External audit report 2016/17

Doncaster Metropolitan Borough Council

—

July 2017

Summary for Audit Committee

Financial statements

This document summarises the key findings in relation to our 2016-17 external audit at Doncaster Metropolitan Borough Council 'the Authority'.

This report focusses on our on-site work which was completed in July 2017 on the Authority's significant risk areas, as well as other areas of your financial statements. Our findings are summarised on pages 4 – 12.

Our report also includes additional findings in respect of our controls work

Subject to all outstanding queries being resolved to our satisfaction we anticipate issuing an unqualified audit opinion on the Authority's financial statements on 31 July before the deadline of 30 September.

We have identified a number of audit adjustments, notably the need to prepare consolidated accounts. We note that this area was identified as a potential change by the Council ahead of accounts production and was discussed in detail with ourselves. The remainder of the adjustments are largely presentational with no impact upon the primary statements and reserve balances. See page 9-11 for details.

Based on our work, we have raised 3 recommendations. Details on our recommendations can be found in Appendix 1.

We are now in the completion stage of the audit and anticipate issuing our completion certificate and Annual Audit letter by July 31st.

Use of resources

We have completed our risk-based work to consider whether in all significant respects the Authority has proper arrangements to ensure it has taken properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. We have concluded that the Authority has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

We therefore anticipate issuing an unqualified value for money opinion.

See further details on page 13.

Acknowledgements

We would like to take this opportunity to thank officers and Members for their continuing help and co-operation throughout our audit work.

We ask the Audit Committee to note this report.

The key contacts in relation to our audit are:

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Section one

Financial Statements

We anticipate issuing an unqualified audit opinion on the Authority's 2016/17 financial statements by 31 August 2017. We will also report that your Annual Governance Statement complies with the guidance issued by CIPFA/SOLACE (*'Delivering Good Governance in Local Government'*) published in April 2016.

For the year ending 31 March 2017, the Authority has reported a total surplus on provision of services of £131.3m. Note that this includes £153.9m reversal of previous impairment loss on Council Dwellings. Net outturn therefore was a circa £22.7m deficit. The impact on the General Fund has been a decrease of £4.1m.

Significant audit risks

Our *External Audit Plan 2016/17* sets out our assessment of the Authority's significant audit risks. We have completed our testing in these areas and set out our evaluation following our work:

Significant audit risks	Work performed
1. Significant changes in the pension liability due to LGPS Triennial Valuation	**Why is this a risk?** During the year, the Local Government Pension Scheme for South Yorkshire (the Pension Fund) has undergone a triennial valuation with an effective date of 31 March 2016 in line with the Local Government Pension Scheme (Administration) Regulations 2013. The Authority's share of pensions assets and liabilities is determined in detail, and a large volume of data is provided to the actuary in order to carry out this triennial valuation. The pension liability numbers included in the financial statements for 2016/17 are based on the output of the triennial valuation rolled forward to 31 March 2017. For 2017/18 and 2018/19 the actuary will then roll forward the valuation for accounting purposes based on more limited data. There is a risk that the data provided to the actuary for the valuation exercise is inaccurate and that these inaccuracies affect the actuarial figures in the accounts. Most of the data was provided to the actuary by South Yorkshire Pensions Authority who administer the Pension Fund. **Our work to address this risk** We have reviewed the process used to submit payroll data to the Pension Fund and have found no issues to note. We have also tested the year-end submission process and other year-end controls. We noted that management had reviewed the actuarial assumptions and lead the queries related to this on behalf of the wider South Yorkshire area. Management has confirmed that the assumptions used by the actuary are appropriate. This was confirmed by our own pensions team. We have also substantively agreed the total figures submitted to the actuary to the ledger with no issues to note. We have engaged with the Pension Fund audit team to gain further assurance over the pension figures. Our work on the pensions liability identified that the liability with regards to the subsidiary St Leger Homes of Doncaster was a material figure of circa £41.7m. As a result of this it was agreed with management that a consolidated set of accounts was needed to prevent there being a material difference on the Council's balance sheet. We have reviewed the consolidated accounts prepared and have not identified any issues with these or the recognition of the pension liability.
2. Valuation of Property, Plant & Equipment	**Why is this a risk?** At 31 March 2016 the Authority was reporting Property, Plant and Equipment with a value of £1,383m, representing the large majority of assets held on the Balance Sheet. In the prior period additions of over £119m were made in the year (excluding PFI assets). It is the Authority's policy to revalue assets at a minimum every 5 years, with assets being revalued regularly enough to ensure that the value assets are held on the balance sheet is not materially misstated. There is an element of judgement exercised by the authority in determining whether assets require a valuation in year and also with regards to the assumptions made by the valuer in determining a value for the assets.

Significant audit risks	Work performed
2. Valuation of Property, Plant & Equipment (continued)	**Why is this a risk (continued)** Given the materiality in value and the judgement involved in determining the carrying amount we determined a significant risk with regards to this account. **Our work to address this risk** - We have assessed the qualifications and approach adopted by both the Council's in-house valuation experts and the District Valuer. - We have tested the accuracy and completeness of the Authority's asset register through review of the Authority's asset verification processes as well as the verification of assets reviewed as part of our revaluation testing. There were no individually material additions made in year; - We have reviewed the instructions provided to the external valuer and the in-house valuation team and assured ourselves that these are in line with our expectation and any assumptions outlined are reasonable; - We have considered the appropriateness of the valuation basis adopted e.g. fair value or modern equivalent asset basis; - We have agreed the basis of material impairments and revaluation losses through our testing of the revaluation process and agreement of accounting entries; and - We have reviewed the capitalisation of major expenditure in the year, including a review of maintenance spend to ensure there has been no material omissions of capital items.

