



PUBLIC SECTOR

Cheltenham Borough Council

Annual Audit Letter 2009/10

November 2010

AUDIT

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Background

This Annual Audit Letter summarises the key issues arising from our 2009/10 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. The letter will also be published on the Audit Commission website (www.audit-commission.gov.uk). It is the responsibility of the Council to publish the letter on the Council's website at www.cheltenham.gov.uk. In the letter we highlight areas of good performance and also provide recommendations to help you improve performance. A summary of our key recommendations is summarised in Appendix A. We have reported all the issues in this letter to you throughout the year and a list of all reports we have issued is provided in Appendix B.

Scope of our audit

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

Use of Resources (UoR)

We conclude on the arrangements in place for securing economy, efficiency and effectiveness ('value for money') in your use of resources.

Financial Statements

We provide an opinion on your accounts.

Fees

Our fee for 2009/10 was £105,050 excluding VAT (2008/09: £101,986). Our fee for the certification of grants and returns was budgeted at £32,415 excluding VAT, however the work is yet to completed so the fee may vary (2008/09: £25,185).

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

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

If you have any concerns or are dissatisfied with any part of KPMG's work, in the first instance you should contact Ian Pennington who is the engagement lead to the Council or Trevor Rees, the national contact partner for all of KPMG's work with the Audit Commission. After this, if you still dissatisfied with how your complaint has been handled you can access the Audit Commission's complaints procedure. You can contact the Complaints Unit by phone (0844 798 3131), by email (complaints@audit-commission.gov.uk), through the audit commission website (www.audit-commission.gov.uk/aboutus/contactus), by textphone/minicom (020 7630 0421), or via post to Complaints Unit, Audit Commission, Westward House, Lime Kiln Close, Stoke Gifford, Bristol, BS34 8SR.

Use of Resources

Use of Resources (UoR) assessment

- In May 2010 the government announced that the Comprehensive Area Assessment (CAA) would be abolished. The Audit Commission subsequently confirmed that work related to CAA should cease with immediate effect. This included work for UoR scored assessments at local authorities. However, there is no change to the requirement in the statutory Code of Audit Practice for auditors to issue a VFM conclusion.
- At the time of the announcement, the vast majority of UoR work for 2010 had already been completed and this therefore informed our 2009/10 VFM conclusion. Our work involved review of the Authority's self-assessment, discussions with key officers for all areas and review of relevant internal and external documentation. No significant recommendations arose from our Use of Resources work.
- As a result of the objections received on the 2008/09 accounts and the public interest report (PIR) issued in March 2010, that year's accounts were not finalised and signed until 14 June 2010. We also revisited and finalised our 2008/09 UoR audit at the same time.
- In doing so, we balanced the findings from the PIR - discussed further on the next page - against those from our 2009 UoR audit. On balance, we concluded that the issues identified in the PIR were of sufficient significance to justify an 'except for' qualification to the 2008/09 VFM conclusion.

Specific risk based reviews

- There were no reviews planned.

Our conclusion

- We issued an unqualified value for money conclusion for 2009/10. This means that we are satisfied that the Council did have appropriate arrangements to secure economy, efficiency and effectiveness in its use of resources during the year.
- As noted above, we also revisited and issued our final VFM conclusion for the 2008/09 financial year, following the publication of the PIR. The 2008/09 VFM conclusion was qualified as a consequence of the issues highlighted in the PIR. This means we concluded that the Council had appropriate arrangements to secure economy, efficiency and effectiveness in its use of resources during 2008/09, except for the specific areas highlighted in the PIR which related to:
 - the provision of information to support decision making;
 - the principles of good governance; and
 - effective risk management.

Headlines

Financial Statements	Annual accounts	<ul style="list-style-type: none">● The Council once again produced good a quality and complete set of accounts. We identified no issues in the course of the audit that are considered to be material or required adjustment.● There were no significant matters which we were required to report.
	Annual Governance Statement (AGS)	<ul style="list-style-type: none">● No significant adjustments were required to the AGS.
	Our conclusion	<ul style="list-style-type: none">● We issued an unqualified opinion on the Council's 2009/10 accounts on 29 September 2010. This means that we believe the accounts give a true and fair view of the financial affairs of the Council and of the income and expenditure recorded during the year.● In addition, during the year we issued our final audit opinion on the Council's 2008/09 accounts, which was also unqualified. This had been delayed because in 2009 we had received formal objections to the accounts from local electors.
Exercise of auditor's powers	Public Interest Reporting	<ul style="list-style-type: none">● On 2 March 2010 we issued a Public Interest Report entitled <i>The Council's decision making process for the High Court action against its former Managing Director</i>. The issuing of a PIR is a rare event and is only undertaken where there are matters of significance that the auditor believes need to be brought to the attention of the public.● The report noted a number of issues relating to the effectiveness and application of established governance arrangements. We found that the Council's governance processes are generally effective and adhered to, but we highlighted the breakdown, during 2008/09 and in earlier periods, of some established controls around the particular circumstances concerned, which had not been applied fully in the usual way. These centred on governance, risk management and reporting information to Members for decision making. We made 26 recommendations. The Council's Audit Committee has taken responsibility for monitoring the progress of the completion of the recommendations.● The PIR does not undermine the view that the Council has sound governance arrangements, but it did highlight the need to ensure that they are applied fully and consistently. The Council has agreed a detailed action plan to address the issues raised in our PIR and good progress has been made since it was issued in March 2010. We will consider the Council's progress further in 2011.

