



STOCKPORT
METROPOLITAN BOROUGH COUNCIL

Chief Executive's Directorate
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Ordinary Committee

AGENDA

AUDIT COMMITTEE

Committee Room 1
Town Hall
Stockport

Meeting: Tuesday 29 June 2010
Tea: 5.00 pm *
Business: **7.00 pm (PLEASE NOTE START TIME)**

* A buffet tea will be available in Committee Room 1 from 5.00pm prior to the training session which precedes the Committee meeting.

1. MINUTES

To approve as a correct record and sign the Minutes of the meeting held on 10 March, 2010. (Enclosed)

2. DECLARATIONS OF INTEREST

Councillors and officers to declare any interests which they have in any of the items on the agenda for this meeting

3. URGENT DECISIONS

To report any urgent action taken under the Constitution since the last meeting of this Committee

4. PUBLIC QUESTION TIME

Members of the public are invited to put questions to the Chair and members of the Committee on any matters within the powers and duties of the Committee, subject to the exclusions set out in the Code of Practice. (Questions must be submitted no later than 30 minutes prior to the commencement of the meeting on the cards provided. These are available at the meeting and at local libraries and Information Centres. You may also submit your question by e mail to democratic.services@stockport.gov.uk).

5. 2009-10 STATEMENT OF ACCOUNTS

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To consider a report of the Corporate Director, Business Services

(To Follow)

This report invites the Committee to considers the final accounts for 2009/10.

The Committee is invited to approve the unaudited accounts for 2009/10.

Officer contact: Christine Buxton on 0161 474 4124 or e mail
christine.buxton@stockport.gov.uk

6. ANNUAL GOVERNANCE STATEMENT

To consider a report of the Corporate Governance Group

(Enclosed)

This report sets out the governance arrangements in place at Stockport Council, the significant governance issues identified at 31 March 2010 and the actions planned for 2010/11 to address them.

The Committee is requested to approve the Annual Governance Statement.

Officer contact: Niki Riley on 0161 474 4033 or e mail
niki.riley@stockport.gov.uk

7. ANNUAL REPORT OF THE CHIEF INTERNAL AUDITOR

To consider a report of the Chief Internal Auditor

(Enclosed)

This report contains the overall opinion of the Chief Internal Auditor on the Council's control framework. The report also details the audit work undertaken in the year from which the overall opinion has been drawn.

The Committee is asked to note the report.

Officer contact: Niki Riley on 0161 474 4033 or e mail
niki.riley@stockport.gov.uk

8. INTERNAL AUDIT PROGRESS REPORT : 1 APRIL 2010 – 31 MAY 2010

To consider a report of the Chief Internal Auditor

(Enclosed)

This report summarises the work carried out by Internal Audit in the first two months of the new financial year.

The Committee is asked to note the report.

Officer contact: Niki Riley on 0161 474 4033 or e mail
niki.riley@stockport.gov.uk

9. SELF-ASSESSMENT QUESTIONNAIRE FOR MEMBERS OF THE AUDIT COMMITTEE

To consider a report of the Chief Internal Auditor

(Enclosed)

The Committee is asked to consider the questionnaire and make a decision on its use as a tool for identifying training needs.

Officer contact: Niki Riley on 0161 474 4033 or e mail niki.riley@stockport.gov.uk

10. EXTERNAL AUDIT PROGRESS REPORT

To consider a report of the External Auditor (Enclosed)

This report considers the progress that has been made against the 2009/10 audit and 2010/11 inspection plan.

The Committee is invited to note the progress that has been made and take any action considered necessary,

Officer contact: Diane Rowland on 0161 474 4131 or e mail d-rowland@audit-commission.gov.uk

11. REVIEW OF JOINT FINANCING ARRANGEMENTS

To consider a report of the External Auditor (Enclosed)

This report considers the arrangements around the joint financing agreement with the Primary Care Trust.

The Committee is invited to note the findings of the report, the response from the Health and Wellbeing Integrated Commissioning Board and take any further action considered necessary.

Officer contact: Diane Rowland on 0161 474 4131 or e mail d-rowland@audit-commission.gov.uk

12. AUDIT FEE LETTER 2010/11

To consider a report of the External Auditor (Enclosed)

This report considers the 2010/11 external audit fee proposals.

The Committee is requested to note the 2010/11 external audit fee proposals and take any action considered necessary.

Officer contact: Diane Rowland on 0161 474 4131 or e mail d-rowland@audit-commission.gov.uk

Agenda contact: David Clee on 0161 474 3137, e-mail: david.clee@stockport.gov.uk or fax 0161 474 3240

If you require a copy of the agenda or a particular report(s) by e mail or in large print, braille or audio, please contact the above person for further details. A minicom facility is available on 0161 474 3128.

A free interpreting service is available if you need help with this information.
Please telephone Stockport Interpreting Unit on 0161 477 9000.
Email:eds.admin@stockport.gov.uk

如果你需要他人為你解釋這份資料的內容，我們可以提供免費的傳譯服務，請致電 0161 477 9000 史托波特傳譯部。

W przypadku gdybyś potrzebował pomocy odnośnie tej informacji, dostępne są usługi tłumaczeniowe. Prosimy dzwonić do Interpreting Unit pod numer 0161 477 9000.

যদি এই খবরগুলি সম্পর্কে আপনার কোন সাহায্য দরকার হয় তবে বিনা খরচে আপনার জন্য দোভাষীর ব্যবস্থা করা হতে পারে। মেহেরবানী করে স্টকপোর্ট ইন্টারপ্রিটিং ইউনিটে ফোন করুন টেলিফোন নম্বর, 0161 477 9000.

اگر آپ کو ان معلومات کے بارے میں مدد کی ضرورت ہے تو مفت ترجمانی کی سروس دستیاب ہے۔ براہ مہربانی انٹرپرائٹنگ یونٹ کو 0161 477 9000 پر فون کریں۔

خدمات ترجمہ رایگان این اطلاعات در صورت نیاز موجود میباشد۔ لطفاً با شماره تلفن 0161 477 9000 با واحد ترجمہ (اینترپرائٹنگ یونیت) ما تماس بگیرید۔

تنوفر خدمت ترجمہ شفویة اذا تطلبت مساعدة في فهم هذا المعلومات. نرجو الاتصال اربن رینیول علی رقم الهاتف: 0161 477 9000

AUDIT COMMITTEE

Meeting: 10 March 2010

At: 6.00 pm

PRESENT

Councillor Chris Baker (Chair) in the chair; Councillor Suzanne Wyatt (Vice Chair); Councillors Pam King, Syd Lloyd and Margaret McLay.

Also in attendance

Tim Watkinson, District Auditor, Audit Commission.

Diane Rowland, External Audit Manager, Audit Commission.

1. MINUTES

The Minutes (copies of which had been circulated) of the meeting held on 25 November 2009 were approved as a correct record and signed by the Chair.

2. DECLARATIONS OF INTEREST

No declarations of interest were made.

3. URGENT DECISIONS

No urgent decisions were reported.

4. PUBLIC QUESTION TIME

No public questions were submitted.

5. COUNTDOWN TO INTERNATIONAL FINANCIAL REPORTING STANDARDS

The District Auditor, Audit Commission submitted a report (copies of which had been circulated) highlighting to Members the importance of early preparations for the implementation of the International Financial Reporting Standards in 2010/11.

RESOLVED – That the report be noted.

6. INTERNATIONAL FINANCIAL REPORTING STANDARDS ACTION PLAN

A representative of the Corporate Director, Business Services submitted a report (copies of which had been circulated) providing an update on the action plan for the introduction of the International Financial Reporting Standards.

Concern was expressed that the detailed practitioner guidance from CIPFA was not yet available.

RESOLVED – That the report be noted.

7. INTERNAL AUDIT REPORT – REVIEW OF THE COUNCIL'S STRATEGIC ARRANGEMENTS FOR COUNTERING FRAUD

The Chief Internal Auditor submitted a report (copies of which had been circulated) which reviewed the Internal Audit Report on the Council's Strategic Arrangements for Countering Fraud.

The Committee asked to be made aware of the work of the Fraud and Irregularities Panel.

RESOLVED - (1) That the report be noted.

(2) That a report on the work of the Fraud and Irregularities Panel be submitted to the Committee on an annual basis.

8. ANNUAL GOVERNANCE STATEMENT 2008/09 – PROGRESS UPDATE

A representative of the Corporate Director, Business Services submitted a report (copies of which had been circulated) showing progress on each of the actions identified as significant governance issues within the Annual Governance Statement 2008/09.

RESOLVED - That the report be noted.

9. PROPOSED REVISIONS TO INTERNAL AUDIT PLAN 2009/10

The Chief Internal Auditor submitted a report (copies of which had been circulated) in connection with proposed revisions to the Internal Audit Plan 2009/10 to reflect changes which had occurred during the year.

Members were advised that a mechanism was now being established to ensure that proposed changes to the Audit Plan were reported to the Committee as part of the regular updates.

RESOLVED – (1) That the revisions to the Internal Audit Plan 2009/10 be approved.

(2) That proposed changes to the Internal Audit Plan be agreed in future by the Corporate Director, Business Services, in consultation with the Chair, and reported to this Committee at the earliest available opportunity.

10. SUGGESTED COMPETENCY FRAMEWORK FOR MEMBERS OF THIS COMMITTEE

The Chief Internal Auditor submitted a report (copies of which had been circulated) providing a suggested framework for Members of this Committee to use to develop their knowledge of the competencies required within an effective local authority Audit Committee.

It was felt that Members of the Committee would benefit from 1:1 sessions with the Chief Internal Auditor in order to assess their skills, knowledge and experience against the competencies required of an effective local authority Audit Committee.

RESOLVED – (1) That in order to assess Members' skills, knowledge and experience against the competencies required of an effective local authority Audit Committee, 1:1 sessions be arranged for Members of the Committee with the Chief Internal Auditor, to take place after the local elections.

(2) That a session involving all Members of the Committee be arranged following the 1:1 sessions.

(3) That the outcome of the sessions be reported to the next meeting of the Committee.

11. RISK MANAGEMENT STRATEGY

The Service Director, Finance submitted a report (copies of which had been circulated) presenting to the Committee for comment the reviewed and amended Risk Management Strategy document. The amendments made to the document reflected changes in the roles and responsibilities of Officers, strategic partnership risk, project risk and the categorisation of risks.

The report would be submitted to the Executive Meeting on 15 March 2010 for approval.

It was felt that in managing project risk at the Council, the Project Manager's responsibility for 'managing the delivery of the project's products' should be strengthened.

RESOLVED – That the amendments to the reviewed Risk Management Strategy document be noted.

12. BUSINESS CONTINUITY STRATEGY

The Service Director, Finance submitted a report (copies of which had been circulated) presenting to the Committee for comment the reviewed and amended Business Continuity Strategy document. The strategy had been reviewed by the Corporate Risk Group, the Corporate Business Continuity Group and by those officers with specific roles and responsibilities within the framework.

The report would be submitted to the Executive Meeting on 15 March 2010 for approval.

RESOLVED – That the amendment to the reviewed Business Continuity Strategy document be noted.

13. DRAFT INTERNAL AUDIT PLAN 2010/11

The Chief Internal Auditor submitted a report (copies of which had been circulated) presenting for approval the draft Internal Audit Plan for 2010/11. The plan had been prepared on a risk basis in line with best practice.

RESOLVED – That the draft Internal Audit Plan 2010/11 be approved.

14. ANNUAL AUDIT LETTER

The Annual Audit Letter (copies of which had been circulated) was submitted to the Committee. It summarised the findings from the 2008/09 audit by the Audit Commission and included messages arising from the audit of the Council's financial statements and the results of the work which the Audit Commission had undertaken to assess the Council's arrangements to secure value for money in the use of resources.

RESOLVED – That the Annual Audit Letter be noted.

15. AUDIT AND INSPECTION PROGRESS REPORT

The External Audit Manager, Audit Commission submitted a report (copies of which had been circulated) advising Members of the progress on the 2009/10 audit and 2010/11 inspection of the Council.

RESOLVED – That the report be noted.

16. AUDIT OPINION PLAN 2009/10

The External Audit Manager, Audit Commission submitted a report (copies of which had been circulated) advising Members of the work that the Audit Commission proposed to undertake on the audit of the 2009/10 financial statements.

RESOLVED – That the report be noted.

17. CLAIMS AND RETURNS 2008/09 – ANNUAL REPORT

The External Audit Manager, Audit Commission submitted a report (copies of which had been circulated) advising Members of the matters arising from the certification of the 2008/09 claims and returns. In addition to the main audit, the Audit Commission was required to certify a number of claims and returns for grants or subsidies paid by government departments and public bodies to the Council.

RESOLVED – That the report be noted.

18. WORK PROGRAMME AND SCALE OF FEES 2010/11

The District Auditor, Audit Commission submitted a report (copies of which had been circulated) advising Members of the Audit Commission's 2010/11 work programme and fee scales. This guidance would be used to prepare the Council's 2010/11 audit fee which would be submitted to the next meeting of the Committee.

RESOLVED – That the report be noted.

The meeting closed at 7.10 pm.

AUDIT COMMITTEE

Meeting: 29th June 2010**ANNUAL GOVERNANCE STATEMENT****Report of the Corporate Governance Group****MATTER FOR CONSIDERATION**

The preparation of an annual Governance Statement is a requirement of the Accounts and Audit Regulations (amended 2006). The attached paper sets out the governance arrangements in place at Stockport Council and in line with the above Regulations, sets out significant governance issues as identified at 31st March 2010.

The action plan details the nature of the issue and sets out the actions planned for 2010/11 to address these.

RECOMMENDATION

Members are asked to accept the Annual Governance Statement.