Considerations required by professional standards

Fraud risk of revenue recognition

Professional standards require us to make a rebuttable presumption that the fraud risk from revenue recognition is a significant risk.

In our *External Audit Plan 2016/17* we reported that we do not consider this to be a significant risk for Local Authorities as there is unlikely to be an incentive to fraudulently recognise revenue.

This is still the case. Since we have rebutted this presumed risk, there has been no impact on our audit work.

Management override of controls

Professional standards require us to communicate the fraud risk from management override of controls as significant because management is typically in a unique position to perpetrate fraud because of its ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively.

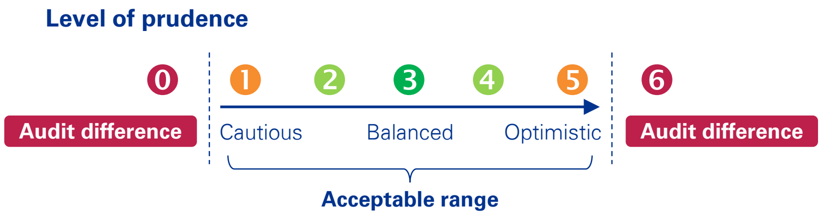
Our audit methodology incorporates the risk of management override as a default significant risk. We have not identified any specific additional risks of management override relating to this audit.

In line with our methodology, we carried out appropriate controls testing and substantive procedures, including over journal entries, accounting estimates and significant transactions that are outside the normal course of business, or are otherwise unusual.

There are no matters arising from this work that we need to bring to your attention.

Judgements

We have considered the level of prudence within key judgements in your 2016/17 financial statements and accounting estimates. We have set out our view below across the following range of judgements.



Subjective areas	2016/17	2015/16	Commentary
Provisions (excluding NNDR)	3	3	Total value of non NNDR provisions (£12.17m) is marginally higher than our materiality of £11.5m. The majority of the provisions relate to the estimated value of outstanding insurance claims (£8.9m). We have agreed this figure to workings provided by the Council and have deemed this a reasonable recognition.
NNDR provisions	3	3	The NNDR provisions held at year end (£3.33m) are significantly less than our materiality level of £11.5m. We have reviewed the workings for the NNDR provisions and note that these have dropped from the prior period based upon a lower than expected trend of back dated appeals. The methodology behind this calculation is considered balanced and based accordingly upon recent historical trends and knowledge of current cases.
PPE: HRA assets	3	2	The Authority continues its use of the beacon methodology in line with the DCLG's *Stock Valuation for Resource Accounting* published in November 2016. The Authority has utilised the District Valuer to provide valuation estimates. We have reviewed the instructions provided and deem that the valuation exercise is in line with the instructions. The resulting increase is in line with guidance provided by DCLG and the 41% Regional Adjustment Factor deemed appropriate for the Yorkshire and Humber region. We have also seen work performed locally that justifies the utilisation of the 41% Regional Adjustment Factor.
PPE: Asset lives	3	3	Our work around PPE did not identify any inappropriate asset lives being applied to PPE held. We are therefore satisfied that the asset lives being applied by the Council are reasonable and reflect as closely as possible the expected useful remaining life of assets. We note that the accounting policy with regards to the asset lives of buildings has been updated to reflect actual practice.
Pensions: Actuarial Assumptions	3	3	As part of our work we have engaged our own pensions specialist to review the actuarial assumptions used in relation to the Council's share of the South Yorkshire Pension Fund and this work did not identify any outliers. We also note that the Council lead a local assessment/discussion of assumptions with the actuary demonstrating a review and challenge process giving us further assurance with regards to the veracity of the key assumptions made.

Proposed opinion and audit differences

Subject to all outstanding queries being resolved to our satisfaction, we anticipate issuing an unqualified audit opinion on the Authority's 2016/17 financial statements following approval of the Statement of Accounts by the Audit Committee on 27 July 2017.

Audit differences

In accordance with ISA 260 we are required to report uncorrected audit differences to you. We also report any material misstatements which have been corrected and which we believe should be communicated to you to help you meet your governance responsibilities.

The final materiality (see Appendix 4 for more information on materiality) level for this year's audit was set at £11.5 million. Audit differences below £575k are not considered significant.

We did not identify any material misstatements. We identified that a set of group accounts needed to be prepared due to the material nature of the pension liability held by the subsidiary company St Leger Homes of Doncaster.

The Council were proactive in raising this issue with us as early as possible and were able to produce a set of consolidated accounts in a relatively short timescale ensuring minimal delays to the audit process.

In addition, we identified a small number of presentational adjustments required to ensure that the accounts are compliant with the Code of Practice on Local Authority Accounting in the United Kingdom 2016/17 ('the Code'). These have been addressed by management.

Annual governance statement

We have reviewed the Authority's 2016/17 Annual Governance Statement and confirmed that:

- It complies with *Delivering Good Governance in Local Government: A Framework published by CIPFA/SOLACE*;

and

- It is not misleading or inconsistent with other information we are aware of from our audit of the financial statements.

Narrative report

We have reviewed the Authority's 2016/17 narrative report and have confirmed that it is consistent with the financial statements and our understanding of the Authority.

Accounts production and audit process

Our audit standards (*ISA 260*) require us to communicate our views on the significant qualitative aspects of the Authority's accounting practices and financial reporting.

