



Annual Audit Letter 2016/17

Exeter City Council

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October 2017

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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.

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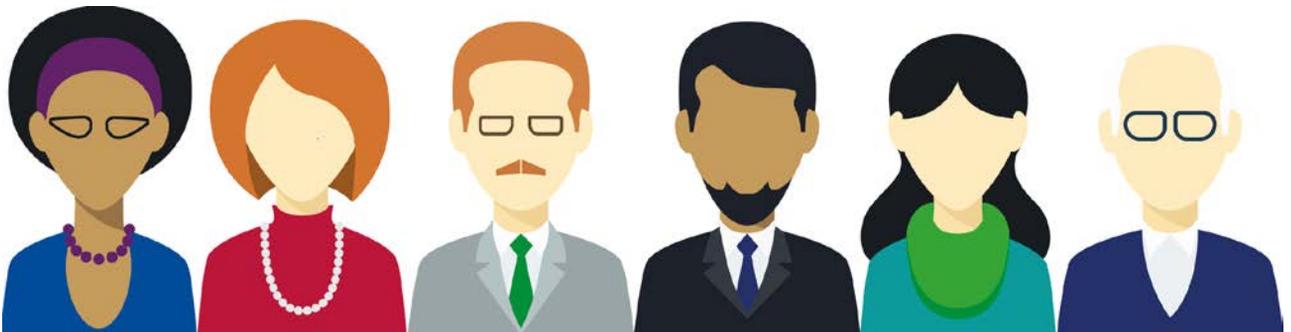
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Section one

Summary

This Annual Audit Letter summarises the outcome from our audit work at Exeter City Council in relation to the 2016/17 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.

VFM conclusion

We issued an except for conclusion on the Authority's arrangements to secure value for money (VFM conclusion) for 2016/17 on 20 September 2017. This means that we have concluded that the Authority has proper arrangements to secure value for money, except for its arrangements for procuring supplies and services effectively to support the delivery of strategic priorities.

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.

The qualification is consistent with the 2015/16 audit, however we did note progress in this area. Changes in the procurement process have been implemented, and significant resource has been spent on the action plan, however the council has further progress to make to fully embed the new process into the culture within the Council. We therefore concluded that it is appropriate to qualify our VFM conclusion on an "except for" basis.

VFM risk areas

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 you have put in place to mitigate these risks.

Our work included specific consideration of the following VFM audit risk areas:

- Non-Compliance with procurement process;
- New development of leisure centre and bus station; and
- Impact of performance of Strata Service solutions (IT provider established jointly by the Authority with two other councils) on the authority.

Audit opinion

We issued an unqualified opinion on the Authority's financial statements on 20 September 2017. 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. We did identify three audit adjustments with a total net value of £327 thousand.



Section one

Financial statements audit

The following sets out the significant audit differences identified by our audit of the Authority's financial statements for the year ended 31 March 2017:

- Internal recharges (£506,000) were disclosed as net in the subjective analysis. There is no net effect to the net cost of services, this adjustment enables consistency within the notes;
- A VAT creditor (£327,000) was incorrectly posted to short term debtors. This has been reclassified to short term creditors. There is zero net affect on net assets;
- One officer earning over the £50,000 threshold was excluded from the disclosure and has subsequently been included;
- From a review of payslips we noted that one officer was in the incorrect bracket.

There were no unadjusted audit differences identified by our audit of the Authority's financial statements for the year ended 31 March 2017.

Other information accompanying the financial statements

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.

Recommendations

We raised one high risk recommendations as a result of our 2016/17 audit work. This is detailed in Appendix 1 together with the action plan agreed by management.

- Close monitoring of the procurement action plan is necessary to ensure progress is sufficient and appropriate.

We will formally follow up this as well as the medium and low priority recommendations as part of our 2017/18 work.

Certificate

We issued our certificate on 27 September 2017. The certificate confirms that we have concluded the audit for 2016/17 in accordance with the requirements of the Local Audit & Accountability Act 2014 and the Code of Audit Practice.

Audit fee

Our fee for 2016/17 was £57,887, excluding VAT. Further detail is contained in Appendix 3.

Key issues and recommendations

No.	H/M/L	Issue and recommendation	Management response/responsible officer/due date
1		Procurement process	<p>We found evidence that council is not consistently following the procurement process when purchasing supplies and services. A purchase order should be raised, which is then matched to the purchase invoice once received. However we noted the following exceptions:</p> <ul style="list-style-type: none"> • An email or a verbal agreement may be made to agree receipt of goods or services. The verbal agreement and email cannot be agreed back as proof of receipt of goods or services in a three way match. The constitution of the council states that a three way match requires that the purchase order be matched to the goods received note and purchase invoice. • If the purchase invoice does not match the purchase order, then purchase order can retrospectively adjusted to agree to the purchase invoice. • Not all purchase invoices are raised through the purchase order system. The requestor can call the supplier and make an order. The purchase invoice is received by the accounts payable team and allocated to the department, at which stage the invoice must be authorised by the appropriate person prior to a payment being made. This effectively bypasses the Purchase order process. <p>We also noted from our VFM work that there are still suppliers which are not on contracts or using outdated contracts. We understand this is work in progress within the procurement team.</p> <p>Recommendation</p> <p>The Council should ensure that all departments are aware of the details of procurement process and how to follow the procurement process. They should ensure that all documents have been received and matched prior to making payments.</p> <p>A purchase order should not be adjusted to agree to the invoice, if a goods received note is retained it would account for any adjustments between the PO and the purchase invoice received.</p> <p>The Council should continue to progress the procurement action plan, taking note of the issues raised in this report.</p> <p>Management response</p> <p>Agreed. Finance will determine that the system can work satisfactorily and determine a timetable for implementation. Aim to roll out from 2018-19</p>

