

Report of the Chief Finance Officer

Report to Corporate Governance and Audit Committee

Date: 23rd November 2018

Subject: KPMG Annual Audit Letter 2017/18 and update on issues arising

Are specific electoral Wards affected? If relevant, name(s) of Ward(s):	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No
Are there implications for equality and diversity and cohesion and integration?	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No
Is the decision eligible for Call-In?	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No
Does the report contain confidential or exempt information? If relevant, Access to Information Procedure Rule number: Appendix number:	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No

Summary of main issues

1. In accordance with proper audit practice, KPMG have issued their Annual Audit Letter 2017/18, which gives a summary of the key audit findings for the financial year. The Annual Audit Letter is attached as **Appendix 1**. The letter confirms that KPMG were able to provide unqualified opinions on the council's financial statements and its arrangements to secure value for money for 2017/18.
2. This report also provides updates on the outstanding elector objection from the 2016/17 accounts process, and on recommendations made by KPMG in respect of their 2017/18 audit.

Recommendations

3. Members are asked to receive the Annual Audit Letter and note the conclusions and the recommendations arising from the 2017/18 external audit process.
4. Members are asked to further note that following the conclusion of the outstanding elector objection from 2016/17, the 2016/17 and 2017/18 audits have now been formally closed by KPMG.

1 Purpose of this report

- 1.1 This report presents KPMG's Annual Audit Letter which provides a summary of the key external audit findings in respect of the 2017/18 financial year. The report also provides an update on matters arising from the audit.

2 Background information

- 2.1 Section 4 of the Code of Audit Practice for public sector bodies requires external auditors to issue an Annual Audit Letter. The purpose of preparing and issuing annual audit letters is to communicate to the audited body and external stakeholders, including members of the public, the key issues arising from auditors' work.
- 2.2 The Annual Audit Letter summarises the work carried out by auditors and the matters which have been reported during the year to those charged with governance.

3 Main issues

3.1 Annual Audit Letter

- 3.1.1 During the year KPMG issued an unqualified opinion on the Council's arrangements for securing value for money. They identified financial resilience as an ongoing key risk, but concluded that the Council had appropriate arrangements in place regarding the management of its financial risks and potential impact on resource deployment.
- 3.1.2 KPMG also issued an unqualified opinion on the 2017/18 Statement of Accounts, and have concluded that the council's Whole of Government Accounts return was consistent with the audited accounts. KPMG's review of the council's Annual Governance Statement found that it was consistent with their understanding of the council. The audit fee for their main audit work was £231.9k.
- 3.1.3 At the time that the Annual Audit Letter was issued to the council in August, KPMG's grant audit work on the 2017/18 Housing Benefit subsidy claim was still to commence. The outcome of that work will be reported to the next meeting of this committee. The anticipated fee for the grant audit work is £15.9k

3.2 Conclusion of 2016/17 Elector objection

- 3.2.1 The closure of the audit process for 2016/17 and 2017/18 was delayed pending the conclusion of an elector objection received during 2016/17, which related to the Council's use of LOBO loans for part of its borrowing requirements. KPMG issued their final decision and statement of reasons to the elector on 4th October 2018. The decision concluded that in KPMG's opinion the council had acted lawfully. As no further action was taken in response by the elector within the specified 21 day timeframe, KPMG have subsequently issued final audit certificates and notices of closure of their audits for the financial years 2016/17 and 2017/18.

3.3 Audit recommendations

- 3.3.1 KPMG made one medium priority recommendation arising from their audit of the 2017/18 financial statements, that the council should move the valuation date for its property, plant and equipment from 1st April to later in the year. Officers from Corporate Finance have held discussions with valuers from the Asset Management service and with the District Valuer's Office, who provide advice on the market value of dwellings in Leeds. It has been agreed that a valuation date of 30th September will be adopted from 2018/19 onwards, and that the District Valuer will be asked to provide an opinion on whether there have been any significant movements in the housing market between 30th September and 31st March which could affect their advice.
- 3.3.2 KPMG's report on their IT audit also identified a number of outstanding recommendations in relation to aligning password configuration to corporate policy, which had been delayed pending the introduction of the council's new password policy.
- 3.3.3 The new corporate policy issued in April 2018 recommends that Single Sign On is used wherever possible for accessing individual applications once a user has logged onto the council's systems. Where Single Sign On is not possible it states that there are no requirements for standard complexity, length or otherwise.
- 3.3.4 The recommendations made by KPMG in relation to passwords covered FMS, SAP and the IT infrastructure on which those applications sit. Passwords for the IT infrastructure have now been aligned to the top level network password requirements of the new corporate policy, i.e. 12 characters for normal accounts and 16 characters for administrator accounts, with no requirement for special characters. FMS passwords are being set at 16 characters long with no special character requirements, to comply with the KPMG recommendation on privileged user passwords, as FMS does not allow different password lengths for different IDs. FMS passwords will expire after 90 days. Work will be undertaken to explore the introduction of Single Sign On for FMS. Similarly for SAP, work is ongoing to explore Single Sign On which would require the purchase of additional software, and in the meantime the password requirements are being changed to 12 characters long with no complex character requirements.
- 3.3.5 Following initial discussions with Grant Thornton's IT audit team, a proposed amendment to the corporate password policy is under consideration and is due to be approved in December. This would specify minimum requirements for secondary system passwords where SSO is not in place. The password structures for FMS, SAP and the IT infrastructure will be reviewed once the revised corporate policy has been approved.
- 3.3.6 Grant Thornton's first IT audit is due to start at the beginning of December, and the results will be reported at a future meeting of the committee.

4 Corporate Considerations

4.1 Consultation and Engagement

- 4.1.1 The Annual Audit Letter does not raise any issues requiring consultation or engagement with the public, ward members or Councillors.

4.2 Equality and Diversity / Cohesion and Integration

4.2.1 There are no issues regarding equality, diversity, cohesion and integration.

4.3 Council policies and Best Council Plan

4.3.1 Under this Committee's terms of reference members are required to consider the Council's arrangements relating to external audit, including the receipt of external audit reports. This is to provide a basis for gaining the necessary assurance regarding governance prior to the approval of the Council's accounts.

4.4 Resources and value for money

4.4.1 KPMG's report includes their opinion as to whether the Council has proper arrangements for securing value for money.

4.5 Legal Implications, Access to Information and Call In

4.5.1 Under Section 4 of the Code of Audit Practice for public sector bodies, external auditors are required to issue an Annual Audit Letter summarising the main audit findings in relation to the financial year.

4.5.2 As this is a factual report based on past external audit reports none of the information enclosed is deemed to be sensitive or requesting decisions going forward, and therefore raises no issues for access to information or call in.

4.6 Risk Management

4.6.1 KPMG identified financial resilience as a key risk. They reviewed the council's financial plans and concluded that there was evidence of adequate arrangements being in place to mitigate this risk. They have not identified any other significant risks in their recommendations.

5 Conclusions

5.1 There are no high priority issues arising from the work of external audit, and officers will continue to address the recommendations raised in the audit reports.

5.2 The outstanding elector objection from 2016/17 has now been resolved, with the conclusion by KPMG that the council acted lawfully.

6 Recommendations

6.1 Members are asked to receive KPMG's Annual Audit Letter and to note the conclusions and recommendations arising from the 2017/18 audit process.

6.2 Members are asked to further note that following the conclusion of the outstanding elector objection from 2016/17, the 2016/17 and 2017/18 audits have now been formally closed by KPMG.

7 Background documents¹

7.1 None.

¹ The background documents listed in this section are available to download from the Council's website, unless they contain confidential or exempt information. The list of background documents does not include published works.