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MEETING:	Audit Committee
DATE:	Friday, 22 September 2017
TIME:	2.00 pm
VENUE:	Reception Room, Barnsley Town Hall

SUPPLEMENTARY AGENDA

Items for Discussion/Decision

4. Report to those charged with Governance (ISA 260) 2016/17 *(Pages 3 - 30)*

   The Council's External Auditor will submit a report summarising the key issues identified during the audit of the Financial Statements for the year ended 31st March, 2017 for the Authority and on the assessment of the Authority's arrangements to secure Value for Money.

6. Appointment of External Auditor *(Pages 31 - 32)*

   The Service Director Finance will submit a report on the current position with regard to the appointment of an External Auditor.

To: Chair and Members of Audit Committee:-

Councillors Clements (Chair), Barnard, Lofts and Richardson; together with Independent members Ms K Armitage, Ms D Brown, Mr S Gill, Mr P Johnson and Mr M Marks

Diana Terris, Chief Executive
All Executive Directors
Andrew Frosdick, Executive Director Core Services
Rob Winter, Head of Internal Audit
Neil Copley, Service Director Finance
Ian Rooth, Head of Technical Services
Adrian Hunt, Risk Management Manager
Michael Potter, Service Director Business Improvement and Communications
Louise Booth, Audit Manager

Council Governance Unit – 3 copies

Please contact William Ward on 01226 773451 or email governance@barnsley.gov.uk

15th September, 2017

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KPMG

External audit report 2016/17

Barnsley Metropolitan Borough Council

—

September 2017

Summary for Audit Committee

Financial statements

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

This report focusses on our on-site work which was completed in August 2017 on the Authority's significant risk areas, as well as other areas of your financial statements. Our findings are summarised on pages 4 – 5.

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 30 September.

We have identified a number of audit adjustments, notably the need to prepare consolidated accounts, with the remainder of the adjustments being largely presentational with no impact upon the primary statements and reserve balances. See page 9 for details.

Based on our work, we have raised 4 recommendations. Details on our recommendations can be found in Appendix 1.

We are now in the completion stage of the audit.

Use of resources

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

We therefore anticipate issuing an unqualified value for money opinion.

See further details on page 13.

Acknowledgements

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

We ask the Audit Committee to note this report.

The key contacts in relation to our audit are:

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Contents

Section one

Financial Statements

We anticipate issuing an unqualified audit opinion on the Authority's 2016/17 financial statements by 30 September 2017. We will also report that your Annual Governance Statement complies with the guidance issued by CIPFA/SOLACE (*'Delivering Good Governance in Local Government'*) published in April 2016.

For the year ending 31 March 2017, the Authority has reported a total surplus on provision of services of £55.2m. Note that this includes £86.3m reversal of previous impairment loss on Council Dwellings. Net outturn therefore was a circa £31.1m deficit. The impact on the General Fund has been a decrease of £5.9m.

Significant audit risks

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

Significant audit risks	Work performed
1. Significant changes in the pension liability due to LGPS Triennial Valuation	**Why is this a risk?** During the year, the Local Government Pension Scheme for South Yorkshire (the Pension Fund) has undergone a triennial valuation with an effective date of 31 March 2016 in line with the Local Government Pension Scheme (Administration) Regulations 2013. The Authority's share of pensions assets and liabilities is determined in detail, and a large volume of data is provided to the actuary in order to carry out this triennial valuation. The pension liability numbers included in the financial statements for 2016/17 are based on the output of the triennial valuation rolled forward to 31 March 2017. For 2017/18 and 2018/19 the actuary will then roll forward the valuation for accounting purposes based on more limited data. There is a risk that the data provided to the actuary for the valuation exercise is inaccurate and that these inaccuracies affect the actuarial figures in the accounts. Most of the data was provided to the actuary by South Yorkshire Pensions Authority who administer the Pension Fund. **Our work to address this risk** We have reviewed the process used to submit payroll data to the Pension Fund and have found no issues to note. We have also tested the year-end submission process and other year-end controls. We noted that management had reviewed the actuarial assumptions and lead the queries related to this on behalf of the wider South Yorkshire area. Management has confirmed that the assumptions used by the actuary are appropriate. We have also substantively agreed the total figures submitted to the actuary to the ledger with no issues to note. We have engaged with the Pension Fund audit team to gain further assurance over the pension figures.
2. Valuation of Waste Management PFI	**Why is this a risk?** The Council recognised the Waste Management PFI asset on the balance sheet for the first time as it came into use during 2015/16. The value of this was based on the original PFI model with no up-to-date valuation completed. This does not meet the requirements of the CIPFA Code. Management completed a valuation of the asset during our final audit visit and confirmed that the value of the asset at £19.2m was not materially misstated. Management agreed that they would reflect the revised valuation in the 2016/17 financial statements. There is a risk that the asset is not included in the Council's accounts at the appropriate value. **Our work to address this risk** - We have assessed the qualifications and approach adopted by the valuer of the Waste PFI assets.

