



Gloucester City Council

AUDIT AND GOVERNANCE COMMITTEE

Meeting: Monday, 24th June 2013 at 18.30 hours
in Civic Suite, North Warehouse, The Docks, Gloucester, GL1 2EP

ADDENDUM

The following item although provided for on the agenda front sheet was not available at the time of dispatch:

7.	KPMG - ANNUAL AUDIT LETTER 2011/12 (PAGES 1 - 12) To consider correspondence from KPMG – to follow
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Julian Wain
Chief Executive

NOTES

Disclosable Pecuniary Interests

The duties to register, disclose and not to participate in respect of any matter in which a member has a Disclosable Pecuniary Interest are set out in Chapter 7 of the Localism Act 2011.

Disclosable pecuniary interests are defined in the Relevant Authorities (Disclosable Pecuniary Interests) Regulations 2012 as follows –

<u>Interest</u>	<u>Prescribed description</u>
Employment, office, trade, profession or vocation	Any employment, office, trade, profession or vocation carried on for profit or gain.
Sponsorship	Any payment or provision of any other financial benefit (other than from the Council) made or provided within the previous 12 months (up to and including the date of notification of the interest) in respect of any expenses incurred by you carrying out duties as a member, or towards your election expenses. This includes any payment or financial benefit from a trade union within the meaning of the Trade Union and Labour Relations (Consolidation) Act 1992.
Contracts	Any contract which is made between you, your spouse or civil partner or person with whom you are living as a spouse or civil partner (or a body in which you or they have a beneficial interest) and the Council (a) under which goods or services are to be provided or works are to be executed; and (b) which has not been fully discharged
Land	Any beneficial interest in land which is within the Council's area. For this purpose "land" includes an easement, servitude, interest or right in or over land which does not carry with it a right for you, your spouse, civil partner or person with whom you are living as a spouse or civil partner (alone or jointly with another) to occupy the land or to receive income.
Licences	Any licence (alone or jointly with others) to occupy land in the Council's area for a month or longer.
Corporate tenancies	Any tenancy where (to your knowledge) – (a) the landlord is the Council; and (b) the tenant is a body in which you, your spouse or civil partner or a person you are living with as a spouse or civil partner has a beneficial interest
Securities	Any beneficial interest in securities of a body where – (a) that body (to your knowledge) has a place of business or land in the Council's area and

- (b) either –
- i. The total nominal value of the securities exceeds £25,000 or one hundredth of the total issued share capital of that body; or
 - ii. If the share capital of that body is of more than one class, the total nominal value of the shares of any one class in which you, your spouse or civil partner or person with whom you are living as a spouse or civil partner has a beneficial interest exceeds one hundredth of the total issued share capital of that class.

For this purpose, “securities” means shares, debentures, debenture stock, loan stock, bonds, units of a collective investment scheme within the meaning of the Financial Services and Markets Act 2000 and other securities of any description, other than money deposited with a building society.

NOTE: the requirements in respect of the registration and disclosure of Disclosable Pecuniary Interests and withdrawing from participating in respect of any matter where you have a Disclosable Pecuniary Interest apply to your interests and those of your spouse or civil partner or person with whom you are living as a spouse or civil partner where you are aware of their interest.

Access to Information

Agendas and reports can be viewed on the Gloucester City Council website: www.gloucester.gov.uk and are available to view five working days prior to the meeting date.

For further details and enquiries about this meeting please contact Penny Williams, 01452 396125, penny.williams@gloucester.gov.uk

For general enquiries about Gloucester City Council’s meetings please contact Democratic Services, 01452 396126, democratic.services@gloucester.gov.uk.

If you, or someone you know cannot understand English and need help with this information, or if you would like a large print, Braille, or audio version of this information please call 01452 396396.

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If the fire alarm sounds continuously, or if you are instructed to do so, you must leave the building by the nearest available exit. You will be directed to the nearest exit by council staff. It is vital that you follow their instructions:

- You should proceed calmly; do not run and do not use the lifts;
- Do not stop to collect personal belongings;
- Once you are outside, please do not wait immediately next to the building; gather at the assembly point in the car park and await further instructions;
- Do not re-enter the building until told by a member of staff or the fire brigade that it is safe to do so.

