KPMG

External audit report 2016/17

Charnwood Borough Council

September 2017

Summary for Audit Committee

Financial statements

This document summarises the key findings in relation to our 2016-17 external audit at Charnwood Borough Council ('the Authority').

This report focusses on our on-site work which was completed in August 2017 on the Authority's significant risk areas, as well as other areas of your financial statements. Our findings are summarised in Section one.

Subject to all outstanding queries being resolved to our satisfaction we anticipate issuing an unqualified audit opinion on the Authority's financial statements before the deadline of 30 September.

The following outstanding matters are currently outstanding:

- Receipt of the management representation letter;
- Post balance sheet events review up to the date of signing the audit opinion;
- Completion of our IT work on the key finance system.
- Final review of the revised financial statements and Annual Governance Statement; and
- Final review following clearance of remaining matters.

Based on our work, we have raised one recommendation, which can be found in Appendix 1.

The agreed recommendations raised in our ISA 2015/16 have been fully implemented. One was not agreed.

We are now in the completion stage of the audit and anticipate issuing our completion certificate by the deadline of 30 September 2017.

Use of resources

We have completed our risk-based work to consider whether in all significant respects the Authority has proper arrangements to ensure has taken properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. We have concluded that the Authority has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

We therefore anticipate issuing an unqualified value for money opinion.

See further details in section two

Acknowledgements

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

We ask the Audit Committee to note this report.

KPMG

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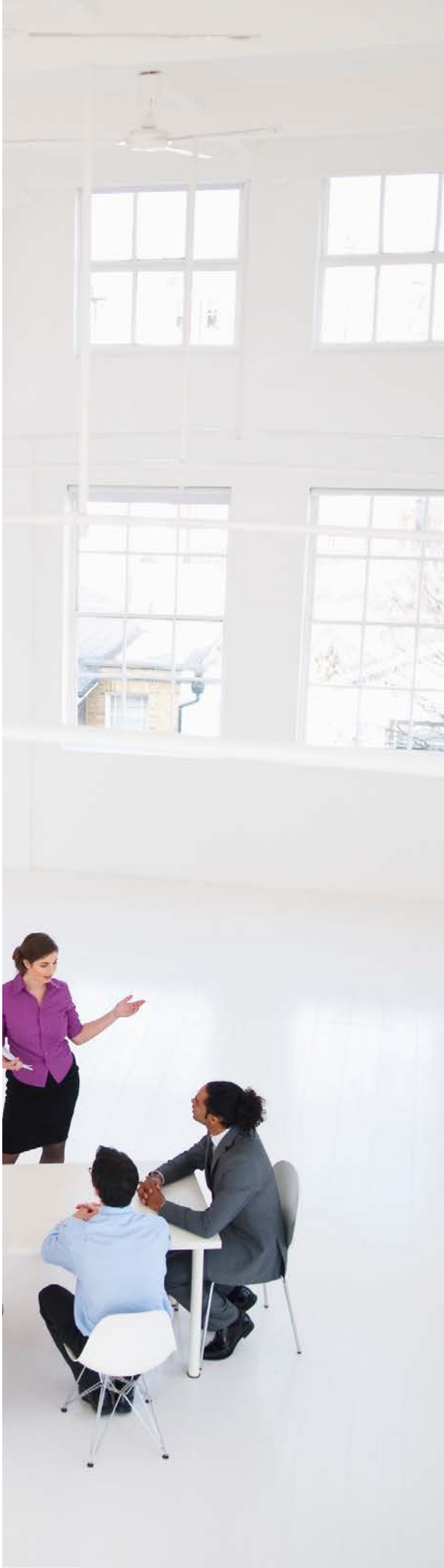
Contents

Section one

Financial Statements

We anticipate issuing an unqualified audit opinion on the Authority's 2016/17 financial statements by 30 September 2017. We will also report that your Annual Governance Statement complies with the guidance issued by CIPFA/SOLACE (*'Delivering Good Governance in Local Government'*) published in April 2016.

For the year ending 31 March 2017, the Authority has reported an underspend of £633,000 against the General Fund budget.



Significant audit risks

Our *External Audit Plan 2016/17* sets out our assessment of the Authority's significant audit risks. We have completed our testing in these areas and set out our evaluation following our work:

Significant audit risks - 1. Significant changes in the pension liability due to LGPS Triennial Valuation

Why is this a risk?

