

Progress on Risks identified in 2015-16 Audit Plan

Item	Risk*	Audit Findings*	Status	Officer Comments
Significant Audit Risks				
1)	<p>Property Plant and Equipment (PPE)</p> <p>The Council has a significant asset base primarily relating to Council dwellings; and operational buildings. The potential for impairment/valuation changes makes this balance inherently risky due to the high level of judgement and estimation uncertainty.</p>	<p>We have considered the Authority's approach to valuation of PPE with reference to accounting standards and the Code; the information provided to the valuer; reports received by the Authority from its valuer and the judgements made by the Authority in response to those reports. We have compared your valuer's assumptions to benchmarks and to assumptions used for 2014/15 for consistency and ensured that the valuer explicitly considered upward trends as well as impairments in conducting the valuations; and also whether there were material changes in valuations for asset classes valued more than 12 months ago. We also considered disposals (in relation to the BV Inspection findings and consequent Direction); and the completeness of information held on the new fixed asset system. We have no matters to bring to your attention as a result of completing this work.</p>	No Further action	
2)	<p>Grant Payments</p> <p>The Best Value Inspection completed in 2014 concluded that the Authority had not achieved its best value duty with regard to the payment of grants totalling £12.2 million and connected decisions in the period from 25 October 2010 to 4 April 2014. Consequently, the award of grants became the responsibility of independent Commissioners who were appointed by the Secretary of State for CLG from January 2015. (2015-16 represented the first full year of the new arrangements being in place.)</p>	<p>Our work in this area is not yet complete. Our planned approach was to consider the detailed approach and systems put in place by the Council and Commissioners and to assess whether any conditions/ delegation arrangements have been implemented effectively by Authority officers. At the time of writing this report we have recently agreed to select our sample for testing from a list of grant programmes, rather than a complete list of grants made in 2015-16 as planned originally. We are also awaiting details of potentially unlawful items of account where we understand that several grants were paid when the conditions set by Commissioners had not been met.</p>	Ongoing	

3)	<p>Section 106 Agreements</p> <p>The Commissioners highlighted this as an additional area of concern from the enquiries they have made. The Authority has also had an independent review undertaken of its arrangements in relation to s106 systems, processes, controls and monitoring arrangements.</p>	<p>We have tested a selection of schemes and the overall controls employed by the Authority to ensure that section 106 agreement funds are being used in accordance with the conditions agreed as part of the planning process. Our testing of 27 schemes did not identify any issues in terms of balances held and monies spent during 2015-16. We noted that there are two schemes which have gone beyond the time when the s106 agreement requires the funds to have been spent. (PA/06/01439 expired October 2015 and the balance at 31 March 2016 was £3m we understand this balance has been committed to two projects which have commenced in 2016-17 and that the developer making the original payment has been dissolved; and there is one further small scheme which has gone beyond the time when the s106 agreement required the funds to have been spent (PA/02/1852 -£40,000). We understand that due to the circumstances of each scheme that there is very limited risk of the funds being lost. We have also noted a further scheme which is due to expire in January 2017 with a balance of £2.1m at 31 March 2016 where there are approved schemes in place that are due to use the balance during 2016-17. We will review the position on this scheme as part of our 2016-17 audit (PA/06/2068).</p> <p>We have also considered the results of the independent review and the Authority's response. The review raised a number of recommendations for improvements, which the Authority has responded to positively. The Authority has reported that all recommendations have been implemented except those that required the implementation of a new software system which has been procured and is in the process of being implemented.</p>	Ongoing	
4)	<p>Declarations of Interest</p> <p>We reported in our 2014-15 ISA260 report to the Authority that the Authority had taken the actions agreed in response to our 2013-14 recommendations in this area (made in October 2015). However, the Commissioners have informed us that they remain concerned as to whether declarations are being made appropriately and completely by both officers and Members.</p>	<p>We have reviewed the actions taken by the Council which now include a requirement for all staff to complete an annual declaration. Our testing of the declarations made has not identified any issues. However, we have noted a number of concerns:</p> <ul style="list-style-type: none"> • The initial response by staff to the new requirement was slow. We understand that the Authority has now received over 90% of expected returns, which has taken 6 months and a 100% return is essential to meet the aims of the exercise; • We understand that the Authority is satisfied that every member of staff has been identified and therefore required to complete a declaration form, but our experience elsewhere suggests that it is worthwhile obtaining further assurance on this aspect, such as from an internal audit review; • Human Resources have provided Corporate Directors and Heads of Service with reports that identify whether submitted declarations have been authorised or rejected by line managers to help inform whether to consider further appropriate action if there are areas of concern. In view of the concerns expressed by the BV Inspection and Commissioners we would anticipate that a further level of assurance is sought as to how robust the process has been in terms of considering the declarations made and any follow up action taken; and • There is little in the way of comprehensive training so that staff are clear what the Authority's requirements and objectives are understood clearly by staff and that they have the necessary information to complete declarations properly and to support the Authority in terms of any issues that might arise from incomplete declarations. 	Ongoing	<p>Whilst the initial response was slow the current position is that 99.75% of employees have completed their individual declaration of interest form with the outstanding responses being as a result of employee absence. The HR Service continues to monitor completion on and provide reports to every director on a weekly basis. In addition, Internal Audit are carrying out an independent review to provide further assurance and testing the validity of declarations made by officers. Discussions are currently taking place with Internal Audit to develop joint briefing sessions on individual responsibility on a wide variety of matters including declarations of interest.</p>

