



# CHEL TENHAM

## BOROUGH COUNCIL

### Notice of a meeting of Audit Committee

**Wednesday, 11 January 2012**  
**6.00 pm**  
**Pittville Room, Municipal Offices**

<b>Membership</b>	
<b>Councillors:</b>	Andrew Wall (Chairman), Paul Massey (Vice-Chair), Rowena Hay, Robin MacDonald, Paul Wheeldon and Bernard Fisher

The Council has a substitution process and any substitutions will be announced at the meeting

### Agenda

<b>1.</b>	<b>APOLOGIES</b>	
<b>2.</b>	<b>DECLARATIONS OF INTEREST</b>	
<b>3.</b>	<b>MINUTES</b> 21 September 2011	(Pages 1 - 14)
<b>4.</b>	<b>PUBLIC QUESTIONS</b> These must be received no later than 10am on the fifth working day before the date of the meeting.	
<b>5.</b>	<b>EFFECTIVENESS REVIEW OF THE AUDIT COMMITTEE</b> Discussion paper of the Audit Partnership Manager	(Pages 15 - 22)
<b>6.</b>	<b>ANNUAL AUDIT LETTER 2010-11</b> Report of KPMG	(Pages 23 - 30)
<b>7.</b>	<b>AUDIT PLAN 2011-12</b> Report of KPMG	(Pages 31 - 52)
<b>8.</b>	<b>INTERNAL AUDIT MONITORING REPORT</b> Report of the Audit Partnership Manager	(Pages 53 - 66)
<b>9.</b>	<b>WORK PROGRAMME</b>	(Pages 67 - 68)
<b>10.</b>	<b>ANY OTHER ITEM THE CHAIRMAN DETERMINES TO BE URGENT AND REQUIRES A DECISION</b>	
<b>11.</b>	<b>DATE OF NEXT MEETING</b>	

		21 March 2012	
		<b>Briefing Notes (for information only)</b>	
		<ul style="list-style-type: none"><li>• Corporate Governance Group – update</li></ul>	

**Contact Officer:** Saira Malin, Democracy Officer, 01242 775153  
**Email:** [democratic.services@cheltenham.gov.uk](mailto:democratic.services@cheltenham.gov.uk)

## Audit Committee

**Wednesday, 21st September, 2011  
6.00 - 8.25 pm**

<b>Attendees</b>	
<b>Councillors:</b>	Andrew Wall (Chairman), Pat Thornton, Rowena Hay and Paul Wheeldon
<b>Also in attendance:</b>	Sarah Didcote (Group Accountant), Sara Freckleton (Borough Solicitor and Monitoring Officer), Jan Griffiths (Director of Commissioning), Rob Milford (Audit Partnership Manager), Ian Pennington (Director – KPMG), Martyn Scull (Group Accountant), Mark Sheldon (Director of Resources), Rachael Tonkin (Auditor – KPMG) and Shirin Wotherspoon (Corporate Solicitor Manager – One Legal)

## Minutes

**1. APOLOGIES**

Councillors Fisher, Massey and MacDonald had given their apologies. Councillor Thornton was a substitute for Councillor Massey.

**2. DECLARATIONS OF INTEREST**

No interests were declared.

**3. MINUTES**

The minutes of the last meeting had been circulated with the agenda.

Upon a vote it was unanimously

RESOLVED that the minutes of the meeting held on the 22 June 2011 be agreed and signed as an accurate record.

**4. PUBLIC QUESTIONS**

No public questions were received.

The following response was given to the public question received.

**5. PROGRESS IN DELIVERING KPMG ACTION PLAN**

The Borough Solicitor and Monitoring Officer informed members that both of the approved action plans were now substantially complete.

The action plan had last been reviewed by Audit Committee in April when there was a discussion with regard to monitoring and logging decisions. Whilst the Modern.gov system had a facility to update a decision status this was not widely used by other councils and not cost-effective in terms of the Democratic Services resource that would be needed to monitor decisions. Implementation

of decisions was instead the responsibility of Directors and these would be reviewed with members via 1-1s.

In terms of mandatory risk management training the Borough Solicitor and Monitoring Officer reported that the risk management e-learning module had been completed and was loaded on the Learning Gateway. When asked whether there was a log of who had completed the learning the Director Human Resources and Organisational Development explained that the online system did have a reporting facility. Members were surveyed about their skills and learning requirements and they were encouraged to use online learning but it was recognised that there were varying degrees of user competence.

Members requested an information note to be attached to the Audit Committee papers at its next meeting on the outstanding action point (R10).

Having considered the information set out in the Report and Appendices and having monitored the implementation of the action plans Members

### **Resolved**

**That it was satisfied that all specified actions had been fully addressed.**

## **6. REVISED FINANCIAL RULES**

Sarah Didcote, Group Accountant, introduced the item explaining that the draft updated financial rules had been compiled for use in each of the Authorities forming the GO Shared Services, subject to approval by each Council. They had been discussed and agreed in principal by Officers representing the Shared Services (Cheltenham, Cotswold, Forest of Dean and West Oxfordshire), subject to some further consideration of the suggested financial limits, as indicated on the documents.

The draft documents had also been reviewed by members of the Constitution working group, Internal Audit and One-Legal.

The Audit Committee was invited to consider the documents prior to the final revised financial rules being considered by Full Council in October as part of the review of the Constitution.

Members examined the draft financial rules in detail and the main points they raised included :

- Limits and relevant approvals should be consistent throughout the document i.e. above £100k would require Council approval
- For virements up to £5000 the virement level had been removed in order to give more freedom and flexibility to budget holders without the accompanying bureaucracy
- Put a value on the ICT assets and set limits accordingly
- Questioned the 30 day period for all certified accounts for payment to be paid. CBC had signed up to the Prompt Payment Code and most payments were made between 15 and 20 days.
- Certification of purchase invoice as correct for payment-remove percentage and maintain a value instead
- Treat car parking debt the same way as normal debt

When asked whether he was confident with the proposed new set of rules the S151 Officer confirmed that the rules were comprehensive and had been simplified as far as possible. Changes which had been requested by officers to facilitate more flexibility for budget holders had to a large degree been taken on board and managers were familiar with the rules.

The Group Accountant thanked members for their comments and agreed to propose the changes amongst the other councils and send members the updated version.

**7. LOCAL AUTHORITY COMPANY (WASTE) GOVERNANCE ARRANGEMENTS**

The Director Commissioning and the Corporate Solicitor Manager, One Legal, gave a presentation on the Local Authority Company which is attached to these minutes for information.

Members noted that there was currently no member input on the board. In response the Director Commissioning stated that having an elected member on the board was currently under discussion following the gateway review. The Articles of Association and the shareholder agreement would be circulated to Audit Committee members for their views.

Members asked what safeguards were in place should the new company not meet its obligations. In response the Director Commissioning confirmed that this would be carried out through performance monitoring.

In terms of the prospect of other councils joining the Company in the future the Corporate Solicitor manager explained that both the articles and the shareholders agreement were robust and on what terms a new council may join the company would be a reserved matter for the two existing shareholder councils.

When asked about the costs involved, the Director Resources explained that the set up costs were shared equally but as CBC would be using more services these operational costs would be shared proportionately.

With regard to monitoring the Director Commissioning explained that as Cotswold District Council currently had a client side manager for their current external waste contract CBC would share this under the new Local Authority Company arrangements.

**8. REVIEW OF ANNUAL STATEMENT OF ACCOUNTS**

Sarah Didcote, Group Accountant, explained that the accounts were now being presented differently in order to be IFRS compliant.

Martyn Scull, Group Accountant, gave a presentation on the Statement of Accounts which is attached for information.

**Resolved**

**To approve the Statement of Accounts for 2010/11 at Appendix 14, including the Annual Governance Statement for 2010/11.**

**To authorise the chair of the Audit Committee to sign the Statement of Accounts in order to formally signify the Council's approval of the accounts.**

**9. YEAR END - AUDIT COMMITTEE REPORTING**

Ian Pennington, Director, KPMG, complimented the finance team for a well presented set of accounts and stated that it had been a model audit.

Members congratulated the team for an excellent result.

**10. ENHANCEMENT OF AUDIT PARTNERSHIP GOVERNANCE**

The Audit Partnership Manager explained that the audit partnership governance consisted of a Memorandum of Understanding and supporting secondments and this was only ever intended to be a short term arrangement. This was in order to enable partners to assess if the arrangement across the three authorities could be successfully implemented. The Audit Partnership Board had recognised the benefits that the new partnership had brought and it was now proposed to move to the Section 101 agreement form of governance.

When asked what member input there had been the Audit Partnership Manager stated that Audit Committee and Cabinet had been kept informed throughout the process. Members also asked KPMG to confirm whether they were of the view that the partnership was working well and they replied in the affirmative and explained that they were recommending the AuditCotswold model to their clients wishing to share services.

**Resolved**

To support the recommendation to Cabinet and Council that the Internal Audit Service is delegated to Cotswold District Council under a Section 101 agency agreement.

**11. INTERNAL AUDIT MONITORING REPORT (INCLUDING RECOMMENDATIONS TRACKER UPDATE)**

The Audit Partnership Manager introduced the report which was a standing item on the agenda and which gave the Audit Committee the opportunity to comment on the work completed by the partnership. He highlighted the other work which AuditCotswolds had undertaken beyond the specific audits which included ongoing support for the GO-Programme and the Local Authority Company. Whilst the Local Authority Company was fairly resource intense work on lesser risk audits had not been deferred.

In terms of follow-ups the Audit Partnership Manager highlighted payroll and car parking. Payroll continued to receive only limited assurance. When asked whether the issues behind this were the same as last year, the Director of Human Resources and Organisational Development explained that a cluster of issues remained the problem. They included written procedures with regard to payroll, issues with password security, security regarding holding personnel records and the process for notifying ICT of leavers and new starters. Good progress had been made in terms of fully documented procedures and fixing generic passwords and Members were assured that within GO the limited assurance would be corrected. Resilience in payroll would also be improved upon within GO as CBC would have more access to payroll expertise.

The Audit Partnership Manager confirmed that the issues were being positively addressed.

**Resolved**

To note the report.

**12. WORK PROGRAMME**

Members noted the work programme. The Chair invited Members to contact him directly should they have any agenda items for the next meeting.

**13. ANY OTHER ITEM THE CHAIRMAN DETERMINES TO BE URGENT AND REQUIRES A DECISION**

There were no urgent items for discussion.

**14. DATE OF NEXT MEETING**

The next meeting was scheduled for 11 January 2012.

Andrew Wall  
**Chairman**

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## Local Authority Company

Local authority company  
Cheltenham Borough Council  
Cotswold District Council  
Working in partnership



## Rationale

- CBC's vision of becoming a strategic commissioning authority
- Operational management and administration of service delivery
- MTFS and cashable savings
- Gloucestershire Waste Partnership
- Potential to take on other services
- Potential to involve other partners



## What is the company?

- The company will deliver a range of outcomes which will be set out in a service level agreement
- The company is a wholly owned local authority company created to deliver services for the local authorities (shareholders)
- It is not a trading company



## In scope services April 2012

- Cheltenham Borough Council
  - waste collection
  - kerbside recycling collections
  - organic waste collections
  - servicing of neighbourhood recycling sites
  - operation of the Swindon Road recycling centre
  - street cleaning
  - public toilet cleaning
  - grounds maintenance



## In scope services August 2012

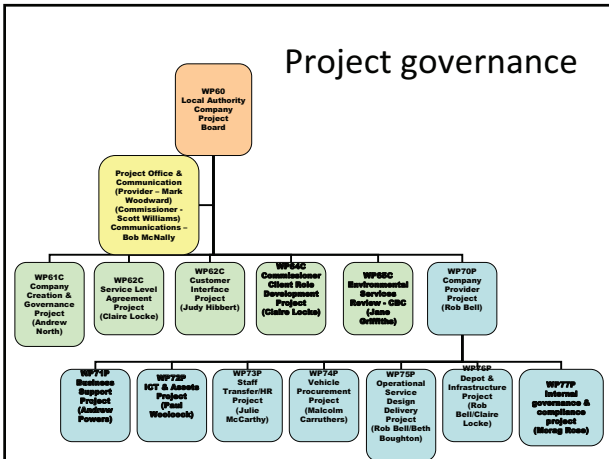
- Cotswold District Council
  - waste collection
  - kerbside recycling collections
  - organic waste collections
  - servicing of neighbourhood recycling sites
  - street cleaning