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Annual Audit Letter 2011/12

Gloucester City Council

March 2013

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This report is addressed to the Authority and has been prepared for the sole use of the Authority. We take no responsibility to any member of staff acting in their individual capacities, or to third parties. The Audit Commission has issued a document entitled *Statement of Responsibilities of Auditors and Audited Bodies*. This summarises where the responsibilities of auditors begin and end and what is expected from the audited body. We draw your attention to this document which is available on the Audit Commission's website at www.auditcommission.gov.uk.

External auditors do not act as a substitute for the audited body's own responsibility for putting in place proper arrangements to ensure that public 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.

If you have any concerns or are dissatisfied with any part of KPMG's work, in the first instance you should contact Ian Pennington, the appointed engagement lead to the Authority, who will try to resolve your complaint. If you are dissatisfied with your response please contact Trevor Rees on 0161 246 4000, or by email to trevor.rees@kpmg.co.uk, who is the national contact partner for all of KPMG's work with the Audit Commission. After this, if you are still dissatisfied with how your complaint has been handled you can access the Audit Commission's complaints procedure. Put your complaint in writing to the Complaints Unit Manager, Audit Commission, Westward House, Lime Kiln Close, Stoke Gifford, Bristol, BS34 8SR or by email to complaints@audit-commission.gov.uk. Their telephone number is 0844 798 3131, telephone (minicom) 020 7630 0421.

This report summarises the key findings from our 2011/12 audit of Gloucester City Council (the Authority).

Although this letter is addressed to the Members of the Authority, it is also intended to communicate these issues to key external stakeholders, including members of the public.

Our audit covers the audit of the Authority's 2011/12 financial statements and the 2011/12 VFM conclusion.

<p>Introduction</p>	<p>As part of our Audit Commission responsibilities we were required to issue an Annual Audit Letter by the Audit Commissions deadline of 26 October 2012. As the 2011/12 audit was not complete by this date and there were significant delays in the production of the Authority's financial statements, we issued an "Interim Annual Audit Letter" to the Audit & Assurance Committee in November 2012 in order to meet our code responsibilities.</p> <p>The audit is now complete and the financial statements have been signed. We are now in a position to issue our final Annual Audit Letter to the Authority. This letter provides the Authority and members of the public with an annual summary of our audit work during the 2011/12 financial year.</p>
<p>Audit opinion</p>	<p>We issued an unqualified opinion on the Authority and its group's financial statements on 7 March 2013. This means that we believe the group financial statements give a true and fair view of the financial position of the group and of its expenditure and income for the year.</p>
<p>Financial statements audit</p>	<p>The Authority has struggled for a number of years to prepare its financial statements on time to an appropriate quality, with particular difficulties in accounting for its fixed assets. During 2011/12, the Authority made some changes to its Finance team, including the recruitment of interim staff to help improve the standard of accounting. Due to some unexpected staffing issues, there was a further leaver from the in-house team during the preparation of the year end accounts for March 2012, which delayed the process. The Authority responded by putting in place an interim Finance team. Unfortunately there was insufficient time for the new team to recover the situation before the audit was scheduled to start.</p> <p>In consequence we identified a number of significant audit adjustments, and the interim team itself found differences when revisiting the draft accounts. The majority of these differences were technical accounting in nature, but some affected the Authority's reported financial position. The Authority was not able to publish audited accounts by the 30 September deadline, although it did take steps to publish draft accounts at this point.</p> <p>A repeat of this situation would not be acceptable or sustainable. The Authority must take steps immediately to put in place a permanent, stable accounting solution or risk being in the same position at the March 2013 year end.</p>
<p>Annual Governance Statement</p>	<p>We reviewed your <i>Annual Governance Statement</i> and concluded that it was consistent with our understanding.</p>

We provide a summary of our key recommendations in Appendix 1.

All the issues in this letter have been previously reported. The detailed findings are contained in the reports we have listed in Appendix 2.