BACKGROUND PAPERS

There are none

Anyone wishing to inspect the above background papers or requiring further information should contact Niki Riley on telephone number 0161 474 4033 or alternatively email niki.riley@stockport.gov.uk

STOCKPORT COUNCIL

Annual Governance Statement

June 2010

Scope of Responsibility

Stockport Council is responsible for ensuring that its 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. Stockport Council also has a duty under the Local Government Act 1999 to make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness.

In discharging this overall responsibility, Stockport Council is responsible for putting in place proper arrangements for the governance of its affairs, facilitating the effective exercise of its functions, including arrangements for the management of risk.

Stockport Council has approved and adapted a local code of governance consistent with the principles of the CIPFA/SOLACE Framework *Delivering Good Governance in Local Government*. A copy of the code is on our website at [Local Code of Governance](#) or can be obtained from Head of Policy and Scrutiny, Chief Executive's Directorate, Town Hall, Stockport, SK1 3XE. This statement explains how Stockport Council has complied with the code and also meets the requirements of regulation 4(2) of the Accounts and Audit Regulations 2003 as amended by the Accounts and Audit (Amendment) (England) Regulations 2006 in relation to the publication of a statement on internal control.

The Purpose of the Governance Framework.

The governance framework comprises the systems and processes, and culture and values, by which the authority is directed and controlled and the activities through which it accounts to, engages with and leads the community. It enables the authority to monitor the achievement of its strategic objectives and to consider whether those objectives have led to the delivery of appropriate, cost-effective services.

The system of internal control is a significant part of that framework and is designed to manage risk to a reasonable level. It cannot eliminate all risk of failure to achieve policies, aims and objectives and can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of Stockport Council's policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they become realised, and to manage them efficiently, effectively and economically.

The governance framework has been in place at Stockport Council for the year ended 31st March 2010 and up to the date of approval of the annual report and statement of accounts.

The Governance Framework.

The Local Code of Governance sets out the key elements of the systems and processes that comprise the authority's governance arrangements including arrangements for;

- Identifying and communicating the authority's vision of its purpose and intended outcomes for citizens and services users.
- Reviewing the authority's vision and its implications for the authority's governance arrangements.
- Measuring the quality of services for users, ensuring they are delivered in accordance with the authority's objectives and that they represent the best use of resources.
- Defining and documenting the roles and responsibilities of the executive, non-executive, scrutiny and officer functions, with clear delegation arrangements and protocols for effective communication.
- Developing, communicating and embedding codes of conduct, defining the standards of behaviour for members and staff.
- Reviewing and updating standing orders, standing financial instructions, a scheme of delegation and supporting procedure notes/manuals, which clearly define how decisions are taken and the processes and controls required to manage risks
- Undertaking the core functions of an audit committee, as identified in CIPFA's *Audit Committee – Practice Guidance for Local Authorities*
- Ensuring compliance with relevant laws and regulations, internal policies and procedures, and that expenditure is lawful
- Whistle-blowing and for receiving and investigating complaints from the public
- Identifying the development needs of members and senior officers in relation to their strategic roles, supported by appropriate training
- Establishing clear channels of communication with all sections of the community and other stakeholders, ensuring accountability and encouraging open consultation
- Incorporating good governance arrangements in respect of partnerships and other groups working as identified by the Audit Commission's report on the governance of partnerships (7) and reflecting these in the authority's overall governance arrangements

The Local Code of Governance attached has been cross referenced to the CIPFA FAN guidance which sets out how the Code should link to the six

principles of effective governance so that it clearly identifies the sources of evidence that demonstrate that it meets all of the requirements set out above.

The governance framework also includes the activities of wholly owned companies. Client link roles have been established for both of the Council's significant wholly owned companies and the council has representation on the boards of each company. Performance of the companies is monitored in line with agreed performance standards.

Review of Effectiveness

Stockport Council has responsibility for conducting, at least annually a review of the effectiveness of its governance framework including the system of internal control. The review of effectiveness is informed by the work of the executive managers within the authority and its group companies who have responsibility for the development and maintenance of the governance environment, the Head of Internal Audit's annual report, and also by comments made by the external auditors and other review agencies and inspectorates.

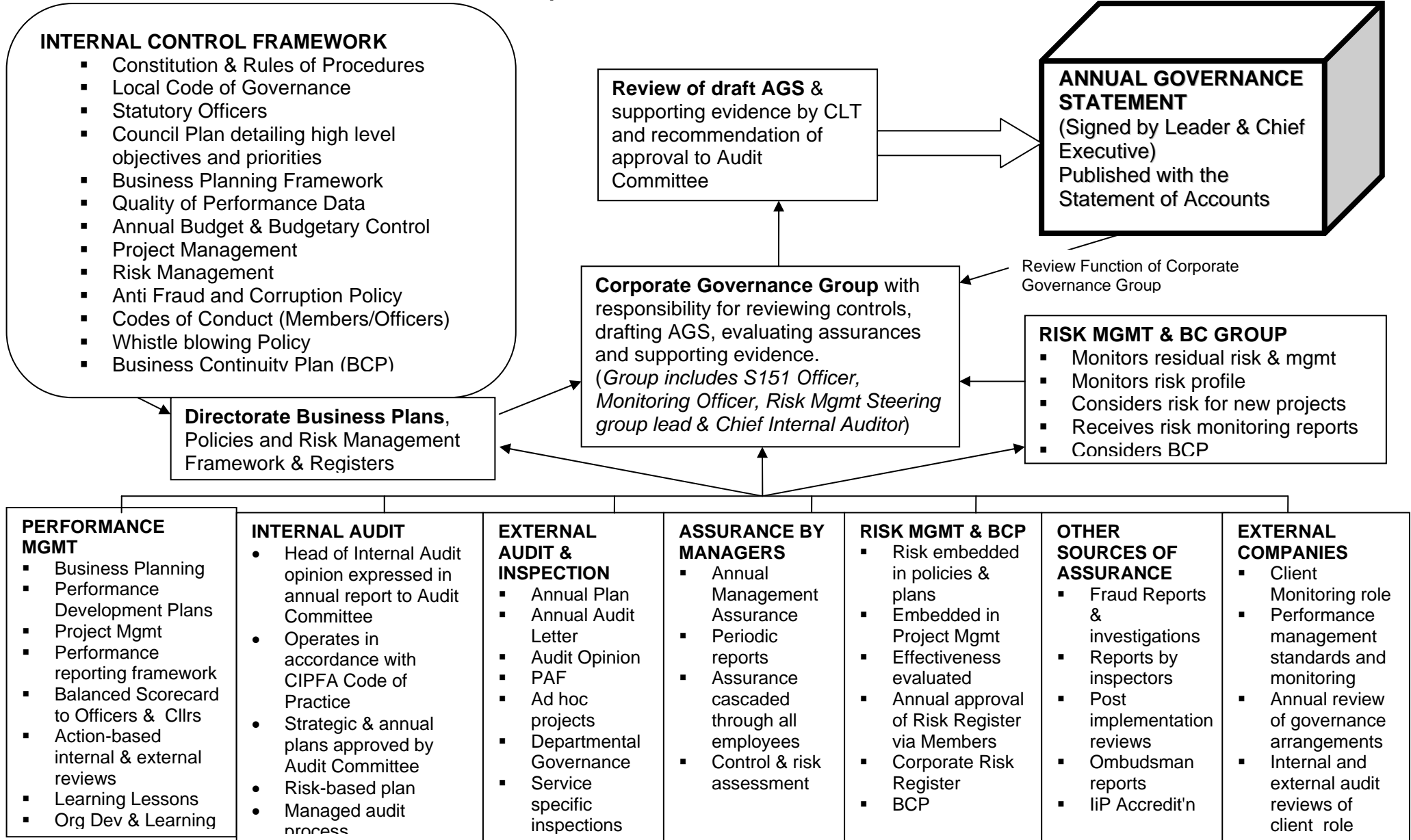
The Corporate Governance Group has responsibility for overseeing the annual review of the governance framework. This group comprises the following officers:

- Corporate Director Business Services (Chair and S151 Officer)
- Service Director – Legal and Property (and Monitoring Officer)
- Service Director – Finance
- Service Director – Strategy & Performance (Children & Young People's Directorate)
- Service Director – Environment (Communities, Regeneration and Environment Directorate)
- Assistant Chief Executive (Strategy & Democracy)
- Head of Internal Audit
- Head of Financial Support Services (includes risk and business continuity)

Stockport Council, through the above group, carries out an annual review of its governance framework providing evidence of conformity as outlined in the Local Code of Governance. The Annual Review is approved by the Audit Committee.

The key document in relation to the governance framework is the Council's Constitution. The constitution is itself the subject of an annual review mechanism that is carried out by a cross party group of members with recommendations for amendment being made to the Council Meeting. The Constitution is approved by the Council Meeting with the results of the latest review being published in April 2009.

Stockport MBC Governance Framework



Significant governance issues 2009/10

The following are items that the Council considers significant in terms of Governance.

Significant Governance Issue	Description of issue and actions required	Target Date	Responsibility
Information Management & Security	Governance arrangements around information management and security and data sharing are progressing.	ICT Security Policy and Managing Personal Information Policy roll out June 2010 to September 2010	Head of Information Services and Head of ICT
	Work is now progressing on: Raising awareness among Council staff on information sharing and the associated Data Protection Principles.	September 2010	IS Team
	Developing secure processes and procedures for transferring data between the Council and other organisations are being established.	As above	Head of Information Services – LIS Project Group
	Implementation of clear desk policies.	As above	
	Refinement of existing information sharing protocols to ensure these are fit for purpose.	April to Sept 2010	Head of Information Services and Change Manager (Partners & Customer Interface), Adults Services
	A project has been established to scan a significant amount of paper records within HR to reduce the storage requirements and reduce the risks of loss of personal data relating to Council staff.	March 2011	J.Re/G.McNair

Significant Governance Issue	Description of issue and actions required	Target Date	Responsibility
Payroll	<p>The current payroll system is nearing the end of its useful life and as such presents particular concerns over its continued operation.</p> <p>In addition, concerns that procedures and system access permissions could present the risk of ghost employees being set up on the system still remain.</p> <p>A new Payroll system has been procured and implementation is due to take place during 2010/11 with a planned 'go live' date of 1st April 2011.</p> <p>It is critical that the project to implement the system is effectively managed and senior management will be monitoring the implementation closely.</p> <p>Internal Audit will be involved in the implementation of the system to provide advice on matters relating to risk and control.</p> <p>In addition, management have agreed to implement a number of additional controls within the implementation of the new system.</p>	<p>1st April 2011</p> <p>Ongoing</p> <p>Ongoing</p> <p>1st April 2011</p>	<p>Head of Organisation Development</p> <p>Corporate Director, Business Services</p> <p>Chief Internal Auditor</p> <p>Head of HR</p>
Debtors	<p>There were 37 recommendations/actions detailed in the Audit report dated 9th March, 2009 all of which have been successfully addressed with the exception of 3 which either required additional budget, resources or further work with our partner organisations. Additional recovery capacity was created through a restructure and a roles and responsibilities document has been updated and re-issued to all relevant staff. A full Debtor review project has commenced and is funded/resourced until December 2010 to address the 3 outstanding actions and to carry out a full review of the debtors processes, systems and the Council's outstanding debt.</p>	31 st December 2010	Service Director, Finance

Significant Governance Issue	Description of issue and actions required	Target Date	Responsibility
Fraud Risk Management	<p>Embed fraud risk management into management risk assessments and directorate and service risk registers.</p> <p>Training on fraud risk management will be included within general risk management training programme.</p> <p>Top down message that the Council has a zero tolerance approach to fraud.</p>	<p>31/03/2011</p> <p>31/03/2011</p> <p>31/03/2011</p>	<p>Service Managers, Directorate Performance and Risk Management Leads.</p> <p>Risk and Business Continuity Manager.</p> <p>Corporate Leadership Team and Service Directors.</p>
Business Improvement Transformation and Efficiency project	<p>A key issue for the Council in 2010/11 is maintaining adequate and effective governance arrangements and internal controls through a wide ranging programme of system reviews and alternative service delivery methods including increased Partnership working.</p> <p>Internal audit to review BITE scoping outcomes and identify with Corporate Director, Business Services, priorities for Internal Audit involvement.</p> <p>Internal audit to provide training for managers on the need for effective internal controls when undertaking fundamental system reviews.</p>	<p>31/07/2010</p> <p>Ongoing during 2010</p>	<p>Chief Internal Auditor / Corporate Director, Business Services</p>

We have been advised on the implications of the result of the review of the effectiveness of the governance framework by the Corporate Governance Group and a plan to address weaknesses and ensure continuous improvement of the system has been put in place.

We propose over the coming year to take steps to address the above matters to further enhance our governance arrangements. We are satisfied that these steps will address the need for improvements that were identified in our review of effectiveness and will monitor their implementation and operation as part of our next annual review.

Signed:.....Date:.....

Leading Member on behalf of Stockport Council.....

Signed:.....Date:.....

Chief Executive on behalf of Stockport
Council.....

AUDIT COMMITTEE

Meeting: 29 June 2010

ANNUAL REPORT OF THE CHIEF INTERNAL AUDITOR**Report of the Chief Internal Auditor****MATTER FOR CONSIDERATION**

It is a requirement of the CIPFA Code of Practice for Internal Audit that the Chief Internal Auditor prepares an annual report containing an overall opinion on the Council's control framework. The attached report contains this statement and details the audit work undertaken in the year from which the overall opinion has been drawn.

RECOMMENDATION

Members are asked to note the Annual Report of the Chief Internal Auditor.