## Project management

- Commissioner – project manager Scott Williams from CDC
- Company implementation – project manager Mark Woodward from CBC
- Project board – includes joint project sponsors Grahame Lewis CBC, Ralph Young CDC





### How this will impact on Cheltenham

- Client side monitoring will sit within commissioning division at CBC
- Customer interface will sit with the customer service team within the resources division
- Strategic support on waste/recycling/street cleaning to be provided by experienced officer seconded on a part time basis from CDC (Scott Williams)
- Strategic support on grounds maintenance provided by Parks Development team (Adam Reynolds)
- Partnership approach – as with CBH
- Performance measures developed against the outcomes

### Support services - GO

- GO will provide
  - Financial support
  - Payroll services
  - Procurement support
  - Human resources support
  - Health & safety support
- ICT support - CBC
- Legal -One Legal
- Audit – Cotswold audit partnership
- Property services - CBC

### Governance-General

- CBC and CDC have control over the Company via shareholders and directors AND control over the delivery of services by the Company via the SLA/Contracts.
- Company limited by shares
- Shareholder Level -Shareholders have overall control exercised at General meetings with voting/shareholding split 50:50 between the 2 councils
- Director Level- control operation and management (subject to control of shareholders). Proposal is to have 4 directors comprising 2 council nominees (1 from each council), the MD and the FD

### Governance-Articles of Association

This is the contract between the shareholder councils and the company

- Public document
- Required for the incorporation of the company at Companies House
- Follows a model as set out in the Companies Act 2006

### Governance- Shareholder Agreement

This contract defines the balance of power between the councils as Shareholders and Company directors. The key provision is the reservation of key decisions by the Shareholders. These include:

- Varying the articles
- Permitting additional Shareholders; forming any subsidiary or acquiring shares
- Adopting/amending the business plan
- Entering into any contract over a stated value
- Agreeing appointment ( including remuneration) of all directors of the Company other than Shareholder appointed directors
- Substantial changes to employment terms and conditions of service
- Changing the capital of, or issuing any shares of the company
- Declaring dividends to a Shareholder

## Governance-Roles

Shareholder Interest- Leader to reserves these executive powers  
Decision making in respect of the matters reserved to the shareholders

Contract monitoring and Performance- Leader to delegate these powers to Cabinet Member

Ensure compliance by the council through the SLA/Contract with the company including changes and service reviews

Director level- Board of Directors to consist of 1 Council nominee plus MD and FD

Day to day operation and management of the company; directors are accountable to the councils through rights reserved to shareholders and contract monitoring



## Client side management

- SLA's
- Performance indicators
- Regular officer meetings – reviewing performance against the outcomes
- Regular officer meetings to update on key issues for company/CBC and what action needs to be taken



## Members' roles

- Leader – shareholder
- Cabinet lead – agrees SLA, sets strategic and policy direction (although this would change if we have a joint committee for waste)
- Overview and scrutiny – receives performance reports and can call the company to account if required
- Individual members – service requests ie missed bin, complaints etc through customer service team. Discussions on the way policy being implemented with strategic client officers



## Implementation timetable

- Oct 2011 – Cabinet report
- Nov 2011 – LA Co formation
- Nov 2011 – Shadow board formed
- April 2012 – LA Co begins to trade
- April 2012 – CBC staff TUPE to LA Co
- August 2012 – CDC / SITA staff TUPE to LA Co



## Questions?



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**Audit committee, 21 September 2011**

**2010/11 Statement of Accounts**

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**Key changes and highlights**

Martyn Scull  
Group Accountant

Sarah Diccote  
Group Accountant

1

**Areas to be covered**

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- Legal background
- Main changes following implementation of IFRS
- Financial highlights
- Reconciliation of the Management Accounts to the Statement of Accounts
- Questions

2

**The Legal Framework**

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- Audit Commission Act 1998 – requirement to prepare an annual Statement of Accounts
- Local Government Act 2003 - accounts to be prepared in accordance with 'proper accounting practices' and the Accounts and Audit Regulations 2003 (as amended in 2011)
- Proper accounting practices are defined by the CIPFA *Code of Practice on Local Authority Accounting in the United Kingdom 2010/11 (the 'Code')*
- Local Government & Housing Act 1989 - separate Housing Revenue Account ('ring-fenced')
- Statutory requirement to maintain a separate Collection Fund for council tax and business rates

3

**Code of Practice on Local Authority Accounting – the rules!**

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- Accounts must be prepared in accordance with the Code
- From 2010/11 the Code is based on International Financial Reporting Standards (IFRS)
- Changes to accounting policies have been made in previous years but main presentational changes are in 2010/11
- 2010/11 Code guidance notes have 759 pages
- 2010/11 Statement of Accounts is 125 pages (65 pages in 2005/06)

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**Main changes in 2010/11 under IFRS**

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- Mainly presentational for CBC – accounts look very different!
- **Main Technical changes**
  - Expenditure now includes cost of staff holidays and flexitime not taken at year end
  - All leases reassessed and reclassified as necessary
  - Capital grants and contributions now credited to Income & Expenditure (I&E) when the conditions are met
  - Changes in value of Investment properties credited or debited to I&E
  - New category of Assets Held for Sale (e.g. North Place/Portland St. car parks)
  - Value of Heritage assets to be included from 2011/12
- Technical changes do not impact on General Fund Balance as they are reversed out to other reserves

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**Main Presentational Changes**

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- I&E Account and Statement of Recognised Gains and Losses (STRGL) combined into a Comprehensive I&E Statement, showing all gains and losses for the year
- Changes to the service groupings
- On Balance Sheet fixed assets reclassified as PPE, Investment property and Assets Held for Sale
- Reserves classified as Usable or Unusable
- New Statement – Movement in Reserves
- Many new and more detailed notes e.g. Critical Judgements Made, Segmental Reporting

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## Financial highlights in 2010/11

- Overall under-spend compared to revised budget for the GF of £174k, helping to increase GF balance to £2.667 million at year end
- Overall under-spend compared to revised budget for the HRA of £684k, helping to increase HRA balance from £1.6 to £3.7 million
- Overall reduction in Net Assets of £10.8 million, mainly as a result of :
  - Reduction in value of HRA dwellings of £46 million on revaluation (charged to Capital Adjustment Account (CAA))
  - 'Loss' on transfer of housing land to CBH for new build of £1.1 million (charged to CAA)
  - Increase in value of Icelandic bank investments of £3 million (transferred to earmarked reserves)
  - Reduction in Pensions liability of £32 million (transferred to Pensions Reserve)

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## Financial highlights continued

### Other highlights

- £6.9 million was spent on capital items, including £2.9 million on the housing stock and £1.1 million on recycling vehicles, bins and caddies
- Despite the need to borrow for the recycling equipment, the Capital Financing Requirement (CFR) increased by only £5k, since debt repayments of £875k were made
- £2.1 million in capital receipts were received, of which £900k was used to fund capital expenditure and loan premiums from previous years, leaving £1.2 million at the year end (to be used for affordable housing and regeneration)
- £803k in partnership funding was used to fund capital expenditure
- As shown on the Cash Flow Statement, external borrowing went down by £4.3 million

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## Financial highlights continued

### Other highlights continued

- Earmarked reserves increased by £800k, however this included £2.5 million transferred to reserves for the Giltinir Icelandic bank investment; other reserves reduced by £1.7 million, due to budgeted transfers to fund capital and other one-off expenditure
- Group accounts show net assets of £215 million, including
  - £22 million investment in Gloucestershire Airport
  - £3 million CBH dwellings under construction

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## Icelandic Bank investments

- Need to reassess their value at 31 March 2011, based on the latest estimated recovery rates and time until repayment
- 2009/10 Giltinir investments assumed not to have priority status, resulting in a reduction in value ('impairment') of £2.7 million chargeable to the I&E account
- However a capitalisation direction was received, allowing the impairments to be funded by borrowing over 20 years
- On 1 April an Icelandic court decided such investments had priority status, meaning £2.4 million of the original impairment could be reversed
- However the decision is subject to appeal, therefore the credit to the I&E was transferred to an earmarked reserve in case decision reversed
- If decision stands, reserve will be used to repay the borrowing

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## Icelandic Bank investments cont'd

- Repayments of £553k received for KS&F loans
- Increase in value of remaining KS&F loans of £326k, of which £240k used to repay the borrowing
- Interest due of £300k credited to I&E and transferred to reserves
- If decision of Icelandic court stands, of the original £11 million invested an estimated £10.2 million (93%) will currently be recovered

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## Difference between management accounts and Statement of Accounts

- Surplus on management accounts £174k, but Deficit on CI&E Statement (page 21) £33.5 million
- Why? CI&E Statement includes
  - Housing Revenue account (HRA)
  - Items such as depreciation, impairments, capital grants, additional pension costs, transfers to reserves, etc which are reversed out in the Movement in Reserves Statement, so do not fall on council tax

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## Reconciliation Statement

<b>Comprehensive Income &amp; Expenditure Statement - Deficit for year</b>	<b>33,450</b>
Less: Depreciation and impairment of assets	(2,776)
Less: Revenue expenditure funded from capital under statute	(188)
Less: Housing capital receipts	(415)
Add: Capital grants	589
Add: Gain on disposal of fixed assets	268
Add: Pensions adjustments	10,917
Less: Housing Revenue Account deficit (including impairments of £46 million)	(44,729)
Add: Provision for repayment of debt and loan premiums	1,021
Add: capital expenditure charged to revenue	852
Add: net Transfers to earmarked reserves	837
<b>General Fund Underspend as reported in Outturn Report (management accounts)</b>	<b><u>(174)</u></b>

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## Any Questions?



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# ***Information/Discussion Paper***

## **Audit Committee – 11 January 2012**

### **Effectiveness Review of the Audit Committee**

This note contains the information to keep Members informed of matters relating to the work of the Committee, but where no decisions from Members are needed

#### **1. Why has this come to Audit Committee?**

- 1.1 To update the Committee on the work relating to the effectiveness review and enable Committee Members to feed into the process.

#### **2. Summary of the Issue**

- 2.1 In the attached Appendix 1 is a table of best practice questions from CIPFA relating to Audit Committees and the aspects to consider when assessing the effectiveness of the committee.
- 2.2 To ensure that all Members of the Audit Committee have the opportunity to comment on the questions this report has been presented to the January Committee for consideration. The responses to date have been generated through the Corporate Governance Group and assessment of documented evidence. However, there may be elements that require opinion from each Member of the committee, for example, has the committee Members received appropriate training (including substitutes)?

#### **3. Summary of evidence/information**

- 3.1 **Appendix 1** Draft Assessment of Audit Committee.

#### **4. Next Steps**

- 4.1 Therefore the request from the Audit Partnership Manager is that Members of the Audit Committee provide feedback to the questions in Appendix 1. This can be through discussion after the January Committee or through email responses to [Robert.milford@cheltenham.gov.uk](mailto:Robert.milford@cheltenham.gov.uk).

