

DERBYSHIRE COUNTY COUNCIL**AUDIT COMMITTEE****10 May 2016****Report of the Director of Finance****KPMG – INTERIM AUDIT REPORT 2015-16****1 Purpose of the Report**

To inform Members of the outcome of the interim audit performed on the Council's accounts for 2015-16 by KPMG.

2 Information & Analysis

As part of the audit of the accounts and judgement on other aspects of the Council's activities required of the external auditor, KPMG undertake the work in two stages. The first element, covering work that can be completed before the accounts are complete, is usually undertaken around March each year and results in an Interim Audit Report.

Attached to this report is KPMG's Interim Audit Report for 2015-16. Members are invited to consider its findings and ask questions of either KPMG or officers of the Council on its contents.

In order to aid Members in their discussion the recommendations have been considered and the response is detailed below.

Recommendation

- | | | |
|---|---|--|
| 1 | Section 75 Agreements – the authority should review, update and sign the new agreement in liaison with its partner organisations. | Agreed, this will be pursued by Children's Services. |
| 2 | Accounting for Schools – detailed reviews are undertaken for all schools during 2016-17 to eliminate the possibility of any miscalculation. | Agreed. |

- | | | |
|---|---|--|
| 3 | Journals – full supporting documentation should be included on SAP for all journals processed. | Agreed. This is the Council's policy, further education, training and checking required. |
| 4 | Accounts Payable – Invoice information is sense checked on an ongoing basis and corrected as necessary. | Agreed. This is already in place and error minimised. |

3 Other Considerations

In preparing this report the relevance of the following factors has been considered: financial, legal, prevention of crime and disorder, equality and diversity, human resources, environmental, health, property and transport considerations.

4 Background Papers

Files held in Room 102, Corporate Finance Division.

5 Officer's Recommendations

- 5.1 That Members consider the Interim Audit Report 2015-16.
- 5.2 That Members note the actions proposed to address the findings of the Interim Report.

PETER HANDFORD

Director of Finance



Interim Audit Report 2015/16



Derbyshire County Council

April 2016

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in connection with this
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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 John Cornett, 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.



This document summarises the key findings arising from our work to date in relation to the audit of the Authority's and the Pension Fund's 2015/16 financial statements and the 2015/16 VFM conclusion.

Scope of this report

This report summarises the key findings arising from:

- Our interim audit work at Derbyshire County Council ('the Authority') in relation to the Authority's 2015/16 financial statements. This report also covers the audit of the Pension Fund; and
- Our work to support our 2015/16 value for money (VFM) conclusion up to April 2016.

Financial statements

Our *External Audit Plan 2015/16*, presented to you in February 2016, set out the four stages of our financial statements audit process.

During February, March and April 2016 we completed our planning and control evaluation work. This covered:

- Review of the Authority's general control environment;
- Testing of certain controls over the Authority's key financial systems including fixed assets, cash, payroll and non-pay expenditure;
- Review of the Authority's accounts production process;
- We have completed our testing of the Authority's IT systems at the time of this report; and
- Further to the above we will assess the controls over the Authority's pension fund systems during our final accounts work.

VFM conclusion

Our External Audit Plan 2015/16 explained our risk-based approach to VFM work, which follows guidance provided by the National Audit Office and detailed our initial risk assessment.

We identified the following specific risks to our VFM conclusion at the planning stage as included in our External Audit Plan:

- Delivery of Saving Plans; and
- Better Care Fund

We have completed some initial work in response to these risks identified on pages 11 and 12. We have not identified any further risks up to the date of this report.

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 2015/16 financial statements.
- Section 4 outlines our key findings from our work on the VFM conclusion.

Our four recommendations included in Appendix 1 relate to improvements that can be made in the control environment for weaknesses identified in respect of the systems relating to Section 75 agreements, accounting for schools, journal documentation and accounts payable. We have also reviewed your progress in implementing prior recommendations and this is detailed in Appendix 2.

Appendix 3 shows the Accounts Payable Data Analytics and Appendix 4 provides a rich picture of the Local Government Landscape.

Acknowledgements

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



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

Organisational and IT control environment	Based on work completed so far we consider that the organisational control environment is effective overall. However we have flagged some improvement areas in respect to the operation of individual controls. These relate to some weaknesses we identified in respect of Section 75 agreements, accounting for schools, journal documentation and accounts payable. We have completed our testing of the Authority's IT systems and have not identified any control deficiencies which would impact on the production of the Authority's accounts. Further details can be found on page 5.
Controls over key financial systems	The controls over the majority of the key financial systems are sound. However, there are some weaknesses in respect of the systems relating to Section 75 agreements, accounting for schools, journal documentation and accounts payable where improvements can be made in the control environment. We comment on these issues in appendix 1 of this report. We will assess the controls over the pension fund systems as part of our final accounts visit. Further details can be found on page 6.
Accounts production and specific risk areas for the Authority	Based on our initial work and discussions so far we consider that the Authority's overall process for the preparation of the financial statements is good. The Authority are working towards implementing the recommendations included in our ISA 260 Report 2014/15. The Authority has a good understanding of the significant audit risks we identified and we have undertaken work on other areas of focus. Further details can be found on pages 7 to 9.
VFM risks	We identified two risks to our VFM conclusion at the planning stage. We have met with senior officers of the Authority during our interim audit to inform our risk assessment and we have not identified any additional VFM risks at this stage. We have undertaken some work to date to assess the Authority's approach to managing these risks and this will continue across the rest of the year to enable us to issue our opinion. Further details can be found on pages 10 to 12.