BACKGROUND PAPERS

There are none

Anyone wishing to inspect the above background papers or requiring further information should contact Niki Riley on telephone number 0161 474 4033 or alternatively email niki.riley@stockport.gov.uk

**Stockport MBC
Internal Audit Services**

**Annual Report
2009/10**

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1. Introduction

- 1.1 This report sets covers the work carried out by the Internal Audit service during 2009/10 and contains the overall opinion by the Chief Internal Auditor on the effectiveness of the system of internal control at Stockport MBC.
- 1.2 This report
- Summarises the outcomes of audit work carried out in 2009/10
 - Includes the overall opinion on the council's system of internal control
 - Summarises service development initiatives during 2009/10
 - Provides information on the performance of the Internal Audit service.

2. The role of Internal Audit

- 2.1 Internal Audit is a statutory function within the Accounts and Audit Regulations 2003 (amended 2006) which require the Council to maintain an adequate and effective system of internal audit and ensure a sound system of internal control.
- 2.2 At Stockport MBC, the responsibility for ensuring that statutory Internal Audit arrangements are in place lies with the Corporate Director, Business Services as Section 151 officer. On an operational basis, responsibility for the effective management of the Internal Audit service is that of the Chief Internal Auditor.
- 2.3 Internal Audit is defined by CIPFA as
- "An independent appraisal function that provides an independent and objective opinion to the organisation on the control environment, by evaluating its effectiveness in achieving the organisation's objectives. It objectively examines, evaluates and reports on the adequacy of the control environment as a contribution to the proper, economic, efficient and effective use of resources."*
- 2.4 It is the responsibility of management to implement and maintain adequate and effective controls and to ensure the efficient and effective use of Council resources.
- 2.5 The role of Internal Audit is to carry out independent reviews to provide assurance that the control framework is operating effectively. During 2009/10, Internal Audit fulfilled this role through a programme of planned systems based audits, proactive fraud work, ad-hoc advice work and establishment visits.

3. Overall Opinion and Assurance Statement

- 3.1 Based on the risk based internal audit work carried out during 2009/10, we are satisfied that the overall control framework across the Council is adequate. Our work found no evidence of significant lapses in the internal control framework and we consider that management have responded appropriately and positively to Internal Audit recommendations.

4. Key Audit Work during 2009/10

- 4.1 The internal audit plan for 2009/10 was approved by the Audit Committee at its meeting in April 2009 and the committee received regular updates on progress against the plan during the year. The plan was revised during the year to reflect changes and a revised plan was approved by the Audit Committee in March 2010.
- 4.2 A summary of the outcomes of Internal Audit work is provided at Appendix A. In addition to core risk based audit work, the team also provided the following services.

Type of Work	No. of days
Advice to schools	15
Advice to Council management	41
Project Advice (eg. new systems)	13
Grant certification work	26
Anti-fraud work	55
Solutions SK audit reviews	120
Individual SSK audit reviews	25

5. Internal Audit Approach

- 5.1 The approach taken to carrying out Internal Audit reviews during the year was a risk based approach. The risk based approach involves:
- Agreeing the scope of reviews with service management to ensure resources are targeted at the most appropriate risks within the service under review.
 - Identifying the risks within the system
 - Determining expected controls and establishing actual controls in place
 - Where controls are found to be in place, testing to ensure these are working effectively to mitigate the risk
 - Reporting any uncontrolled risks to management

- 5.2 Testing of key controls was carried out to a level appropriate to allow the auditors to form a professional judgement on the effectiveness of the controls across the system.

6. Internal Audit Performance

- 6.1 Internal audit performance during the year was measured against a suite of performance indicators which were reported during the year to the Corporate Governance Group and the Audit Committee. The table below shows the performance of the team over the year against the targets we set at the start of the year.

Performance Indicator	2009/10 Target	2009/10 Actual
(Revised) Audit plan completed	90%	93%
Customer satisfaction	80%	86%
Final reports completed within budgeted number of days	85%	70%
Draft reports issued within 15 working days of completion of fieldwork	85%	94%
Draft reports issued within agreed deadline	85%	82%
Follow ups completed within agreed timescale	90%	52%
Compliance with internal quality control processes	90%	99%
Average number of days skills training per auditor	5 days	7 days
Chargeable time	80%	87%

7. Internal Audit Staffing

- 7.1 The structure and composition of the audit team remained constant throughout the year with no staffing changes. Benchmarking against other Unitary authorities has shown that the level of qualifications of the team is above average with five fully qualified CCAB accountants, two Accounting Technicians and two staff currently studying for professional qualifications.
- 7.2 It is considered that Stockport Internal Audit Service is adequately staffed to provide a reasonable level of assurance to the Corporate Director, Business Services and the Audit Committee. However benchmarking has identified that the Service is at the lower end of the scale for Unitary Authorities in terms of audit days provided per £m turnover. It is not therefore anticipated that the service will lose any further posts.

8. Key developments for 2011-12

- 8.1 The focus for 2011-12 remains delivering the planned programme of risk based and compliance audit work in order to provide assurance over the key risk areas facing the Authority.
- 8.2 Provision has also been made in the 2011-12 audit plan for unplanned advice work and audit involvement in key projects. Internal Audit involvement will be critical in ensuring that new system developments such as the Payroll implementation are adequately controlled. Work has also been included within the audit plan to review the Section 74 agreement with the PCT and it will be necessary for internal audit to be consulted over the controls and governance arrangements as Partnership working is further developed.
- 8.3 Internal audit involvement will also be key in some of the major change initiatives that will inevitably take place as the Systems Thinking methodology is rolled out across the Council. The programme of Systems Thinking reviews has been established in order to identify significant savings across the Council and will result in services being delivered through different systems and processes. It is crucial that Internal Audit are consulted about significant changes in processes and procedures to ensure that the Council maintains an adequate and effective control framework. Should this require amendments to the approved audit plan, the Corporate Director, Business Services and the Chair of the Audit Committee will be consulted.

Appendix A: Summary of Outcomes from Finalised Audit Reports

The following is a summary of the overall opinion and assurance statement from each risk based audit review finalised in the period. The opinion statements have not been revised since the issue of the final report and therefore management have been given the opportunity to provide an update of current progress in each area.

Directorate	Review	Overall Opinion & Assurance Statement	Summary of Recommendations
Corporate Review	Strategic counter fraud arrangements (Stage 1)	<p>The Council has produced an anti fraud and corruption policy and strategy which set out the pro-active approach the Council seeks to take in order to counter fraud and corruption. Steps are being taken to raise fraud awareness amongst staff and a Fraud and Irregularities Panel has recently been established which will assist in linking the strategic arrangements to the operational work to detect and investigate fraud and corruption.</p> <p>Areas for improvement were identified in the following areas:</p> <ul style="list-style-type: none"> o Consideration and documentation of fraud risks at an operational level. o Raising awareness of the anti-fraud and corruption policy and strategy and ensuring staff are aware of how to report suspected irregularities. <p>We have therefore concluded that there is further scope for development of the Council's anti-fraud arrangements.</p> <p>Management update May 2010</p> <p>Training for staff on the anti-fraud and corruption policy and strategy continues and the latest fraud awareness survey identified that over three quarters of staff are aware of the anti-fraud policy.</p> <p>Fraud risk has now been incorporated in the latest risk management strategy which will prompt management to consider the risk of fraud when undertaking departmental risk assessments.</p>	<p>Priority 1: 3</p> <p>Priority 2: 10</p> <p>Priority 3: 4</p>

Directorate	Review	Overall Opinion & Assurance Statement	Summary of Recommendations
Corporate Review	Sustainability	<p>Significant progress has been made on sustainability, particularly in the development of a Climate Change Strategy and the Stockport Community Strategy. Our review identified some good practices in place for the management of risk at a corporate level and with the Council affiliated companies, and some planned improvements for greater coverage of sustainability in purchasing and contracts.</p> <p>Our review also identified some areas of the service which presented further opportunities for improvement in terms of:</p> <ul style="list-style-type: none"> ○ Structured comprehensive training for members and staff. ○ Strengthening the monitoring of PIs through the Covalent system. <p>have therefore concluded that there is further scope for development of the Council's Sustainability arrangements.</p>	<p>Priority 1: 3</p> <p>Priority 2: 10</p> <p>Priority 3: 3</p>
Corporate Review	Health & Safety (RIDDOR)	<p>Our review has identified that the Occupational Safety and Health service has effective arrangements to ensure that prompt and comprehensive responses are provided to employee and management queries with regard to accident reporting and to assist with their understanding of the legislation. Staff have the opportunity to attend training with specific RIDDOR content. Accident data is collated to feed into the annual Health and Safety report for the Council.</p> <p>However, we have also identified that there are some uncertainties about roles and responsibilities regarding reporting of accidents locally and centrally to the Occupational Safety and Health Team, with many officers not having signed up to the RIDDOR training. In addition, our review of the accident/incident forms identified some opportunities for improving the quality and timeliness of information being reported following an accident or incident. We have therefore concluded that the management of RIDDOR accident reporting could be further strengthened.</p>	<p>Priority 1: 2</p> <p>Priority 2: 7</p> <p>Priority 3: 6</p>
Corporate Review	Money Laundering	<p>Our review has identified that steps have been taken to establish an Anti-Money Laundering Policy and risk assessments have been performed to identify staff that may be exposed to money laundering risks. Training has been provided to these staff in order to raise their awareness of the obligations</p>	<p>Priority 1: 5</p> <p>Priority 2: 13</p> <p>Priority 3: 3</p>

Directorate	Review	Overall Opinion & Assurance Statement	Summary of Recommendations
		<p>under the Money Laundering legislation.</p> <p>However, we have also identified some areas where further improvements could be made and recommendations have been made to management.</p> <p>Management update May 2010</p> <p>Actions identified within the audit report will be implemented in due course.</p>	
Corporate Review	LAA Grant Reward Claim – Stage 1	We consider that the processes in place for collecting data for the Local Area Agreement reward targets are satisfactory. The correct definitions have been used for the purpose of each indicator. Correct and accurate source data have been used for the calculation of the indicators and the calculation has been performed correctly.	No recommendations made.
Corporate Review	LAA Grant Reward Claim – Stage 2	We consider that the processes in place for collecting data for the Local Area Agreement reward targets 2 and 4 are satisfactory. The correct definition have been used for Reward Target 4 and it was agreed that an alternative methodology would be used for Reward Target 2. Correct and accurate source data have been used for the calculation of the indicators and the calculation has been performed correctly.	No recommendations made.
Corporate Review	Data quality - review of 2008-09 outturn	Overall, we have concluded that the majority of the indicators were fairly stated in line with the National Indicator Set guidance. We have however identified minor adjustments to a few indicators where errors were made in the calculation (A & T 3.11, NI15 and NI170). For a number of indicators we have suggested improvements to strengthen the process for collating data (NI59 / 60, NI 125 and A & T 3.11) and also to improve the arrangements for uploading of data onto the Covalent system.	Priority 1: 0 Priority 2: 6 Priority 3: 1
Corporate Review	Reclaiming of Personal Expenses	<p>Our review identified that there are opportunities for strengthening the policies and guidance on reclaiming of expenses to ensure sufficient guidance is provided to staff on the correct procedures to be followed, the types of expenditure that may be reclaimed and the appropriate authorisation procedures to be followed.</p> <p>In addition, we also established that there is scope for further promotion of the formal policy on reclaiming of personal expenses once this has been revised.</p>	Priority 1: 3 Priority 2: 2 Priority 3: 4

Directorate	Review	Overall Opinion & Assurance Statement	Summary of Recommendations
Corporate Review	Data Security	<p>In our opinion, it is clear that a secure approach is taken with regards to working from home. Encrypted laptops and storage of data on servers reduces the chance that data could be read by unauthorised users.</p> <p>Staff have generally understood the ICT security policy and are aware of other central government data security policies and initiatives relevant to their job. Some weaknesses have been found in the general understanding of the responsibility required to maintain a secure environment for data, especially to meet national requirements.</p> <p>The introduction of a corporate data classification scheme would increase the overall effectiveness of any attempt to manage data.</p>	<p>Priority 1: 0 Priority 2: 9 Priority 3: 0</p>
Corporate Review	Postal Box Remittances	<p>We consider that the service is adequately controlled to address the risks it faces. During the audit we did identify some areas where improvements can be made, especially around cash handover arrangements.</p>	<p>Guidance produced by Internal Audit</p>
Adult Social Care	Direct Payments	<p>We consider that the overall management and financial arrangements for the Direct Payment scheme are adequately controlled to address the risks it faces.</p>	<p>Priority 1: 1 Priority 2: 7 Priority 3: 5</p>
Adult Social Care	Strategic Housing Adaptations	<p>We consider that the overall management and financial arrangements for the Home Repairs and Adaptations Team are adequately controlled to address the risks it faces.</p> <p>Our review identified that there are satisfactory arrangements in place for</p> <ul style="list-style-type: none"> • Assessing service users' home adaptations requirements. • Assessing service users' entitlement to grants funding towards the home adaptations. • Selection of contractors used to deliver the home adaptations service. • Monitoring of the quality of the contractors performance. • Monitoring customer satisfaction. <p>We have also identified some opportunities for further strengthening</p>	<p>Priority 1: 1 Priority 2: 2 Priority 3: 3</p>