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#### **Background Papers**

<b>Contact Officer</b>	Robert Milford, Audit Partnership Manager, 01242 264115, <a href="mailto:Robert.milford@cheltenham.gov.uk">Robert.milford@cheltenham.gov.uk</a>
<b>Accountability</b>	Cllr Colin Hay
<b>Scrutiny Function</b>	Overview & Scrutiny – EB&I

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**Audit Committee Checklist**

Question	Yes	No	N/A	Comments/action
<b>1. Role and remit</b>				
Does the audit committee have written terms of reference?	Y			Detailed in the Constitution
Do the terms of reference cover the core functions of an audit committee (as identified in CIPFA guidance)?	Y			As above
Are the terms of reference approved by the council and reviewed periodically?	Y			As part of the Constitution refresh or if otherwise required.
Has the audit committee been provided with sufficient membership, authority and resources to perform its role effectively and independently?	Y			5 members
Can the audit committee access other committees and full council as necessary?	Y			Part of the standard reporting processes
Does the authority's Annual Governance Statement include a description of the audit committee's establishment and activities?	Y			Included in AGS
Does the audit committee periodically assess its own effectiveness?	Y			This questionnaire is an example
Does the audit committee make a formal annual report on its work and performance during the year to full council?	Y			Reports to Council as necessary
<b>2. Membership, induction and training</b>				
Has the membership of the audit committee been formally agreed and a quorum set?	Y			
Is the chair independent of the executive function?	Y			
Has the audit committee chair either previous knowledge of, or received appropriate training on, financial and risk management, accounting concepts and standards, and the regulatory regime?	Y			Training provided at regular intervals e.g. risk management, internal audit, IFRS
Are new audit committee members provided with an appropriate induction?	Y			Standard induction plus specific audit committee session
Have all members' skills and experiences been assessed and training given for identified gaps?	Partial			A skills audit is being conducted by democratic services at the moment.
Has each member declared his or her business interests?	Y			
Are members sufficiently independent of the other key committees of the council?	Y			

<b>3. Meetings</b>				
Does the audit committee meet regularly?	Y			
Do the terms of reference set out the frequency of meetings?	N			However, the committees are scheduled to meet financial and governance statement requirements
Does the audit committee calendar meet the authority's business needs, governance needs and the financial calendar?	Y			Aligned to final accounts
Are members attending meetings on a regular basis and if not, is appropriate action taken?	Partial			There are no specific actions taken by Officers to address Members that do not regularly attend Audit Committee. However, attendance records are published on the Council's website.
Are meetings free and open without political influences being displayed?	Y			
Does the authority's S151 officer or deputy attend all meetings?	Y			
Does the audit committee have the benefit of attendance of appropriate officers at its meetings?	Y			Example Amanda Atfield for Payroll audit report update, Bryan Parsons for Corporate Governance, etc
<b>4. Risk Management and Internal Control</b>				
Does the audit committee satisfy itself that the organisation's main risk areas are being reviewed by internal and external audit?	Y			This is linked to the audit planning approval process and the regular attendance by both Internal and External audit.
Does the audit committee consider the findings of the Annual Governance Statement (AGS), including a review of the effectiveness of the system of risk management and internal control?	Y			Risk management and internal control are part of the internal and external audit review work. This is reported to committee and debated.
Does the audit committee have responsibility for review and approval of the AGS and does it consider it separately from the accounts?	Y			Separate agenda item
Does the audit committee consider how meaningful the AGS is?	Y			Training has been provided on the AGS and the significance relating to the Financial Statements. Follow-up of recommendations from the AGS has also been debated by the committee e.g. ICT issues reported by KPMG.
Does the audit committee satisfy itself that the system of internal control, risk management and corporate governance has operated effectively throughout the reporting period?	Y			Linked closely to the annual audit opinion from both internal and external audit
Has the audit committee considered how it integrates with other committees that may have responsibility for risk management?	Y			The Audit Committee reviews the Risk Management policy and considers findings of internal and external audit. Recommendations

					flowing from this review are taken forward.
Does the audit committee ensure that the risk of fraud is being appropriately monitored and managed, and that measures are being put in place to counter fraud and corruption?	Y				Internal and external audit reports and corporate governance group activity updates that all regularly go before the Audit Committee.
Is the audit committee made aware of the role of risk management in the preparation of the internal audit plan?	Y				Through the reporting and debate regarding the annual plan.
Does the audit committee review the authority's strategic risk register at least annually?	Y				Annual update is reported to Audit Committee
Does the audit committee monitor how the authority assesses its risk?	Y				Policy presented and debated by Audit Committee
Do the audit committee's terms of reference include oversight of the risk management process?	Y				Constitution
<b>5. Financial Reporting and Regulatory Matters</b>					
Is the audit committee's role in the consideration and/or approval of the annual accounts clearly defined?	Y				Constitution
Does the audit committee consider specifically: <ul style="list-style-type: none"> <li>• The suitability of accounting policies and treatments</li> <li>• Major judgements made</li> <li>• Large write-offs</li> <li>• Changes in accounting treatment</li> <li>• The reasonableness of accounting estimates</li> <li>• The narrative aspects of reporting?</li> </ul>	Y				Full and detailed presentations are given to the Audit Committee that are subsequently debated.
Is an audit committee meeting scheduled to receive the external auditors report, including a discussion of proposed adjustments to the accounts and other issues arising from the audit?	Y				Regular reporting from External Audit includes final account matters
Does the audit committee review management's letter of representation?	Y				
Does the audit committee annually review the accounting policies of the authority?	Y				Recently approved the Financial Rules for GO – the accounting policies are reviewed annually in line with approval of the final accounts
Does the audit committee gain an understanding of management's procedures for preparing the authority's annual accounts?	Y				Presentations are given by the finance team – to be monitored for changes due to GO
Does the audit committee have a mechanism to keep it aware of topical legal and regulatory issues, for example by receiving circulars and through training?	Y				Updates in training and through reported information e.g. Icelandic Banks matters
<b>6. Internal Audit</b>					
Does the audit committee approve, annually and in detail, the internal audit	Y				Charter and Annual Plan – however three year

strategic and annual plans including consideration of whether the scope of internal audit work addresses the authority's significant risks?					strategy is now delegated to the Audit Partnership Board
Does internal audit have an appropriate reporting line to the audit committee?	Y				Head of Internal Audit has direct access to the committee
Does the audit committee receive periodic reports from the internal audit service including an annual report from the Head of Internal Audit?	Y				Monitoring report is a standing item for each meeting, annual report is presented in line with AGS requirements
Are follow-up audits by internal audit monitored by the audit committee and does the committee consider the adequacy of implementation of recommendations?	Y				Follow-up audit activity is reported
Does the audit committee hold periodic private discussions with the Head of Internal Audit?	Y				The option is available to the Audit committee but in the last three years this has not been required.
Is there appropriate cooperation between the internal and external auditors?	Y				Joint working agreement in place
Does the audit committee review the adequacy of internal audit staffing and other resources?	Y				The Audit Committee recently supported the delegation of internal audit to Cotswold DC. This was part of the agreement for an audit partnership that enhanced service resilience and knowledge/skills.
Has the audit committee evaluated whether its internal audit service complies with CIPFA's Code of Practice for Internal Audit in Local Government in the UK?	Y				Reported in September 2011 – full compliance
Are internal audit performance indicators monitored by the audit committee?	Y				Audit Partnership Board representative (Section 151 Officer) is able to report to the Audit Committee the performance of internal audit and the partnership as shown by report issued in September 2011.
Has the audit committee considered the information it wishes to receive from internal audit?	Y				Regular feedback is provided by the AC to the Head of IA e.g. detail in the monitoring report
<b>7. External Audit</b>					
Do the external auditors present and discuss their audit plans and strategy with the audit committee (recognising the statutory duties of external audit)?	Y				Regular scheduled progress updates and approval of annual plan
Does the audit committee hold periodic private discussions with the external auditor?	Y				The option is available to the Audit committee.
Does the audit committee review the external auditor's annual report?	Y				Reported to committee in Sept 2011.
Does the audit committee ensure that officers are monitoring action taken to implement external audit recommendations?	Y				Follow-up of KPMG PIR and ICT reports
Are reports on the work of external audit and other inspection agencies presented	Y				Normal reporting schedules demonstrate the

to the committee, including the Audit Commission's annual audit and inspection letter?					annual audit letter is presented to Audit Committee
Does the audit committee assess the performance of external audit?	Y				Performance is linked to debate on the fees.
Does the audit committee consider and approve the external audit fee?	Y				But limited actions available on the fees
<b>8. Agenda Management</b>					
Does the audit committee have a designated secretary from Committee/ Member Services?	Y				
Are agenda papers circulated in advance of meetings to allow adequate preparation by audit committee members?	Y				Forward plan demonstrates publication dates prior to meetings.
Are outline agendas planned one year ahead to cover issues on a cyclical basis?	Y				Agendas are planned ahead
Are inputs for Any Other Business formally requested from committee members, relevant officers, internal and external audit?	Y				Linked to agenda setting
<b>9. Agenda Management</b>					
Do reports to the audit committee communicate relevant information at the right frequency, time, and in a format that is effective?	Y				
Does the audit committee issue guidelines and/or a proforma concerning the format and content of the papers to be presented?	Y				Done through Officers
<b>10. Agenda Management</b>					
Are minutes prepared and circulated promptly to the appropriate people?	Y				
Is a report on matters arising made and minuted at the audit committees next meeting?	Y				Minutes are reviewed at each AC but there is no specific actions report – actions are included in the minutes.
Do action points indicate who is to perform what and by when?	Y				
<b>11. General Comments</b>					

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# Annual Audit Letter 2010/11

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Cheltenham Borough Council

November 2011

The contacts at KPMG in connection with this report are:

**Ian Pennington**

*Director*

*KPMG LLP (UK)*

Tel: + 44 (0)292 046 8087

ian.pennington@kpmg.co.uk

**Rachael Tonkin**

*Manager*

*KPMG LLP (UK)*

Tel: + 44(0)117 905 4654

rachael.tonkin@kpmg.co.uk

**Megan Lumsdaine**

*Assistant Manager*

*KPMG LLP (UK)*

Tel: + 44(0)117 905 4654

megan.lumsdaine@kpmg.co.uk

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This report is addressed to the Council and has been prepared for the sole use of the Council. We take no responsibility to any member of staff acting in their individual capacities, or to third parties. The Audit Commission has issued a document entitled *Statement of Responsibilities of Auditors and Audited Bodies*. This summarises where the responsibilities of auditors begin and end and what is expected from the audited body. We draw your attention to this document which is available on the Audit Commission's website at [www.auditcommission.gov.uk](http://www.auditcommission.gov.uk).

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

If you have any concerns or are dissatisfied with any part of KPMG's work, in the first instance you should contact Ian Pennington, the appointed engagement lead to the Council, who will try to resolve your complaint. If you are dissatisfied with your response please contact Trevor Rees on 0161 246 4000, or by email to [trevor.rees@kpmg.co.uk](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 Manager, Audit Commission, Westward House, Lime Kiln Close, Stoke Gifford, Bristol, BS34 8SR or by email to [complaints@audit-commission.gov.uk](mailto:complaints@audit-commission.gov.uk). Their telephone number is 0844 798 3131, textphone (minicom) 020 7630 0421.

**This report summarises the key findings from our 2010/11 audit of Cheltenham Borough Council (the Council).**

**Although this letter is addressed to the Members of the Council, it is also intended to communicate these issues to key external stakeholders, including members of the public.**