Organisational and IT control environment



Based on work undertaken so far we consider that your organisational control environment is effective overall.

We have flagged some improvement areas in respect to the operation of individual controls.

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. Our testing of IT is complete and we have not identified any control deficiencies which would impact on the production of the Authority's accounts.

Key findings

We consider that based on the work completed so far your organisational control environment are effective overall.

We have flagged some improvement areas in respect to the operation of individual controls, which are further explained on page 7.

Recommendations are included in Appendix 1.

Aspect	Assessment
Organisational controls:	
Management's philosophy and operating style	3
Culture of honesty and ethical behaviour	3
Oversight by those charged with governance	3
Risk assessment process	3
Communications	3
Monitoring of controls	2
IT controls:	
Access to systems and data	3
System changes and maintenance	3
Development of new systems and applications	3
Computer operations and end-user computing	3

Keys:

- Significant gaps in the control environment.
- Deficiencies in respect of individual controls.
- Generally sound control environment.

Controls over key financial systems



The controls over the majority of the key financial systems are sound.

However, there are some weaknesses in respect of Section 75, accounting for schools and journal documentation systems with associated gaps in the control environment.

Work completed

We meet with officers across the organisation to understand how the key financial systems operated. We then evaluated the design and implementation of the controls and tested 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

Based our work, the controls over the majority of the key financial systems are sound.

We noted some weaknesses in respect of individual financial systems that will impact on our audit:

Weakness 1: Section 75 agreements – the Authority operates a pooled budget for services to children with complex needs in partnership with North Derbyshire, South Derbyshire, Hardwick and Erewash CCGs. This agreement ran out on 30 September 2015, however the pooled fund is continuing to operate. A new agreement is currently being drawn up and is expected to be signed in the near future.

Weakness 2: Accounting for schools – the accounting status of schools (on or off balance sheet) has been determined by undertaking detailed reviews for certain schools and then applying the results to other schools that appear to be similar. Whilst this is acceptable we recommend that detailed reviews are undertaken for all schools during 2016/17 to eliminate the possibility of any misclassifications.

Weakness 3: Journals – The backing documentation relating to four journals was not readily available. In the Authority's ISA 260 Report 2014/15 we recommended that full supporting documentation should be included on SAP for all journals processed and we will be carrying forward this recommendation for 2015/16.

Weakness 4: Accounts payable – during our work on data analytics it became apparent that for a number of invoices incorrect information had been input into the SAP system for the date of the invoice and not subsequently corrected. Our data analytics work in Appendix 3 provides further information on this.

Recommendations to date are detailed in Appendix 1. We will assess the controls over the pension fund systems as part of our work at the final accounts visit.

The below ratings are based on our testing to date and may be changed if further issues arise in our year end testing.

Financial system	Controls Assessment
Property, Plant and Equipment	3
Cash and Cash Equivalents	3
Payroll	3
Non pay expenditure	3
Financial reporting	3
Pension Assets and Liabilities	Work still in progress
Journals	2

Keys: ● Significant gaps in the control environment.
● Deficiencies in respect of individual controls.
● Generally sound control environment

Accounts production process and risk assessment

Based on our initial work and discussions so far we consider that the Authority's overall process for the preparation of the financial statements is good.

The Authority is working towards implementing the majority of the recommendations included in our ISA 260 Report 2014/15.

Accounts production process

We issued our Accounts Audit Protocol to Paul Stone, Finance Manager (Accountancy) on 15 February 2016. This important document sets out our audit approach and timetable. It also summarises the working papers and other evidence we require the Authority to provide to support our audit work. We will continue to meet with Paul Stone on a periodic basis to liaise during the financial year end closedown and accounts preparation process.

As part of our work we specifically review the Authority's progress in addressing the recommendations included in the Authority's ISA 260 Report 2014/15.

Key findings

Based on our initial work and discussions so far we consider that the Authority's overall process for the preparation of the financial statements is good.

The Authority is working towards implementing the three recommendations included in the Authority's ISA 260 Report 2014/15 relating to the financial statements.

The table below sets out the Authority's progress against these recommendations.