Directorate	Review	Overall Opinion & Assurance Statement	Summary of Recommendations
		arrangements for ensuring up to date insurance certificates are retained, independent checking of grant award calculations and improving the quality of financial management information reports.	
Adult Social Care	Placements for older people	We consider that the arrangements for assessing the level of care required by older people and placing such service users into approved care homes are adequately controlled to address the risks the service faces.	Priority 1: 0 Priority 2: 2 Priority 3: 0
Business Services	HR Starters and Leavers	<p>The audit review identified some opportunities to further strengthen the processes in place for starters and leavers, particularly around;</p> <ul style="list-style-type: none"> • Ensuring that HR are informed of leavers on a timely basis. • Implementation of a mechanism for recording equipment allocated to staff and the subsequent recovery when appropriate. • Ensuring system administrators for key ICT systems are notified of any leavers promptly. <p>For these reasons, we have concluded that the current arrangements for managing starters and leavers could be further strengthened.</p> <p><i>Following the issue of the original audit report in September 2009, Internal Audit have now completed a follow up of the implementation of the agreed actions. The follow up identified that good progress is being made on ten of the twelve recommendations with further recommendations made to address minor lapses in controls in the remaining two areas. Management are confident that changes in working arrangements will address these.</i></p>	Priority 1: 3 Priority 2: 4 Priority 3: 5
Business Services	Corporate Procurement	<p>We consider that the Corporate Procurement Service is adequately controlled to address the risks it faces in addressing the requirements of the National Procurement Strategy.</p> <p>The Council has a well documented Procurement and Commissioning strategy which is available to all staff through the Council Intranet site as well as externally via the Council's external web pages. There are arrangements in place to raise awareness of how to do business with the Council through the</p>	Priority 1: 2 Priority 2: 7 Priority 3: 1

Directorate	Review	Overall Opinion & Assurance Statement	Summary of Recommendations
		annual buyers' event and documentation available on Stockport Councils website. We did identify some areas where there is opportunity for the team to further develop the support and guidance provided to directorates whilst undertaking major procurement exercises.	
Business Services	Cash receipting system	We reviewed the arrangements in place for recording, banking and reconciling cash income deposited within the cash office. We are satisfied that there are satisfactory controls in place to mitigate the risk of cash misappropriation within the cash office.	Priority 1: 0 Priority 2: 1 Priority 3: 1
Business Services	Password Management	<p>There is a security policy in place that provides good advice on how a password should be constructed and guidance on how to keep it secure. Once the policy has been reviewed, management should explore all options available to them to get the maximum exposure for the policy.</p> <p>The management of the network access through the use of passwords is fairly well controlled. However, options are available to further reduce the risks of unauthorised access through relatively simple changes to the parameters.</p> <p>There is scope to implement a consistent approach to the administration of key systems in terms of how they are configured to manage access through the use of passwords.</p>	Priority 1: 4 Priority 2: 1 Priority 3: 0
Business Services	Suspense accounts	<p>Progress has been made on procedures for managing suspense accounts in recent months as part of the General Ledger action plan. Our review identified that there is some scope for further clarification of the required procedure among staff with the responsibility for managing and clearing suspense accounts. We consider the introduction of a clear policy underlined by clear objectives for management of suspense accounts backed up by consistent and documented guidance would improve arrangements in this area. We also identified some areas for improvement regarding management, supervision and authorisation of actions taken to address suspense items, in particular authorisation of write off of suspense items from the SAP system.</p> <p>For these reasons, we have concluded that there is scope for further development of the arrangements for managing suspense accounts.</p>	Priority 1: 0 Priority 2: 3 Priority 3: 1

Directorate	Review	Overall Opinion & Assurance Statement	Summary of Recommendations
Business Services	Housing Revenue Account reconciliation	<p>We consider that the service is well controlled to address the risks it faces.</p> <p>Overall there are satisfactory arrangements to ensure that transactions processed within the Northgate system are fully posted in the correct amounts to the appropriate codes in the SAP General Ledger. The process for reconciling the interface between the two systems is considered adequate and is assisted by sufficient written guidance notes.</p> <p>Our review has identified that the process for reconciling the two systems is performed on a regular basis and is well documented, and we have made two medium and low priority recommendations to further improve upon current arrangements.</p>	<p>Priority 1: 0</p> <p>Priority 2: 1</p> <p>Priority 3: 0</p>
Business Services	NPS client side	<p>Our review identified that a signed Service Level Agreement is in place for the service delivered by NPS for the Council. We consider that it is now appropriate for the contract and Service Specification to be reviewed to ensure they are still appropriate and are being complied with. The Head of Property and Procurement has already identified this as an action to be completed.</p> <p>We also identified opportunities for further development in management and performance information relating to the contract. This means that only limited assurances can be provided on the performance of NPS against the measures that have been established.</p>	<p>Priority 1: 5</p> <p>Priority 2: 8</p> <p>Priority 3: 0</p>
Children & Young People	ICT Procurement	<p>We consider that the arrangements in place for managing the procurement of ICT equipment within the Children and Young People Directorate are adequately controlled to address the level of business risk. We have identified opportunities to further improve the overall management of the process and our report makes recommendations to develop the controls in place.</p>	<p>Priority 1: 0</p> <p>Priority 2: 10</p> <p>Priority 3: 5</p>
Children & Young People	Continuing Education	<p>In April 2009 the LSC issued a Notice to Improve in relation to the data reported. In response to this, the Service drafted a Service Improvement Plan to address the issues which had led to this occurrence. However, from our review we identified that the management review of the verification of this data and the reporting process is not operating effectively and therefore, the risks remain.</p>	<p>Priority 1: 6</p> <p>Priority 2: 11</p> <p>Priority 3: 5</p>

Directorate	Review	Overall Opinion & Assurance Statement	Summary of Recommendations
Children & Young People	Behaviour Support	<p>We consider that the arrangements for the evaluation of the secondary review have been appropriately managed, with milestones, reporting arrangements and timescales in place across the majority of the review areas. We also concluded that the controls in place for the administration of the primary/secondary service provision are adequate to address the key risks it faces.</p> <p>However, we consider that the management arrangements for external provision could be further improved and recommendations have been made and accepted by management.</p>	Priority 1: 3 Priority 2: 9 Priority 3: 2
Children & Young People	Foster carer payments	<p>While controls are in place over payments to foster carers, our review identified that there have been lapses in compliance with the operation of these controls in practice. For this reason, we have concluded that the controls in place for the administration of financial assistance to foster carers within Children & Young People Directorate could be further improved to strengthen the risks the Council's faces in this area.</p>	Priority 1: 4 Priority 2: 7 Priority 3: 1
Communities, Regeneration & Environment	Community grants	<p>We consider that Community Grants administered by the Council are adequately controlled to address the risks it faces.</p> <p>Overall we consider that there are appropriate management arrangements to ensure that grant funding is awarded to community groups and voluntary organisations that will deliver projects aligned to the Council's corporate priorities. A number of good practices are in place, in particular:</p> <ul style="list-style-type: none"> • Procedures are in place for the regular and timely publication of grant availability. • Comprehensive instructions and clear guidance are provided to applicants along with training workshops. • Control records are maintained to monitor applications received, applications acknowledged, grants offered and grant payments. • A fully documented decision making process is in place incorporating appropriate approval of grant offer by the 	Priority 1: 0 Priority 2: 1 Priority 3: 4

Directorate	Review	Overall Opinion & Assurance Statement	Summary of Recommendations
		Executive Member.	
Communities, Regeneration & Environment	Use of consultants	<p>Overall, there are satisfactory arrangements within the Transportation and Planning directorate over the use of consultants who are technically competent and skilled to deliver the service required. Signed framework contracts are in place between the Council and a number of consultants and arrangements are in place for these framework consultants to be engaged as and when required.</p> <p>However we consider that arrangements for undertaking performance assessments of consultants could be strengthened and the service's project management arrangements, in particular financial control and delivery of products within agreed deadlines could be improved. There is also a need for a formal long term strategy to be documented setting out a training plan to develop skills and expertise in-house and identifying where services may be brought back in-house.</p>	<p>Priority 1: 0</p> <p>Priority 2: 12</p> <p>Priority 3: 4</p>
Communities, Regeneration & Environment	Service Contracts SSK	Level with	
		<p>Our review identified that service level contracts (SLCs) are in place for each of the services delivered by Solutions SK (SSK) for the Council. We consider that it is now timely to review and update these SLCs to include further information and ensure greater consistency of information contained within them. The Head of Streetscene has already identified this as an area of improvement as part of the Business Plan.</p> <p>We have identified some improvements to the Quality Assurance and Performance Monitoring arrangements which management have accepted.</p>	<p>Priority 1: 3</p> <p>Priority 2: 12</p> <p>Priority 3: 6</p>
Communities, Regeneration & Environment	Managed Workspace		
		<p>A risk based review was undertaken of the existing contract and current arrangements for managing the Council's managed workspace facilities. The key objective of the audit review was to ensure that any risks arising from the current arrangements can be effectively managed when the new contract is let.</p> <p>It was not within the scope of the review to issue an overall opinion on the effectiveness of the control environment, however recommendations were made during the review, these were accepted by management.</p>	<p>Priority 1: 5</p> <p>Priority 2: 10</p> <p>Priority 3: 4</p>

Appendix B: Draft Reports issued but not yet finalised

Directorate	Review	Stage
Adult Social Care	Barriers to Financial Inclusion	Initial meeting held to discuss the draft report, a further meeting is required to agree action plan.
Adult Social Care	Client Monies	Initial meeting held to discuss the draft report, a further meeting is required to agree action plan.
Adult Social Care	Telecare	Meeting arranged to discuss draft report.
Business Services	Housing Benefits	Meeting arranged to discuss draft report
Business Services	Payroll	Initial meeting held to discuss draft report, content agreed as accurate and recommendations generally accepted.
CYPD	Vulnerable Children	Initial Meeting held to discuss draft report, a further meeting arranged to agree action plan
Communities, Regeneration and Environment	Car Parks (British Legion Contract)	Meeting arranged to discuss draft report.
Communities, Regeneration and Environment	Landscape Design and Development	Initial meeting held to discuss draft report, a further meeting to finalise the report has been arranged.

Appendix C: Unplanned / Advice Work completed

Directorate	Advice
Adult Social Care	Separation of duties over payments
BSD	HR / Payroll systems thinking intervention
BSD	Key system reconciliations.
BSD	Procurement of developer for new Ponsonby House.
BSD	Council tax system -automation of Council tax refunds
BSD	Acceptance of electronic SPD returns
BSD	Proposed new procedures for authorising supply teachers timesheet
BSD	Accounting for overpaid / duplicate Council Tax refunds
BSD	Policy for writing off small sundry debt
BSD	Verification of supporting evidence for Housing & Council Tax claims under Fast Track process
BSD	Tendering for income generating contract
Chief Executives	Discounts for heritage site tickets
C&YP	Out of School Club- GB Responsibility
C&YP	Integrated children's system
C&YP	Supporting evidence required for Children in need grant bid
C&YP & CRE	Document retention periods
CRE	Monitoring of work carried out by Solutions SK.
CRE	Acceptance of contractors
CRE	Operation of retail outlet by volunteers at a Council park
CRE - Markets	Reduction in cash collection frequencies
SSK	Unauthorised use of machinery

Appendix D: Outcomes of Audit follow up work

Follow ups have been carried out on the following audit reports:

Directorate	Report	Outcome
Corporate	VAT compliance	Actions not implemented within initial timescales, and revised deadlines have been agreed. Internal Audit will follow these up in this quarter and report progress to the audit committee.
Corporate	Risk Management	All but one agreed actions were implemented appropriately with one recommendation currently being implemented. No further follow-up action has been agreed.
Corporate Review	New Ways of Working	The follow up identified that where HR management had committed to provide information to the Work Life Balance Board, this had been effectively actioned. However we were unable to confirm that this information had been cascaded effectively within each directorate. Further recommendations were made through the follow up report for action by the Work Life Balance Board.
Adult Social Care	Adult Assessments	Good progress has been made on implementing all 11 recommendations made. No further follow-up action is proposed by internal audit.
Business Services	HR Starters and Leavers	Good progress has been made on implementing 10 out of the 12 recommendations made in the original audit report. Further recommendations have been made in respect of two recommendations to further strengthen the control framework in place. Management have been advised to monitor these issues. No further follow-up work is proposed by internal audit.
Business Services	Risk Management	Good progress has been made on all of the recommendations made within the original audit report. No further follow-up action is proposed by Internal Audit.
Children and Young People	SEN Transport	Actions not implemented within initial timescales, and revised deadlines have been agreed. Internal Audit will follow these up in this quarter and report progress to the audit committee.
CRE	De-criminalisation of on street car	Actions not implemented within initial timescales, and revised deadlines have

	parking	been agreed. Internal Audit will follow these up in this quarter and report progress to the audit committee.
CRE	Section 74	Actions not implemented within initial timescales, and revised deadlines have been agreed. Internal Audit will follow these up in this quarter and report progress to the audit committee.

Progress is being made to perform the following follow ups.

- Corporate credit cards
- Bank Reconciliation
- Adults assessments
- Tied properties
- Adults & Communities budgetary control
- Reclaiming of Personal Expenses
- Disposal of internally generated waste
- General Ledger (2nd follow-up)
- SAP access controls
- Corporate Procurement
- Strategic Housing Adaptations
- Health & Safety (RIDDOR)

Appendix E: External Work

Stockport MBC Internal Audit Service also provides an internal audit service to Solutions SK and Individual Solutions SK, two wholly owned companies by the Council. This work is planned separately with Solutions SK and Individual Solutions SK management and reported to their management and Audit Committee.

The table below shows a summary of the progress towards completing the audit reviews including those carried over from 2008/09.

Company	Audit Review	Status
SSK	Purchase order Processing (2008/09)	Finalised 22 July 2009
SSK	Recycling (2008/09)	Finalised 22 July 2009
SSK	Vehicle utilisation (Stage 1) (2008/09)	Finalised 24 July 2009
SSK	Use of subcontractors (2008/09)	Finalised 24 July 2009
SSK	Creditors (2008/09)	Finalised 22 July 2009
SSK	Payroll (2008/09)	Finalised 22 July 2009
SSK	ISSK Provider Service	Draft report issued
ISSK	Governance arrangements	Draft report issued

AUDIT COMMITTEE

Meeting: 29 June 2010

INTERNAL AUDIT PROGRESS REPORT 1ST APRIL 2010 – 31ST MAY 2010Report of the Chief Internal Auditor**MATTER FOR CONSIDERATION**

The attached report summarises the work carried out by Internal Audit in the first two months of the new financial year.

