

Report of the Director of Resources

Report to Corporate Governance and Audit Committee

Date: 4th July 2012

Subject: KPMG Interim Audit Report

Are specific electoral Wards affected? 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? If relevant, Access to Information Procedure Rule number: Appendix number:	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No

Summary of main issues

KPMG have completed their interim work on the controls on the Council's systems and procedures which underpin the Council's financial statements. Overall they have concluded that they are effective.

KPMG have however identified a number of minor control weaknesses in respect of some ICT and the Council's payroll system which require strengthening. This may result in the need for some additional audit work when completing the audit of the 2011/12 accounts.

Full reliance can and has been placed on the work of Internal Audit.

An initial review of the Council's approach to new accounting requirements for 2011/12 has found no issues.

In respect of the Value For Money (VFM) conclusion, it is acknowledged that the Council has achieved its savings target for 2011/12. KPMG will be completing further work around the Medium Term Financial Plan and the 2012/13 budget before reaching their VFM conclusion in September.

Recommendations

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

1 Purpose of this report

- 1.1 In line with the audit plan presented to this Committee in February, this report identifies the findings from KPMG's interim audit work in relation to the 2011/12 financial statements and the initial work undertaken to support their 2011/12 Value for Money conclusion. KPMG's full Interim Report is attached as **Appendix 1**.

2 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 risk areas identified for this year;
- § review of the Authority's general control environment, including the IT, Organisational and key financial systems;
- § review of the internal audit function to determine if they could place reliance upon their work.

- 2.2 In addition to the interim work on the audit of the final accounts, KPMG have also undertaken the initial work on the 2011/12 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 are as follows:

- § The accounts process: There are no issues identified to date in respect of the progress towards identifying and valuing heritage assets. In addition, officers have enlarged the sample of property valuations in order to further justify the Council's componentisation policy. Both are subject to further testing as part of the in the main audit work in August and any findings will be reported back to members of this Committee in the External Auditors ISA 260 report in September.
- § Organisational control environment: Overall control is effective and there are no issues or areas for improvement identified.
- § IT controls: Overall the Council has effective IT controls and KPMG have identified only two low risk recommendations for 2011/12. In addition, one recommendation from 2010/11 was only partially complete in respect of access monitoring for the Council Tax, NNDR and Housing management systems. These issues and any management responses and timescales for implementation are highlighted in appendix 3 and 4 of the attached KPMG report.
- § Financial systems: For 2011/12 KPMG have identified two control weaknesses, one in respect of the payroll system and the other in respect of ordering and payments (see appendix 1 of the attached KPMG report). In addition there is one outstanding issue from the 2010/11 interim audit in respect of the overtime

payment authorisation controls. Whilst it is recognised that there are some compensating controls in place, KPMG will follow up progress on the payroll related issues in order to conclude as to whether this will impact on KPMG's approach to the year end testing of payroll as part of the final accounts audit.

3.2 Full reliance can and has been placed on the work of Internal Audit and KPMG have confirmed that Internal Audit have complied with the Code of Practice for Internal Audit in Local Government.

3.3 In respect of the Value for Money (VFM) conclusion, KPMG interim audit work has concentrated on the 2011/12 financial position. KPMG will be completing further work around the Medium Term Financial Plan and the 2012/13 budget before reaching it's VFM conclusion in September.

4.0 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 There are no issues regarding equality, diversity, cohesion and integration.

4.3 Council policies and City Priorities

4.3.1 Under this Committee's terms of reference members are required to consider the Council's arrangements relating to external audit, including the receipt of external audit reports. This is to provide a basis for gaining the necessary assurance regarding governance prior to the approval of the Council's accounts.

4.4 Resources and value for money

4.4.1 The report highlights the auditor's work towards 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 does not require a key decision and is therefore not subject to call-in.

4.6 Risk Management

4.6.1 The attached report from KPMG contains responses from officers on the progress towards reducing the risks identified.

5.0 Conclusions

5.1 A summary of the main issues identified by KPMG's 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.
- § The process for completing the Council's financial statements is adequate and there are no key issues identified to date.
- § The controls over the Council's key financial systems are generally sound, although further audit work maybe required in respect of the payroll system.

5.2 In respect of the VFM conclusion, the Authority has achieved its savings target for 2011/12. KPMG will be completing further work around the Medium Term Financial Plan and the 2012/13 budget before reaching it's VFM conclusion in September.

6.0 Recommendation

6.1 It is recommended that Members note the positive assurances provide by KPMG on the systems and controls which underpin the Council's financial statements.

7.0 Background documents¹

7.1 KPMG External Audit Plan 2011/12

¹ The background documents listed in this section are available for inspection on request for a period of four years following the date of the relevant meeting. Accordingly this list does not include documents containing exempt or confidential information, or any published works. Requests to inspect any background documents should be submitted to the report author.