



Audit 2009/10

Report to those
charged with
governance

**Catalogue Supplies Service
Joint Committee**

23 September 2010

AUDIT

Content

The contacts at KPMG in connection with this report are:

Ian Pennington
Director
KPMG LLP (UK)

Tel:029 2046 8087
ian.pennington@kpmg.co.uk

Katie Evans
Audit Manager
KPMG LLP (UK)

Tel:029 2046 8294
Katie.evans@kpmg.co.uk

Page

Accounts and Annual Governance Statement 2

Other Audit Matters 3

Use of Resources Arrangements 4

Appendices: 5

1. Proposed audit report
2. Audit differences
3. Criteria for assessing Catalogue Supplies Service Joint Committee's arrangements during 2009/10 for securing economy, efficiency and effectiveness in its use of resources
4. Declaration of independence and objectivity
5. Letter of representation

This report is addressed to the Committee and has been prepared for the sole use of the Committee. We take no responsibility to any member of staff acting in their individual capacities, or to third parties. The Wales Audit Office has issued a document entitled Statement of Responsibilities of Appointed Auditors, and Inspectors, and of Audited and Inspected Bodies. This summarises where the responsibilities of auditors begin and end and what is expected from the audited body. We draw your attention to this document.

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.

If you have any concerns or are dissatisfied with any part of KPMG's work, in the first instance you should contact Ian Pennington who is the engagement lead to the Committee, telephone 029 2046 8087, email ian.pennington@kpmg.co.uk, who will try to resolve your complaint. If you are dissatisfied with your response please contact Ginny Stevens, telephone 029 2046 8009, email virginia.stevens@kpmg.co.uk, who is the national contact partner for all of KPMG's work with the Wales Audit Office. After this, if you still dissatisfied with how your complaint has been handled you can contact the Complaint Investigation Manager at the Wales Audit Office, telephone 02920 260 260 or e-mail complaints@wao.gov.uk. The complaints investigation manager may also be contacted in writing at 24 Cathedral Road, Cardiff, CF11 9LJ.

Accounts and Annual Governance Statement

Purpose of this report

We report to those charged with governance (in this case the Joint Committee) at the time you are considering the statement of accounts. We are also required to comply with an International Standard on Auditing (ISA260) which sets out our responsibilities for communicating with those charged with governance.

This report meets both these requirements. It summarises the key issues identified during our audit of the statement of accounts for the year ended 31 March 2010. It has been prepared for reporting to the Joint Committee on 23 September 2010.

Status of the Audit

We have now completed the audit. We have identified no issues in the course of the audit that are considered to be material or any material weaknesses in the Committee's internal controls. On receiving your management representations letter, and following your discussion at the committee meeting, we expect to issue an unqualified audit opinion.

Subject to discussions at the Committee, we do not propose to modify our report. Our proposed opinion on the accounts is presented in Appendix 1.

Opinions and Representations

As part of the accounts finalisation process, we are required to provide you with representations concerning our independence and ability to act as your auditors. We have provided this at Appendix 4.

You are required to provide us with representations on specific matters such as your financial standing and whether the transactions within the accounts are legal and unaffected by fraud. We understand a draft of this letter is being tabled at the September Committee meeting. Once we have received this we expect to issue our audit opinion.

Other Matters

Under ISA 260, we also report where specific circumstances arise, including where we detect that there is suspected or actual fraud, even where this is not material to the accounts, unless prohibited from doing so by money laundering regulations. In addition we report whether the Joint Committee's accounting statements and related notes and other information in the statement of accounts are inconsistent. We also report any material weaknesses in Internal Control identified during the audit or matters which we feel are of governance interest.

One issue was identified during the audit, whereby management were unable to identify the date at which goods were received - specifically whether this was immediately prior to or post year end. We recommend that a system is put in place to record the receipt date of stock items.

There are no other such matters to report although you should be aware that we do not provide a comprehensive statement of all weaknesses that may exist in internal controls or where improvements may be made but have only addressed those matters which have come to our attention as a result of audit procedures performed.

Declaration of independence and objectivity

In relation to the audit of the financial statements of Catalogue Supplies Service Joint Committee for the financial year ending 31 March 2010, we confirm that there were no relationships between KPMG LLP and Catalogue Supplies Service Joint Committee, its council members and senior management and its affiliates that we consider may reasonably be thought to bear on the objectivity and independence of the audit engagement lead and audit staff. We also confirm that we have complied with Ethical Standards and the Wales Audit Office's requirements in relation to independence and objectivity.

We have provided a detailed declaration in Appendix 4 in accordance with ISA 260.

