



## **AUDIT AND GOVERNANCE COMMITTEE**

**MEETING** : Tuesday, 26th February 2013

**PRESENT** : Cllrs. Wilson (Chair), Hobbs (Vice-Chair), McLellan, Noakes and Wood and Taylor

### **Others in Attendance**

Ian Pennington, KPMG LLP

Tara Westcott, KPMG LLP

Peter Gillett, Corporate Director of Resources

Terry Rodway, Group Manager Audit and Assurance

Sue Mullins, Monitoring Officer and Group Manager Legal and Democratic Services

Kevin Buckerfield, Interim Finance Change Manager

Robert Spence, Project Accountant

Parvati Diyar, Democratic Services Officer

**APOLOGIES** : Cllrs. Gilson, Porter and Llewellyn

### **1. DECLARATIONS OF INTEREST**

There were no declarations of interest.

### **2. PUBLIC QUESTION TIME (15 MINUTES)**

There were no questions from members of the public.

### **3. PETITIONS AND DEPUTATIONS (15 MINUTES)**

There were no petitions or deputations.

### **4. REPORT BY KPMG TO THOSE CHARGED WITH GOVERNANCE (ISA 260)**

The Corporate Director of Resources provided an update on the Statement of Accounts 2011/12 and the Council's response to the ISA 260 report.

The Director reminded members about the genesis of the situation, based on his review of the draft financial statements in June and his decision not to sign the draft accounts off following that review until he was satisfied that the accounts had been adequately prepared and corrected and to inform the external audit team.

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Members would recall the previous report by KPMG, which outlined that the committee members had been misled as to the level of preparedness of the annual statement, and the prompt action that had been taken by the Director to rectify this situation. This action included instigating disciplinary processes and ensuring an interim team be properly established.

The Corporate Director of Resources reminded members of his statutory and professional responsibilities to ensure that if issues are identified, it is essential that they are corrected and processes put right for the future, which was the task given to the interim team. He explained that it has been essential that the team deliver those corrections, and take the appropriate time to do so, rather than rushing to produce a statement. The interim team had been tasked with reviewing all processes and 'lifting every stone' to ensure that the year-end routines were carried out thoroughly in partnership with the external audit team at KPMG. In doing so, this resulted in adjustments not just to 2011/12, but also to prior years including 2009/10 and 2010/11.

Whilst this process inevitably therefore took longer to conclude, the Director stressed the importance of ensuring the timescale was secondary to ensuring that the tasks were completed thoroughly and properly. Having gone through such a comprehensive process, he explained it was now crucial for the council to benefit from all the recent work, to ensure that there are improved processes and procedures going forwards. This was essential to ensure that the council is able to move forward with confidence in terms of both financial planning and accounting, to ensure there is a better base to work from than ever before.

He explained that this would continue to take more work by the interim team, which would be maintained and overlapped with recruitment to the currently vacant posts within financial services.

He outlined the responses to the issues raised in the ISA 260 report, which included all of the issues that had been identified during the audit process, many of which were either identified by the interim team, by the team in conjunction with KPMG and by KPMG themselves. The comprehensive responses would provide members with some assurance that many of the recommendations are either already in place or actions are underway to complete them.

The Director explained that an action plan was already being produced, based on the ISA 260 recommendations and the management responses - and that Audit and Governance committee members may wish to monitor the implementation of that action plan as a standing item at future meetings.

He also outlined the important role that Internal Audit will continue to play in their work on scrutinising core financial activities and reporting on assurance in those areas.

The Corporate Director of Resources thanked KPMG, the Interim Finance Change Manager and the Project Accountant for all the work they had undertaken to ensure the year end accounts and audit had been completed satisfactorily.

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Members noted the need to develop a clear action plan for Audit and Governance Committee to review through the 2012/13 accounts closure process.

Mr. Pennington presented the report on those charged with governance (ISA 260) 2011/12 and referred initially to pages 3 and 4 of the report.

