APPENDIX A

External Audit Report 2015/16

Doncaster Metropolitan Borough Council

—

DRAFT 4 August 2016

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. Public Sector Audit Appointments issued a document entitled Statement of Responsibilities of Auditors and Audited Bodies summarising where the responsibilities of auditors begin and end and what is expected from audited bodies. We draw your attention to this document which is available on Public Sector Audit Appointment's website (www.psaa.co.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.

We are committed to providing you with a high quality service. If you have any concerns or are dissatisfied with any part of KPMG's work, in the first instance you should contact Clare Partridge, the engagement lead to the Authority, who will try to resolve your complaint. If you are dissatisfied with your response please contact the national lead partner for all of KPMG's work under our contract with Public Sector Audit Appointments Limited, Andrew Sayers (on 0207 694 8981, or by email to andrew.sayers@kpmg.co.uk). After this, if you are still dissatisfied with how your complaint has been handled you can access PSAA's complaints procedure by emailing generalenquiries@psaa.co.uk, by telephoning 020 7072 7445 or by writing to Public Sector Audit Appointments Limited, 3rd Floor, Local Government House, Smith Square, London, SW1P 3H.

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Section one: Introduction

Introduction

This document summarises:

- **The key issues identified during our audit of the financial statements for the year ended 31 March 2016 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 MBC ('the Authority') in relation to the Authority's 2015/16 financial statements; and
- The work to support our 2015/16 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 2015/16*, presented to you in January 2016, set out the four stages of our financial statements audit process.

Planning → Control Evaluation → Substantive Procedures → Completion

This report focuses on the third stage of the process: substantive procedure. Our on site work for this part of the process took place during July 2016.

It also includes any additional findings in respect of our control evaluation which we have identified.

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 2015/16 explained our risk-based approach to VFM work. We have now completed the work to support our 2015/16 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 2015/16 financial statements of the Authority and the fund.
- 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 recommendations.

Acknowledgements

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

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Section two: Headlines

Headlines

This table summarises the headline messages for the Authority. Sections three and four of this report provide further details on each area.

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 2016. We will also report that your Annual Governance Statement complies with guidance issued by CIPFA/SOLACE in June 2007.
Audit adjustments	Our audit has identified a small number of presentational audit adjustments. These have been discussed with management and the financial statements have been amended for all of them. One specific area that has been adjusted for relates to the appropriate disclosure of the new Salix Loan (£2,646k) in Note 12 of the financial statements under the 'fair values of assets and liabilities'. This had been recognised appropriately within borrowings and therefore does not impact on the balance sheet of the Authority. There is one unadjusted audit difference in relation to the Waste Management PFI Contract. This PFI came into use during the year that the financial statements are reporting on. Once assets have been recognised (as they come into use), under section 4.3 of the Code, an assessment needs to be made as to whether the asset value needs to be re-measured. No such revaluation has taken place and therefore there is a risk that the value of the asset may be misstated. The proportion of the asset that relates to Doncaster MBC (40%) is currently valued on the balance sheet at £25.9m. We have a materiality level of £15m and therefore we are confident that the value of the asset is not currently materially misstated, through discussions with valuation experts and our knowledge of this type of asset. However we recommend that this is revalued at the earliest opportunity and recognised at it's up to date value in the 2016/17 financial statements. We have included a full list of audit adjustments at Appendix two. All of these were adjusted by the Authority apart from the audit difference identified in relation to the Waste Management PFI Contract. We have raised one medium priority recommendation (revaluation of Waste Management asset) and four low priority recommendations in relation to our audit testing, which are summarised in Appendix one.
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 2015/16 with respect to the financial statements.

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Headlines (cont.)

This table summarises the headline messages for the Authority. Sections three and four of this report provide further details on each area.