Audit Matters

Going Concern

The Financial Statements have been prepared on a going concern basis. This means that the Committee believes that County Borough Supplies will continue in operation for the foreseeable future, this being at least 12 months from the date of our audit report. In March 2008 the committee decided to commission an independent review into the future options of the service. The options were reviewed at the March 09 committee with management's recommendation to continue with the joint arrangements to March 2011 with investment in a programme of modernisation (e.g. enhancement of the on-line purchasing capabilities). A detailed business plan has been developed to March 2011 which was presented to the Nov 09 committee for discussion and approval. The appropriateness of the preparation of the financial statements on a going concern basis is based on the outcome of the Joint Committee's deliberations.

The key aim of the business plan is to:

- Increase turnover, with plans to expand the service to schools in Swansea and NPT, re-introduce the paper catalogues, enhance on-line purchasing
- Investment in modernisations plans – computer software, vehicles to develop on-line purchasing

The plan commenced in April 2010 and performance is being closely monitored, with the main risks being the failure to maintain existing turnover and attract new business. CBS also needs to ensure that continuing support is received from all partners. A progress report was presented to the JC committee in February 2010 and shows that a number of the targets in phase 1 have been completed or are underway. In April a review of progress against the business plan showed that the procurement process for the web based catalogue and card paying facility was complete. Work on the specified three core projects is ongoing with completion of all planned in 2010.

As discussed with the Committee in previous years, one of the key matters underlying your preparation of your financial statements is your consideration of, and conclusion on, whether the Committee will remain a going concern for at least twelve months following the date the accounts are signed. The accounting policies in the financial statements include an explanation why the accounts should be prepared under the going concern concept (see above). The Committee should review that statement and formally minute the consideration and your conclusion as part of your approval process of the accounts. Your representation letter to us will also cover similar issues.

Audit Differences

We are required to communicate both corrected and uncorrected items in the accounts to you. Where items have not been corrected we agree with management that they are not material and do not require correction. We have provided a summary of both corrected and uncorrected items at Appendix 2.

Other amendments to the financial statements

In addition, we identified a number of typographical and presentational changes which have been made, these are considered trivial and are not individually reported.

Use of Resources arrangements

Public Audit (Wales) Act 2004

The Public Audit (Wales) Act 2004 requires auditors to satisfy themselves that the audited body has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. The criteria we used to assess County Borough Supplies Service's use of resources arrangements are set out in Appendix 3. Our conclusion has been reached as part of our annual audit of the accounts. We examined evidence of the existence of the Committee's performance management and financial management arrangements. In this work we do not comment on or provide assurance on the effectiveness of those arrangements.

Findings

Our audit work noted that the Joint Committee uses a suite of performance indicators to review and monitor operational and financial performance and these are reported to every Committee. The Committee is currently developing a medium-term financial strategy as part of its service review, this business plan will be important to underpin the future strategy for the service. As detailed earlier the committee needs to focus on completing this service review exercise.

Conclusion

We concluded that County Borough Supplies had satisfactory arrangements in place to secure economy, efficiency and effectiveness in its use of resources.

Appendix 1: Proposed audit report

Independent auditors' report to the members of Catalogue Supplies Service Joint Committee

We have audited the accounting statements and the related notes of Catalogue Supplies Service Joint Committee for the year ended 31 March 2010 under the Public Audit (Wales) Act 2004. The accounting statements comprise the Income and Expenditure Account, Balance Sheet and Cash Flow Statement. The accounting statements have been prepared under the accounting policies set out in the Statement of Accounting Policies.

This report is made solely to the Members of Catalogue Supplies Service Joint Committee in accordance with Part 2 of the Public Audit (Wales) Act 2004 and for no other purpose, as set out in the Statement of Responsibilities prepared by the Auditor General for Wales.

Our audit work has been undertaken so that we might state to the Catalogue Supplies Service Joint Committee, as a body, those matters we are required to state to it in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than Catalogue Supplies Service Joint Committee, as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of the Responsible Financial Officer and the independent auditor

The Responsible Financial Officer's responsibilities for preparing the statement of accounts in accordance with relevant legal and regulatory requirements and the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2009 are set out in the Statement of Responsibilities for the Statement of Accounts.

Our responsibility is to audit the accounting statements and related notes in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the accounting statements and related notes give a true and fair view, in accordance with relevant legal and regulatory requirements and the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2009, on the financial position of Catalogue Supplies Service Joint Committee at 31 March 2010 and its income and expenditure for the year then ended.

