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Report to those charged with governance (ISA 260) 2013/14

Doncaster Metropolitan Borough Council

September 2014

Contents

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This report is addressed to the Authority and has been prepared for the sole use of the Authority. We take no responsibility to any member of staff acting in their individual capacities, or to third parties. The Audit Commission has issued a document entitled *Statement of Responsibilities of Auditors and Audited 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 which is available on the Audit Commission's website at www.audit-commission.gov.uk

External auditors do not act as a substitute for the audited body's own responsibility for putting in place proper arrangements to ensure that public business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively.

If you have any concerns or are dissatisfied with any part of KPMG's work, in the first instance you should contact John Prentice, the appointed engagement lead to the Authority, who will try to resolve your complaint. If you are dissatisfied with your response please contact Trevor Rees on 0161 246 4000, or by email to trevor.rees@kpmg.co.uk, who is the national contact partner for all of KPMG's work with the Audit Commission. After this, if you are still dissatisfied with how your complaint has been handled you can access the Audit Commission's complaints procedure. Put your complaint in writing to the Complaints Unit Manager, Audit Commission, 3rd Floor, Fry Building, 2 Marsham Street, London, SW1P 4DF or by email to complaints@audit-commission.gsi.gov.uk Their telephone number is 0303 4448 330.

Section one
Introduction

This document summarises:

- **the key issues identified during our audit of the financial statements for the year ended 31 March 2014 for the Authority; and**
- **our assessment of the Authority's arrangements to secure value for money.**

Scope of this report

This report summarises the key findings arising from:

- our audit work at Doncaster Metropolitan Borough Council ('the Authority') in relation to the Authority's 2013/14 financial statements; and
- the work to support our 2013/14 conclusion on the Authority's arrangements to secure economy, efficiency and effectiveness in its use of resources ('VFM conclusion').

Financial statements

Our *External Audit Plan 2013/14*, presented to you in January 2014, set out the four stages of our financial statements audit process.

We previously reported on our work on the first two stages in our *Interim Audit Report 2013/14* issued in June 2014.

This report focuses on the third stage of the process: substantive procedures. Our on site work for this took place during August and September 2014.

We are now in the final phase of the audit, the completion stage. Some aspects of this stage are also discharged through this report.

VFM conclusion

Our *External Audit Plan 2013/14* explained our risk-based approach to VFM work and we included early findings in our Interim Audit Report 2013/14. We have now completed the work to support our 2013/14 VFM conclusion. This included:

- assessing the potential VFM risks and identifying the residual audit risks for our VFM conclusion;
- considering the results of any relevant work by the Authority and other inspectorates and review agencies in relation to these risk areas; and
- carrying out additional risk-based work.

Structure of this report

This report is structured as follows:

- Section 2 summarises the headline messages.
- Section 3 sets out our key findings from our audit work in relation to the 2013/14 financial statements of the Authority.
- Section 4 outlines our key findings from our work on the VFM conclusion.

Our recommendations are included in Appendix 1. We have also reviewed your progress in implementing prior year recommendations and this is detailed in Appendix 2.

Acknowledgements

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

Headlines

This table summarises the headline messages.

Sections three and four of this report provide further details on each area.

Proposed audit opinion	We anticipate issuing an unqualified audit opinion on the Authority's financial statements by 30 September 2014. We will also report that the wording of your Annual Governance Statement accords with our understanding.
Audit adjustments	Our audit to date has identified one audit adjustment with a total value of £100 million. Officers of the Authority identified 2 adjustments of £7.7.m and £2.5m before our audit work began. We have included the details of these significant adjustments at Appendix 3. All of these are to be adjusted by the Authority.
Key financial statements audit risks	We review risks to the financial statements on an ongoing basis. We identified no significant risks specific to the Authority during 2013/14 with respect to the financial statements.
Accounts production and audit process	We have noted an improvement in the quality of the accounts and the supporting working papers. Although year end output had not been tested, they have provided a better audit trail than in previous years. Officers dealt efficiently with audit queries and the audit process has been completed within the planned timescales. The Authority has implemented the majority of the recommendations in our *ISA 260 Report 2012/13* relating to the financial statements.

Headlines

This table summarises the headline messages. The remainder of this report provides further details on each area.