**Our audit covers the audit of the Council's 2010/11 financial statements and the 2010/11 VFM conclusion.**

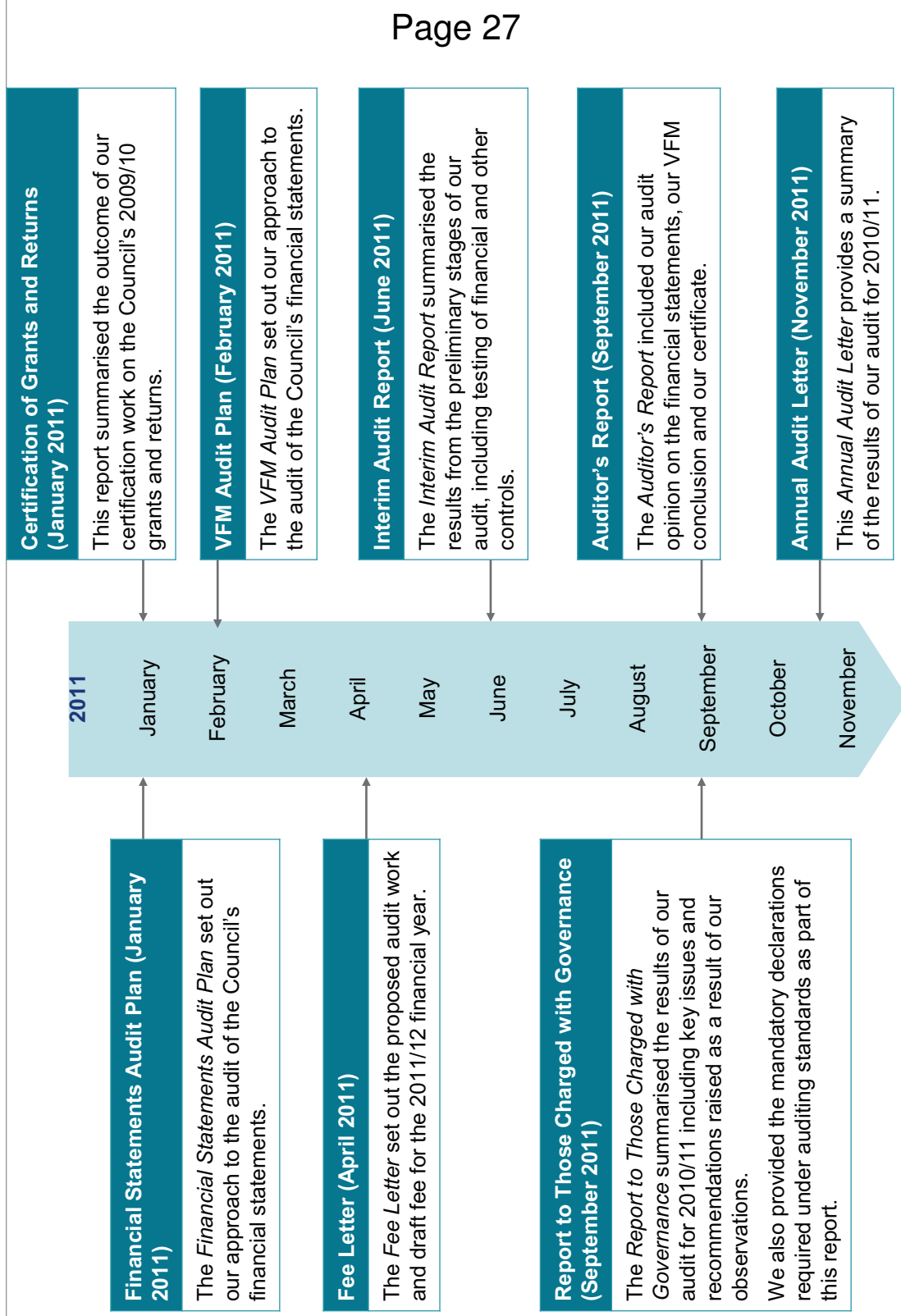
<p><b>VFM conclusion</b></p>	<p>We issued an unqualified value for money ("VFM") conclusion for 2010/11 on 21 September 2011. This means we are satisfied that you have proper arrangements for securing financial resilience and challenging how you secure economy, efficiency and effectiveness. To arrive at our conclusion we looked at your financial governance, financial planning and financial control processes, as well as how you are prioritising resources and improving efficiency and productivity.</p>
<p><b>Audit opinion</b></p>	<p>We issued an unqualified opinion on your financial statements on 21 September 2011, which meant that the financial statements gave a true and fair view of the financial position of the Council and of its expenditure and income for the year.</p>
<p><b>Financial statements audit</b></p>	<ul style="list-style-type: none"> <li>▪ The quality of the accounts and working papers provided to us were again excellent. Officers dealt efficiently with audit queries and the audit process was completed to the planned timescales. It should be noted that this was achieved whilst coping with the transition to the International Financial Reporting Standards (IFRS), which resulted in a significant amount of additional work for officers, and who were also preparing for the 'GO shared services project'.</li> <li>▪ We identified no issues in the course of the audit that are considered to be material or required adjustment.</li> <li>▪ There were no significant matters which we were required to report.</li> </ul>
<p><b>Annual Governance Statement</b></p>	<p>We reviewed your <i>Annual Governance Statement</i> and concluded that it was consistent with our understanding.</p>

**All the issues in this letter have been previously reported. The detailed findings are contained in the reports we have listed in Appendix 1.**

<b>High priority recommendations</b>	We raised no high priority recommendations as a result of our 2010/11 work.
<b>Certificate</b>	We issued our certificate on 21 September 2011. The certificate confirms that we have concluded the audit for 2011 in accordance with the requirements of the <i>Audit Commission Act 1998</i> and the Audit Commission's <i>Code of Audit Practice</i> .
<b>Audit fee</b>	Our fee for 2010/11 was £118,989, excluding VAT, which includes an amount of £5,000 in respect of follow up of the Public Interest Report. However, the Council will receive a reimbursement from the Audit Commission in respect of the IFRS conversion costs which will reduce the total fee by £7,626 to £111,363. Our final fee was in line with the amount originally agreed and planned. Further detail is contained in Appendix 2.

## Appendix 1: Summary of reports issued

This appendix summarises the reports we issued since our last *Annual Audit Letter*.



This appendix provides information on our final fees for 2010/11.

We have summarised below the outturn against the 2010/11 planned external audit fee.

**External audit**

Our fee for 2010/11 was £118,989, excluding VAT, which includes an amount of £5,000 in respect of follow up of the Public Interest Report. However, the Council will receive a reimbursement from the Audit Commission in respect of the IFRS conversion costs which will reduce the total fee by £7,626 to £111,363. Our final fee was in line with the amount originally agreed and planned.

**Certification of grants an returns**

Our grants work is still ongoing and the final fee will be confirmed through our report on the *Certification of Grants and Returns 2010/11* which we are due to issue in January 2012.



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# Financial Statements Audit Plan 2011/12

Cheltenham Borough Council

January 2012

The contacts at KPMG in connection with this report are:

**Ian Pennington**

*Director*

*KPMG LLP (UK)*

Tel: 029 2046 8087

[ian.pennington@kpmg.co.uk](mailto:ian.pennington@kpmg.co.uk)

**Rachael Tonkin**

*Manager*

*KPMG LLP (UK)*

Tel: 0117 905 4654

[rachael.tonkin@kpmg.co.uk](mailto:rachael.tonkin@kpmg.co.uk)

**Megan Lumsdaine**

*Assistant Manager*

*KPMG LLP (UK)*

Tel: 0117 905 4266

[megan.lumsdaine@kpmg.co.uk](mailto:megan.lumsdaine@kpmg.co.uk)

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This report is addressed to the Council and has been prepared for the sole use of the Council. We take no responsibility to any member of staff acting in their individual capacities, or to third parties. The Audit Commission has issued a document entitled *Statement of Responsibilities of Auditors and Audited Bodies*. This summarises where the responsibilities of auditors begin and end and what is expected from the audited body. We draw your attention to this document which is available on the Audit Commission's website at [www.auditcommission.gov.uk](http://www.auditcommission.gov.uk).

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This document describes how we will deliver our financial statements audit work for Cheltenham Borough Council.

### Statutory responsibilities

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 Council.

### Scope of this report

This document describes how we will deliver our financial statements audit work for Cheltenham Borough Council. It supplements our *Audit Fee Letter 2011/12* presented to you in April 2011.

We also set out our approach to value for money (VFM) work for 2011/12.

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.

### Structure of this report

This report is structured as follows:

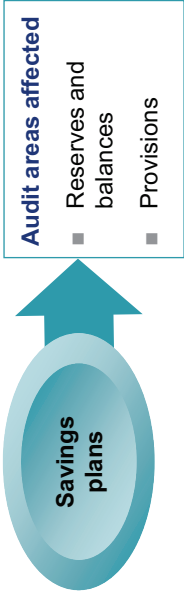
- Section 2 includes detail on the financial statements audit risks.
- Section 3 describes the approach we take for the audit of the financial statements.
- Section 4 explains our approach to VFM work.
- Section 5 provides information on our proposed deliverables and fees for our work.

### Acknowledgements

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

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


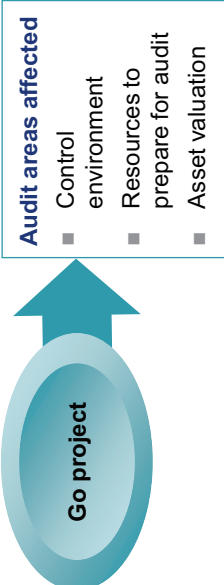
We will provide an update on how the council is managing these risks in our *Interim Audit Report*.

Key audit risks	Impact on audit
	<p><b>Risk</b></p> <p>As at December 2011, the Council is forecasting that it will deliver its 2011/12 budget in overall terms.</p> <p>With continued pressure to deliver the required level of public sector cuts, this may increase the risk of management bias on the financial statements, for example reducing the levels of provisions and liabilities.</p> <p>If there are any liabilities arising from the savings plans at year end, these will need to be accounted for in the 2011/12 financial statements as appropriate</p> <p><b>Our audit work</b></p> <p>In conjunction with our VFM work we will critically assess the controls the council has in place to ensure a sound financial standing, specifically that its Medium Term Financial Plan has duly taken into consideration the potential funding reductions and that it is sufficiently robust to ensure that the Council can continue to provide services effectively. We will also review how the Council is planning and managing its savings plans.</p> <p>As part of our final accounts audit we will review the council's assessment of any potential liabilities arising from its savings plans against the Code. If applicable, we will review the council's provision, including the methodology, assumptions and calculations.</p>

## Key financial statements audit risks (continued)

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

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



Key audit risks	Impact on audit
 <p><b>Audit areas affected</b></p> <ul style="list-style-type: none"> <li>■ Asset valuation</li> <li>■ Various</li> </ul>	<p><b>Risk</b></p> <p>The 2011/12 Code includes a number of accounting changes, including a new requirement to carry 'heritage assets' at valuation. Heritage assets include historical buildings, museum and gallery collections and works of art.</p> <p>The 2011/12 Code also clarifies requirements in a number of areas where ambiguity was identified in the 2010/11 Code.</p> <p>The Council needs to review and appropriately address these changes in its 2011/12 financial statements.</p> <p><b>Our audit work</b></p> <p>As part of our interim work we will review the Council's approach to addressing the Code changes.</p> <p>As part of our final accounts audit we will review the appropriateness of the accounting entries and disclosures in the accounts.</p>
 <p><b>Audit areas affected</b></p> <ul style="list-style-type: none"> <li>■ Control environment</li> <li>■ Resources to prepare for audit</li> <li>■ Asset valuation</li> </ul>	<p><b>Risk</b></p> <p>As the Go project progresses towards completion, the Council's resources will become further stretched as staff will be asked to take on additional roles in the lead up to the Go Live 'date'. This may have an adverse impact on the Council control environment.</p> <p>The accounting for the Go project involves decisions as to whether project costs should be treated as Capital or Revenue. We will also review the accounting for the Council re-charging costs to its partners.</p> <p><b>Our audit work</b></p> <p>We will review the control environment during our interim audit and assess whether there has been any impact on the control environment and report this to the Audit Committee in June.</p> <p>We will review the accounting policy and treatment of the project costs together with the assumptions behind the treatment in our Interim audit and complete the substantive final audit procedures at the year end audit visit in July.</p>



## Key financial statement audit risks

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

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

Key audit risks	Impact on audit
 <p><b>Property sales</b></p> <div data-bbox="446 1032 614 1317" style="border: 1px solid black; padding: 5px;"> <p><b>Audit areas affected</b></p> <ul style="list-style-type: none"> <li>■ Fixed asset valuations</li> <li>■ Reserves</li> </ul> </div>	<p><b>Risk</b></p> <p>There is a potential that a property sale will be completed before the end of the year.</p> <p><b>Our audit work</b></p> <p>We will review the timing of any sale and its accounting treatment.</p>
 <p><b>Icelandic Banks update</b></p> <div data-bbox="798 1032 949 1317" style="border: 1px solid black; padding: 5px;"> <p><b>Audit areas affected</b></p> <ul style="list-style-type: none"> <li>■ Investment valuation</li> <li>■ Capital Direction</li> <li>■ Reserves</li> </ul> </div>	<p><b>Risk</b></p> <p>Following the outcome of the Court case, the impairment and Capital Direction needs to be reviewed and the accounting treatment updated, once the legal guidance has been finalised.</p> <p><b>Our audit work</b></p> <p>We will review the latest guidance on accounting treatment and check that the financial statements correctly reflect the guidance.</p>
 <p><b>Former Managing Director</b></p> <div data-bbox="1101 1032 1252 1317" style="border: 1px solid black; padding: 5px;"> <p><b>Audit areas affected</b></p> <ul style="list-style-type: none"> <li>■ Account disclosures</li> <li>■ Provisions</li> <li>■ Reserves</li> </ul> </div>	<p><b>Risk</b></p> <p>The recent BBC interviews with the Former Managing Director may have increased the level of public interest in the case again. The Council is currently waiting for the Pension Ombudsman ruling. The accounting treatment for this in the year end financial statements will depend on the ruling, therefore this must be kept under review.</p> <p><b>Our audit work</b></p> <p>We will review the ruling when it is issued and consider the accounting treatment.</p>

## Section three Financial statement audit approach

We undertake our work on your financial statements in four key stages during 2012:

- **Planning** (January).
- **Control Evaluation** (March).
- **Substantive Procedures** (July).
- **Completion** (August and September).