We also assessed the Authority's process for preparing the accounts and its support for an efficient audit. The efficient production of the financial statements and good-quality working papers are critical to meeting the tighter deadlines.

Accounting practices and financial reporting

The Authority has recognised the additional pressures which the earlier closedown in 2017/18 will bring. We have been engaging with the Authority in the period leading up to the year end in order to proactively address issues as they emerge.

We note that the Authority were largely ready and able to submit draft accounts by the 31st May deadline that will apply from 2017/18. We also note that we anticipate being able to deliver our audit opinion this year by the 2017/18 deadline of 31st July. This reflects the hard work and good quality of supporting documentation prepared by the Council's finance team.

We consider the Authority's accounting practices appropriate.

Completeness of draft accounts

We received a complete set of draft accounts on 1st June 2017, which was ahead of the 30th June statutory deadline.

Quality of supporting working papers

Ahead of our audit, we issued our *Accounts Audit Protocol 2016/17* ("Prepared by Client" request) which outlines our documentation request. This helps the Authority to provide audit evidence in line with our expectations.

We are pleased to report that overall good quality working papers with a clear audit trail were provided.

Response to audit queries

Generally, the responses to our audit queries were timely and enabled the audit to progress to the agreed timetable. As a result of this, all of our audit work were completed within the timescales expected with few outstanding queries. This achievement puts the Authority in a good position to take on the 2017/18 earlier closedown with no significant concerns.

Group audit

The Council consolidated its only subsidiary company St Leger Homes of Doncaster.

To gain assurance that this has not been materially misstated we considered the draft financial statements of the entity and compared these both to prior period and our understanding of the entity. We noted, as per our understanding, that the large majority of transactions and balances were intercompany and therefore eliminated on consolidation. The net impact of I&E transactions being significantly below our materiality level.

For the material pension liability balance we agreed these figures to the actuarial report produced by Mercer and the data submitted to the actuary by the subsidiary.

We are pleased to report that there were no issues to note in relation to the consolidation process.

Prior year recommendations

As part of our audit we have specifically followed up the Authority's progress in addressing the recommendations in last years ISA 260 report.

The Authority has implemented 3 of the recommendations in our ISA 260 Report 2015/16. We note that issues remained with regards to reconciliations and IT user access reviews. Appendix 2 provides further details.

Controls over key financial systems

We have tested controls as part of our focus on significant audit risks and other parts of your key financial systems on which we rely as part of our audit. The strength of the control framework informs the substantive testing we complete during our final accounts visit.

Below we have highlighted exceptions in relation to controls:

General IT Controls

- Starters, leavers, and amendments: Authorisation of starters, leavers or amendments are not clearly evidenced or documented. We identified a compensating assurance whereby we were able to identify that users with access to the tested systems were relevant and appropriate.

Reconciliations

- Our testing of reconciliations noted that bank, Accounts Payable and Universal Housing reconciliations were not ‘frozen in time’ meaning that these could be edited or amended after being performed. We noted that for one Accounts Payable reconciliation this had resulted in the review signature being overwritten. We have gained assurance from the fact that we could evidence reconciliations were being performed and the year end reconciliations did reconcile.
- We further noted that the Universal Housing / General Ledger reconciliation was not marked as prepared and the authorisation was only a typed excel cell. We gained assurance from the fact that the reconciliation was performed and we could see that the year end reconciliation did reconcile.

Housing Benefits Overpayment Report

- Our work identified that an overpayments report is utilised by the benefits team to investigate possible instances of overpayment. Our testing noted that this report was not retained and therefore we were unable to verify this control was operating prior to November 2016. We have gained assurance from the fact that the report is ongoing and we have seen the control was operating effectively form November onwards, therefore any recurring instances of overpayment would have been subsequently identified.

Further detail and associated recommendations can be found in Appendix 1.

Completion

We confirm that we have complied with requirements on objectivity and independence in relation to this year's audit of the Authority's 2016/17 financial statements.

Before we can issue our opinion we require a signed management representation letter.

Once we have finalised our opinions and conclusions we will prepare our Annual Audit Letter and close our audit.

Declaration of independence and objectivity

As part of the finalisation process we are required to provide you with representations concerning our independence.

In relation to the audit of the financial statements of Doncaster Metropolitan Borough Council for the year ending 31 March 2017, we confirm that there were no relationships between KPMG LLP and Doncaster Metropolitan Borough Council, its directors 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 Public Sector Audit Appointments Ltd requirements in relation to independence and objectivity.

We have provided a detailed declaration in Appendix 5 in accordance with ISA 260.

Management representations

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 have provided a template to the Chief Financial Officer for presentation to the Audit Committee. We require a signed copy of your management representations before we issue our audit opinion.

There are no issues over which we are seeking specific management representations.

Other matters

ISA 260 requires us to communicate to you by exception 'audit matters of governance interest that arise from the audit of the financial statements' which include:

- Significant difficulties encountered during the audit;
- Significant matters arising from the audit that were discussed, or subject to correspondence with management;
- Other matters, if arising from the audit that, in the auditor's professional judgment, are significant to the oversight of the financial reporting process; and
- Matters specifically required by other auditing standards to be communicated to those charged with governance (e.g. significant deficiencies in internal control; issues relating to fraud, compliance with laws and regulations, subsequent events, non disclosure, related party, public interest reporting, questions/objections, opening balances etc.).

Section two

Value for money

Our 2016/17 VFM conclusion considers whether the Authority had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.

We have concluded that the Authority has made proper arrangements to ensure it took properly-informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.