During the year, 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 share of pensions assets and liabilities for each admitted body is determined in detail, and a large volume of data is provided to the actuary to support this triennial valuation.

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 Leicestershire County Council, who administer the Pension Fund.

Our work to address this risk

We have reviewed the process used to submit payroll data to the Pension Fund and have found no issues to note. We have also tested the year-end submission process and agreed pension costs, liabilities and disclosures under IAS19 to confirmations from the scheme actuary.

We found that there was no documented management review of actuarial assumptions. Management has confirmed that the assumptions used by the actuary are appropriate. We have raised a recommendation in this ISA 260 report that the review of actuarial assumptions should be documented. See recommendation 1 in Appendix 1.

We have liaised with our own internal actuary as well as engaging with our Pension Fund audit team to gain assurance over the pensions figures. We have received formal letter of assurance from the Pension Fund audit team.

Considerations required by professional standards

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 2016/17* 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.

Other areas of audit focus

We identified one area of audit focus. These areas are not considered as significant risks as there are less likely to give rise to a material error. Nonetheless these are areas of importance where we would carry out substantive audit procedures to ensure that there is no risk of material misstatement.

Other areas of audit focus - Disclosures associated with retrospective restatement of CIES, EFA and MiRS

Background

CIPFA has introduced changes to the 2016/17 Local Government Accounting Code (Code):

- 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 and prepare their budget and the CIES. This analysis is supported by a streamlined Movement in Reserves Statement (MiRS) and replaces the current segmental reporting note.

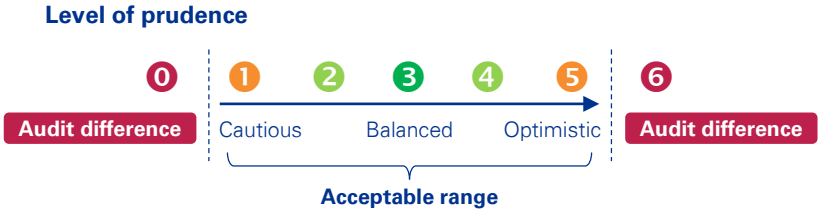
The Authority was required to make a retrospective restatement of its CIES (cost of services) and the MiRS. New disclosure requirements and restatement of accounts require compliance with relevant guidance and correct application of applicable accounting standards.

What we have done

For the restatement, we have obtained an understanding of the methodology used to prepare the revised statements. We have also agreed figures disclosed to the Authority's supporting working papers and found no issues to note.

Judgements

We have considered the level of prudence within key judgements in your 2016/17 financial statements and accounting estimates. We have set out our view below across the following range of judgements.



Subjective areas	2016/17	2015/16	Commentary
Provisions for business rate appeals	3	3	In 2013/14, changes in local authority funding arrangements meant that the Authority became responsible for a proportion of successful rateable value appeals. We have reviewed the Authority's calculation of the appeals provision. The provision remains at the same level as 2015/16 as there has been no significant changes in 2016/17.
Debtors provisioning	3	3	We have reviewed the calculation and consider the provision to be reasonable. The overall amount of outstanding debt has decreased slightly to £3.183 million (2015/16: £3.228 million) due to a decrease in housing benefit overpayments.
Property, plant and equipment (valuations and asset lives)	3	3	The Authority continues its use of the beacon methodology in line with the DCLG's *Stock Valuation for Resource Accounting* published in November 2016. The Authority has utilised an external valuation expert to provide valuation estimates. We have reviewed the instructions provided and deem that the valuation exercise is in line with the instructions. The resulting increase is in line with regional indices provided by Gerald Eve, the valuation firm engaged by the NAO to provide supporting valuation information. Asset lives used have not changed from the prior year, and are considered reasonable.
Pensions liability	3	3	The balance of £64.814 million (2015/16: £55.374 million) represents the deficit on the pension scheme. The reported balance, together with assumptions and disclosures, are consistent with the report from the external actuary. We have raised a recommendation that the review of the actuary's assumptions undertaken by the Authority is not documented. Best practice would include reporting on these to the Audit Committee. See Appendix 1 for further detail.