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

Accounts production and audit process	We received complete draft accounts by 30 June 2016 in accordance with the DCLG deadline. The accounting policies, accounting estimates and financial statement disclosures are in line with the requirements of the Code. The Authority has implemented the recommendation in our *ISA 260 Report 2014/15* relating to the financial statements. The Authority has good processes in place for the production of the accounts and good quality supporting working papers. Officers dealt efficiently with audit queries and the audit process has been completed within the planned timescales. As in previous years, we will debrief with the Finance team to share views on the final accounts audit. Hopefully this will lead to further efficiencies in the 2016/17 audit process. In particularly we would like to thank Authority Officers who were available throughout the audit visit to answer our queries.
VFM conclusion and risk areas	We did not identify an specific VFM risks in our External audit plan 2015/16 issued in January 2016. The Authority has produced a detailed self-assessment, against the areas identified in the NAO guidance, to demonstrate the arrangements that the Authority has put in place to achieve value for money. This self-assessment provides a highly comprehensive view on how the Authority has implemented processes and procedures to achieve value for money. We have worked with officers throughout the year to discuss this self-assessment and our detailed findings are reported in section 4 of this report. There are no matters of any significance arising as result of our audit work. 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 2015.

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Headlines (cont.)

This table summarises the headline messages for the Authority. Sections three and four of this report provide further details on each area.

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 complete subject to completion of the following areas: — Review of non-pay expenditure — Sample testing of journal entries — Conclusion on the accounting treatment of the Waste Management PFI Contract. You are required to provide us with representations on specific matters such as your going concern assertion and whether the transactions in the accounts are legal and unaffected by fraud. We provided a draft of this representation letter to the Section 151 Officer on 4 August 2016. We draw your attention to the requirement in our representation letter for you to confirm to us that you have disclosed all relevant related parties to us. We are asking management to provide specific representations on the following: — the value of the Waste Management asset. 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.

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Section three: Financial Statements

Proposed opinion and audit differences

We have not identified any issues in the course of the audit that are considered to be material.

The wording of your Annual Governance Statement complies with guidance issued by CIPFA/SOLACE in June 2007.

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 17 August 2016.

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 two for more information on materiality) level for this year's audit was set at £15 million. Audit differences below £750k are not considered significant.

We did not identify any material misstatements. We identified a number of minor issues that have been adjusted by management as they do not have a material effect on the financial statements. One specific area that has been adjusted for relates to the appropriate disclosure of the new Salix Loan (£2,646k) in Note 12 of the financial statements under the 'fair values of assets and liabilities'. This had been recognised appropriately within borrowings and therefore does not impact on the balance sheet of the Authority.

There is no impact on the General Fund and HRA as a result of these minor audit adjustments as they related to disclosure only.

There is one unadjusted audit difference in relation to the Waste Management PFI Contract. This PFI came into use during the year that the financial statements are reporting on. Once assets have been recognised (as they come into use), under section 4.3 of the Code, an assessment needs to be made as to whether the asset value needs to be re-measured.

No such revaluation has taken place and therefore there is a risk that the value of the asset may be misstated. The proportion of the asset that relates to Doncaster MBC (40%) is currently valued on the balance sheet at £25.9m. We have a materiality level of £15m and therefore we are confident that the value of the asset is not currently materially misstated, through discussions with valuation experts and our knowledge of this type of asset. However we recommend that this is revalued at the earliest opportunity and recognised at it's up to date value in the 2016/17 financial statements.

In addition, we identified a small number of presentational adjustments required to ensure that the accounts are compliant with the Code of Practice on Local Authority Accounting in the United Kingdom 2015/16 ('the Code').

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.

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Significant audit risks

We have worked with the Authority throughout the year to discuss significant risks and key areas of audit focus.

This section sets out our detailed findings on those risks.

In our *External Audit Plan 2015/16* we reported that we would consider two risk areas that are specifically required by professional standards and report our findings to you. These risk areas were Management override of controls and the Fraud risk of revenue recognition.

The table below sets out the outcome of our audit procedures and assessment on these risk areas.

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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 2015/16 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.

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Other areas of focus

In our External Audit Plan 2015/16, presented to you in January 2015, we identified one area of audit focus. This is not considered as a significant risk but an area of importance where we would carry out some substantive audit procedures to ensure there is no risk of material misstatement.

We have now completed our testing. The table sets out our detailed findings for this area of audit focus.