Significant audit opinion risks	Work performed
2. Valuation Waste Management PFI (continued)	**Our work to address this risk (continued)** - We have considered the appropriateness of the valuation basis adopted e.g. fair value or modern equivalent asset basis; and - Agreed the revaluation movements to the accounting entries.

Considerations required by professional standards

Fraud risk of revenue recognition

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

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

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

Management override of controls

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

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

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

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

Judgements

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

Level of prudence

Subjective areas	2016/17	2015/16	Commentary
Provisions (excluding Business rate appeals)	3	3	Total value of non NNDR provisions is £4.9m. The majority of the provisions relate to the estimated value of outstanding insurance claims (£4.2m). We have agreed this figure to workings provided by the Council and have deemed this a reasonable recognition.
Business rate appeals provisions	3	3	The Business rate appeals provisions held at year end is £2.9m. We have reviewed the workings for the provisions and note that these have increased from the prior period based upon more evidence of appeals. The methodology behind this calculation is considered balanced and based accordingly upon recent historical trends and knowledge of current cases.
PPE: HRA assets	3	2	The Authority continues its use of the beacon methodology in line with the DCLG's *Stock Valuation for Resource Accounting* published in November 2016. The Authority has utilised the District Valuer to provide valuation estimates. We have reviewed the instructions provided and deem that the valuation exercise is in line with the instructions. The resulting increase is in line with guidance provided by DCLG and the 41% Regional Adjustment Factor deemed appropriate for the Yorkshire and Humber region. We have also seen work performed locally that justifies the utilisation of the 41% Regional Adjustment Factor.
PPE: Asset lives	3	3	Our work around PPE did not identify any inappropriate asset lives being applied to PPE held. We are therefore satisfied that the asset lives being applied by the Council are reasonable and reflect as closely as possible the expected useful remaining life of assets. We note that the accounting policy with regards to the asset lives of buildings has been updated to reflect actual practice.
Pensions: Actuarial Assumptions	3	3	As part of our work we have engaged our own pensions specialist to review the actuarial assumptions used in relation to the Council's share of the South Yorkshire Pension Fund and this work did not identify any outliers. We also note that the Council lead a local assessment/discussion of assumptions with the actuary demonstrating a review and challenge process giving us further assurance with regards to the veracity of the key assumptions made.

Proposed opinion and audit differences

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

Audit differences

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

The final materiality (see Appendix 4 for more information on materiality) level for this year's audit was set at £12.0 million. Audit differences below £600k are not considered significant.

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

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

Annual governance statement

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

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

and

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

Narrative report

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

Accounts production and audit process

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

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

Accounting practices and financial reporting

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

We will be holding a debrief with the finance staff after the year end to consider how we work together towards the faster close deadlines required in 2017/18.

We consider the Authority's accounting practices appropriate.

Completeness of draft accounts

We received a complete set of draft accounts ahead of the 30th June statutory deadline.

Quality of supporting working papers

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 was completed within the timescales expected with few outstanding queries. This achievement puts the Authority in a good position to take on the 2017/18 earlier closedown with no significant concerns.

Group audit

The Council consolidated its main subsidiary company Berneslai Homes Limited.

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 both of the recommendations in our ISA 260 Report 2015/16. 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:

Overpayment of leavers

From our testing 8/25 leaver forms were received late by payroll resulting in overpayments to leavers and additional management follow up to recover these payments.

User access to council tax system - "Academy system"

Our testing identified 7 of our sample of 25 staff who had access, but should not have had access to this system. In addition of the 34 super users, 5 should not have had this level of access.

Timely removal of leavers accounts from IT systems

Council tax system - "Academy" – 7 of our sample of 40 leavers did not have their user accounts removed from the Academy system.

General ledger – "SAP" – 3 out of our sample of 25 leavers did not have their user accounts removed from the SAP system.

