External Audit ISA260 Report 2017/18

Ashfield District Council

—

July 2018

Summary for Audit Committee

This document summarises the key findings in relation to our 2017/18 external audit at Ashfield District Council ('the Authority').

This report covers both our on-site work which was completed in February 2018 and June 2018 on the Authority's significant risk areas, as well as other areas of your financial statements, and the control environment in place to support the production of timely and accurate financial statements.

Controls over key financial systems and IT control environment

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.

We have no matters to bring to your attention.

Accounts production

We received a complete set of accounts for audit on 31 May 2018, which is the statutory deadline.

We worked with management to ensure that working paper requirements were understood and aligned to our expectations. We are pleased to report that this has resulted in good-quality working papers with clear audit trails.

Financial statements

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 31 July 2018.

Based upon our initial assessment of risks to the financial statements (as reporting to you in our *External Audit Plan 2017/18* and updated during our audit) we identified the following significant risks (excluding those mandated by International Standards on Auditing) – see Page 11:

— **Valuation of PPE -** We reviewed the approach that the Authority adopted to assess the risk that assets not subject to valuation were materially misstated and considered the robustness of that approach.

— **Pensions Liabilities -** As part of our work we reviewed the controls that the Authority has in place over the information sent directly to the Scheme Actuary. We also liaised with the auditors of the Pension Fund in order to gain an understanding of the effectiveness of those controls operated by the Pension Fund. This included consideration of the process and controls with respect to the assumptions used in the valuation. We also evaluated the competency, objectivity and independence of the Scheme Actuary (Barnett Waddingham).

— **Faster Close Out -** We were pleased to note despite the changes in senior staff in the Finance team the quality of the working papers have improved compared to prior years.

— There are no matters from our work which we need to draw to your attention.

We have not identified any material audit adjustments that result in net movement in the reported deficit on provision of services.

Summary for Audit & Governance Committee (cont.)

Financial statements	Based on our work, we have raised 2 recommendations. Details of our recommendations can be found in Appendix 1. We are now in the completion stage of the audit and anticipate issuing our completion certificate and Annual Audit Letter in August 2018.
Completion	At the date of this report our audit of the financial statements is substantially complete subject to the following areas: • Audit procedures in relation to IAS 19 (Pensions disclosures); • Completion of work on investments; • Addressing any residual audit queries arising from our completion procedures; • General audit file completion and review procedures; • Final review of amended accounts; and • Final audit Director review. Before we can issue our opinion we require a signed management representation letter.
Value for money arrangements	We have completed our risk-based work to consider whether in all significant respects the Authority has proper arrangements to ensure it 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.** We set out our assessment of those areas requiring additional risk based work in our External Audit Plan 2017/18 and have updated this assessment during our interim visit. As a result of this we have identified the following significant VFM audit risks: — **Financial Resilience** - For the year ending 31 March 2018, the Authority has reported a surplus of £185k after taking a contribution from Earmarked Reserves of £371k. This compares favourably to a planned withdrawal from reserves of £1.38m; and — **Investment Properties -** The Authority invested £15.1m in commercial properties in 2017-18 with an approval to invest a further £9.9m in 2018-19. These are expected to generate an income of £1m in 2018-19 helping the Authority to set a balanced budget. See further details on page 20. The financial statements of the Authority have been prepared on a going concern basis. We noted, at the year end, the Authority's current liabilities exceeded the current assets by £6.2m which presents a risk of going concern. However, we have confirmed that the position of the authority has improved since the year end, with a net current assets balance of £3.4m as at 30 June 2018. We have raised a recommendation in relation to this matter in Appendix 1.

Summary for Audit & Governance Committee (cont.)

Exercising of audit powers	We have a duty to consider whether to issue a report in the public interest about something we believe the Authority should consider, or the public should know about. We have not identified any matters that would require us to issue a public interest report. In addition, we have not had to exercise any other audit powers under the Local Audit & Accountability Act 2014.
Acknowledgements	We would like to take this opportunity to thank officers and Members for their continuing help.

Section one

Control Environment

Organisational and IT control environment

We have identified no significant issues with the Authority's organisational and IT control environment and consider that the overall arrangements that have been put in place are reasonable.

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.

Key findings

We consider that your organisational and IT controls are effective overall.

Aspect of controls	Assessment
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