Area of focus 1

Area of Audit Focus – Minimum Revenue Provision

— Area

In 2015/16 the Authority have proposed a change in the methodology used to calculate their Minimum Revenue Provision (MRP). The MRP charge is the means by which capital expenditure which is financed by borrowing or credit arrangements is paid for by council tax payers. Local Authorities are required each year to set aside some of their revenues as a provision for this debt.

— Findings

We have considered the proposed new methodology and have substantively tested the accounting entries during the audit of the financial statements. We have not identified any issues as a result of these procedures.

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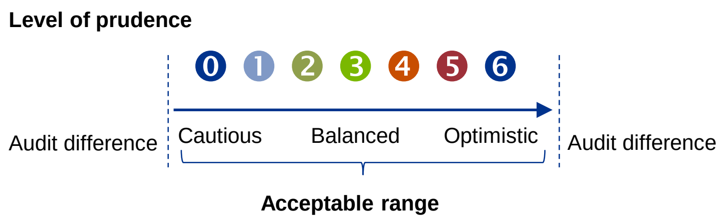
Judgements

We always consider the level of prudence within key judgements in your financial statements. We have summarised our view below using the following range of judgement:



Assessment of subjective areas				
Asset/liability class	**15/16**	**14/15**	**Balance (£m)**	**KPMG comment**
Property, Plant and Equipment valuations	3	3	£1,538 million *(PY: £1,475 million)*	Council dwellings (with a valuation of £509m) have been valued by the District Valuer during the year. We have performed procedures to understand whether the assumptions applied by the District Valuer are in line with our expectations. We did not identify any issues and therefore conclude that this is a balanced judgement. During the year the Authority has continued to value it's 'other land and building' assets (with a valuation of £618m) on a 5 year rotational basis. The increase in the asset values are in line with our expectations and therefore we have concluded this to be a balanced judgement.
Actuarial gains/losses on pension assets/liabilities	3	3	-£51.4 million *(PY: £108.1 million)*	We have reviewed the assumptions used and have not found any outliers to our expected ranges. We have therefore concluded that this is a balanced judgement.

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Accounts production and audit process

We have noted that the quality of the accounts and the supporting working papers were of a high quality

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

The Authority has implemented the recommendation in our ISA 260 Report 2014/15.

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 continued to demonstrate that it has a strong financial reporting process despite the reduced year end timeframe. We consider that accounting practices are appropriate.
Completeness of draft accounts	We received a complete set of draft accounts in advance of the 30 June deadline. The Authority made a number of amendments of a presentational nature after this date but prior to the start of the audit.
Quality of supporting working papers	Our *Accounts Audit Protocol*, which we issued and discussed with the Finance Team, set out our working paper requirements for the audit. The quality of working papers provided was good and met standards specified in our *Accounts Audit Protocol*.
Response to audit queries	Officers resolved audit queries in a reasonable time.

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 the recommendation in our *ISA 260 Report 2014/15*.

Appendix one provides further details.

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Completion

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 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 2016, 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 four 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 Council for presentation to the Audit Committee. We require a signed copy of your management representations before we issue our audit opinion.

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.).

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 2015/16 financial statements.

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Section four: Value for Money

VFM Conclusion

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.

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.

Background

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.'

