be delivered to a high standard and on time.

We will discuss and agree each report with the Authority's officers prior to publication.

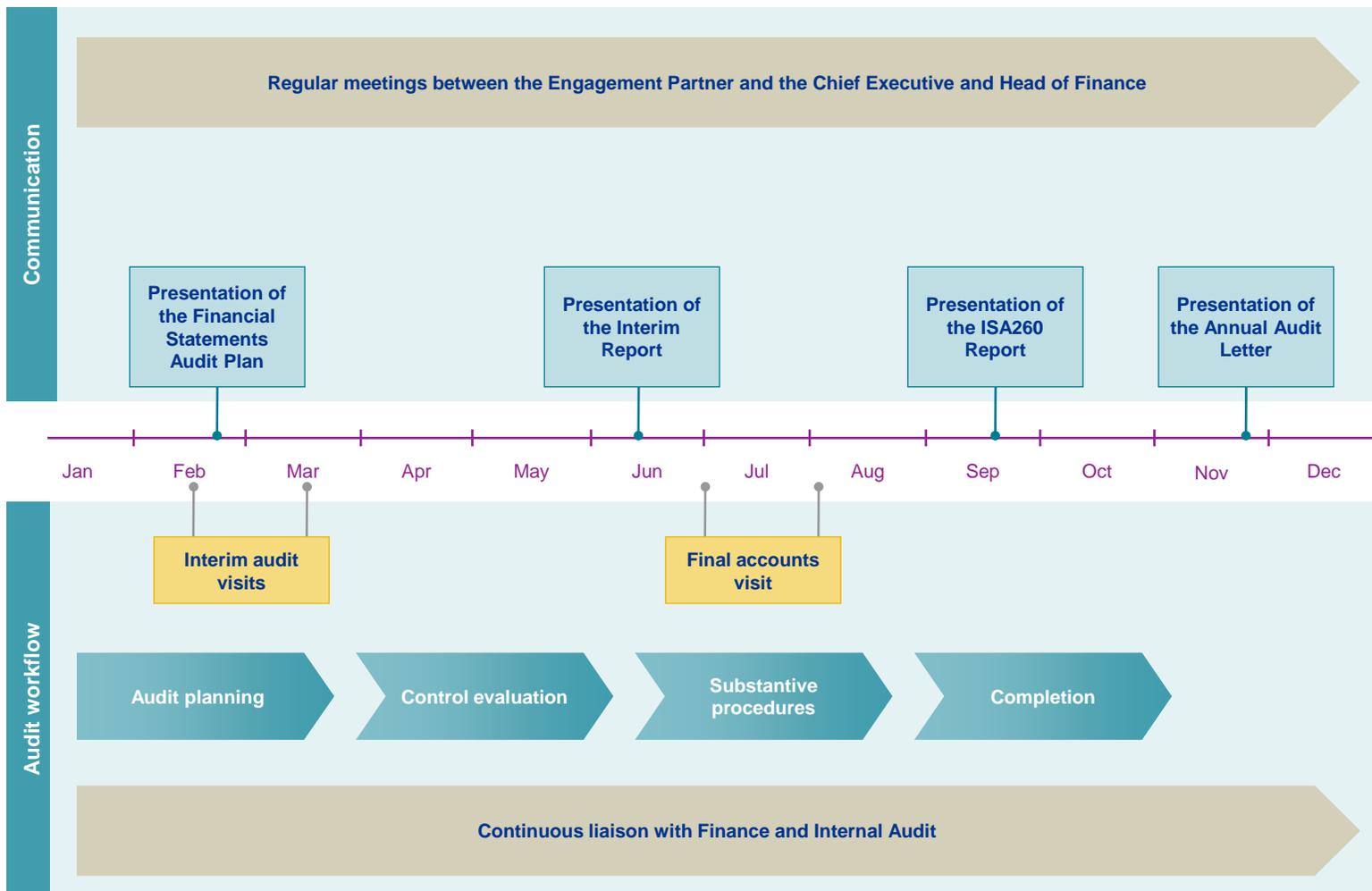
Deliverable	Purpose	Timing
<b>Planning</b>		
<b>Financial Statement Audit Plan</b>	<ul style="list-style-type: none"> <li>Outline audit approach</li> <li>Identify areas of audit focus and planned procedures</li> <li>Confirm plan with Audit Committee</li> </ul>	February 2011
<b>Control evaluation</b>		
<b>Interim report</b>	<ul style="list-style-type: none"> <li>Details and resolution of control and process issues</li> <li>Feedback on audit work undertaken on 2009/10 restated balances in line with IFRS</li> <li>Identify areas of improvement to ensure 2010/11 financial statements are fully compliant with IFRS</li> </ul>	June 2011
<b>Substantive procedures</b>		
<b>Report to those charged with governance (ISA 260)</b>	<ul style="list-style-type: none"> <li>Commentary on Telford &amp; Wrekin Council's financial statements</li> <li>Commentary on Telford &amp; Wrekin Council's value for money arrangements</li> <li>Details the resolution of key audit issues</li> <li>Communication of adjusted and unadjusted audit differences</li> <li>Performance improvement recommendations identified during our audit</li> </ul>	September 2011
<b>Completion</b>		
<b>Opinion on financial statements and VFM conclusion</b>	<ul style="list-style-type: none"> <li>Independent auditors' report to the Members of Telford &amp; Wrekin Council.</li> </ul>	September 2011
<b>Annual audit letter</b>	<ul style="list-style-type: none"> <li>Summarises the audit we have performed with key audit issues and outputs</li> </ul>	November 2011

# Audit timeline

Key formal interactions with the Audit Committee are:

- June: Interim issues
- September: Year end conclusions.