In both instances IT had not been made aware of the leavers and therefore no action was taken to remove the leaver user accounts.

SAP change log not recording an audit trail

Within SAP (general ledger IT system), there is an area known as the production client, which enables changes to be made to the application without following the approved change process. This should be locked apart from approved instances with supporting controls and strictly limited time period. Table logging usually keeps track of when this has been locked and unlocked, and forms an audit trail, however our testing identified that table logging was turned off, and the SAP production environment had been opened at least once during the financial year, but there was no record of how long for.

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

Completion

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

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

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

Declaration of independence and objectivity

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

In relation to the audit of the financial statements of Barnsley Metropolitan Borough Council for the year ending 31 March 2017, we confirm that there were no relationships between KPMG LLP and Barnsley Metropolitan Borough Council, its directors and senior management and its affiliates that we consider may reasonably be thought to bear on the objectivity and independence of the audit engagement lead and audit staff. We also confirm that we have complied with Ethical Standards and the Public Sector Audit Appointments Ltd requirements in relation to independence and objectivity.

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

Management representations

You are required to provide us with representations on specific matters such as your financial standing and whether the transactions within the accounts are legal and unaffected by fraud. We have provided a template to the Chief Financial Officer for presentation to the Audit Committee. We require a signed copy of your management representations before we issue our audit opinion.

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

Other matters

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

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

Section two

Value for money

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

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

VFM conclusion

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

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

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

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

1 Identification of significant VFM risks (if any)

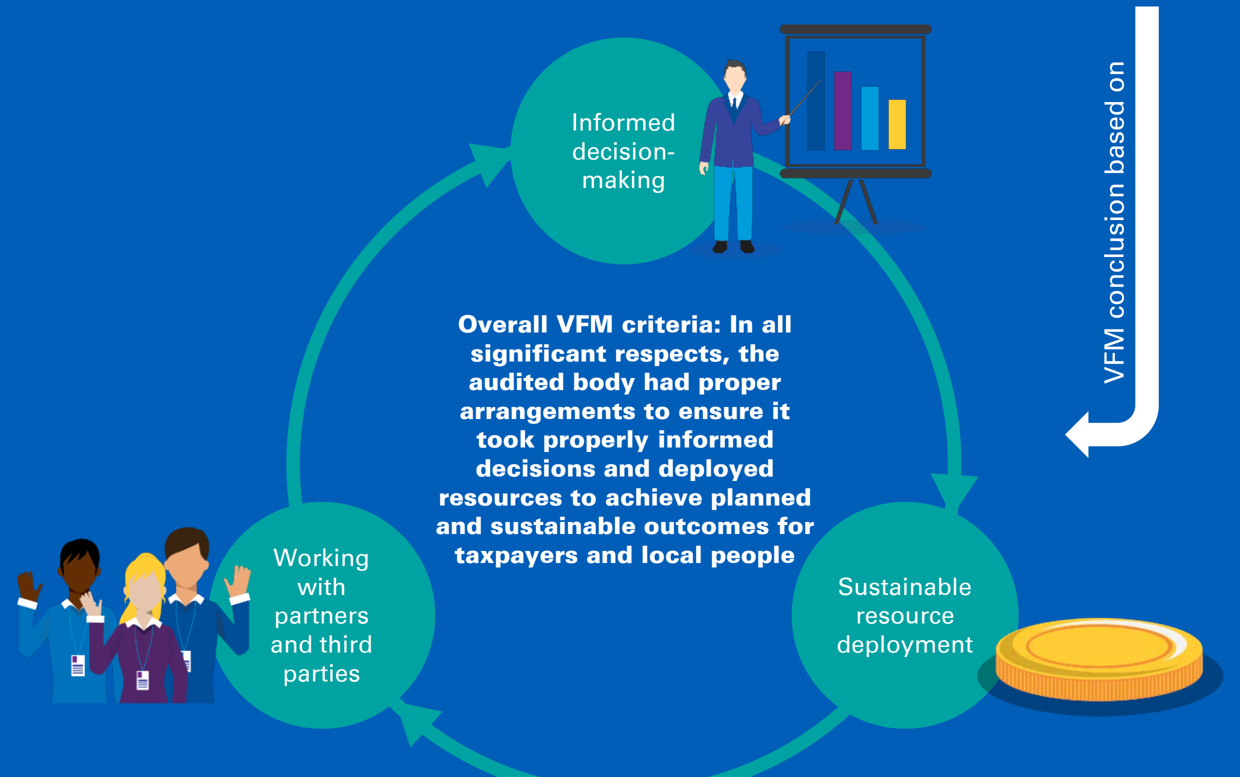
- VFM audit risk assessment
- Financial statements and other audit work

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 VFM risks identified against the three sub-criteria. Note that we did not identify any specific VFM risks this year. This directly feeds into the overall VFM criteria and our value for money opinion.