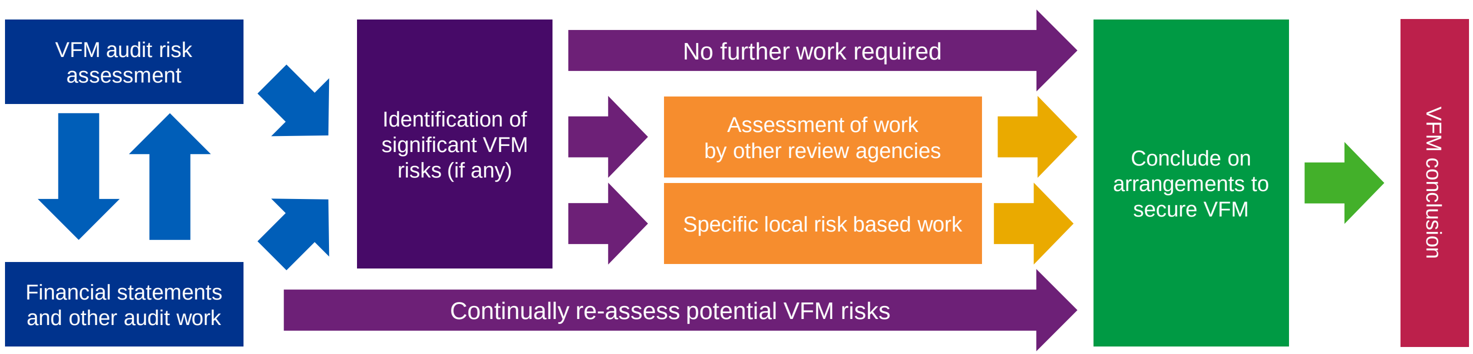
The VFM approach is fundamentally unchanged from that adopted in 2014/2015 and the process is shown in the diagram below. However, the previous two specified reporting criteria (financial resilience and economy, efficiency and effectiveness) have been replaced with a single criteria supported by three sub-criteria.

These sub-criteria provide a focus to our VFM work at the Authority.

Conclusion

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.

Overall criterion		
In all significant respects, the audited body had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.		
Informed decision making	Sustainable resource deployment	Working with partners and third parties
✓ Met	✓ Met	✓ Met



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Specific VFM Risks

We have not identified any specific VFM risks.

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.

Key findings

We concluded that we did not need to carry out any additional work as there was sufficient relevant work that had completed by the Authority, inspectorates and review agencies in relation to these risk areas. In particular the Authority produced a detailed self-assessment which described the arrangements that have been put in place to secure value for money in the delivery of services.

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Appendices

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.

We will formally follow up these recommendations next year.

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	**Valuation of Waste Management Asset** There is one unadjusted audit difference in relation to the Waste Management PFI Contract. This PFI came into use during the year. Once assets have been recognised, under section 4.3 of the Code, an assessment needs to be made as to whether the asset value needs to be re-measured. No such revaluation has taken place and therefore there is a risk that the value of the asset may be misstated. **Recommendation** We recommend that this asset is revalued at the earliest opportunity and recognised at it's up to date value in the 2016/17 financial statements in line with the requirements of the code.	

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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.

We will formally follow up these recommendations next year.

No.	Risk	Issue and recommendation	Management response/responsible officer/due date
2	❸	**User Access Reviews** As part of our testing of general IT controls, we found that there is no periodic review of users and their access taking place in relation to the general ledger. There is a risk that users have inappropriate levels of access to the general ledger. Through additional testing, we have gained assurance that users had appropriate levels of access in the year, or that user access has been amended to correct any issues identified (and that these users did not access the system inappropriately during the year). **Recommendation** We recommend that the Council implements a periodic review of users and their access to provide assurance that only authorised users have appropriate levels of access to the system.	
3	❸	**Completion of bank reconciliation** We found that the bank account used for drawings was not reconciled for the month of December in line with established procedures. There is a risk that there could be an error or an instance of fraud on this account which goes unidentified. To note, the reconciliation had been completed for all other months throughout the year including the year end. We did not identify any outstanding or overdue items within the reconciliations which demonstrates that the process is operating effectively overall. **Recommendation** We recommend that this reconciliation takes place on a monthly basis in line with established procedures.	

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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.

We will formally follow up these recommendations next year.

No.	Risk	Issue and recommendation	Management response/responsible officer/due date
4	3	**Paperwork for new starters** There were 3 instances out of a sample of 25 new starters tested where we could not locate paperwork to support the employment of this new starter. We were able to gain assurance, through other procedures, that these new starters were valid. There is a risk that there is no audit trail in place for the employment of new starters at the Council. **Recommendation** We recommend that all paperwork in relation to new starters is retained on personnel files. Sample audits should be completed on a periodic basis to ensure that this policy is adhered to.	
5	3	**Review of Reconciliations** As part of our controls testing we were unable to find evidence of management review of the housing rents cash receipting reconciliation. There is a risk that errors go unidentified due to a lack of review of reconciliations. To note, we were able to view the completed reconciliations and verify the balances within them and therefore have assurance that they have been completed appropriately in the year. **Recommendation** We recommend that all reconciliations are reviewed with sign off to evidence this.	