Issue	Progress
Pension Fund Annual Report The Authority has made good progress with moving the Financial Statements deadline forward so it is prepared for the earlier audit deadline in future years. However, last year we did not receive the Pension Fund Annual Report on a timely basis which we are required to review prior to giving our Audit Opinion.	We have been assured that the procedures and timetable used to produce the Statement of Accounts for 2015-16 reflect the shorter timeframe needed to complete the Pension Fund Annual Report. We will revisit this at the year end.
Pension Fund change of system The Authority changed its Pension Fund administration system during 2014-15, and we confirmed that the data migration process has taken place. Discussions with the Pension Fund team indicated that their system was still not providing accurate information and additional reconciliations were required in some areas. Whilst we confirmed that this did not have a material impact on the Financial Statements, but the Authority needs to ensure that the system is producing accurate information in the future.	We will assess the controls over the Authority's pension fund systems during our final accounts work.
Journals The Council's policy for journal preparation requires that full supporting evidence should be attached on to the ledger for all journals. Our testing found that this was not held on the ledger in all cases. Whilst evidence could be provided upon request the policy should be followed in full as a lack of documentation increases the risk of error.	The backing documentation relating to four 2015/16 journals was not readily available. Whilst evidence was subsequently provided the audit trail should be maintained on an ongoing basis. Therefore we will reiterate our 2014/15 recommendation in our ISA 260 for 2015/16.

Specific audit risk areas



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

Financial statements risk assessment

We undertook an initial assessment of risks to the financial statements at planning stage and identified one significant risk other than the risk of management override of controls. We have updated our assessment and still consider there to be only one specific risk other than the risk relating to management override of controls as identified in our audit plan. We review the risk relating to management override of controls as a matter of course as part of our standard audit procedures and therefore do not have anything to report beyond reporting against these procedures as covered elsewhere.

Work completed

In our External Audit Plan 2015/16, presented to you in February, we identified one significant audit risk affecting the Authority's

2015/16 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 risk issues with the Authority as part of our regular meetings. In addition, we sought to review relevant workings and evidence as part of our interim work.

Key findings

The table below provides a summary of the work completed to date in relation to the risk identified.

Significant Risk 1

— Asset Valuation and IFRS 13

Due to the inherent risk associated with the estimation of assets and the implementation of IFRS 13 which require surplus assets to be measured at fair value for 2015/16, we consider this to be a significant risk.

— Interim/Preliminary assessment and work undertaken

We have: reviewed the terms of engagement with the valuer to ensure compliance with the Authority's accounting policies; reviewed the revaluation basis and consider its appropriateness with the CIPFA Code of Practice and the underlying IFRS accounting standards; undertaken appropriate work to understand the basis upon which any impairments have been calculated; and reviewed the Authority's preparedness for accounting for highway infrastructure assets. To date there are no issues arising from this work which we need to draw to your attention.

Other areas of focus



The Authority has a good understanding of these areas of focus.

We will revisit these areas during our final accounts audit.

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

Area of focus 1

— Accounting for Schools

The Authority has used an estimation technique to apply the changes to schools accounting which came into force in 2014/15 and has refreshed the approach during the year.

— Preliminary assessment and work undertaken

We have reviewed the new proposed approach to schools accounting. The accounting status of schools (on or off balance sheet) has been determined by undertaking detailed reviews for certain schools and then applying the results to other schools that appear to be similar. Whilst this is acceptable we recommend that detailed reviews are undertaken for all schools during 2016/17 to eliminate the possibility of any misclassifications.

Area of focus 2

— MRP policy

The Authority is considering updating its MRP policy.

— Preliminary assessment and work undertaken

We have reviewed the 2015-16 policy and confirmed it was approved by the Audit Committee appropriately. During our final accounts work we will review any change in policy and confirm that the currently adopted policy has been applied in the year.

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 2015/16* 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, 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.'