VFM assessment summary	Informed decision-making	Sustainable resource deployment	Working with partners and third parties
Overall summary	✓	✓	✓

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

In our audit plan presented in January 2017 we did not identify any specific VFM risks. We reflected on this as part of our ongoing risk assessment, and concluded that, given the continued financial pressures which affect all local authorities, there is a VFM risk around financial resilience.

In the 2016/17 budget report, the Council indicated it had to achieve £9.9m of planned savings to deliver a balanced budget in the financial year 2016/17. Similar savings were also indicated as being required for financial years 2017/18 to 2020/21. Of the savings planned for 2016/17, the Council achieved 84.6% delivery against targets by year end, with the main pressures being around the planned waste PFI savings and highway materials. There are also ongoing demand pressures in both adult and social care. As part of our work, we identified that the plans in place appear appropriate and during 2016/17, no issues have materialised in relation to VFM and financial resilience.

The medium term financial plan continues to remain balanced, but is reliant on finding the savings highlighted as part of the plan. If these do not occur, then there is a risk to the provision of services within the Authority.

As part of our ongoing risk assessment throughout the audit no further VFM risks were identified.

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

Appendices

Key issues and recommendations

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

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

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

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

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

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

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

2016/17 recommendations summary

Priority	Total raised for 2016/17
High	0
Medium	2
Low	2
Total	4

Medium priority

1. Staff overpaid due to delays in completing leavers' forms

As part of our payroll control testing, we identified eight instances out of a sample of 25 where staff had been overpaid due to managers not completing leavers forms and sending them to the payroll team in a timely manner.

This causes additional expense to the Council, both in terms of having overpaid the staff, and in the staff time then taken up asking for repayments.

All managers should be reminded of the importance of informing the payroll team as soon as they are aware of a leaver.

Recommendation

All managers should be reminded of the importance of informing the payroll team as soon as they are aware of a leaver.

Management Response

Accepted

Communication to go to managers across the Council to highlight the importance of completing leaver forms in a timely fashion. The overpayments identified in the sample have all been pursued through our overpayment recovery process with the majority of them been repaid since the financial year end. Only one remains outstanding which has been escalated through the debt recovery process.

Owner

Service Director - Finance

Deadline

September 2017

Low priority

2. Council tax system – "Academy" user access and super user access

When undertaking our IT controls around the council tax system (Academy), we identified that in our sample of 25 people who had user access to the system, 7 should not have had access to the system. We also identified that, of the 34 staff with super user access, five should not have had this level of access

There is a risk that staff may make changes to the system that they are not authorised to do. Super users have the ability to go in and make changes to IT systems without certain checks and authorisations being required that are in place for normal users. This increases the risk that changes could be made either accidently or deliberately.

Recommendation

A full review of user access should be undertaken to confirm that there no other staff who have been given inappropriate access, and all staff identified as part of our sample testing should have their access revoked.

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Management Response

Accepted

To implement a periodic review of user access of Academy to identify where members of staff have moved jobs within the Council and no longer require access or a different type of access.

Owner

Finance and Service Director - IT

Deadline

To commence September 2017

Low priority

3. Notifying IT of leavers

As part of our review of the council tax system (Academy), we identified that of 40 leavers selected for testing, seven had not had their access to the system revoked at the time of our testing. From our IT testing of the general ledger (SAP), we identified three staff out of a sample of 25 had not had their system access revoked. This was due to IT staff not being informed that they required removal from the system. Without timely removal of leavers, there is a risk that staff could maliciously amend data after they have left.

It should however be noted that there is an automated process to remove staff network access upon leaving, which stops staff being able to access any of the IT systems. We have confirmed that all of the identified leavers had their network access revoked in a timely manner.

Recommendation

These users should have their access revoked with immediate effect. The process for notifying IT of leavers should be amended so they are informed as soon as a member of staff is no longer an employee, or preferably before when staff are working their notice period. This allows access to be revoked on the day the leave.