<p>VFM conclusion</p>	<p>We issued a qualified value for money ('VFM') conclusion for 2011/12 on 7 March 2013. To arrive at our conclusion we looked at your financial governance, financial planning and financial control processes, as well as how you are prioritising resources and improving efficiency and productivity.</p> <p>Our work demonstrated that for many of the areas we are required to consider, the Authority had proper arrangements to secure economy, efficiency and effectiveness in its use of resources. However, given the significant problems with the preparation of the financial statements and the absence of evidence of effective financial monitoring during the year, we were unable to conclude that this is the case for those areas.</p>
<p>VFM risk areas</p>	<p>We identified at the planning stage of our work a number of significant risks to our VFM conclusion and considered the arrangements you had put in place to mitigate these.</p> <p>Our work identified the following significant matters:</p> <ul style="list-style-type: none"> ■ Budgetary Control: The Authority has not been able to demonstrate to us that it had reported appropriate financial information to senior management and Members during the year since September 2011, although there were some high level verbal reports made to the Leadership Team (GLT) and Cabinet after this date. The Interim Finance Team was unable to reconcile the reports presented to GLT and Cabinet to the detailed financial information held by Finance in the general ledger. In addition, a number of the Authority's key financial controls did not operate effectively during the year. ■ Savings Plan: In December 2011, the Group Finance Manager reported to Cabinet that there was a shortfall on the savings target of £350k. The Authority was unable to report an outturn position and achievement of their savings plan for the year end. ■ Treasury Management: The Authority took out a number of loans during the year which had been approved by Cabinet. Cabinet were informed by Finance that the loans were to fund capital expenditure and was not being taken out in advance of need. However, less than half of the total loans was used to fund capital and the remainder was taken out in advance of need. This is contrary to what was reported to Cabinet in April 2012 and the treasury management performance report, reported to Cabinet. ■ In March 2012, the Authority had the opportunity to take advantage of the preferential loan rates being offered by the PWLB for the HRA self financing payments. The preferential loan rates were not taken up by the Authority which resulted in the Authority incurring more interest than if it had used the PWLB terms. It appears that treasury management actions were taken that did not support the Authority's overall strategy or policy.

We provide a summary of our key recommendations in Appendix 1.

All the issues in this letter have been previously reported. The detailed findings are contained in the reports we have listed in Appendix 2.

<p>Whole of Government Accounts (WGA)</p>	<p>The Authority was unable to meet the 5 October 2012 deadline for submission of the WGA by HIM Treasury. A final WGA Pack was submitted by the interim finance team on 5 March 2013.</p> <p>We reviewed the consolidation pack which the Authority prepared to support the production of WGA and reported that the Authority's pack was consistent with the audited financial statements.</p>
<p>High priority recommendations</p>	<p>We raised a number high priority recommendations as a result of our 2011/12 work. These are detailed in Appendix 1 together with the action plan agreed by management. There are also a number of previous recommendations which have not yet been completed.</p> <p>At the March 2013 Audit & Assurance Committee the interim finance manager produced an action plan which incorporated all the recommendations raised by external audit and what action is being taken on our recommendations. It the majority of cases the recommendations had already been addressed and cleared by finance. We will formally follow up these recommendations as part of our 2012/13 work.</p>
<p>Certificate</p>	<p>We issued our certificate on 7 March 2013.</p> <p>The certificate confirms that we have concluded the audit for 2011/12 in accordance with the requirements of the <i>Audit Commission Act 1998</i> and the Audit Commission's <i>Code of Audit Practice</i>.</p>
<p>Audit fee</p>	<p>Our fee for 2011/12 was £269,500, excluding VAT, compared with an original planned fee of £139,500.</p> <p>The 2011/12 fee includes additional fees for further work required to finalise the audit of the financial statements, as summarised on the previous page and additional work on systems and controls. Further detail is contained in Appendix 3.</p>

Appendix 1: Key issues and recommendations

This appendix summarises the high priority recommendations that we identified during our 2011/12 audit, along with your responses to them.

Lower priority recommendations are contained, as appropriate, in our other reports, which are listed in Appendix 2.

