

**To the Chair and Members of the
AUDIT COMMITTEE**

AUDIT COMMISSION – ANNUAL AUDIT LETTER 2012/13

EXECUTIVE SUMMARY

1. This report refers to KPMG's Annual Audit Letter for 2012/13, which is attached to this report and is presented to the Audit Committee for its consideration and comment.
2. The Annual Audit Letter is in a different format to previous years with the 2012/13 financial year being the first year of audit of the Council by KPMG. The letter signifies the formal sign off of the audit to the Audit Committee. In signing-off the audit, the letter confirms the external auditor:
 - issued an unqualified opinion on the Council's core financial statements and associated disclosure notes included in the Council's 2012/13 Statement of Accounts; and
 - concluded that the Council made proper arrangements to secure economy, efficiency and effectiveness in the use of its resources (although there was a need for audit to include a 'report by exception' relating to the Council's arrangements for managing risks in the delivery of child protection services)
3. In addition to the children's services risk, the audit identified two further risks to the Council's VFM conclusion. These were in respect of the Council's savings plan and its medium term financial planning; and the continuing issues associated with Digital Region Limited. Both have received audit recommendations (see below).
4. The following recommendations made by KPMG following the audit, and included in the Annual Audit Letter, have been accepted by the Council.
 - Digital Region Limited
 - to consider commissioning an independent review; and
 - to ensure appropriate arrangements to manage the closure of the business;
 - Medium term financial planning
 - to develop savings plan to meet the full budget gap of £109m over the next three years;
 - Preparation of the financial statements
 - to continue to progress sufficiently resourced quality assurance procedures

5. It should be noted that the Council has made significant improvements in the timeliness, accuracy and quality of the final accounts work and supporting papers over the last three years with the 2012/13 Statement of Accounts receiving an unqualified audit opinion; the audit certificate being issued before the statutory deadline; the Council receiving a good value for money opinion; and no challenges from members of the general public.
6. However the Council still faces further challenges ahead, particularly in 2013/14, with the need to handle the closing of the accounts in a changing financial systems environment but the underlying aim remains over the next three years to close the accounts quicker using the benefits of the new ERP system and other systems improvements.
7. The audit did identify a number of significant adjustments to the draft 2012/13 accounts and, whilst these did not impact on the Council's financial health, the amendments were required to be made before an audit opinion could be given. The adjustments, in the main, resulted from a shortage of time available for key finance staff to perform a sufficiently robust quality assurance review and this is included as one of the four recommendations arising from the audit (see paragraph 4 above).

Recommendation

8. The Audit Committee is asked to note the Annual Audit Letter and the overall positive progress made.

OPTIONS CONSIDERED

9. This is not applicable.

RISKS & ASSUMPTIONS

10. The Annual Audit Letter is reporting on the management of risks by the Council. It is important that effective action is taken in response to any matters raised by the external auditor following their audit so as to assure the Committee about effective risk management across the Council.
11. A progress report against the recommendations as noted in the Annual Audit Letter will be presented to a future Audit Committee.
12. Consideration of this letter from KPMG is a risk management activity.

LEGAL IMPLICATIONS

13. The Council is subject to statutory external audit. It has obligations to ensure that its financial and governance affairs are dealt with adequately.

FINANCIAL IMPLICATIONS

14. The final fee for the 2012/13 audit was £229k. The planned fee for 2012/13 was £218k. The resulting variance of £11k was in respect of additional work required in considering the VFM conclusion in light of the Secretary of State's direction for Children's Services and on the Council's decision to terminate its arrangements with Digital Region Limited; and extra work required in carrying out the planned audit work and reviewing information as a result of an enquiry from a member of the public.
15. The comparable audit fee for 2011/12 was £363k and this year's fee of £229k represents an overall reduction of 37% against this figure.

CONSULTATION

16. Not applicable

CONCLUSIONS

17. Consideration of this report will allow members to be assured about the extent to which there is effective management of risk and adequate internal control arrangements. Consideration of this report allows the Audit Committee to fulfil its terms of reference on external audit matters.

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