RECOMMENDATION

Members are asked to note the Internal Audit progress report.

BACKGROUND PAPERS

There are none

Anyone wishing to inspect the above background papers or requiring further information should contact Niki Riley on telephone number 0161 474 4033 or alternatively email niki.riley@stockport.gov.uk

**Stockport MBC
Internal Audit Services**

**Progress Report
31st May 2010**

1. Introduction

- 1.1 This report sets out the progress made in the period 1st April – 31st May 2010 against the approved audit plan for the year.

Staffing & Training

- 1.2 The team structure has been revised following a request for flexible retirement from one of the Management Auditors. This has resulted in a reduction in Management Auditors from two to one and the creation of a new part time Principal Auditor role with responsibility for financial systems and contract audit work. The grade of this new post is currently being evaluated.
- 1.3 Priority continues to be given to training and development of the current team, with training having been delivered in the period on Computer Audit skills, Contract Auditing, Schools Budgeting, Information Sharing, Political Awareness, Auditing Corporate Governance and Risk Management.
- 1.4 The Group Auditor, Wendy Christie has successfully completed the CIPFA Qualification in Investigative Practice. Two other team members continue to work towards ACCA and PIIA qualifications and have both recently sat exams in these.
- 1.5 A recent CIPFA benchmarking report identifies that the cost of Stockport Internal Audit is low compared with other unitary authorities, while the proportion of qualified / part qualified and staff undertaking professional training is above average for the comparator authorities.

Service development

- 1.6 Training and awareness raising on the Council's Anti-fraud and Corruption policy and strategy continues to be delivered to teams across the Council. The policy is now embedded within the online Corporate Induction and regular bulletins are published on the Intranet reminding staff about their responsibilities within the policy.
- 1.7 The second annual fraud awareness survey has been carried out. This shows some positive results with an improvement in general awareness since the initial survey was undertaken last year. Areas for further improvements have been identified and training is being developed to address these.
- 1.8 Internal audit is currently involved in providing advice to the SWITCH project – the implementation of the new HR / Payroll system.
- 1.9 Internal Audit involvement in the new BITE service reviews will be developed over the coming months to ensure that effective governance arrangements and internal controls are maintained during and following significant system changes.

2. Internal Audit Performance

2.1 Progress against the Internal Audit performance indicators is set out in the table below:

Performance Indicator	2010/11 Target	Forecast to 31/05/10	Actual to 31/05/10
Final reports completed within budgeted number of days	85%	n/a	n/a
Draft reports issued within agreed deadline	85%	85%	100%
Draft reports issued within 15 working days of completion of fieldwork	85%	85%	100%
Audit plan completed	90%	8%	5%
Follow ups completed within agreed timescale	90%	90%	50%
Compliance with internal quality control processes	90%	90%	98%
Average number of days skills training per auditor	3 days	0.5 days	0.5 days
Chargeable time	80%	80%	78%
Customer satisfaction	80%	80%	87%

3. Current Audit Work

3.1 The table below shows a summary of the progress of current audit reviews including those carried over from 2009/10.

Directorate	Review	Audit Plan	Status
Adult Social Care	Client Monies	2009/10	Draft report issued
Adult Social Care	Barriers to Financial Inclusion	2009/10	Draft report issued
Adult Social Care	Telecare	2009/10	Draft report issued
Adult Social Care	Assessing the financial standing of care providers	2010/11	Fieldwork underway
Adult Social Care	Carefirst IT system – access permissions	2010/11	Fieldwork underway
Adult Social Care	Services commissioned from the Voluntary Sector	2010/11	Fieldwork
Adult Social Care	Carefirst IT system – non residential element	2010/11	Planning

Directorate	Review	Audit Plan	Status
Business Services	Council Tax	2009/10	Fieldwork
Business Services	Housing Benefits	2009/10	Draft report issued and closeout meeting held
Business Services	Payroll	2009/10	Draft report issued and agreed
Business Services	Business Continuity Planning	2009/10	Fieldwork
Business Services	SAP access permissions	2010/11	Fieldwork
Computer audit	PCI compliance	2009/10	Fieldwork
Children & Young People	Vulnerable Children	2009/10	Draft report issued
Communities, Regeneration and Environment	Car Parks – British Legion Contract	2009/10	Draft report issued
Communities, Regeneration and Environment	Landscape Design and Development	2009/10	Draft report issued and agreed
Communities, Regeneration and Environment	Capital Programme arrangements	2010/11	Planning
Communities, Regeneration and Environment	Environmental Management Compliance	2010/11	Planning
Corporate Review	Scheme of Delegation	2009/10	Fieldwork
Corporate Review	Partnerships (Stage 1)	2009/10	Draft report issued

4. Outcomes from Finalised Audit Reports

4.1 All Reports finalised within the period have been included within the annual report for 2009/10.

5. Unplanned / Advice Work

5.1 The following table summarises the requests for advice or ad-hoc audit work that have been dealt with by the team in the two months to 31st May 2010.

Directorate	Advice	Outcome
Business Services	Corporate Credit Cards	Advice given on the Council's policies relating

		to purchasing and the risks associated with online purchasing by staff.
Business Services	Managing cash collections at secondary schools	Internal audit advice provided to management
Chief Executives	PECOS access levels	Internal audit work ongoing
Children & Young People	ContactPoint	Work is ongoing, despite the Government cancellation of the national project, there is still a requirement for accreditation of our arrangements.
Children & Young People	Duke of Edinburgh charges	Advice provided on the Council's policy on fees and charges.
Schools	Obtaining Best Value through purchasing	Internal Audit advice provided.
Schools	Guidance sought on thresholds for obtaining quotations	Internal Audit advice provided. School advised on Council Contract Procedure Rules and Scheme for Financing Schools.
Schools	Charging for school trips	Internal Audit advice provided. School advised on the legislation that applies to this area.
Schools	Paying out cash in respect of the Disadvantage Subsidy.	Internal audit advice provided.
Schools	Advice sought on retention of records.	Internal audit advice provided in conjunction with Corporate Records Manager.
Schools	Advice sought on establishing an out of school club.	Internal Audit advice provided.
Schools	Sale of equipment to staff	Internal Audit advice provided.
Schools	PTA prize draw fund	Internal Audit advice provided.

6. Outcomes of Audit follow up work

- 6.1 Follow up reviews are carried out approximately six months after the completion of an audit review to ensure that all agreed recommendations have been implemented or are in progress. Internal Audit reports the outcomes of follow up reviews to senior management within the relevant service area and where appropriate agrees revised timescales with management.
- 6.2 It is our intention that a summary of follow ups will be included in the quarterly progress report to the Audit Committee to provide assurance that these follow-ups are being completed appropriately and that management are effectively implementing audit recommendations.
- 6.3 Where significant recommendations are not implemented within appropriate timescales, these will be highlighted to the Audit Committee for information and action where appropriate.
- 6.4 Progress is being made to perform the follow ups on:
- Health & Safety (RIDDOR)
 - Direct Payments
 - Use of Consultants
 - Tied accommodation

7. External Work

Stockport MBC Internal Audit Service also provides an internal audit service to Solutions SK, a wholly owned company. This work is planned separately with Solutions SK management and reported to their management and Audit Committee.

Niki Riley, CPFA
Chief Internal Auditor

AUDIT COMMITTEE

Meeting: 29 June 2010

SELF-ASSESSMENT QUESTIONNAIRE FOR AUDIT COMMITTEEReport of the Chief Internal Auditor**MATTER FOR CONSIDERATION**

At the last meeting of the Audit Committee, it was agreed that the members would complete a self-assessment questionnaire in order to identify areas where training is required.

Since the membership of the Committee has changed significantly, the questionnaire has been recirculated for discussion and approval by the new committee members.

RECOMMENDATION

Members are asked to consider the questionnaire and make a decision on its use as a tool for identifying training needs.

BACKGROUND PAPERS

There are none

Anyone wishing to inspect the above background papers or requiring further information should contact Niki Riley on telephone number 0161 474 4033 or alternatively email niki.riley@stockport.gov.uk

Audit Committee – Financial Management Competencies Self-Assessment Framework

The attached matrix summarises the financial management competences that should be available within the Audit Committee. The framework is based on a combination of the Financial Management Standard in Schools and the CIPFA guidance for Audit Committees in Local Government.

The framework is not mandatory but has been developed at the request of the Audit Committee to assist them to identify the competences and skills that will enable the Committee to continue to function most effectively and continue to develop. The framework will be used to identify training needs for the committee and develop an annual programme of training.

In line with the FMSiS competency matrix, it is not expected that all Members of the Audit Committee will meet all the requirements of the framework at the highest level, but that the Audit Committee as a whole will have the full range of skills and competences available within its membership.

The framework has been developed in line with the FMSiS with a rating system to allow the level of the Member’s financial management competences to be assessed.

The scoring system is shown below:

	1	2	3	4
	HIGHLY COMPETENT	COMPETENT	DEVELOPING	NOT YET DEVELOPED
RATING SYSTEM	<p>Where relevant to the competency or example, the following apply to the individual concerned:</p> <ul style="list-style-type: none"> • this is an area in which you have significant practical experience • this is something that you undertake on a regular basis • this is a personal characteristic or style that you demonstrate all of the time • there is a regular programme of activities to maintain technical competence 	<p>Where relevant to the competency or example, the following apply to the individual concerned:</p> <ul style="list-style-type: none"> • this is an area in which you have some practical experience • this is something that you undertake on an infrequent basis • this is a personal characteristic or style that you demonstrate most of the time • there is a regular programme of activities to maintain technical competence 	<p>Where relevant to the competency or example, the following apply to the individual concerned:</p> <ul style="list-style-type: none"> • this is an area in which you have little practical experience • this is something that you rarely undertake • this is a personal characteristic or style that you demonstrate some of the time • there is a programme of activities to develop the technical competence in this area 	<p>Where relevant to the competency or example, the following apply to the individual concerned:</p> <ul style="list-style-type: none"> • this is an area in which you have no practical experience • this is something that you have never undertaken • this is a personal characteristic or style that you rarely demonstrate • there is no programme of activities to develop the technical competence in this area

It is suggested that the following competency matrix is completed by each Member of the Audit Committee with regard to the scoring system above. The outcomes can then be assessed to identify where the Committee considers training would be beneficial.

Name of Governor:	52		
PROVIDES STRATEGIC LEADERSHIP	Assessed level	Strengths / experience	Assessed training / development requirement
<p>Leads the development of strategic plans:</p> <ul style="list-style-type: none"> ▪ Has knowledge and understanding of Council priorities, aims and objectives and takes a long-term view ▪ Knows the strategic level that Members should operate at ▪ Able to articulate strategic priorities and objectives clearly ▪ Can assimilate the financial implications of Council priorities ▪ Promotes team working between Members and Officers 			
<p>Able to identify viable options and select or recommends those most likely to achieve the Council's goals and objectives:</p> <ul style="list-style-type: none"> ▪ Able to use information provided in a useful way ▪ Will take necessary decisions, even if difficult • Knows how to focus those matters which are most significant i.e. higher risk issues ▪ Is open to new ideas, consults/listens to stakeholders ▪ Willing to work in partnership with outside bodies 			
<p>Has a clear understanding of best financial management practice and Council performance compared to it:</p> <ul style="list-style-type: none"> ▪ Has knowledge of the Council's current financial performance ▪ Has knowledge of internal control processes ▪ Co-operates with external inspectors/auditors etc. and initiates appropriate action in response to their findings ▪ Regularly participates in networking activities and is outward looking rather than internally focused 			

	Governors with Financial Management 53 responsibilities		
ENSURES ACCOUNTABILITY	Assessed level	Strengths / experience	Assessed training / development requirement
<p>Understands the statutory financial and governance requirements for the Council</p> <ul style="list-style-type: none"> ▪ Understands the financial framework in which the Council operates ▪ Has knowledge of the Council’s funding arrangements and funding streams ▪ Understands the requirements of the Accounts and Audit Regulations 2003 (amended 2006) ▪ Understands the requirements of the CIPFA Code of Practice for Internal Audit in Local Government ▪ Understands the requirements of the CIPFA publication – Audit Committees, Practical Guidance for Local Authorities ▪ Understands the CIPFA / SOLACE publication – Delivering Good Governance in Local Government 			
<p>Understands and can ensure that budget setting and budget monitoring activities are adequate and effective</p> <ul style="list-style-type: none"> ▪ Understanding of finance and budgeting ▪ Has numeric and analysis skills ▪ Is able to seek assurances that the Council has adequate budgetary control arrangements in place. 			