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



## Financial statement audit approach – planning

**During January we complete our planning work.**

**We assess the key risks affecting the Council's financial statements and discuss these with officers.**

**We assess if there are any weaknesses in respect of central processes, including the Council's IT systems, that would impact on our audit.**

**We determine our audit strategy and approach, and agree a protocol for the accounts audit, specifying what evidence we expect from the Council to support the financial statements.**

Our planning work takes place in January 2012. This involves the following aspects:

<b>Planning</b>	<ul style="list-style-type: none"><li>■ Update our business understanding and risk assessment.</li><li>■ Assess the organisational control environment.</li><li>■ Determine our audit strategy and plan the audit approach.</li><li>■ Issue our <i>Accounts Audit Protocol</i>.</li></ul>
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### Organisational control environment

Controls operated at an organisational level often have an impact on controls at an operational level and if there were weaknesses this would impact on our audit. Most of the organisational controls we assess were previously linked to the use of resources assessment. In particular, the areas of risk management, internal control and ethics and conduct have implications for our financial statements audit.

The Council relies on information technology to support both financial reporting and internal control processes. In order to satisfy ourselves that we can rely on the use of IT, we test controls over access to systems and data, system changes, system development and computer operations.

### Business understanding and risk assessment

We update our understanding of the Council's operations and identify any areas that will require particular attention during our audit of the Council's financial statements.

We identify the key risks affecting the Council's financial statements. These are based on our knowledge of the Council, our sector experience and our ongoing dialogue with Council staff. The risks identified to date are set out in this document. Our audit strategy and plan will, however, remain flexible as the risks and issues change throughout the year. It is the Council's responsibility to address these issues. We encourage the Council to raise any technical issues with us as early as possible so that we can agree the accounting treatment in advance of the audit visit.

We meet with Sarah Didcote and Martyn Scull on a regular basis to consider issues and how they will be addressed during the financial year end closedown and accounts preparation.

### Audit strategy and approach

We design audit procedures in response to the risk that the financial statements are materially misstated. The materiality level is a matter of audit judgement.

### Accounts audit protocol

At the end of our planning work we will issue our Accounts Audit Protocol. This important document sets out our audit approach and timetable. It also summarises the working papers and other evidence we require the Council to provide during our interim and final accounts visits.



## Financial statement audit approach – control evaluation

**During March we complete our interim work.**

**We assess if controls over key financial systems were effective during 2011/12. We work with your internal audit team to avoid duplication.**

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

**We will present our *Interim Report* to the Audit Committee in June.**

Our interim visit on site will be completed during 19 March – 30 March. During this time we will complete work in the following areas:

Control Evaluation	<ul style="list-style-type: none"> <li>■ Evaluate and test controls over key financial systems.</li> <li>■ Review the internal audit function.</li> <li>■ Review the accounts production process.</li> <li>■ Review progress on critical accounting matters.</li> </ul>
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### Controls over key financial systems

We update our understanding of the Council's key financial processes where these are relevant to our final accounts audit. We confirm our understanding by completing walkthroughs for these systems. We then test selected controls that address key risks within these systems. The strength of the control framework informs the substantive testing we complete during our final accounts visit.

Appendix 1 illustrates how we determine the most effective balance of internal controls and substantive audit testing.

We work with the Council's internal auditors to assess the control framework for key financial systems and seek to rely on any relevant work they have completed to minimise unnecessary duplication of work. Our audit fee is set on the assumption that we can place reliance on their work. We have a joint working protocol and have met with Rob Milford, Head of Internal Audit, to discuss the principles and timetables for the managed audit process for 2011/12.

### Review of internal audit

Where we intend to rely on internal audit's work in respect of the Council's key financial systems, auditing standards require us to review aspects of their work. This includes re-performing a sample of tests completed by internal audit. We will provide detailed feedback to Rob Milford at the end of our interim visit.

### Accounts production process

We raised a few recommendations in our *Report to Those Charged with Governance (ISA 260 Report) 2010/11* relating to the accounts production process.

We will assess the Council's progress in addressing our recommendations and in preparing for the closedown and accounts preparation.

We were impressed with how the finance team managed the conversion and the quality of the first IFRS accounts produced in 2010/11. However, we consider that the accounts would benefit from a review in advance of the year end accounts process, to consider whether the accounts and Annual Governance Statement can be reduced in length and the clarity improved for the reader. We can provide you with advice in this process.

### Critical accounting matters

We will carry out the work to address the specific risks we identified at the planning stage. Wherever possible, we seek to review relevant workings and evidence and agree the accounting treatment as part of our interim work.

Following our interim visit we will issue our *Interim Report* which will set out the findings of our planning and interim work. This will be discussed at the June Audit Committee meeting.

## Financial statement audit approach – substantive procedures

During July 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 then agree any audit adjustments required to the financial statements.

We also 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 has been provisionally scheduled for the period 2 July – 20 July. During this time, we will complete the following work:

### Substantive Procedures

- Plan and perform substantive audit procedures.
- Conclude on critical accounting matters.
- Identify audit adjustments.
- Review the Annual Governance Statement.

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.

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### Substantive audit procedures

We complete detailed testing on significant balances and disclosures. The extent of our work is based on various factors such as our overall assessment of the Council'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 Paul Jones 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.

We report the findings of our final accounts work in our *ISA 260 Report*.

## Financial statement audit approach – other

In addition to the financial statements, we also audit the Council's Whole of Government Accounts pack.

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

We will communicate with you throughout the year, both formally and informally.

Our independence and objectivity responsibilities under the Code are summarised in Appendix 2.

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

### Whole of government accounts (WGA)

We are required to review and issue an opinion on your WGA consolidation to confirm that this is consistent with your financial statements. The audit approach has been agreed with HM Treasury and the National Audit Office.

### Electoral 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 the 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.

### Reporting and communication

Reporting is a key part of the audit process, not only in communicating the audit findings for the year, but also in ensuring the audit team are accountable to you in addressing the issues identified as part of the audit strategy. Throughout the year we will communicate with you through meetings with the finance team and the Audit Committee. Our deliverables are included on page 17.

### 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 standards define '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 11 January 2012, in our professional judgement, KPMG LLP is independent within the meaning of regulatory and professional requirements and the objectivity of the Engagement Lead and audit team is not impaired.

Our approach to VFM work follows guidance provided by the Audit Commission.

**Background to approach to VFM work**

In meeting their statutory responsibilities relating to economy, efficiency and effectiveness, the Commission's *Code of Audit Practice* requires auditors to:

- plan their work based on consideration of the significant risks of giving a wrong conclusion (audit risk); and
- carry out only as much work as is appropriate to enable them to give a safe VFM conclusion.

To provide stability for auditors and audited bodies, the Audit Commission has kept the VFM audit methodology unchanged from last year. There are only relatively minor amendments to reflect the key issues facing the local government sector.

The approach is structured under two themes, as summarised below.

Specified criteria for VFM conclusion	Focus of the criteria	Sub-sections
The organisation has proper arrangements in place for securing <b>financial resilience</b> .	The organisation has robust systems and processes to: <ul style="list-style-type: none"> <li>■ manage effectively financial risks and opportunities; and</li> <li>■ secure a stable financial position that enables it to continue to operate for the foreseeable future.</li> </ul>	<ul style="list-style-type: none"> <li>■ Financial governance</li> <li>■ Financial planning</li> <li>■ Financial control</li> </ul>
The organisation has proper arrangements for challenging how it <b>secures economy, efficiency and effectiveness</b> .	The organisation is prioritising its resources within tighter budgets, for example by: <ul style="list-style-type: none"> <li>■ achieving cost reductions; and</li> <li>■ improving efficiency and productivity.</li> </ul>	<ul style="list-style-type: none"> <li>■ Prioritising resources</li> <li>■ Improving efficiency and productivity</li> </ul>

## Section four VFM audit approach (continued)

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

### Overview of the VFM audit approach

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



Each of these stages are summarised further below.

VFM audit stage	Audit approach
<b>VFM audit risk assessment</b>	<p>We consider the relevance and significance of the potential business risks faced by all local authorities, and other risks that apply specifically to the Council. These are the significant operational and financial risks in achieving statutory functions and objectives, which are relevant to auditors' responsibilities under the <i>Code of Audit Practice</i>.</p> <p>In doing so we consider:</p> <ul style="list-style-type: none"> <li>■ the Council's own assessment of the risks it faces, and its arrangements to manage and address its risks;</li> <li>■ information from the Audit Commission's VFM profile tool and financial ratios tool;</li> <li>■ evidence gained from previous audit work, including the response to that work; and</li> <li>■ the work of the Audit Commission, other inspectorates and review agencies.</li> </ul>



Our VFM audit will draw heavily on other audit work which is relevant to our VFM responsibilities and the results of last year's VFM audit.

We will then form an assessment of residual audit risk to identify the areas where more detailed VFM audit work is required.

VFM audit stage	Audit approach
<p><b>Linkages with financial statements and other audit work</b></p>	<p>There is a degree of overlap between the work we do as part of the VFM audit and our financial statements audit. For example, our financial statements audit includes an assessment and testing of the council's organisational control environment, including the council's financial management and governance arrangements, many aspects of which are relevant to our VFM audit responsibilities.</p> <p>We have always sought to avoid duplication of audit effort by integrating our financial statements and VFM work, and this will continue. We will therefore draw upon relevant aspects of our financial statements audit work to inform the VFM audit.</p>
<p><b>Assessment of residual audit risk</b></p>	<p>It is likely that further audit work will be necessary in some areas to ensure comprehensive coverage of the two VFM criteria.</p> <p>This work will involve a range of interviews with relevant officers, and review of documents such as policies, plans and minutes. We will also refer to any self assessment the council may prepare against the characteristics.</p> <p>To inform any further work we must draw together an assessment of residual audit risk, taking account of the work undertaken already. This will identify those areas requiring further specific audit work to inform the VFM conclusion.</p> <p>At this stage it is not possible to indicate the number or type of residual audit risks that might require additional audit work, and therefore the overall scale of work cannot be easily predicted.</p>
<p><b>Identification of specific VFM audit work</b></p>	<p>If we identify residual audit risks, then we will highlight the risk to the council and consider the most appropriate audit response in each case, including:</p> <ul style="list-style-type: none"> <li>■ considering the results of work by the council, the Audit Commission, other inspectorates and review agencies; and</li> <li>■ carrying out local risk-based work to form a view on the adequacy of the council's arrangements for securing economy, efficiency and effectiveness in its use of resources.</li> </ul>

Where relevant, we draw upon the range of audit tools and review guides developed by the Audit Commission.

We will report on the results of the VFM audit through our *Interim Audit Report* and our *Report to those charged with governance*.

VFM audit stage	Audit approach
<p>Delivery of local risk based work</p>	<p>Depending on the nature of the residual audit risk identified, we will be able to draw on audit tools and sources of guidance when undertaking specific local risk-based audit work, such as:</p> <ul style="list-style-type: none"> <li>■ local savings review guides based on selected previous Audit Commission national studies; and</li> <li>■ update briefings for previous Audit Commission studies.</li> </ul> <p>The tools and guides will support our work where we have identified a local risk that is relevant to them. For any residual audit risks that relate to issues not covered by one of these tools, we will develop an appropriate audit approach drawing on the detailed VFM guidance and other sources of information.</p>
<p>Concluding on VFM arrangements</p>	<p>At the conclusion of the VFM audit we will consider the results of the work undertaken and assess the assurance obtained against each of the VFM themes regarding the adequacy of the council's arrangements for securing economy, efficiency and effectiveness in the use of resources.</p> <p>If any issues are identified that may be significant to this assessment, and in particular if there are issues that indicate we may need to consider qualifying our VFM conclusion, we will discuss these with management as soon as possible. Such issues will also be considered more widely as part of KPMG's quality control processes, to help ensure the consistency of auditors' decisions.</p>
<p>Reporting</p>	<p>We will report on the results of the VFM audit through our <i>Interim Audit Report</i> and our <i>Report to those charged with governance</i>. These reports will summarise our progress in delivering the VFM audit, the results of the risk assessment and any specific matters arising, and the basis for our overall conclusion.</p> <p>The key output from the work will be the VFM conclusion (i.e. our opinion on the council's arrangements for securing VFM), which forms part of our audit report.</p>

At the end of each stage of our audit we issue certain deliverables, including reports and opinions.