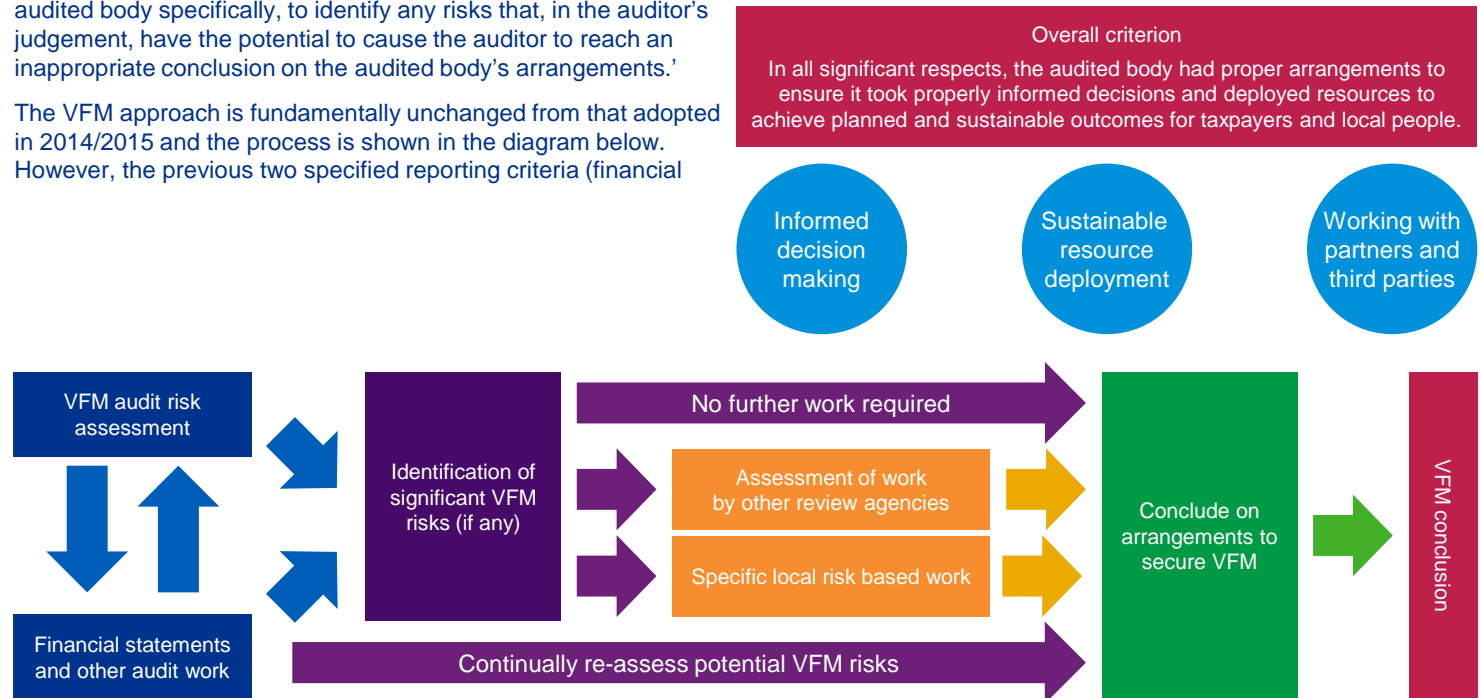
The VFM approach is fundamentally unchanged from that adopted in 2014/2015 and the process is shown in the diagram below. However, the previous two specified reporting criteria (financial

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.

Overview of the VFM audit approach

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



Section four – VFM conclusion

Specific VFM risks

We identified two specific VFM risks at planning.

In this section we describe our work to date for each of these risks.

We will continue to review these risks as part of our final accounts visit.

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; and
- Met with officers during our interim audit stage to inform our risk assessment and we have not identified any additional VFM risks.

We have undertaken some work to date to assess the Authority's approach to managing these risks.

Key findings

The table below provides a summary of the work we have completed to date to address this risk.

We will report our final conclusions in our *ISA 260 Report 2015/16*.

Significant Risk 1

— Delivery of savings plans

The Authority's budgets over recent years have delivered significant planned savings, but further strong financial challenges lie ahead. The Authority forecasts predict that over the forthcoming years, additional savings will need to be found as the Authority faces further expenditure pressures and a continued reduction in resources. We understand the Authority has identified saving proposals for 2015/16 and 2016/17, but may require further savings in 2016/17 and future years to meet the potential impact of reduced resources on the financial standing of the Authority. Therefore we consider this as a significant risk.

— Interim/Preliminary assessment and work undertaken

We have undertaken the following procedures over this significant risk: reviewed the delivery of the Authority's savings programme to date; reviewed the actions taken by the Authority where savings are not being achieved in line with the plan; and evaluated the arrangements the Authority has in place in identifying further savings for future years. Further work will take place once the final outturn position is confirmed and we will update our work in this area to inform our overall VFM conclusion.

Specific VFM risks (cont.)

We identified two specific VFM risks at planning.

In this section we describe our work to date for each of these risks.

We will continue to review these risks as part of our final accounts visit.

Significant Risk 2

— Better Care Fund

In 2015/16 the Authority entered into Section 75 agreements with Clinical Commissioning Groups to pool funds to implement the local Better Care Fund. The implementation of the Better Care Fund drives integration of services to improve outcomes for the patient and public as well as delivery efficiencies and effectively manages limited resources during challenging times. We consider this a significant risk as the Better Care Fund is in its early stages and therefore there are risks associated with the delivery of improved health and social care in Derbyshire and achieving significant savings.

— Preliminary assessment and work undertaken

We have discussed the Better Care Fund project with the Authority and received an explanation of the governance arrangements in place with regard to the schemes undertaken. We have reviewed documentation from the Better Care Fund Board to establish the nature of the arrangements and the proposed accounting treatment. When the outturn position is confirmed we will review the delivery of services compared with those planned and consider any actions taken by the Authority where delivery is under performing significantly.

Key issues and recommendations

These are the key issues identified during our interim visit and we have made recommendations to address these key issues.

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 <i>Priority one:</i> 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 <i>Priority two:</i> 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 <i>Priority three:</i> Issues that would, if corrected, improve the internal control in general but are not vital to the overall system. These are generally issues of best practice that we feel would benefit you if you introduced them.

