KPMG 2010/11 Interim Audit Findings

Cabinet Member: John Brady - Finance

Key Decision: No

Executive Summary

The Council's external auditors, KPMG LLP, have undertaken an interim audit of the Councils financial and value for money arrangements in line with their 2010/11 audit plan. This report sets out officers responses to that plan as well as attaching the KPMG findings.

Proposals

Members are asked to note the KPMG interim audit findings and receive regular updates on delivery of the actions to address the issues raised by KPMG throughout 2011/12.

Reason for Proposal

The Audit Committee has oversight of external audit.

Michael Hudson
Chief Finance Officer

AUDIT COMMITTEE

29th June 2011

KPMG 2010/11 Interim Audit Findings

Cabinet Member: John Brady - Finance

Key Decision: No

PURPOSE OF REPORT

1. This report sets informs members of the interim findings of our external auditors, KPMG LLP, from their 2010/11 audit to date.

BACKGROUND

2. KPMG have carried out interim audit testing of our processes and controls to inform their 2010/11 audit opinions in relation to the Council's statement of accounts and value for money conclusions. As part of that audit they have also sought to place reliance on Internal Audit's findings. This report summarises the key issues from that report and officers responses to the issues raised. The detailed KPMG report is appended to this report at Appendix A.

3. The report structure identifies:

    • The headlines / key messages in *Section 2.*
    • The overall control environment for the organisation; production of the financial statements; IT; financial systems and Internal Audit in *Section 3.*
    • The new Value For Money (VFM) approach and initial findings in *Section 4.*

4. Overall KPMG have reported that the control environment is 'effective overall', with the majority of controls over financial systems 'generally sound'. It also notes that KPMG based on their work to date have 'good assurance' on the Council's arrangement to secure VFM.

5. Of the 18 recommendations raised last year by KMPG all 18 have been actioned, and this is recognised in the report.

6. The key issues for the Council to address are:

- Work to date suggests that KPMG will again be unable to rely fully on the Council's IT controls**.**

- There are some weaknesses in respect of financial reporting, payroll, non-pay expenditure and treasury management. As a result KPMG will need to complete additional substantive work in these areas at year-end.

- Whilst KPMG were able to place full reliance on internal audit's work on the key financial systems, this was not the case for some of internal audit's IT audit work, where they are now performing significant additional testing.

7. Officers have worked with KPMG to draw up an action plan to respond to the issues raised and implement improvements in controls. The action plan is attached at Appendix B, and regular updates on implementation are proposed to be brought to this Committee.

Implications

8. This report informs members of the initial KPMG findings and contains an action plan to address all the issues raised.

Risks assessment

9. KPMG's initial risk assessment assumed that the Council had implemented and taken action to mitigate its risks and control its management information effectively. As can be seen the Authority has a good track record of mitigating this risk as all 18 recommendations raised in 2009/10 have been actioned. If during the course of the remainder of the external audit the control issues raised are not address then there is a risk that the external audit fee will be increased and additional costs incurred. The Chief Finance Officer, Monitoring Officer, Head of Paid Service, Internal Audit and Chief Accountant work with KPMG to mitigate this risk, and will continue to do so.

Equalities and diversity impact of the proposals

10. None have been identified as arising directly from this report.

Financial implications

11. The control issues raised are being actioned and we continue to work with KPMG to review ways to monitor and manage the overall 2010/11 fee within the current budget.

Legal Implications

12. None have been identified as arising directly from this report.

Proposals

13. Members are asked to note the KPMG interim audit findings and receive regular updates on delivery of the actions to address the issues raised by KPMG throughout 2011/12.

Reasons for proposals

14. The Audit Committee has oversight of external audit.

Background Papers and Consultation

KPMG Interim Audit Letter

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Appendices:

Appendix A: KPMG Interim Audit Letter
Appendix B: Action Plan

KPMG Interim Audit Letter

KPMG

Appendix 2
Follow-up of prior year recommendations

The Council has implemented most of the high priority recommendations in our *Interim Audit Report 2009/10*.

This appendix summarises the progress made to implement the high priority recommendations identified in our Interim Audit Report 2009/10 and re-iterates any recommendations still outstanding.