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

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

Deliverable	Purpose	Committee dates
<b>Planning</b>		
<b>Financial Statements Audit Plan</b>	<ul style="list-style-type: none"> <li>Outline audit approach.</li> <li>Identify areas of audit focus and planned procedures.</li> </ul>	<b>January 2012</b>
<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>Identify improvements required prior to the issue of the draft financial statements and the year-end audit.</li> </ul>	<b>June 2012</b>
<b>Substantive procedures</b>		
<b>Report to Those Charged with Governance (ISA 260 Report)</b>	<ul style="list-style-type: none"> <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> <li>Commentary on the Council's value for money arrangements.</li> </ul>	<b>September 2012</b>
<b>Completion</b>		
<b>Auditor's report</b>	<ul style="list-style-type: none"> <li>Providing an opinion on your accounts (including the Annual Governance Statement).</li> <li>Concluding on the arrangements in place for securing economy, efficiency and effectiveness in your use of resources (the VFM conclusion).</li> </ul>	<b>September 2012</b>
<b>Annual Audit Letter</b>	<ul style="list-style-type: none"> <li>Summarises the outcomes and the key issues arising from our audit work for the year.</li> </ul>	<b>November 2012</b>



The main fee for 2011/12 audit of the Council is £108,290. The fee has not changed from that set out in our *Audit Fee Letter 2011/12* issued in April 2011.

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

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

The fee for our grants work will be confirmed through our summary report on the certification of grants and returns which will be issued in February 2012.

**Audit fee**

Our *Audit Fee Letter 2011/12* presented to you in April 2011 first set out our fees for the 2011/12 audit. We have not considered it necessary to make any changes to the agreed fees.

Element of the audit	2011/12 (planned)	2010/11 (actual)
Gross audit fee	£108,290	£111,363

The main fee for 2011/12 audit is £108,290, which includes our work on the VFM conclusion and our audit of the Council's financial statements.

**Audit fee assumptions**

The audit fee is indicative and based on you meeting our expectations. 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 2010/11;
- 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 Council Accounting in the UK 2011/12* within your 2011/12 financial statements;
- you will comply with the expectations set out in our *Accounts Audit Protocol*, including:
  - the financial statements are made available for audit in line with the agreed timescales;
  - 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 adheres to our joint working protocol and 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.

The Audit Commission requires us to inform you of specific actions you could take to minimise the audit fee. The Council already provides us with high quality working papers and draft final accounts for audit and also answer our queries on a timely basis, which has kept your audit fee relatively low. If the Authority continues to provide the same quality in future years, then the audit fee will continue to be minimised.

**Changes to the audit plan**

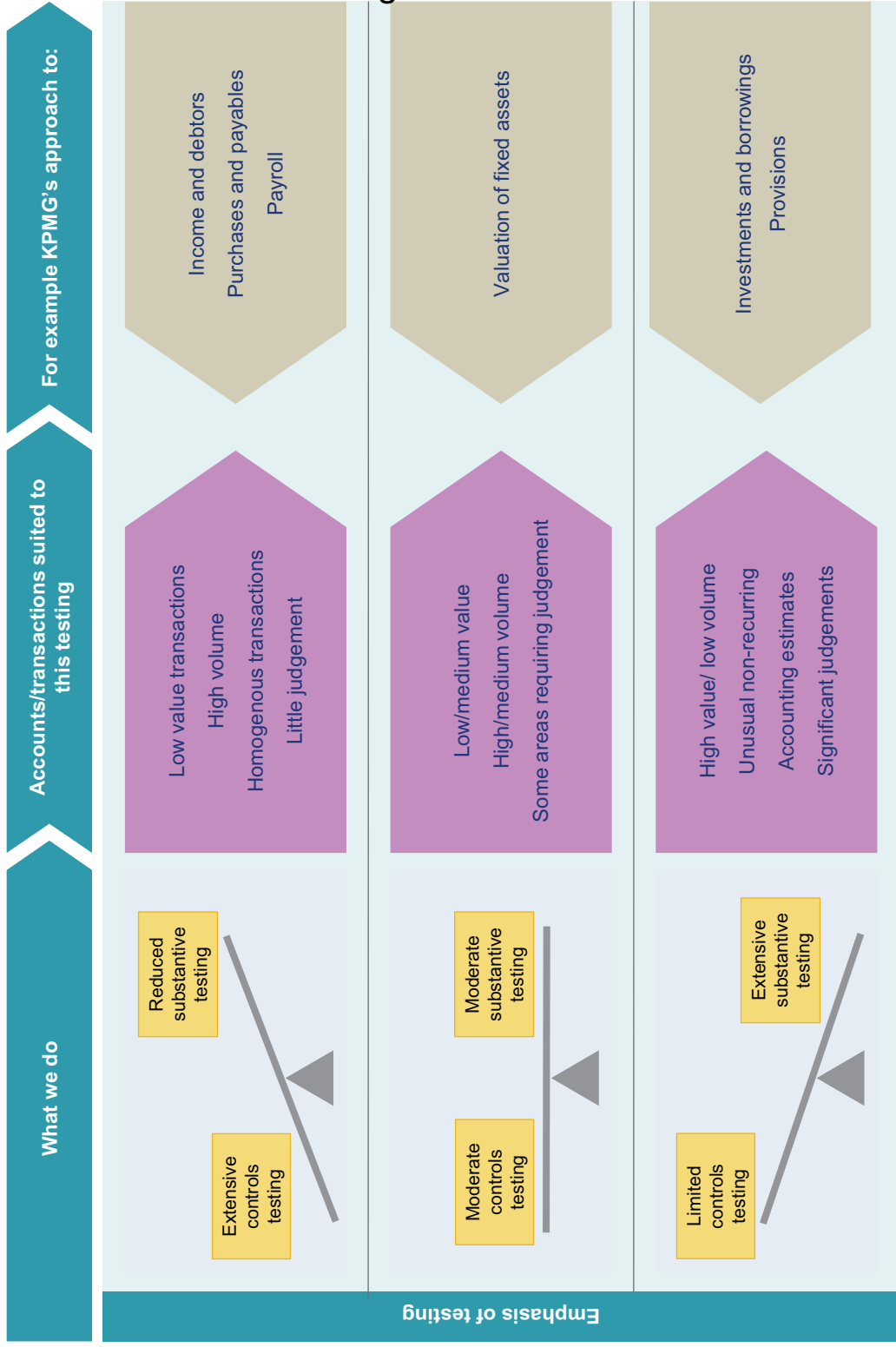
Changes to this plan and the audit fee may be necessary if:

- 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 Mark Sheldon.

# 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.



## Appendix 2: Independence and objectivity requirements

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 Council 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 engagement lead.
- 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.

## Appendix 3: Quality assurance and technical capacity

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.

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.

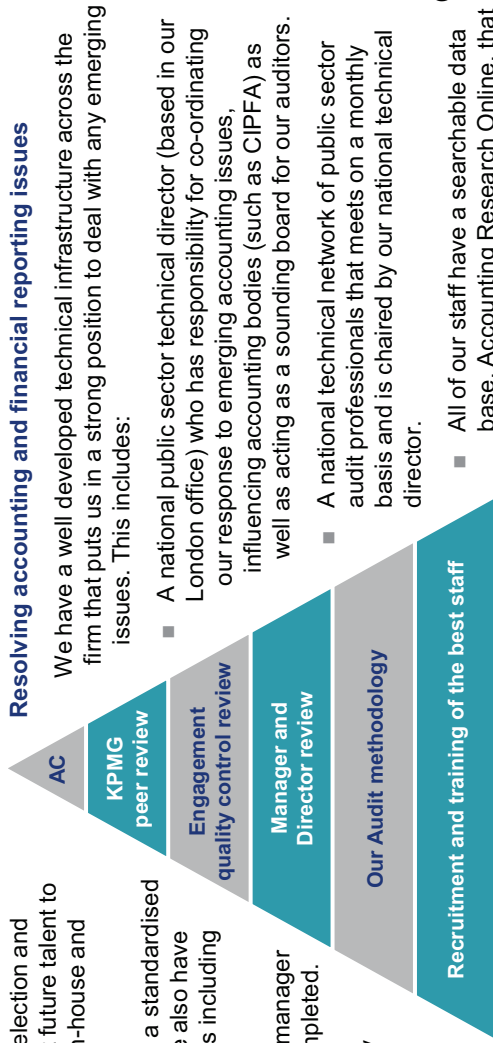
Our audit methodology determines that we use a standardised audit approach and pro forma work papers. We also have standards of audit evidence and working papers including requirements for working paper retention.

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 the 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 2011 showed that we performed highly against all the Commission's criteria.



### Resolving accounting and financial reporting issues

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) as well as acting as a sounding board for our auditors.
- A national technical network of public sector audit professionals that meets on a monthly 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 quarterly 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 Council 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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**Cheltenham Borough Council  
Audit Committee – 11 January 2012  
Internal Audit Monitoring Report**

<b>Accountable member</b>	<b>Cabinet member corporate services - Councillor Colin Hay</b>
<b>Accountable officer</b>	<b>Audit Partnership Manager – Robert Milford</b>
<b>Accountable scrutiny committee</b>	<b>Economy and business improvement</b>
<b>Ward(s) affected</b>	<b>All</b>
<b>Key Decision</b>	<b>No</b>
<b>Executive summary</b>	<p>The council must ensure that it has sound systems of internal control that facilitate the effective management of all the council's functions. The work delivered by AuditCotswolds, the council's internal audit service, is one of the control assurance sources available to the Audit Committee, the Senior Leadership Team and supports the work of the external auditor.</p> <p>The Annual Internal Audit Opinion presented to Audit Committee provides an overall assurance opinion at the end of the financial year. This Internal Audit Monitoring Report however is designed to give the Audit Committee the opportunity to comment on the work completed by the partnership and provide 'through the year' comment and assurances on the control environment.</p>
<b>Recommendations</b>	<b>The Audit Committee considers the report and makes comment on its content as necessary</b>

<b>Financial implications</b>	<p><i>There are no direct financial implications arising from this report.</i></p> <p><b>Contact officer: Mark Sheldon, Chief Finance Officer</b></p> <p><b>mark.sheldon@cheltenham.gov.uk,</b></p> <p><b>01242 264123</b></p>
<b>Legal implications</b>	<p><i>None specific arising from the report recommendation.</i></p> <p><b>Contact officer: Peter Lewis, peter.lewis@tewkesbury.gov.uk, 01684 272012</b></p>

<p><b>HR implications (including learning and organisational development)</b></p>	<p><i>No additional HR implications arising from this report.</i></p> <p><b>Contact officer: Julie McCarthy, HR Operations Manager</b></p> <p><b>julie.mccarthy@cheltenham.gov.uk,</b></p> <p><b>01242 26 4355</b></p>
<p><b>Key risks</b></p>	<p>That weaknesses in the control framework, identified by the audit activity, continue to threaten organisational objectives, if recommendations are not implemented.</p>
<p><b>Corporate and community plan Implications</b></p>	<p><i>“Internal Auditing is an independent, objective assurance and consulting activity designed to add value and improve organisation’s operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.”</i> (Chartered Institute of Internal Auditing UK &amp; Ireland).</p> <p>Therefore the internal audit activity impacts on corporate and community plans.</p>
<p><b>Environmental and climate change implications</b></p>	<p>One of the specialist skills now provided by the service is that of environmental auditing. This would therefore aid the Council in its environmental and climate change objectives.</p>



# 1. Background

- 1.1 The Annual Audit Plan was aligned with the corporate and service risks facing the Council as identified in consultation with the Senior Leadership Team and supported by such systems as the risk registers. At the time of preparing the 2011/12 plan, the Councils Corporate Strategy 2010-2015 was being reviewed and, as internal audit is there to help the organisation to achieve objectives, part of the plan has been aligned to elements of this strategy. However, to inform the audit plan we have also reviewed other key documents, such as the recently prepared Medium Term Financial Strategy, change programme agendas and updates to the business plan, many of which contain risk assessments.
- 1.2 There is also a requirement to support the work of the External Auditor (KPMG). This is in the form of financial audits governed by the Joint Working Agreement, and the governance audits to support such activities as Use of Resources.
- 1.3 The audit plan also considered risks that may evolve during the year. The consultation process has sought to identify these areas considering where internal audit could support and add value to the risk control process. This report identifies work we have completed in relation to the planned audit work.

# 2. Reasons for recommendations

- 2.1 The environment in which Cheltenham BC and other Local Authorities now operates has presented significant drivers for change. The continual effort to meet the organisational objectives within a constrained budget has resulted in core systems coming under review for change e.g. the GO Programme impacting on core financial systems, Shared Services impacting on core governance arrangements, etc.
- 2.2 Therefore Internal Audit needs to be responding to the changing environment and the areas where the organisation now requires assurances. This prompts the requirement to move to a more flexible and risk based plan.
- 2.3 It should also be recognised that the service is now a partnership so coordinating resources across multiple organisations is critical to the success of the partnership.
- 2.4 This report highlights the work completed by internal audit and provides comment on the assurances provided by this work.