<p>Understands Audit and Risk management issues and can determine appropriate action in response to information provided</p> <ul style="list-style-type: none"> ▪ Understands the role and purpose of the Audit Committee ▪ Understands the need for an effective Internal Control framework and the responsibilities for this ▪ Understands the respective roles of Internal and External Audit ▪ Understands the need for effective risk management and the framework within which this operates. ▪ Has a good understanding of the information provided on internal audit matters and is able to take appropriate actions / decisions to ensure an effective internal control framework is maintained. ▪ Has a good understanding of matters relating to Fraud / Money Laundering and can ensure that the Council is taking appropriate action in relation to these. ▪ Understands the Council's risk management and business continuity strategies 			<p>54</p>
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ACT AS A CRITICAL FRIEND	Assessed level	Strengths / experiences	Assessed training / development requirement
<p>Has a commitment to the Council and the work of the Audit Committee:</p> <ul style="list-style-type: none"> ▪ Participates in the work of the Audit Committee by preparing for meetings, attending meetings, contributing to discussions, taking forward agreed actions ▪ Improves knowledge of the Council and becomes familiar with it through discussions with officers, reading relevant papers etc. ▪ Takes part in available training and other chances to develop knowledge, skills and understanding ▪ Helps new Members to understand their financial management role and to make a full contribution ▪ Declares personal or pecuniary interests as appropriate, and avoids using his/her position for personal gain 			
<p>Presents information and views clearly and influentially to others:</p> <ul style="list-style-type: none"> ▪ Has credibility with partners and colleagues ▪ Able to influence others and build consensus using the power of argument and clear presentation of the case ▪ Uses analytical skills to challenge management constructively and ask probing questions ▪ Gives and receives constructive feedback ▪ Understands where to get additional information and advice from ▪ Seeks to resolve misunderstanding and conflict ▪ Where appropriate requests management explanations for issues identified through Internal or External Audit reports. 			

AUDIT COMMITTEE

AGENDA ITEM NO. 10
Meeting: 29 June 2010

EXTERNAL AUDIT PROGRESS REPORT

Report of the External Auditor

MATTER FOR CONSIDERATION

Consider the progress that has been made against the 2009/10 audit and 2010/11 inspection plan.

INFORMATION

The 2009/10 audit fee letter was agreed at the June 2009 Audit Committee meeting. The attached report sets out the progress that has been made since this date.

RECOMMENDATION

Note the progress that has been made and take any action considered necessary.

BACKGROUND PAPERS

There are none

Anyone wishing to inspect the above background papers or requiring further information should contact Diane Rowland on telephone number 0161 474 4131 or 0844 798 7300 or alternatively email [d-rowland @audit -commission.gov.uk](mailto:d-rowland@audit-commission.gov.uk)

Progress Report to the Audit Committee

Stockport Metropolitan Borough Council

Audit 2009/10

Date: June 2010

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Status of our reports

The Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission explains the respective responsibilities of auditors and of the audited body. Reports prepared by appointed auditors are addressed to non-executive directors/members or officers. They are prepared for the sole use of the audited body. Auditors accept no responsibility to:

- any director/member or officer in their individual capacity; or
 - any third party.
-

Summary of audit and inspection progress

Key messages

- 1 A summary of progress against the 2009/10 audit plan and 2010/11 inspection plan is contained in Appendix 1.
- 2 The most significant development since the March Audit Committee is that the new government has announced the abolition of Comprehensive Area Assessment (CAA). The Audit Commission has agreed to stop all work relating to CAA with immediate effect. As well as the Area Assessment this includes the organisational assessments and use of resources assessments in local government.
- 3 Consequently, we will not provide any scored assessments in relation to the Use of Resources (UoR) work we have undertaken in 2009/10. However we will report the findings from our work and will identify any opportunities for improvement we have identified. And as the key lines of enquiry for use of resources mirror the criteria we use when reaching our value for money conclusion, the findings will continue to inform this assessment. The value for money conclusion will be issued alongside the opinion on the financial statements by 30 September 2010.
- 4 Since the March Audit Committee we have:
 - Undertaken UoR work to support the value for money conclusion;
 - Completed our review of the new joint financing arrangements with the PCT and a copy of the report is included as a separate agenda item for this Committee;
 - Issued the ALMO re-inspection report for Stockport Homes Limited; and
 - Agreed our audit fee proposals for 2010/11. A copy of the 2010/11 fee letter is included as a separate agenda item for this Committee.
- 5 The main focus of our work over the coming months will be to audit the Council's financial statements. We receive these on 1 July 2010 and we will bring our annual governance report setting out the key matters arising from our audit to the September meeting.
- 6 We have also been asked to provide some training for Audit Committee members to support you in your role in relation to approving the financial statements. This training is being provided in addition to our appointment as your appointed auditors.

Other developments including national publications

A review of collaborative procurement across the public sector

The National Audit Office and the Audit Commission have jointly produced this review. It draws on Audit Commission research in local government, carried out during the autumn of 2009.

The review finds that although collaborative procurement has the potential to improve value for money, the public sector procurement landscape is fragmented, with no overall governance. Consequently, public bodies are incurring unnecessary administration costs by duplicating procurement activity, and they are paying a wide range of prices for the same commodities, even within existing collaborative arrangements.

It recommends that, given the size of public sector procurement spend and the potential to significantly improve value for money, public bodies should work together much more effectively than they currently do. And there should be a clear framework to coordinate public sector procurement activity.

<http://www.audit-commission.gov.uk/nationalstudies/localgov/Pages/20100521areviewofcollaborativeprocurementacrossthepublicsector.aspx>

National Fraud Initiative report 2008/09

The National Fraud Initiative (NFI), the UK-wide antifraud programme, helped trace £215 million in fraud, error and overpayments in 2008/09. Since the initiative's start in 1996, the programme has helped detect £664 million.

The NFI is a data matching exercise. It compares information held by and between around 1,300 organisations including councils, the police, hospitals and nearly 100 private companies. This helps to identify potentially fraudulent claims, errors and overpayments, all hosted on a secure website. When there is a match, there may be something that warrants investigation. For example, when data matching shows a person listed as dead and also in receipt of a pension, the relevant body will investigate and, if appropriate, stop pension payments.

<http://www.audit-commission.gov.uk/nfi/reports/Pages/default.aspx>

Doncaster Metropolitan Borough Council Corporate Governance Inspection

The Audit Commission carried out this inspection because of repeated evidence, over more than 15 years, that the council is not well run.

The report says that 'The Council is failing in its legal obligation to make arrangements to secure continuous improvement in the way in which it exercises its functions, having regard to a combination of economy, efficiency and effectiveness.'

Recommendations for government intervention have been made to Communities Secretary, who is now consulting the Council on a proposed package of intervention.

<http://www.audit-commission.gov.uk/localgov/audit/inspection/reports/Pages/201004doncastermetropolitancouncilcorporategovernanceinspection.aspx>

Surviving the crunch - Local finances in the recession and beyond

This report is the third in a series of publications looking at the impact of the credit crunch and subsequent recession on local authorities.

It says that councils must think bigger and act quicker to reduce costs, or funding cuts will cause more damage to services and jobs than is necessary. Most councils have been cushioned from the worst of the recession because the government stuck to its three-year funding settlement. But this ends in 2011. On average, councils receive two-thirds of their income from grants.

Even though the timing and extent of cuts in government support are unclear, the report says that councils must prepare now for leaner times. The sooner they get clarity the better. The best-prepared councils are taking action now to preserve services in the years ahead, but others have yet to make any financial plans beyond 2011.

<http://www.audit-commission.gov.uk/nationalstudies/localgov/survivingthecrunch/Pages/default.aspx>

By mutual agreement - Severance payments to council chief executives

Severance deals can be in the interests of the council and the taxpayer. But the Audit Commission's research shows that not all such deals are justified, that competent chief executives have sometimes lost their jobs needlessly, and that less effective individuals have been paid-off rather than dismissed.

The Commission wants all deals to be more transparent. They should be reviewed by scrutiny or remuneration committees, with details published shortly after they are agreed. And councils should consider whether to include so-called 'pre-nuptial' clauses in contracts, specifying the grounds and payment for severance.

The report found that rapid re-employment in local government is unusual – only six out of the 37 returned to a senior council post within a year, and over 80 per cent have yet to return to local government. However, a way should also be found of recouping some of a pay-off where an executive moves quickly into another top council job.

<http://www.audit-commission.gov.uk/nationalstudies/localgov/mutualagreement/Pages/default.aspx>

Appendix 1 – Audit and Inspection Update

Table 1 Position as at 14 June 2010

Item	Start date	Output	Draft issued	Final issue	Notes
AUDIT - 2009/10					
Planning					
Audit Fee Letter 2009/10	March 2009	Audit Fee Letter	April 2009	April 2009	Audit Fee Letter agreed at the June 2009 Audit Committee.
Opinion					
Interim systems review	November 2009	Interim report (if required)			<ul style="list-style-type: none"> Fieldwork almost completed. No requirement for interim report.
Financial statements	July 2010	Opinion audit plan Annual Governance Report Auditor's Opinion Final Accounts Memorandum	February 2010	February 2010	<ul style="list-style-type: none"> External Audit Opinion Plan was presented to March Audit Committee meeting. Fieldwork will commence in July 2010. Auditor's Opinion will be issued by 30 September 2010 deadline.

Item	Start date	Output	Draft issued	Final issue	Notes
Use of resources					
Use of resources - scored auditor judgements	November 2009	Use of resources score and report			<ul style="list-style-type: none"> Fieldwork completed. Following the announcement of the abolition of CAA, including Use of Resources, no further work is required. We will report the outcome from our work but will not provide any scored assessments.
Value for money conclusion	July 2010	Auditor's report			<ul style="list-style-type: none"> The VFM conclusion will draw on the Use of Resources work and will be issued alongside the opinion on the accounts in September 2010.
Local risk based reviews					
Review of arrangements around new Section 75 joint financing agreement (across the Council and PCT)	November 2009	Report	March 2010	June 2010	<ul style="list-style-type: none"> Report agreed by the Health & Well Being Integrated Commissioning Board. Report included as a separate agenda item for this Committee.
Initial assessment of governance and accounting arrangements around	November 2009	Feedback			<ul style="list-style-type: none"> Fieldwork underway.

Item	Start date	Output	Draft issued	Final issue	Notes
the older peoples' wholly owned company.					
Community Safety - Follow up (cross cutting)	November 2009		April 2010	June 2010	<ul style="list-style-type: none"> Final report has been issued recently and will be brought to the September meeting of the Audit Committee.
Reporting					
Annual audit letter	April 2009	Report			Will be issued by 30 November 2010.
CAA & INSPECTION - 2010/11					
Comprehensive Area Assessment (CAA)	April 2010	Results Published on Audit Commission website			<ul style="list-style-type: none"> Following the announcement of the abolition of CAA no further work is required and there will be no further reporting.
Organisational Assessment (OA)	April 2010	Results Published on Audit Commission website			<ul style="list-style-type: none"> Following the announcement of the abolition of CAA no further work is required and there will be no further reporting.
ALMO re-inspection	February 2010		April 2010	May 2010	<ul style="list-style-type: none"> Final report issued in May 2010. Concluded that Stockport Homes Ltd provides an excellent, three star service, with excellent prospects for improvement.

The Audit Commission

The Audit Commission is an independent watchdog, driving economy, efficiency and effectiveness in local public services to deliver better outcomes for everyone.

Our work across local government, health, housing, community safety and fire and rescue services means that we have a unique perspective. We promote value for money for taxpayers, auditing the £200 billion spent by 11,000 local public bodies.

As a force for improvement, we work in partnership to assess local public services and make practical recommendations for promoting a better quality of life for local people.

Copies of this report

If you require further copies of this report, or a copy in large print, in Braille, on tape, or in a language other than English, please call 0844 798 7070.

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AUDIT COMMITTEE

Meeting: 29 June 2010

REVIEW OF JOINT FINANCING ARRANGEMENTS**Report of the External Auditor****MATTER FOR CONSIDERATION**

Consider the attached external audit report on the arrangements around the joint financing agreement with the PCT.

INFORMATION

Early in 2009 the Council and PCT set up a new wide ranging pooled budget under Section 75 of the NHS Act 2006. The attached report reviews the arrangements around the new pooled budget against good practice guidance published by the Audit Commission.

The report has already been taken to the Health and Well Being Integrated Commissioning Board (HWICB) where the responses to the various recommendations have been agreed.

RECOMMENDATION

Note the findings of the report, the response from the HWICB and take any further action considered necessary.

BACKGROUND PAPERS

There are none

Anyone wishing to inspect the above background papers or requiring further information should contact Diane Rowland on telephone number 0161 474 4131 or 0844 798 7300 or alternatively email

d-rowland@audit-commission.gov.uk

Joint Financing Arrangements

Stockport Metropolitan Borough Council and
Stockport Primary Care Trust

Audit 2009/10

June 2010



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Status of our reports

The Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission explains the respective responsibilities of auditors and of the audited body. Reports prepared by appointed auditors are addressed to non-executive directors/members or officers. They are prepared for the sole use of the audited body. Auditors accept no responsibility to:

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-

Summary report

Introduction

- 1 Health organisations and local authorities have long been encouraged to work together to provide comprehensive and responsive services that eliminate unnecessary gaps and duplications for local service users. Service integration and joint commissioning of health and social care services need robust joint funding arrangements.
- 2 Stockport MBC and Stockport PCT have worked together in the past to provide some combined services. Small pooled budgets for drug and alcohol services and community equipment have operated for a number of years. Furthermore, learning disability services have become more integrated although the budgets have not been formally pooled. However, significant changes to joint working have taken place during 2009/10.

Background

- 3 In April 2009 the Council and PCT established a Health and Wellbeing Integrated Commissioning Board (HWICB) made up of representatives from both organisations. The Board will lead commissioning of services on behalf of the Council and the PCT. A new wide ranging pooled budget has also been set up under Section 75 of the NHS Act 2006.
- 4 The new pooled budget is governed by a single 'umbrella' agreement that covers a number of different services. With effect from May 2009 the following services were included in the pool.
 - Drugs and alcohol (£152k).
 - Community equipment (£562k).
 - Learning disabilities (£23.3m).
 - Non acute services for older people (£5.9m).
- 5 The intention is to add further services to the pool once the arrangement has become fully established. Work has already commenced on aligning the budgets for other older peoples' services (£43.8m) and mental health (£26.5m) with a view to including them within the pool at the appropriate time. In the longer term children and young people and public health are being considered for inclusion.
- 6 The joint financing arrangement is an important new area involving significant amounts of money and two different organisations. It is therefore essential that roles, responsibilities and any relevant performance management or reporting arrangements are clear.