Completion	At the date of this report our audit of the financial statements is substantially complete, subject to completion of the following areas: • The approval of the St Leger Homes audited financial statements at the Board meeting on 24 September 2014; • Agreement of the consolidation adjustments in the group accounts to supporting evidence; • Our review of the revised financial statements to confirm that all agreed amendments have been made; and • Our work on the Whole of Government Accounts. Before we can issue our opinion we require a signed management representations letter. We confirm that we have complied with requirements on objectivity and independence in relation to this year's audit of the Authority's financial statements.
VFM conclusion and risk areas	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 VFM conclusion by 30 September 2014. The unqualified conclusion includes an additional paragraph containing a report by exception. This paragraph refers to the Secretary of State's decision to issue a direction requiring the Authority to bring in external management support for its Children's Services function. The Secretary of State referred in his statement to his view that the service did not provide value for money, and the VFM conclusion draws the reader's attention to this fact.

Proposed opinion and audit differences

Our audit has identified one audit adjustment to date.

We anticipate issuing an unqualified audit opinion in relation to the Authority's financial statements by 30 September 2014.

The wording of your Annual Governance Statement accords with our understanding.

Proposed audit opinion

Subject to all outstanding queries being resolved to our satisfaction, we anticipate issuing an unqualified audit opinion on the Authority's financial statements following approval of the Statement of Accounts by the Audit Committee on 23rd September 2014.

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 level for this year's audit was set at £14.6 million. Audit differences below £730k are not considered significant.

Our audit has identified one material audit difference, which we set out in Appendix 3. It is our understanding that this will be adjusted in the final version of the financial statements.

The nature of the adjustment means that there is no impact on the General Fund

The audit adjustment we have identified is as follows:

- The carrying value of Financial Liabilities disclosed within Note 16 Financial Instruments was understated by £100m.

Before we began our audit officers identified two significant differences as follows:

- Grant received in advance of £7.7m was incorrectly disclosed as Short Term Creditors.
- Within the Group Accounts Cashflow Statement the deficit on the provision of services for St Leger Homes Ltd was overstated by £2.5m.

In addition, 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 2013/14 ('the Code')* have been identified. We understand that the Authority will be addressing these where significant.

Annual Governance Statement

We have reviewed the 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.

Section three

Key financial statements audit risks

We have worked with officers throughout the year to discuss specific risk areas. The Authority addressed the issues appropriately.

In our External Audit Plan 2013/14, presented to you in January, we identified the key risks affecting the Authority's 2013/14 financial statements. We have now completed our testing of these areas and set out our evaluation following our substantive work.

The table below sets out our detailed findings for each of the risks that are specific to the Authority.

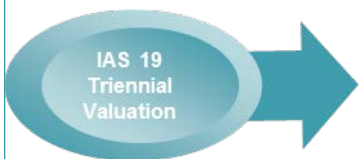
Additionally, we considered the risk of management override of controls, which is a standard risk for all organisations.

Our 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, did not identify any issues.

Key audit risk	Issue	Findings
New ERP System	The Authority introduced a new ERP system during 2013/14. Phase one was implemented in September 2013 and includes new general ledger, accounts payable and accounts receivable modules. As the general ledger is fundamental to the production of the financial statements, issues with the transition to and operation of the new system could fundamentally undermine the reliability of the information in the financial statements. We need to understand the operation of the new system and assess the success of the implementation in order to evaluate this risk and the impact on the financial statements.	We reported in our Interim Report presented to you in June 2014 that KPMG IT specialists had undertaken a review of the implementation of the new ERP system. This included project management, system configuration and interfaces, data migration and access controls. Some bespoke reports were not developed at the time of our interim visit and we were unable to fully complete our review of the new system. Our subsequent work has assured us that the Authority has had controls in place during 2013/14 to mitigate the risk of material misstatement.

Key financial statements audit risks (continued)

We have worked with officers throughout the year to discuss specific risk areas. The Authority addressed the issues appropriately.

Key audit risk	Issue	Findings
	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 2013 in line with the Local Government Pension Scheme Administration) Regulations 2008. 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 IAS 19 numbers to be included in the financial statements for 2013/14 will be based on the output of the triennial valuation rolled forward to 31 March 2014. For 2014/15 and 2015/16 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 is provided to the actuary by South Yorkshire Pensions Authority which administers the Pension Fund.	We have discussed the triennial valuation with officers and reviewed the communications between the Authority, South Yorkshire Pensions Authority and the actuary. We also reviewed the accounting entries and disclosures in the financial statements that relate to the revaluation. We have not identified any issues arising from our work.

