



Progress Report and Technical update





Doncaster Metropolitan Borough Council

March 2018

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This report provides the audit committee with an overview on progress in delivering our responsibilities as your external auditors. The report also highlights the main technical issues which are currently having an impact in local government. If you require any additional information regarding the issues included within this report, please contact a member of the audit team. We have flagged the articles that we believe will have an impact at the Authority and given our perspective on the issue:

 High impact  Medium impact  Low impact  For information



External audit progress report

External audit progress report

This document provides the audit committee with a high level overview on progress in delivering our responsibilities as your external auditors.

At the end of each stage of the audit we issue certain deliverables, including reports and opinions. A summary of progress against these deliverable is provided in Appendix 1 of this report.

Area of responsibility	Commentary
Financial statements	<p>Our External Audit Plan 2017/18, presented to you in January 2018, set out the four stages of our financial statements audit process. During January to March 2018 we completed our planning and control evaluation work. This covered:</p> <ul style="list-style-type: none"> — review of the Council's general control environment, including gaining an understanding of the Council's IT systems; — testing of certain controls over the Council's key financial systems; — review of relevant internal audit work; and — review of the Council's accounts production process, including work to address prior year audit recommendations and the specific risk areas we have identified for this year. <p>We have also identified a further significant risk during the year in relation to the overstatement of the fixed asset value in the balance sheet as a result of previous componentised asset revaluations over the years 2015/16 and 2016/17 being double counted and inflating the base by approximately £33.5m. This has no impact upon Council Tax and is merely a capital accounting adjustment that will flow through the capital accounts. See page 6 for more details.</p>
Value for Money	<p>Our VFM conclusion considers how the Council secures financial resilience and challenges how it secures economy, efficiency and effectiveness.</p> <p>We follow a risk based approach to target audit effort on the areas of greatest audit risk.</p> <p>In line with the risk-based approach set out in our External Audit Plan 2017/18, we have:</p> <ul style="list-style-type: none"> — Assessed the Council'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 Council, other inspectorates and review agencies in relation to these risk areas; and — Concluded to what extent we need to carry out additional risk-based work. <p style="text-align: right;"><i>Continued on page 5</i></p>

External audit progress report (cont.)

Area of responsibility	Commentary
Value for Money (continued)	<p>We completed our initial VFM risk assessment prior to issuing our Audit Plan in January 2018, this identified a significant Risk around Children's Services Trust overspends and Adult Services contracts. Our work on this risk is still ongoing.</p> <p>We will report our final conclusions in our <i>ISA 260 Report 2017/18</i>.</p>
Other work	<p><i>Accounts Production Process</i></p> <p>We consider that the overall process for the preparation of your financial statements is adequate.</p>

External audit progress report (cont.)

Following our plan presented to you in January 2018 we have identified a further significant risk in relation to the overstatement of fixed asset values in the Balance Sheet.

The Council has a good understanding of the key audit risk areas we identified and is making progress in addressing them.

However, these still present significant challenges that require careful management and focus. We will revisit these areas during our final accounts audit.

Work completed

In our External Audit Plan 2017/18, presented to you in January 2018, we identified the key audit risks affecting the Council's 2017/18 financial statements.

Our audit strategy and plan remain flexible as risks and issues change throughout the year. To date we have identified a new risk to those previously communicated in relation to the overstatement of the fixed asset value in the balance sheet as a result of previous componentised asset revaluations over the years 2015/16 and 2016/17 being double counted and inflating the asset base by approximately £33.5m.

We have been discussing these risks with relevant officers as part of our regular meetings. In addition, we sought to review relevant

workings and evidence and agree the accounting treatment as part of our interim work.

Key findings

The Council has a clear understanding of the risks and is making progress in addressing them. However, these still present significant challenges that require careful management and focus. We will revisit these areas during our final accounts audit.

The new risk requiring specific audit attention and procedures to address the likelihood of a material financial statement error is outlined below.