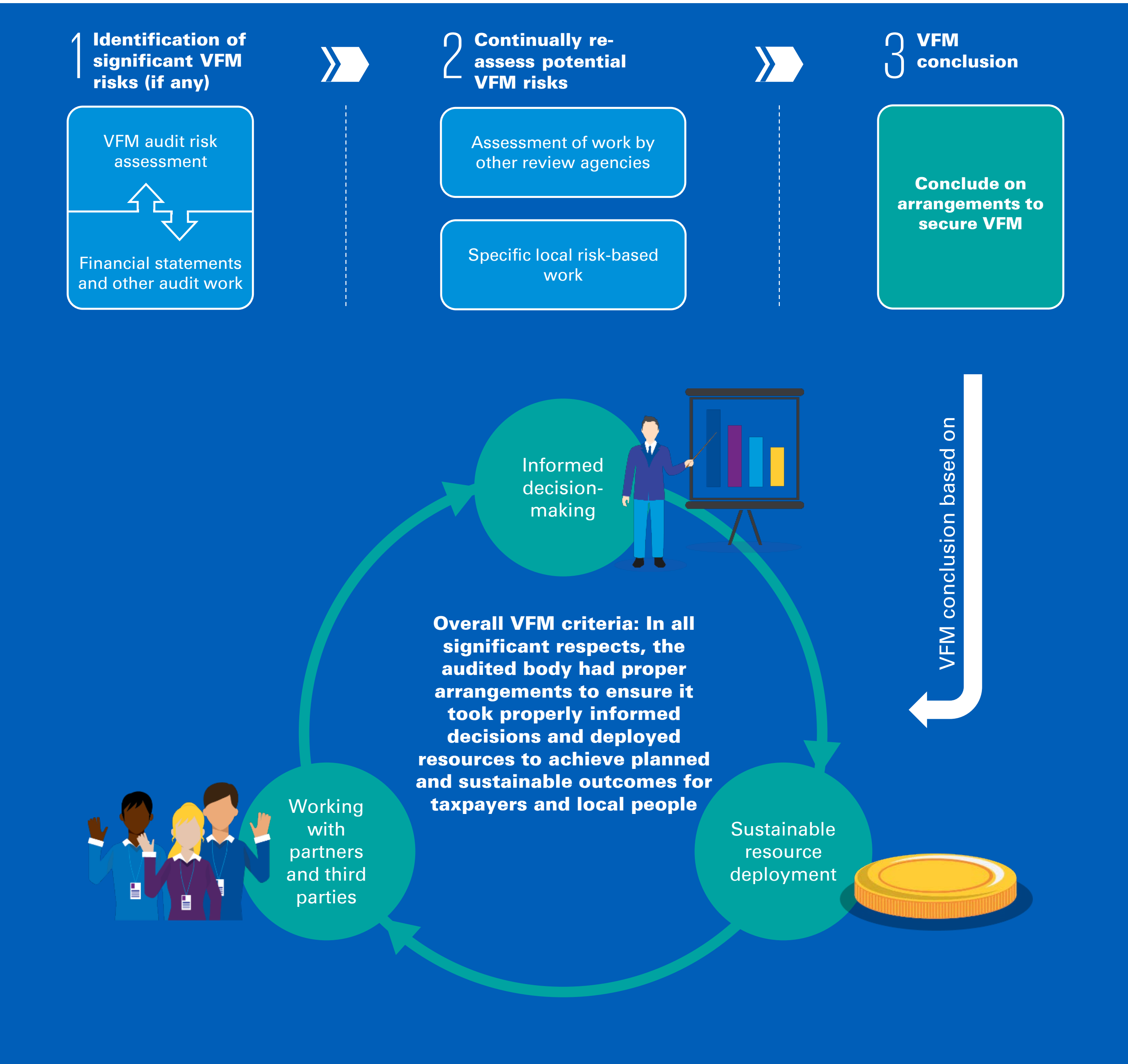
VFM conclusion

The Local Audit and Accountability Act 2014 requires auditors of local government bodies to be satisfied that the authority 'has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources'.

This is supported by the Code of Audit Practice, published by the NAO in April 2015, which requires auditors to 'take into account their knowledge of the relevant local sector as a whole, and the audited body specifically, to identify any risks that, in the auditor's judgement, have the potential to cause the auditor to reach an inappropriate conclusion on the audited body's arrangements.'

Our VFM conclusion considers whether the Authority had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.

We follow a risk based approach to target audit effort on the areas of greatest audit risk.



The table below summarises our assessment of the individual VFM risks identified against the three sub-criteria. This directly feeds into the overall VFM criteria and our value for money opinion.

VFM assessment summary			
VFM risk	**Informed decision-making**	**Sustainable resource deployment**	**Working with partners and third parties**
1. Children's Services Trust Overspend	✓	✓	✓
2. Adult Social Care Contracting	✓	✓	✓
Overall summary	✓	✓	✓

In consideration of the above, we have concluded that in 2016/17, the Authority has made proper arrangements to ensure it took properly-informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.

In our audit plan presented in January 2017 we identified a significant VFM risk with regards to the overspend and performance of the Children's Services Trust. As part of our ongoing risk assessment we have identified a further VFM risk with regards to Adult Social Care contracting arrangements.

We have performed detailed work on both of these identified risks as well as wider work around VFM processes in place across the Council.

Our work has not identified any issues that would adversely impact upon our Value For Money conclusion.

Further details on the work done and our assessment are provided on the following pages.