Key financial statements audit risks (continued)

The quality of working papers and supporting information provided by the Authority has improved over previous years. As a result the number of material and significant amendments has reduced significantly.

Key audit risk	Issue	Findings
	The financial statements presented for audit in 2012/13 maintained the improvements noted in the Audit Commission's Annual Governance Report for 2011/12 but again required a significant number of amendments.	The quality of the working papers and supporting information has improved in 2013/14. All of the working papers were available by the agreed audit start date and the working papers met the standards specified in our Accounts Audit Protocol. These improvements in the quality of working papers and supporting information mean that the audit progressed more smoothly and in a more timely manner than in previous years. The number of material and significant amendments required to the financial statements presented for audit has also reduced significantly from previous years. This suggests that the issues with the time and resources allocated to the quality assurance process has been addressed. The new system, which allows officers and auditors to drill into the supporting details much more easily, has also contributed to the improvement. Officers were concerned that the output from the new system would be insufficient but this has proved to be unfounded.

Accounts production and audit process

We have noted an improvement in the quality of the accounts and the supporting working papers.

Officers dealt efficiently with audit queries and the audit process will be completed within the planned timescales.

The Authority has implemented the majority of the recommendations in our *ISA 260 Report 2012/13.*

Accounts production and audit process

ISA 260 requires us to communicate to you our views about 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.

We considered the following criteria:

Element	Commentary
Accounting practices and financial reporting	The Authority has strengthened its financial reporting process through greater focus on quality assurance. This has helped reduced the number of material and significant amendments significantly. However, robust quality checks and thorough proof reading of the accounts need to be maintained. We consider that accounting practices are appropriate.
Completeness of draft accounts	We received a complete set of draft accounts on 1st July 2014.
Quality of supporting working papers	Our *Accounts Audit Protocol*, which we issued in February 2014 and discussed with Officers, set out our working paper requirements for the audit. The quality of working papers provided was good and met the standards specified in our *Accounts Audit Protocol*.
Response to audit queries	Officers resolved audit queries in a reasonable time.

Element	Commentary
Group audit	To gain assurance over the Authority's group accounts, we placed reliance on work completed by Beever and Struthers on the financial statements of St Leger Homes Ltd. We are awaiting their confirmation of the work completed. There are no specific matters to report pertaining to the group audit.

Prior year recommendations

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

The Authority has implemented the majority of the recommendations in our *ISA 260 Report 2012/13*.

Appendix 2 provides further details

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

Before we can issue our opinion we require a signed management representations 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 2014, 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 Audit Commission's requirements in relation to independence and objectivity.

We have provided a detailed declaration in Appendix 4 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 Director of Finance for presentation to the Audit Committee. We require a signed copy of your management representations before we issue our audit opinion.

We require the Authority to provide specific representation that it has made available to auditors all information in relation to Digital Region Ltd that is relevant to the preparation of the financial statements. This includes records, documents and details of other matters of which it is aware. We also require the Authority to confirm that all transactions in relation to Digital Region Ltd have been recorded in the financial statements.

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 judgement, 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 transactions, public interest reporting, questions/objections, opening balances etc).

There are no others matters which we wish to draw to your attention in addition to those highlighted in this report or our previous reports relating to the audit of the Authority's 2013/14 financial statements.

VFM conclusion

Our VFM conclusion considers how the Authority secures financial resilience and challenges how it secures economy, efficiency and effectiveness.

We have concluded that the Authority has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

Although the conclusion is unqualified, we have included an additional paragraph drawing attention to the Secretary of State's requirements relating to the transfer of Children's Services.

Background

Auditors are required to give their statutory VFM conclusion based on two criteria specified by the Audit Commission. These consider whether the Authority has proper arrangements in place for:

- securing financial resilience: looking at the Authority's financial governance, financial planning and financial control processes; and
- challenging how it secures economy, efficiency and effectiveness: looking at how the Authority is prioritising resources and improving efficiency and productivity.

We follow a risk based approach to target audit effort on the areas of greatest audit risk. We consider the arrangements put in place by the Authority to mitigate these risks and plan our work accordingly.

The key elements of the VFM audit approach are summarised in the diagram below.