No.	Issue and recommendation	Management response
1	<p>Budgetary control - We highlighted to that we had concerns over budget monitoring and reporting. We confirmed that detailed reports had not been produced since September 2011 and that we have not been able to reconcile the figures produced back to the finance system.</p>	<p>We are aware that the budget figures in Cedar do not necessarily agree fully with the budget submitted to and agreed with finance. This issue will be addressed with regard to the 2013/14 budget in that the overall process will be driven by finance.</p> <p>Procedures are being developed to produce management accounts on a monthly basis with comparisons to budget and explanations for significant variances. Currently management accounts have been produced for September 2012, October 2012 and November 2012. The intention is that all management accounts are to be completed within 5 working days of month-end with discussions being held with budget managers over significant variances.</p>
2	<p>Bank Reconciliations - Bank reconciliations are not being performed correctly. There are a number of balancing figures that appear on the monthly reconciliation. Although these amounts are not significant they are in effect 'balancing figures' meaning that the bank accounts do not reconcile to the general ledger.</p>	<p>All bank reconciliations are now being performed on a monthly basis and balanced correctly with no balancing entries.</p> <p>All reconciliations are being reviewed by the interim finance change manager who also ensures that all bank accounts are being reconciled.</p>
3	<p>Quality of draft accounts - We have received a number of versions of the accounts during our audit.</p> <p>All versions have had a number of material audit differences. There were also a number of Code changes and LAAP Bulletin updates issued during the year which were not recognised in the initial versions of the accounts.</p> <p>A large number of these differences could have been identified prior to the accounts being presented to audit if a detailed review by a senior officer had been undertaken.</p>	<p>It is anticipated that with the right staff structure and procedures aligned with proper planning a lot of the difficulties encountered with the current year's accounts preparation and subsequent audit will be mitigated. The preparation of monthly management accounts and reconciliation of control accounts will assist with this objective.</p> <p>Every effort will be made in future to ensure that we are compliant in all material aspects with the Code and any LAAP Bulletins and that the accounts are reviewed subsequent to issue as a final draft.</p>

Appendix 1: Key issues and recommendations (continued)