Proposed opinion and audit differences

Subject to all outstanding queries being resolved to our satisfaction, we anticipate issuing an unqualified audit opinion on the Authority's 2016/17 financial statements following approval of the Statement of Accounts by the Audit Committee on 12 September 2017.

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 4 for more information on materiality) level for this year's audit was set at £1m million. Audit differences below £0.050 million are not considered significant.

Our audit identified a total of two material audit differences, which we set out in Appendix 3. It is our understanding that these will be adjusted in the final version of the financial statements. These adjustments are presentational and do not impact on the General Fund and Housing Revenue Account balances as at 31 March 2017.

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 2016/17 ('the Code'). We understand that the Authority will be addressing these where necessary.

Annual governance statement

We have reviewed the Authority's 2016/17 draft Annual Governance Statement and have made a number of comments in respect of its format, content and the requirements of *Delivering Good Governance in Local Government: A Framework published by CIPFA/SOLACE (2016).*

We have reviewed the Authority's revised version of 2016/17 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.

Narrative report

We have reviewed the Authority's 2016/17 narrative report and have confirmed that it is consistent with the financial statements and our understanding of the Authority.

Accounts production and audit process

The Accounts and Audit Regulations 2015 introduces a statutory requirement to produce a draft set of financial statements earlier for the year 2017/18. It also shortens the time available for the audit.

Our audit standards (ISA 260) require us to communicate our views on 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. The efficient production of the financial statements and good quality working papers are critical to meeting the tighter deadlines.

Accounting practices and financial reporting

The Authority has strengthened its financial reporting by finalising the accounts in a shorter timescale. This puts the Authority in a generally good position to meet the new 2017/18 deadline. We consider the Authority's accounting practices appropriate.

Completeness of draft accounts

We received a set of draft accounts on 5 June 2017, which is before this year's statutory deadline of 30 June 2017.

Quality of supporting working papers

We issued our Prepared by Client ("PBC") list in January 2017 which outlines the documentation requested for our audit. This helps the Authority to provide audit evidence in line with our expectations.

We found that the quality of working papers provided was good and met the standards specified in our Accounts Audit Protocol 2016/17.

Response to audit queries

Officers dealt with our audit queries efficiently, responding within appropriate timescales.

Prior year recommendations

As part of our audit we have specifically followed up the Authority's progress in addressing the recommendations in last years ISA 260 report.

The agreed recommendations raised in our ISA 2015/16 have been fully implemented. One was not agreed.

Controls over key financial systems

We have tested controls as part of our focus on significant audit risks and other parts of your key financial systems on which we rely as part of our audit. The strength of the control framework informs the substantive testing we complete during our final accounts visit.

Below we have highlighted one exception in relation to our testing of controls:

Review of actuarial assumptions

Our testing identified that the Authority performs a review of the assumptions used by the actuaries upon receipt of their report, but this is not documented. We have made a recommendation – see Appendix 1.

Completion

We confirm that we have complied with requirements on objectivity and independence in relation to this year's audit of the Authority's 2016/17 financial statements. We updated the Committee in July on our additional specific safeguards for the audit manager.

Before we can issue our opinion we require a signed management representation letter.

Once we have finalised our opinions and conclusions we will 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 Charnwood Borough Council and for the year ending 31 March 2017, taking into account the independence declaration at Appendix 5, we confirm that there were no relationships between KPMG LLP and Charnwood 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.

We have provided a detailed declaration in Appendix 5 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 Head of Finance and Property Services 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 other matters which we wish to draw to your attention in addition to those highlighted in this report or our previous reports relating to the audit of the Authority's 2016/17 financial statements.

Section two

Value for money

Our 2016/17 VFM conclusion considers whether the Authority had proper arrangements to ensure it took properly informed decisions, worked with partners and other third parties and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.

We have concluded that the Authority has made proper arrangements to ensure it took properly informed decisions, worked with partners and other third parties and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.

