Interim Audit Report 2016/17

Barnsley Metropolitan Borough Council

July 2017

Contents

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Introduction

This document summarises the key findings arising from our work to date in relation to the audit of the Authority's 2016/17 financial statements and the 2016/17 VFM conclusion

Scope of this report

This report summarises the key findings arising from:

— our interim audit work Barnsley Metropolitan Borough Council('the Authority') in relation to the Authority's 2016/17 financial statements; and

— our work to support our 2016/17 value for money (VFM) conclusion up to May 2017.

Financial statements

Our *External Audit Plan 2016/17,* presented to you in February 2017, set out the four stages of our financial statements audit process.

During February and March 2017 we completed our planning and control evaluation work. This covered:

— review of the Authority's general control environment, including gaining an understanding of the Authority's IT systems and testing general IT controls;

— testing of certain controls over the Authority's key financial systems;

— review of relevant internal audit work which we are seeking to rely upon; and

— review of the Authority's accounts production process, including work to address prior year audit recommendations and the specific risk areas we have identified for this year.

VFM conclusion

Our *External Audit Plan 2016/17* explained our risk-based approach to VFM work, which is set out in the Code of Audit Practice and supporting guidance published by the NAO.

We have completed some early work to support our 2016/17 VFM conclusion. This included:

— assessing the potential VFM risks and identifying the residual audit risks for our VFM conclusion;

— considering the results of any relevant work by the Authority, inspectorates and other review agencies in relation to these risk areas; and

— identifying what additional risk-based work we will need to complete.

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 interim audit work in relation to the 2016/17 financial statements.

— Section 4 outlines our key findings from our work on the VFM conclusion.

We have reviewed your progress in implementing prior recommendations and this is detailed 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.

Headlines

This table summarises the headline messages from our work to date. The remainder of this report provides further details on each area.

Organisational and IT control environment	The organisational control environment is generally sound, and we have nothing to report in this area. Our work into the IT control environment is ongoing and we will report any findings as part of our year end report.
Controls over key financial systems	The controls over key financial systems are generally sound, however we have identified one issue in relation to the timely removal of leavers from the revenue IT systems. Our work into this is still ongoing, and as such we will bring any formal recommendations to the September audit committee as part of our ISA260 report.
Accounts production and specific risk areas for the Authority	The Authority have a good history of quality accounts production and in 2016/17 the Authority has a good understanding of the key audit risk areas we identified and is making progress in addressing them. We are currently discussing with key officers whether there is a need to produce group accounts following changes in the value of the pension liability at Berneslai Homes.
VFM risks	We have not identified any specific VFM risks through our risk assessment.

Organisational and IT control environment

The organisational control environment is generally sound and we have no issues to report.

Our work into the IT control environment is ongoing.

Work completed

Controls operated at an organisational level often have an impact on controls at an operational level and if there were weaknesses this would have implications for our audit.

We obtain an understanding of the Authority's overall control environment and determine if appropriate controls have been implemented. We do not complete detailed testing of these controls.

The Authority relies on information technology (IT) to support both financial reporting and internal control processes. In order to satisfy ourselves that we can rely on the use of IT, we test controls over access to systems and data, system changes, system development and computer operations.

This work is ongoing and we will work with Internal Audit and officers to minimise the impact where possible.

Controls over key financial systems

The controls over of the key financial systems are sound.

However, there is a weakness in respect of revoking staff access to the revenue systems once they have left the Authority.

Work completed

We review the outcome of internal audit's work on the financial systems to influence our assessment of the overall control environment, which is a key factor when determining the external audit strategy.

Where we have determined that this is the most efficient audit approach to take, we evaluate the design and implementation of the control and then test selected controls that address key risks within these systems. The strength of the control framework informs the substantive testing we complete during our final accounts visit.

Our assessment of a system will not always be in line with your internal auditors' opinion on that system. This is because we are solely interested in whether our audit risks are mitigated through effective controls, i.e. whether the system is likely to produce materially reliable figures for inclusion in the financial statements.

Key findings

We noted a weakness in respect of the revenue system's general IT controls:

We found 7/40 instances where staff who had left the Authority had not had their access removed from the revenue system in a timely manner. There is however a mitigating control in that staff need network access in order to gain access to the revenue system. At the time of writing, we are still in the process of confirming that all users identified had been removed from the network in a timely manner. If this is not the case, we will need to undertake additional substantive testing around the revenue system.

