UPDATE ON THE ISA 260 RECOMMENDATIONS February 2013

KPMG					GCC	KPMG	GCC		GCC		
No.	**Year**	**Priority**	**Risk**	**Recommendation**	**Management Response**	**Status at February 2013**	**Current Status**	**RAG**	**Current Priority**	**Target Date**	**Owner**
			Budgetary Control								
1	2012	1	At our interim visit we highlighted to you as part of our Interim Report 2011/12 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 Our audit procedures also identified an error where a missing invoice was found in 2011/12 that related to 2010/11, relating to a significant contract. If there had been effective budgetary control during the year then such an error would have been identified through the budget monitoring process.	Budget monitoring should be completed on a monthly basis. The summary reports presented to Cabinet should reconcile to the detailed monitoring reports produced by Finance.	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. Currently discussions and training sessions are being held with budget holders and managers about the budget process and the importance pertaining to accuracy and the monitoring process. Once the budget has been approved by Cabinet finance will ensure that the correct budget figures are entered into the system. The processes being developed and implemented are a work-in-progress and will be adapted and enhanced to satisfy the needs of the business and changing circumstances.		All Service Managers budget submissions are uploaded onto Cedar CP module to enable efficient monitoring during 2013/14.The outstanding items are the 'Project Plans' relating to each budget saving stream, these have to be agreed by the delivery Service Manager and will include a timeplan and actions taken to be delivered together with the monthly cycle achievement basis.	A	1	01/04/13	KB
			Bank Reconciliation								
2	2012	1	Our work and that of Internal Audit has identified that 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. Our work on cash at year end also identified that a bank account had been missed out of the reconciliation process which resulted in cash in the financial statements being understated.	Identify what is causing the unreconciled amounts. Future bank reconciliations should be performed on a zero variance basis. All bank accounts should be reviewed by a senior member of the Finance team to ensure that they are all reconciled at month end correctly and all accounts are being captured.	All bank reconciliations are now being performed on a monthly basis and balanced correctly with no balancing entries. All reconciliations are being reviewed by the interim finance change manager who also ensures that all bank accounts are being reconciled.		The accounts for the current year transactions are in balance. However, there are two balancing entries that relate to prior years. These will be resolved before the year end and not carried forward to 2013/14.	A	1	01/04/13	KB
			Quality of Draft Accounts								
3	2012	1	We have received three versions of the accounts during our audit. All three 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. 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.	Senior members of the Finance team need to ensure they keep abreast of all current Code updates and LAAP Bulletins that are issued during the year. This is to ensure that the Council can consider its approach to accounting requirements and book the necessary entries that are required under the Code.	Ideally we would aim to have a final draft of the accounts available for prior to the commencement of the audit with very few, if any, subsequent adjustments. For a number of reasons, mainly relating to staff issues, this has not been the case this year. Consequently the accounts, although presented to audit, were still incomplete in a number of areas such as group accounts and disclosures as these were still being worked on. This was made clear to the audit team at the commencement of the audit. In 2011/12 we have prepared four versions of the draft accounts compared to eight in the previous year so this does represent a substantial improvement. It should be pointed out that the vast majority of the adjustments relate to errors identified by the Council and it is not correct to refer to them all as audit adjustments. We do not fully agree that Code changes and LAAP Bulletins were not recognised in the initial versions of the accounts. The only significant change to the Code was in respect of Heritage assets which were correctly included in the draft accounts in accordance with the Code. Initially these assets were not treated as a prior year adjustment on the grounds of immateriality, however, this was subsequently treated as such following the discovery by the Council of an error in the calculation which made the final adjustment material. 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. 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.		We are in receipt of the KPMG suggested timetable of events to complete the Annual Accounts process to enable signing before 30/09/13. An internal timetable is currently under review to establish the desired delivery. The review process includes a lessons learnt aspect; the initial improvements cover 'Generic' working paper outlines and clear instructions to the business and individuals within finance to ensure clarity of information provided to KPMG and that data to be easily audited.	A	1	01/04/13	Finance / KB
			Resources Within Finance								