Scope and objectives

- 7 Our audit responsibilities require us to give an opinion on the financial statements of the PCT and Council and to assess the arrangements for securing economy, effectiveness and efficiency in the use of resources at both organisations. The review will provide evidence to meet these requirements and will provide both the Council and the PCT with an independent assessment of the new arrangements in place.
- 8 The Audit Commission has undertaken national research on joint financing across health and social care. The results of this research, including identified good practice, are contained in two publications 'Clarifying joint financing arrangements' which was published in October 2008 and 'Means to an end' published in October 2009.
- 9 Our review has compared Stockport's new joint financing arrangements with those recommended by the national research. We have covered two main areas as set out in Table 1 below.

Table 1 Areas for review

Area	Objective
Joint financing agreement	To ensure that the agreement is sufficiently detailed to ensure mutual understanding and clear accountability and governance around the new Section 75 arrangements.
Management of pooled funding arrangements	<p>To ensure that the partners have agreed the systems, management and accountability arrangements of the pooled funds and how the host will deliver the main points contained within the signed agreement. In particular we have focused on the arrangements for:</p> <ul style="list-style-type: none"> • monitoring achievement of agreed aims and outcomes for the organisations, service and users; • agreeing partners' contributions to the fund; • financial management, including planning, governance, monitoring and information reporting; and • accounting and audit, including the treatment of surpluses and deficits, timing of information and VAT.

Main conclusions

- 10 The Section 75 agreement covers all the areas recommended by the Audit Commission good practice guidance and should provide a sound basis for governing the new pooled budgets.
- 11 The newly established HWICB also provides a good framework for directing and monitoring the pools as well as achieving the longer term objective of delivering integrated commissioning for health and well being that crosses organisational boundaries.
- 12 An Outcomes Framework has been established through which the success of the joint financing arrangements will be measured over the next three years. The outcomes in this Framework are linked to the overall objectives of the partnership but do not cover the more detailed aims of the individual pools.
- 13 Work is underway to prepare annual business plans containing performance targets for each of the pooled budgets. Once these have been prepared, performance against the targets can be measured in a more structured manner through quarterly reports to the HWICB. However, even though the formal performance monitoring framework has not been operating in 2009/10, officers report operational benefits and improved outcomes from the new arrangements. Examples include:
 - commissioning more intermediate care in a community rather than acute setting which has resulted in better value for money;
 - using Council expertise to commission continuing healthcare assessment beds which has resulted in reduced lengths of stay in the acute hospital;
 - transforming community equipment services through the adoption of a new model for simple aids and exploration of transformation opportunities for complex aids
 - joint review of day care services; and
 - joint work on the dementia strategy which has resulted in the award of pathfinder status.
- 14 There are adequate financial management arrangements around the pools which include budget setting and regular financial monitoring. Officers are currently preparing the year end accounts and are planning to address the specific requirements of pooled budgets as part of this process. The treatment of VAT by the pools is one area that needs to be clarified further with HMRC.

Joint financing agreement

Content of agreement

- 15 The Audit Commission publication 'Means to an end' outlines the main elements that should be included in a robust agreement. We have compared the content of Stockport's joint financing agreement with that recommended by the Audit Commission in Appendix 1.
- 16 The Appendix shows that overall the agreement satisfactorily covers all the areas suggested in the good practice guidance. It therefore provides a sound basis for governing the operation of the new Section 75 joint financing partnership arrangement.
- 17 Our review highlighted a small number of minor areas where the agreement could be strengthened further. These relate to Schedule 5 which sets out information on the individual pools included in the 'umbrella' main agreement. This schedule should include the expected outcomes of each pool together with details of the service users covered by them. However this information is not included for the learning disability service.
- 18 We also found a contradiction between the main agreement and Schedule 5 in relation to the treatment of capital expenditure. The Schedule says that the pools exclude capital expenditure whereas Section 11 in the main agreement recognises that minor capital items may be purchased.

Recommendation

- R1** Revise the wording in Schedule 5 to the main agreement to:
- include outcomes for the learning disabilities pool;
 - specify service users for the learning disability service; and
 - mirror the provisions for capital expenditure contained in the main agreement.

Management of pooled funds

Governance framework

- 19 Section 2 of the agreement sets out the joint structures that have been established to oversee the management of the new Section 75 agreement. Essentially the HWICB has been established to strategically lead and monitor the pooled budgets. A review of the expected purpose of the HWICB shows that its remit extends beyond this and also includes:
- providing leadership for commissioning health and well being in Stockport;
 - making recommendations to parent organisations regarding the most appropriate future financial arrangements for resources within its purview, including the creation or disestablishment of pools; and
 - liaising with the relevant commissioning groups and managers in order to develop local commissioning groups to develop local strategies and action plans.
- 20 The preface to the agreement highlights the longer term aim of both parties to the agreement which is to develop integrated commissioning arrangements for health and well being which transcend organisational boundaries, improve the health and well being of people in Stockport and provide value for money.
- 21 It is still early days and there is recognition that the arrangements introduced in 2009 are just part of a longer journey. However, these newly established arrangements should not only provide a good framework for managing the pooled funds but also for achieving these longer term ambitions. The recently created joint post of Service Director (Adults) and PCT Chief Executive will add further impetus to the move towards integrated services.

Monitoring outcomes

- 22 Schedules 1 and 5 of the agreement set out the aims and objectives of the partnership. These are supported by an Outcomes Framework setting out potential indicators that will be measured over the next three years to see how successful the new arrangements have been. The Outcomes Framework was discussed and agreed at the December 2009 meeting of the HWICB.
- 23 Our review of the Outcomes Framework shows that it is linked to the overall aims of the partnership agreement in Schedule 1. However, the Framework does not contain the expected outcomes of the individual pools in Schedule 5 or the indicators that will be used to measure achievement of these objectives.

- 24 'A means to an end' recognises the difficulties in devising outcome measures that adequately reflect the benefits for users of having a more integrated service and has recommended that work should be undertaken on this nationally. However the national report has identified some potential outcome measures that could be used and these are listed in Appendix 2 for information. Stockport's Framework includes a number of these measures but it may be appropriate to also incorporate some of the other indicators in the Framework.
- 25 The Section 75 agreement states that once the Outcomes Framework has been agreed, lead commissioners should prepare annual business plans for their services. It is expected that these will contain annual performance targets and that progress against these business plans will be reported quarterly to the HWICB. So far none of the pools have prepared an annual business plan although we understand that work on these documents is underway.
- 26 Whilst our review has shown that the overall performance framework needs to be developed further, discussions with officers have indicated that there have been some improved outcomes as a result of the new Section 75 agreement over the last twelve months. These include:
- commissioning more intermediate care in a community rather than acute setting which has resulted in better value for money;
 - using Council expertise to commission continuing healthcare assessment beds which has resulted in reduced lengths of stay in the acute hospital;
 - transforming community equipment services through the adoption of a new model for simple aids and exploration of transformation opportunities for complex aids;
 - joint review of day care services;
 - de-commissioning of the domiciliary laundry service;
 - joint work on the dementia strategy which has resulted in the award of pathfinder status; and
 - general improvement in information sharing and joint decision making.

Recommendations	
R2	Include the expected outcomes from the individual pools in the Outcomes Framework.
R3	Review the performance measures listed in Appendix 2 for potential inclusion in the Outcomes Framework.
R4	Prepare annual business plans containing performance targets for each pool.
R5	Report performance against the targets contained in the business plans to the HWICB on a quarterly basis.

Agreeing financial contributions

- 27 Each partner's initial contributions to the pools were agreed after a detailed exercise involving both operational and finance officers from the services. Section 4 of the agreement comprehensively sets out how future annual contributions will be agreed. Currently contributions are largely based on historic expenditure although these are likely to be based more on service users needs as the pools develop.

Financial management

- 28 The financial management arrangements for the pools are set out in Section 3 of the agreement. Essentially it is the responsibility of lead commissioners to set budgets and to produce financial monitoring reports for their pools. Accounting records for the pool are held by the lead commissioner to enable effective monitoring and reporting. The Standing Orders and Standing Financial Instructions of the lead commissioner apply to the management of the pooled funds.
- 29 Formal budget monitoring reports should be submitted to the HWICB quarterly and this requirement is being met. Our review of the monitoring reports shows that they are adequate for their purpose and contain the budget, forecast out-turn and predicted annual surplus or deficit for each pool. The latest monitoring report to the end of December 2009 is predicting a combined overall surplus of £179,000 for the year. The budget monitoring reports also show the financial position of services that are 'aligned' for future potential inclusion in the Section 75 agreement so that the HWICB can determine the most appropriate time for their admission to the pool.
- 30 In addition to the formal quarterly financial reporting, lead commissioners undertake informal monthly monitoring so that any potential financial difficulties can be identified and addressed at an early stage.
- 31 One of the functions of the HWICB as set out in Section 2.3 of the agreement is to agree three year rolling financial plans for the pooled funds. It has not yet been possible to meet this requirement due to the uncertain financial climate currently facing both the Council and the PCT. However, we recommend that this requirement is revisited once the national financial climate becomes more certain.

Recommendation

- | |
|---|
| <p>R6 Prepare three year rolling financial plans for the pooled funds once the national financial climate becomes more certain.</p> |
|---|

Accounting and audit requirements

- 32** Preparing annual accounts for the pools is another responsibility of the lead commissioners. Finance officers are aware of this and work to prepare the 2009/10 pooled budget accounts is currently underway.
- 33** In addition to the accounting requirements of the pools themselves, the Council and the PCT need to consider the potential impact of the pooled budgets on their own financial statements. Firstly both organisations still need to decide whether or not to include a pooled budget memorandum account within their own financial statements. Whilst there is no requirement for this, inclusion of such information would enable better accountability and transparency of the pooled fund's role and activities.
- 34** Secondly pooled budgets cannot be treated as separate accounting entities in their own right and any assets and liabilities at year end have to be shared between the partners in accordance with the agreement. This requirement particularly impacts upon the PCT due to its need to hit specific financial targets together with the earlier financial reporting timetable in the NHS. Once again finance officers are aware of these requirements and will be arranging for the relevant shares of the pooled budget assets and liabilities to be included within the partner's own accounts.
- 35** The ways in which surpluses and deficits are to be dealt with are set out in Section 4 of the agreement. This says that as a general principle, overspends will not be tolerated. However, should a surplus or deficit arise, the HWICB must determine the underlying reason and then agree the most fair and appropriate way of dealing with it. Section 4 also sets out some potential reasons for overspends and indicates how these should then be treated. Ultimately, if agreement cannot be reached, the matter can be referred to an expert for arbitration.
- 36** We acknowledge that responsibility for deciding the treatment of surpluses and deficits has largely been left to the discretion of the HWICB because it would be impossible to predict every possible situation that could give rise to a surplus or deficit and its treatment. Nevertheless the successful operation of the present guidance will depend upon the continued good working relationships between the partners.
- 37** Audit certification specifically for the pooled budget memorandum accounts is no longer required. Audit work will therefore be included in the overall opinion on the partners' annual accounts.
- 38** Responsibility for ensuring compliance with HMRC guidance on the treatment of VAT for the pooled funds lies with the lead commissioners. Section 3 of the agreement says that lead commissioners should consult with HMRC to agree an appropriate scheme for recovery of VAT. To date, only the equipment pool has a written agreement with HMRC on the treatment of VAT.

Recommendations

- R7** Include pooled budget memorandum accounts within the PCT and Council financial statements.
- R8** Agree with HMRC the treatment of VAT on the older peoples, learning disability and drug and alcohol pools.

Appendix 1 – Content of joint financing agreement

Table 2 Comparison with Audit Commission guidance

Recommended elements of agreement	Content of Stockport's agreement	Satisfactory (Y/N)
Annually agreed aims and outcomes	<p>Schedule 1 of the agreement includes the general aims and outcomes expected from the pooled arrangement. The main outcome expected is health gain as defined by the Health and Well Being Partnership, PCT Strategic Plan, Council Strategies and Business Plans and set out in an Outcomes Framework agree by the HWICB. The Schedule also states that a business plan setting out the outcomes to be delivered will be agreed annually.</p> <p>Schedule 5 sets out the aims for each of the four services currently included within the pool. The schedule also includes expected outcomes for all the services apart from learning disabilities.</p>	Y - subject to minor improvement
The relevant NHS and council functions covered in the agreement	Schedule 3 of the agreement sets out the functions covered for both the Council and the PCT.	Y

Recommended elements of agreement	Content of Stockport's agreement	Satisfactory (Y/N)
Identification of the host partner to lead on delivery of the arrangement and how the other partner will support the host	Schedule 5 to the agreement identifies a lead commissioner and pool manager for each of the four services included. The lead commissioners will provide the necessary financial and administrative support and their Standing Orders and Standing Financial Instructions will apply.	Y
How the arrangements will be managed, including jointly monitoring and reporting progress.	<p>Section 2 of the agreement sets out the joint structures and responsibilities. This includes the representation on the HWICB, the frequency of its meetings and its purpose. Functions of the HWICB include:</p> <ul style="list-style-type: none"> ● agreeing rolling three year financial plans; ● receiving quarterly service and financial information from the lead commissioners; ● agreeing annual business plans; and ● resolving disputes as necessary. 	Y
Governance arrangements both financially and corporately include inter agency governance structures	Section 3 of the agreement sets out the lead commissioner's responsibilities. Essentially the lead commissioner and pool manager are responsible for managing that particular pool. This includes commissioning services, financial monitoring and performance monitoring. The lead commissioners will report on progress to the nominated finance officers of the partner organisation and the HWICB.	Y