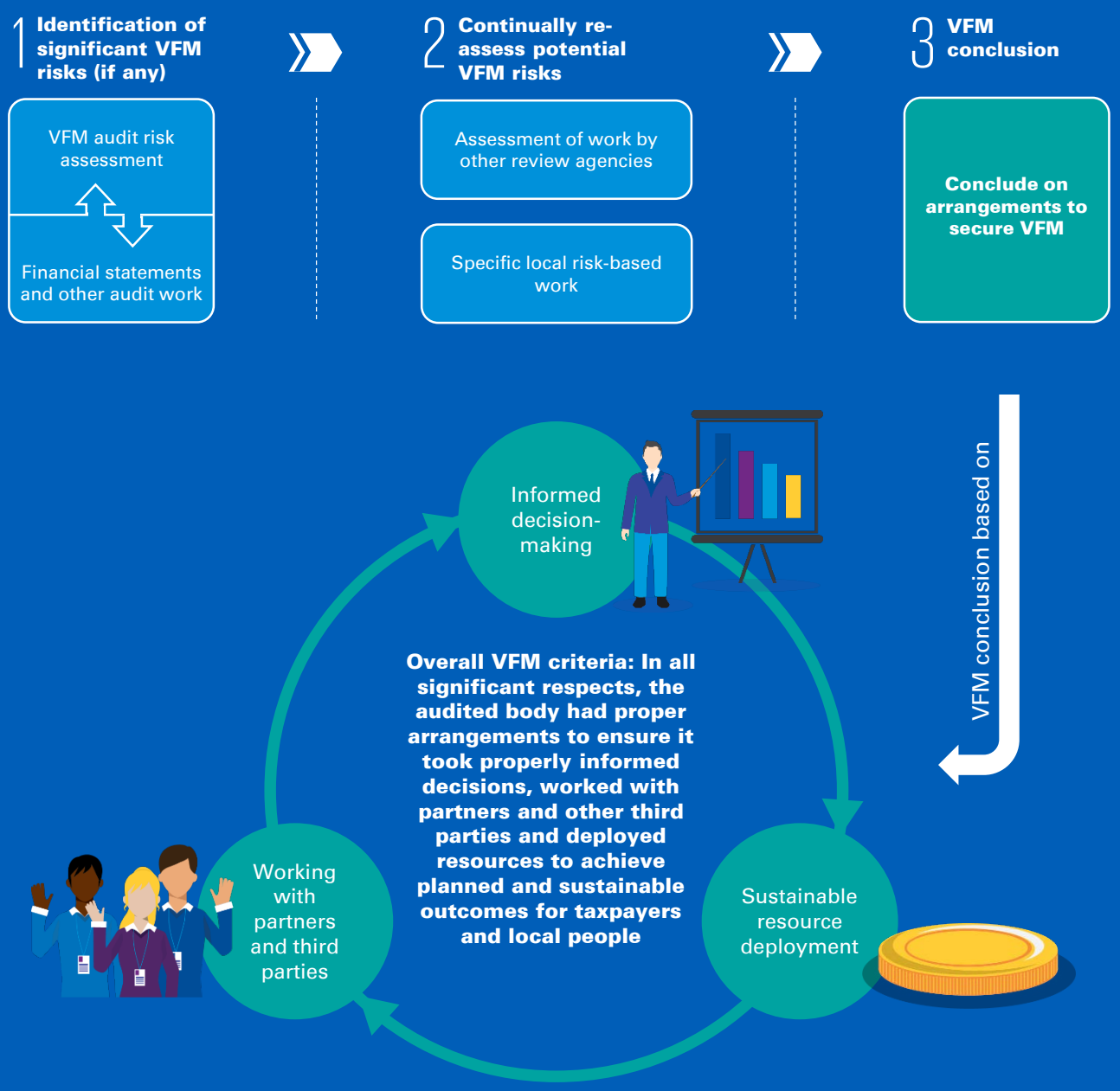
VFM conclusion

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.'

Our VFM conclusion considers whether the Authority had proper arrangements to ensure it took properly informed decisions, worked with partners and other third parties 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.



The table below summarises our assessment of the individual VFM area of focus identified against the three sub-criteria. This directly feeds into the overall VFM criteria and our value for money opinion.

VFM assessment summary			
VFM area of focus	**Informed decision-making**	**Sustainable resource deployment**	**Working with partners and third parties**
1. Medium Term Financial Planning	✓	✓	✓
Overall summary	✓	✓	✓

In consideration of the above, we have concluded that in 2016/17, the Authority has made proper arrangements to ensure it took properly-informed decisions, worked with partners and other third parties and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.

Further details on the work done and our assessment are provided on the following pages.