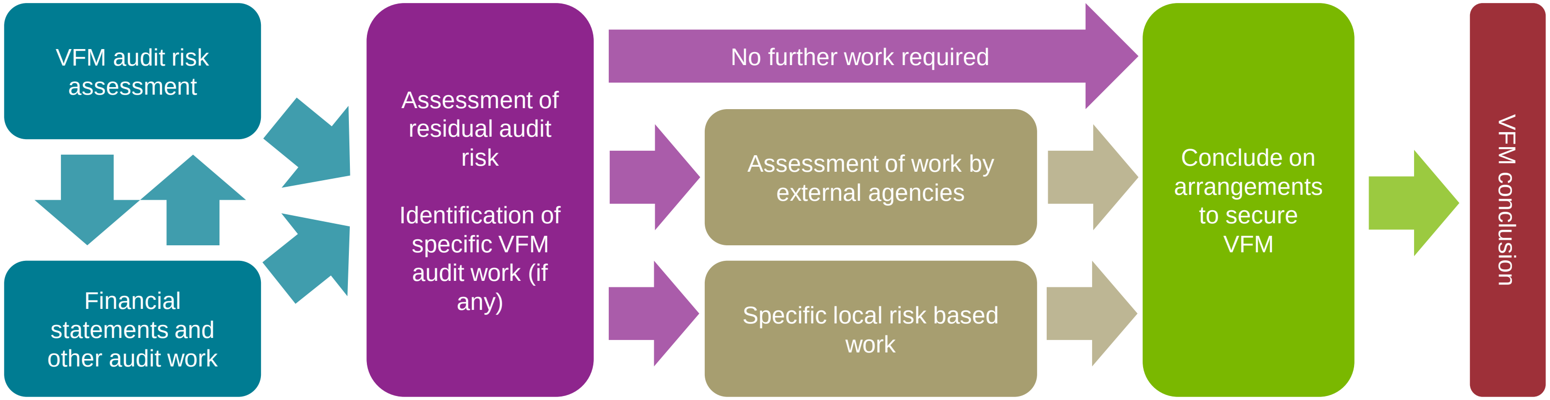
Work completed

We performed a risk assessment earlier in the year and have reviewed this throughout the year.

We have not identified any significant risks to our VFM conclusion and therefore have not completed any additional work.

We have concluded that the Authority has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources. However, we have included an additional paragraph in the conclusion to draw attention to the Secretary of State's statement about Doncaster's Children's Services.

VFM criterion	Met
Securing financial resilience	✓
Securing economy, efficiency and effectiveness	✓



Specific VFM risks

We identified a number of specific VFM risks.

We are generally satisfied that external or internal scrutiny provides sufficient assurance that the Authority's current arrangements in relation to these risk areas are adequate.

While some progress is being made on Children's Services, the Children's Trust will only be implemented from October 2014 and key areas of the service are still not meeting performance targets.

Work completed

In line with the risk-based approach set out on the previous page, and in our *External Audit Plan* we have:

- assessed the Authority's key business risks which are relevant to our VFM conclusion;
- identified the residual audit risks for our VFM conclusion, taking account of work undertaken in previous years or as part of our financial statements audit;
- considered the results of relevant work by the Authority, inspectorates and review agencies in relation to these risk areas; and
- completed specific local risk based work in relation to the Authority's involvement (with other partners) in Digital Region Limited.

Key findings

Below we set out the findings in respect of those areas where we have identified a residual audit risk for our VFM conclusion.

We concluded that we did not need to carry out additional work for two of these risks: Savings Plans and Children's Services. There was sufficient relevant work completed by the Authority, by the Audit Commission, and by other inspectorates and review agencies in relation to these risk areas.

Our review of other work included the peer review report by the Local Government Association. They were satisfied with the progress made by the Council in recent years except for Children's Services. They felt this was sufficient to recommend that the Secretary of State should cease the Recovery Board which has been in place since 2010. We see this an important independent confirmation of the significant changes that have taken place at the Authority, since the Corporate Governance Inspection which originally led to the Recovery Board being put in place.

We concluded that we needed to carry out additional work for one of these risks: Digital Region Limited. This work is now complete and we also report on this on page 14.

Specific VFM risks

The Authority has continued to make progress with its savings plans, although further work needs to be done to meet the remaining budget gap for 2015/16 and beyond.

