External audit report 2017/18

Doncaster Metropolitan Borough Council

—

July 2018

Summary for Audit Committee

Financial statements

This document summarises the key findings in relation to our 2017-18 external audit at Doncaster Metropolitan Borough Council ‘the Authority’.

This report focuses on our on-site work which was completed in June and July 2018 on the Authority’s significant risk areas, as well as other areas of your financial statements. Our findings are summarised on pages 4 – 13.

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 before the deadline of 31 July.

We have identified one presentational adjustment with no impact upon the primary statements and reserve balances, and one adjustment which impacted upon the primary statements and reserve balances. See page 9-13 for details. We have also identified two unadjusted audit differences (Appendix 3).

Based on our work, we have raised 2 recommendations. Details on our recommendations can be found in Appendix 1.

We are now in the final stages of the audit and anticipate issuing an unqualified audit opinion and issuing our completion certificate and Annual Audit letter once work on the WGA is complete later in the year.

Our audit is not yet complete and matters communicated in this report may change pending signature of our audit report. We will provide an oral update on the status of our audit at the Audit Committee meeting but would highlight that the following work is still outstanding:

- Journals testing
- Revaluation queries
- Pensions queries
- Loan/investment confirmations
- Information regarding the Dedicated School Grant
- Finalisation of the disclosure of the prior year adjustment
- Casting and checking the final updated accounts

Use of resources

We have substantially completed our risk-based work (although work regarding adult services is ongoing, at the date of drafting this) 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 anticipate concluding 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 14**.**

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:

Clare Partridge
Partner
KPMG LLP (UK)

+44 (0)113 231 3922
clare.partridge@kpmg.co.uk

Alison Ormston
Senior Manager
KPMG LLP (UK)
+44 (0)113 231 3942
Alison.ormston@kpmg.co.uk

Jakira Motala
Assistant Manager
KPMG LLP (UK)

+44 (0)113 232 3912
Jakira.motala@kpmg.co.uk

Contents

Section one

Financial Statements

We anticipate issuing an unqualified audit opinion on the Authority's 2017/18 financial statements by 31 July 2018. We will also report that your Annual Governance Statement is consistent with other information disclosed and information obtained during our audit.

For the year ending 31 March 2018, the Authority has reported a total deficit on provision of services of £100.7m. Note that this includes £15.1m of revaluation decreases on Council Dwellings. The impact on the General Fund has been a decrease of £4m.

Significant audit risks

Our *External Audit Plan 2017/18* 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. Valuation of Property, Plant & Equipment (PPE)	**Why is this a risk?** The Code requires that where assets are subject to revaluation, their year end carrying value should reflect the appropriate fair value at that date. The Authority has adopted a rolling revaluation model which sees all land and buildings revalued over a five year cycle. As a result of this, however, individual assets may not be revalued for four years. In addition due to the significant value of the PPE base as the valuations are based on a number of assumptions there is a risk that if these assumptions are incorrect then there could be a material difference in the PPE balance. This creates a risk that the carrying value of those assets not revalued in year differs materially from the year end fair value. In addition, as the valuation is undertaken as at 1 April, there is a risk that the fair value is different at the year end. **Our work to address this risk** - We have assessed the qualifications, objectivity and independence of the valuer to carry out the valuations; - We have assessed the 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 considered the movement in market indices between revaluation dates and the year end in order to determine whether these indicated that fair values had moved materially over that time; - 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.
2. Pensions Liabilities	**Why is this a risk?** The net pension liability represents a material element of the Authority's balance sheet. The Authority is an admitted body of South Yorkshire Pension Fund, which had its last triennial valuation completed as at 31 March 2016. This forms an integral basis of the valuation as at 31 March 2018. The valuation of the Local Government Pension Scheme relies on a number of assumptions, most notably around the actuarial assumptions, and actuarial methodology which results in the Authority's overall valuation. There are financial assumptions and demographic assumptions used in the calculation of the Authority's valuation, such as the discount rate, inflation rates, mortality rates etc. The assumptions should also reflect the profile of the Authority's employees, and should be based on appropriate data. The basis of the assumptions is derived on a consistent basis year to year, or updated to reflect any changes.