Management Response

Accepted

The current process of removing overall network access automatically when the employee leaves mitigates the risk of individual system access. That said, work currently progressing on automation of removal of access from the individual systems.

Owner

Service Director - Finance

Service Director – IT

Deadline

December 2017

Medium priority

4. SAP change log not saving an audit trail

Within SAP (general ledger IT system), there is an area known as the production client, which enables changes to be made to the application without following the approved change process. This should be locked apart from approved instances with supporting controls and strictly limited time period. Table logging usually keeps track of when this has been locked and unlocked, and forms an audit trail, however our testing identified that table logging was turned off, and the SAP production environment had been opened at least once during the financial year, but there was no record of how long for.
There is a risk that changes could be made to the application without following the approved change process and that the records of these changes could be removed to avoid detection. These could impact on the integrity of the system and the data held therein. This then impacts on the integrity of the data within the financial accounts.

It should be noted that only IT staff have access to this aspect of SAP, which mitigates some of the risk that anyone could make undetected changes.

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Recommendation

As we have substantively tested the figures in the financial statements back to source documentation, we are comfortable that this is unlikely to have led to a material misstatement, however to reduce the impact of this on the 2017/18 audit, table logging should be enabled, and appropriate checks be put in place to confirm when the production client is unlocked.

Management Response

Accepted

Firstly, there are a small number of IT professionals that have access to action the access to the Production system. In terms of changing the Production system, there are currently robust procedural processes in place with regards change control that mitigates the risk of any amendments being actioned directly to the production client. All change controls are logged through the helpdesk job system, starting the audit trail. The change then goes through 2 test environments before finally being transported into the production client, where the production system is open for a very short period of time. Any deviation away from this process would be easily detected.

The recommendation around enabling the system log for this particular activity will be explored.

Owner

Service Director – Finance

Service Director - IT

Deadline

Reviewed by December 2017

Follow-up of prior year recommendations

In the previous year, we raised two recommendations which we reported in our *External Audit Report 2015/16 (ISA 260)*. The Authority has implemented both recommendations.

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

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

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

2015/16 recommendations status summary

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

Medium priority

1. Journal Authorisation

Our audit of journal entries identified that the written procedure notes were not fully in line with the processes and controls actually in practice. The current practice does not give rise to a risk and we did not identify any incorrect or unsupported journals entries but should be a reflection of written procedures.

Recommendation

The Authority should review the written procedure notes for the posting and authorisation of journal entries and ensure that these reflect the procedures that are both required and are currently in practice.

Management original response

The written procedures in relation to journal control & authorisation will be refreshed to reflect the current Business Unit operating model and staffing structure.

KPMG's July 2017 assessment

Fully implemented

The written procedures in relation to journal control and authorisation have now been refreshed.

Medium priority

2. Valuation of waste management asset

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

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

Recommendation

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

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Management original response

An adjustment will be made to the carrying value of the Council's share of the waste PFI facility in the 2016/17 accounts.

Procedures will be refreshed to ensure that all new material assets are revalued on acquisition.

Fully implemented

KPMG's July 2017 assessment

The Finance team have instructed their valuation colleagues to carry out an in use valuation for the Waste Management Asset in line with the CIPFA COP.

This was confirmed during our year end audit testing.

Appendix 3

Audit differences

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

Adjusted audit differences

Consolidated Accounts

In previous years the Council had made the decision to not consolidate the subsidiary company Berneslei Homes Limited on the grounds of materiality. As a result of the triennial valuation of the Local Government Pension Scheme carried out in year, the pension liability increased significantly to a material level. This information came to light a little late with regards to being able to initially consolidate the results into a set of group accounts. Following ongoing consultation with ourselves it was confirmed that a consolidated set of accounts would need to be prepared to include the results of Berneslei Homes Limited.

Other Adjustments

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

The corrections made are detailed in the table below:

Table 1: Adjusted audit differences

No.	Description
1	*Exit packages* *The figures in the exit package note (Note 15 – Officer remuneration & exit packages) were overstated in the original draft of the financial statements, due to double counting of some staff. This did not have an impact on the primary statements, as the information had been drawn from a different source for disclosure purposes. This has been amended in the final version of the accounts.*
2	*Other Audit Costs* *Within Note 16 – External Audit Costs, £11,000 had been included under "fees payable in respect of other services provided by KPMG LLP during the year" when they should have been included under "feeds payable in respect of other services provided by other audit companies". This has been amended in the final version of the accounts.*
3	*Capital Financing Requirement* *From our testing of Note 25 – Capital Expenditure and Financing, we identified that the split of "other land and buildings", and "vehicles, plant, furniture & equipment" within the capital financing requirement did not match the fixed asset note. All of the balance had been incorrectly put against "vehicles, plant, furniture & equipment" in note 25. It did not impact on the primary statements as it is a disclosure note only. This has been amended in the final version of the accounts.*