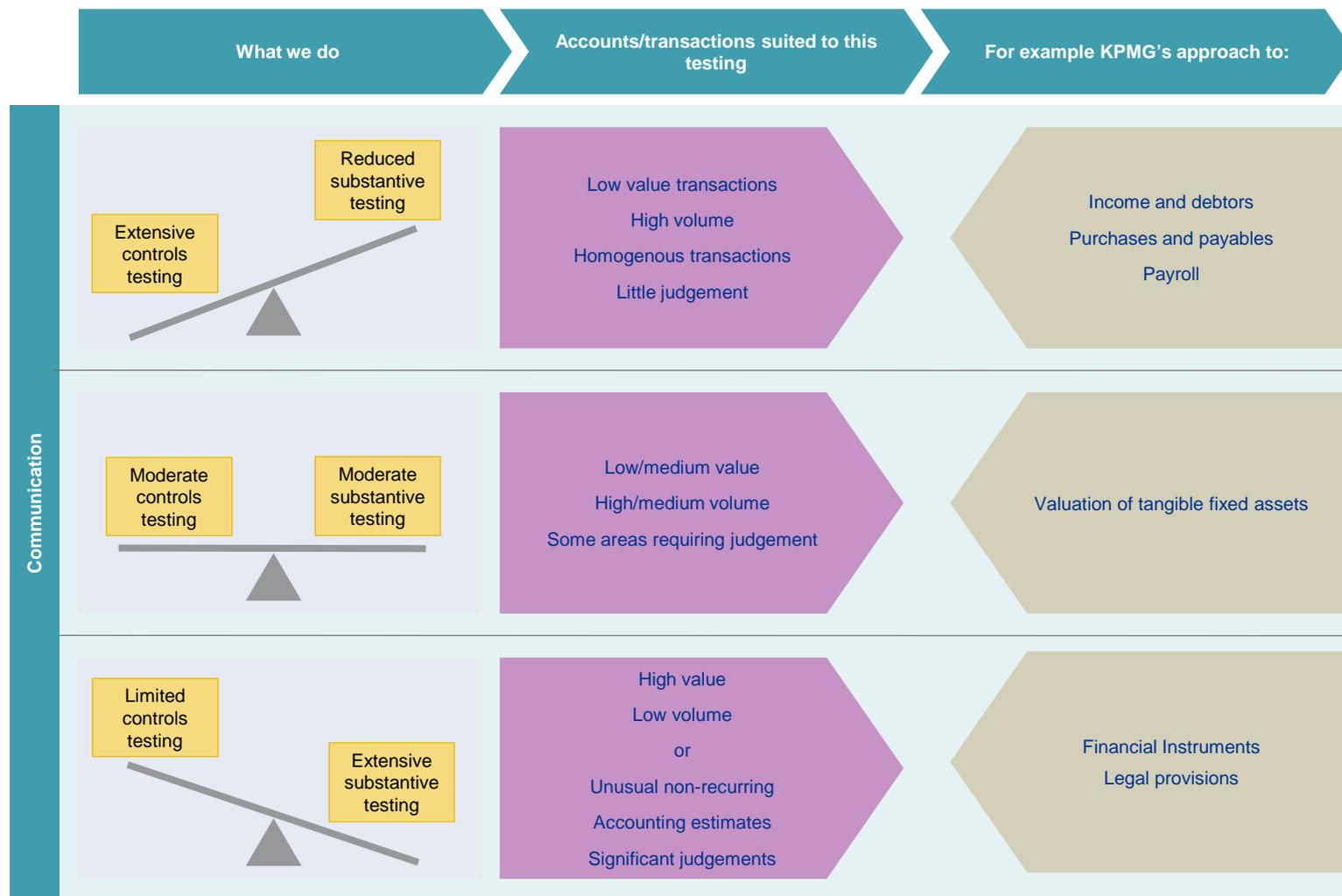
We will be in continuous dialogue with you throughout the audit.



Key: • Audit Committee meetings.

## Appendix 1: Balance of internal controls and substantive testing

This appendix illustrates how we determine the most effective balance of internal controls and substantive audit testing.



This appendix summarises auditors' responsibilities regarding independence and objectivity.

### Independence and objectivity

Auditors are required by the Code to:

- carry out their work with independence and objectivity;
- exercise their professional judgement and act independently of both the Commission and the audited body;
- maintain an objective attitude at all times and not act in any way that might give rise to, or be perceived to give rise to, a conflict of interest; and
- resist any improper attempt to influence their judgement in the conduct of the audit.

In addition, the Code specifies that auditors should not carry out work for an audited body that does not relate directly to the discharge of the auditors' functions under the Code. If the Authority invites us to carry out risk-based work in a particular area, which cannot otherwise be justified to support our audit conclusions, it will be clearly differentiated as work carried out under section 35 of the Audit Commission Act 1998.

The Code also states that the Commission issues guidance under its powers to appoint auditors and to determine their terms of appointment. The Standing Guidance for Auditors includes several references to arrangements designed to support and reinforce the requirements relating to independence, which auditors must comply with. These are as follows:

- Any staff involved on Commission work who wish to engage in political activity should obtain prior approval from the Partner.
- Audit staff are expected not to accept appointments as lay school inspectors.
- Firms are expected not to risk damaging working relationships by bidding for work within an audited body's area in direct competition with the body's own staff without having discussed and agreed a local protocol with the body concerned.
- Auditors are expected to comply with the Commission's statements on firms not providing personal financial or tax advice to certain senior individuals at their audited bodies, auditors' conflicts of interest in relation to PFI procurement at audited bodies, and disposal of consultancy practices and auditors' independence.
- Auditors appointed by the Commission should not accept engagements which involve commenting on the performance of other Commission auditors on Commission work without first consulting the Commission.
- Auditors are expected to comply with the Commission's policy for the Engagement Lead to be changed on each audit at least once every five years (subject to agreed transitional arrangements). Audit suppliers are required to obtain the Commission's written approval prior to changing any Engagement Lead in respect of each audited body.
- Audit suppliers are required to obtain the Commission's written approval prior to changing any Engagement Lead in respect of each audited body.
- The Commission must be notified of any change of second in command within one month of making the change. Where a new Engagement Lead or second in command has not previously undertaken audits under the Audit Commission Act 1998 or has not previously worked for the audit supplier, the audit supplier is required to provide brief details of the individual's relevant qualifications, skills and experience.

We continually focus on delivering a high quality audit. This means building robust quality control procedures into the core audit process rather than bolting them on at the end, and embedding the right attitude and approaches into management and staff. Quality must build on the foundations of well trained staff and a robust methodology. The diagram summarises our approach and each level is expanded upon below.

We recruit the best staff through our rigorous selection and assessment criteria. In addition, we expect that future talent to develop with our application of most effective in-house and external training support.

Our audit methodology determines that we use a standardised audit approach and pro forma work papers. We also have standards of audit evidence and working papers including requirements for working paper retention.

At critical periods of the audit we conduct both manager and engagement leader review of the work completed. Upon final completion, managers and directors complete a checklist to indicate the satisfactory conclusion of the audit under the audit methodology.

Partners who meet certain skills and experience criteria, conduct quality control reviews of individual audits depending on the level of audit risk. Their role is to perform an objective evaluation of the significant accounting, auditing and financial reporting matters with a high degree of detachment from the audit team. This provides an objective internal assessment on the quality of our audit. Peer review is undertaken across the firm, with an annual sample of our work being undertaken from a different national office. This encourages a constant focus on quality and ensures there is continuous improvement and that best practice is shared.



### Our quality review results

We are able to evidence the quality of our audits through the results of National Audit Office and Audit Commission reviews. The results of the Audit Commission's annual quality review process is made publicly available each year ([www.audit-commission.gov.uk/reports/](http://www.audit-commission.gov.uk/reports/)). The latest report dated October 2010 showed that we performed highly against all the Commission's criteria.