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

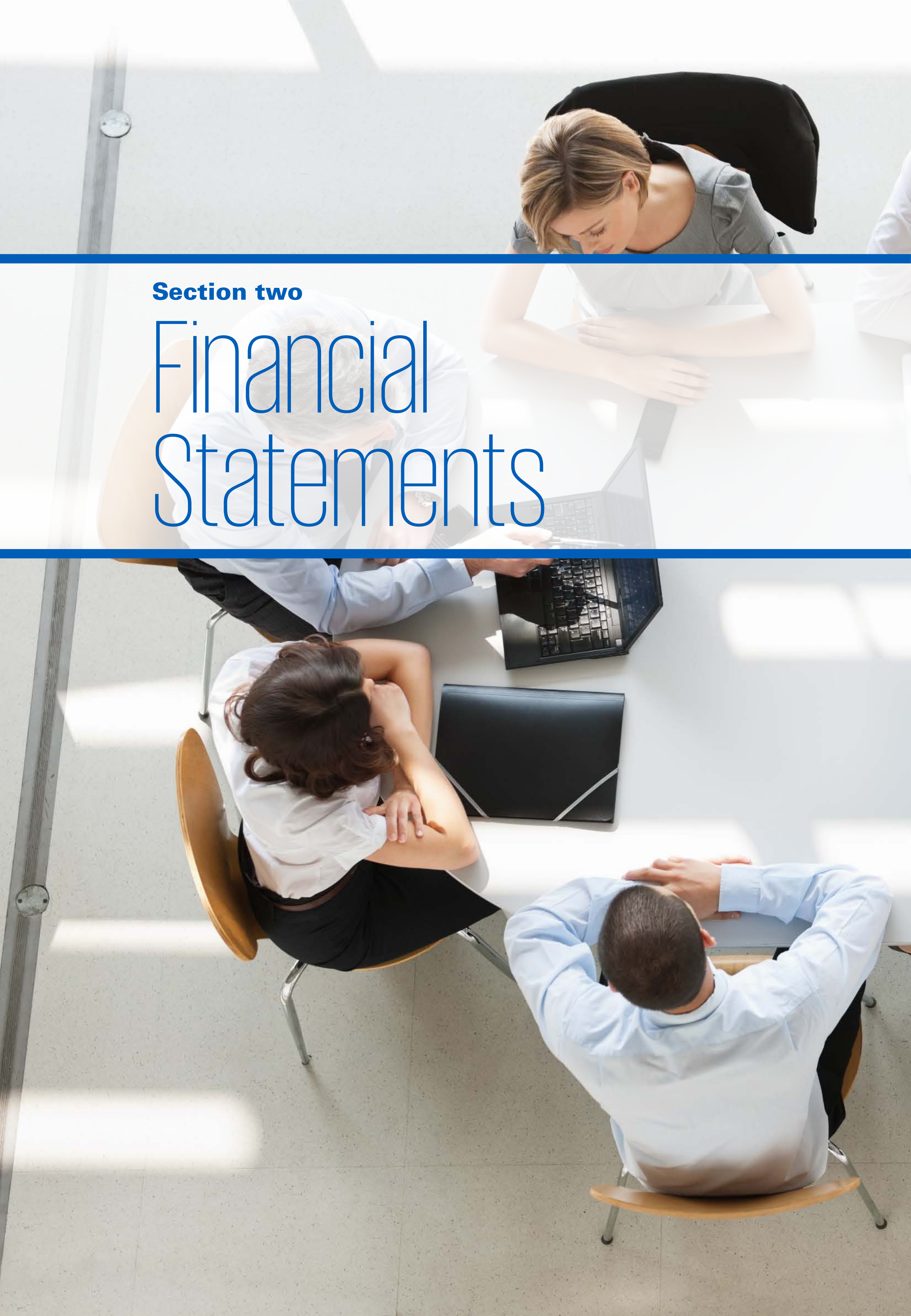
Controls over key financial systems (cont.)

Aspect of controls	Assessment
Property, Plant and Equipment	3
Cash and Cash Equivalents	3
Pension Assets and Liabilities	3
Non pay expenditure	2
Payroll	3
Business rates income	3
Council tax income	3
HRA repairs and maintenance expenditure	3

Key	
1	Significant gaps in the control environment
2	Deficiencies in respect of individual controls
3	Generally sound control environment

Section two

Financial Statements



Accounts production and audit process

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.

The Authority's overall process for the preparation of the financial statements is adequate.

The Authority has implemented all the recommendations in our *ISA 260 Report 2016/17*.

Accounts practices and production process

The Authority incorporated a number of measures into its closedown plan to further improve the project management of this complex process. This included enhancing and developing working papers to aid the audit process. Specifically, the Authority recognised the additional pressures which the earlier closedown brought so we engaged with officers in the period leading up to the year end in order to proactively address issues as they emerged.

We consider that the overall process for the preparation of your financial statements is adequate. We also consider the Authority's accounting practices appropriate.

Going concern

The financial statements of the Authority have been prepared on a going concern basis. We noted, at the year end, the Authority's current liabilities exceeded the current assets by £6.2m which presents a risk of going concern. However, we have confirmed that the position of the authority has improved since the year end, with a net current assets balance of £3.4m as at 30 June 2018. We have raised a recommendation in relation to this matter in Appendix 1.

Further commentary on the Authority's arrangements in place to secure the effective delivery of budgets is included at page 22.

Implementation of recommendations

We raised four recommendations in our ISA 260 Report 2016/17. The Authority has implemented all prior year recommendations relating to the financial statements in line with the timescales of the action plan. Further details are included in Appendix 2.

Accounts production and audit process (cont.)

Completeness of draft accounts

We received a complete set of draft accounts on 31 May 2018 which was the statutory deadline.

Quality of supporting working papers

We issued our Accounts Audit Protocol to the Accountancy Manager in February 2018. This important document set out our audit approach and timetable. It also summarised the working papers and other evidence we required the Authority to provide to support our audit work. This helps the Authority to provide audit evidence in line with our expectations.

We worked with management to ensure that working paper requirements are understood and aligned to our expectations. We are pleased to report that this has resulted in good-quality working papers with clear audit trails and were an improvement from the previous year.

