



External Audit Report 2015/16

Barnsley Metropolitan Borough Council

September 2016



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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.



Section one: 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 Barnsley Metropolitan Borough Council ('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.



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

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

We have substantially completed the work, with exception of the clearance of a small number of review points including Creditors and Journal Entries, and the final Director review.

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; and
- Considering the results of any relevant work by the Authority and other inspectorates and review agencies in relation to these risk areas.

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; and
- Section 4 outlines our key findings from our work on the VFM conclusion.

Our recommendations are included in Appendix 1.

Acknowledgements

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



Section two: 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	<p>Our audit identified a total of one material audit adjustment with a total value of £13.3 million. However, whilst there is an impact on the net worth in year, there is no overall impact on the Authority's medium term financial plan as this is simply a reallocation of costs over a longer period. This has no impact on the Council Tax requirements for the Council.</p> <p>The adjustment is due to the repayments for the PFI contracts made by the Council being put into a prepayment account to match the revised MRP policy –this is not in accordance with accounting standards (IAS19) which requires the accounting entries to reflect the transactions per the PFI contract over the 25 years. The Authority had accounted for the difference between the actual payment and the previous repayment model and the revised MRP model over 60 years. Several adjustments were required to the draft statement of accounts to rectify this and the impact of these adjustments is as follows:</p> <ul style="list-style-type: none"> —decrease the balance on the general fund –earmarked reserves as at 31 March 2016 by £13.3 million; —increase the cost on provision of services for the year by £13.3 million; and —decrease the net worth of the Authority as at 31 March 2016 by £13.3 million. <p>We have included a full list of significant audit adjustments at Appendix two. All of these adjustments have been made by the Authority.</p>
Key financial statements audit risks	<p>We review risks to the financial statements on an ongoing basis. We identified the following key financial statements audit risks in our 2015/16 External audit plan issued in January 2016:</p> <ul style="list-style-type: none"> — Consolidation of subsidiary companies; and — Minimum Revenue Provision. <p>We have worked with officers throughout the year to discuss these key risks and our detail findings are reported in section three of this report. There are no matters of any significance arising as a result of our audit work in the Consolidation of Subsidiary Companies. However, as mentioned above, the Authority had made an error in the draft statements by extending the Private Finance Initiative (PFI) repayment terms which was not in line with the PFI contract. (Section three provides the detailed findings.)</p>



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	<p>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.</p> <p>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.</p> <p>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 particular we would like to thank Authority Officers who were available throughout the audit visit to answer our queries.</p>
VFM conclusion and risk areas	<p>We did not identify any specific VFM risks in our Audit Plan 2015/16.</p> <p>There are no matters of any significance arising as a result of our risk assessment work on VFM. We have concluded that the Authority has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources.</p> <p>We therefore anticipate issuing an unqualified VFM conclusion by 30 September 2016.</p>
Completion	<p>At the date of this report our audit of the financial statements is substantially complete subject to completion of the following areas:</p> <ul style="list-style-type: none"> — Creditors; — Journal Entries; — Whole of Government Accounts; and — Completion of final review. <p>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 14 September 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 confirm that we have complied with requirements on objectivity and independence in relation to this year's audit of the Authority's financial statements.</p>



Section three: Financial Statements

Proposed opinion and audit differences



We have identified one issue in the course of the audit that is considered to be material.

The Authority has adjusted its Statement of Accounts for this issue.

The impact of the adjustments is to:

- decrease the balance on the general fund and HRA earmarked reserves account as at 31 March 2016 by £13.3million;
- Increase the cost on the provision of services for the year by £13.3million; and
- decrease the net worth of the Authority as at 31 March 2016 by £13.3million.

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 23 September 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 £11 million. Audit differences below £0.55 million are not considered significant.

Our audit identified one significant audit difference but that affected several areas of the accounts. The adjustments are set out in Appendix two. It is our understanding that these will be adjusted in the final version of the financial statements.

The tables on the right illustrate the audit differences on the Authority's Comprehensive Income and Expenditure Statement and Movement in Reserves Statement for the year, and the impact on the Balance Sheet as at 31 March 2016.

The net impact on the General Fund and HRA – earmarked reserves, as a result of audit adjustments, is to decrease the balance as at 31 March 2016 by £13.3 million. This is the result of the following amendment:

- Correcting the accounting treatment of the PFI payments in the 2015/16 pre-audit Financial Statements.

Comprehensive Income and Expenditure Statement 2015/16

£million	Pre-audit	Post-audit	Ref (App.2)
Interest payable on PFI unitary payments	9,010	22,729	1.
Surplus/(deficit) on provision of services	31	-13,238	1.
Total comprehensive income & expenditure for the year	-66,213	-52,944	1.