Significant VFM risks

We have identified two significant VFM risks, one is as communicated to you in our *2016/17 External Audit Plan*. Our ongoing risk assessment identified a further significant VFM risk. In all cases we are satisfied that external or internal scrutiny provides sufficient assurance that the Authority's current arrangements in relation to these risk areas are adequate.

Significant VFM risks	Work performed
1. Children's Services Trust Overspend	**Why is this a risk?** We noted that the Finance & Performance Improvement Report for Q2 showed an overspend of circa £4m, of which £3.2m related to the Children's Services Trust. There is a risk that there is insufficient governance of the contract with the independent provider (Children's Services Trust) to verify that the payments deliver value for money. **Summary of our work** In order to assess this risk we held conversations with a number of individuals across the organisation including those directly involved in quality, performance and financial management of the contract with the Children's Services Trust. Complimenting these discussions we also reviewed relevant minutes and reporting to both Council and the Audit Committee as well as reviewing and assessing minutes and actions from performance meetings. In combination this work gave us assurance that the Council was working collaboratively with the Children's Trust, providing assurance with regards to the 'working with partners and third parties' VFM criteria. We also noted that the performance and financial position of the Trust and the contract in place was discussed in detail and reported to management and those charged with governance in a transparent fashion, meeting the 'informed decision making' VFM criteria. Finally, we noted that there was a clear plan in place for the Children's Trust to take on more of the risk of service moving forwards as they become more established as an entity. We noted that the final outturn position for the Trust was a £1.5m overspend, which does include some additionally agreed funding during the year (circa £1.9m) due to volume pressures. We also noted observations (evidenced through minute reviews of performance meetings) that the level of information and collaboration being provided by the Trust was improving enabling clearer decisions to be made with regards to resource deployment. This has provided us with evidence that the 'sustainable resource deployment' criteria is being met.

2. Adult Social Care Contracting

Why is this a risk?

There are a number of ongoing contract breaches and waivers occurring within the Adults, Health and Wellbeing Directorate. As noted within the internal audit annual report it has not always been clear as to the reasons for these breaches although it is clear that many are linked to a need for a revised strategy for the future provision of services.

There is a risk that contract breaches and commissioning arrangements do not offer value for money to the Council and are not part of a wider more informed strategy.

Summary of our work

We have reviewed the Commissioning Plan currently in place for the Adults, Health and Wellbeing directorate. This highlighted the fact that the total annual value of those contracts 'in breach' at the end of the 2016/17 period was circa £3.3m, equating to around 2.2% of gross budget and 4.6% of net budget for Adults, Health and Wellbeing. Noting that the contracts in question would likely be replaced by others (and therefore costs would still be incurred) we are satisfied that the sums being discussed in relation to contracting are relatively small in the context of the Authority as a whole.

We have reviewed the budgetary reporting and the breaches and waivers reporting that has taken place to Audit Committee and as a result gain assurance that the position with regards to expired or breached contracts has been transparently reported, giving us assurance with regards to the 'informed decision making' criteria.

We have noted from review of commissioning plan and ongoing reporting to management that the Council continues to work with third party providers closely, including the CCG, in order to ensure services continue to be provided whilst some service redesign is being considered. This gives us assurance that the Council continues to work with partners and third parties to ensure services are delivered.

We are encouraged by the Council's ongoing plans to redesign services and to ensure that commissioning of new contracts takes place in a structured, but timely, manner. This recognises that some contracts may continue to operate in breach in the shorter term, however we have been able to see that where this is the case there is a clear rationale in terms of ensuring a sustainable service is delivered into the future. We are therefore satisfied that, given the service redesign plans in place and the values of contract breaches the Council is able to demonstrate that sustainable resource deployment has taken place.

Appendices

Key issues and recommendations

Our audit work on the Authority's 2016/17 financial statements has identified a number of issues. These are largely in relation to IT controls, the retention of documentation and evidencing of reconciliation preparation and review. We have listed these issues in this appendix together with our recommendations which we have agreed with Management. We have also included Management's responses to these recommendations.

The Authority should closely monitor progress in addressing the risks, including the implementation of our recommendations. We will formally follow up these recommendations next year.

Each issue and recommendation have been given a priority rating, which is explained below.

High priority — Issues that are fundamental and material to your system of internal control. We believe that these issues might mean that you do not meet a system objective or reduce (mitigate) a risk.

Medium priority — Issues that have an important effect on internal controls but do not need immediate action. You may still meet a system objective in full or in part or reduce (mitigate) a risk adequately but the weakness remains in the system.

Low priority — Issues that would, if corrected, improve internal control in general but are not vital to the overall system. These are generally issues of good practice that we feel would benefit if introduced.

The following is a summary of the issues and recommendations raised in the year 2016/17.

2016/17 recommendations summary

Priority	Total raised for 2016/17
High	0
Medium	1
Low	2
Total	3

Medium priority

1. IT User Documentation and Processing

Our audit identified a number of issues with regards to the general IT controls in place across the 3 IT systems tested, namely: e5 financial ledger, Universal Housing (Housing Rents system) and Northgate (Benefits system).

With regards to Universal Housing we noted that the password control in place did not function as per the policy with a 3 character password able to be utilised rather than the 8 characters required by the policy.

For all 3 systems tested we noted that the controls around the approval of new users and removal of leavers were weak. We were unable to agree starters and leavers to relevant line manager approvals in the majority of cases.

We also noted in the case of Universal Housing that leavers were not processed regularly, with our testing carried out in March/April 2017 noting that leavers had not been processed since November 2016.

