



## Report of the Director of Resources

### Corporate Governance and Audit Committee

Date: 21<sup>st</sup> March 2011

### Subject: KPMG report - Financial Statements Audit Plan

#### Electoral Wards Affected:

Ward Members consulted  
(referred to in report)

#### Specific Implications For:

Equality and Diversity

Community Cohesion

Narrowing the Gap

## 1.0 Executive Summary

- 1.1 In order to discharge its statutory duties, KPMG has issued an audit plan for the Council's 2010/11 accounts. The attached report identifies the key stages of the audit, the planned timetable and the key risks identified. A further audit plan for concluding on the Council's arrangements for securing Value For Money is to be presented to this Committee in April.
- 1.2 Officers have assessed the risks identified and undertaken appropriate action to mitigate the risks.

## 2.0 Purpose Of This Report

- 2.1 To inform members of KPMG's audit plan for the audit of the Council's accounts. The attached report from KPMG highlights the risk based approach to the audit and the main risks they have identified for 2010/11. This report also provides a summary of the actions undertaken by officers of the Council to mitigate the risks identified.

## 3.0 Background Information

- 3.1 KPMG's statutory responsibilities and powers are set out in the Audit Commission Act 1998, The Local Government Act 1999 and the Audit Commission's Code of Audit Practice. As the Council's external auditors, KPMG are required to satisfy themselves that the Council's accounts comply with statutory requirements and that they have been compiled according to proper practices.

## 4.0 Main Issues

- 4.1 The attached report from KPMG identifies the four key stages for the audit of the Council's financial statements:
- Planning,
  - Evaluation of controls (Interim Audit),
  - Substantive testing,
  - Finalisation (audit opinion and reporting the main findings).

For the 2010/11 accounts, KPMG have completed the first stage of the audit plan and have commenced work on the Interim Audit. The findings from the interim audit will be the subject of a separate report to this Committee in May. The main audit work (substantive testing) is timetabled for July and August, with the resulting audit opinion and findings due to be reported back to this Committee in September.

4.2 The report also references the requirement for KPMG to conclude as to whether the Council has made proper arrangements to secure Value For Money in the use of its resources. KPMG's approach to this audit will be the subject of a further report due to be brought to this Committee in April.

4.3 The main risks identified in KPMG's audit plan and the action proposed by officers are as follows:

4.3.1 Risk – The Council does not establish a robust budget to deal with the current financial pressures.

Action taken - As outlined in the report to Full Council on the Revenue Budget and Council Tax for 2011/12, the Director of Resources considered the following when reporting on the robustness of the budget and the adequacy of the level of reserves:-

- the level of reserves is in line with the risk based reserves strategy, and is a significant increase from the previously determined minimum level of reserves.
- budget monitoring and scrutiny arrangements are in place which include arrangements for the identification of remedial action, and reporting arrangements to members will be enhanced by way of monthly reporting to the Executive Board.
- the budget contains a number of challenging targets and other actions, these are clearly identified, and will be subject to specific monitoring by the Council's Corporate Leadership Team, and as such, are at this time considered reasonable and achievable.
- risks are identified, recorded in the budget risk register and will be subject to control and management.
- as part of the Council's reserves policy directorates are required to have in place a budget action plan which sets out how they will deal with variations during the year up to 2%.
- early actions have been taken to reduce spending including an early leavers initiative
- there is a clear understanding of the duties of the Council's statutory Financial Officer and that the service implications of them being exercised are fully understood by members and senior management alike.

4.3.2 Risk – The Council fails to correctly value its assets.

Action taken – KPMG's final audit report for the 2009/10 accounts identified a number of properties (£3.2m) still included in the asset register which had been previously sold. Officers have strengthened the procedure for removing assets which have been sold or demolished and a review of the asset register is currently underway to identify any assets which are still being recognised after disposal.

4.3.3 Risk – Failure to comply with proper accounting practice (International Financial Reporting Standards).

Action taken – Members of this Committee have received regular updates on the progress towards IFRS implementation. A comprehensive work plan is in place and all actions are proceeding to timetable. Implementation of the work plan is monitored

by the Chief Officer Financial Management by way of an IFRS Implementation Board.

## **5.0 Implications For Council Policy And Governance**

- 5.1 Under the Committee's terms of reference members are required to agree the nature and scope of the external audit plan.
- 5.2 The officer's responses to the risks identified in the KPMG audit plan provides members with assurances that appropriate action is been taken to mitigate these risks and prevent them impacting on the 2010/11 accounts.

## **6.0 Legal And Resource Implications**

- 6.1 The report by KPMG outlines how they propose to discharge their responsibilities as defined by the Audit Commission Act 1998, The Local Government Act 1999 and the Audit Commission's Code of Audit Practice.

## **7.0 Conclusions**

- 7.1 KPMG have provided the Council with a clear plan for discharging their responsibilities in respect of the external audit of the Council's 2010/11 accounts. They have also identified what they see as the main risks and officers have put in place procedures to mitigate these risks.
- 7.2 KPMG will undertake detailed testing of the Council's accounts in July and August. The substantive testing will pay particular attention to the key risks identified and the findings will be reported back to this Committee in September.
- 7.3 A further audit plan will be presented to this Committee in April in respect of the Value for Money. conclusion.

## **8.0 Recommendations**

- 8.1 Members are asked to:
- 8.1.1 Agree the external audit plan in respect of the Council's financial statements.
- 8.1.2 Note the action taken by officers to manage the risks identified

### Background Documents Used

Reports to Corporate Governance & Audit Committee:

- International Financial Reporting Standards (23/04/2008, 17/03/2010 and 14/02/11).
- Audited Statement of Accounts and the Value for Money Assessment 2009/10 (29/09/10)

Report to Full Council on the Revenue Budget and Council Tax for 2011/12