VFM - Area of focus

We identified one VFM area of focus, as communicated to you in our *2016/17 External Audit Plan*. We are satisfied that a combination of external and internal scrutiny and our own review provides us with sufficient assurance to enable us to conclude that the Authority's current arrangements in relation to this area is adequate. Nevertheless, there are significant challenges ahead.

VFM – Area of focus - Medium Term Financial Planning

Why is this an area of focus?

The Authority continues to face similar financial pressures and uncertainties to those experienced by others in the local government sector. The Authority needs to have effective arrangements in place for managing its annual budget, generating income and identifying and implementing any savings required to balance its medium term financial plan.

Summary of our work

The General Fund (GF) and Housing Revenue Account (HRA) budgets for 2016/17 were built on service pressures and savings of £574.1m (GF) and £561.2m (HRA), in addition to £0.248m funding from Working Balance reserve.

We have reviewed the Authority's outturn report for 2016/17 and noted the Authority recorded an underspend on the General Fund of £0.633m against the original budget of £17.944m. This is mainly due to:

- £0.136m additional planning income;
- £0.205m underspend on Local Plans due slippage in the preparation of the plans; and
- £0.305m underspend on Revenue, Benefits and Customer Services relating to Capita legal/rental costs and pension contract savings, salary savings and additional council tax court income.

We also note that the Authority's Housing Revenue Account outturn for 2016/17 was a surplus of £2.743m compared with a budgeted surplus of £1.590m. This is mainly due to £0.460m underspend on repairs and maintenances relating to salaries, fleet of van repairs, staff travel and recharges. In addition £3.563m underspend relates to the reduction in depreciation charge due to the change in the methodology for calculating depreciation. This change in methodology is consistent with our recommendation from the previous year in order to bring the depreciation policy in line with other Authorities. We have reviewed the depreciation methodology and have no concerns to raise. This depreciation charge has nil impact on Housing Revenue Account as the depreciation charge is transferred to Major Repairs Reserve, which the Authority use to fund capital expenditure. These underspends are offset by additional £2.943m revenue contributions to capital.

We have reviewed MTFS income and expenditure assumptions and consider them to be reasonable. A number of uncertainties exist for the Authority that will impact on future revenue including implications of Brexit, mechanism changes in New Homes Bonus funding, one hundred percent business rates retention of locally collected rates and the outcome of outstanding business rates appeals. The Medium Term Financial Strategy (MTFS) 2017 to 2020 shows a deficit in funding for years 2017/18 to 2019/20, leading to an overall projected net deficit over three years of £4.2m. Existing saving plans are in place for £2.9m with £1.3m further savings yet to be identified.

For 2017/18 the Authority has set a GF balanced budget of £16.604m. This takes into account service pressures and savings of £0.146m and includes funding from the Working Balance reserves of £0.930m. In addition the Authority has set a surplus HRA budget for 2017/18 of £2.161m.

VFM - Area of focus

VFM – Area of focus - Medium Term Financial Planning (Cont)

Summary of our work

The Authority has effective arrangements in place for managing and delivering its annual budget. The Authority's areas of focus to date include generating additional income through a review of fees and charges and generating savings through a review of budgets and contracts that are due for renewal. The current MTFS highlights that the Authority need to make further efficiencies and draft plans have been drawn up which identify efficiencies.

As further work is undertaken by the Authority it is anticipated that efficiencies will increase to create a balanced budget from 2019/20 onwards. But based on current estimates and figures available to the Authority, further savings in the region of £1.1m are required from 2019/20 onwards. The Authority will utilise its reserves for the medium term whilst further work is undertaken. The Authority's strategy is to have a minimum of £3m in the Working Balance reserve going into 2021, giving at least £1m flexibility above the stated 'usual' minimum of £2m. Based on Authority's efficiency plan and current projections, the working balance at 31 March 2020 will be £5.3m.

The Authority works with a number of partners to deliver services including utilising internal audit IT services from Leicestershire County Council and providing onsite office space to Leicestershire Police. The Authority is also a member of 'Charnwoodtogether', which is a Local Strategic Partnership that has developed the Charnwood Sustainable Community Strategy to guide the work of Charnwood partnerships and agencies in securing the economic, social and environment well-being.

The Authority is part of the proposed Leicester and Leicestershire Combined Authority, which aims to build closer working relationships with neighbouring Authorities and work collectively for the benefit of Leicestershire. At present approval has not yet been received from Central Government.