No.	Risk	Issue and recommendation	Management response/responsible officer/due date
1	3	<p>Issue</p> <p>Section 75 agreements – the Authority operates a pooled budget for services to children with complex needs in partnership with North Derbyshire, South Derbyshire, Hardwick and Erewash CCGs. This agreement ran out on 30 September 2015, however the pooled fund is continuing to operate. A new agreement is currently being drawn up and is expected to be signed in the near future.</p> <p>Recommendation</p> <p>The Authority should review, update and sign the new agreement in liaison with its partner organisations.</p>	

Appendix 1

Key issues and recommendations continued

These are the key issues identified during our interim visit and we have made recommendations to address these key issues.

No.	Risk	Issue and recommendation	Management response/responsible officer/due date
2	3	<p>Issue</p> <p>Accounting for schools – the accounting status of schools (on or off balance sheet) has been determined by undertaking detailed reviews for certain schools and then applying the results to other schools that appear to be similar.</p> <p>Recommendation</p> <p>Whilst the above approach is acceptable we recommend that detailed reviews are undertaken for all schools during 2016/17 to eliminate the possibility of any misclassifications.</p>	
3	3	<p>Issue</p> <p>Journals – The Council's policy for journal preparation requires that full supporting evidence should be attached on to the ledger for all journals. The backing documentation relating to four journals was not readily available.</p> <p>Recommendation</p> <p>Whilst evidence was subsequently provided the audit trail should be maintained on an ongoing basis. In the Authority's ISA 260 Report 2014/15 we recommended that full supporting documentation should be included on SAP for all journals processed and we are now carrying forward this recommendation for 2015/16.</p>	

Appendix 1

Key issues and recommendations continued

These are the key issues identified during our interim visit and we have made recommendations to address these key issues.

No.	Risk	Issue and recommendation	Management response/responsible officer/due date
4	3	<p>Issue</p> <p>Accounts payable – During the course of our work on data analytics it became apparent that for a number of invoices incorrect information had been input onto the SAP system and not subsequently corrected. Of the transactions reviewed we did not find any payment errors. However, the SAP information entered for a number of invoices appeared to indicate the wrong year for the invoice date as illustrated in Appendix 3 on page 20. This may cause errors in reports generated from this information.</p> <p>Recommendation</p> <p>We recommend that the invoice information held in SAP is sense checked on an ongoing basis and corrected as necessary.</p>	

Appendix 2

Follow-up of prior year recommendations

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

The Authority is working towards implementing the majority of the recommendations included in our ISA 260 Report 2014/15.

Number of recommendations that were:				
Included in original report			3	
Implemented in year or superseded				
Remain outstanding (re-iterated below)			3 (2 are awaiting the outcome of pension fund controls testing as part of our final accounts work)	
No.	Risk	Issue and recommendation	Officer responsible and due date	Status as at April 2016
1	2	<p>Pension Fund Annual Report</p> <p>The Authority has made good progress with moving the Financial Statements deadline forward so they are prepared for the earlier audit deadline in future years. However, we still have not received the Pension Fund Annual Report which we are required to review prior to giving our Audit Opinion.</p> <p>Recommendation</p> <p>The 2014-15 Pension Fund Annual Report needs to be provided as a matter of urgency. The Authority should review the process of preparation of this document to ensure it is delivered with the Financial Statements and associated working papers in future years.</p>	<p>Agreed. The Annual Report has been provided to KPMG in order to complete the audit. The procedures and timetable used to produce the Statement of Accounts for 2015-16 will reflect the shorter timeframe needed to complete the Pension Fund Annual Report.</p> <p>Action: Richard Appleby (Deputy Director of Finance)</p>	<p>We have been assured that the procedures and timetable used to produce the Statement of Accounts for 2015-16 reflect the shorter timeframe needed to complete the Pension Fund Annual Report. We will assess whether or not this has been achieved during our final accounts work.</p>

Follow-up of prior year recommendations continued

The Authority is working towards implementing the majority of the recommendations included in our ISA 260 Report 2014/15.

No.	Risk	Issue and recommendation	Officer responsible and due date	Status as at April 2016
2	2	<p>Pension Fund change of system</p> <p>The Authority changed its Pension Fund administration system during 2014-15, and we confirmed that the data migration process had taken place. Discussions with the Pension Fund team indicated that that their system was not providing accurate information and additional reconciliations were required in some areas.</p> <p>Recommendation</p> <p>A plan should be implemented to ensure the new Pension Fund administration system is producing accurate data</p>	<p>Agreed. The Pension Fund Administration system was implemented during 2014-15 and went live in January 2015. As part of the migration to the new system, data was thoroughly checked, cleansed and reconciled. Some pension processes have taken longer than anticipated to be fully operational in the new system and have been performed manually instead. We are working closely with our supplier to ensure the system works as intended.</p> <p>Action: Richard Appleby (Deputy Director of Finance)</p>	<p>We will assess the controls over the Authority's pension fund systems during our final accounts work.</p>

Follow-up of prior year recommendations continued

The Authority is working towards implementing the majority of the recommendations included in our ISA 260 Report 2014/15.