Key VFM risk	Risk description and link to VFM conclusion	Assessment
	In response to the cuts in funding from central government, the Authority has plans to reduce its spending by £109 million between 2014/15 and 2016/17. The Authority expects to need to deliver savings of approximately £38m in 2014/15, £37m in 2015/16 and a further £34m in 2016/17. These levels of savings will be harder to deliver than earlier years as the Authority has already developed and delivered the more straightforward savings opportunities. A balanced budget has been agreed for 2014/15 but there remains a savings gap of £20 million in 2015/16 and 2016/17. As part of our VFM work we will critically assess the plans the Authority has in place to ensure a sound financial standing and review how the Authority is planning and managing its savings plans. This is relevant to both the financial resilience and economy, efficiency and effectiveness criteria of the VFM conclusion..	Within our Interim Report June 2014 we reported that the Authority had identified that it needs to make significant savings over the 3-year budget period from 2014/15 of £109m. This is made up of £38.0m in 2014/15, £39.2m in 2015/16 and £31.3m in 2016/17. To date, plans have been identified for £92m of the required savings which includes the £38m that needs to be achieved in full in the first year of the budget period. Only savings that can be permanently delivered have been built into the budget to address the (£109m) budget gap. A significant number of proposals have been identified for future years, but a gap remains in 2015/16 of £12.0m and 2016/17 £4.1m. Further budget work is ongoing and the Authority will need to ensure 2015/16 plans are finalised by the end of 2014 to enable savings to be delivered from the start of the 2015/16 financial year.

Specific VFM risks (continued)

In August 2013 the Authority, in conjunction with its partner Authorities and the Department for Business Innovation and Skills, took the decision to wind up Digital Region Ltd, the company set up to provide fast broadband in South Yorkshire.

The four South Yorkshire authorities commissioned an independent report into the lessons learned in relation to this project and this has now been completed.

Key VFM risk	Risk description and link to VFM conclusion	Assessment
Digital Region Limited	In light of the ongoing cost of supporting Digital Region Ltd, the Authority, in conjunction with the other shareholders, took the decision to wind up the company in August 2013. This decision will limit the Authority's exposure to future losses connected with Digital Region Ltd. It is also likely to lead to the overall cost being equal to or less than the provision of £6.4m included in the 2012/13 financial statements. We understand that the process of winding up the company will not be concluded during 2013/14. The Authority is currently carrying out a review of the Digital Region Project to identify the lessons that should be learned from the initial decision to invest up to the final decision to close the company. The outcome of this review is not known at this stage. This is relevant to the economy, efficiency and effectiveness criteria of the VFM conclusion.	The Authority has actively reviewed the situation as it has continued to develop throughout the 2013/14 financial year. The closedown process has continued and the network has now been switched off. The company is in the final stages of closedown. In April 2014, an independent report produced by KPMG concluded that all four Authorities involved in the project had important lessons to learn relating to development of the business case, governance arrangements, information flows and procurement. These lessons will be taken on board for future significant projects. The report concluded that there was no further work needed from KPMG in this area. As a result of this Authority's active involvement, we have concluded that the Authority has made proper arrangements to secure economy, efficiency and effectiveness in respect of its investment in Digital Region Ltd during 2013/14.

Section four

Specific VFM risks (continued)

We have taken account of the Secretary of State’s direction for Children’s and Young People’s Services in drafting our VFM conclusion.

We have included a paragraph in the conclusion referring to this significant matter.

Key VFM risk	Risk description and link to VFM conclusion	Assessment
	Following a visit by OFSTED in November 2012, the Secretary of State for Education issued a statutory direction in March 2013 that required the Authority to bring in external management support for the Children’s and Young People’s Service, particularly in respect of child protection. In August 2013, the Secretary of State for Education appointed Alan Wood as Commissioner for Children’s Social Care in Doncaster and issued a statutory direction requiring Doncaster Council to work with the commissioner to enable transfer of services to a trust and secure improvements to children’s social care. The 2012/13 VFM Conclusion included a report by exception highlighting the action taken by the Secretary of State. This action is relevant to the economy, efficiency and effectiveness criteria of the VFM conclusion. We will update the position to determine whether a similar outcome is appropriate for 2013/14.	As at 23 September 2014 the Children’s Trust Board is not yet operational, although it is planned to be so from 1 October 2014 and, at the time of writing, plans are on track to meet this timetable. As the acknowledged problems within Children’s and Young People’s Services are not representative of the continued progress that the Council has made in 2013/14 in relation to the costs, efficiency and productivity of the majority of its activities, we will not qualify the VFM conclusion in that respect. We have however, again, included an “emphasis of matter” section within our VFM conclusion to draw attention to the Secretary of State’s concerns.

Appendix 1: Key issues and recommendations

We have given each recommendation a risk rating and agreed what action management will need to take.

The Authority should closely monitor progress in addressing specific risks and implementing our recommendations.