4	2012	1	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.	We recommend that a permanent finance structure is put in place urgently.	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. 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. 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.		Recruitment to the permanent posts is currently underway. In addition to establishing the permanent professional team, it has been agreed that the interim team will provide an overlap with the new appointments. Three key areas of business are being focussed on for delivery: (1) Closure of accounts and production of the annual financial statements for 2012/13 (2) implementing this improvement plan and other improvements/actions identified by the Director and the Internal Audit Service (3) Supporting the Councils budget savings targets for 2013/14. These priorities for financial services require ongoing interim resource to ensure sucessful delivery.	A	**1**	**30/06/13**	**PG**
			Coding of Invoices								

5	2012	1	It is paramount that Finance staff code transactions to the correct general ledger codes within Cedar. If this does not occur then balances will be posted to incorrect codes and budget holders will not know the true cost of a service or contract. 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. Even though the value in monetary terms for the invoices we have identified is immaterial for audit purposes, this could lead to incorrect decisions by budget holders and provides Committees and Cabinet with the incorrect information. This also reinforces the issue noted above regarding the effectiveness of budgetary control processes.	Care should be taken by Finance staff to ensure correct general ledger codes are used.	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.		A paper has been prepared for approval by GLT to recommend changes to the e-procurement system that formalises the approval level of managers and officers in the business. This process effectively limits the financial commitment that can be incurred by an officer without the knowledge of their line manager. There are six levels of approval where a Service Manager can approve expenditure up to £5k to a purchase in excess of £7.5m requiring Cabinet sanction. The raising of a purchase requisition and order will drive the coding of invoices removing the reliance for accurate coding on finance and placing it with those who are requesting/approving the spend.	A	2	P1 13/14	Finance / KB
			Revenue Reconciliations								
6	2012	1	Each month the revenues department provides finance with a reconciliation of all transactions on council tax and NNDR movements. The reconciliation enables finance to post monthly journals to the general ledger to account for the council tax and NNDR transactions. At the year end, the finance team use these reconciliations to support any council tax and NNDR debtors and creditor balances. 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. For example, cash will be received and banked on the 31 March 2012 and included in the revenue system but revenues do not include this cash in their reconciliation to finance, they will include it in the following month. This means that even though the cash has been banked and included in the general ledger the receipt has not been taken off the individual debtor balance correctly.	The Revenues department must ensure that they provide finance with accurate information. Reconciliations should provide details of all transactions up to the month end date which agree back their systems. Revenue must report to finance any amounts which are received or paid at month end but are booked on their system post month end to ensure that finance account for transaction correctly.	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. The accounting treatment agreed with the audit team takes a prudent approach to the treatment of the unreconciled balance on the Collection Fund holding account. The accounting treatment adopted will be reviewed to ensure that the debtor and creditor balances are correctly stated at 31 March 2013. 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.		The situation identified at audit has not been satisfactorily resolved. The Revenues manager has assured the Finance Team that a complete month-end reconciliation is being performed and this will be tested by Finance at P11. Any remaining issues identified will be resolved by an external project team which has been identified as a resource capable of delivering a resolution.	R	1	30/06/13	External Project Team
			Fixed Asset Additions								
7	2012	2	Our testing of capital expenditure in the year identified that all costs relating to a project are being capitalised . For example, all costs relating to the Museum project are being capitalised; eg costs relating to promotional events, hire of actors etc. Even though the items we tested are not material in value, they are not capital and should be treated as revenue under the Code. There is a need to enhance the guidance available to Council staff on the difference between capital and revenue expenditure for spend on capital projects. Given that there is sometimes difficulty in differentiating between what constitutes revenue and what is an enhancement or increasing the life of an asset, it is possible that errors could arise due to lack of internal clarity.	Ensure that a policy is in place for determining whether expenditure is either capital or revenue. Additionally, ensure that sufficient training is provided to all relevant employees to assist them in correctly identifying the different types of expenditure. Controls should also be implemented to ensure that management independently and regularly review postings made to ensure the spend is being assigned appropriately.	Subsequent to the year end a new capital expenditure procedure has been developed and implemented. This covers all aspects of capital spending including the following: 1.Standard rules with regard to all capital expenditure 2. Clear definition distinguishing between capital and revenue. 3. The approval process stressing the need for a business case, discounted cash flows etc.. 4. Review and approval of project costs at every stage of the project. All budget holders and other appropriate staff have been notified of the new process and, where, considered necessary training of these staff will be provided.		The Capital Project Steering Group (CPSG) was formed in October 2012 and meets monthly. The function of the CPSG is to formally approve projects for submission to GLT/ Cabinet / Council for approval. All capital projects undergo a rigourous process to ensure that the project meets Corporate objectives and is delivered under a formal project management process with timely stage reviews and regular reports on stated objectives and achievements. This process should ensure that best value for money is achieved and spend is targeted in a controlled manner.	G	2	Delivered	Ongoing Monthly Meetings