No.	Risk	Issue and recommendation	Officer responsible and due date	Status as at April 2016
3	3	<p>Journals</p> <p>The Council's policy for journal preparation requires that full supporting evidence should be attached on to the ledger for all journals. Our testing found that this was not held on the ledger in all cases. Whilst evidence could be provided upon request the policy should be followed in full as a lack of documentation increases the risk of error.</p> <p>Recommendation</p> <p>Full supporting documentation should be included on SAP for all journals processed.</p>	<p>Agreed. Staff have been reminded of the benefits of maintaining on-line back-up information concerning journal transfers. In-year checks will be performed to ensure compliance.</p> <p>Action: Paul Stone (Finance Manager)</p>	<p>The backing documentation relating to four 2015/16 journals was not readily available. Whilst evidence was subsequently provided the audit trail should be maintained on an ongoing basis. Therefore we will reiterate our 2014/15 recommendation in our ISA 260 report for 2015/16.</p>

Accounts Payable – Data Analytics

Driving more value from the audit through data and analytics

Technology is embedded throughout our audit approach to deliver a high quality audit opinion. Use of Data and Analytics (D&A) to analyse large populations of transactions in order to identify key areas for our audit focus is just one element. We strive to deliver new quality insight into your operations that enhances our and your preparedness and improves your collective 'business intelligence.' Data and Analytics allows us to:

- Obtain greater understanding of your processes, to automatically extract control configurations and to obtain higher levels assurance.
- Focus manual procedures on key areas of risk and on transactional exceptions.
- Identify data patterns and the root cause of issues to increase forward-looking insight.

Key Findings

To support our audit approach and to provide insight into the Council's Non-Pay Expenditure, we have conducted data & analytics on the Accounts Payable system, for the first 9 months of the financial year; from 1 April 2015 to 31 December 2015.

Our review of accounts payable data shows the main cost centres the expenditure is assigned to. There are many different numbers and values of creditors per supplier. We conducted 6 tests, and followed up on particular exceptions with management. Key observations are set out below. The tests performed over the accounts payable data in arriving at our conclusion, comprise of the following:

- AP1 Analysis by year and month
- AP2 Breakdown of spend per value bracket
- AP3 Value of accounts payable by supplier
- AP4 New suppliers in 2015/16
- AP5 Value of accounts payable by cost centre
- AP6 Average Gross Value per record

During this period, a total of 669,151 invoice lines have been recorded with a value of £1,500 million. This is in line with the period in the prior year of 606,135 invoice lines with a value of £2,450 million. The decrease in value of transactions was largely due to a number of large value investments passing through the Debt Management Office (DMO) in 2014/15.

Further details are provided on these tests in the relevant sections of this appendix.

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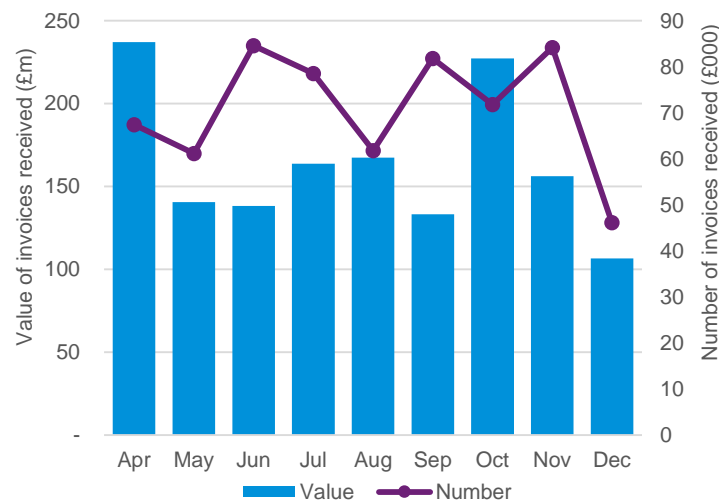
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Accounts Payable – Data Analytics (cont.)

Significant fluctuations in the number and value of Accounts Payable invoices throughout the year could indicate issues in the accurate processing of transactions, or amounts that have been missed entirely.

We have analysed the data provided by the date of the invoice documentation.

AP1 Analysis by year and month



Year	Number of records	Value
1951	20	18,327
1956	1	58
2001	1	7
2003	3	-
2005	14	4,781
2008	1	150
2009	1	31
2010	14	8,924
2011	36	1
2012	91	12,728
2013	354	62,593
2014	2,561	1,934,637
2015	666,032	1,497,616,279
2016	16	4,799
2018	5	1,013
2019	1	689
Total number of invoices paid	669,151	1,499,664,718
% invoices outside of 2015 divided by total number paid	0.47%	0.14%

Analysis of results – AP1

It appears from our analysis that August is an outlier in terms of the number of invoices. A review on a supplier basis has not identified any underlying cause for this, rather it can be attributed to general business reasons, such as suppliers reducing activity over the holiday period. April and October appear out of line on a value basis. Further analysis has identified this observations can be can be attributed to invoices from treasury management investments. The underlying amount for each month is consistent with our understanding of business activities at Derbyshire County Council, and does not give cause for concern.