# 3. Internal Audit Output

- 3.1 The internal audit service commenced quarter 2 with reduced resources due to maternity leave. However there is still the expectancy to complete the audit plan 2011/12 as planned. The partnership made use of existing staff to cover the maternity issue by acting up one senior auditor to principal level and increasing the days available to another senior auditor.
- 3.2 Internal Audit has concluded the following audits in quarter 2 and commenced quarter 3 work:

<b>Audit</b>	<b>Report status</b>	<b>Assurance</b>
Licensing	Final	Satisfactory
Capital Programme	Final	Satisfactory
Cash Receipting	Final	Satisfactory

Development Control Planning Applications	Final Page 58	Satisfactory
Risk Management	Draft	
Governance Compliance	Draft	
Waste Management - Income	Draft	
Information security	Ongoing	
Information Technology	Ongoing	
Core Financials **	Ongoing	

*\*\*Core Financials include Payroll, Main Accounting, Debtors and Creditors – these have been aligned to the GO programme's timetable for implementation*

3.3 Further detail specific to each audit finalised is shown in **Appendix 1**.

3.4 The AuditCotswolds has also undertaken the following:

- Audit support for the GO-Programme\* (see section 4 below)
- Audit support for the Local Authority Company\* (see section 4 below)
- Cheltenham Borough Homes – client (audit days delivered)
- Business Continuity Planning support/review
- Audit support for the Commissioning Programme
- Audit Support for the other key Change Programmes

#### **4. \*Possible changes to the Annual Audit Plan**

4.1 The Audit Committee approved the plan for 2011/12 on the 23<sup>rd</sup> March 2011. Within the plan there was an element identified as 'risk based' and therefore was to remain flexible to ensure only current risks were reviewed. There are two key risks that have impacted on the audit plan; GO Programme and the Local Authority Company. Both of these elements have received increased levels of audit input either through assurance work or consultancy.

4.2 The Audit Committee should be aware that the Annual Audit Plan is likely to be changed in terms of 'Core Financial' and 'Risk Based' activity as these two projects continue. Detail on the work conducted is summarised thus:

4.2.1 GO Programme – Audit support at programme board level, independent assessment of gateway reviews and results, advice on the implementation projects including coordinating implementation

audit support at Forest of Dean, monitoring of risk assessments and highlight reports, etc

- 4.2.2 Local Authority Company – Audit support at Project Board level, advice on project governance, risk management and gateway review systems, advice at implementation level projects, etc
- 4.2.3 Both of these projects are going to require internal audit services from 1<sup>st</sup> April 2012 and therefore some audit management time has been allotted to the development of new audit structures and plans for this provision.
- 4.3 The level of involvement the internal audit service has within the Cheltenham Borough Council change programmes is substantial but it is considered necessary when there is such a high level of risk with such significant changes being introduced.

<b>Report author</b>	<b>Robert Milford, Audit Partnership Manager, 01242 775174, Robert.milford@cheltenham.gov.uk</b>
<b>Appendices</b>	<b>1. Internal Audit Monitoring Report</b>
<b>Background information</b>	

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**Appendix 1**

**Internal Audit Monitoring Report**

Audit	Report status	Assurance
Licensing	Final	Satisfactory

This review covers the Licensing Team along with the reconciliation and finance work of the Business Support Unit (BSU). We did not specifically review any of the responsibilities of the Enforcement Team.

Overall, based on our findings there has been a substantial improvement in the licensing function, since the last audit reports in 2004 and 2006, where results equated to a 'limited assurance' audit assessment. The 2006 audit cited gaps in controls, weaknesses in policies and procedures and lack of reconciliations. Since then the Licensing function has been completely restructured and re-staffed and there is a good working relationship within the team. A new Manager has also been in place since 2008. Many of those recommendations involving the Licensing Team have been actioned successfully and some are no longer applicable. We found Licensing Team procedures were well documented and available to all staff. Sample testing found that license applications and decisions are supported by a clear audit trail with detailed documentation scanned and in one place in the Uniform computer system. The taxi drivers 'open sessions' have improved customer relations as well as being a useful forum for any general licensing queries.

There are, however, some areas where further improvement is needed; the introduction of effective financial reconciliations in the Business Support Unit (this was not instigated by previous management), the urgent completion and approval of the 'Objects on Highways Policy', with its links to 'A' Board income collection and enforcement and appropriate risk management of 'old' style taxi plates.

Effective reconciliation of income on the General Ledger to the value of licences issued from the Uniform system should be performed to give full assurance that licences are only issued where payment has been received.

In respect of A-boards, a recent internal survey identified some 200 unlicensed boards being used around the town. Only 7 applications have been approved in the year to date. It is hoped that the new policy will be clearer in its application granting criteria, thus avoiding misinterpretation and the potential for public relations problems. The new policy should allow for appropriate delegation to licensing officers, excluding appeals, which would speed up processing times and save on overall license collection costs. Such a change should allow for effective and efficient 'A' board licence regulation procedures and be the basis on which income collection and enforcement, via fixed penalty notices, can be properly instigated.

Management fully accept that some of these areas are in need of positive action, as they can currently spend a disproportionate amount of time on them. The challenge will be to promote delegated changes, governed by the application of approved policy, with the Licensing Committee/Sub Committee, allowing elected members to

focus on matters under the appeals protocol.

We did identify one significant risk which is not currently entered into a service or departmental risk register and, therefore, being highlighted and managed appropriately. Prior to 2008, inadequate records were kept and maintained, which resulted in an unidentified number of 'old style' taxi plates (without expiry dates) being recovered. The risk of unauthorised vehicles operating could, therefore, result in adverse publicity for the Council, especially if an offence was to occur.

Systems and evidence show that the Council complies with its obligation to ensure that the granting of alcohol, premises and gambling licenses follow a consistent and transparent approach in compliance with the Licensing Act 2003 and the Gambling Act 2005.

In conclusion, our findings indicate many beneficial operational and structural improvements have been made, but there are some control and system improvement areas that now need to be fully implemented in order for the function to be fully effective. As a result, the licensing control environment has received a 'satisfactory' assurance level.

**Management Response:**

Following a number of meetings I am satisfied that the assurance level satisfactory is appropriate. Noted the highlighted areas of improvements required and these will be implemented in accordance with the proposed action plan.

Capital Programme	Final	Satisfactory
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The review has built upon the recent audit work undertaken on capital expenditure and asset management. Neither of these audits raised concern in relation to capital expenditure or controls exercised over the programme and indeed the core financial review gave a high assurance opinion on controls in place.

The asset management review commented on the refreshed Asset Management Plan, its developing relationship to corporate strategy objectives and, with a Head of Property Services in place, the opportunity to build on links between the capital programme and asset management. The Head of Property Services has responsibilities as 'corporate landlord' and early consultation with him on relevant proposed capital projects which involve the estate to ensure that plans will have no detrimental affect on Council properties is appropriate.

Identified system controls with the Council's Capital Strategy, Asset Management Plan and Medium Term Financial Strategy policy documents all contribute to sound procedures. The detailed annual (and longer term) capital programme is approved by Council and is subject to quarterly budget monitoring reports. Current financial constraints have imposed an efficient and effective discipline on schemes proposed for inclusion in the programme.

A sample of schemes in the capital programme were reviewed in detail. Procedures for inclusion of these schemes in the capital programme are satisfactory. Detailed

comments arising from this check are included within the body of the report but concerns are expressed on financial cost control exercised over the increased costs of one of these schemes.

**Management Response:**

The purpose of the Council's Capital Strategy is to document the principles and framework that underpin its longer-term capital investment and expenditure proposals. The strategy is drawn up under the framework provided by the Local Government Act 2003 and its associated regulations.

The Capital Strategy outlines the Council's approach to decision making in respect of investment in the Council's property portfolio which support the Council's Asset Management Plan (AMP).

I therefore endorse the recommendation that the Head of Property Services (acting in his capacity as corporate landlord) should be consulted at the earliest opportunity on any capital scheme that may have consequences for the Council's estate and that an officer from within his team be appointed to any subsequent project board that may be created to ensure the scheme is completed.

As part of the outturn report, budget holders are responsible for requesting carry forward for unspent budget and this is facilitated by way of a narrative within the accompanying appendices to the outturn report. Recommendation 7 of the outturn report states "*note the capital programme outturn position as detailed in Appendix 11 and approve the carry forward of unspent budgets into 2011/12 (section 8)*". It is noted that the intention is to use the carry forward for non CCTV work and therefore a duly completed virement form will be required. Financial Rules are in the process of being written and are anticipated to be agreed by full Council on 10th October 2011. These rules specify what a service manager can and cannot do with regards to carry forward requests and virement.

I note the concerns expressed in relation to the 'Pittville Park Boathouse Bridge' scheme and would anticipate that the revised financial rules will help service managers to understand the level of virement that they can undertake to reduce the risk of a similar situation arising in the future.

Cash Receipting	Final	Satisfactory
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Cash receipting processes in the Cash Hall were reviewed earlier this year and are operating effectively. Recommendations made are being implemented and the recovery of credit card payments is also progressing positively. So this review has focussed on reconciliation of cash receipts, credit card charges, petty cash / cash float administration, PCI compliance, web and telephone based receipts and a review of cash receipting processes at the area offices of Cheltenham Borough Homes.

Overall processes and procedures for cash receipting are satisfactory, albeit there are areas outside the day to day operations that require some attention and

recommendations have been made and agreed.

Procedures for cash receipts and allocation of income to the general ledger are sound and operate effectively at both the Cash Hall and area offices. The key control of reconciling income distribution to the feeder accounts such as Council Tax, Sundry Debtors etc. is performed regularly by the Senior Revenues & Income Control Officer, although this process should be documented as currently reliance is placed on one officer to complete the task.

A recent customer complaint has highlighted inconsistencies in charges applied to payments made by credit card. Further investigations found that the Council does not have a policy for this charge and so service areas have adopted their own rules.

Financial rules are not being followed in respect of claims made through petty cash imprest accounts and cash floats. As a review of the Financial Rules is currently taking place for the Go shared service implementation, it would be a good opportunity to address these areas so that a fair and consistent approach is agreed.

**Management Response:**

Report findings and recommendations agreed

Development Control Planning Applications	Final	Satisfactory
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The work undertaken covered an audit of the planning applications processing of Development Management at Cheltenham Borough Council. The audit was included as part of the Internal Audit Plan for 2011 that was approved by the Audit Committee on 23 March 2011.

The Development Management team receive around 2000 applications for planning permission each year, which generates approximately £431,300 in fees and charges. Fees are set nationally and are published on the Cheltenham Borough Council planning website. The audit noted that fees were being promptly receipted and banked with cashiers daily. It was also observed that many applications were exempted from charges – such as conservation area consent and listed building applications.

Applications are being registered and validated promptly with decisions being made within the target date. All applicants and interested parties are informed of the decision using a system-generated standard letter. Applicants who were refused planning permission were informed of their ‘right to appeal’.

Some recommendations have been made following the review to improve the process and provide greater assurances on the robustness of the information produced. These are mostly based on best practice and suggested to streamline the processing of applications and improve the accounting for the income received.

**Management Response:**



Report findings and recommendations agreed		
Risk Management	Draft	
Governance Compliance	Draft	
Waste Management - Income	Draft	
Information security	Ongoing	
Information Technology	Ongoing	
Core Financials **	Ongoing	

### **Follow-up of audit recommendations:**

The audits followed up and reported below were completed between December 2010 and June 2011. This time window is wider than normal but enables the process of reporting follow-up activity to Audit Committee to start with a complete coverage of the 2011/12 financial year audits reported to the committee.

### **Debtors and Creditors**

These were both satisfactory audit opinions. Recommendations in respect of Debtors have been fully implemented. The Creditors review included two medium level recommendations which are expected to be completed in the next quarter as part of the GO implementation project, including the update of authorised signatory lists (an essential requirement for the set up of automated processes in the new ERP system) and the production of guidance notes for BAC's payments.

### **Main Accounting System and Treasury Management**

There were no significant recommendations last year and no priority recommendations have arisen out of this year's audits of the current system.