### Resolving Accounting and Financial Report Issues and Emerging Issues with the Independent Regulator

We have a well developed technical infrastructure across the firm that puts us in a strong position to deal with any emerging issues. This includes:

- A national public sector technical director (based in our London office) who has responsibility for co-ordinating our response to emerging accounting issues, influencing accounting bodies (such as CIPFA and the Audit Commission) as well as acting as a sounding board for our auditors.
- A national technical network of public sector audit professionals (that meets on a quarterly basis) and is chaired by our national technical director.
- All of our staff have a searchable data base, Accounting Research Online, that includes all published accounting standards, the KPMG Audit Manual Guidance as well as other relevant sector specific publications, such as the Audit Commission's Code of Audit Practice.
- A dedicated Department of Professional Practice comprised of over 100 staff that provide support to our audit teams and deliver our web-based bi-monthly technical training.

When dealing with the Audit Commission, as you would expect we both attend and cascade across the firm the papers considered by their various technical groups for auditors. In addition, as the Audit Commission has developed we have established a series of formal and informal relationships. These benefit both the Audit Commission and our Local Authority clients. As a result of all of these factors, and combined with our overall audit approach, we seek to offer early warnings of issues arising with the independent regulator and provide pragmatic solutions.



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PUBLIC SECTOR

# Certification of grants and returns 2009/10

Telford and Wrekin Council

February 2011

AUDIT

## Contents

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	<b>Page</b>
● Headlines	<b>2</b>
● Summary of certification work outcomes	<b>3</b>
● Fees	<b>5</b>

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 leader to the Authority (telephone 0121 335 2440, e-mail [michael.a.mcdonagh@kpmg.co.uk](mailto:michael.a.mcdonagh@kpmg.co.uk)) who will try to resolve your complaint. If you are dissatisfied with your response please contact Trevor Rees (telephone 0161 236 4000, e-mail [trevor.rees@kpmg.co.uk](mailto:trevor.rees@kpmg.co.uk)) who is the national contact partner for all of KPMG's work with the Audit Commission.

After this, if you are still dissatisfied with how your complaint has been handled you can access the Audit Commission's complaints procedure. Put your complaint in writing to the Complaints Unit, Westward House, Lime Kiln Close, Stoke Gifford, Bristol, BS34 8SR or by e mail to: [complaints@audit-commission.gov.uk](mailto:complaints@audit-commission.gov.uk). Their telephone number is 0844 798 3131, textphone (minicom) 020 7630 0421

## Headlines

<p><b>Introduction &amp; background</b></p>	<ul style="list-style-type: none"> <li>• This report summarises the results of work on the certification of Telford and Wrekin Council's ('the Authority's') 2009/10 grant claims and returns, and also seven claims for 2007/08 and 2008/09 which were submitted to us since our previous report dated February 2010.</li> <li>• For 2009/10 we certified 13 claims and returns with a combined value of £151 million.</li> </ul>	<p>-</p>
<p><b>Certification results</b></p>	<ul style="list-style-type: none"> <li>• We qualified one claim. Our work on the Housing and Council Tax Benefit subsidy claim identified two claims (one Housing Benefit and one Council Tax Benefit) where the Authority had underpaid benefit to the claimants. We were obliged to qualify the claim on this basis since the grant paying body does not allow amendments to the claim for errors such as these. We also identified other errors which the Authority amended the claim for. These resulted in both reductions and increases in subsidy but with a net increase in subsidy receivable of £7.</li> <li>• The Authority submitted seven claims for Single Programme grant from Advantage West Midlands relating to the 2007/08 and 2008/09 years to us in March 2010. Our work on the Authority's Single Programme claim relating to the Land Stabilisation at the Ironbridge World Heritage Site for 2008/09 identified that it had underclaimed by £59,513, as the officer preparing the claim misunderstood instructions from AWM.</li> <li>• Minor amendments were required to four others claims, none of which had an effect on the amount claimed.</li> </ul>	<p><b>Pages 3 – 4</b></p>
<p><b>Fees</b></p>	<ul style="list-style-type: none"> <li>• Our overall fee for the certification of grants and returns is £58,395. This compares with our original estimate of £30,000.</li> <li>• Our fee exceeded our estimate as we were asked to certify an additional eight claims which we were not aware of at the time of making our estimate, and because we undertook additional work for the Housing and Council Tax Benefit subsidy claim as a result of errors we identified in testing.</li> </ul>	<p><b>Page 5</b></p>

# Summary of certification work outcomes

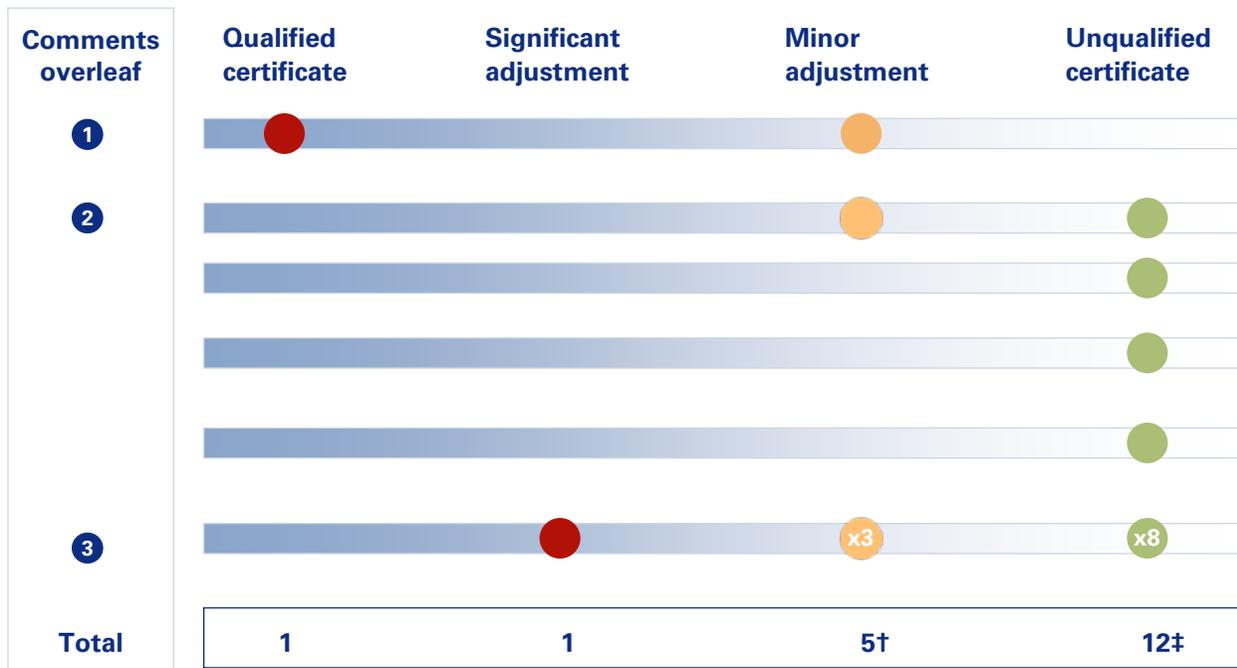
**Overall, we certified 13 grants and returns**