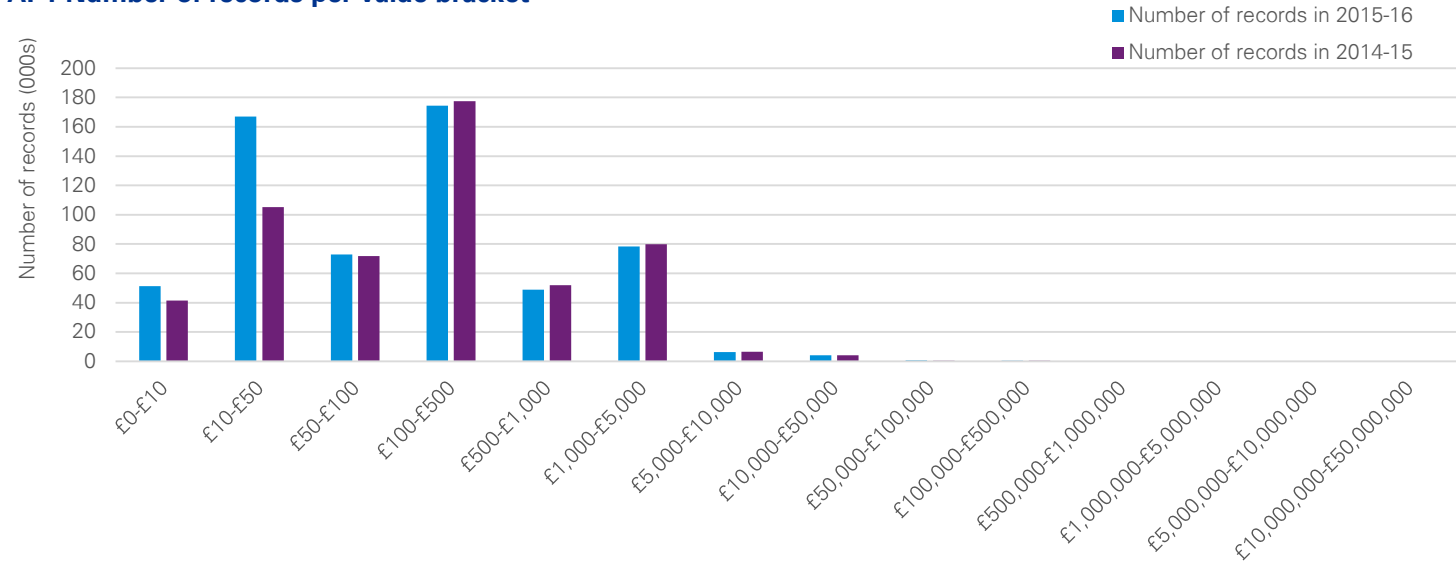
Our analysis of AP1 identified all invoices received between April 2015 and December 2015. However, we also noted from the information provided (which included all payments within the nine month period) that invoices were received from various other years, highlighted in the table above. From a review of the information, we noted that a number of records were recorded incorrectly on the system from manual inputs. The Council should ensure that all records are recorded accurately in the system through appropriate review. We have raised one recommendation in respect of data quality in light of our findings.

Accounts Payable – Data Analytics (cont.)

Significant fluctuations in the value of Accounts Payable invoices could indicate issues in the accurate processing of transactions, or inefficiencies in raising and paying low value purchases.

We have analysed the data provided by the value of expenditure paid.

AP1 Number of records per value bracket



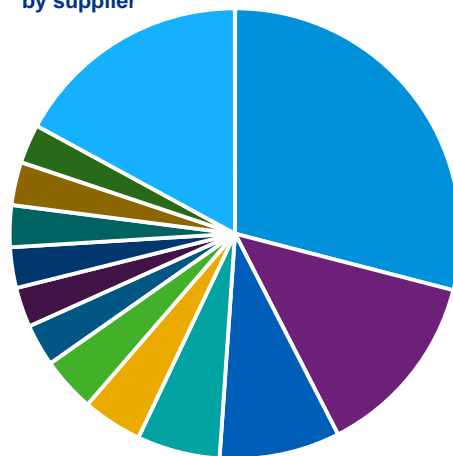
Analysis of results – AP2

Our analysis shows that the highest number of creditors are within the £100-£500 bracket, being 174,384 records and totalling £42.134 million. This expenditure mainly relates to funded nursing care, independent domestic services and building materials. The next biggest bracket is £10-£50, being 166,939 records and totalling £155.585 million. This expenditure includes floating support and fostering allowances. There are a smaller amount of records in the larger value brackets, from £5,000 to £50,000,000, mainly relating to investment managers, other local government entities, teachers pension and inland revenue. Overall, 2015-16 expenditure is in line with 2014-15.

Accounts Payable – Data Analytics (cont.)

We analysed the information provided by suppliers set up on the general ledger to identify any significant variances or outliers within the current year.