Headlines

Recommendations	High risk recommendations	<ul style="list-style-type: none"> ● We have identified one high risk recommendation arising from our 2009/10 audit work. We recommend that the Council should perform a regular testing of IT system backups. Further details are in Appendix A. ● Our Public Interest Report also included 26 recommendations which are of high priority.
High profile issues	Economic Downturn and pressure on the public sector	<ul style="list-style-type: none"> ● Following the Comprehensive Spending Review announcement in October 2010, there is now greater clarity on the spending cuts that will affect local government. Local authorities will on average face 7.1% annual cuts representing 26% reductions over the next four years. Although this is less than many commentators had predicted, this still represents one of the biggest cuts for any part of the public sector. Detailed analysis will be required as further details of these funding cuts are clarified. The real impact will not be known until the government departments produce their business plans later this year and organisations have a chance to digest the Chancellor's messages. ● The Council has been preparing for cuts of this magnitude for some time. Facing up to these challenges will require revolutionary transformation of public sector services, rather than tinkering. Strong leadership from Members and senior management will be essential.
	Treasury management	<ul style="list-style-type: none"> ● The Council continues to have a significant amount of money placed with two banks that were affected by the October 2009 Icelandic bank crisis. The total amount invested originally was £11m. The Council has already received interim repayments of £3.1m from one of the banks concerned and it envisages receiving further instalments in line with the administrator's published repayment plan. ● The Council has applied the accounting treatment prescribed in the appropriate guidance issued by CIPFA, including recognising an impairment cost for the proportion of the original investments which is currently believed likely to be irrecoverable. The Council has also obtained a capitalisation direction from the Government allowing it to spread the cost of this impairment over 20 years.
	International Financial Reporting Standards (IFRS)	<ul style="list-style-type: none"> ● Experience shows that a significant investment of resource is required to deal with the technical accounting requirements for IFRS implementation at an organisation of the size and complexity of a local authority. We have held meetings with the Finance team in recent months to discuss the requirements, which indicate that the Council is making good progress. ● This work will continue and accelerate over the next few months, and it is important that the Council undertakes the necessary steps against its project plan and timetable. We will continue to work closely with Finance staff during the coming months.

Future audit work

Changes to next year's value for money work programme

- Given the scale of the pressures facing public bodies in the current economic climate, the Audit Commission has reviewed its work programme for 2010/11 onwards. As part of this exercise, the Commission has been discussing possible options for a new approach to local value for money (VFM) audit work with key national stakeholders. From 2010/11 we will therefore apply a new, more targeted approach to our local VFM audit work. This will be based on a reduced number of reporting criteria specified by the Commission, concentrating on:
 - securing financial resilience; and
 - prioritising resources within tighter budgets.
- We will determine a local programme of VFM audit work based on our audit risk assessment, informed by these criteria and our statutory responsibilities. We will no longer make annual scored judgements relating to our local VFM audit work. Instead we will report the results of all the local VFM audit work and the key messages for the audited body in our annual report to those charged with governance and in a clear and accessible annual audit letter.

Future audit arrangements

- In August 2010 the Secretary of State for Communities and Local Government announced proposals to abolish the Audit Commission. The proposed abolition will be from 2012 and the government will seek legislation in this session of Parliament.
- There is no immediate change to the current audit arrangements. We will keep you informed about the future audit programme and any changes to audit arrangements.

Acknowledgement

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

Appendix A: Key Recommendations

This appendix summarises all high risk recommendations raised in 2009/10.

In addition, our Public Interest Report contained 26 recommendations. These have not been repeated here due to their volume, but both our Report and the Council's response are available on the Council's website.

#	Risk	Issue, Impact and Recommendation	Management Response / Responsible Officer / Due Date
1	<p>●</p> <p>High</p>	<p>Issue – Testing of data backups</p> <p>There is no formal testing of data back ups. Whilst restoration of end user files is performed when requested, formal restores of financial application data has not been performed during the year. Without periodic testing of the backups in relation to financial application data, it is not possible to ensure integrity of the backup media.</p> <p>Recommendation</p> <p>The Council should consider: ensuring tapes contain data; restoring test files to a test environment; conducting a programme of full test restores as part of Disaster Recovery testing; and documenting the approach to recording and testing any restores to the live environment that may become necessary.</p>	<p>Paul Woolcock</p> <p>Regular restores from daily backups are performed.</p> <p>Restores / testing to be reviewed after site to site replication has been installed.</p>

Appendix B: Summary of Reports issued

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

All of these reports are available through the Audit Committee papers on the Council's website.