- Seven were unqualified with no amendment
- Five were unqualified but required some amendment to the final figures
- One required a qualification to our audit certificate

**Detailed comments are provided overleaf**

**Detailed below is a summary of the key outcomes from our certification work on the Council’s 2009/10 grants and returns, showing where either audit amendments were made as a result of our work or where we had to qualify our audit certificate.**

A qualification means that issues were identified concerning the Council’s compliance with a scheme’s requirements that could not be resolved through adjustment. In these circumstances, it is likely that the relevant grant paying body will require further information from the Council to satisfy itself that the full amounts of grant claimed are appropriate.



† - Of eight AWM Single Programme Grants certified, three required minor adjustment  
 ‡ - This figure includes eight unqualified AWM Single Programme certificates

## Summary of certification work outcomes

This table summarises the key issues behind each of the adjustments or qualifications that were identified on the previous page

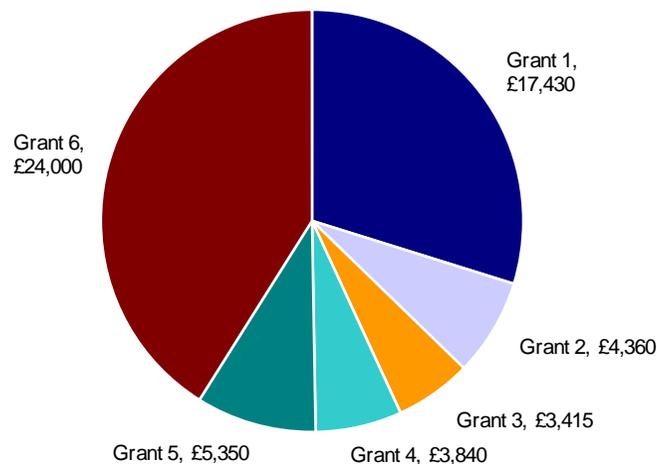
Ref	Summary observations	Amendment
1	<p><b>Housing and Council Tax Benefit subsidy claim</b></p> <ul style="list-style-type: none"> <li>Our initial sample of 60 claims identified several small errors in calculation of benefit entitlement, both underpayments and overpayments. In accordance with the certification guidance, we asked the Authority to undertake further testing of cases, of which we checked a sample to confirm agreement of the Authority's findings. In total 140 cases were tested.</li> <li>Following this additional testing, we were able to agree amendments to cells in respect of errors where the Authority had overpaid benefit. Subsidy is paid at different rates depending on the reason for the overpayment; due to the nature of the errors identified they resulted in both reductions and increases in subsidy but with a net increase in subsidy receivable of £7</li> <li>The certification methodology does not allow amendments for errors resulting in underpayment, since subsidy cannot be claimed for benefit that has not been paid. Therefore, for cases where we identified underpayments, we were obliged to issue a qualification letter.</li> </ul>	+£7
2	<p><b>Teachers' Pensions Contributions</b></p> <ul style="list-style-type: none"> <li>The Authority made minor errors in how contributions deducted and paid were recorded in the return. Adjustment did not result in amendment to the total amount payable.</li> </ul>	-
3	<p><b>Advantage West Midlands – Single Programme grants</b></p> <ul style="list-style-type: none"> <li>The Authority submitted eight claims for Single Programme funding from Advantage West Midlands to us for certification. Three of these related to the financial year 2007/08 and four for the year 2008/09. The Authority submitted these late as it did not realise that the grant paying body required external certification.</li> <li>The claim for the Land Stabilisation in the Ironbridge World Heritage Site for 2008/09 underclaimed by £59,513. The officer preparing the claim had not correctly understood an instruction from AWM which increased the amount of grant they were willing to pay in 2008/09, believing that it meant a claim would be made in 2009/10.</li> <li>Claims for Wellington Market Towns Initiative (2008/09), Rural Access to Services Partnership (2008/09) and Donnington Railfreight (2009/10) required minor amendment which did not result in amendment to amount claimed.</li> </ul>	+£59,513

## Fees

Our overall fee for the certification of grants and returns is greater than our original estimate.

We were required to certify an additional 8 claims which we were unaware of at the time of our estimate.

Breakdown of certification fees 2009/10



Breakdown of fee by grant / return	2009/10 (£)	2008/09 (£)
Housing and Council Tax Benefit system	17,430	13,630
Teachers' Pension Contributions	4,360	3,165
Disabled Facilities Grant	3,415	3,355
Sure Start, Early Years and Childcare Grant	3,840	3,405
National Non-Domestic Rates Return	5,350	4,110
Single Programme – 8 grants	24,000	-
<b>Total fee</b>	<b>58,395</b>	<b>27,665</b>

Our initial estimated fees for certifying 2009/10 grants and returns was £30,000. The actual fee charged was higher than that estimate. The main reasons for the fee exceeding the original estimate were:

- We certified eight Single Programme grants which we were not aware of at the time of our estimate; and
- Additional work was required for the Housing and Council Tax Benefit claim as a result of errors identified in testing.

Our estimate for certification of claims and returns for 2010/11 is £35,000.

## TELFORD & WREKIN COUNCIL

AUDIT COMMITTEE 22nd MARCH 2011

INTERNAL AUDIT PLAN 2011/12 and STRATEGY 2011/12

REPORT OF THE CHIEF FINANCIAL OFFICER

### 1 PURPOSE

- 1.1 To seek the approval of Members of the Audit Committee to the Internal Audit Plan and Strategy for 2011/12.

### 2 RECOMMENDATIONS

- 2.1 That Members of the Audit Committee approve the Internal Audit Plan and Strategy for 2011/12 attached as Appendices A and B to this report.