Response to audit queries

We are pleased to report that our agreed turnaround time for dealing with audit queries was achieved by Officers, including those who are not part of the Finance team. As a result of this, all of our audit work was completed within the timescales expected with no outstanding queries.

Specific audit areas

We anticipate issuing an unqualified audit opinion on the Authority's 2017/18 financial statements by 31 July 2018. 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 2018, the Authority has reported a surplus of £185k after taking a contribution from Earmarked Reserves of £371k. This compares favourably to a planned withdrawal from reserves of £1.38m.

Auditing standards require us to consider two standard risks for all organisations. We consider these as a matter of course in our audit and have set out the findings arising from our work in our ISA 260 Report below.

01 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.

02 Fraudulent 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 2017/18* 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.

Over the following pages we have set out our assessment of the specific significant risks and areas of audit focus we identified in relation to the audit of the Authority's financial statements.

Specific audit areas

Significant Audit Risks – Authority

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

Risk:	**Valuation of PPE** At 31 March 2017 the Authority had land and buildings with a total net book value of £289,182k (including council dwellings). The Code requires that where assets are subject to revaluation, their year end carrying value should reflect the appropriate fair value at that date. The Authority has adopted a rolling revaluation model which sees all land and buildings revalued over a five year cycle. As a result of this, however, individual assets may not be revalued for four years. This creates a risk that the carrying value of those assets not revalued in year differs materially from the year end fair value. In addition, as the valuation is undertaken as at 31 January, there is a risk that the fair value is different at the year end.
Our assessment and work undertaken:	We reviewed the approach that the Authority adopted to assess the risk that assets not subject to valuation were not materially misstated and considered the robustness of that approach. In relation to those assets which have been revalued during the year we reviewed the accounting entries made to record the results of the revaluation in order to ensure that they were appropriate. We also assessed the valuer's qualifications, objectivity and independence to carry out such valuations and reviewed the methodology used (including testing the underlying data and assumptions). The Authority has utilised internal valuation expert Mathew Kirk to provide valuation estimates. We reviewed the instructions provided and deem that the valuation exercise was in line with the instructions. The valuation exercise resulted in an increase of 0.6% in the General Fund Assets and 0.13% in Housing Revenue Account. There are no matters from our work which we need to draw to your attention to. We have set out our view of the assumptions used in relation to accounting for Property, Plant & Equipment at page14.

Specific audit areas (cont.)

Significant Audit Risks – Authority

Risk:	**Pension Liabilities** The net pension liability represents a material element of the Authority's balance sheet. The Authority is an admitted body of Nottinghamshire County Council Pension Fund, which had its last triennial valuation completed as at 31 March 2016. This forms an integral basis of the valuation as at 31 March 2018. The valuation of the Local Government Pension Scheme relies on a number of assumptions, most notably around the actuarial assumptions, and actuarial methodology which results in the Authority's overall valuation. There are financial assumptions and demographic assumptions used in the calculation of the Authority's valuation, such as the discount rate, inflation rates, mortality rates etc. The assumptions should also reflect the profile of the Authority's employees, and should be based on appropriate data. The basis of the assumptions is derived on a consistent basis year to year, or updated to reflect any changes. There is a risk that the assumptions and methodology used in the valuation of the Authority's pension obligation are not reasonable. This could have a material impact to net pension liability accounted for in the financial statements.
Our assessment and work undertaken:	As part of our work we reviewed the controls that the Authority has in place over the information sent directly to the Scheme Actuary. We also liaised with the auditors of the Pension Fund in order to gain an understanding of the effectiveness of those controls operated by the Pension Fund. This included consideration of the process and controls with respect to the assumptions used in the valuation. We also evaluated the competency, objectivity and independence of the Scheme Actuary (Barnett Waddingham). We tested the controls around review of the assumptions by the Authority and the submission of information to the Actuary. No control deficiencies were identified. We reviewed the appropriateness of the key assumptions included within the valuation and compared them to expected ranges and involved a KPMG Actuary to provide a specialist assessment of those assumptions. We also reviewed the methodology applied in the valuation by Barnett Waddingham. In addition, we reviewed the overall Actuarial valuation and considered the disclosure implications in the financial statements. In order to determine whether the net pension liability has been appropriately accounted for we also considered the valuation of pension assets. We obtained assurance from the Pension Fund auditors (KPMG LLP) over the overall value of fund assets. We then liaised with the Actuary to understand how these assets are allocated across participating bodies and reperformed this allocation. There are no matters from our work which we need to draw to your attention. We have set out our view of the assumptions used in valuing pension assets and liabilities at page 15.

Specific audit areas (cont.)

Significant Audit Risks – Authority (cont.)

Issue:

Faster Close

In prior years, the Authority has been required to prepare draft financial statements by 30 June and then final signed accounts by 30 September. For years ending on and after 31 March 2018 however, revised deadlines apply which require draft accounts by 31 May and final signed accounts by 31 July.

These changes represent a significant change to the timetable that the Authority has previously worked to. The time available to produce draft accounts has been reduced by one month and the overall time available for completion of both accounts production and audit is two months shorter than in prior years.