We review whether the Governance Statement reflects compliance with 'Delivering Good Governance in Local Government: Framework' published by CIPFA/SOLACE in June 2007. We report if it does not comply with proper practices specified by CIPFA/SOLACE or if the statement is misleading or inconsistent with other information we are aware of from our audit. We are not required to consider, nor have we considered, whether the Governance Statement covers all risks and controls. Neither are we required to form an opinion on the effectiveness of the Joint Committee's corporate governance procedures or its risk and control procedures.

We read other information published with the accounting statements and related notes and consider whether it is consistent with the audited accounting statements and related notes. This other information comprises only the Explanatory Foreword. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the accounting statements and related notes. Our responsibilities do not extend to any other information.

Basis of audit opinion

We conducted our audit in accordance with the Public Audit (Wales) Act 2004, the Code of Audit Practice issued by the Auditor General for Wales, and International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the accounting statements and related notes. It also includes an assessment of the significant estimates and judgments made by the Joint Committee in the preparation of the accounting statements, and of whether the accounting policies are appropriate to the local government body's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the accounting statements and related notes are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the accounting statements and related notes.

Appendix 1: Proposed audit report (continued)

Opinion

In our opinion the accounting statements and related notes give a true and fair view, in accordance with relevant legal and regulatory requirements and the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2009, of the financial position of Catalogue Supplies Service Joint Committee as at 31 March 2010 and its income and expenditure for the year then ended.

Certificate

We certify that we have completed the audit of the accounts of Catalogue Supplies Service Joint Committee in accordance with the requirements of the Public Audit (Wales) Act 2004 and the Code of Audit Practice issued by the Auditor General for Wales.

KPMG LLP
3 Assembly Square
Britannia Quay
Cardiff Bay
CF10 4AX

Date

Appendix 2: Audit differences

We are required by *ISA (UK and Ireland) 260 Communication of Audit Matters to Those Charged with Governance* to communicate all uncorrected misstatements, other than those that we believe are clearly trivial, to the Joint Committee. We are also required to report all material misstatements that management has corrected but that we believe should be communicated to you to assist you in fulfilling your governance responsibilities.

We confirm that there are no uncorrected audit differences to report. Corrected audit differences are set out below. There were a number of minor presentational and typographical changes, but not of sufficient significance to report separately.

| Uncorrected Audit Differences | | | | |
|---|---------------|--------------|----------------------|--------------|
| | Balance Sheet | | Income & Expenditure | |
| | Dr | Cr | Dr | Cr |
| Sales | | | 3,800 | |
| Debtors | | 3,800 | | |
| Creditors | 3,600 | | | |
| Cost of sales | | | | 3,600 |
| <i>To adjust for post year end credit notes relating to 09/10</i> | | | | |
| Total | 3,600 | 3,800 | 3,800 | 3,600 |

| Corrected Audit Differences | | | | |
|---|----------------|----------------|----------------------|--------------|
| | Balance Sheet | | Income & Expenditure | |
| | Dr | Cr | Dr | Cr |
| Reserve creditors | 10,432 | | | |
| Reserve debtors | | 10,432 | | |
| <i>To adjust for post year end credit notes relating to 09/10, initially posted as a creditor</i> | | | | |
| Cash | 180,284 | | | |
| Sundry creditors | | 180,284 | | |
| <i>To adjust for amounts removed from creditors but still unpaid at year end</i> | | | | |
| Sales | | | 5,088 | |
| Debtors | | 5,088 | | |
| Stock | 3,840 | | | |
| Cost of sales | | | | 3,840 |
| <i>To adjust for sales recognised in 09/10 where the goods were not delivered to the customer until 10/11</i> | | | | |
| Cash | 62,534 | | | |
| Debtors | | 62,534 | | |
| <i>To adjust for cash received by the year end but not posted</i> | | | | |
| Income and expenditure account | | | 16,000 | |
| Accumulated surplus on I&E carried forward | | 16,000 | | |
| <i>To correct the presentation of expenditure funded from reserves</i> | | | | |
| Total | 257,090 | 274,338 | 21,088 | 3,840 |