### 3 SUMMARY

- 3.1 The terms of reference of the Audit Committee include:  
“The approval (but not direction) of and monitoring of progress against, the Internal Audit Strategy and Plan This report presents the Internal Audit Plan and Strategy for 2011/12 for approval.
- 3.2 The Chief Financial Officer (CFO) has responsibilities under s 151 of the Local Government Act 1972 and the Accounts and Audit Regulations 2003 (as amended) as follows:

*Responsibility for financial management*

4. - (1) *The relevant body shall be responsible for ensuring that the financial management of the body is adequate and effective and that the body has a sound system of internal control which facilitates the effective exercise of that body's functions and which includes arrangements for the management of risk.*

*Internal audit*

6. *A relevant body shall maintain an adequate and effective system of internal audit of its accounting records and of its system of internal control in accordance with the proper internal audit practices, ...*

- 3.3 Under the Accounts and Audit Regulations 2003 (as amended) Internal Audit provide part of the assurance on the Council's internal controls reported within the Annual Governance Statement. The CFO is therefore responsible for ensuring that the internal audit plans coverage is appropriate and sufficient to meet all these obligations.
- 3.4 The Internal Audit Strategy informs the Internal Audit Service Plan and outlines how the Internal Audit Service will be provided in order to meet legal requirements and the Council's priorities.

#### **4 PREVIOUS MINUTES**

Audit Committee 31<sup>st</sup> March 2009 (2009/10 plan and Strategy 2009/10 – 2011/12)

Audit Committee 30<sup>th</sup> March 2010 (2010/11 plan and Strategy 2010/11 – 2011/12)

#### **5 INFORMATION**

- 5.1 Internal Audit has a statutory obligation under legislation outlined in paragraph 3.2 above and also strives to provide a quality and up to date service for the Council. To do this it follows the CIPFA<sup>1</sup> Code of Practice on Internal Audit in Local Government (2006).
- 5.2 Internal Audit work, in addition to obtaining assurance on controls for the Council, aims to challenge where controls are not required or make suggestions for adjustments to existing controls to make processes more efficient so that managers and their teams can achieve their objectives and contribute to the achievement of the Council's priorities. This is part of the Council's corporate governance framework and the effective management of risks.
- 5.3 Internal Audit resources are limited. To ensure Internal Audit can provide reasonable assurance<sup>2</sup> to managers, Members and the Council as a whole on the internal control arrangements, an annual programme of work (annual Audit Plan) is developed.
- 5.4 In accordance with good practice, Internal Audit planning should be directly linked to the Council's risk management processes. Internal Audit uses the strategic risk register as the starting point for the audit planning process and to identify the key areas for audit attention. This base is then informed and influenced by previous Internal Audit work, external networking intelligence, discussions with the CFO and consultations the Council's service area management teams (including Heads of Service) and the Senior Management Team (CMT and Heads of Service).
- 5.5 The draft plan attached as Appendix A has been drawn up based on the internal audit resources available for 2011/12, the factors in paragraph 5.4 above and detailed discussions with the CFO (see paragraph 5.7).
- 5.6 The planned resources for 2010/11 were 1379 days plus 70 days external specialist ICT audit work. The restructure of the Internal Audit, Risk and Information Governance parts of Governance to form Audit & Assurance produced a staff saving of 23.3%. This has resulted in planned resources for 2011/12 being 1129 days plus 64 days external specialist ICT audit work. Overall this is just under an 18% reduction in resources from 2010/11 due to some internal resource switching to the Internal Plan.

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<sup>1</sup> Chartered Institute of Public Finance and Accountancy

<sup>2</sup> Internal audit can only provide reasonable and not absolute assurance due to undertaking the work at a moment in time and with limited resources.

- 5.7 A draft plan was developed based on the process set out in paragraph 5.4 and has been subjected to rigorous review of the risks and areas being covered by the CFO. The resultant plan provides reduced but reasonable assurance on the areas outlined. It includes the 1129 days plus the 64 days external ICT audit work (extracted from the 3 year ICT audit plan 2010 – 2013). It also includes all the work identified by the external auditor that can be undertaken by Internal Audit to meet their requirements. If this was not included then the external audit fee would increase significantly (by over £150,000).
- 5.8 Due to the nature of the plan and its link to risks, during delivery there will be regular dialogue with the CFO, SMT and managers to ensure that the appropriate risks and controls are being reviewed, maximising the use of resources.
- 5.9 Based on good practice the plan includes just under a 10% contingency to meet any unexpected work requirements, any changes identified from paragraph 5.8 or changes to resources during the year. Any significant changes will be agreed with the CFO and SMT and reported to this Committee.
- 5.10 The external auditor undertakes their own planning process. Internal Audit and Senior Management liaise with them to ensure that duplication is avoided, that the key risks are reviewed and that the external audit fee is minimised.
- 5.11 Members should note that specialist ICT audit work at the Council is provided by an external contractor. The Council retendered this service in November 2009 and Deloitte & Touche Public Sector Internal Audit Limited commenced work on 1<sup>st</sup> April 2010 for 3 years. Due to the 20% non staff saving requirements the original 70 day contract has been renegotiated to 64 days 2011/12 and 58 days 2012/13.
- 5.12 Previous strategies have been developed for 2-3 year periods and it was the intention to update the current strategy and to look forward to 2013/14. However, due to the current external changes to local government finance, potential changes to the external audit regime and internal reorganisations<sup>3</sup> it has been updated to reflect the current position and outlook for 2011/12 only. The changes are minimal and the updated 2011/12 strategy is attached as Appendix B.

## **6 OTHER CONSIDERATIONS**

<b>AREA</b>	<b>COMMENTS</b>
Equal Opportunities	During audit work any equality issues identified are reported to the appropriate level of management. The strategy recognises the Council's priorities in respect to Equality and Diversity and how Internal Audit will meet them.

<sup>3</sup> Service reviews and service restructures

Environmental or Sustainability Impact	During audit work any environmental or sustainability issues identified are reported to the appropriate level of management.
Legal Implications	The legal implications are contained within the main body of this report. Also included in the main body of the report is reference to the CIPFA Code of Practice for Internal Audit in Local Government which is accepted as “proper practice” and outlines the requirement for the Audit Committee to approve the Internal Audit Plan and Strategy. The Internal Audit service will, where appropriate, review compliance with legislation as part of their work.
Links with Corporate Priorities	Internal Audit work through the plan and strategy supports all services in the delivery of corporate priorities.
Financial Implications	The service strategy and delivery of the plan will be met from within the existing budget.
Opportunities and Risks	The preparation of the strategy and annual audit plan has taken into account the adequacy, outcomes of the Council’s risk management, performance management and other assurances processes. In addition the role of internal audit includes a review of the controls in place to manage the risks within service areas. The reports produced assist the Council in improving systems and controls (reducing risks) and therefore the delivery of services and achievement of objectives. The Audit Plan will be flexible in order to reflect the changing risks and priorities of the Council and will have an ongoing dialogue with stakeholders.
Ward Implications	Internal audit work covers all wards within the Borough.

## **7 BACKGROUND PAPERS**

Internal Audit Plan 2010/11

Strategic Risk Registers - September 2010 and February 2011.