Follow up of previous recommendations

As part of our audit work we followed up on the Authority’s progress against previous audit recommendations. We are pleased to report that the Authority has taken appropriate action to address the issues that we have previously highlighted regarding authorisation of Journals. However the other two recommendations relating to Procurement and Super User access were not fully implemented, and we re-raised this year.

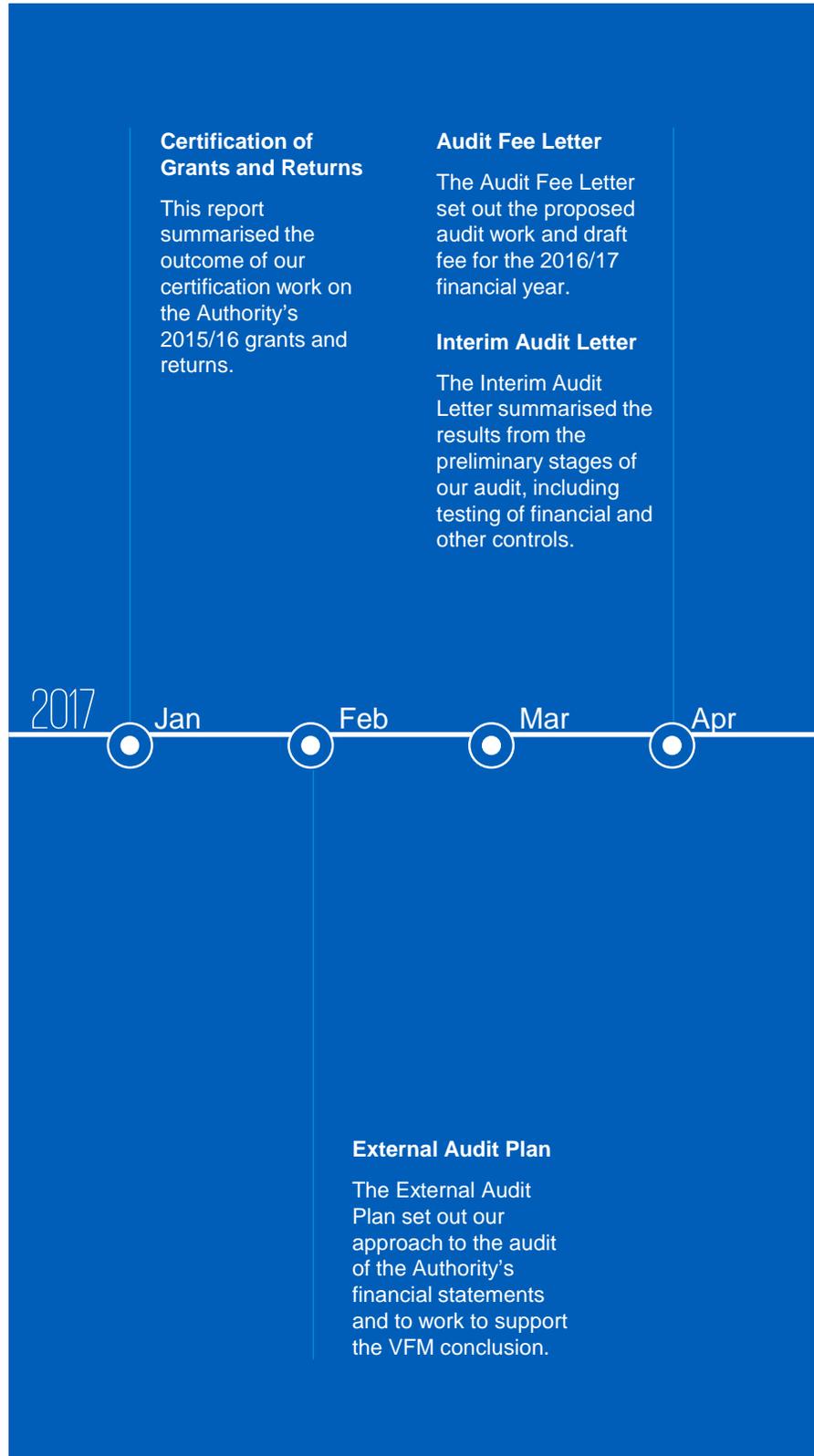


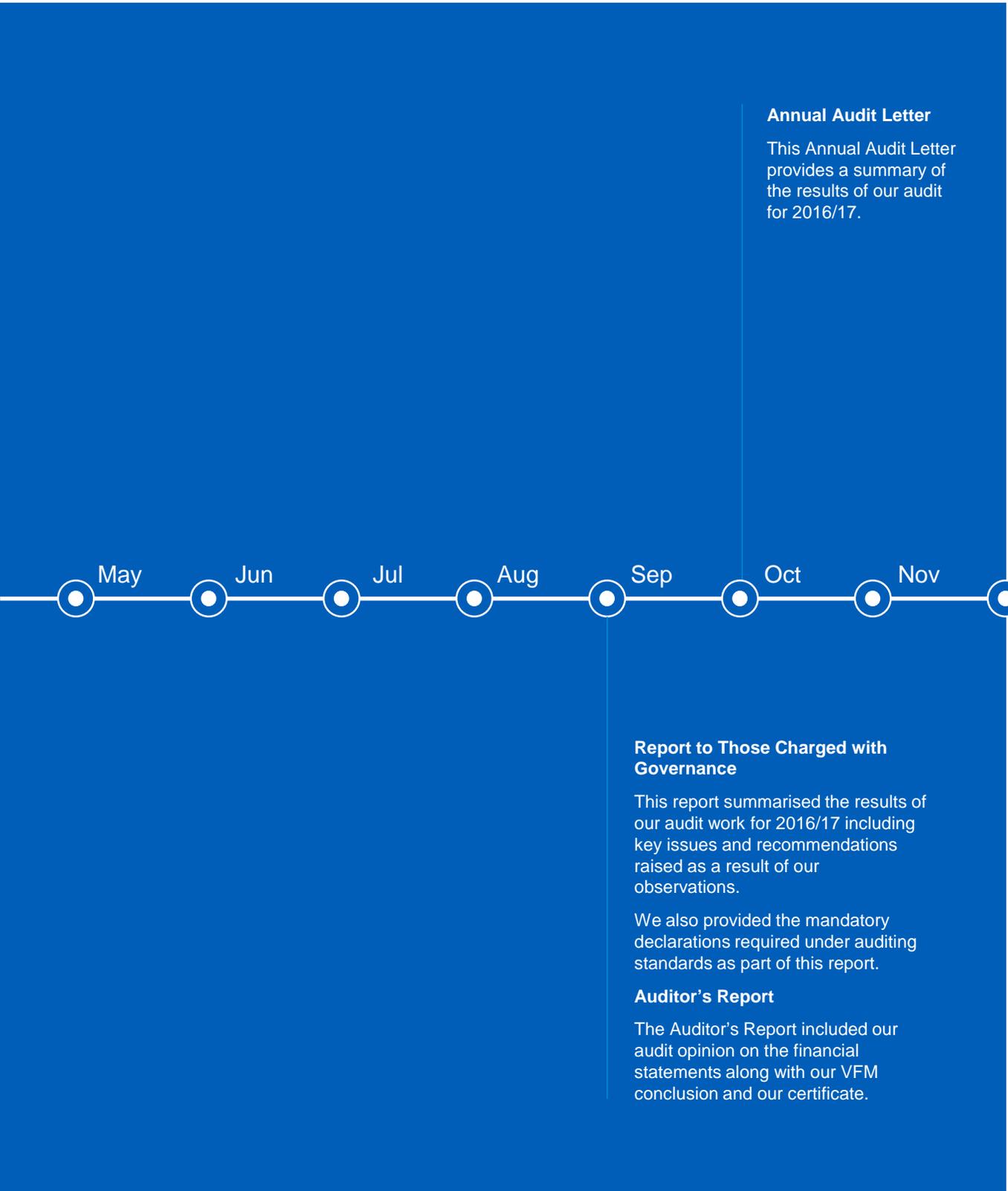
Appendix 2

Summary of reports issued

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

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





Annual Audit Letter

This Annual Audit Letter provides a summary of the results of our audit for 2016/17.

May

Jun

Jul

Aug

Sep

Oct

Nov

Report to Those Charged with Governance

This report summarised the results of our audit work for 2016/17 including key issues and recommendations raised as a result of our observations.

We also provided the mandatory declarations required under auditing standards as part of this report.

Auditor's Report

The Auditor's Report included our audit opinion on the financial statements along with our VFM conclusion and our certificate.

Appendix 3

Audit fees

This appendix provides information on our final fees for the 2016/17 audit.

To ensure transparency about the extent of our fee relationship with the Authority we have summarised below the outturn against the 2016/17 planned audit fee.

External audit

Our final fee for the 2016/17 audit of the Authority was £57,887, which is in line with the planned fee. Our fees are still subject to final determination by Public Sector Audit Appointments.

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 PSAA scale rate for this work is £15,270, however a final fee will be confirmed through our reporting on the outcome of that work in January 2018.

We charged £3,000 for additional audit-related services for the Exeter City Council House Pooling return, which is outside of Public Sector Audit Appointment's certification regime.

Other services

We have not provided any non audit services during the year.

External audit fees 2016/17
(£'000)



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