			Valuation Reports								
8	2012	2	The Council's valuations department performs a rolling programme of property valuations on an annual basis. These include a mix of other land and buildings and investment properties. The valuation report is passed to Finance to account for the movement on assets between the fixed asset register, the revaluation reserve and I&E account. Our review of the year end valuation report indicated that there had been an overall reduction in Investment Property values. These movements in asset values had been accounted for in the Revaluation Reserve instead of the I&E account. Under the Code all investment property changes in values should be accounted for in the I&E account. We have also identified that Finance are classing some of the assets into a different fixed asset category when compared to the valuation report. For example, the "Oxbode shops" of £371k are being shown as "other land and buildings" within the accounts verses the valuation report classing them as investment properties. This will not only affect where future increase/decrease in valuations are booked but also the depreciation that is being charged on them.	All movements in the fair value of Investment Properties should be accounted for in the I&E account in accordance with the requirements of the Code of Practice. The Finance department should perform a detailed review of the year end valuation report and ensure that assets are being classed correctly within their fixed asset register and year end accounts.	There was a net revaluation surplus of investment property in the current year and this was, initially, reflected in the accounts as a credit to the CIES which is the correct accounting treatment in accordance with the Code. This was inadvertently changed in error when the analysis of the revaluation reserve was completed with the result that the revaluations and impairments for the current year and prior year were grossed up with the impairments being expensed and the revaluation reserve credited. This has been adjusted in the final accounts		The lessons learnt from production of the 2011/12 accounts will be applied to future years. A full property valuation has been instigated at March 2013 to ensure a 100% verification is available to finance to agree to the General Ledger and the Statement of Accounts. Property Services have identified resources to complete this task which includes the procurement of a software tool to enable a faster and more accurate process of reconciliation to the financial records.	A	2	31/03/13	Prop Services /Finance
			Fixed Asset Register								
9	2012	2	The Council has been using an excel spreadsheet created from a download from the general ledger to account and record the movements on its fixed assets. This means that for many years the Council has been unable to identify what the historic cost of its assets are. Under the Code there is requirement for councils to keep this information. In addition, by using simple downloads of the ledgers this does not have the sophistication required to account for the Council's complex asset base or to cope with component accounting.	The Council should consider investing in and maintaining a fixed asset register which is independent of the general ledger so that it is able to record assets more easily and be able to identify asset components, as required under the Code. The register should be reconciled to the general ledger each month.	Prior to the current financial year the fixed assets register was on the Cedar fixed assets module which did record the historical cost of the assets. Due to problems encountered with the Cedar fixed assets module in the current year the assets register was prepared using Excel spreadsheets. It is, therefore, not factually correct to state that the Council has been able to identify the historical cost of its assets for many years. The use of Exce spreadsheets for maintaining the assets register is an interim measure while looking at suitable alternatives. A new assets module is expected to be implemented with effect from the beginning of the next financial year (2013/14). In the interim period the assets register will be maintained on Excel spreadsheets and will be reconciled to the general ledger each month.		The business continues to use a spreadsheet to manage it's fixed assets. This method provides acceptable controls when reconciled to the General Ledger. Currently this process is completed on a quarterly basis. At which time a high level assessment of the asset categorisation is undertaken. The upgrade to cedar 4.4 (under initial testing) is targeted for P7 2013/14. It is at this time that the controlled migration from spreadsheet to integrated system will be implemented.	A	2	P7 2013/14	Finance / KB
			Monitoring of Capital Spend								