Internal Audit Strategy 2010/11 – 2011/12

CIPFA Code of Practice on Internal Audit in Local Government in UK (2006)

CIPFA Audit Manual (December 2004).

Networking and Benchmarking information.

Report by Jenny Marriott Audit & Assurance Manager 383101

**TELFORD & WREKIN COUNCIL**

**AUDIT COMMITTEE 22nd MARCH 2011**

**UPDATE OF THE CORPORATE ANTI-FRAUD & CORRUPTION POLICY**

**REPORT OF THE HEAD OF GOVERNANCE**

**PART A) – SUMMARY REPORT**

**1. SUMMARY OF MAIN PROPOSALS**

The Council is committed to high standards of Corporate Governance and has a set of procedures in place which are regularly updated and reviewed by the External Auditor. These procedures include the Anti-Fraud & Corruption Policy. The existing Anti-Fraud and Corruption Policy was last updated in 2008 and needs to be kept under review in order to meet legal requirements and maintain the Council's high standards of governance.

**2. RECOMMENDATIONS**

- 2.1** That the Audit Committee approves the updated Corporate Anti-Fraud and Corruption Policy attached at Annex A and recommends it for adoption by the Council.
- 2.2** That the Audit Committee delegates power to the Head of Governance to make minor changes to the policy that may be required as a result of the guidance on the Bribery Act 2010, when published.

**3. SUMMARY IMPACT ASSESSMENT**

<b>COMMUNITY IMPACT</b>	Do these proposals contribute to specific Priority Plan objective(s)?	
	Yes	<i>Community-Focussed Efficient Council – Working Together in New Ways – Achieving fast and flexible decision making while also ensuring good governance, accountability and transparency.</i>
	Will the proposals impact on specific groups of people?	
	No	
<b>TARGET COMPLETION/DELIVERY DATE</b>	Annual Council May 2011 and initial communications and awareness completed by 30/06/11. Further training will be provided to meet the requirements of the Bribery Act 2010	
<b>FINANCIAL/VALUE FOR MONEY IMPACT</b>	No	None, any training and awareness sessions will be provided from within existing budgets.
<b>LEGAL ISSUES</b>	Yes	The Anti-Fraud and Corruption policy needs to comply with all relevant legislative requirements. The regular review of the policy will ensure that

		this is the case. See paragraph 4.4 below.
<b>OTHER IMPACTS, RISKS &amp; OPPORTUNITIES</b>	No	Having a policy which sets out the Council's anti-fraud, bribery and corruption culture and associated procedures assists in the management of the risk of fraud, bribery and corruption against the Council. The other opportunities and risks associated with this policy have been identified and are being managed appropriately.
<b>IMPACT ON SPECIFIC WARDS</b>	Yes	Borough-wide impact

## **PART B) – ADDITIONAL INFORMATION**

### **4. INFORMATION**

- 4.1 The Anti-Fraud and Corruption Policy supports one of the key dimensions of good Corporate Governance – Standards of Conduct. The Council aims to ensure that all those associated with it maintain high standards of ethics and conduct in public life contributing to good corporate governance.
- 4.2 The key changes to the policy are due to the requirements of the Bribery Act 2010,
- 4.3 The implementation of the Bribery Act 2010 has been delayed several times due to a long consultation period on the guidance that supports the Act. However officers have been told that the guidance is now imminent and the provisions in the Act will then be effective 3 months from guidance issue date (estimated guidance issue date late March 2011 and therefore Act effective from late June 2011).
- 4.4 The Bribery Act 2010 repeals the Public Bodies Corrupt Practices Act 1889, the Prevention of Corruption Act 1916 and sub sections 68 and 69 of the Criminal Justice (Scotland) Act 2003. However, the definitions within the Bribery Act 2010 are very similar to those for corruption so the objectives and aims of the Anti-Fraud and Corruption policy are not fundamentally affected. The main changes to the policy are that it has been changed to refer to and define bribery. Once the guidance has been received Governance (Legal, Procurement and Audit & Assurance) will, subject to the approval of recommendation 2.2 above, make minor consequent amendments to the policy and develop/update appropriate procedures to meet these requirements and provide appropriate awareness to members, staff and external stakeholders. This policy is supported by the Speak Up Policy (last reviewed early 2008).

### **5. PREVIOUS MINUTES**

- 5.1 Audit Committee 16<sup>th</sup> September 2008

## **6. BACKGROUND PAPERS**

Corporate Anti-Fraud and Corruption Policy 2008

Speak Up Policy 2008

Benefit Fraud Sanction & Prosecution Policy 2010

Corporate Prosecution Policy 2010

Audit Commission requirements for the National Fraud Initiative

Fraud Act 2006

Local Government and Public Involvement in Health Act 2007

The Bribery Act 2010

**Report prepared by Jenny Marriott – Audit & Assurance Manager Tel: 01952 383101.**

## TELFORD & WREKIN COUNCIL - ANTI-FRAUD AND CORRUPTION POLICY 2011

### 1. INTRODUCTION

- 1.1 The Council through this policy clearly demonstrates its zero tolerance commitment to dealing with fraud, bribery and corruption and will deal equally with perpetrators from inside (members<sup>1</sup> and employees) and outside the Council.
- 1.2 The policy outlines measures designed to frustrate attempted fraud, bribes or corruption (defined in Appendix A) and the steps that will be taken if such action occurs. It is separated into four areas:-
1. Culture
  2. Prevention/Deterrence
  3. Detection and Investigation
  4. Training
- 1.3 The Council also recognises the high degree of external scrutiny of its affairs by a variety of external bodies. These bodies are important in highlighting any areas where improvements to anti-fraud, anti bribery and anti corruption activities can be made.

### 2. CULTURE

- 2.1 The Council's culture and values including openness<sup>2</sup> supports the zero tolerance commitment to fraud, bribery and corruption.
- 2.2 The prevention and detection of fraud, bribery or corruption and the protection of the public purse are responsibilities of everyone, both internal and external to the organisation. The Council's anti-fraud, bribery and corruption culture and associated procedures assist the Council in its management of the risk of fraud, bribery and corruption against the Council and are an integral part of its governance framework.
- 2.3 The Council's members, employees, partners, volunteers and governors play an important role in creating and maintaining this culture. They are positively encouraged to raise concerns regarding fraud, bribery and corruption, regardless of seniority, rank or status, in the knowledge that such concerns will be investigated and wherever possible be treated in confidence<sup>3</sup>. Suppliers/contractors to the Council and the public also have roles to play in this process and should inform the Council if they feel that fraud, bribery or corruption may have occurred. Examples of types of concerns are listed in Appendix A.
- 2.4 The Council will deal firmly and take appropriate action against those who defraud the Council or who are corrupt. There is, of course, a need to ensure

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<sup>1</sup> The term "members" is used in the policy to include elected, co-opted and independent members.

