

**Report of the Director of Resources**

**Report to Corporate Governance and Audit Committee**

**Date: 27<sup>th</sup> February 2012**

**Subject: KPMG External Audit Plan 2011/12**

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|--|------------------------------|--|
| Are specific electoral Wards affected?<br>If relevant, name(s) of Ward(s):   | <input type="checkbox"/> Yes | <input checked="" type="checkbox"/> No |
| Are there implications for equality and diversity and cohesion and integration?  | <input type="checkbox"/> Yes | <input checked="" type="checkbox"/> No |
| Is the decision eligible for Call-In?  | <input type="checkbox"/> Yes | <input checked="" type="checkbox"/> No |
| Does the report contain confidential or exempt information?<br>If relevant, Access to Information Procedure Rule number:<br>Appendix number: | <input type="checkbox"/> Yes | <input checked="" type="checkbox"/> No |

**Summary of main issues**

1. In order to discharge its statutory duties, KPMG has issued an audit plan which covers both the Council's 2010/11 accounts and the process for assessing the Authority's arrangements to secure value for money in the use of resources. The attached report identifies the key stages of the audit, the planned timetable and the key risks identified.
2. Officers recognise the risks identified and continue to work towards managing these risks.

**Recommendations**

3. Members of the Corporate Governance and Audit Committee are asked to:
  - Agree the external audit plan.
  - Note the action taken by officers to manage the risks identified

**1 Purpose of this report**

- 1.1 To inform members of KPMG's audit plan for the audit of the Council's accounts and Value for Money arrangements. The attached report from KPMG highlights the risk based approach to the audit and the main risks they have identified for 2011/12. This report also provides a summary of the actions undertaken by officers of the Council to mitigate the risks identified.

## 2. Background information

- 2.1 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. In addition they are also required to conclude as to whether the Council has arrangements in place for securing economy, efficiency and effectiveness in the use of resources.

## 3 Main issues

- 3.1 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).

The findings from the interim audit will be the subject of a separate report to this Committee in June. 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.

- 3.2 In respect of the Council's Value for Money arrangements, KPMG will structure their approach around two key criteria:

- The Council has proper arrangements in place for securing financial resilience,
- The Council has proper arrangements for challenging how it secures economy, efficiency and effectiveness.

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

- 3.3.1 Risk – The Council does not have adequate controls in place to ensure a sound financial standing.

Action taken - As outlined in the report to Executive Board on the Revenue Budget and Council Tax for 2012/13, the Director of Resources considers the proposed budget for 2012/13 as robust and that the level of reserves are adequate given a clear understanding of the following:-

- the level of reserves is in line with the risk based reserves strategy.
- 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.
- 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.
- enhanced budget reporting to members will continue.
- 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%.
- 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.

3.3.2 Risk – The accounts do not follow proper accounting practice as the Council has not reviewed the appropriateness of its componentisation policy.  
Action taken – A review of the Council's componentisation policy has commenced and further sampling of the Council's assets is being undertaken in March. The findings of this review will be discussed with KPMG prior to implementing componentisation for the 2011/12 accounts.

3.3.3 Risk – Failure to comply with proper accounting practice.  
Action taken – All new accounting requirements are assessed and action plans developed for timely implementation in the accounts. Any contentious issues are discussed and agreed with KPMG prior to implementation. This Committee has requested updates on all major accounting changes and it is proposed to report on such issues for the 2011/12 accounts in March.

## **4 Corporate Considerations**

### **4.1 Consultation and Engagement**

4.1.1 The audit plan does not raise any issues requiring consultation or engagement with the public, Ward members or Councillors.

### **4.2 Equality and Diversity / Cohesion and Integration**

4.2.1 This report does not highlight any issues regarding equality, diversity, cohesion and integration.

### **4.3 Council Policies and City Priorities**

4.3.1 Under the Committee's terms of reference members are required to agree the nature and scope of the external audit plan.

### **4.4 Resources and Value for Money**

4.4.1 The report highlights the auditor's approach to assessing whether the Council has proper arrangements for securing value for money.

### **4.5 Legal Implications, Access to Information and Call In**

4.5.1 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.

## **4.6 Risk Management**

- 4.6.1 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.

## **5 Conclusions**

- 5.1 KPMG have provided the Council with a plan for discharging their responsibilities in respect of the external audit of the Council's 2011/12 accounts and for assessing the Council's arrangements for securing value for money. They have also identified what they see as the main risks and this report identifies what arrangements officers have put in place to mitigate these risks.
- 5.2 KPMG will up date this Committee in June on how both parts of the audit is progressing as part of their interim audit. They will then report on their final VFM conclusion and the opinion on the accounts to this Committee in September.

## **6 Recommendations**

- 6.1 Members are asked to:
  - 6.1.1 Agree the external audit plan in respect of the Council's financial statements and the Value for Money assessment.
  - 6.1.2 Note the action taken by officers to manage the risks identified.

## **7 Background documents**

- 7.1 Report to Executive Board on the Revenue Budget and Council Tax for 2012/13