There is a risk that without appropriate starter and leaver processes in place users are given access erroneously to systems and are able to post amendments to systems. This risk is magnified on the Universal Housing and Northgate systems where reports are only able to show access to the system from Users for the past 7 and 15 days respectively. This means that the Council is unable to identify those users that might have accessed the system maliciously outside of this timeframe.

Recommendation

The Council should ensure that there is a clear process and guidance in place with regards to the processing of user changes (starters, leavers and amendments) on key IT systems. Access rights should be periodically reviewed to ensure that these remain appropriate.

Key control parameters such as passwords should also be tested periodically to ensure they continue to meet the requirements of IT security policies.

Management Response

Accepted

The Council accepts the recommendations identified. A review is currently being undertaken as part of the Internal Services Project, which is looking at the whole process for new starters, movers and leavers. Following the review, actions will be implemented which will improve the weaknesses identified. St Leger Homes will also review and update the password control for the Universal Housing system.

Owner

Steve Mawson

Deadline

31st January 2018

Low priority

2. Housing Benefits Overpayments Report

The Council utilises an ‘overpayment’ report in order to identify and investigate potential errors in payment. Whilst the control is effective it was noted that these reports are not retained for a full financial year meaning there is not a clear audit trail of the control having taken place throughout the period.

Recommendation

The Council should ensure that the overpayments report, and other evidence of controls operating, are retained for a sufficient period in order to provide a clear audit trail of operation.

Management Response

Accepted

The overpayment report which is run on a daily basis will be saved from September 2017, which will support the effective control which is currently in place regarding potential overpayments.

Owner

Marian Bolton

Deadline

30th September 2017

Low priority

3. Reconciliations

Our testing identified that key reconciliations between systems and the general ledger were taking place.

However, our testing noted that in many instances the reconciliations were maintained in an editable Excel format, which was not 'frozen in time'. This could mean that reconciliations are amended following completion or evidence of review is not maintained.

In one instance of the Accounts Payable reconciliation we noted that review could not be evidenced as it had been overwritten by the following month's reconciliation process.

We also noted on the Universal Housing reconciliation that there was no evidence maintained of who had prepared the reconciliation.

Recommendation

The Council should ensure that all key reconciliations clearly evidence who has prepared and reviewed the reconciliation and on what date this was performed. The reconciliations should then be 'frozen in time' e.g. by saving as a PDF in order to prevent further editing of the document.

Management Response

Accepted

As part of the closedown review we will review all reconciliations and identify areas where reconciliations are not being saved in a PDF format. Staff will be informed that they will need to start saving the document in PDF and make sure it is clear who prepared, reviewed the work and on what date. Specific actions will be implemented to save accounts payable and universal housing reconciliations in PDF as part of the process.

Owner

Steve Mawson

Deadline

30th September 2017

Follow-up of prior year recommendations

In the previous year, we raised five recommendations which we reported in our *External Audit Report 2015/16 (ISA 260)*. The Authority has not implemented all of the recommendations. We re-iterate the importance of the outstanding recommendations and recommend that these are implemented by the Authority.

We have used the same rating system as explained in Appendix 1.

Each recommendation is assessed during our 2016/17 work, and we have obtained the recommendation's status to date. We have also obtained Management's assessment of each outstanding recommendation.

Below is a summary of the prior year's recommendations.

2015/16 recommendations status summary

Priority	Number raised	Number implemented / superseded	Number outstanding
High	0	0	**0**
Medium	1	1	**0**
Low	4	2	**2**
Total	**5**	**3**	**2**

Low priority

1. User Access Reviews

As part of our testing of general IT controls, we found that there is no periodic review of users and their access taking place in relation to the general ledger.

There is a risk that users have inappropriate levels of access to the general ledger.

Through additional testing, we have gained assurance that users had appropriate levels of access in the year, or that user access has been amended to correct any issues identified (and that these users did not access the system inappropriately during the year).

Recommendation

We recommend that the Council implements a periodic review of users and their access to provide assurance that only authorised users have appropriate levels of access to the system.

Management original response

New procedures for periodic user cleanse to be undertaken quarterly to review and disable users that have not accessed E5 or CP within the last 12 months.

Owner

Steven Brown

Original deadline

31st October 2016

KPMG's July 2017 assessment

Not implemented

As per current year recommendation 1, there were a number of instances identified where we were unable to verify starters, leavers and amendments to IT users back to supporting documentation. We also noted that there was not a periodic review in place. As part of our year end audit procedures we have asked management to confirm the users currently with access to the tested IT systems as being appropriate.

Management's July 2017 response

The original response has been implemented but unfortunately this does not satisfy the above issue in full. Therefore on a quarterly basis as part of the monitoring cycle a list of current general ledger users (Financial Management Users) will be sent to the Head of Financial Management to review and confirm the access is correct. (This will be implemented as part of quarter 2 monitoring).

