



PUBLIC SECTOR

Annual Audit Letter 2008/09

Cheltenham Borough
Council

16 November 2009

AUDIT

Content

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

Darren Gilbert
Senior Manager
KPMG LLP (UK)

Tel: 029 2046 8205
darren.gilbert@kpmg.co.uk

	Page
Executive summary	2
Use of resources	4
Financial statements	5
Appendices	6
1. Key recommendations	
2. Reports issued	

This report is addressed to the Authority and has been prepared for the sole use of the Authority. We take no responsibility to any member of staff acting in their individual capacities, or to third parties. The Audit Commission has issued a document entitled Statement of Responsibilities of Auditors and Audited Bodies. This summarises where the responsibilities of auditors begin and end and what is expected from the audited body. We draw your attention to this document. External auditors do not act as a substitute for the audited body's own responsibility for putting in place proper arrangements to ensure that public business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively.

If you have any concerns or are dissatisfied with any part of KPMG's work, in the first instance you should contact Ian Pennington, who is the engagement partner to the Authority, telephone 029 2046 8205, email ian.penninton@kpmg.co.uk who will try to resolve your complaint. If you are dissatisfied with your response please contact Trevor Rees on 0161 236 4000, email trevor.rees@kpmg.co.uk, who is the national contact partner for all of KPMG's work with the Audit Commission. After this, if you are still dissatisfied with how your complaint has been handled you can access the Audit Commission's complaints procedure. Put your complaint in writing to the Complaints Investigation Officer, Westward House, Lime Kiln Close, Stoke Gifford, Bristol, BS34 8SR or by e-mail to: complaints@audit-commission.gov.uk. Their telephone number is 0844 798 3131, textphone (minicom) 020 7630 0421

Purpose

This Annual Audit Letter (the Letter) summarises the key issues arising from our 2008/09 audit at 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 at www.audit-commission.gov.uk. It is the responsibility of the Council to publish the letter on its website at www.cheltenham.gov.uk. Throughout our audit we have highlighted areas of good performance and also provided recommendations to help you improve performance. A summary of our key recommendations is set out in Appendix 1. We have reported all the conclusions in this letter to you throughout the year and a list of all reports we have issued is provided in Appendix 2.

Scope of our audit

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

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

Key Messages

- Our **use of resources** assessment, the first under the Audit Commission's new UoR regime, demonstrated that the Council has sound processes in place and, for two of the three UoR themes (managing finances and managing resources), demonstrated the achievement of significant positive outcomes. The Council has been assessed as level 3 (performing well) against both of these themes, with the other theme (governing the business) assessed as level 2 (performing adequately). Based on this work we issued an unqualified opinion on the Council's arrangements for securing value for money.
- The Council's **financial statements** were prepared to a good standard and we identified no issues in the course of the accounts audit that were considered to be material. We issued an unqualified interim audit opinion on the Council's financial statements at the end of September 2009. However, we have not yet issued our audit certificate (which serves to formally close the audit for the year) because we have received two objections to the accounts from local electors, which we are still considering. Once this work is completed we will finalise the accounts audit and issue a final opinion and the audit certificate.
- The two **objections** relate to the Council's decision to take legal action against its former Managing Director. During the year the Council's claim for damages was considered at the High Court, with the Court issuing its verdict in favour for the former Managing Director after the end of the financial year. There has been considerable public interest in the decision to pursue this legal action, particularly because the Council incurred significant costs in doing so. In response, we are currently reviewing the decision-making processes followed by the Council in deciding to pursue this legal action and as part of this we are considering the specific concerns raised by the local electors. This work is on-going and will be reported to the Council once complete.

Fees

Our fee for the main audit was originally agreed as £101,986 and has been contained within the amount originally agreed in our audit plan. However, the outturn fee will be higher due to the need to charge additional audit fee for the consideration of the various elector questions and the objections we have received during the year. We will communicate the outturn fee to the Council once it is known.

Future Issues

- From 2010/11, local government bodies are required to prepare their financial statements under International Financial Reporting Standards (IFRS), which contain a number of significant differences from the current financial reporting regime. The Council has started preparing for this transition, although as with all local authorities there remains much to be done to identify the full impact of IFRS on its accounting arrangements and to make the necessary changes.
- Those local authorities in the Carbon Reduction Commitment (CRC) scheme will need to start reporting their usage from 1 April 2010 and recording these transactions within their financial statements with effect from 1 April 2011. There will be implications for cash flow, energy bills, and investment decisions and these could be significant. Although the Council is not captured by the CRC scheme, the principles and opportunities in addressing sustainability issues and clear cost reduction benefits from saving energy apply equally to all local authorities, and will become more significant over time. There are also opportunities to use the sustainability agenda to support the achievement of business challenges. It puts carbon reduction firmly amongst the priority areas for local authorities, with the opportunities outlined above applying even for those authorities who are not captured by the scheme.
- Sustainability performance - The Treasury is developing guidance for 2010/2011 which will require all public sector bodies to report publicly on sustainability performance in annual reports. CIPFA is in discussion with the Treasury about when and in what form this requirement will be formalised for local authorities. The reported information will be subject to audit and scrutiny. Sustainability reporting will be difficult to implement and many organisations will need to act quickly to implement new information gathering processes.
- Public expenditure forecasts indicate that there will be significant pressure on local authorities' funding in the medium term. Future financial settlements will be tight, increasing the need for local authorities to have comprehensive efficiency programmes supported by sound financial management arrangements. It is likely that bold measures will be required to generate sufficient savings to mitigate the impact on priority services. More than ever before, officers and Members will need to focus on identifying these significant savings measures and ensuring that robust arrangements are in place to monitor their delivery to ensure they are realised. The Council has a good track record in delivering such efficiency and savings targets. It will, however, be necessary to revisit and update the Council's plans to ensure that you can deliver the levels of savings required for the future.