Significant audit risks

Our *External Audit Plan 2017/18* 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
2. Pension Liabilities (continued)	**Why is this a risk? (continued)** There is a risk that the assumptions and methodology used in the valuation of the Authority's pension obligation are not reasonable. This could have a material impact to net pension liability accounted for in the financial statements. **Our work to address this risk** We reviewed the process used to submit payroll data to the Scheme Actuary and have found no issues to note. We also tested the year-end submission process and other year-end controls. We have also liaised with the auditors of the Pension Fund in order to gain an understanding of the effectiveness of those controls operated by the Pension Fund. This included consideration of the process and controls with respect of the assumptions used in the valuation. We also evaluated the competency, objectivity and independence of Mercer, the actuary. We have reviewed the appropriateness of the key assumptions included within the valuation, compared them to expected ranges, and have used KPMG pensions specialists to review these. We have also reviewed the methodology applied in the valuation by Mercer. We have reviewed the overall Actuarial valuation and considered the disclosure implications in the financial statements and are in the process of reviewing the pension asset allocation split. Our work has also considered the roll forward of the assets undertaken by the actuaries and the allocation of those assets to the Authority. We noted that, consistent with many pension funds given the faster close process of Local Government accounts, the actuaries have used estimated investment rates of returns for the last few months of 2017/18, which our work has considered and the difference in actual and estimated investment rates of return has not had a material impact on the value of the pension fund assets and therefore net liability (see Appendix 3). In addition as the Council paid some future pension contributions in advance during the financial year, we have confirmed these back to supporting evidence and confirmed the accounting treatment is appropriate.
3. Overstatement of fixed asset values in the Balance Sheet	**Why is this a risk?** 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 2016/17and 2015/16 Financial Statements to reflect the correct fixed asset value in the Balance Sheet. **Our work to address this risk** We have reviewed the council response to the identified overstatement to understand the proposed treatment of the assets in the current and previous years. We have assessed whether we consider the proposed response to be adequate. We have ensured that the correct accounting treatment is made and disclosures comply with the code, including whether the prior period adjustment is correct.

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 2017/18* 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 2017/18 financial statements and accounting estimates. We have set out our view below across the following range of judgements.

Level of prudence

Subjective areas	2017/18	2016/17	Commentary
Provisions (excluding NNDR)	3	3	Total value of non NNDR provisions (£12.21m) is marginally higher than our materiality of £11m. The majority of the provisions relate to the estimated value of outstanding insurance claims (£9.4m). 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 (£4.21m) are significantly less than our materiality level of £11m. We have reviewed the workings for the NNDR provisions and note that these have increased from the prior period based upon the effects of the 2017 revaluation and low level of appeals being settled for 2017. The methodology behind this calculation is considered balanced and based accordingly upon recent historical trends and knowledge of current cases.
PPE: HRA assets	3	3	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 2017/18 financial statements following approval of the Statement of Accounts by the Audit Committee on 26 July 2018.

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 million. Audit differences below £550k are not considered significant.

We identified two unadjusted audit differences. One related to an academy then when accounted for as a long term lease in 2014/15 was not disposed of from the Council's asset register. The other is for £5.7m in relation to pension assets valuation. Details can be found in Appendix 3.

We also identified:

— One small presentational adjustment relating to the audit fees. This has been addressed by management.

— One valuation carried out resulting in a £896,000 valuation difference. This has been addressed by management.

Annual governance statement

We have reviewed the Authority's 2017/18 Annual Governance Statement and confirmed that:

— 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 2017/18 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.

Completeness of draft accounts

We noted draft accounts were published on the council website on 31st May, in line with the 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.

Group audit

The Council has two subsidiaries: St Leger Homes of Doncaster and Arthur Street Developments. Only St Leger Homes of Doncaster is consolidated. Arthur Street Developments are not consolidated as the figures are not material.

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 2 of the recommendations in our ISA 260 Report 2016/17. We note that issues remained with regards to general IT controls for Universal Housing around password controls. 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

— We noted that the password control in place for Universal Housing 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. This is the same issue as highlighted in our 2016/17 report.

Contracts

— The Council appointed Link Asset Services to provide Treasury Consultancy Services for a further five years from 1 January 2017 to 31 December 2021. Currently there is no signed contract in place between the Council and Link Asset Services for the Treasury Management Consultancy Service contract. Link Asset Services are proposing the Council sign up to Link's terms and conditions (T&Cs). The Council have consulted with the legal team and have been advised that Link Asset Services should in fact be signing Council T&Cs. Currently both parties are at a standstill in contracting as neither are willing to sign each others contracts.

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 2017/18 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 2018, 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 2017/18 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.