Appendices

Appendix 1

Key issues and recommendations

Our audit work on the Authority's 2016/17 financial statements has identified one issue. We have listed this issue in this appendix together with our recommendation which we have agreed with Management. We have also included Management's response to this recommendation.

The Authority should closely monitor progress in addressing the risk, including the implementation of our recommendation. We will formally follow up this recommendation next year.

Each issue and recommendation have been given a priority rating, which is explained below.

High priority — 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.

Medium priority — 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.

Low priority — Issues that would, if corrected, improve internal control in general but are not vital to the overall system. These are generally issues of good practice that we feel would benefit if introduced.

The following is a summary of the issues and recommendations raised in the year 2016/17.

2016/17 recommendations summary

Priority	Number raised from our audit
High	-
Medium	1
Low	-
Total	**1**

Medium priority

1. Review of actuarial assumptions

The Authority performs a review of the assumptions used by the actuaries upon receipt of their report, but this is not documented.

Recommendation

The Authority should document its review of the actuarial assumptions.

Management Response

Accepted

Officers currently do review the actuarial assumptions and we have questioned these where we required additional assurance. In future we will provide a file note signed by the s151 officer to state that this review has taken place.

Owner

Head of Finance and Property Services

Deadline

May 2018

Appendix 2

Follow-up of prior year recommendations

In the previous year, we raised three recommendations which we reported in our *External Audit Report 2015/16 (ISA 260)*. The agreed recommendations raised in our ISA 2015/16 have been fully implemented. One was not agreed.

We have used the same rating system as explained in Appendix 1.

Each recommendation is assessed during our 2016/17 work, and we have obtained the recommendation's status to date. We have also obtained Management's assessment of each outstanding recommendation.

Below is a summary of the prior year's recommendations.

2015/16 recommendations status summary

Priority	Number raised	Number implemented / superseded	Number not agreed
High	-	-	-
Medium	1	1	-
Low	2	1	1
Total	**3**	**2**	**1**

Medium priority

1. Depreciation of Council Dwellings

Officers have used the vacant possession value (£545 million) as the depreciable amount, rather than the Existing Use Value (Social Housing) (£185 million). This has the effect of charging a higher amount as depreciation in the HRA (£6.4 million as opposed to £2.2 million).

We believe that the value of council dwellings on the Authority's balance sheet, and the Housing Revenue Account balance, are not mis-stated due to the entries made in the accounts in order to comply with proper accounting practice. However the practice adopted i.e. using the vacant possession value is not applied at most other councils, who use the Existing Use Value (Social Housing) as the depreciable amount.

Recommendation:
Review the accounting policy in respect of the depreciable amount for council dwellings.

Management original response

Agreed

We note that other councils have adopted a different approach and we will review our accounting policy for 2016/17.
It should be noted that not all Councils use the same method therefore even if an alternative method is suggested it would not be comparable with all other HRA accounts.

Date 31 March 2017

Responsible Officers – Head of Finance and Property Services

KPMG assessment

The Authority have reviewed and changed their accounting policy on depreciation to Existing Use Value (Social Housing) as the depreciable amount.

Fully implemented

Low priority

2. Narrative statement

The Narrative Statement was amended to ensure minimum CIPFA Code requirements were met. Additional information regarding performance, risk and implications about Britain's exit from the European Union was included as a result of audit. However the content could be strengthen by having a more forward looking orientation identifying those trends and factors relevant to the future performance and meeting the long term objectives of the Authority.

Recommendation

In future identify examples of best practice and include more forward looking information.

Management original response

Agreed

As stated, the requirements for the 2015/16 Code have been met. The narrative statement requirements are due to change again and the content will be reviewed for 2016/17 to ensure any new requirements are met.

Additional information on Brexit was added before the audit began, this was not included in the original Statement which was signed off on 7 June as the event had not yet taken place at this time.

In terms of factors relevant to future performance, long term objectives and successes these are covered on the Authority's website performance pages for which a link is included in the Statement of Accounts. For the sake of brevity a decision was taken not to reproduce this information in the Statement as readers can go online to view it should

they wish to do so.

Date: 31 March 2017

Responsible Officer – Head of Finance and Property Services

KPMG assessment

The 2016/17 Narrative Statement complies with the CIPFA Code requirements.