Acknowledgement

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

The main elements of our use of resources work are:

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

The findings from this work are summarised below.

Element of work	Key findings								
Use of Resources	<p>Our assessment of Cheltenham Borough Council against the three themes resulted in the following scores on a scale of one (inadequate) to four (performing strongly):</p> <table border="1" style="margin-left: auto; margin-right: auto;"> <thead> <tr> <th style="background-color: #003366; color: white;">Area</th> <th style="background-color: #003366; color: white;">Score</th> </tr> </thead> <tbody> <tr> <td style="background-color: #a6c9ec;">Managing money</td> <td style="background-color: #a6c9ec;">3</td> </tr> <tr> <td style="background-color: #a6c9ec;">Governing the business</td> <td style="background-color: #a6c9ec;">2</td> </tr> <tr> <td style="background-color: #a6c9ec;">Managing resources</td> <td style="background-color: #a6c9ec;">3</td> </tr> </tbody> </table> <p>These are strong scores, indicating that the Council has sound processes in place but has also been able to demonstrate good outcomes and impact from these processes in a number of areas. Where level 2 has been awarded, processes are sound but the Council has not sufficiently demonstrated strong outcomes which are now important under the new UoR regime. We also recognise that the nature of the areas covered by the Governing the Business theme mean that it is difficult to identify and demonstrate these outcome.</p> <p>These scores build on last year’s UoR assessment when the Council scored level 3 (performing well) against the financial reporting, internal control, financial management and value for money themes and level 2 for financial standing. It should be noted, however, that direct comparisons cannot be made between the previous UoR scores and those awarded this year due to the differences in each assessment framework.</p>	Area	Score	Managing money	3	Governing the business	2	Managing resources	3
Area	Score								
Managing money	3								
Governing the business	2								
Managing resources	3								
Value for money conclusion	<p>We issued an unqualified value for money conclusion for 2008/09.</p> <p>This means that we are satisfied that you put in place proper arrangements for securing economy, efficiency and effectiveness in your use of resources.</p>								

Audit opinion

We issued an interim unqualified opinion on your accounts on 30 September 2009. This means that we believe the accounts present fairly the financial affairs of the Council and its financial position at the end of the year.

Before we give our opinion on the accounts, we are required to report to 'those charged with governance' any significant matters identified. We did this in our report to the Audit Committee meeting on the 30 September 2009 and the key issues are summarised here.

Accounts production and adjustments to the accounts

- We received a complete set of draft accounts by the 30 June deadline and these were supported by comprehensive and good quality working papers.
- Our audit identified no audit adjustments which were material in nature to the financial statements. We identified one non-material audit difference which remained uncorrected. We also identified a number of presentational and disclosure matters which the Council adjusted in its final set of financial statements.
- Although we identified no material mis-statements, the accounts were corrected to reflect the latest position for a VAT claim made by the Council. This had been disclosed as a contingent asset in the original draft accounts but could now be accounted for as income, and shown as a debtor, because the Council had subsequently received confirmation that the claim would be paid.
- The Council followed guidance issued by CIFPA to calculate a £2.9m impairment charge against its investments with Icelandic banks. The Council had £11m deposited with a number of these financial institutions in October 2008 when the Icelandic banking system collapsed. This impairment charge represented the current best estimate of the cost to the Council of this event (i.e. it was the amount that was likely to prove irrecoverable). The final cost will not be known with certainty for some time and at present the Council, like all authorities affected, is working to the repayment plans set out by the banks' administrators which will see the Council recovering its funds over a number of years.

We did not highlight any other issues in relation to the audit of the Council's financial statements for the attention of the Audit Committee.

Exercise of other powers

We have a duty under section 8 of the Audit Commission Act 1998 to consider whether, in the public interest, to report on any matter that comes to our attention in order for it to be brought to the attention of the public. In addition we have a range of other powers under the 1998 Act.

We have considered a number of issues raised with us by local electors during the year. To date none have required us to exercise these powers or issue a report in the public interest in relation to our 2008/09 audit. However, as highlighted earlier in this Letter we have received two objections from local electors relating to the Council's decision to take High Court action against its former Managing Director. We are currently considering these objections as part of our existing review into the decision making process behind this legal action.

Due to these unresolved objections we are unable at present to issue our audit certificate, which would otherwise signify the completion of the audit for the year. We therefore issued an interim audit opinion and value for money conclusion in September 2009, but withheld the audit certificate until our audit investigations into the objections have been concluded. Once this has been achieved, and having considered whether there is any need for us to exercise any powers under the 1998 Act, we will be able to issue the final audit opinion and VFM conclusion along with the audit certificate.

This appendix summarises the main high priority recommendations that we identified during 2008/09, along with your response to them. Other lower priority recommendations are contained, as appropriate, in our audit reports (which are listed in Appendix 2).

Issue/ Recommendation	Management Response / Timescale for implementation
<p>Procurement</p> <p><u>Issue</u></p> <p>Discussion with the Procurement Manager and review of supporting documentation identified that not all contracts were let in accordance with the Council’s Financial Regulations in 2008/09, and it could not be confirmed that all contracts were monitored effectively.</p> <p><u>Recommendation</u></p> <p>Review procurement controls to ensure they are fully embedded and working effectively.</p>	<p>The Council will review the procurement controls to ensure they are fully embedded and working effectively.</p> <p><u>Officer and due date</u></p> <p>Procurement Manager 31 March 2010</p>

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

Report	Date issued
Audit and Inspection Plan 2008/09	May 2008
Annual Audit Fee letter 2009/10	April 2009
Report to those charged with governance 2008/09	September 2009
Annual Audit Letter	November 2009