In order to meet the revised deadlines, the Authority may need to make greater use of accounting estimates. In doing so, consideration will need to be given to ensuring that these estimates remain valid at the point of finalising the financial statements. In addition, there are a number of logistical challenges that will need to be managed. These include:

- Ensuring that any third parties involved in the production of the accounts (including valuers, actuaries) are aware of the revised deadlines and have made arrangements to provide the output of their work in accordance with this;
- Revising the closedown and accounts production timetable in order to ensure that all working papers and other supporting documentation are available at the start of the audit process;
- Ensuring that the Audit Committee meeting schedules have been updated to permit signing in July; and
- Applying a shorter paper deadline to the July meeting of the Audit Committee in order to accommodate the production of the final version of the accounts and our ISA 260 report.

In the event that the above areas are not effectively managed there is a significant risk that the audit will not be completed by the 31 July deadline.

There is also an increased likelihood that the Audit Certificate (which confirms that all audit work for the year has been completed) may be issued separately at a later date whilst work is on-going in relation to the Authority's Whole of Government Accounts return. This is not a matter of concern and is not seen as a breach of deadlines.

Our assessment and work undertaken:

We liaised with officers in preparation for our audit in order to understand the steps that the Authority was taking to ensure it met the revised deadlines. We also advanced audit work into the interim visit in order to streamline the year end audit work.

We received draft financial statements on the statutory deadline of 31 May 2018. We were pleased to note despite the changes in senior staff in the Finance team the quality of the working papers had improved compared to prior years.

There are no matters from our work which we need to draw to your attention.

Judgements

We have considered the level of prudence within key judgements in your 2017/18 financial statements and accounting estimates. We have set out our view below across the following range of judgements.

Level of prudence

0	1	2	3	4	5	6
Audit Difference	Cautious		Balanced		Optimistic	**Audit Difference**
	Acceptable Range					

Subjective area	2017/18	2016/17	Commentary
Provisions (excluding Business Rates)	2	2	The provisions have remained at similar level compared to the prior year, except for Legal Costs regarding Health and Safety Prosecution where the Authority settled cases in 2017/18. We consider the provisions and related disclosures to be proportionate.
Business Rates provision	1	4	The Authority's provision for business rates appeals for 2017/18 was increased by £2.225m, all of which relates to 2017 Valuation. Currently there is no available appeals information from the Valuation Office Agency relating to the 2017 Valuation. As a result the Authority have made a cautious judgement by having a provision for appeals relating to the 2017 Valuation. Whilst this meets the International Accounting Standard 37 on provisions, the prudent approach would have been to set aside a reserve for future appeals relating to the 2017 Valuation.
Property Plant & Equipment: HRA Assets	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 internal valuation expert Mathew Kirk 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 of 0.13% is in line with regional indices provided by Gerald Eve, the valuation firm engaged by the NAO to provide supporting valuation information.
Property Plant & Equipment: General Fund Asset	3	3	The Authority has utilised internal valuation expert Mathew Kirk 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 of 0.6% is in line with regional indices provided by Gerald Eve, the valuation firm engaged by the NAO to provide supporting valuation information.

Judgements (cont.)

Subjective area	2017/18	2016/17	Commentary
Valuation of pension assets and liabilities	3	3	The Authority continues to use Barnett Waddingham to provide actuarial valuations in relation to the assets and liabilities recognised as a result of participation in the Local Government Pension Scheme. Due to the overall value of the pension assets and liabilities, small movements in the assumptions can have a significant impact on the overall valuation. For example, a 1% change in the discount rate would change the net liability by £3.553 million. The actual assumptions adopted by the Actuary fell within our expected ranges as set our below:

Assumption	Actuary Value	KPMG Range	Assessment
Discount rate	2.55%	2.51%	3
Pension Increase Rate	2.30%	2.15%	2
Salary Growth	CPI plus 1.5%	CPI plus 0% to 2.0%	3
Life expectancy Current male / female Future male/female	22.6/ 25.6 24.8/ 27.9	22.1/23.9 23.5/25.4	2

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 2017/18 financial statements following approval of the Statement of Accounts by the Audit Committee on 24 July 2018.

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 this year's audit was set at £1.2m. Audit differences below £60k are not considered significant.

We did not identify any material misstatements. There was one uncorrected audit misstatement related to PPE disclosures which does not impact the primary financial statements, as noted in Appendix 3.

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 2017/18 ('the Code'). We have set out details of significant presentational adjustments in Appendix 3. We understand that the Authority will be addressing these where significant.

Proposed opinion and audit differences (cont.)

Annual Governance Statement

We have reviewed the Authority's 2017/18 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 and is consistent with other information we are aware of from our audit of the financial statements.

Narrative Report

We have reviewed the Authority's 2017/18 Narrative Report and have confirmed that it is consistent with the financial statements and our understanding of the Authority.

Completion

We confirm that we have complied with requirements on objectivity and independence in relation to this year's audit of the Authority's 2017/18 financial statements.

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

Once we have finalised our opinions and conclusions we will prepare our Annual Audit Letter and 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 Ashfield District Council for the year ending 31 March 2018, we confirm that there were no relationships between KPMG LLP and Ashfield District 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.

Management representations

We have provided a detailed declaration in Appendix 6 in accordance with ISA260.

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 Responsible Finance Officer 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 judgement, 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 others 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 2017/18 financial statements.