Movements in Reserves Statement 2015/16

£million	Pre-audit	Post-audit	Ref (App.2)
Surplus/(deficit) on provision of services (general fund)	-20,906	-34,175	1.
Other comprehensive expenditure & income (general fund)	-20,906	-34,175	1.
Net increase/(decrease) before transfer to earmarked reserves (general fund)	36,424	23,155	1.
Transfers to/(from) earmarked reserves (general fund)	-31,424	-18,555	1.
Transfers to/(from) earmarked reserves (earmarked reserves)	31,424	18,155	1.
Increase/(decrease) in 2015/16 (earmarked reserves)	31,424	18,155	1.
Balance of reserves as at 31 Mar 2016	-147	-13,416	1.

Balance Sheet as at 31 March 2016

£million	Pre-audit	Post-audit	Ref (App.2)
Property, plant and equipment	1,056,683	1,056,683	
Other long term assets	48,672	29,981	1.
Current assets	60,510	60,510	
Current liabilities	-91,804	-97,786	1.
Long term liabilities	-1,074,208	-1,062,824	1.
Net worth	-147	-13,416	
General Fund + HRA	18,598	18,598	
General Fund + HRA earmarked reserves	152,131	138,862	1.
Other usable reserves	19,553	19,553	
Unusable reserves	-190,429	-190,429	
Total reserves as at 31 Mar 2016	-147	-13,416	1.

Proposed opinion and audit differences (cont.)



We anticipate issuing an unqualified audit opinion in relation to the Authority's Statement of Accounts by 30 September 2016.

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

Of the other disclosure adjustments we have identified, the only significant in monetary value is as follows:

- Updating the note on the payments due on PFI deals in the future.

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'). We understand that the Authority will be addressing these where significant.

Annual governance statement

We have reviewed the Annual Governance Statement and confirmed that:

- It complies with *Delivering Good Governance in Local Government: A Framework* published by CIPFA/SOLACE; and
- It is not misleading or inconsistent with other information we are aware of from our audit of the financial statements.

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*, presented to you in January 2016, we identified the significant risks affecting the Authority's 2015/16 financial statements. We have now completed our testing of these areas and set out our evaluation following our substantive work.

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

Significant Risk 1

Consolidation of subsidiary companies.

The Authority is the parent company for a number of subsidiary companies, some of which are new and came into operation during 2015/16. The Authority has not produced group accounts for the last few years and it is not clear at this stage whether group accounts will be required in 2015/16 as a result of the creation of the new subsidiary companies.

Findings

We have reviewed the Authority's assessment of whether the creation of the new subsidiaries would mean that the Authority would be required to prepare group accounts. This assessment currently states that the subsidiaries are not material in the context of the reader of group accounts. For 2015/16 we agree with this view and that group accounts are not required.

Significant Risk 2

Minimum Revenue Provision (MRP)

For 2015/16 the Authority agreed 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 to set aside some of their revenues each year as a provision for this debt.

Findings

We have reviewed the revised methodology used to calculate the MRP and this will increase the period of the repayment in line with the Authority's estimate of the lives of the assets purchased. The Authority is moving to calculating the MRP using the annuity method which is in line with current guidance. There are no issues arising in this respect.

However, linked to the increase in the MRP, using the annuity method of the asset lives, the Authority incorrectly accounted for the contractual PFI payments in 2015/16 by initially putting these in a prepayment account to match the increased asset lives. This is not in accordance with accounting standards (IAS19). These errors have been corrected in the revised Financial Statements.

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.

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.

Section three – Financial statements

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
Short Term Creditors	3	3	£33 million (PY: £43 million)	The Authority has used the same techniques for accruing creditors in 2015/16 as in previous year. The level of accruals are assessed as being balanced.
Impairment of Short Term Debtors	3	3	£15 million (PY: £11 million)	The Authority has prepared its impairment provision on the same grounds as previous years, however the levels of debts has increased during 2015/16.
Property, Plant and Equipment (valuations / asset lives)	3	3	£1.056 billion (PY: £1.028 billion)	PPE has been valued by qualified valuers on a 5 yearly rolling programme. There has been no significant changes in the estimation techniques in 2015/16. The most significant addition in year is the Waste Management PFI asset which accounted for nearly £13m of this year's additions. The Authority has recognised the Waste Management PFI asset on the Balance Sheet as it came into use during 2015/16. The value of this has been based on the original PFI model with no up to date valuation completed as it came onto the Balance Sheet. This does not meet the requirements of the Code. Management has completed a valuation of the asset and we have assurance that the asset value is not materially misstated, however, we recommend that assets are valued at the earliest opportunity when they come into use (see Appendix 1).
Pensions	4	3	£341 million (PY: £385 million)	The Authority has used the data supplied by the Pension Fund and the Actuary (Mercers) to assess the long term liability for pensions. With the pension fund auditor we have assessed the reasonableness of the assumptions made and are satisfied with the items included in the Authority's financial statements. Whilst in line with actuary figures, the rating reflects the current thinking that the liability is likely to increase following the 2017 triennial review which will increase the funding costs in the future.
Usable Reserves	2	2	£177 million (PY: £160 million)	The Authority continues to hold a healthy useable reserves balance and has added to it in 2015/16. In particular, the Council has amounts set aside to manage future Council Priorities and Town Centre Development. There should be sufficient headroom available within reserves to meet some unforeseen demands or contribute partially towards medium term financial pressures.