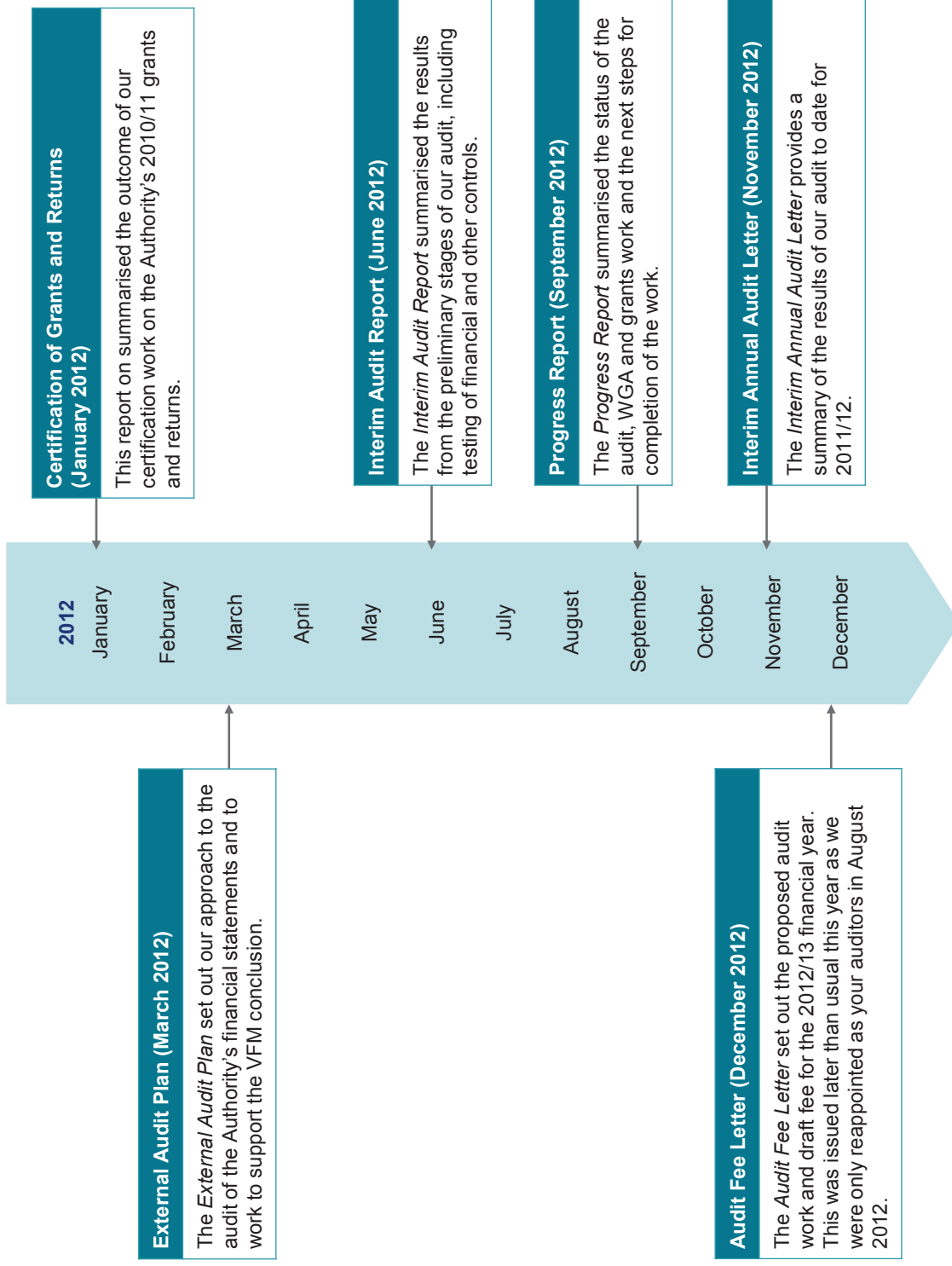
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No.	Issue and recommendation	Management response
4	<p>Resources within Finance - The Councils accounts and accounting treatments are complex. It is paramount within a finance department that you have suitable qualified staff who have the technical ability in local government accounting to deal and account for these transactions.</p>	<p>The finance team is currently undergoing a period of transition with existing procedures being strengthened or adapted with new procedures being introduced where considered appropriate with a view to achieve efficiencies and maximise existing capacity.</p> <p>Existing staff structures and staff requirements, taking into account experience and qualifications, are to be reviewed to determine the ideal structure. Where considered necessary recruitment of additional staff will be made.</p> <p>In the short-term the interim team, who are considered to have the required technical expertise, will remain in place to develop and implement the new and improved procedures and ensure a smooth transition to the new team.</p>
5	<p>Coding of invoices - Our review of post balance sheet invoices identified that there are a number of invoices that had been mis-posted. The mis-posting related to payments on the Enterprise contract which should have gone against this contract, instead they have been posted to Mobile Phones code. This had not been identified by finance or the budget holders.</p>	<p>As commented in point 1 the Council is currently implementing procedures to strengthen budgetary controls and monitoring as well as the budget process. It is expected that this will mitigate the risk of such errors in coding going undetected in future.</p>
6	<p>Revenue Reconciliations - It was identified by the interim finance team that the monthly reconciliations provided by the revenues department are not accurate and do not reconcile to the revenue systems at month end. The difference between the reconciliation and the revenue system is due to cash receipts that come in on the last few days of the month.</p>	<p>Cash is received, banked and recorded in the general ledger but not in the Open Revenues System. The reconciliation provided to finance notes that the cash has been received but does not record that there is a timing mismatch in the Open Revenues System.</p> <p>A reconciliation that does identify the cash timing mismatch between the General Ledger and the Open Revenues System is produced and will in future be provided to the Finance Team.</p>