Risk: Overstatement of fixed asset values in the Balance Sheet

During 2015/16 and 2016/17, when revaluations had been undertaken for componentised assets by the Council's valuers, the Council had posted the revalued amount all to the building category – rather than splitting this across the building, mechanical and external component values/categories. This has resulted in the assets being overstated by the existing component value. The Council have brought the previous pre-revaluation values for the mechanical and external categories forward to reflect the value that they have historically been held in the asset register. This has resulted in a misstatement of asset values held on the Balance Sheet of approximately £33.5m. This has no impact upon Council Tax and is merely a capital accounting adjustment that will flow through the capital accounts.

There is a risk that the 2017/18 Financial Statements will be materially misstated if a prior period adjustment is not made to the 2016/17 and 2015/16 Financial Statements to reflect the correct fixed asset value in the Balance Sheet.

Approach:

We shall:

- Review the Council's response to the identified overstatement to understand the proposed treatment of the assets in the current year and previous years;
- Assess whether the proposed response is adequate; and
- Ensure the correct accounting treatment is made and disclosures comply with the Code, including whether the prior period adjustment is correct.



Technical developments

NAO Report – PF1 and PF2

Level of impact: ● (For Action)	KPMG Perspective
<p>The NAO has recently published a report on Private Finance Initiative (PFI) and the introduction of a reformed model of the PFI called PF2.</p> <p>There are currently over 700 operational PFI and PF2 deals, with a capital value of around £60 billion, and annual charges for these deals amounted to £10.3 billion in 2016-17.</p> <p>The report presents information on the rationale, costs, benefits, use, and the impact of PFI, and discusses the extent to which it may be able to make savings from existing PFI contracts. The report also highlights some of the reasons for PFI reform and the introduction of PF2.</p> <p>The report does not suggest whether or not the PFI and PF2 models deliver value for money, but highlights the costs and benefits of entering into PFI and now the PF2.</p> <p>A copy of the report can be accessed from the NAO website at the following link:</p> <p>https://www.nao.org.uk/report/pfi-and-pf2/</p>	<p>Those charged with governance may wish to consider the costs and benefits of entering into PFI and PF2 arrangements.</p>

Statutory Guidance for Local Authority Investments and the Minimum Revenue Provision

Level of impact: ● (For Information)

The Ministry of Housing, Communities and Local Government (MHCLG) has published its summary of responses to the consultation regarding Local Authority investments and the minimum revenue provision.

The guidance on minimum revenue provisions (MRP) applies for accounting periods starting on or after 1 April 2019, with the exception of paragraphs 27-29 of the guidance ("Changing methods for calculating MRP"), which apply from accounting periods starting on or after 1 April 2018.

The investment guidance also applies from accounting periods starting on or after 1 April 2018.

A copy of the responses can be found at the following link:

<https://www.gov.uk/government/consultations/proposed-changes-to-the-prudential-framework-of-capital-finance>



Appendix

Appendix 1

2017/18 audit deliverables

Deliverable	Purpose	Timing	Status
Planning			
External audit plan	Outline our audit strategy and planned approach Identify areas of audit focus and planned procedures	January 2018	Complete
Interim			
Interim report	Details and resolution of control and process issues. Identify improvements required prior to the issue of the draft financial statements and the year-end audit. Initial VFM assessment on the Council's arrangements for securing value for money in the use of its resources.	March 2018	Complete
Substantive procedures			
Report to those charged with governance (ISA 260 report)	Details the resolution of key audit issues. Communication of adjusted and unadjusted audit differences. Performance improvement recommendations identified during our audit. Commentary on the Council's value for money arrangements.	July 2018	TBC

Appendix 1

2017/18 audit deliverables (cont.)

Deliverable	Purpose	Timing	Status
Completion			
Auditor's report	Providing an opinion on your accounts (including the Annual Governance Statement). Concluding on the arrangements in place for securing economy, efficiency and effectiveness in your use of resources (the VFM conclusion).	July 2018	TBC
WGA	Concluding on the Whole of Government Accounts consolidation pack in accordance with guidance issued by the National Audit Office.	August 2018	TBC
Annual audit letter	Summarise the outcomes and the key issues arising from our audit work for the year.	August 2018	TBC
Certification of claims and returns			
Certification of claims and returns report	Summarise the outcomes of certification work on your claims and returns for Government departments.	December 2018	TBC



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