Members noted that the comments on financial reporting during the year. Mr. Pennington confirmed that KPMG had been assured by members of GLT and Cabinet that financial management and detailed budget reports had been discussed regularly at meetings, however this did not appear to be fully documented. Reconciliations back to the financial ledger for those reports were not evidenced creating some uncertainty about whether those budget reports had been reliably and accurately compiled by the Financial Services. In addition, a number of the Council's key reconciliations had not operated effectively during the year, despite some verbal reassurances made at previous meetings of the audit committee by the relevant manager.

Mr. Pennington reported that the Interim Finance Team had undertaken a lot of work and were now producing detailed monthly management accounts. The first set of monthly management accounts for the six months to September 2012 appear to be good. The budget figures entered into the financial systems and reported in the management accounts did not fully reconcile with the high level budget that had been approved by Cabinet, however, the Interim Finance Team upon the Directors request had now introduced steps to ensure that the revised budget for 2012/13 and the approved 2013/14 budget would be correctly entered into the general ledger to enable correct comparisons could be made.

Mr. Pennington referred to the Financial Standing, Liquidity and Treasury Management. The first draft of the accounts presented to KPMG for audit reported a general fund balance of £2.8M at 31 March 2012. Since then, there had been a number of audit adjustments which had impacted on the general fund balance. The final accounts reported a General Fund balance of £2.4M at the year end. Mr. Pennington confirmed that the value of £0.541M in the ISA 260 report would be amended to read £2.4M.

The Interim Finance Change Manager referred members to the Movement in Reserves Statement in the statement of accounts, which confirmed the level of the Useable Reserves including earmarked reserves, Capital Receipts and the Housing Revenue Account - and the key changes during 2011/12 - which also confirmed the general fund balance at £2.4M.

Mr. Pennington advised that the Council would need to monitor its treasury management policies and ensure it supported the General Fund and had access to liquid resources. The Finance Change Manager confirmed that the Treasury Management Strategy was currently being reviewed and close cash flow monitoring was developed.

Mr. Pennington referred to the accounts preparation process. He advised that the Council had struggled for a number of years to prepare its financial statements on time. During 2011/12 the Council made some changes to its Finance team, including the recruitment of interim staff to help improve the standard of accounting.

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There had been insufficient time for the new team to recover the situation before the audit was scheduled to start. Due to the adjustments required to the accounts, the Council was unable to publish its audited accounts by the 30 September 2012, as had previously been explained by the Corporate Director of Resources

Mr. Pennington advised that the Council would need to take immediate steps to ensure a permanent and stable accounting procedure is in place so that it is not in the same position at the March 2013 year end, and noted the Director's previous confirmation of arrangements being put in place.

Councillor Wood asked for assurances that the Council would not be in the same position and how this would be progressed. The Corporate Director of Resources advised that there would be a revised structure of the Finance Team with the recruitment of a permanent Financial Services Manager and two further posts. He added that the Interim Finance Team would remain until a Manager had been appointed, and that there would be an overlap to enable complete handover of duties and maintain stability.

Councillor McLellan asked whether the difficulties with the accounts process was due to training issues and the systems being used. The Corporate Director of Resources re-stated the staffing issues above, and also the steps being taken to ensure that processes would now be clearer and a procedure in place for the Audit and Governance Committee to monitor and sign off the action plans. He added that KPMG would have a proper audit trail to for this to be undertaken.

Mr. Pennington referred to the uncorrected audit differences for Gloucester City Council's financial statements for the year ended 31 March 2012 at Appendix 3 of the report.

He advised that items 3, 4, 5 and 6 had all been adjusted and agreed in the final accounts. The Project Accountant advised that he was reviewing these and once satisfied these would be forwarded to KPMG for final approval and sign-off.

These would be ready to be signed off by the Chair, at the special meeting of Audit and Governance Committee on Thursday, 28 February 2013.

It was noted that items 1 and 2 did not require any adjustments and could be signed off.