<sup>2</sup> Part of the Ethos/Culture/Values of the One Council One team One Vision

<sup>3</sup> The Council's Speak Up policy sets out how concerns can be raised (including anonymous information) and how they will be dealt with, including allegations in respect to fraud and corruption.

## ANNEX A

that any investigation process is not misused and, therefore, any abuse (such as employees/members raising malicious allegations) will also be dealt with appropriately.

- 2.5 When fraud, bribery or corruption has occurred due to a breakdown in the Council's systems or procedures, senior managers will ensure that appropriate improvements in systems of control are implemented to prevent a re-occurrence.

### **3. PREVENTION & DETERRENCE**

#### **3.1 MEMBERS**

- 3.1.1 All members of the Council have a duty to the citizens of the Borough to protect the Council and public money from any acts of fraud, bribery or corruption. This is achieved through the Anti-Fraud and Corruption Policy, compliance with the Code of Conduct for Members, the Council's Constitution<sup>4</sup>, relevant legislation and any other protocols and procedures adopted by the Council.

#### **3.2 EMPLOYEES**

- 3.2.1 The Role of the Chief Financial Officer – one of the Corporate Directors has been designated the statutory responsibilities of the Chief Financial Officer as defined by s151 of the Local Government Act 1972. These responsibilities are set out in Appendix B.
- 3.2.2 Managers are responsible for controls and ensuring that adequate systems of internal control exist within their areas of responsibility, that these controls operate effectively and that they test them regularly to confirm this. They should also operate so as to prevent and detect fraud and implement appropriate controls into new systems and new controls into existing systems to reduce the risk of fraud occurring or recurring.
- 3.2.3 Managers at all levels are responsible for managing the risk of fraud, bribery and corruption through:
- a) Recruitment – following the Council's recruitment policies and procedures
  - b) Appropriate induction and training in order for their staff to do their job
  - c) Providing awareness of the Council's constitution, appropriate policies and procedures (key ones associated with this policy are listed in Appendix B)
  - d) Regular reminder, updates and vigilance in respect to fraud, bribery & corruption
  - e) Encouraging their staff to raise concerns with them or through the Speak Up policy

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<sup>4</sup> Including Financial Regulations and Standing Orders

### **3.3 MEMBERS & EMPLOYEES**

- 3.3.1 Both members and employees must ensure that they avoid situations where there is a potential for a conflict of interest. Such situations can arise particularly with planning and land issues, procurement (especially tendering), recruitment etc. Effective role separation is essential to ensure decisions made are based upon impartial advice and seen to be based upon impartial advice to maintain public confidence in the Council's decision-making processes and avoid questions about improper disclosure of confidential information.
- 3.3.2 All members and officers are expected to fully co-operate with whoever is conducting fraud, bribery and corruption investigations, proactive checks or data matching exercises.

### **3.4 INTERNAL AUDIT**

- 3.4.1 Internal Audit plays a vital preventative role in ensuring that systems and procedures are in place to prevent and deter fraud, bribery and corruption and has specific rights within the constitution (see Appendix B). Internal Audit investigates all employee cases of suspected financial irregularity, fraud, bribery or corruption<sup>5</sup>, except Benefit fraud investigations (see below), in accordance with agreed procedures. Internal Audit liaises with management to recommend changes in procedures to improve controls, reduce risks and prevent losses to the Authority.

### **3.5 BENEFITS INVESTIGATION TEAM**

- 3.5.1 Benefits administration is recognised nationally as being complex and difficult to administer. This results in the scheme being prone to error and abuse. The Authority is committed to tackling poverty but it must also ensure that the administration of housing and council tax benefit is secure, fair and provides prompt help to those who need it. Equally, it must also be vigilant in tackling fraud and error to ensure value for taxpayers' money. The Revenues & Benefits Service operates within the legislation, government guidance and local procedures with the aim of improving the quality and accuracy of benefit determinations and to both prevent and reduce the incidence of fraud.
- 3.5.2 The Benefits Investigation Team is responsible for the investigation of welfare benefit fraud, often jointly with the Department for Works & Pensions (DWP), in accordance with legislation, agreed codes of conduct and a separate Council policy. In cases where employees and/or members are involved the team will work with Internal Audit, Human Resources, the Monitoring Officer and appropriate senior management to ensure that correct procedures are followed.

### **3.6 DATA MATCHING**

- 3.6.1 The Council participates in all mandatory Data Matching exercises. In respect to Benefits there are also regular external exercises with HBMS (Housing

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<sup>5</sup> Except where they are referred to the Police when they may leave it to the Police or assist, as appropriate

## ANNEX A

Benefits Matching Service) and DWP. In addition internal data matching exercises are undertaken. All exercises adhere to Data Protection requirements.

### **3.7 EXTERNAL AUDIT**

3.7.1 Independent external audit is an essential safeguard of the stewardship of public money. This is currently carried out by the Audit Commission or their nominated supplier through a Code of Practice that is designed to test (amongst other things) the adequacy of the Council's financial systems, the arrangements for preventing/limiting the opportunity for fraud and the arrangements for the detection of fraud, bribery and corruption. It is not the external auditors' function to prevent fraud and irregularities, but the integrity of public funds is at all times a matter of general concern. External auditors are always alert to the possibility of fraud and irregularity, and will act without undue delay if grounds for suspicion come to their notice. Where External Audit is required to undertake an investigation they will operate within legislation and their codes of conduct.

### **3.8 OTHER AGENCIES**

3.8.1 Appropriate Council services have arranged (in compliance with the Data Protection Act 1998) the exchange of information on national and local fraud, bribery and corruption activity with appropriate external agencies.

### **3.9 CONTRACTORS/SUPPLIERS AND THE PUBLIC**

3.9.1 This policy, although primarily aimed at those within or associated with the Council, encourages contractors/suppliers and the public to assist in the Council's zero tolerance commitment to fraud, bribery and corruption.

### **3.10 PROSECUTION AND RECOMPENSE**

3.10.1 To support this policy the Council has a Corporate Prosecution Policy which is complemented by the Benefit Fraud Sanction & Prosecution Policy. The corporate policy is designed to clarify and ensure consistency in the Council's action in specific cases and to deter others from committing offences against the Authority. The Benefit Fraud Sanction & Prosecution policy ensures that Benefits prosecutions are undertaken within the requirements of Benefits legislation.

3.10.2 In addition or instead of prosecution, the Council will seek to recover any money or assets fraudulently/corruptly obtained from the Council.

