



Annual Audit Letter 2015/16

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Exeter City Council

October 2016



Agenda Item 6

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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. Public Sector Audit Appointments issued a document entitled Statement of Responsibilities of Auditors and Audited Bodies summarising where the responsibilities of auditors begin and end and what is expected from audited bodies. We draw your attention to this document which is available on Public Sector Audit Appointment's website (www.psaa.co.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.

We are committed to providing you with a high quality service. If you have any concerns or are dissatisfied with any part of KPMG's work, in the first instance you should contact Darren Gilbert, the engagement lead to the Authority, who will try to resolve your complaint. If you are dissatisfied with your response please contact the national lead partner for all of KPMG's work under our contract with Public Sector Audit Appointments Limited, Andrew Sayers (andrew.sayers@kpmg.co.uk). After this, if you are still dissatisfied with how your complaint has been handled you can access PSAA's complaints procedure by emailing generalenquiries@psaa.co.uk, by telephoning 020 7072 7445 or by writing to Public Sector Audit Appointments Limited, 3rd Floor, Local Government House, Smith Square, London, SW1P 3HZ.

This Annual Audit Letter summarises the outcome from our audit work at Exeter City Council in relation to the 2015/16 audit year.

Although it is addressed to Members of the Authority, it is also intended to communicate these key messages to key external stakeholders, including members of the public, and will be placed on the Authority's website.

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| <p>VFM conclusion</p> | <p>We issued a qualified conclusion on the Authority's arrangements to secure value for money (VFM conclusion) for 2015/16 on 28 September 2016. Our opinion included an "except for" paragraph stating that we are satisfied with the Authority's overall arrangements except for significant weaknesses in the procurement process which had been identified by the Authority and through our own audit work.</p> <p>To arrive at our conclusion we looked at the Authority's arrangements to make informed decision making, sustainable resource deployment and working with partners and third parties.</p> |
| <p>VFM risk areas</p> | <p>We undertook a risk assessment as part of our VFM audit work to identify the key areas impacting on our VFM conclusion and considered the arrangements the Council has put in place to mitigate these risks.</p> <p>Our work identified the following significant matters:</p> <ul style="list-style-type: none"> — <i>Impact of the performance of Strata Service Solutions:</i> The objective of the company was for cost saving to be made through the sharing of ICT across the Authority, East Devon District Council and Teignbridge District Council. We assessed the governance structure in place, reviewed minutes of the joint executive committee; we understood the cost monitoring process in place; reviewed the business plan; reviewed the most recent financial statements to determine if cost saving had been achieved in line with budget. Our testing confirmed that the Authority had appropriate arrangements in place. — <i>New development of the leisure centre and bus station:</i> The Authority has proposed a redevelopment of the existing bus station in Exeter to provide for a new leisure complex and new bus station. We held discussions with management on the development; inspected contracts and reviewed cash flow projections. The development is in the advance planning stage and our testing confirmed that the Authority had appropriate arrangements in place. — <i>Procurement process:</i> Recent internal audit reports identified issues relating to procurement and contracting arrangements. The Authority also identified procurement as a significant governance issue within the Annual Governance Statement within its 2015/16 accounts. We reviewed the findings identified by internal audit; held discussions with management in relation to the action plan being implemented by the Authority; performed sample testing on the procurement listing produced by the Authority and agreed these back to supporting documentation and the Authority's own procurement policy where information was available. The outcome of our work identified a number of instances where the Authority had not followed the correct quotation and tendering process, the procurement process was poorly evidenced, supplier payments had no supporting contracts in place or where contracts had been in place but had expired and continued to be used without evidence of formal agreement of their extension. We discussed these issues with management and understand that steps are being put in place to address these with the implementation of an action plan as well as a more centralised procurement overview. As a result, we concluded that it was appropriate to qualify our VFM conclusion on an 'except for' basis. It is important that the Authority delivers planned improvements to its procurement and contracting arrangements through its agreed action plan, and our audit work next year will revisit this issue to consider progress. |
| <p>Audit opinion</p> | <p>We issued an unqualified opinion on the Authority's financial statements on 28 September 2016. This means that we believe the financial statements give a true and fair view of the financial position of the Authority and of its expenditure and income for the year.</p> |

We have issued our certificate to confirm the completion of our audit responsibilities for the 2015/16 audit year.