Fully implemented

Low priority

3. CIPFA Code Disclosure Checklist

The Authority did not complete the disclosure checklist that we requested in our audit working paper requirements. The checklist sets out the minimum disclosure requirements in a set of local government accounts.

Instead the Authority assures itself of meeting disclosure requirements by reviewing changes in the Code from the previous year, and guidance issued by CIPFA during the year.

There is a risk by not completing the formal checklist that not all disclosure requirements have been met. We completed the checklist and found no issues.

Recommendation

In future complete the disclosure checklist and make it available to audit. Completion of the checklist prior to audit may identify any non-disclosures and enable earlier resolution.

Management original response

Not Agreed

The Authority purchase the CIPFA Code of Practice guidance notes and CIPFA Statement of recommended practice each year. These documents include the CIPFA Code key changes. Along with the Accounting and Audit Regulations and the LAAP Bulletin, these documents are distributed to all of the accountancy officers involved in the Statement of Accounts. A copy is filed within the working papers file, which highlights that all officers have actioned this.

The Authority has made the decision not to purchase the CIPFA checklist as this does not include accounting changes and LAAP changes each year. It is therefore felt not to add anything to what is already available and not to represent value for money in the current climate of austerity.

As the disclosure requirements of each previous year have already been audited and any changes are detailed in the CIPFA Code key changes, which is scheduled as an item to action as part of our closedown timetable, it is felt that the risk of not completing an additional checklist (at a cost of £500 per annum plus additional officer time), has been fully mitigated.

Responsible Officer – Head of Finance and Property Services

KPMG assessment

This recommendation was not agreed in 2015/16 and as a result the recommendation has not been implemented for 2016/17.

Not implemented

Appendix 3

Audit differences

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 Audit Committee). 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.

A number of minor amendments focused on presentational improvements have also been made to the 2016/17 draft financial statements. The Finance team is committed to continuous improvement in the quality of the financial statements submitted for audit in future years.

Adjusted audit differences

The following table sets out the material audit differences identified by our audit of Charnwood Borough Council's financial statements for the year ended 31 March 2017. It is our understanding that these will be adjusted. However, we have not yet received a revised set of financial statements to confirm this.

Table 1: Adjusted audit differences (£'000)

No.	Income and expenditure statement	Movement in reserves statement	Assets	Liabilities	Reserves	Basis of audit difference
1			Dr Cash and Cash Equivalent £1m Dr Long Term Investments £2m Cr Short Term Investments £3m			Investment of £1m with maturity less than 90 days was incorrectly classified as Short Term Investment rather than Cash and Cash Equivalent. Investment of £2m with maturity more than 365 days was incorrectly classified as Short Term Investment instead of Long Term Investment. This results in the following impact on the balance sheet: Long Term Investments Increases from £0 to £2m. Short Term Investments decreases from £25m to £22m. Cash and Cash Equivalent increases from £14.4m to £15.4m.
2			Dr Property Plant and Equipment - Other Land and Buildings £5m CR Property Plant and Equipment - Council Dwellings £5m			Housing Revenue Account garages and shops of £5m have been misclassified as Property, Plant and Equipment - Council Dwellings, rather instead of Property, Plant and Equipment – Other Land and Buildings. The Authority have also corrected the comparatives for £5m. This results in no change to the Property, Plant and Equipment total figure.
	Dr/Cr £0m	**Dr/Cr £0m**	**Dr/Cr £0m**	**Dr/Cr £0m**	**Dr/Cr £0m**	**Total impact of adjustments**

Appendix 4

Materiality and reporting of audit differences

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 used the same planning materiality reported in our External Audit Plan 2016/17, presented to you in February 2017.

Materiality for the Authority's accounts was set at £1m which equates to around 1.2 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 £0.050m.

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.

Appendix 5

Declaration of independence and objectivity

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.
- 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.

General procedures to safeguard independence and objectivity

KPMG LLP is committed to being and being seen to be independent. As part of our ethics and independence policies, all KPMG LLP Audit Partners and staff annually confirm their compliance with our Ethics and Independence Manual including in particular that they have no prohibited shareholdings.

Our Ethics and Independence Manual is fully consistent with the requirements of the Ethical Standards issued by the UK Auditing Practices Board. As a result we have underlying safeguards in place to maintain independence through: Instilling professional values, Communications, Internal accountability, Risk management and Independent reviews.