10	2012	2	Total capital spending should be agreed by the Council at their Cabinet meetings as part of the budget process. Finance should monitor actual spend against the agreed budget to ensure that unnecessary projects are not taking place and that the Council is not overspending on capital. There should be an approval process in place whereby departments requesting capital expenditure obtain finance approval to ensure there is sufficient cash in place to finance the projects and that the spend is in line with the priorities of the Council. We have not seen any	Finance should ensure that a policy is in place setting out the approval process that is required for any capital spending. This should be distributed to budget holders.	As noted in our response to point 7 a new capital expenditure procedure has been developed and implemented which deals with, inter alia, the monitoring of capital spending.		See response in point 7. In future all references to this item will be reported on in that items commentary.	G	2	Closed	Closed
			Journals								

11	2012	2	Only one member of staff within Finance has the required knowledge of how to produce journal reports. During our audit this member of staff was on sick leave and the journal list could not be produced. Upon our request of this report, the interim Finance team had to go back to their Cedar supplier to obtain the report. We also identified that a material error was made by a member of Finance where a journal was posted the wrong way round. This journal had not been reviewed prior to being posted.	Process notes for key finance processes should be maintained to ensure that knowledge is not lost when there is a turnover or unavailability of key staff. Material journals should be reviewed and approved by a senior member of the Finance team either prior to being posted or retrospectively.	The journal report was run at the final audit visit by the financial planning accountant and it is not correct that the Council had to go back to the Cedar supplier to obtain this report although we did encounter some difficulty in getting the report in the required format. Procedures are being drafted with regard to the posting of journals, including the authorisation process, as well as the running of journal reports. This will be completed and implemented before the end of the current financial year. The details of the material journal posted the wrong way round have not been discussed or brought to our attention.		A detailed process note is being written to ensure the situation experienced in 2011/12 is repeated.	A	2	14/03/13	Finance / KB
			Headcount Figures								
12	2012	2	Human Resource (HR) should be able to produce monthly headcount figures which are based on full time equivalents. Due to way that Councils operate there is usually a high proportion of part time workers within a Council and therefore a full time equivalent number is need to make sense of any payroll charges. When auditing the annual payroll charge that has gone through the Council's accounts, the full time equivalent of staff numbers is one of the main factors that is taken into account. Without this calculation it is very difficult to understand if the movements within the payroll charge is what we would expect. The council were unable to provide the full time equivalent numbers as we had requested in our Protocol. When information was received back from HR the reports and detailed information did not agree back to headline figures.	We understand that the payroll system is a live system and therefore, HR should ensure that at each month end date they keep a copy of the full time equivalents report for audit purposes.	The required reports providing the full-time equivalents for the required months have subsequently been produced and provided to audit.		HR to be informed of the requirements of KPMG before the year end process begins.	A	2	28/03/13	RS
			Periodic reconciliation of the NNDR system to the cash receipting system								
13	2010	2	Reconciliations should be signed/dated as reviewed by an independent finance officer.	Periodic reconciliation of the NNDR system to the cash receipting system.	The revenues and benefits service was outsourced to Civica in October 2011. The reconciliation between business rates and cash receipting is now completed via the contractor, Civica. The Council will ensure that the contract is monitored on an ongoing basis and part of this will be ensuring that core reconciliations have been completed.	Refer to our management responses under recommendation 6	See response in point 10. In future all references to this item will be reported on in that items commentary.	G	2	Closed	Closed
			Valuation of Investment Properties								
14	2011	2	The IFRS Code requires investment properties to be valued on an annual basis to assess for revaluation gains or losses. To date, investment properties have been valued on a rolling basis every five years. To ensure compliance with the Code, the Council must value its investment property on an annual basis and adjust accordingly for any gains or losses.	Carry out valuation of investment properties on an annual basis.		All Council properties, including investment property, are to be valued at 31 March 2013. The property division have been advised with exact details of our requirements to be finalised in good time before 31 March 2013.	See response in point 8. In future all references to this item will be reported on in that items commentary.	G	2	Closed	Closed
			Cashflow statements								