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| <p>Financial statements audit</p> | <p>This was our first year auditing the Authority and we noted that the financial reporting process at the Authority was good. The quality of the working papers provided to us for audit purposes were to a good standard.</p> <p>Our audit did not identify any significant adjusted or unadjusted audit differences.</p> <p>We identified the following financial statement audit risk as part of our 2015/16 External audit plan:</p> <ul style="list-style-type: none"> – <i>Valuation of Property, Plant & Equipment:</i> The Authority is responsible for ensuring the valuation of its PPE is materially correct and for conducting impairment reviews that confirm the condition of these assets. The Authority achieves this by performing revaluations (which is performed by the Authority's in-house expert) not more than five year intervals. We obtained and reviewed the terms of engagement with your valuer and the instructions provided to the valuer for the year end to ensure that the appropriate testing of assets was performed. We challenge management to the appropriateness of the information received from the valuer; understood from management the basis of any impairments booked, tested the assumptions used by the valuer; we performed sample testing on the revaluations booked to ensure they had been booked correctly into the accounts. We did not identify any issues from our work. |
| <p>Other information accompanying the financial statements</p> | <p>Whilst not explicitly covered by our audit opinion, we review other information that accompanies the financial statements to consider its material consistency with the audited accounts. This year we reviewed the Annual Governance Statement and Narrative Report. We concluded that they were consistent with our understanding and did not identify any issues.</p> |
| <p>Whole of Government Accounts</p> | <p>The Authority prepares a consolidation pack to support the production of Whole of Government Accounts by HM Treasury. We are not required to review this pack in detail as the Authority falls below the threshold where an audit is required. As required by the guidance we have confirmed this with the National Audit Office.</p> |
| <p>High priority recommendations</p> | <p>We raised three high priority recommendations as a result of our 2015/16 audit work. These are detailed in Appendix 1 together with the action plan agreed by management. They relate to:</p> <ul style="list-style-type: none"> – authorisation of Journals; – super user access and segregation of duties over the payroll function; and – weaknesses identified in the procurement process. <p>We will formally follow up these recommendations as part of our 2016/17 work.</p> |
| <p>Certificate</p> | <p>We issued our certificate on 28 September 2016. The certificate confirms that we have concluded the audit for 2015/16 in accordance with the requirements of the Local Audit & Accountability Act 2014 and the Code of Audit Practice.</p> |
| <p>Audit fee</p> | <p>Our fee for 2015/16 was £57,887, excluding VAT. Further detail is contained in Appendix 3.</p> |

Appendix 1: Key issues and recommendations

The Authority should closely monitor progress in addressing specific risks and implementing our recommendations.

We will formally follow up these recommendations next year.