Low priority	**2. Review of Reconciliations** As part of our controls testing we were unable to find evidence of management review of the housing rents cash receipting reconciliation. There is a risk that errors go unidentified due to a lack of review of reconciliations. To note, we were able to view the completed reconciliations and verify the balances within them and therefore have assurance that they have been completed appropriately in the year. **Recommendation** We recommend that all reconciliations are reviewed with sign off to evidence this.	**Management original response** We are going to start a monthly reconciliation where the management accountant will check the cash reconciliation and sign off each month. *Owner* Julie Crook *Original deadline* 31st October 2016 **KPMG's July 2017 assessment** Not implemented Review of the reconciliations in the period highlighted that there was no evidence of who had prepared these reconciliations and evidence of review was merely the input of a name into an Excel cell. In line with current year's recommendation 3 the Council should consider 'frozen in time' reconciliations to fully evidence preparation and review of reconciliations. We were able to verify year end balances and therefore there has been no impact upon our audit opinion. **Management's July 2017 response** The original response has been implemented but unfortunately this is not supported by any saved evidence other than the reviewers name on the excel document. The preparer and reviewer details will be included on all reconciliations from this month.
Low priority	**3. Paperwork for new starters** There were 3 instances out of a sample of 25 new starters tested where we could not locate paperwork to support the employment of this new starter. We were able to gain assurance, through other procedures, that these new starters were valid. There is a risk that there is no audit trail in place for the employment of new starters at the Council. **Recommendation** We recommend that all paperwork in relation to new starters is retained on personnel files. Sample audits should be completed on a periodic basis to ensure that this policy is adhered to.	**KPMG's [July 2017] assessment** Fully implemented Testing of starters this year did not identify any issues with regards to the retention or availability of paperwork.

Medium priority

4. Valuation of Waste Management Asset

The Waste Management PFI came into use during the year. Once assets have been recognised, under section 4.3 of the Code, an assessment needs to be made as to whether the asset value needs to be re-measured. No such revaluation took place at the time the asset came into use and therefore there is a risk that the value of the asset may be misstated.

Subsequent to our onsite audit work we have now obtained a formal valuation of the asset from Rotherham Council's valuer. We have discussed this with our technical expert and have not identified any issues with the process used to value this asset. We have therefore gained assurance, for the current year audit, that the value of the asset has not been materially misstated.

Recommendation

We recommend that the latest valuation of the asset is reflected in the 2016/17 statement of accounts, and that all new assets are valued when they come into use in line with the requirements of the code.

KPMG's July 2017 assessment

Fully implemented

We were able to agree the value of the waste management asset directly to the formal valuation carried out by Rotherham Council's valuer. No issues were identified with regards to this valuation.

Low priority

5. Completion of bank reconciliation

We found that the bank account used for drawings was not reconciled for the month of December in line with established procedures.

There is a risk that there could be an error or an instance of fraud on this account which goes unidentified.

To note, the reconciliation had been completed for all other months throughout the year including the year end. We did not identify any outstanding or overdue items within the reconciliations which demonstrates that the process is operating effectively overall.

Recommendation

We recommend that this reconciliation takes place on a monthly basis in line with established procedures.

KPMG's July 2017 assessment

Fully implemented

Our testing of bank reconciliations in the 2016/17 period did not identify any instances of reconciliations not having been completed.

Audit differences

We are required by ISA 260 to report all uncorrected misstatements, other than those that we believe are clearly trivial, to those charged with governance (which in your case is the Audit Committee). We are also required to report all material misstatements that have been corrected but that we believe should be communicated to you to assist you in fulfilling your governance responsibilities.

Adjusted audit differences

Consolidated Accounts

In the past two years the Council had made the decision to not consolidate the subsidiary company St Leger Homes of Doncaster (SLHD) on the grounds of materiality. As a result of the triennial valuation of the Local Government Pension Scheme carried out in year, the pension liability increased significantly to a material level. This information came to light a little late with regards to being able to initially consolidate the results into a set of group accounts. Following ongoing consultation with ourselves it was confirmed that a consolidated set of accounts would need to be prepared to include the results of SLHD. We note that the Council were proactive in raising this issue with us as early as possible and were able to produce a set of consolidated accounts in a relatively short timescale ensuring minimal delays to the audit process.

Other Adjustments

In addition to the above, a number of minor amendments focused on presentational improvements/omissions have also been made to the 2016/17 draft financial statements. We note that these items are relatively minor in nature and relate largely to human error rather than pointing to any specific weaknesses in control. None of the adjustments made impacted upon the primary statements. We are pleased to note that the Finance team remains committed to continuous improvement in the quality of the financial statements submitted for audit in future years.

The corrections made are detailed in the table below:

Table 1: Adjusted audit differences

No.	Description
1	The *accounting policy* with regards to *asset lives* did not reflect the practice of adjusting asset lives on a regular basis to reflect the expected remaining life of the asset.
2	*PFI disclosure* with regards to the Waste Management PFI had erroneously picked up the incorrect line to disclose as the remaining Unitary Charge. This was acknowledged by the Finance team and has been corrected accordingly.
3	*Surplus Assets* - authorities are required to disclose the level of the fair value hierarchy within which surplus assets sit. Disclosures are also required that provide the reader with information about the valuation techniques and inputs used to develop fair value measurements. It was noted that these disclosures had been initially omitted from the financial statements prepared. This disclosure has now been made accordingly.
4	*Officer Bandings* – There was one officer whose salary was under £50k that had been erroneously disclosed within the breakdown of officers with remuneration over £50k. This has since been corrected
5	*Collection Fund* – Some very minor errors with regards to headings were corrected. These did not impact the substance of the disclosures.

Unadjusted audit differences

We note that there are no unadjusted audit differences to bring to your attention.

Materiality and reporting of audit differences

The assessment of what is material is a matter of professional judgment and includes consideration of three aspects: materiality by value, nature and context.

Material errors by value are those which are simply of significant numerical size to distort the reader's perception of the financial statements. Our assessment of the threshold for this depends upon the size of key figures in the financial statements, as well as other factors such as the level of public interest in the financial statements.

Errors which are material by nature may not be large in value, but may concern accounting disclosures of key importance and sensitivity, for example the salaries of senior staff.