Other Areas of Focus				
5)	<p>Fraud Risk of Revenue Recognition</p> <p>Professional standards require us to make a rebuttable presumption that the fraud risk from revenue recognition is a significant risk.</p>	<p>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.</p> <p>Subsequently, we have revised our assessment and consider that conditional grant income (which is predominantly made up of s106 developers' contributions (80% of the total of £76 million)) should be considered as a risk. This work has therefore been reported within the significant audit risks for section 106 agreements earlier in this section.</p>	<p>Ongoing as part of item 2 above</p>	
6)	<p>Management Override of controls</p> <p>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.</p>	<p>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.</p> <p>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.</p> <p>There are no matters arising from this work that we need to bring to your attention.</p>	<p>No Further action</p>	
7)	<p>Pension assets / liabilities</p> <p>Pension valuations require a significant level of expertise, judgement and estimation and are therefore more susceptible to error. This is also a very complex accounting area increasing the risk of misstatement.</p>	<p>We have:</p> <ul style="list-style-type: none"> • Confirmed that the information provided to the actuary from the Authority is reasonable; • Reviewed the actuarial valuation and considered the disclosure implications; and • Considered the approach adopted and assumptions made by your actuaries to benchmarks and other information available to us and to the assumptions used for 2015-16 for consistency with previous years. 	<p>No Further action</p>	<p>No concerns raised by KPMG. Audit opinion for 2015-16 Pension Fund Accounts issued in November 2016.</p>
8)	<p>Payroll</p> <p>Payroll represents a significant proportion of the Authority's annual expenditure (approaching 33% of gross spend at £464m in 2014-15). Whilst not considered overly complex from a material error perspective, we consider that it is important from an audit perspective to understand the nature of the Authority's expenditure in this area.</p>	<p>As noted in the Headlines section our work in this area has not yet been completed. We plan to:</p> <ul style="list-style-type: none"> • Review and test reconciliations for gross pay and deductions (e. g. pensions, tax and national insurance). • Complete substantive analytical review of payroll costs and testing supporting system information used to compile the review. 	<p>Ongoing</p>	<p>No issues raised by KPMG so far as part of 2015/16 audit.</p>

9)	<p>Income from Property Leases</p> <p>Commissioners have identified concerns relating to the robustness and comprehensiveness of information relating to occupation of Council property and formal support to explain/justify related decisions when determining any charges to be paid by the organisation occupying Council property. This also impacts on VFM in that the amounts due/collected/written off are accurately recorded but the concern is with the process for agreeing arrangements formally and implementing them appropriately.</p>	<p>Our work in this area is not yet complete. Our planned approach was to consider the Authority's approach to leasing its property and the information held to support its decision making and then to test a sample of agreements to assess whether the approach to leasing is followed in practice. This area is closely linked to our work on grants and therefore will be completed at the same time.</p>	Ongoing	KPMG have met with officers and requested some more information which (at the time of writing) was in the process of being provided.
10)	<p>Youth Services</p> <p>There have been several investigations and audits within the Authority's youth service in the last two years each giving cause for concern. We understand a root and branch review has been commissioned into Youth Services more generally to provide a holistic view. Although not material in financial statement terms the gross budget for the service is significant at approaching £9 million in 2015-16. Again this is an area that also impacts on VFM.</p>	<p>The Council has taken considerable action with regards to the Youth Service in terms of improving its governance; spending controls; and service delivery. New senior officers have been appointed to manage the Service and it has been moved to a different Directorate to give it a greater opportunity with more of a 'fresh' start. There is a detailed action plan in place which is in the process of being implemented.</p> <p>In addition the Youth Services Project Group will oversee the progress of investigations (current and future) into individuals and organisations that are known to the Youth Service from the various investigations that have been completed previously. This group will ensure that suitable pace is injected into the progress of the investigations and other arising issues enabling management within the Youth Service to conclude on historical matters and concentrate of the future of the Youth Service. The Project Group comprises senior officers from Children's Services, Human Resources, Internal Audit, Finance, Legal Services, and Communications.</p>	No Further Action	

*Text taken from KPMG ISA260 report