15	2010	2	The Cedar ledger system should be capable of accurately producing a cashflow statement but, following SORP changes, it has not been remapped to allow this to properly occur. This resulted in a significant amount of time spent by both finance and audit teams in attempting to reconcile this data.	With the introduction of IFRS, the Cedar system needs to be diligently remapped to ensure that this problem does not reoccur. Consideration might also be given to moving the cashflow disclosure to being made using the indirect method which is often both easier to calculate and clearer to the reader.		For the 2012 accounts the cash flow statement has been prepared on the indirect basis. As the cash flow currently being produced by Cedar is cumbersome and makes the production of the cash flow time consuming this was not used for preparing the cash flow for 2012. A separate spreadsheet has been developed for the current year to prepare the cash flow for the Council and group and this is suitable for use in future years.	The method of production in the 2011/12 Accounts will be replicated for the 2012/13 Statements. The complexity of the document does not lend itself to automatic production. As the data required to prepare the statement needs to be analaysis and opinion based following business rules. On the basis that KPMG were satisfied with the methodology and signed off on that basis is is proposed not to change the existing process.	G	2	TBA	KB
			Change management								
16	2010	2	There are documented processes for making changes to systems but there is a lack of evidence of it being formally followed. This could result in inappropriate updates being made to the live system environment.	Change management procedures should have written evidence of them being enforced.		No further action has been taken to date-as commented on previously this has not been identified as a priority.	This process has been formally adopted from 2011. Documentary evidence has been seen as to the evidence of the process.	G	2	Closed	Closed
			Access rights								
17	2010	2	There is no documentation to map an appropriate group of access rights for users based on their job role. The systems in question were: Payroll, the Financial Management System; Cash receipting; Council Tax; NNDR and Benefits.	That user access rights are mapped to job roles. The response of application system administrators to this recommendation will be collated by the IT department.			This process has been formally adopted from 2011. Documentary evidence has been seen as to the evidence of the process.	G	2	Closed	Closed
			Removing user network access								
18	2010	1	When staff leave the Council's employment their rights to access Council IT systems need to be removed promptly. If this does not happen, there is a risk that the individual (or others) may gain inappropriate access to systems or data. There is no formalised procedure for removing user access to the network and applications when staff leave the Council. Five out of a sample of eleven staff we tested who had left in the year still had accounts on the system. Some limited mitigation exists as users with significant administration rights are known to IT staff and so are likely to be removed if they leave.	Develop a procedure with HR to ensure IT are notified promptly when an individual leaves and to allow the removal of their access profiles.			A process has been operated since December 2011 albeit until now not documented by HR to inform IT of any leavers even if that leaver will not be terminated until a defined point in the future	G	1	Closed	Closed
			Authorisation of journals								
19	2010	1	Journals are not being authorised appropriately and our prior year recommendation of reviewing individual access to both raise and post journals has not been implemented. We note that the Council has a relatively small finance department and that the staff who have this high level of access are qualified finance officers but would still recommend a segregation of duties between raising and posting journals is introduced. We further note that one of the users with this access to the ledgers is, in fact, an employee of Gloucester City Homes not GCC.	journals should be reviewed and suitable measures to mitigate this risk put into place.		See item 11	See response in point 11. In future all references to this item will be reported on in that items commentary.	G	1	Closed	Closed
			Circularisation of establishment lists								

20	2010	2	There is a risk that departing employees may not be removed from the payroll system subsequent to their departure	Payroll verification lists should be run monthly and reviewed by relevant managers on a departmental basis.			A process has been operated since December 2011 albeit until now not documented by HR to inform IT of any leavers even if that leaver will not be terminated until a defined point in the future	G	2	Closed	Closed
			Financial ratios monitoring								
21	2011	2	A number of key statistics are currently monitored by management on a monthly basis (including overdue council tax and rents). This would be strengthened by including a wider range of areas, such as cash flow ratios and gearing analysis.	Include a wider range of areas, such as cash flow ratios and gearing analysis in the key financial ratios monitored by the Council.		This forms part of the budgetary control process and details of actions and procedures being taken are fully detailed in our management responses to recommendation 1	See response in point 8. In future all references to this item will be reported on in that items commentary.	G	2	Closed	Closed
			Component accounting								
22	2011	3	IFRS accounting rules require the adoption of 'component accounting' and the Council has now adopted a threshold of assets that exceed £500k in individual cost for this. This is at the higher end of our experience of other local authorities, especially for a district council.	Review the appropriateness of the £500,000 threshold for component accounting.			The level of componentisation for the 2011/12 financial year was reduced to £350k. This value was agreed with KPMG, a review of that level will be performed as part of the valuation exercise being completed in March 2013.	G	3	Closed	Closed