Section three – Financial statements

Accounts production and audit process



The Authority has good processes in place for the production of the accounts and good quality working papers.

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

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	<p>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.</p> <p>There is scope to improve this further by streamlining the numbers and detail of the working papers produced. We will work with the finance team to identify any areas where efficiencies can be made.</p> <p>We consider that accounting practices are appropriate.</p>
Completeness of draft accounts	<p>We received a complete set of draft accounts by the deadline 30 June 2016.</p>
Quality of supporting working papers	<p>Our <i>Accounts Audit Protocol</i>, which we issued in June 2016 and discussed with the Acting Finance Manager, set out our working paper requirements for the audit.</p> <p>The quality of working papers provided met the standards specified in our <i>Accounts Audit Protocol</i>.</p>
Response to audit queries	<p>Officers resolved audit queries in a reasonable time.</p>

Findings in respect of the control environment for key financial systems

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, however, we recommend that the written procedures are updated to reflect the current practice. (See Recommendation 1 at Appendix 1.)

Prior year recommendations.

The Authority had no recommendation to implement from our *ISA 260 Report 2014/15*.



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 Barnsley Metropolitan District Council for the year ending 31 March 2016, we confirm that there were no relationships between KPMG LLP and Barnsley Metropolitan District 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 Director of Finance, Assets and IT 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.



Section four: Value for Money



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'.

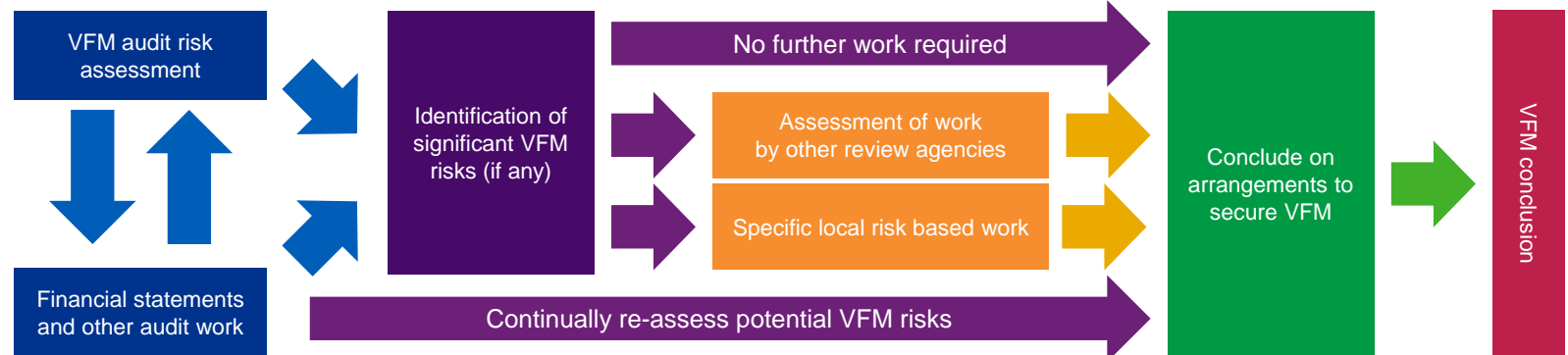
This is supported by the Code of Audit Practice, published by the NAO in April 2015, which requires auditors to 'take into account their knowledge of the relevant local sector as a whole, and the audited body specifically, to identify any risks that, in the auditor's judgement, have the potential to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



✓
Met



✓
Met



✓
Met

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.

Specific VFM Risks



We have identified a number of specific VFM risks.

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

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; and
- Considered the results of relevant work by the Authority, inspectorates and review agencies in relation to these risk areas.

Key findings

Below we set out the findings from our work on the VFM conclusion. We did not identify any areas of residual audit risk needing us to carry out additional work. We found that sufficient relevant work had been completed by the Authority, inspectorates and review agencies in relation to potential risk areas.