### **3.11 DISCIPLINARY OR OTHER ACTION**

3.11.1 Theft, fraud, bribery and corruption are serious offences against the Authority and employees will face disciplinary action if there is evidence that they have been involved in these activities, including Benefit fraud. Disciplinary action will be taken in addition to, or instead of, criminal proceedings depending on the circumstances of each individual case.

## ANNEX A

3.11.2 Members will face appropriate action under this policy if there is evidence that they have been involved in theft, fraud, bribery and corruption against the Authority. Action will be taken in addition to, or instead of criminal proceedings, depending on the circumstances of each individual case but in a consistent manner. If the matter is a potential breach of the Code of Conduct for Members then it will also be referred to the Standards Committee.

### **3.12 PUBLICITY**

3.12.1 The Council's Communications & Marketing Team will optimise the publicity opportunities associated with anti-fraud, anti bribery and anti corruption activity within the Council. Information will be publicised in respect to prosecutions and other appropriate cases as a deterrent.

3.12.2 Internally where the Council can learn from incidents the relevant points will be communicated to members and employees.

3.12.3 Any notifications received by the Council of possible regional/national frauds, scams or alerts will be communicated to employees and members, as appropriate.

3.13.4 All anti-fraud, anti bribery and anti corruption activities, including the update of this policy<sup>6</sup>, will be publicised in order to make the employees, members and the public aware of the Council's commitment to taking action on fraud, bribery and corruption, when it occurs.

## **4. DETECTION AND INVESTIGATION**

4.1 Internal Audit plays an important role in the detection of fraud. Included in their risk based audit plan (informed by a fraud risk register) are specific fraud tests, spot checks and unannounced visits. However it is often the vigilance of employees, partners, volunteers, members, governors, suppliers/contractors and the public that aids detection.

4.2 All suspected fraud, bribery and corruption irregularities (except benefit fraud) are required to be reported (verbally or in writing) to the Audit & Assurance Manager<sup>7</sup> either by the person with whom the initial concern is raised or through the Council's Speak Up policy. (See paragraph 3.4.1).

## **5. AWARENESS AND TRAINING**

5.1 The Council recognises that the continuing success of this policy and its general credibility will depend in part on the effectiveness of training and awareness for Members, employees and affected external parties. The policy is an integral part of the officer and member's induction programme and incorporated in the Member Development programme. Specialist training for certain employees is provided due to their specific roles.

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<sup>6</sup> This policy will be updated on a regular basis, with a maximum of two years between each update.

<sup>7</sup> Further information can be found in the Fraud Response Plan on the intranet

## ANNEX A

- 5.2 Regular awareness through corporate communication, managers' briefings and leaflets will ensure that the policy is applied. Full copies of the Anti-Fraud and Corruption and Speak Up policies are available on the intranet.

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**APPENDIX A  
DEFINITIONS OF FRAUD, BRIBERY & CORRUPTION**

**Fraud** is defined by the Audit Commission as:-

*Fraud – “the intentional distortion of financial statements or other records by persons internal or external to the authority which is carried out to conceal the misappropriation of assets or otherwise for gain”.*

In addition, fraud can also be defined as *“the intentional distortion of financial statements or other records by persons internal or external to the authority which is carried out to mislead or misrepresent”.*

The Fraud Act 2006 which came into effect on 15<sup>th</sup> January 2007 created a new general offence of fraud with three ways of committing it:

- Fraud by false representation
- Fraud by failing to disclose information
- Fraud by abuse of position

It also created new offences:

- Obtaining services dishonestly
- Possessing, making and supplying articles for use in frauds
- Fraudulent trading applicable to non-corporate traders.

**Corruption** is defined by the Audit Commission as:-

*Corruption – “the offering, giving, soliciting or acceptance of an inducement or reward which may influence the action of any person”.*

In addition, this policy also covers *“the failure to disclose an interest in order to gain financial or other pecuniary benefit.”*

**Bribery** is defined under the Act as:-

A bribe is a financial or other advantage that is offered or requested with the intention of inducing or rewarding the improper performance of a relevant function or activity, or with the knowledge or belief that the acceptance of such an advantage would constitute the improper performance of such a function or activity.

**EXAMPLES OF THE TYPES CONCERNS that could be raised:**

- \* A criminal offence
- \* A failure to comply with a statutory or legal obligation
- \* Improper or unauthorised use of public or other official funds
- \* A miscarriage of justice
- \* Maladministration, misconduct or malpractice
- \* Discriminatory behaviour

## ANNEX A

- \* Endangering an individuals health and/or safety
- \* Damage to the environment
- \* That offers or requests have been made in respect to a promise, gift, financial or other advantage to or from a person that results in improper performance of a decision or action
- \* Deliberate concealment of any of the above

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## APPENDIX B

### Roles and Responsibilities of the Chief Financial Officer (CFO) in respect to Fraud & Corruption

S151 of the Local Government Act sets out that in every local authority in England & Wales should:

“make arrangements for the proper administration of their financial affairs and shall secure that one of their officers has the responsibility for the administration of those affairs”.

Under the Constitution the CFO responsibilities of proper administration encompasses all aspects of local authority financial management including:

- Compliance with the statutory requirements for accounting and internal audit;
- Ensuring the Authority's responsibility for the proper administration of its financial affairs;
- The proper exercise of a wide range of delegated powers both formal and informal;
- The responsibility for managing the financial affairs of the local authority in all its dealings; and
- The recognition of the fiduciary responsibility owed to local tax payers.

### KEY COUNCIL DOCUMENTS THAT SUPPORT THIS POLICY

(This list contains examples but is not exhaustive)

- Constitution
- Financial Regulations and Standing Orders and associated detailed procedures
- Fraud Response Plan
- Employee Code of Conduct
- Health and Safety Policies
- Corporate Information Security Policy (which includes the E-mail and Internet Usage Policies and IT Strategy).
- Gifts and Hospitality Guidance
- Equalities policies

### CONSTITUTION POWERS FOR REPRESENTATIVES OF INTERNAL AUDIT

(Part 4 – Rules of Procedure: Section 6 – Financial Regulations paragraph 9.7)

9.7 The Chief Finance Officer's authorised Internal Audit representatives shall be empowered to:

- enter at all reasonable times any Council premises or land
- have access to all Council and partner records<sup>8</sup>, documentation and correspondence relating to any financial and/or other transactions or other business of the Council, its employees or members, as considered necessary by the CFO, Head of Governance or Audit & Risk Manager.

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<sup>8</sup> Records include business e-mail and internet records

## ANNEX A

- have access to records belonging to third parties such as contractors or partners when required
- require and receive such explanations as are regarded necessary concerning any matter under examination from any employee, member, partner or third party.
- require any employee or member of the Council or any partner/third party to account for cash, stores or any other Council property which is under his/her control or possession on behalf of the Council.

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