1 Identification of significant VFM risks (if any)

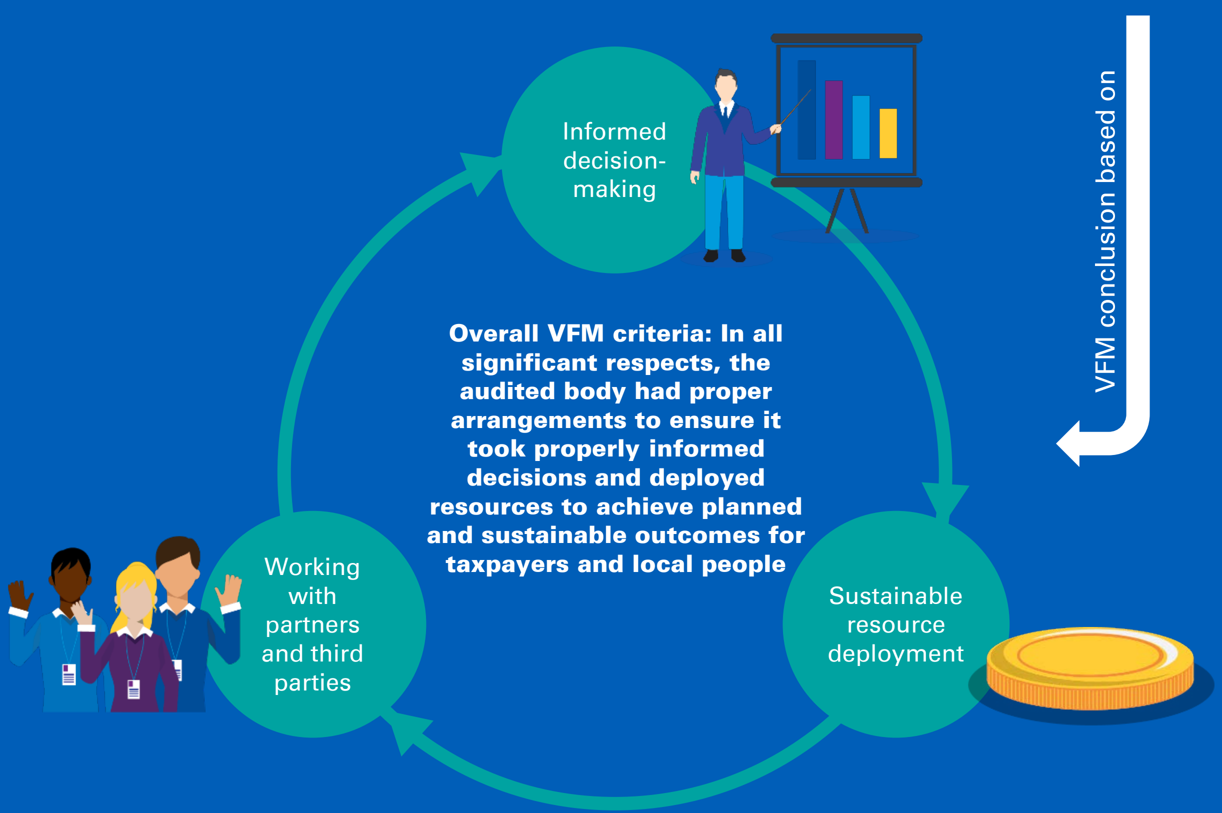
- VFM audit risk assessment
- Financial statements and other audit work

2 Continually re-assess potential VFM risks

- Assessment of work by other review agencies
- Specific local risk-based work

3 VFM conclusion

- **Conclude on arrangements to secure VFM**



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 2017/18, 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 2018 we identified a significant VFM risk with regards to the overspend and performance of the Children's Services Trust and Adults Services contracts.

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 as communicated to you in our *2017/18 External Audit Plan*. 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 a year end forecast overspend of circa £3.0m, of which £1.1m 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 £4.1m overspend. 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?

The Transformation of Adults, Health and Wellbeing is a key area of development for the Council in 2017/18. There are a number of expired contracts with adult social care providers which are overdue for renewal by up to 3 years in some cases.

There is therefore a risk that the Council are not achieving value for money from these out of date contracts.

Summary of our work

We have reviewed the Commissioning Plan introduced during 2017/18 for the Adults, Health and Wellbeing directorate. This plan shows consideration of the pressures the directorate is under. The plan gives a forward thinking view up to 2021, ensuring that expired contracts do not become overdue for renewal by up to 3 years as identified previously. We have found that since April 2017, only 1 contract has gone into breach with a total value of £42,055 – this is excluding contracts which were already in breach at the start of the year. As at 28/02/2018 (last date reports to audit committee), 7 contracts remain in breach with a total value of £1,297,193.

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 the 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 2017/18 financial statements has identified some issues. These relate to general IT controls and the need for signed contracts with service organisations/experts. 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 2017/18.

2017/18 recommendations summary

Priority	Total raised for 2017/18
High	0
Medium	2
Low	0
Total	2

Medium priority

1. Universal Housing Password Controls

Our audit identified an issue with regards to the general IT controls in place for the Universal Housing system.