The Authority is a confident well managed organisation with a good history of sound financial management. Processes and plans are in place to manage the challenges faced by the Authority over the medium term. Financial health is underpinned by a comfortable level of general fund and earmarked reserves that have been properly constituted and managed, although further significant savings will still be required to achieve annual budgets over the coming years to 2019/20.

The Authority has proposed a balanced budget for 2016/17. It has used earmarked reserves to fund some specific investment decisions. The Authority is also making progress in reducing the funding gap over the four years 2016/17 to 2019/20, however it recognises there is still some work to be done in this area.

The Authority is currently forecasting budget gaps in 2017/18, 2018/19 and 2019/20 and is working on a range of options to reduce these gaps and reduce further risks in these areas.

The Authority's effective monitoring of its MTFP position and related assumptions will be key to ensuring continued delivery of its objectives.



Appendices

Appendix 1: Key issues and recommendations

Appendix 2: Audit differences

Appendix 3: Materiality

Appendix 4: Independence and objectivity

Appendix one

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

①	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.	②	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.	③	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.
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No.	Risk	Issue and recommendation	Management response/responsible officer/due date
1	②	<p>Journal authorisation</p> <p>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.</p> <p>Recommendation</p> <p>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.</p>	<p>Management response</p> <p>The written procedures in relation to journal control & authorisation will be refreshed to reflect the current Business Unit operating model and staffing structure.</p> <p>Responsible Officer</p> <p>Service Director – Finance</p> <p>Due date</p> <p>31 October 2016</p>

Appendix one

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

1	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.	2	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.	3	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.
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No.	Risk	Issue and recommendation	Management response/responsible officer/due date
2	2	<p>Valuation of Waste Management Asset</p> <p>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.</p> <p>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.</p> <p>Recommendation</p> <p>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.</p>	<p>Management response</p> <p>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.</p> <p>Responsible Officer</p> <p>Service Director – Finance and Service Director – Assets</p> <p>Due date</p> <p>31 March 2017</p>

Appendix two

Audit differences

This appendix sets out the significant audit differences identified during the audit for the year ended 31 March 2016.

We are reporting all audit differences over £550k.

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

The overall impact of the Audit adjustment is to reduce the General Fund – Earmarked Reserves by £13,269k.

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 full Council). We are also required to report all material misstatements that have been corrected but that we believe should be communicated to you to assist you in fulfilling your governance responsibilities.

Corrected audit differences

The following table sets out the significant audit differences identified by our audit of the Authority's financial statements for the year ended 31 March 2016. These have been adjusted in the revised set of financial statements.

Impact						
No.	Income and expenditure statement	Movement in reserves statement	Assets	Liabilities	Reserves	Basis of audit difference
1	Dr Financing and Investment Income and Expenditure Account £13,269k	Cr General Fund Balance – Transfer to Earmarked Reserves Account (£13,269k)	Cr Long Term Debtors (£18,691k)	Cr Other Short Term Liabilities (£5,962k) Dr Other Long Term Liabilities £11,384k	Dr General Fund - Earmarked Reserves £13,269k	To correct the errors in the accounting for the PFI transactions in 2015/16 to ensure that they reflect the contractual arrangements.
	Dr £13,269k	Cr (£13,269k)	Cr (£18,691k)	Dr £5,422k	Dr £13,269k	Total impact of adjustments

Uncorrected audit differences

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

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

Materiality and reporting of audit differences

For 2015/16 our materiality is £11 million for the Authority's accounts.

We have reported all audit differences over £0.55 million 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 reassessed materiality for the Authority at the start of the final accounts audit. The re-assessment was made due to a significant fall in the Gross Expenditure of the Authority as compared to 2014/15.

Materiality for the Authority's accounts was set at £11 million which equates to around 1.7 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 £0.55 million 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.

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; and
- 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.

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 Barnsley Metropolitan Borough Council for the financial year ending 31 March 2016, 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.

Appendix four

Audit Independence

Audit Fees

Our scale fee for the audit was £135,988 plus VAT in 2015/16. 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 £15,236 plus VAT, and fees for other grants and claims (Teachers Pensions Agency Return, and Pooling Capital Receipts Return) was £7,750 plus VAT in 2015/16.

Non-audit services

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



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The information contained herein is of a general nature and is not intended to address the circumstances of any particular individual or entity. Although we endeavour to provide accurate and timely information, there can be no guarantee that such information is accurate as of the date it is received or that it will continue to be accurate in the future. No one should act on such information without appropriate professional advice after a thorough examination of the particular situation.

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