

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

EXTERNAL AUDIT PROGRESS REPORT AND TECHNICAL UPDATE

EXECUTIVE SUMMARY

1. KPMG are undertaking a programme of work in order to deliver their Code of Audit Practice audit which will cover work on the financial statements and the value for money ('VFM') conclusion for the 2013/14 financial year.
2. Attached to this report, at Appendix 1, is KPMG's initial progress report and technical update for the 2013/14 financial year.

RECOMMENDATIONS

3. **The Audit Committee is asked to note the content of the External Audit Progress Report and Technical Update.**

BACKGROUND

3. Audit Committee members have previously been advised of the audit timeline which sets out the key dates for the 2013/14 interim audit, the accounts closedown and final accounts audit process. The underlying audit protocol sets out the requirement for KPMG to provide regular feedback on the progress of the audit and issues arising. The appendix to this report is the first such feedback.
4. The interim audit is currently taking place and is focusing predominantly on the challenges being faced by the Council in implementing the new ERP system.
5. The review of the bank reconciliation processes has identified high volumes and value of unreconciled items. The findings recognise that additional resources have been allocated to clearing these items with appropriate actions being followed up in readiness for the year end accounts closure.
6. During the interim audit, it was noted that ABS consultants have been asked to design a number of bespoke reports from the ERP system which are essential to the closedown process and to KPMG's final audit. These reports, once developed, will be tested by the Council's Financial Management team to ensure readiness for closedown of the accounts. The Technical Accounting team will need to effectively manage the risk should the reports production slip further, to ensure that the closedown timetable remains achievable.
7. Journal authorisation controls have been introduced in the new system but there remains a need to formally document the procedures.

8. KPMG IT specialists are currently undertaking a review of the implementation of the new ERP system covering the management of the project and data migration. The review will also cover business as usual IT environment controls supporting post implementation. The review of the project's management and data migration exercises has been completed and the end audit report is currently being finalised. Whilst there is adequate evidence of controls to support the majority of the defined steps, some improvement points have been identified. All of the points raised have been accepted and responded to by the Council and remedial plans have been identified.
9. The review over business as usual IT environment controls, which support the new system, is nearing completion. A full update report will be provided to the Council once the interim audit has been completed.
10. KPMG have also commenced their initial work on the Value for Money conclusion focusing on the Council's savings plans, the outcomes of the review of the Digital Region Limited project and progress in transferring Children's Services to a new Children's Trust.
11. The 'Technical Update' section of the report focuses on key areas for consideration for the Committee including the final local government finance settlement 2014/15; and the CIPFA/LASAAC consultation on accounting for schools which are considered to have a high and medium impact on the authority respectively.

OPTIONS CONSIDERED & RECOMMENDED OPTION

12. KPMG's external audit work is necessary for them to fulfil their legal obligations.

IMPACT ON THE COUNCIL'S KEY OBJECTIVES

13. This external audit work has the following significance.

| Priority Theme | Implications of this initiative |
|--|---|
| Creating a strong, connected and inclusive economy | An unqualified opinion from KPMG on the Council's accounts would assist with the positive reputation and the organisational assessment of the Council |
| Developing stronger communities | |
| Increasing and improving housing | |
| Protecting and improving all our children's lives | |
| Improving health and support for independent lives | |
| Tackling crime and anti-social behaviour | |
| Creating a cleaner and better environment | |
| Internal Transformation | |

RISKS & ASSUMPTIONS

14. KPMG identifies respective risks which their work is intended to consider. Assumptions about these risks have been made by KPMG in the planning of this work and the calculation of the respective fees.

LEGAL IMPLICATIONS

15. The Council is subject to statutory external audit and performance evaluation by KPMG in their role as the external auditor for the Council.

FINANCIAL IMPLICATIONS

16. The audit fee budget is managed by the Director of Finance and Corporate Services. The agreed fees for this audit work will be contained within this budget. Audit fees will continue to be minimised if the Council continues to achieve an efficient and well controlled financial closedown and accounts production process which complies with good practice and appropriately addresses new accounting developments and risk areas.

CONSULTATION

17. This report consults with members of the Audit Committee in these matters. There is consultation with managers at the outset, throughout and at the conclusion of the interim and final annual audit in order to ensure that key audit issues are identified and resolved and that adjusted / unadjusted audit differences and performance improvement recommendations are adequately communicated.

BACKGROUND PAPERS

18. KPMG Accounts Audit Protocol 2013/14

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