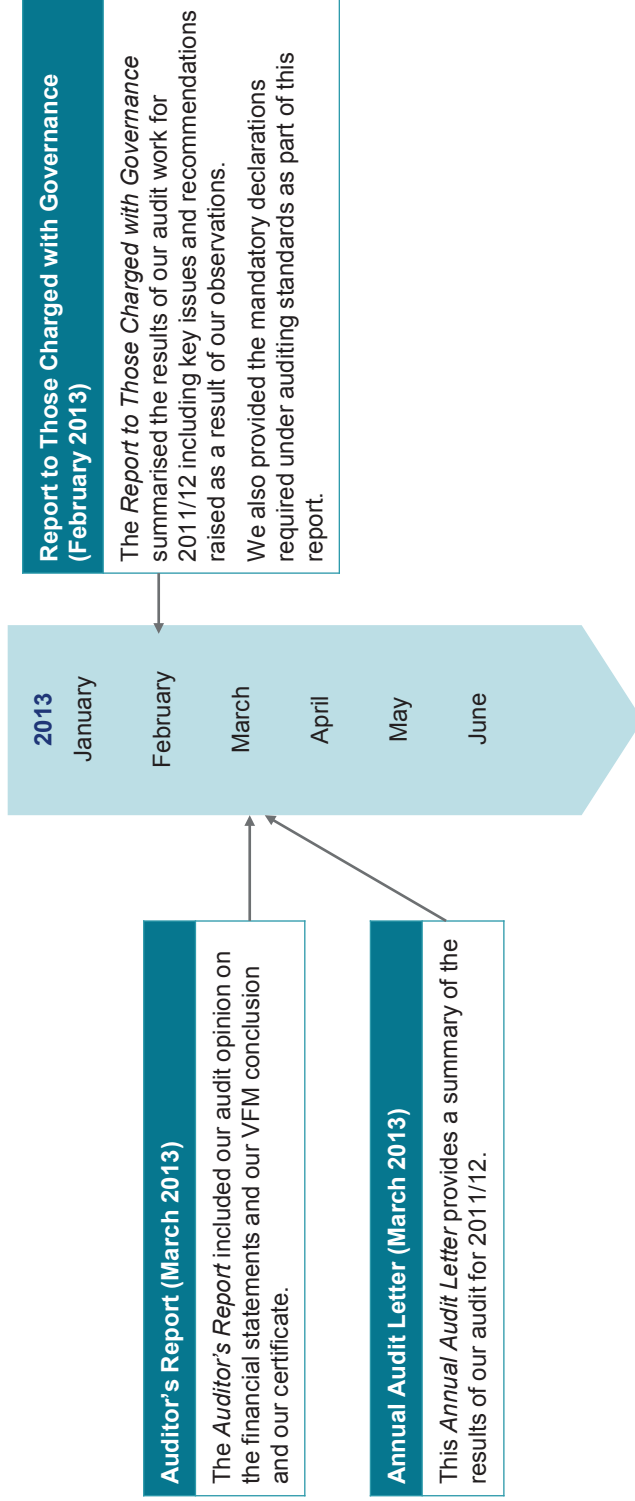
Appendix 2: Summary of reports issued

This appendix summarises the reports we issued since our last *Annual Audit Letter*.



Appendix 2: Summary of reports issued (continued)

This appendix summarises the reports we issued since our last *Annual Audit Letter*.



This appendix provides information on our final fees for 2011/12.

To make sure that there is openness between us and your Audit & Assurance Committee about the extent of our fee relationship with you, we have summarised below the outcome against the 2011/12 planned external audit fee.

External audit

Our final fee for the 2011/12 audit of the Authority was £269,500. This is an overall increase of 47% on the comparative total fee for 2010/11 of £183,450.

The final fee compares to a planned fee of £139,500. The reasons for this variance are:

- Additional work in dealing with multiple versions of the accounts with casting/cross-referencing/updating notes and updating files, attendance at extra audit committee, audit trail between trial balances, re-testing of schedules and working papers, VFM opinion, additional time drafting reports;
- Additional work on systems and controls – budget monitoring, treasury management; and
- Additional support on systems and controls in relation to NNDR .

Certification of grants and returns

We issued our report on the *Certification of Grants and Returns 2011/12* at your March 2013 Committee. Our final fee for 2011/12 was £32,811. This final fee compares to a planned fee of £29,250. The reasons for this variance are:

- Additional work in auditing than adjustment on the Pooling Capital Receipts Grant for 2009/10 at the request of DCLG; and
- Additional time on dealing with a number of adjustments on the HRA Subsidy Grant for 2011/12.



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