Priority rating for recommendations		
❶ ***Priority one***: 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.	❷ ***Priority two***: 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.	❸ ***Priority three***: issues that would, if corrected, improve the internal control in general but are not vital to the overall system. These are generally issues of best practice that we feel would benefit you if you introduced them.

No.	Risk	Issue and recommendation	Management response / responsible officer / due date
1	❷	**Savings Plans for future years** A significant number of proposals have been identified for future years to meet the £109m savings requirement, but a gap remains in 2015/16 of £12.0m and 2016/17 £4.1m. Further budget work is ongoing and the Authority will need to ensure this is finalised in order to identify these savings for the start of the 2015/16 financial year. **Recommendation** The Authority should completes its work on developing and approving savings plans for 2015/16 by December 2014 to enable the savings to be achieved from the start of the 2015/16 financial year.	

Appendix 2: Follow up of prior year recommendations

The Authority has still to implement one of the recommendations in our *ISA 260 Report 2012/13.*

This appendix summarises the progress made to implement the recommendations identified in our *ISA 260 Report 2012/13* and re-iterates any recommendations still outstanding.

Number of recommendations that were:	
Included in original report	3
Implemented in year or superseded	2
Remain outstanding (re-iterated below)	1

No.	Risk	Issue and recommendation		Status as at 23 September 2014
1	2	The Authority should commission a full independent review of the Digital Region Project to identify the lessons that should be learned. This review should be carried out as soon as possible and jointly with the other stakeholders.		A full independent review was commissioned jointly with the other three South Yorkshire authorities. This reported in April 2014 and concluded that, whilst there were lessons to learn in a number of areas, there was no further work needed to review this project.
2	2	The Authority should ensure it has appropriate arrangements in place to manage the closure of Digital Region Limited and to minimise the financial impact on the Authority.		The process to close DRL is approaching completion and should be concluded during 2014/15. It is expected that the current provision in the accounts of £5.84m will be sufficient to meet the expected closedown costs.
3	2	The Authority should ensure that it develops savings plans to meet the full budget gap of £109m identified for financial years up to 2016/17.		Although considerable proposals have been identified for future years, a gap remains in 2015/16 of £12.0m and 2016/17 £4.1m. Further budget work is ongoing and the Authority will need to ensure this is finalised promptly.

Appendix 3: Audit differences

This appendix sets out the significant audit differences.

It is our understanding that all of these will be adjusted.

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.

Corrected audit differences

The following table sets out the significant audit differences identified during our audit of Doncaster Metropolitan Borough Council's financial statements for the year ended 31 March 2014. It is our understanding that these will be adjusted. However, we have not yet received a revised set of financial statements to confirm this.

	Impact			
No.	Note 16 Financial Liabilities Carrying Value	Balance Sheet Liabilities	Group Accounts Cashflow Statement	Basis of audit difference
1	Financial Liabilities Carrying Value £100m understatement. No Impact on other accounts.			The carrying value of Financial Liabilities disclosed within Note 16 Financial Instruments was understated by £100m
2		Dr ST Creditors £7.7m Cr Grants Receipts in Advance £7.7m		Grant received in advance of £7.7m was incorrectly disclosed as Short Term Creditors.
3			Provision of services understated by £2.5m	Within the Group Accounts Cashflow Statement the deficit on the provision of services for St Leger Homes Ltd was overstated by £2.5m
	£0	**£0**	**£0**	**Total impact of adjustments**

Appendix 4: Declaration of independence and objectivity

The *Code of Audit Practice* requires us to exercise our professional judgement and act independently of both the Commission and the Authority.

Requirements

Auditors appointed by the Audit Commission must comply with the *Code of Audit Practice* (the 'Code') which states that:

"Auditors and their staff should exercise their professional judgement and act independently of both the Commission and the audited body. Auditors, or any firm with which an auditor is associated, should not carry out work for an audited body that does not relate directly to the discharge of auditors' functions, if it would impair the auditors' independence or might give rise to a reasonable perception that their independence could be impaired."

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 Audit Commission's *Standing Guidance for Local Government Auditors* ('Audit Commission 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. Audit Commission 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 this. 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'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.

Appendix 4: Declaration of independence and objectivity (continued)

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

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.

Auditor declaration

In relation to the audit of the financial statements of Doncaster Metropolitan Borough Council for the financial year ending 31 March 2014, 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 Audit Commission's requirements in relation to independence and objectivity.

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