| No. | Issue and recommendation | Management response / responsible officer / due date |
|-----|---|---|
| 1 | <p>Authorisation of journal entries</p> <p>Issue</p> <p>At present the Authority has a list of authorised users who are able to post and authorise journals. There is no segregation of duties and the same individual can post and authorise their own journals.</p> <p>There is no sample checking or reports that are used to spot check authorised journals to ensure that they are legitimate.</p> <p>In addition, your Assistant Director Finance is able to post journals to the general ledger which raises the risk of management override of controls. During our sample testing we did not identify any instance where your Assistant Director Finance posted journals.</p> <p>Recommendation</p> <p>The finance system should be updated with software to enable the functionality to allow separate posting and authorisation of journals. If this is not possible due to system limitations, spot checks should be performed by someone independent to the person posting, on a monthly basis to ensure journals are supported and legitimate.</p> | <p>Management response</p> <p>Agreed. The Technical Accounting Manager has been working with Internal Audit in order to introduce a new system for journal authorisation. A new system has been trialled since 1st July 2016 whereby separate officers post and authorise journals, however the financial system does not have the functionality to enforce the separation of posting and authorisation of journals, it is therefore reliant on officers to adhere to. A review of the trial period is due to be undertaken in conjunction with Internal Audit as part of the Main Accounting Audit in order to determine the optimum long term solution, so that it may also be agreed with our external auditors.</p> <p>In addition, the system access rights of the Assistant Director Finance have been updated which have removed his ability to post and authorise journals.</p> <p>Responsible officer Assistant Director Finance</p> <p>Due date 1 December 2016</p> |
| 2 | <p>Super user access and segregation of duties over the payroll function</p> <p>Issue</p> <p>Members of the Payroll department are able to add/delete employees, process and review the payroll and BACS payments. All staff within this department have super user access to the HR and payroll systems. As a result there is a lack of segregation of duties.</p> <p>Recommendation</p> <p>Appropriate segregation of duties should be in place and there should be an additional layer who reviews the payroll report and particularly the exception report prior to payroll being sent for processing.</p> | <p>Management response</p> <p>Agreed. On a short-term basis the Transactional Services Manager will review the exception report prior to payroll being finalised. However, in the absence of the Transactional Services Manager, the Transactional Services Team Leader will need to undertake this duty.</p> <p>In order to ensure effective segregation of duties are maintained, the Corporate Manager Legal & HR will review the Payroll function and assess whether additional resources are required.</p> <p>Responsible officer Corporate Manager Legal & HR</p> <p>Due date 31 March 2017</p> |

Appendix 1: Key issues and recommendations (Cont)

The Authority should closely monitor progress in addressing specific risks and implementing our recommendations.

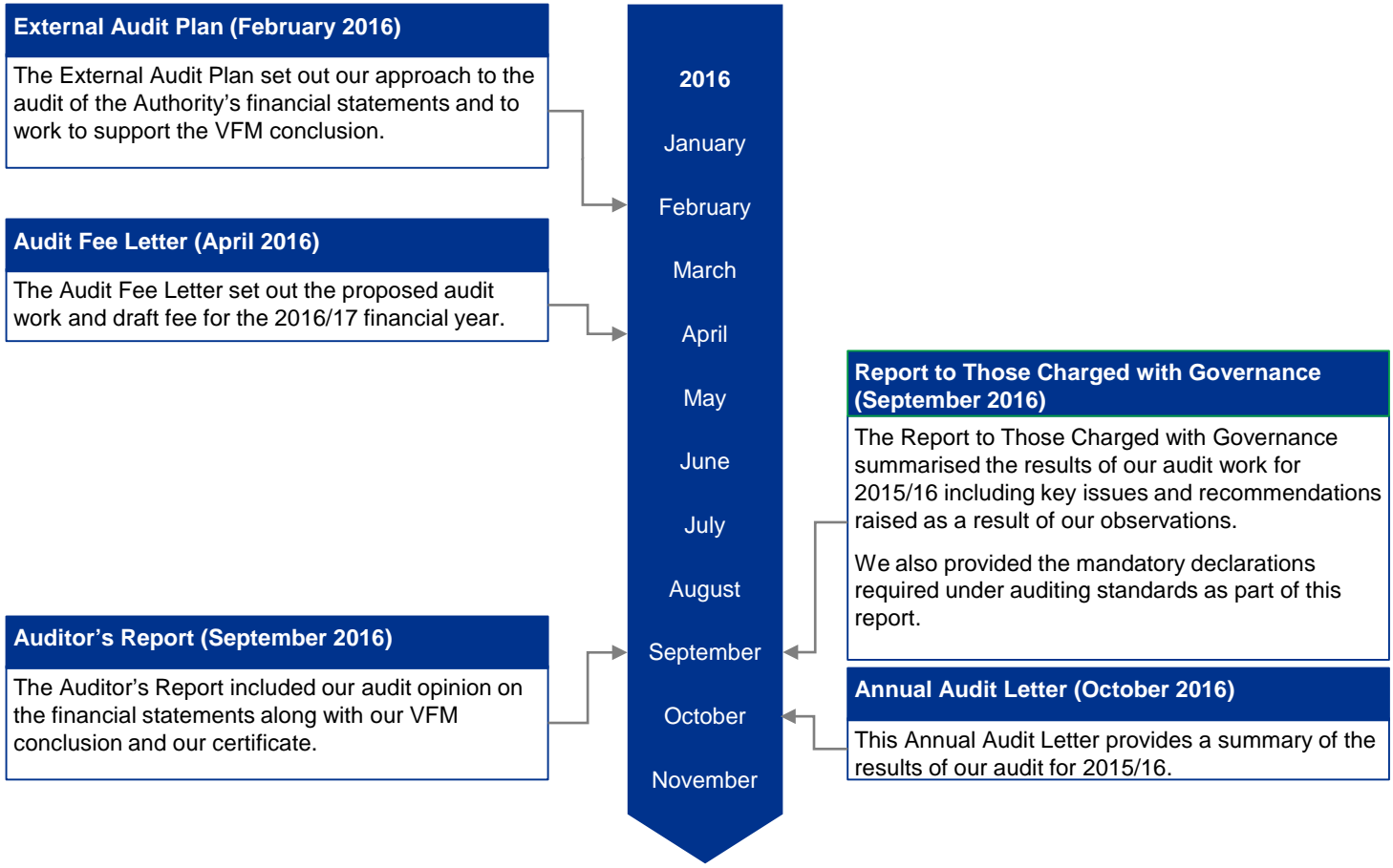
We will formally follow up these recommendations next year.