As we are still undertaking work in this area, we have not raised a specific recommendation, and instead will bring the finalised recommendation to Audit Committee as part of our ISA260 in September.

We have not yet assessed the controls over Property, Plant and Equipment, Pension Assets and Liabilities and General Ledger IT Controls.

Many of the key controls in respect of these areas are operated during the closedown process and our testing will be supplemented by further work during our final accounts visit.

If weaknesses are identified in these areas we may need to undertake additional substantive work.

Financial system	Controls Assessment
Cash and Cash Equivalents	3
Creditor Payments and Non pay expenditure	3
Payroll	3
Housing Rent Income	3
Council Tax Income	3
Business Rate Income	3
Housing Benefits Expenditure	3
Revenue System - General IT Controls	2

Keys:
- 1 Significant gaps in the control environment.
- 2 Deficiencies in respect of individual controls.
- 3 Generally sound control environment

Specific audit risk areas

The Authority have a good history of quality accounts production and in 2016/17 the Authority has a good understanding of the key audit risk areas we identified and is making progress in addressing them.

Work completed

In our External Audit Plan 2016/17, presented to you in February, we identified the key audit risks affecting the Authority's 2016/17 financial statements.

Our audit strategy and plan remain flexible as risks and issues change throughout the year. To date there have been no changes to the risks previously communicated to you.

We have been discussing these risks with the Service Director (Finance) as part of our regular meetings. In addition, we sought to review relevant workings and evidence and agree the accounting treatment as part of our interim work.

Key findings

The Authority has a clear understanding of the risks and is making progress in addressing them. The table below provides a summary of the work the Authority has completed to date to address these risks.

Those risks requiring specific audit attention and procedures to address the likelihood of a material financial statement error.

Significant Risk: Significant changes in the pension liability due to LGPS Triennial Valuation

During the year, the Local Government Pension Scheme for South Yorkshire Pension Fund (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 to be included in the financial statements for 2016/17 will be 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 is provided to the actuary by South Yorkshire Pension Authority, who administer the Pension Fund.

Interim assessment and work undertaken

We have liaised with our colleagues at South Yorkshire Pension Authority, and your finance team that deal with the Actuary and have gained sufficient assurance that the Council have adequate arrangements in place to address the risks that we have identified, and we will at the final visit stage substantively test the data transferred to the Actuary and the Actuary data to the entries in the financial statements.

Specific audit risk areas (cont.)

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

Significant Risk: Valuation of the Waste Management PFI Asset

The Authority 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.

Preliminary assessment and work undertaken

We have liaised with the Authority's finance team and understand that they have obtained their own valuation of the asset to confirm the amounts provided by Rotherham MBC's valuers. We will be using the valuation and the assumptions at the final visit to ensure that the value does not raise a risk of material misstatement.

Other areas of focus

Those risks with less likelihood of giving rise to a material error but which are nevertheless worthy of audit understanding.

Area of focus: Disclosures associated with retrospective restatement of CIES, EFA and MiRS

Over previous years, CIPFA has been working with stakeholders to develop better accountability through the financial statements as part of its ‘Telling the Whole Story’ project. The key objective of this project was to make Local Government accounts more understandable and transparent for the reader in terms of how the Councils are funded and how they use the funding to serve the local population. The outcome of this project resulted in two main changes in respect of the 2016-17 Local Government Accounting Code (Code) as follows:

- Allowing local authorities to report on the same basis as they are organised by removing the requirement for the Service Reporting Code of Practice (SeRCOP) to be applied to the Comprehensive Income and Expenditure Statement (CIES); and
- Introducing an Expenditure and Funding Analysis (EFA) which provides a direct reconciliation between the way local authorities are funded, prepare their budget and the CIES. This analysis is supported by a streamlined Movement in Reserves Statement (MIRS) which replaces the current segmental reporting note

As a result of these changes, retrospective restatement of CIES (cost of services), EFA and MiRS is required from 1 April 2016 in the Statement of Accounts.

New disclosure requirements and restatement of accounts require compliance with relevant guidance and the correct application of applicable Accounting Standards .

Though less likely to give rise to a material error in the financial statements, this is an important material disclosure change in this year’s accounts that is worthy of audit understanding.

Preliminary assessment and work undertaken

We have had early discussions with the finance team over the restatement of the CIES, EFA and MiRS in terms of the format and what this will look like. We are comfortable that the finance team had adequate plans in place to carry out the required changes and these were in the closedown plans. We will carry out the substantive audit procedures on the final output when the accounts subject to audit are available.