Section three

Value for Money Arrangements

Specific value for money risk areas

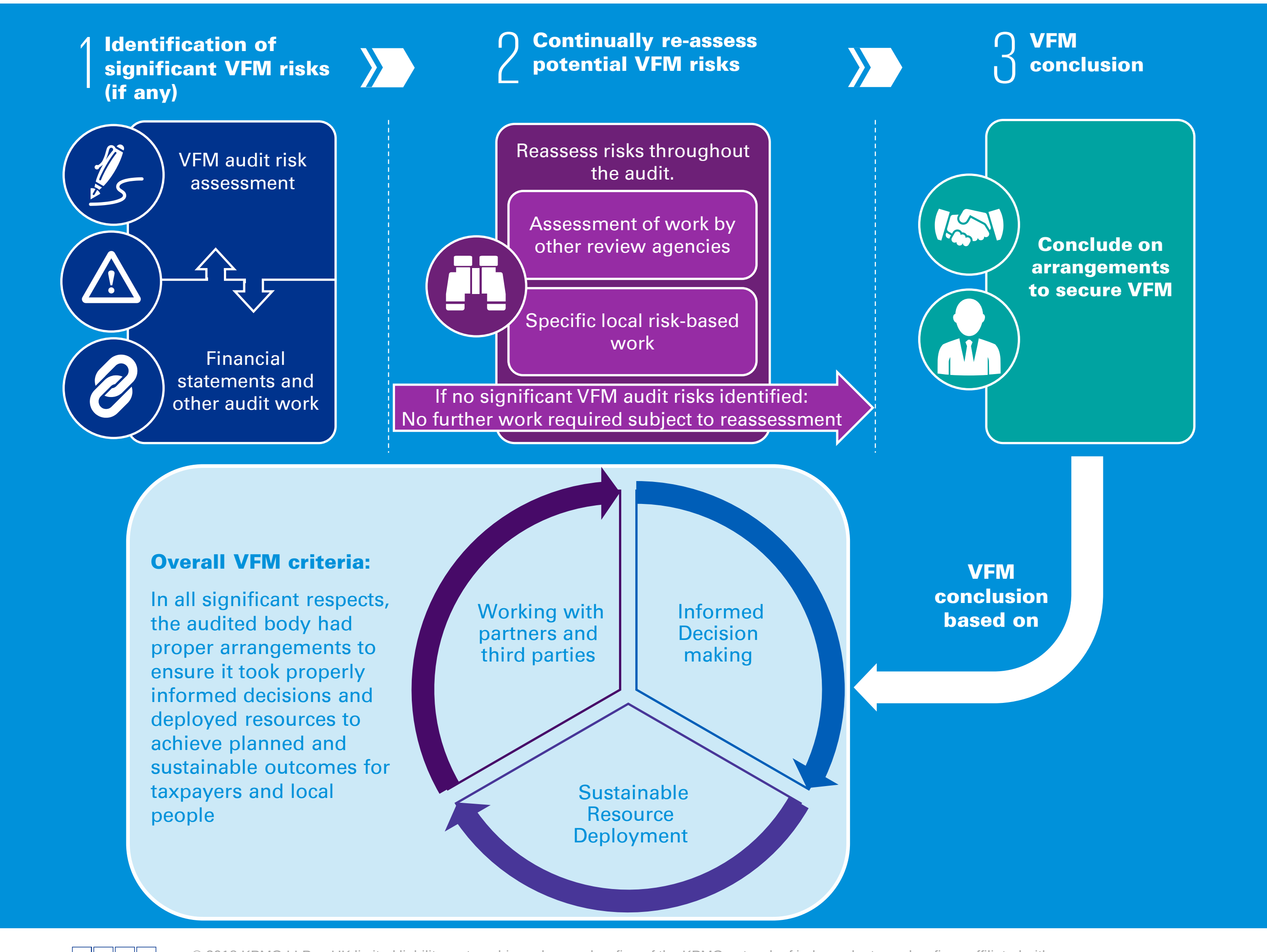
Our 2017/18 VFM conclusion considers whether the Authority had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.

We have concluded that the Authority has made proper arrangements to ensure it took properly-informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.

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.'

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



Specific value for money risk areas (cont.)

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

Applicability of VFM Risks to VFM sub-criteria			
VFM Risk	**Informed decision making**	**Sustainable resource deployment**	**Working with partner and third parties**
Financial Resilience	✓	✓	✓
Investments	✓	✓	

In consideration of the above, we have concluded that in 2017/18, the Authority has made proper arrangements to ensure it took properly-informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.

Our work identified the following areas of weakness in the Authority's arrangement:

— The financial statements of the Authority have been prepared on a going concern basis. We noted, at the year end, the Authority's current liabilities exceeded the current assets by £6.2m which presents a risk of going concern. However, we have confirmed that the position of the authority has improved since the year end, with a net current assets balance of £3.4m as at 30 June 2018. We have raised a recommendation in relation to this matter in Appendix 1.

— MRP – The Council has already invested in total £15.1m in commercial properties both within and outside Ashfield's boundaries. For 2018/19 this is expected to generate a net income stream of £1m and has contributed towards enabling the Council to set a balanced budget. We reviewed the Authority's arrangements and the expected returns which have been detailed on Page 22.