We noted that the password control in place for Universal Housing 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. This is the same issue as highlighted in our 2016/17 report.

Recommendation

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

The Council accepts the recommendation identified. This is considered a low risk because; Universal Housing cannot be accessed without logging into the DMBC network (i.e. it is not web based) and there are good controls on the network passwords and on leavers. There are a limited number of people who can make changes to the system and there are controls in place to check system changes which are made. St Leger Homes are currently procuring a new system with a maximum implementation period of 21 months and the password controls in the specification for the new system are in line with the IT security policy.

Owner

Julie Crook

Deadline

30th September 2020

Medium priority

2. Link Asset Services Contract

The Council appointed Link Asset Services to provide Treasury Consultancy Services for a further five years from 1 January 2017 to 31 December 2021.

Currently there is no signed contract in place between the Council and Link Asset Services for the Treasury Management Consultancy Service contract.

We were informed that this was because Link are proposing the Council sign up to Link's terms and conditions (T&Cs). The Council have consulted with the legal team and have been advised that Link should in fact be signing Council T&Cs. Currently both parties are at a standstill as neither are willing to sign each others contracts.

Recommendation

The Council should ensure that a signed contract is in place for the services provided by Link Asset Services as soon as possible.

Management Response

The Council accepts the recommendation identified. Ongoing dialogue continues between the Council and Link Asset Services to sign a contract. In the meantime, Link Asset Services continue to provide services in accordance with the specification, we have excellent relationships and there have not been any performance issues to date.

Owner

Steve Mawson

Deadline

31st January 2019

Follow-up of prior year recommendations

In the previous year, we raised three recommendations which we reported in our *External Audit Report 2016/17 (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.

2016/17 recommendations status summary

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

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 Original 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

Original Deadline

31st January 2018

KPMG's July 2018 assessment

Not implemented

As per current year recommendation 1, our testing over IT controls identified that the password control in place for the Universal Housing system 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.

Management's July 2018 response

[TBC]

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 Original 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

Original Deadline

30th September 2017

KPMG's July 2018 assessment

Fully implemented

Overpayments report is now retained for a full financial year.

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 original 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

Original Deadline

30th September 2017

KPMG's July 2018 assessment

Fully implemented

Testing of reconciliations this year did not identify any issues with regards to the evidence of preparation and/or review.

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

Other Adjustments

In addition to the above, there was two amendments identified. These are detailed below.

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	£2,750 for Pooling Capital Receipts has been wrongly classified as other services within External Audit fees. This should be included within certification of grant claims and returns. We note that this item is relatively minor in nature and relates largely to human error rather than pointing to any specific weaknesses in control. The adjustment made does not impact upon the primary statements.
2	Revaluation carried out over one school using 2012 figures for Modern Equivalent Asset (MEA) valuation basis. When updated to use 2017 MEA values, a difference of £896,000 was identified. This has been adjusted for and updated across all areas of accounts where effected including CIES & Balance Sheet. All properties valued on MEA basis by the valuer who made the error were checked and no further errors were identified.

Unadjusted audit differences

We note that there are two unadjusted audit differences to bring to your attention.

Table 2: Unadjusted audit differences

No.	Description
1	In 2014/15, an academy was accounted for as a long term lease, having previously been recognised as a short term lease, but not disposed from the Council's asset register. This was identified in 2017/18 and the asset was correctly disposed from the Council's asset register. The position in the 2017/18 accounts is correct and the impact is the same in 2017/18 as it would have been in 2014/15. The asset had a current value of £9.1m however the net effect after depreciation is £2.6m.
2	In response to regulatory comments to all audit firms we have had increased scrutiny over the pension asset roll forward this year. There is an unadjusted audit difference with an approximate value of £5.7m in relation to the pension assets. This variance is due to the actuary having to use estimates to provide their valuation in time for the draft accounts, but the actual figures being available by the time we complete our audit. The actuary had estimated a return of c. -1.13% however based on actual information as at March 2018 the return was c. -0.63%, the effect is to increase the year-end pension assets.

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 2017/18, presented to you in January 2018.

Materiality for the Authority's accounts was set at £11 million which equates to around 1.5 percent of gross expenditure (circa £728m). 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 £550,000 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.

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 2018, 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.

Audit fees

Audit fees

As communicated to you in our External Audit Plan 2017/18, 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 2018. 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	2017/18 *(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 2018	25,035
Total fee for the Authority set by the PSAA	**189,879**

All fees are quoted exclusive of VAT.

Non-PSAA Fees

	2017/18 *(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.