| No. | Issue and recommendation | Management response / responsible officer / due date |
|-----|--|--|
| 3 | <p>Procurement process</p> <p>Issue</p> <p>The procurement process appears to be weak and has led to non-compliance with regulations and internal policy. This was highlighted to you by your internal auditors in November 2015.</p> <p>Since the internal audit review, the Authority has been working on obtaining a complete and accurate listing of supplier payments to ensure that contracts are in place and that terms and conditions are being adhered to. The Authority is also investigating to ensure that the correct procurement process had been performed. At the time of this report, this work was still ongoing.</p> <p>This exposes the Authority to a risk of failing to achieve value for money for tax payers and a risk of challenge from unsuccessful contractors.</p> <p>As a result, the Authority recruited a procurement consultant to perform a review of the process which raised a number of issues, and is currently in the process of implementing an action plan.</p> <p>Given the critical importance of procurement it is vital that the Authority delivers the changes required to strengthen its arrangements and ensure compliance with these enhanced policies and procedures. The action plan therefore represents a vital process and it is important that it is sufficiently resourced, closely monitored and delivered on a timely basis.</p> <p>Recommendation</p> <p>Ensure progress in delivering the procurement action plan is closely monitored and that sufficient resource is available to implement the required improvements to the Council's procurement arrangements.</p> | <p>Management response</p> <p>Agreed. A report is being prepared for the 11 October Executive to begin the process of delivering the new Procurement function. It is anticipated that the team will be in place by April 2017.</p> <p>Responsible officer</p> <p>Assistant Director Finance</p> <p>Due date</p> <p>April 2017</p> |

Appendix 2: Summary of reports issued

This appendix summarises the reports we issued during the year.

These reports can be accessed via the Audit Committee pages on the Authority's website at www.exeter.gov.uk.



Appendix 3: Audit fees

This appendix provides information on our final fees for the 2015/16 audit.

To ensure transparency about the extent of our fee relationship with the Authority we have summarised below the outturn against the 2015/16 planned audit fee.

External audit

Our planned fee for the 2015/16 audit of the Authority was £57,887. We are seeking an additional fee for the work we have performed on procurement leading to the VFM qualification. The amount is currently being agreed with management and the PSAA.

Certification of grants and returns

Under our terms of engagement with Public Sector Audit Appointments we undertake prescribed work in order to certify the Authority's housing benefit grant claim. This certification work is still ongoing. The final fee will be confirmed through our reporting on the outcome of that work in January 2017.

Other services

We have performed audit-related services for the certification of the Pooling of Housing Capital receipts return, which is outside of Public Sector Audit Appointment's certification regime. The fee to be charged is £3,000.



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