We would be happy to discuss any of these aspects of our procedures in more detail.

Declaration of independence and objectivity (cont.)

Auditor declaration

At the July Audit Committee we updated our independence declaration to reflect your new Audit Manager, Sundeep Gill, has identified that he has previously carried out custody visits in a voluntary capacity with a member of Cabinet (Councillor Hilary Fryer). Both are current Independent Custody Visitors for the Office of the Police and Crime Commissioner for Leicestershire. There has been no other contact between the parties outside the Independent Custody Visitor scheme (we had very recently found out that Councillor Roy Rollings has recently become an Independent Custody Visitor as well). We discussed this internally with our Ethics and Independent Department and we agreed that the following safeguards were to be put in place with immediate effect in order to preserve our independence and objectivity:

- Sundeep would not undertake any visits with the Cabinet member (this will also apply re Councillor Rollings). Sundeep has informed the Office of the Police and Crime commissioner for Leicestershire to ensure that they are not paired up; and
- Ensure that the key Finance staff were aware, and also to report the circumstances to the next Audit Committee. We have already informed Finance and we are taking this opportunity to inform the Committee.

In our view, these safeguards are sufficient to preserve Sundeep and the rest of the audit team's objectivity and independence.

In relation to the audit of the financial statements of Charnwood Borough Council for the financial year ending 31 March 2017, taking into account the above independence declaration we confirm that there were no relationships between KPMG LLP and Charnwood 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.

Declaration of independence and objectivity (cont.)

Non-audit work and independence

Below we have listed the non-audit work performed during 2016/17 and set out how we have considered and mitigated (where necessary) potential threats to our independence.

Summary of non-audit work		
Description of non-audit service	**Estimated fee**	**Potential threat to auditor independence and associated safeguards in place**
Pooling of Housing Capital Receipts claim 2015/16 (performed in 2016/17)	£4,200	**Self-interest**: This engagement is entirely separate from the audit through a separate contract, engagement team and lead partner. In addition, the audit fee scale rates were set independently to KPMG by the PSAA. Therefore, the proposed engagement will have no perceived or actual impact on the audit team and the audit team resources that will be deployed to perform a robust and thorough audit. **Self-review:** The nature of this work is auditing these grant claims. The Pooling of Capital Receipt claim has no impact on the main audit because completed after the audit was completed. Therefore this does not impact on our opinion and we do not consider that the outcome of this work threats to our role as external auditors. Consequently we consider we have appropriately managed this threat. **Management threat:** This work will be audit work only – all decisions will be made by the Authority. **Familiarity**: This threat is limited given the scale, nature and timing of the work. The existence of the separate team for this work is the key safeguard. **Advocacy**: We will not act as advocates for the Authority in any aspect of this work. We will draw on our experience in such roles to provide the Authority with a range of approaches but the scope of this work falls well short of any advocacy role. **Intimidation**: not applicable
Total estimated fees	**£4,200**	
Total estimated fees as a percentage of the external audit fees	**8%**	

Appendix 6

Audit fees

Audit fees

As communicated to you in our External Audit Plan 2016/17, our scale fee for the audit is £54,968 plus VAT *(£54,968 in 2015/16)*, which is in line with the prior year.

Our work on the certification of Housing Benefits (BEN01) is not yet complete. The planned scale fee for this is £10,323 plus VAT (£11,981 in 2015/16). See further details below.

PSAA fee table		
Component of audit	**2016/17** *(planned fee)* £	**2015/16** *(actual fee)* £
Accounts opinion and use of resources work		
PSAA scale fee set in 2015/16	54,968	54,968
Estimated additional work to conclude our opinions (note 1)	TBC	-
Subtotal	**54,968***	**54,968**
Housing benefits (BEN01) certification work		
PSAA scale fee set in 2015/16 – planned for October 2017	10,323	11,981
Total fee for the Authority	**65,291**	**66,949**

All fees are quoted exclusive of VAT.

Note 1: Accounts opinion and use of resources work

For 2016/17, we have discussed additional fee in relation to the work undertaken in respect of the CIES restatement with the Strategic Director for Corporate Services. This is still subject to final agreement and PSAA approval.

*Total excludes this additional fee.