Unadjusted audit differences

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

Materiality and reporting of audit differences

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

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

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

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

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

Materiality for the Authority's accounts was set at £12.0 million which equates to around 1.6 percent of gross expenditure (circa £728m once allowing for £154m gain on Council Dwellings). We design our procedures to detect errors in specific accounts at a lower level of precision.

Reporting to the Audit Committee

Whilst our audit procedures are designed to identify misstatements which are material to our opinion on the financial statements as a whole, we nevertheless report to the Audit Committee 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 £600,000 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 Barnsley Metropolitan Borough Council for the financial year ending 31 March 2017, we confirm that there were no relationships between KPMG LLP and Barnsley 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 2016/17, our scale fee for the audit is £135,988 plus VAT *(£135,988 in 2016/17)*, which has remained the same as the prior period.

Our work on the certification of Housing Benefits (BEN01) is planned for September 2017. The planned scale fee for this is £22,118 plus VAT. Planned fees for other grants and claims which do not fall under the PSAA arrangements is £7,750 plus VAT (£7,750 in 2016/17), see further details below.

PSAA Fee Table

Component of audit	2016/17 *(actual fee)* £
Accounts opinion and use of resources work	
PSAA scale fee set in 2014/15	135,988
Subtotal	**135,988**
Housing benefits (BEN01) certification work	
PSAA scale fee set in [2014/15] – planned for September 2017	22,118
Total fee for the Authority set by the PSAA	**158,016**

All fees are quoted exclusive of VAT.

Non-PSAA Fees

	2016/17 *(planned fee)* £
Grants Certification Work	
Pooling Capital Receipt Return	4,250
Teachers Pension's Agency Return	3,500
Total fee for the Authority set by the PSAA	**7,750**

All fees are quoted exclusive of VAT.

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Report of the Executive Director of Core Services

AUDIT COMMITTEE – 22nd SEPTEMBER 2017

APPOINTMENT OF THE COUNCIL'S EXTERNAL AUDITOR FROM 2018/19 ONWARDS

1. Purpose of Report

1.1 To update members regarding the appointment of the Authority's External Auditors from 2018/19 onwards.

2. Introduction

2.1 From 2018/19, the Authority will have the power to choose the method by which it appoints its external auditor. Previous reports have been submitted into this Committee over time to brief members on the progress of this issue.

3. Recommendation

It is recommended that:

- **Members note the appointed Auditor for the Authority for the five year period commencing in 2018/19.**

4. Background

4.1 Historically, external auditors have been appointed by the Audit Commission, which was abolished on 31st March 2015 as per the Local Audit and Accountability Act 2014. Under the transitional arrangements of the legislation, these current contracts are to be continued through until 2017/18 financial year, managed by Public Sector Audit Appointments Ltd (PSAA).

4.2 The Authority's external auditors through this transitional period are KPMG who provide external audit services for the public sector within the entire Yorkshire & Humber region.

4.3 From 2018/19 onwards, the Authority had a choice in respect of the procurement route with regards external audit services. There were effectively 3 options available which are shown below:

- Option 1 – Standalone Tender;
- Option 2 – Combined Tender; or
- Option 3 – The Authority opts in to a sector led procurement scheme where an Appointed Person appoints the external auditor on the Authority's behalf

4.4 The Authority approved the recommendation to choose Option 3 and opt in to the sector led procurement route at the Audit Committee meeting on the 18th January 2017.

5. Consultation

5.1 On the 14th August 2017, PSAA Ltd contacted the Authority to inform of their provisional decision by means of a consultation process, to allow for any objections regarding matters of auditor independence and any conflicts of interest etc.to be fed back.

5.2 The provisional appointed auditors for the Authority from 2018/19, for a five year period are **Grant Thornton (UK) LLP.**

5.3 The Section 151 Officer and other members of the senior management team have no objection with the proposed appointment of Grant Thornton (UK) LLP as external auditors, though the overall impact of any potential objection across the national arena is, at this time, unknown.

5.4 The final decision will be reported to this Committee upon conclusion of the consultation.