Appendix 3: Criteria for assessing Catalogue Supplies Service Joint Committee's arrangements during 2009/10 for securing economy, efficiency and effectiveness in its use of resources

| Corporate performance management and financial management arrangements | Questions on arrangements |
|---|--|
| Establishing objectives, determining policy and making decisions | Has the Joint Committee put in place arrangements for setting, reviewing and implementing its strategic and operational objectives? |
| Meeting needs of users and taxpayers | Has the Joint Committee put in place channels of communication with users and taxpayers, and other stakeholders including partners, and are there monitoring arrangements to ensure that key messages about services are taken into account? |
| Compliance with established policies | Has the Joint Committee put in place arrangements to maintain a sound system of internal control, including those for ensuring compliance with laws and regulations, and internal policies and procedures? |
| Managing operational and financial risks | Has the Joint Committee put in place arrangements to manage its significant business risks? |
| Managing financial and other resources | Has the Joint Committee put in place arrangements to evaluate and improve the value for money it achieves in its use of resources? |
| | Has the Joint Committee put in place a medium-term financial strategy, budgets and a capital programme that are soundly based and designed to deliver its strategic priorities? |
| | Has the Joint Committee put in place arrangements to ensure that its spending matches its available resources? |
| | Has the Joint Committee put in place arrangements for managing and monitoring performance against budgets, taking corrective action where appropriate, and reporting the results to senior management and the Joint Committee? |
| | Has the Joint Committee put in place arrangements for the management of its asset base? |
| Monitoring and reviewing performance | Has the Joint Committee put in place arrangements for monitoring and scrutiny of performance, to identify potential variances against strategic objectives, standards and targets, for taking action where necessary, and reporting to the Joint Committee ? |
| | Has the Joint Committee put in place arrangements to monitor the quality of its published performance information, and to report the results to Joint Committee members? |
| Proper standards of conduct etc | Has the Joint Committee put in place arrangements that are designed to promote and ensure probity and propriety in the conduct of its business? |

Appendix 4: Declaration of independence and objectivity

Declaration of Independence and Objectivity 2009/10

Auditors appointed by the Wales Audit Office must comply with the *Auditor General's Code of Audit and Inspection Practice* (the Code) which states that:

“Auditors and inspectors carry out their work with independence and objectivity, in accordance with appropriate ethical standards. Their opinions, conclusion and recommendations should be, and be seen to be, impartial.”

In considering issues of independence and objectivity we consider relevant professional, regulatory and legal requirements and guidance, including the provisions of the Code and the requirements of APB Ethical Standard 1 *Integrity, Objectivity and Independence* ('Ethical Standards').

Appointed auditors are also required to confirm in writing that they have complied with Ethical Standards and that, in the auditor's professional judgement, the auditor is independent and the auditor's objectivity is not compromised, or otherwise declare that the auditor has concerns that the auditor's objectivity and independence may be compromised and explaining the actions which necessarily follow from his. These matters should be discussed with the Joint Committee.

Ethical Standards require us to communicate to those charged with governance in writing at least annually all significant facts and matters, including those related to the provision of non-audit services and the safeguards put in place that, in our professional judgement, may reasonably be thought to bear on our independence and the objectivity of the Engagement Lead and the audit team.

General procedures to safeguard independence and objectivity

KPMG's reputation is built, in great part, upon the conduct of our professionals and their ability to deliver objective and independent advice and opinions. That integrity and objectivity underpins the work that KPMG performs and is important to the regulatory environments in which we operate. All partners and staff have an obligation to maintain the relevant level of required independence and to identify and evaluate circumstances and relationships that may impair that independence.

Acting as an auditor places specific obligations on the firm, partners and staff in order to demonstrate the firm's required independence. KPMG's policies and procedures regarding independence matters are detailed in the Ethics and Independence Manual ('the Manual'). The Manual sets out the overriding principles and summarises the policies and regulations which all partners and staff must adhere to in the area of professional conduct and in dealings with clients and others.

KPMG is committed to ensuring that all partners and staff are aware of these principles. To facilitate this, a hard copy of the Manual is provided to everyone annually. The Manual is divided into two parts. Part 1 sets out KPMG's ethics and independence policies which partners and staff must observe both in relation to their personal dealings and in relation to the professional services they provide. Part 2 of the Manual summarises the key risk management policies which partners and staff are required to follow when providing such services.

All partners and staff must understand the personal responsibilities they have towards complying with the policies outlined in the Manual and follow them at all times. To acknowledge understanding of and adherence to the policies set out in the Manual, all partners and staff are required to submit an annual Ethics and Independence Confirmation. Failure to follow these policies can result in disciplinary action.

Auditors' Declaration

In relation to the audit of the financial statements of Catalogue Supplies Service Joint Committee for the financial year ending 31 March 2010, we confirm that there were no relationships between KPMG LLP and the Catalogue Supplies Service Joint Committee, its members and senior management and its affiliates that we consider may reasonably be thought to bear on the objectivity and independence of the audit Engagement Lead and audit staff. We also confirm that we have complied with Ethical Standards and the Wales Audit Office's requirements in relation to independence and objectivity.