Recommended elements of agreement	Content of Stockport's agreement	Satisfactory (Y/N)
The client groups for whom the service is funded.	Schedule 5 of the agreement defines who is eligible to use the services included in the pool and how users can gain access to these in all areas apart from learning disabilities.	Y - subject to minor improvement
The respective financial contributions and other resources provided in support of the partnership (but not necessarily part of the pool), and how surpluses and deficits are dealt with at year end.	<p>Section 4 of the agreement sets out the procedures for agreeing annual contributions to the pools. The agreed contributions for 2009/10 are contained in Schedule 4.</p> <p>Paragraphs 4.15 to 4.17 of the agreement outline the processes for dealing with surpluses and deficits. In general this relies on the HWICB determining the reason for the surplus or deficit and then determining the most fair and appropriate way of dealing with this. Para 4.16 set out some potential reasons for overspends arising and how they would then be dealt with. Ultimately, if agreement cannot be reached, the matter can be referred to an expert for arbitration.</p>	Y
Agreement about the ownership and disclosure of any minor capital items purchased by the pool.	<p>Schedule 5 of the agreement states that the pools are established to deliver revenue service provision and therefore the pool excludes all capital expenditure at this time. However this contradicts the provisions within the main agreement.</p> <p>Section 11 recognises that whilst the pool is established to deliver revenue services it is almost inevitable that some items with a useful life beyond one year, for example computers, will be purchased. It therefore calls for partners' agreement or referral to the dispute procedure on termination of the agreement to decide the appropriate disposal of these items.</p>	Y - subject to minor improvement

Recommended elements of agreement	Content of Stockport's agreement	Satisfactory (Y/N)
The duration of the agreement.	Section 11 of the agreement states that it is for an initial term of three years.	Y
The provision and mechanism for annual review, renewal or termination of the agreement	<p>Section 14 of the agreement requires the partners to review the partnership arrangement nine months prior to the expiry of the initial three year term and as and when requested by the HWICB. This is supplemented by the HWICB consideration of annual reports produced by the lead commissioners. Section 14 also sets out the provisions for extending the agreement beyond the initial term.</p> <p>Section 11 of the agreement sets out the procedures for termination of the arrangement.</p>	Y
Technical matters such as the treatment of VAT, liability and indemnity, legal issues, complaints, disputes and risk-sharing.	<p>Section 3 of the agreement requires the lead commissioners to consult with HMRC to agree an appropriate scheme for the recovery of VAT.</p> <p>Section 6 covers liability and indemnity, Section 7 insurance, Section 12 complaints and Section 13 disputes.</p>	Y

Source: Audit Commission 'Means to an end'

Appendix 2 – Performance measures

Checklist to measure performance of joint funding arrangements

Detail		Current targets/sources (where relevant)
Overview measures	<ul style="list-style-type: none"> The extent to which agreed outcomes are being fulfilled and targets met. How far integrated care arrangements or the aims of joint financing are being achieved. The extent to which the use of NHS Act 2006 section 75 flexibilities or integrated care arrangements have contributed to improved (or reduced) performance of the service. 	
Performance Indicators	Admissions	
	<ul style="list-style-type: none"> Reduction in hospital admissions as a result of falls (that is, fractured neck of femur admissions for patients over 65 years; over 75 years; and over 85 years old). Reduction in avoidable emergency admissions/bed days for patients over 65 years. Reduction in delayed transfers of care particularly for patients over 65 years. 	PAF D41, NI 131, DH DSO
	Access and appropriateness of services	
	<ul style="list-style-type: none"> Shared use of support services and facilities promoting one point of contact (where appropriate). Reduction in duplication of client contacts. Single process agreed for joint teams - for example assessment. Reduction in people receiving services 'out of area'. Improved times from referral to agreement of care packages. Improved times from agreement to delivery of care. 	

	Achieving independence	
Performance indicators	<ul style="list-style-type: none"> An increase in the number of vulnerable adults (mental health, physical disability, those over 65 years) helped to live at home/supported to live independently/achieving or maintaining independent living. An increase in the number of patients over 65 years achieved independence through rehabilitation/intermediate care. Increase percentage of items of equipment and adaptations delivered within seven days and an increase in the number of people benefiting from this provision. An increase in the number of vulnerable adults (mental health and learning disability) in contact with services in employment. 	<p>PAF C29-32, NI 136, NI 141, NI 142, PSA 17, 18, CLG DSO NI 125, PSA 18</p> <p>PAF D54</p> <p>NI 150, NI 146, PSA 16</p>
	Skills	
	<ul style="list-style-type: none"> Staff skill mixes reviewed, to reduce duplication where it exists and secure better use of scarce professional skills and time. Improvements in staff recruitment, retention and morale. 	
	Satisfaction	
	<ul style="list-style-type: none"> Raised service user satisfaction in terms of access to services, compared with baseline year. 	<p>NHS Patient Survey Programme; CQC national surveys of local health services and community mental health services, SCIE annual social care user experience survey.</p>

Source: Audit Commission 'Means to an end'

Appendix 3 – Action Plan

Page no.	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
6	R1 Revise the wording in Schedule 5 to the main agreement to: <ul style="list-style-type: none"> include outcomes for the learning disabilities pool; specify service users for the learning disability service; and mirror the provisions for capital expenditure contained in the main agreement. 	1	Integrated Commissioning Policy Co-ordinator / lead commissioners	Yes	This task will be completed over the Summer for discussion at the September Board meeting	September 2010 (Board meeting)
8	R2 Include the expected outcomes from the individual pools in the Outcomes Framework.	3	Integrated Commissioning Policy Co-ordinator / lead commissioners	Yes	This task will be completed over the Summer for discussion at the September Board meeting	September 2010 (Board meeting)
8	R3 Review the performance measures listed in Appendix 2 for potential inclusion in the Outcomes Framework.	3	Integrated Commissioning Policy Co-ordinator / lead commissioners	Yes	This task will be completed over the Summer for discussion at the September Board meeting	September 2010 (Board meeting)
8	R4 Prepare annual business plans containing performance targets for each pool.	3	Integrated Commissioning Policy Co-ordinator / lead commissioners	Yes	There will need to be discussion about the most appropriate timing of the creation of business plans to support the commissioning cycle	c. September – December 2010

Page no.	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
8	R5 Report performance against the targets contained in the business plans to the HWICB on a quarterly basis.	3	Integrated Commissioning Policy Co-ordinator / lead commissioners	Yes	Once the business plans and targets are established, Covalent will be used to collate data and report to the Board at its quarterly meetings	By March 2011
9	R6 Prepare three year rolling financial plans for the pooled funds once the national financial climate becomes more certain.	2	Strategic Accountant (Adult Social Care) / Deputy Director of Finance (SNHS) & lead commissioners	Yes	Three year rolling financial plans for the pooled budget will be prepared for 2011/12 onwards following the publication of the national spending review and analysis of its impact on Stockport during the autumn/winter of 2010	By March 2011
11	R7 Include pooled budget memorandum accounts within the PCT and Council financial statements.	2	Strategic Accountant (Adult Social Care) / Deputy Director of Finance (SNHS)	Yes	Memorandum accounts are to be contained within 2009/10 PCT and Council financial statements.	As per 2009/10 deadlines for PCT and Council financial statements
11	R8 Agree with HMRC the treatment of VAT on the older peoples, learning disability and drug and alcohol pools.	3	Strategic Accountant (Adult Social Care) / Deputy Director of Finance (SNHS)	Yes	HMRC are to be approached to agree the treatment of VAT on all pooled budgets.	September 2010.

The Audit Commission

The Audit Commission is an independent watchdog, driving economy, efficiency and effectiveness in local public services to deliver better outcomes for everyone.

Our work across local government, health, housing, community safety and fire and rescue services means that we have a unique perspective. We promote value for money for taxpayers, auditing the £200 billion spent by 11,000 local public bodies.

As a force for improvement, we work in partnership to assess local public services and make practical recommendations for promoting a better quality of life for local people.

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AUDIT COMMITTEE

Meeting: 29 June 2010

AUDIT FEE LETTER 2010/11Report of the External Auditor**MATTER FOR CONSIDERATION**

Consider the attached 2010/11 external audit fee proposals.

INFORMATION

The Audit Commission has issued national guidance on the 2010/11 external audit fees and this was considered by the March 2010 meeting of the Audit Committee. The 2010/11 fee proposals for the Council are based on this guidance and have been discussed and agreed with the Chief Executive and Corporate Director Business Services.

RECOMMENDATION

Note the 2010/11 external audit fee proposals and take any action considered necessary.

BACKGROUND PAPERS

There are none

Anyone wishing to inspect the above background papers or requiring further information should contact Diane Rowland on telephone number 0161 474 4131 or 0844 798 7300 or alternatively email d-rowland@audit-commission.gov.uk

Our reference

19 April 2010

Mr E Boylan
Chief Executive
Stockport Metropolitan Borough Council

Direct line 0844 798 7045
E mail t-watkinson@audit-commission.gov.uk

Dear Eamonn

Annual audit fee 2010/11

I am writing to confirm the audit work that we propose to undertake for the 2010/11 financial year at Stockport Metropolitan Borough Council. The fee:

- is based on the risk-based approach to audit planning as set out in the Code of Audit Practice and work mandated by the Audit Commission for 2010/11; and
- reflects only the audit element of our work, excluding any inspection and assessment fees. Your Audit Commission Comprehensive Area Assessment Lead will be writing to you separately on these fees.

As I have not yet completed my audit for 2009/10 the audit planning process for 2010/11, including the risk assessment, will continue as the year progresses and fees will be reviewed and updated as necessary.

The total indicative fee for the audit for 2010/11 is £308,704, which compares to the planned fee of £291,230 for 2009/10. A summary of this is shown in the table below.

Audit fee

Audit area	Planned fee 2010/11 (£)	Planned fee 2009/10 (£)
Financial statements	216,544	199,070
Use of resources/VFM conclusion	92,160	92,160
Total audit fee	308,704	291,230
Certification of claims and returns (Est)	45,000	45,000

The Audit Commission has published its work programme and scales of fees 2010/11. The scale fee for Stockport Metropolitan Borough Council is £341,816. The fee proposed of £308,704 is 9.7 per cent below this largely because the scale is based on 2008/09 expenditure when the Council had large fixed asset impairments. If the cost of these impairments is taken out of the calculation the proposed fee is 3.7 per cent below the scale fee which is in line with previous years.

The published fee scale for 2010/11 includes a 6% increase to cover the costs of additional audit work arising from the introduction of International Reporting Standards (IFRS). In July 2009, in recognition of the financial pressures that public bodies are facing in the current economic climate, the Commission confirmed that it would subsidise the 'one-off' element of the cost of transition to IFRS for local authorities and police and fire and rescue authorities from 2010/11. You will therefore receive a refund from the Audit Commission of £18,955 in April 2010.

In setting the fee, I have assumed that the general level of risk in relation to the audit of the financial statements is not significantly different from that identified to 2009/10. A separate opinion plan for the audit for the financial statements will be issued in December 2010. This will detail the risks identified, planned audit procedures and any changes in fee. If I need to make any significant amendments to the audit fee during the course of this plan, I will first discuss this with the Corporate Director Business Services and then prepare a report outlining the reasons why the fee needs to change for discussion with the Audit Committee.

The Audit Commission is committed to carrying out a fundamental review of the current approach to local value for money work, including use of resources, with a view to making changes from 2010/11. Pending this review, further details of the specified key lines of enquiry and timetable will be published as part of the 2010/11 use of resources guidance.

My work on use of resources informs my value for money conclusion. I have identified a small number of significant risks in relation to my value for money conclusion. For each risk, I consider the arrangements put in place by the Council to mitigate the risk, and plan my work accordingly. My initial risk assessment for value for money audit work is shown in the table below:

Risk	Planned work	Timing of work
It is likely that the Council will face significant financial challenges that could impact upon its financial stability.	Monitor impact as part of use of resources assessment.	On-going throughout the audit.
There are plans to significantly increase the number of services included within the joint financing agreement with the PCT.	Monitor impact as part of use of resources assessment.	On-going throughout the audit

I will issue a number of reports relating to my work over the course of the audit. These are listed at Appendix 1.

The above fee excludes work the Commission may agree to undertake using its advice and assistance powers. Each piece of work will be separately negotiated and a detailed project

specification agreed with you.

The key members of the audit team for the 2010/11 are:

- Audit Manager – Diane Rowland 0844 798 7035
- Team Leader – Usaed Hafeez 0844 798 8780

This letter will be presented to the members of the Audit Committee in their capacity as those charged with governance. In considering this letter they should make reference to the Audit Commission Code of Audit Practice and to the Statement of Responsibilities of Auditors and Audited Bodies. Copies of these documents can be found on the Commission's website using the links below:

<http://www.audit-commission.gov.uk/localgov/audit/auditmethodology/Pages/codeofauditpractice.aspx>

and

<http://www.audit-commission.gov.uk/localgov/audit/auditmethodology/Pages/statementresponsibilities.aspx>

I am committed to providing you with a high quality service. If you are in any way dissatisfied, or would like to discuss how we can improve our service, please contact me in the first instance. Alternatively you may wish to contact the North West Region Head of Operations, Terry Carter (t-carter@audit-commission.gov.uk).

Yours sincerely

Tim Watkinson
District Auditor

cc Steve Houston – Corporate Director Business Services

Appendix 1: Planned outputs

Our reports will be discussed and agreed with the appropriate officers before being issued to the Audit Committee.

Table 1

Planned output	Indicative date
Opinion audit plan	December 2010
Annual governance report	September 2011
Auditor's report giving the opinion on the financial statements and value for money conclusion	September 2011
Use of resources report	September/October 2011
Final accounts memorandum (to the Director of Finance)	October 2011
Annual audit letter	November 2011