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Follow up of prior year recommendations

The Authority has implemented all of the recommendations in our *ISA 260 Report 2014/15*.

This appendix summarises the progress made to implement the recommendations identified in our ISA 260 Report 2014/15 and re-iterates any recommendations still outstanding.

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

No.	Risk	Issue and recommendation	Status as at August 2016
1	3	**IR35 Assessments** Our audit identified a potential issue relating to the completion of IR35 assessments for temporary staff. Internal Audit are currently carrying out a review of this area. **Recommendation** The Authority should ensure that the Internal Audit review of IR35 compliance is completed.	An Internal Audit Report was completed to investigate this further: 'Review of Consultancy Payments – Compliance with IR35', which was issued on the 28 June 2016. This provided partial assurance that the Council is paying consultants in compliance with HMRC rules as HMRC guidelines (IR35). This is due to the questionable assessments that have taken place for the 4 individuals outlined within the report. An improvement plan is included within the report and will be followed up through the normal Internal Audit processes. **Completed**

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Audit differences

This appendix sets out the audit differences.

The financial statements have been amended for all of the errors identified through the audit process.

There is no net impact on the General Fund and HRA as a result of the amendments.

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.

Uncorrected audit differences

We are pleased to report that there are no uncorrected audit differences.

Corrected audit differences

Material misstatements

We are pleased to report that there are no material misstatements.

Non material audit differences

Our audit identified a small number of non material errors in the financial statements. These have been discussed with management and the financial statements have been amended for all of them. One specific area that has been adjusted for relates to the appropriate disclosure of the new Salix Loan (£2,646k) in Note 12 of the financial statements under the 'fair values of assets and liabilities'. This had been recognised appropriately within borrowings and therefore does not impact on the balance sheet of the Authority.

There is one unadjusted audit difference in relation to the Waste Management PFI Contract. This PFI came into use during the year that the financial statements are reporting on. Once assets have been recognised (as they come into use), under section 4.3 of the Code, an assessment needs to be made as to whether the asset value needs to be re-measured. No such revaluation has taken place and therefore there is a risk that the value of the asset may be misstated. The proportion of the asset that relates to Doncaster MBC (40%) is currently valued on the balance sheet at £25.9m. We have a materiality level of £15m and therefore we are confident that the value of the asset is not currently materially misstated, through discussions with valuation experts and our knowledge of this type of asset. However we recommend that this is revalued at the earliest opportunity and recognised at it's up to date value in the 2016/17 financial statements.

A number of minor amendments focused on presentational improvements have also been made to the draft financial statements. The Finance Department are committed to continuous improvement in the quality of the financial statements submitted for audit in future years.

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Materiality and reporting of audit differences

For 2015/16 our materiality is £15million for the Authority's accounts.

We have reported all audit differences over £11,250k for the Authority's accounts.

Materiality

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 2015/16, presented to you in January 2016.

Materiality for the Authority's accounts was set at £15 million which equates to around 2% percent of gross expenditure. 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 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 £750k 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.

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Declaration of independence and objectivity

Auditors appointed by Public Sector Audit Appointments Ltd must comply with the Code of Audit Practice.

Requirements

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.

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Declaration of independence and objectivity (cont.)

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.

General procedures to safeguard independence and objectivity

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

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

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

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

Auditor declaration

In relation to the audit of the financial statements of Doncaster Metropolitan Borough Council for the financial year ending 31 March 2016, 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.

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Appendix four

Audit Independence

Audit Fees

Our scale fee for the audit was £164,844 plus VAT (£164,844 in 2014/15). This fee was in line with that highlighted within our audit plan agreed by the Audit Committee in January 2016. Our scale fee for certification for the HBCOUNT was £25,035 plus VAT (£33,380 in 2014/15). Fees for other grants and claims have not yet been finalised however we expect this to be in the region of £10,000 plus VAT in line with the prior year.

Non-audit services

We have not been engaged to provide any other non-audit services during the year.

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