Members agreed with the Corporate Director of Resources' suggestion that it was necessary to have a regular standing item on the agenda to discuss the accounts.

The Chair asked the Corporate Director of Resources to provide an action plan at the next meeting as he had suggested in his introduction. This would then allow Members to monitor the progress. Councillor McLellan asked if KPMG were satisfied by the proposals suggested. Mr. Pennington believed this was a practical and helpful way forward.

The Chair requested a separate meeting of the Audit and Governance Committee with KPMG after its next scheduled meeting of 18 March 2013. Mr. Pennington

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advised that due to changes within KPMG this would be his last meeting and that Darren Gilbert would now be the lead officer.

The Chair referred to the budgetary control and raised reports for October to December had recently been completed. The Project Accountant advised that the September and October accounts had taken a lot of time to complete. Once the accounts had been finalised he would be able to concentrate of the management of accounts. The Interim Finance Change Manager confirmed that updated monitoring projections had been used to inform the budget process for 2013/14.

In response to a question from the Chair, the Interim Finance Change Manager advised that the September and October accounts had now been approved. Managers would receive new budgets from April 2013 and Managers would have regular meetings with Finance Officers to scrutinise their budgets.

Councillor McLellan enquired about the budget figures approved by Cabinet and asked if these would be included in next financial year. The Interim Finance Change Manager advised that he and the Corporate Director of Resources would agree the final budget submission which was based upon operational manager's assessment of the intended income and expenditure for 2013/14. This document would be authorised by the Corporate Director of Resources and then uploaded to Cedar financials. During the financial year any reports that have been prepared, the uploaded budget would be included as a matter of course.

Members agreed that the accounts process should reviewed by the Audit and Governance Committee on a regular basis throughout the financial year – which would also be informed by the work of internal audit.

The Corporate Director of Resources advised that the action plan would be presented to the Audit and Governance Committee at its next meeting, which would include an update on previous years' recommendations. The Group Manager, Audit and Assurance added that he would present next year's proposed Internal Audit Plan at the next meeting which would include an audit to ensure the agreed recommendations had been implemented.

In response to a query from Councillor Noakes, the Group Manager, Audit and Assurance advised that the governance statement had been revised by himself and The Director of Resources to reflect current issues, and the revised version was approved at the September meeting. No significant changes had been made since that date. However, he would take revise the Statement to take on board the changes requested by KPMG and Councillor Noakes.

Members noted that the ISA 260 statement of accounts and letter of representation would be signed by the Chair and Corporate Director of Resources on 28 February 2013, when another special meeting of the Audit Governance Committee would be taking place.

The Corporate Director of Resources and members of the Audit and Governance Committee thanked both KPMG and the Interim Finance Team for the work they had undertaken.

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**RESOLVED**

- (1) That page 3 of the KPMG report, paragraph 6 is amended to read £2.4M.
- (2) An action plan is produced for the next meeting, and monitoring against the action plan be a standing item at each meeting
- (3) That the Statement of Accounts and letter of representation be signed by the Chair and the Corporate Director of Resources on 28 February 2013.
- (4) That a separate meeting of the Audit and Governance Committee be arranged with KPMG.

**5. 2011/12 STATEMENT OF ACCOUNTS**

The Audit and Governance Committee were presented with a report from the external auditors, KPMG, and their opinion on the Council's Statement of Accounts and were asked to approve the final version of the Statement of Accounts 2011/12, including changes arising as a result of the audit process. The covering report outlined the Council's key accounts and balances and the ISA 260 report highlighted the audit adjustments in item 3 of the agenda.

**RESOLVED**

- (1) That subject to the minor adjustments discussed at the meeting, the audited Statement of Accounts for the year ending 31 March 2012 is approved.
- (2) That the Corporate Director of Resources and the Chair of the Audit and Governance Committee be authorised to sign a letter of representation on behalf of the Committee and Council to KPMG, to enable the audit opinion to be issued.

**Time of commencement: 18:30 hours**  
**Time of conclusion: 19:25 hours**

**Chair**