### **Cash Receipting**

This was a satisfactory assurance audit opinion last year. Recommendations concerning the update of procedures are being addressed as part of preparations for GO shared service implementation. One medium risk recommendation concerning unpaid card transactions has been implemented and no further issues arose during the 2011-12 audit.

### **Payroll**

Last year's limited assurance audit is currently being followed up and will include in the assurance opinion our comments on potential risks during the transition to the new ERP system planned for April 2012. We will update our audit opinion based on the results of 2011-12 testing and evaluation in January 2012.

### **Housing Benefits**

This was a satisfactory assurance audit opinion. There were four medium level recommendations. All proposed actions have been implemented apart from completing a review of team roles, planned for January 2012, which is intended to create more resilience in the service given the overall reduction in team resources.

### **Enforcement Team Review (street scene)**

This was a limited assurance audit opinion which resulted in a number of priority recommendations aimed at improving the performance, efficiency and financial control of the team. The management structure, procedural and performance issues identified in the report have been addressed. The option to introduce a GPS tracking system is being investigated to improve operational efficiency, control over expenses and to mitigate the risks of lone working. An improved manual system for scheduling and logging officers' movements is in place in the meantime.

### **Community Investment Grants**

This was a satisfactory assurance opinion report with three medium level recommendations concerning improvements in outcome based performance monitoring and the approach to determining the level of grant award. Performance monitoring routines are now properly established for each of the CIG recipients. The recent transfer of responsibility for CIGs to the Strategy and Engagement Manager and the continuing development of a corporate commissioning approach is helping to deliver an improved outcome based approach to contract management and a needs based decision making process for grant funded services.

### **Town Hall Box Office Review**

This review followed up control weaknesses identified as a result of a financial irregularity in 2010. There was a satisfactory assurance opinion and all the medium level recommendations have been addressed, partly through the implementation of the new Artifax event management system in early 2011. Also updates to box office procedures now ensure controls over refunds and other routine management reviews are in place.

### **Environmental and Sustainability Management**

This satisfactory assurance opinion audit will be followed up in January 2012 and will take full account of the planned establishment of the Local Authority

Company in April 2012 and the influence of sustainability objectives in the council's commissioning structure and methodology.

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Item	Officer
<b>11 January 2012</b>	
<b>Chairs briefing:</b> 30 November 2011	<b>Compete reports by:</b> 21 December 2011
Internal Audit monitoring report – standing item	Rob Milford
Annual audit letter 2010-11	KPMG
Audit Plan 2011-12	KPMG
Audit Committee self assessment	Rob Milford
Corporate Governance Group – update (briefing for information only)	Bryan Parsons
<b>21 March 2012</b>	
<b>Chairs briefing:</b> 15 February 2012	<b>Compete reports by:</b> 09 March 2012
Internal Audit monitoring report – standing item	Rob Milford
Future external audit proposals – government response to consultation	Rob Milford
Annual Internal Audit Plan	Rob Milford
Grant certification	KPMG
Code of Corporate Governance – annual review and approve	Bryan Parsons
Corporate Risk Register – annual update	Bryan Parsons
Corporate Governance Group – update (briefing for information only)	Bryan Parsons
<b>20 June 2012</b>	
<b>Chairs briefing:</b> 17 May 2012	<b>Compete reports by:</b> 08 June 2012
New member training session	
Internal Audit monitoring report – standing item	Rob Milford
Annual Internal Audit Opinion for 2011/12	Rob Milford
Annual Governance Statement – approve	Bryan Parsons

Audit Committee 2011-2012 work plan

Item	Officer
Interim report	KPMG
GO Shared Services – post implementation update	Tbc
Corporate Governance Group – update (briefing for information only)	Bryan Parsons
<b>Items to be added at a future date</b>	
Corporate Strategy 2011/12 – consideration of governance issue 2012/13	Rob Milford
Joint training session with Cotswold and West Oxford councillors?	Rob Milford / Mark Sheldon

# Briefing Notes

Audit Committee

11 January 2012

Responsible officer: Bryan Parsons

## Corporate Governance Group

This briefing paper contains information to keep Members informed of matters relating to the work of the Committee, no decisions are required but members can make comments on the work of the group or suggestions for additional action.

### 1. Why has this come to Audit Committee?

- 1.1 To update the Committee on the work of the Corporate Governance Group (CGG).

### 2. Summary

- 2.1 The council has a statutory duty to prepare an annual governance statement (AGS) to be approved as part of the annual statement of accounts. The AGS includes a Significant Issues Action Plan (SIAP); this is approved by the Audit Committee and indicates how the council is complying with the code of corporate governance including internal control arrangements. The audit committee need to satisfy itself that the AGS fairly reflects the arrangements within the council.

- 2.2 The CGG which is chaired by the Chief Executive and routinely meets to;

- monitor and challenge the internal controls (Annual Certificates of Assurance checklist),
- monitor progress against any recommendations that arise from external audit assessments,
- consider progress against the SIAP; and
- monitor the risk management procedures.

The minutes of the CGG since the last the last Audit Committee are being provided to the Audit Committee so that they will have a more informed view of the issues when the AGS is presented to it for approval.

### 3. Conclusion

The CGG have agreed terms of reference and considers information from a range of internal control sources and assurance checks. These issues and the outcomes from the checks are placed within appropriate action plans, discussed and monitored. The CGG would welcome any comment or input from the audit committee on progress against the action plan or items recorded within the CGG minutes.

### 4. Summary of supporting information

- Appendix 1 minutes of the Corporate Governance Group meetings on the 6<sup>th</sup> October,
- Appendix 2 minutes of the Corporate Governance Group meetings on the 1<sup>st</sup> December
- Appendix 3 a copy of the most up to date version of the 2010 Annual Governance Statements Significant Issues Action Plan

## Further information

- 4.1** If you require any further information on any of these issues please contact;  
Governance officer on 01242 264189 or email; [bryan.parsons@cheltenham.gov.uk](mailto:bryan.parsons@cheltenham.gov.uk)



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**Corporate Governance Group**  
**Minutes**  
**6<sup>th</sup> October 2011**  
**11.00 Montpellier Room**

<b>Item</b>	<b>Subject</b>	<b>Lead Officer</b>
1	Apologies;	
2	Minutes of the last meeting 18 <sup>th</sup> August 2011	Agreed
3	SIAP update	The SIAP was reviewed progress and deadlines were considered. It was suggested that the revision of the Annual Assurance process should be brought forward to December to reflect reduced capacity at service manager and Director levels because of time being spent on Go and the Local Authority Waste Company
4	Audit Committee 21 <sup>st</sup> September feedback	It was reported that the Audit Committee had agreed to a review of their effectiveness. This would be facilitated by Internal Audit.
5	Effectiveness review of Audit Committee and Internal Audit (via self Assessment)	See above and RM circulated details relating to the self assessment and updated the group on the proposed review which was likely to take place in January.
4	Information Management suggestions for action days - What - When	BP updated the group on the work of the IMG in delivering a new strategy, updating policies and guidance. A document and file clear out week was also planned for w/c 21/11/2011
11	AOB	None
12	Date of next meeting 1 <sup>st</sup> December Montpellier room.	

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**Corporate Governance Group**  
**Minutes**  
**1<sup>st</sup> December 2011**  
**11.00 Montpellier Room**

Item	Subject	Notes
1	Apologies; Andrew North	Present Mark Sheldon (chair) Julie McCarthy, Rob Milford, Bryan
2	Minutes 6 <sup>th</sup> October 2011	Agreed with the exception that MS noted that his apology had not been reported.
3	SIAP update	The SIP was discussed and amendments agreed. It was also decided that it should be forwarded to JM SF and Paul Woolcock before being included in the Audit Committee briefing. This to be completed by the 18 <sup>th</sup> December
4	Annual Assurance checklists and process update	The revised checklists were circulated and some minor amendments suggested and agreed. It was also agreed that they should be circulated the week before Christmas
5	Effectiveness review of Audit Committee and Internal Audit update	RM briefed the group on the effectiveness review of the Audit committee and asked for comments in relation to a number of issues. The assessment was updated. BP was asked to review the effectiveness review of Internal Audit with the HIA.
4	Mobile Phone VFM review - update	BP updated the group on the VFM review and the report to E&BI and the request from them for further information later in the year. There would be a review meeting on the 22 <sup>nd</sup> December where further action would be agreed
5	Information Management Group – clear out week - update	BP updated the group on the effectiveness of the clear out week project and asked officers to thank staff for their co-operation in removing a total of 68,363 files removed from the T and S drives

6	Privacy Impact Assessment – CBC	BP advised the group of the work that was underway in respect of this assessment for the Go partnership and advised that a similar piece of work needed to be carried out in respect of CBC. A report would be brought to the next CGG meeting in January
11	AOB	None
12	Date of next meeting 26 <sup>th</sup> January Montpellier room.	

Significant issues action plan – 2010-11 as at 1<sup>st</sup> December - Corporate Governance Group Meeting

Control issue and source April 2010-11	Proposed action	Action taken	Proposed completion date	Lead officer
<p>The new management structure, partnership working and recommendations from the PIR necessitate a revision of the Constitution and Financial Rules (AGS)</p>	<p>Review ongoing to be reported to Council during 2011</p>	<p>All amendments to the Constitution arising from the Public Interest Report have been approved by the Council (December 2010). In October 2011 Council approved revised Financial Rules and a revised Scheme of Delegation. The outcome of the review of the Council's Overview and Scrutiny arrangements will be considered by Council in December 2011. The Constitution will be comprehensively reviewed to include changes agreed in October &amp; December and will be completed by March 2012</p>	<p>March 2012</p>	<p>Monitoring officer Director of Resources</p>

Control issue and source April 2010-11	Proposed action	Action taken	Proposed completion date	Lead officer
<p>Planned constitutional and Financial rule changes and the restructuring of the Senior Leadership Team necessitate a review of the Annual Assurance process to ensure that it remains effective (AGS)</p>	<p>Provide a report to SLT by October 2011 the proposals for the annual assurance review for 2011-12</p>	<p>CGG considered feedback from 2010-11 assurance check 18-08-2011 and amendments to the assurance checklists are being drafted Revised assurance checklists will be considered for approval at CGG meeting 01/12/2011 and circulated to appropriate officers for completion</p>	<p>December 2011</p>	<p>Director Resources</p>
<p>The current audit of payroll highlights that controls could be put at risk due to anticipated short term resource constraints in the payroll team. Audit Assurance report carried forward from 2010-11 AGS SIAP</p>	<p>Payroll resilience is being addressed through temporary recruitment of expertise as required. In addition the GO Shared Services project will address resilience issues in the longer term.</p>	<p>This issue is recorded as corporate risk and considered by SLT on a regular basis. Status at present = Amber  New temporary payroll advisor has started.  Due to an increased work load for HR Ops team during GO implementation (parallel pay runs and user acceptance testing) the team are stretched to full capacity.</p>	<p>Ongoing  September 2011 - done  Ongoing until April GO go-live</p>	<p>Director People, OD, and Change</p>

Control issue and source April 2010-11	Proposed action	Action taken	Proposed completion date	Lead officer
		<p>Annual leave during Feb and March is being restricted to ensure resource is available.</p> <p>Generic password issue has been resolved.</p> <p>Filing cabinets in main office (which is itself locked each night) containing records are now lockable and key control in place.</p> <p>Documentation of the complete payroll processes have been specified as part of the Solution Design work for the ABW system to be implemented from April 2012.</p>	<p>31 August – done.</p> <p>April 2011 - done</p> <p>April 2012 – CBC GO – go live implementation.</p>	
The Business Continuity Group identified the need for a robust test of back-up ICT systems (AGS)	Upgrade back up systems and install new equipment to migrate the key business systems.	Identified as corporate risk and being monitored by SLT on a monthly basis. Planned DR test of GO systems at recovery site	March 2012	Paul Woolcock

Control issue and source April 2010-11	Proposed action	Action taken	Proposed completion date	Lead officer
CBC needs to comply with the general equality duty to meet new obligations being placed on all public sector organisations under the Equality Act 2010 and ensure that current processes are embedded within the organisation (AGS)	Planning a full test for July 2011	<p>planned for 14<sup>th</sup> to 16<sup>th</sup> September.</p> <p>Action plan within ICT for the phased testing of 72 key systems in place.</p> <p>All the key ICT systems linked to the GO project were successfully tested and signed off by the Go partners.</p> <p>Other tests will be discussed and prioritised by SLT Jan 2012</p>	March 2012	Director of Commissioning