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

Specific value for money risk areas (cont.)

As communicated to you in our *External Audit Plan 2017/18* and as updated throughout the audit, we have identified one risk requiring specific audit attention and procedures to address the likelihood that proper arrangements are not in place to deliver value for money.

In all cases we are satisfied that external or internal scrutiny provides sufficient assurance that the Authority's current arrangements in relation to these risk areas are adequate.

We have provided below a summary of the risk areas identified, our work undertaken and the conclusions reached.

Risk:

Delivery of budgets

The Authority continues to face similar financial pressures and uncertainties to those experienced by others in the local government sector as a result of significant reductions in central government funding. For 2018/19 over £900,000 savings has been identified by the Authority to enable a balance budget to be set. The Medium Term Financial Strategy has also identified a need for further savings of £630,000 by 2022/23 which the Authority are addressing through their Transformation Programme. The Authority are also considering a number of revenue generating schemes such as borrowing money to invest in capital projects that appreciate in value and generate an income stream.

The Authority needs to have effective arrangements in place for managing its annual budget and generating income required to balance its medium term financial plan. This is relevant to the sustainable resource deployment sub-criteria of the VFM conclusion.

Our assessment and work undertaken:

We undertook the following procedures over this significant risk:

- Reviewed the arrangements for assuring delivery of the Authority's savings programme;
- Reviewed the delivery of the saving plans to date including any actions taken by the Authority where savings are not achieved in line with the plan; and
- Considered the arrangements the Authority have in place for identifying further savings for future years.

We noted:

- The Authority reported an overall surplus of £185k on its net expenditure budget for 2017/18 after taking a net contribution of £371k from the General Fund and Earmarked Reserves (as opposed to a planned withdrawal from reserves of £1.380m). The improved position was due to a number of net underspends across services including employee costs of £271k and transport costs of £311k.
- The Housing Revenue Account (HRA) outturn showed a £5.131m surplus (against a planned surplus of £1.2m), before transferring £591k to reserves. This results in an increase in HRA balance to £28.286m.
- The Authority's MTFP details a balanced budget for 2018/19 including savings of £900k in year, all of which have been identified. However, the MTFP details the increasingly difficult financial challenges faced each year, resulting in the need for ever rising savings which have yet to be identified, up to £630k by 2022/23.
- The financial statements of the Authority have been prepared on a going concern basis. We noted, at the year end, the Authority's current liabilities exceeded the current assets by £6.2m which presents a risk of going concern. However, we have confirmed that the position of the authority has improved since the year end, with a net current assets balance of £3.4m as at 30 June 2018. We have raised a recommendation in relation to this matter in Appendix 1.

Specific value for money risk areas (cont.)

As communicated to you in our *External Audit Plan 2017/18* and as updated throughout the audit, we have identified one risk requiring specific audit attention and procedures to address the likelihood that proper arrangements are not in place to deliver value for money.

In all cases we are satisfied that external or internal scrutiny provides sufficient assurance that the Authority's current arrangements in relation to these risk areas are adequate.

We have provided below a summary of the risk areas identified, our work undertaken and the conclusions reached.

Investment Properties:

Risk:

The Authority established in its Capital Programme an initial investment target of £10m, with a further £15m approved in January 2018. The Authority has already spent £12.2m of the target and is at an advanced stage to purchase another property for £2.9m. If this property purchase completes then the total Investment Property expenditure will increase to £15.1m. These investments are both within(£5m) and outside(£10m) the District and have utilised borrowing to fund the acquisitions.

Ministry of Housing, Communities and Local Government recently issued the Consultation document on the Prudential Framework of Capital Finance and a further document called 'Clarification on proposed changes' which detailed the proposed changes in the Minimum Revenue Provision (MRP) calculations for the Investment Properties, which come into effect from 1 April 2019.

At present the Authority are applying Option 4 –depreciation method for determining MRP, under the existing guidance which means that MRP will only be set aside should there be a reduction in valuation or when the asset is sold. There is a reserve of £400k for commercial investments but this is being reviewed in light of recent and potential acquisitions.

However due to the potential changes to the Prudential Framework, the Authority may not be able to apply Option 4, which would result in a decreased return from the investment as the MRP charges will be approximately 10 times higher than the MRP budgeted for, under the existing guidance.

Our assessment and work undertaken:

As part of our work, we reviewed the commercial properties the Authority has invested in and the associated costs, risks and rewards and ensured investments were made following appropriate legal and financial advice.

We also reviewed the Medium Term Financial Plan to ensure it has duly taken into consideration factors such as potential changes in the MRP calculation and interest charges. We noted the following:

- The Authority invested a total of £15m in commercial properties in 2017/18. A further £9.9m investment was approved on 24th May 2018. These investments generated a return of £164k in 2017/18 but for 2018/19 this is expected to generate a net income stream of £1m and contribute towards the Authority's achievement of a balanced budget.
- In February 2018 the Government issued statutory guidance indicating that a prudent amount must be set aside as a notional figure to repay debt (Minimum Revenue Provision). Under the existing policy the Authority had applied Option 4 the Depreciation Method which meant that no annual MRP would be charged. MRP would be applied upon the sale of the asset which would take place at some future date.

Specific value for money risk areas (cont.)