Number of high priority recommendations that were:	
Included in original report	18
Implemented in year or superseded	17
Remain outstanding (re-iterated below)	1

No.	Risk	Issue and recommendation	Officer responsible & due date	Status as at June 2011
1	❶	**Manual raising of Purchase Orders and lack of authorisation** Purchase orders are not raised for all spend using the SRM purchasing system. Invoices are being posted to the system manually and some without being appropriately authorised. This leads to the risk that fraudulent invoices could be paid or invoices paid twice in error. **Recommendation** All expenditure should be entered onto the SRM procurement system. A search for duplicate invoices should also be performed as currently the system only checks SRM invoices against all other SRM invoices. (And likewise for non-SRM invoices.)	Caroline Bee (in liaison with SST) March 2011.	From discussion with John Rogers and Dave Marshall, the SRM system is still only used for about 60% of invoices. Although we have not found any evidence of inappropriate authorisation, we would recommend that the use of the SRM system is maximised due to the controls inherent in the system.

APPENDIX B

Action Plan

KPMG recommendation	Management response	Action	Post responsible for implementation	By When
Recommendation 1: **SIMS/GL reconciliation** There is a lack of formal evidence of preparation and review of the reconciliation between the Schools' Information Management System (SIMS) and the general ledger. This means that this operates as a process rather than a control. **Recommendation** As reconciliations are carried out in Microsoft Excel, the Council investigates the feasibility of obtaining a "plug in" feature for Excel which will allow the preparation and senior officer review of reconciliations to be evidenced electronically.	Agreed	The reconciliation process will be reviewed and an appropriate formal authorisation procedure will be introduced.	Chief Accountant	31 December 2011

KPMG recommendation	Management response	Action	Post responsible for implementation	By When
Recommendation 2: **Identification and review of open orders** There is no formal procedure in place to monitor open orders. Lists of open orders are produced and checked by Finance on an ad hoc basis. **Recommendation** The process for reviewing and checking the appropriateness of open orders should be formalised. This should be carried out by SST on a regular basis.	Agreed	A review will be carried out and a formalised and regular monitoring process will be introduced.	Chief Accountant	31 March 2012

KPMG recommendation	Management response	Action	Post responsible for implementation	By When
Recommendation 3: **Internal audit review of IT controls** We were able to place full reliance on the testing of financial controls and noted improvements in terms of the adequacy of sample sizes used by internal audit. This was not the case for the IT work, where we found that: 1. internal audit's work did not cover all the areas within our agreed joint working protocol and was not documented sufficiently; 1. the work mainly involved only evaluating whether controls were designed appropriately, rather than also testing whether they were effective in practice; and 1. in some cases, the work completed did not support the conclusions drawn. **Recommendation** Internal audit work on IT controls should be performed and documented to the same standards as non-IT audit work.	Agreed	Internal Audit is currently going through a period of transition which has had an impact on our ability to fully test all IT control areas. A meeting has been arranged between Internal Audit and KPMG for July 2011 to discuss and agree the joint working protocol from 2011/12, to agree our terms and standards of work, and to ensure closer liaison between Internal Audit and KPMG is achieved.	Principal Auditors	30 July 2011

KPMG recommendation	Management response	Action	Post responsible for implementation	By When
Recommendation 4 **Follow up of control failures by Internal Audit** In a number of cases we found that internal audit had not followed up control failures with additional queries to identify whether there are any compensating arrangements in place, which could then be tested to obtain the assurance necessary. The testing of controls had been performed correctly, but it is also important to respond flexibly if the results are not positive to see if it is possible to achieve the audit objective through an alternative way. **Recommendation** Where control failures are identified by internal audit, they should consider whether there are compensating arrangements in place that may provide assurance on the control objective being tested.	Agreed	Internal Audit will seek to ensure that in all cases of identified control failures, we fully consider any compensating arrangements which may have been put in place by management, thereby providing assurance. We will seek to ensure that an open dialogue is maintained with clients so that our approach ensures that we identify all relevant controls put in place by management to mitigate risks in the service under audit review.	Principal Auditors	Ongoing and to be reviewed at quarterly updates to the Audit Committee.