Errors that are material by context are those that would alter key figures in the financial statements from one result to another – for example, errors that change successful performance against a target to failure.

We used the same planning materiality reported in our External Audit Plan 2016/17, presented to you in January 2017.

Materiality for the Authority's accounts was set at £11.5 million which equates to around 1.58 percent of gross expenditure (circa £728m once allowing for £154m gain on Council Dwellings). We design our procedures to detect errors in specific accounts at a lower level of precision.

Reporting to the Audit Committee

Whilst our audit procedures are designed to identify misstatements which are material to our opinion on the financial statements as a whole, we nevertheless report to the Audit Committee/Name of the Committee any misstatements of lesser amounts to the extent that these are identified by our audit work.

Under *ISA 260*, we are obliged to report omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. *ISA 260* defines 'clearly trivial' as matters that are clearly inconsequential, whether taken individually or in aggregate and whether judged by any quantitative or qualitative criteria.

ISA 450 requires us to request that uncorrected misstatements are corrected.

In the context of the Authority, we propose that an individual difference could normally be considered to be clearly trivial if it is less than £575,000 for the Authority.

Where management have corrected material misstatements identified during the course of the audit, we will consider whether those corrections should be communicated to the Audit Committee to assist it in fulfilling its governance responsibilities.

Appendix 5

Declaration of independence and objectivity

Auditors appointed by Public Sector Audit Appointments Ltd must comply with the Code of Audit Practice (the 'Code') which states that:

> *"The auditor should carry out their work with integrity, objectivity and independence, and in accordance with the ethical framework applicable to auditors, including the ethical standards for auditors set by the Financial Reporting Council, and any additional requirements set out by the auditor's recognised supervisory body, or any other body charged with oversight of the auditor's independence. The auditor should be, and should be seen to be, impartial and independent. Accordingly, the auditor should not carry out any other work for an audited body if that work would impair their independence in carrying out any of their statutory duties, or might reasonably be perceived as doing so."*

In considering issues of independence and objectivity we consider relevant professional, regulatory and legal requirements and guidance, including the provisions of the Code, the detailed provisions of the Statement of Independence included within the Public Sector Audit Appointments Ltd Terms of Appointment ('Public Sector Audit Appointments Ltd Guidance') and the requirements of APB Ethical Standard 1 Integrity, Objectivity and Independence ('Ethical Standards').

The Code states that, in carrying out their audit of the financial statements, auditors should comply with auditing standards currently in force, and as may be amended from time to time. Public Sector Audit Appointments Ltd guidance requires appointed auditors to follow the provisions of *ISA (UK&I) 260 'Communication of Audit Matters with Those Charged with Governance'* that are applicable to the audit of listed companies. This means that the appointed auditor must disclose in writing:

— Details of all relationships between the auditor and the client, its directors and senior management and its affiliates, including all services provided by the audit firm and its network to the client, its directors and senior management and its affiliates, that the auditor considers may reasonably be thought to bear on the auditor's objectivity and independence.

— The related safeguards that are in place.

— The total amount of fees that the auditor and the auditor's network firms have charged to the client and its affiliates for the provision of services during the reporting period, analysed into appropriate categories, for example, statutory audit services, further audit services, tax advisory services and other non-audit services. For each category, the amounts of any future services which have been contracted or where a written proposal has been submitted are separately disclosed. We do this in our Annual Audit Letter.

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 Audit 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 LLP is committed to being and being seen to be independent. As part of our ethics and independence policies, all KPMG LLP Audit Partners and staff annually confirm their compliance with our Ethics and Independence Manual including in particular that they have no prohibited shareholdings.

Our Ethics and Independence Manual is fully consistent with the requirements of the Ethical Standards issued by the UK Auditing Practices Board. As a result we have underlying safeguards in place to maintain independence through: Instilling professional values, Communications, Internal accountability, Risk management and Independent reviews.

We would be happy to discuss any of these aspects of our procedures in more detail.

Auditor declaration

In relation to the audit of the financial statements of Doncaster Metropolitan Borough Council for the financial year ending 31 March 2017, we confirm that there were no relationships between KPMG LLP and Doncaster Metropolitan Borough Council, its directors 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 Public Sector Audit Appointments Ltd requirements in relation to independence and objectivity.

Appendix 6

Audit fees

Audit fees

As communicated to you in our External Audit Plan 2016/17, our scale fee for the audit is £164,844 plus VAT *(£164,844 in 2016/17)*, which has remained the same as the prior period.

Our work on the certification of Housing Benefits (BEN01) is planned for September 2017. The planned scale fee for this is £25,035 plus VAT. Planned fees for other grants and claims which do not fall under the PSAA arrangements is £9,000 plus VAT (£9,000 in 2016/17), see further details below.

PSAA Fee Table

Component of audit	**2016/17** *(actual fee)* £
Accounts opinion and use of resources work	
PSAA scale fee set in 2014/15	164,844
Subtotal	**164,844**
Housing benefits (BEN01) certification work	
PSAA scale fee set in 2014/15 – planned for September 2017	25,035
Total fee for the Authority set by the PSAA	**189,879**

All fees are quoted exclusive of VAT.

Non-PSAA Fees

	2016/17 *(planned fee)* £
Grants Certification Work	
Pooling Capital Receipt Return	2,750
NCTL Teaching Bursary Return	3,000
Teachers Pension's Agency Return	3,250
Total fee for the Authority set by the PSAA	**9,000**

All fees are quoted exclusive of VAT.