Our assessment and work undertaken:	– Further to the issue of the guidance, provision for MRP should be taken into account in respect of future investment decisions as this represents an annual charge to the General Fund. – There was MRP charge on the investment properties in 2017/18 and the Authority intends to charge MRP only on the purchase costs in 2018/19 on the basis that the properties purchased before 1st April 2018 should be treated under the legislation prior to 1st April 2018 which should mean that Option 4 Method can be used for MRP for 2018/19 only. The new guidance will be taken into account and applied from 2019/20.

Appendices

Appendix 1:

Key issues and recommendations

Our audit work on the Authority's 2017/18 financial statements identified two issues. We have listed these issues in this appendix together with our recommendations which we have agreed with Management. We have also included Management's responses to these recommendations.

The Authority should closely monitor progress in addressing the risks, including the implementation of our recommendations.

We have given each recommendation a risk rating and agreed what action management will need to take.

Priority Rating for Recommendations

1	**Priority One:** 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. Recommendations Raised: 1	2	**Priority Two:** 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. Recommendations Raised: 1	3	**Priority Three:** 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. Recommendations Raised: 0

No.	Risk	Issue & Recommendation	Management Response
1	1	***Liquidity*** The Authority's current liabilities at the year end were greater than the current assets which presents a risk of going concern. However, we have confirmed that the position of the authority has improved since the year end, with a net current assets balance of £3.4m as at 30 June 2018. ***Risk*** While the position has improved since the year end, there is a risk of the Authority not being able to meet its payment commitments due to a fluctuating cashflow position. This can result in an increase in the interest costs as the Authority will need to borrow additional funds on a short term basis. ***Recommendation*** We recommend that the Authority review its cashflow / borrowing requirements to ensure adequate cash balances are held throughout the year.	Agreed ***Responsible Officer*** Pete Hudson ***Implementation Deadline*** September 2018

Key issues and recommendations

No.	Risk	Issue & Recommendation	Management Response
2	2	***Non Pay Expenditure*** Our testing of 25 samples during Interim audit found that, there was one retrospective Purchase Order (PO) and one invoice without a PO that had been paid. The Purchasing team agreed that both invoices should have had POs raised against them. ***Risk*** There is a risk that unauthorised expenditure with unauthorised suppliers might be incurred by the Authority. ***Recommendation*** We would recommend that the Purchase Orders are raised and appropriately authorised for every purchasing transaction made by the Authority, before an order is placed.	Agreed ***Responsible Officer*** Pete Hudson ***Implementation Deadline*** November 2018 (When the Authority implements the Financial system upgrade, they will enable the No Order No Payment functionality)

Appendix 2:

Follow-up of prior year recommendations

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

This Appendix summarises the progress made to implement the recommendations identified in our *ISA 260 Report 2016/17*.

Number of recommendations that were	
Included in the original report	4
Implemented in year or superseded	4
Outstanding at the time of our interim audit	0

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 2017/18 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 – Authority

There were no material misstatements identified during our audit of Ashfield District Council's financial statements for the year ended 31 March 2018.

Unadjusted audit differences

The following table sets out the uncorrected audit differences identified during our audit of Ashfield District Council's financial statements for the year ended 31 March 2018. These differences are individually below our materiality level of £1.2m. Cumulatively, the impact of these uncorrected audit differences is £41k in the Property, Plant and Equipment Table, however it does not impact the primary financial statements.

Table 2: Unadjusted audit differences – Authority (£'000)

Surplus Assets			
1	**Dr Account** Surplus Assets Gross Cost	**Cr Account** Surplus Assets Accumulated Depreciation	The Depreciation and Impairment for Surplus Assets currently has a positive opening and closing balance of £41k. This figure should not normally be positive, as it should be either zero or a negative figure. This issue dates back to the 2015/16 Statement of Accounts (SoA) where the Gross Book Values on the Fixed Asset Register (FAR) where amended to be consistent with figure in the financial statements. In 2016/17 the £41k adjustment to the FAR should have reversed out which would have increased the Gross Book Value by £41k and reduced the Depreciation and Impairment by £41k.
	Dr £41k	**Cr £41k**	**While the Net Book Value would remain unchanged, the gross cost and accumulated depreciation disclosures in the property, plant and equipment will be amended.**

Audit differences (cont.)

Presentational adjustments - Authority

We identified a number of presentational adjustments required to ensure that the Authority's financial statements for the year ending 31 March 2018 are fully compliant with the Code of Practice on Local Authority Accounting in the United Kingdom 2017/18 ('the Code').

Whilst the majority of these adjustments were not significant, we identified a limited number of adjustments of a more significant nature and details of these are provided in the following table.

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 5: Presentational adjustments – Authority

No.	Basis of audit difference
1	The revaluation table within the property, plant and equipment is required to be prepared on the cost basis per the CIPFA code. However the Authority had used the Net Book value.
2	The Financial Instruments table, for long term liabilities, also included the short term loans which had to be reclassified.
3	Accounting Policies were amended to ensure that these were in line with the Code of Practice on Local Authority Accounting in the United Kingdom 2017/18 ('the Code').

Appendix 4:

Materiality and reporting of audit differences

The assessment of what is material is a matter of professional judgement 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 2017/18*, presented to you in February 2018.