VFM audit approach

Our VFM conclusion considers how the Authority secures financial resilience and challenges how it secures economy, efficiency and effectiveness.

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

Our *External Audit Plan 2016/17* describes in more detail how the VFM audit approach operates.

Background to approach to VFM work

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 and supporting guidance published by the NAO, 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 followed last year and is structured around three sub-criteria.

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

Overview of the VFM audit approach

The key elements of the VFM audit approach are summarised below.

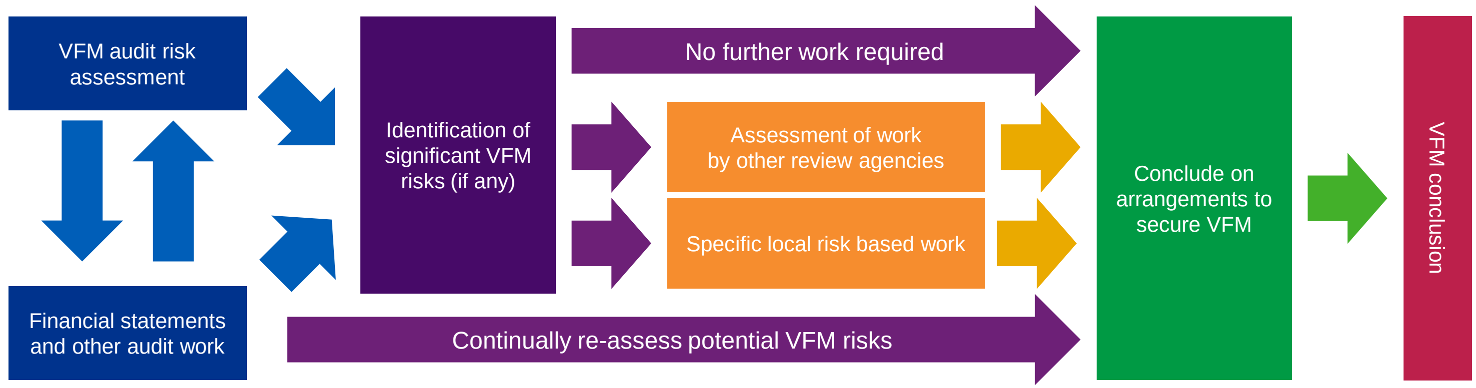
Overall criterion

In all significant respects, the audited body had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.

Informed decision making

Sustainable resource deployment

Working with partners and third parties



Specific VFM risks

We have not identified any specific VFM risks through our risk assessment.

Work completed

In line with the risk-based approach set out on the previous page, we have

- Assessed the Authority's key business risks which are relevant to our VFM conclusion;
- Identified the residual audit risks for our VFM conclusion, taking account of work undertaken in previous years or as part of our financial statements audit;
- Considered the results of relevant work by the Authority, other inspectorates and review agencies in relation to these risk areas; and
- Concluded to what extent we need to carry out additional risk-based work.

Key findings

We have completed our initial VFM risk assessment and have not identified any key issues. We will update our assessment throughout the year should any issues present themselves and report against these in our ISA260.

We will report our final conclusions in our *ISA 260 Report 2016/17.*

Appendix 1

Follow-up of prior year recommendations

The Authority has implemented all of the recommendations raised through our previous audit work.

This appendix summarises the progress made to implement the recommendations identified in our Interim Audit Report 2015/16 and re-iterates any recommendations still outstanding.

Number of recommendations that were:	
Included in original report	2
Implemented in year or superseded	2
Remain outstanding	0

No.	Risk	Issue and recommendation	Officer responsible and due date	Status as at July 2017
1	2	**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 response** The written procedures in relation to journal control & authorisation will be refreshed to reflect the current Business Unit operating model and staffing structure. **Responsible Officer** Service Director – Finance **Due date** 31 October 2016	The written procedures in relation to journal control and authorisation have now been refreshed.

Follow-up of prior year recommendations

The Authority has implemented all of the recommendations raised through our previous audit work.

This appendix summarises the progress made to implement the recommendations identified in our Interim Audit Report 2015/16 and re-iterates any recommendations still outstanding.

No.	Risk	Issue and recommendation	Officer responsible and due date	Status as at July 2017
2	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.	**Management 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. **Responsible Officer** Service Director – Finance and Service Director – Assets **Due date** 31 March 2017	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. We will test this substantively as part of our year end audit visit.

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