AP3 - Value of accounts payable by supplier



- COVENTRY BUILDING SOCIETY
- DEBT MANAGEMENT OFFICE
- INLAND REVENUE
- FIDELITY ILF
- TEACHER PENSIONS
- RESOURCE RECOVERY SOLUTIONS
- LEEDS BUILDING SOCIETY
- LANCASHIRE COUNTY COUNCIL
- BIRMINGHAM CITY COUNCIL
- NATIONWIDE BUILDING SOCIETY
- CLOSE BROTHERS LIMITED
- PUBLIC WORKS LOAN BOARD
- OTHER

AP4 – New suppliers in 2015/16

Vendor name	Value
Leeds Building Society	22,000,000.00
Nationwide Building Society	20,000,000.00
Close Brothers Limited	20,000,000.00
Santander Business Reserve Account	15,000,000.00
Deutsche Global Liquidity Managed	15,000,000.00
West Yorkshire Police Authority	13,500,000.00
Leeds City Council	10,000,000.00
London Borough of Newham Council	5,000,546.00
Monmouthshire County Council	5,000,000.00
Guildford BC	5,000,000.00
CCLA LA Property Fund	5,000,000.00
Conwy County Borough Council	4,000,000.00
London Borough of Hounslow	3,500,000.00
Wolverhampton City Council	3,000,000.00
Police and Crime Commissioner Essex	3,000,000.00
Dudley Metropolitan Borough Council	2,000,000.00
Henry Brothers Ltd	1,277,270.00
Furness Building Society	1,000,000.00

Analysis of results – AP3 and AP4

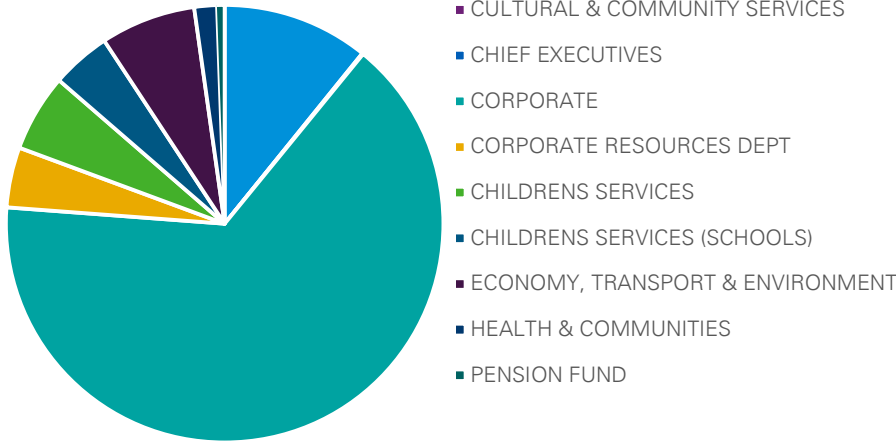
AP3 - The three largest suppliers are Coventry Building Society, Debt Management Office and Inland Revenue. This is as expected and will be tested as part of treasury management, borrowings and investments substantive testing as part of our final accounts work. The other main suppliers were relating to construction costs and agency staff. We did not find any significant issues as part of this work.

AP4 - Our analysis identified 18 new suppliers in 2015/16 with expenditure greater than £800k. From discussions with management, we noted that all of the new suppliers, with the exception of Henry Brothers Ltd, are part of the Treasury Management portfolio for which there are changes between providers each year. Henry Brothers Ltd is a construction firm that has been contracted for various schools property management projects across the county.

Accounts Payable - Data Analytics (cont.)

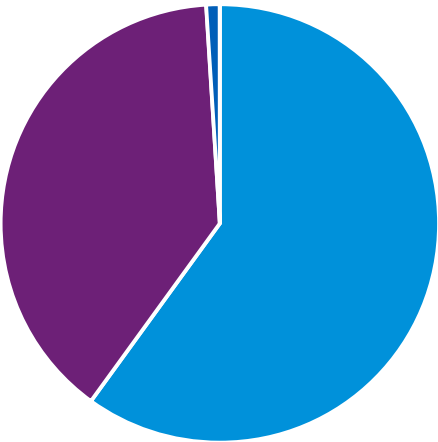
We analysed the information provided by the cost centres set up on the general ledger to identify any significant variances or outliers within the Council's departments.

AP5 - Value of accounts payable by cost centre



AP6 - Average Gross Value per record

- PENSION FUND
- CORPORATE
- OTHER



Analysis of results – AP5 and AP6

AP5 – Our analysis firstly identified the gross value per each cost centre. We have selected the largest 10 to present. The Corporate cost centre had the highest total value of £979.3m, with the majority of the high costs relating to short term investment payments.

There were no issues noted here as the cost centres with the largest values are all relating to significant items, which are inline with KPMG's expectations.

AP6 – We also analysed the average value per record for each cost centre. The Pension Fund has the largest average cost per transaction at £565K each. These are relating to pensions payroll contributions and are in line with expectations.

Corporate transactions are high on average as these are largely relating to investments.

We reviewed the other cost centres, these were in line with expectations, with individual records being for contractors and service provision.

The Local Government Landscape





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