Appendix 5: Letter of Representation

TO BE PRINTED ON YOUR HEADED PAPER

KPMG LLP
3 Assembly Square
Britannia Quay
Cardiff
CF10 4AX

Dear Sirs

We understand that auditing standards require you to obtain representations from management on certain matters material to your opinion. Accordingly we confirm to the best of our knowledge and belief, having made appropriate enquiries of other members of the Committee, the following representations given to you in connection with your audit of the financial statements for Catalogue Supplies Service Joint Committee for the year ended 31 March 2010.

All the accounting records have been made available to you for the purpose of your audit and the full effect of all the transactions undertaken by Catalogue Supplies Service Joint Committee have been properly reflected and recorded in the accounting records in accordance with agreements, including side agreements, amendments and oral agreements. All other records and related information, including minutes of all management and Board meetings, have been made available to you.

There are no pooled budget projects arising from any partnership agreements entered into under section 31 of the Health Act 1999, associates, joint ventures or joint arrangements other than those disclosed in the accounting statements and associated notes.

The Catalogue Supplies Service Joint Committee has complied with all conditions imposed by relevant grant paying organisations and can reasonably expect to receive the amounts of grant included within the accounts.

The Catalogue Supplies Service Joint Committee has complied with all aspects of contractual agreements that would require adjustment to, or disclosure in, the accounting statements and related notes.

We confirm that we have disclosed all material related party transactions relevant to the County Borough Supplies and that we are not aware of any other such matters required to be disclosed in the financial statements, whether under FRS 8 or other requirements.

We confirm that we are not aware of any actual or potential non-compliance with laws and regulations that would have had a material effect on the ability of the Catalogue Supplies Service Joint Committee to conduct its business and therefore on the results and financial position to be disclosed in the financial statements for the year ended 31 March 2010.

We acknowledge that we are responsible for the true and fair presentation of the financial statements in accordance with the Local Government Statement of Recommended Practice ("SORP") and wider UK accounting standards. We have considered and approved the financial statements.

Fraud

We confirm that we:

- understand that the term "fraud" includes misstatements resulting from fraudulent financial reporting and misstatements resulting from misappropriation of assets. Misstatements resulting from fraudulent financial reporting involve intentional misstatements or omissions of amount or disclosures in financial statements to deceive financial statement users. Misstatements resulting from misappropriation of assets involve the theft of an entity's assets, often accompanied by false or misleading records or documents in order to conceal the fact that the assets are missing or have been pledged without proper authorisation;
- are responsible for the design and implementation of internal control to prevent and detect fraud and error;
- have disclosed to you our knowledge of fraud or suspected fraud affecting Catalogue Supplies Service Joint Committee involving:
 - management;
 - employees who have significant roles in internal control; or
 - others where the fraud could have a material effect on the financial statements.

Appendix 5:

- have disclosed to you our knowledge of any allegations of fraud, or suspected fraud, affecting the Catalogue Supplies Service Joint Committee's financial statements communicated by employees, former employees, analysts, regulators or others; and
- have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.

We confirm that the presentation and disclosure of the fair value measurements of material assets and liabilities are in accordance with applicable reporting standards. The amounts disclosed represent our best estimate of fair value of assets and liabilities required to be disclosed by these standards. The measurement methods and significant assumptions used in determining fair value have been applied on a consistent basis, are reasonable and they appropriately reflect our intent and ability to carry out specific courses of action on behalf of the Catalogue Supplies Service Joint Committee where relevant to the fair value measurements or disclosures.

We confirm that there are no other contingent liabilities, other than those that have been properly recorded and disclosed in the financial statements. In particular:

- there is no significant pending or threatened litigation, other than that already disclosed in the financial statements; and
- there are no material commitments or contractual issues, other than those already disclosed in the financial statements.

We believe the effects of uncorrected financial statement misstatements summarised in the accompanying schedule are immaterial, both individually and in the aggregate, to the financial statements taken as a whole.

We confirm that the financial statements disclose all of the key risk factors, assumptions made and uncertainties surrounding the Catalogue Supplies Service Joint Committee's ability to continue as a going concern as required to provide a true and fair view.

Any uncertainties disclosed are not considered to be material and therefore do not cast significant doubt on the ability of the the Catalogue Supplies Service Joint Committee to continue as a going concern.

Finally, no additional significant post balance sheet events have occurred that would require additional adjustment or disclosure in the financial statements, over and above those events already disclosed.

This letter was tabled at the meeting of the Joint Committee on 23 September 2010.

Yours faithfully

Allan Phillips
Section 151 Officer