



Report of the Director of Resources

Corporate Governance & Audit Committee

Date: 18th July 2011

Subject: KPMG Interim Audit Report

Electoral Wards Affected:

Ward Members consulted
(referred to in report)

Specific Implications For:

Equality and Diversity

Community Cohesion

Narrowing the Gap

Executive Summary

1. KPMG have completed their interim work on the organisational procedures and system controls which underpin the Council's financial statements. They have concluded that the procedures and system controls are generally sound.
2. KPMG have identified two controls on financial systems which require strengthening. The main weakness identified was in respect of the authorisation of overtime payments for processing via the payroll system. As in previous years, officers continue to implement audit recommendations in a timely manner. Appropriate improvements to the control environment are being implemented for issues raised in the current year in order to mitigate against any potential risks.
3. Full reliance can and has been placed on the work of Internal Audit.
4. In respect of the VFM conclusion, KPMG are satisfied that the Authority understands the scale of the financial challenge and has responded appropriately to the risks contained in its savings plans.

Recommendations

5. It is recommended that Members note the positive assurances provide by KPMG on the organisational procedures and system controls which underpin the Council's financial statements.

1.0 Purpose of this Report

- 1.1 This report identifies the findings from KPMG's interim audit work in relation to the 2010/11 financial statements and the initial work undertaken to support their 2010/11 Value for Money conclusion.

2.0 Background Information

- 2.1 A significant proportion of the accounts audit is completed before KPMG receive the Council's financial statements. This initial audit work is designed to gain assurances on the Council's controls and procedures in order to minimise the audit coverage required at the final audit stage. The main procedures and controls assessed at this interim audit stage are as follows:
- review of the Authority's accounts production process, including work to address prior year audit recommendations and the specific risk areas identified for this year;
 - review of the Authority's work to restate the 2009/10 financial statements under International Financial Reporting Standards;
 - review of the Authority's general control environment, including the Authority's IT systems;
 - testing of certain controls over the Authority's key financial systems with the help of internal audit;
 - review of the internal audit function to determine if we could place reliance upon their work.
- 2.2 In addition to the interim work on the audit of the final accounts, KPMG also have undertaken the initial work on the 2010/11 Value for Money conclusion.
- 2.3 This covering report highlights the main findings of this audit work with the detailed results shown in the attached KPMG report.

3.0 Main Issues

- 3.1 The key findings of KPMG's interim audit on the Council's financial statements are as follows:
- The accounts process: There are no issues identified in respect of the progress towards completing the IFRS based 2010/11 accounts. Any issues identified in the main audit work in August will be reported back to members of this Committee in the External Auditors ISA 260 report in September.
 - IT controls: Overall the Council has effective IT controls and they have been further strengthened in 2010/11. KPMG made only two low priority recommendations (see Appendix 3 in the attached report) for improving access monitoring on the Financial Management System and Orchard. These are currently being actioned by officers.
 - Financial systems: Two control weaknesses have been identified, only one of which could potentially lead to further audit testing at KPMG's final audit visit. Officers have considered the current mitigating controls and accepted that some further strengthening of the payroll control environment is required.
- 3.1 In respect of the Value for Money conclusion, KPMG interim audit work has concentrated on:
- Actions used by the Authority to secure the necessary savings in the 2011/12 budget;
 - The capacity of the Authority's 2011/12 budget to secure financial stability.

This early work was specifically completed to support the Audit Commission study on the impact of the 2011/12 local government settlement on the Authorities' finance.

4 Implications for Council Policy and Governance

4.1 KPMG's report provides the Committee with independent assurance on the Council's organisational procedures and system controls which underpin the Council's financial statements. These independent assurances will form part of the evidence which underpins the Council's Annual Governance Statement.

4.2 The report also shows the initial findings in respect of the Council's Value for money conclusion.

5 Legal and Resource Implications

5.1 There are no specific legal or resource issues associated with this report.

6 Conclusions

6.1 A summary of the main conclusions made by KPMG in their Interim report are as follows:

- The Council's organisational controls are effective overall and there are no weaknesses that will have an impact on KPMG's audit strategy.
- Full reliance could be placed on the work of Internal Audit and they are compliant with the Code of Practice for Internal Audit in Local Government.
- The process for completing the Council's financial statements is adequate and there are no key issues identified to date on the convergence to IFRS based accounts.
- The controls over the Council's key financial systems are generally sound, although further audit work maybe required in respect of the payroll system. Officers continue to respond to audit recommendations made and actions from previous years have been implemented where appropriate.
- In respect of the VFM conclusion, initial findings are that the Authority is on target to deliver its planned 2010/11 savings. In respect of the 2011/12 budget, KPMG are satisfied that the Authority understands the scale of the financial challenge and has responded appropriately to the risks contained in its savings plans.

7 Recommendations

7.1 It is recommended that Members note the positive assurances provide by KPMG on the organisational procedures and system controls which underpin the Council's financial statements.

Background Documents

KPMG Interim Report 2010/11