Materiality for the Authority's accounts was set at £1.2m which equates to around 1.5 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, an individual difference is considered to be clearly trivial if it is less than £60k for the Authority.

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:

Required communications with the Audit Committee

We have provided below at-a-glance summary of the information we are required to report to you in writing by International Auditing Standards.

Required Communication	Commentary
Our draft management representation letter	We have not requested any specific representations in addition to those areas normally covered by our standard representation letter for the year ended 31 March 2018.
Adjusted audit differences	We have identified no adjusted differences as a result of our audit of the Ashfield District Council's financial statements.
Unadjusted audit differences	There was one unadjusted audit differences as noted in Appendix 3, however the audit difference does not impact on the deficit on provision of services and is not material. See Appendix 3 for further details.
Related parties	There were no significant matters that arose during the audit in connection with the entity's related parties.
Other matters warranting attention by the Audit Committee	There were no matters to report arising from the audit that, in our professional judgement, are significant to the oversight of the financial reporting process.
Control deficiencies	We have set out our assessment of the Authority's internal control environment, including details of one deficiency identified related to non pay expenditure. We communicated to management in writing all deficiencies in internal control over financial reporting of a lesser magnitude than significant deficiencies identified during the audit that had not previously been communicated in writing.
Actual or suspected fraud, noncompliance with laws or regulations or illegal acts	We identified no actual or suspected fraud involving the Authority's Member or officers with significant roles in internal control, or where the fraud resulted in a material misstatement in the financial statements.
Significant difficulties	No significant difficulties were encountered during the audit.
Modifications to auditor's report	There are no modifications to our audit report.
Disagreements with management or scope limitations	The engagement team had no disagreements with management and no scope limitations were imposed by management during the audit.

Required communications with the Audit Committee (cont.)

Required Communication	Commentary
Other information	No material inconsistencies were identified related to other information in the Narrative Report or Annual Governance Statement. These reports were found to be fair, balanced and comprehensive, and compliant with applicable requirements.
Our declaration of independence and any breaches of independence	No matters to report. The engagement team and others in the firm, as appropriate, the firm and, when applicable, KPMG member firms have complied with relevant ethical requirements regarding independence. See Appendix 6 for further details.
Accounting practices	Over the course of our audit, we have evaluated the appropriateness of the Authority's accounting policies, accounting estimates and financial statement disclosures. In general, we believe these are appropriate. We have set out our view of the assumptions used in valuing pension assets and liabilities at page 14.
Significant matters discussed or subject to correspondence with management	There were no significant matters arising from the audit which were discussed, or subject to correspondence, with management.

Appendix 6:

Declaration of independence

ASSESSMENT OF OUR OBJECTIVITY AND INDEPENDENCE AS AUDITOR OF ASHFIELD DISTRICT COUNCIL

Professional ethical standards require us to provide to you at the conclusion of the audit a written disclosure of relationships (including the provision of non-audit services) that bear on KPMG LLP's objectivity and independence, the threats to KPMG LLP's independence that these create, any safeguards that have been put in place and why they address such threats, together with any other information necessary to enable KPMG LLP's objectivity and independence to be assessed.

In considering issues of independence and objectivity we consider relevant professional, regulatory and legal requirements and guidance, including the provisions of the Code of Audit Practice, the provisions of Public Sector Audit Appointments Limited's ('PSAA's') Terms of Appointment relating to independence, the requirements of the FRC Ethical Standard and the requirements of Auditor Guidance Note 1 - General Guidance Supporting Local Audit (AGN01) issued by the National Audit Office ('NAO') on behalf of the Comptroller and Auditor General.

This Statement is intended to comply with this requirement and facilitate a subsequent discussion with you on audit independence and addresses:

- General procedures to safeguard independence and objectivity;
- Independence and objectivity considerations relating to the provision of non-audit services; and
- Independence and objectivity considerations relating to other matters.

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 partners, Audit Directors and staff annually confirm their compliance with our ethics and independence policies and procedures. Our ethics and independence policies and procedures are fully consistent with the requirements of the FRC Ethical Standard. As a result we have underlying safeguards in place to maintain independence through:

- Instilling professional values
- Communications
- Internal accountability
- Risk management
- Independent reviews.

We are satisfied that our general procedures support our independence and objectivity.

Appendix 6:

Declaration of independence (cont.)

Independence and objectivity considerations relating to the provision of non-audit services

Summary of fees

We have considered the fees charged by us to the authority and its controlled entities for professional services provided by us during the reporting period. We have detailed the fees charged by us to the Authority and its controlled entities for significant professional services provided by us during the reporting period in Appendix 7, as well as the amounts of any future services which have been contracted or where a written proposal has been submitted. Total fees charged by us for the period ended 31 March 2018 can be analysed as follows:

	2017/18 £	2016/17 £
Audit of the Authority	**56,036**	**56,036**
Additional fee in relation to Group Accounts	**0**	**3,805**
Total audit services	**56,036**	**59,841**
Mandatory assurance services	**19,900**	**15,646**
Pooling Claim	**3,500**	**3,000**
Total Non-Audit Services	**23,400**	**18,646**

We are required by AGN 01 to limit the proportion of fees charged for non-audit services (excluding mandatory assurance services) to 70% of the total fee for all audit work carried out in respect of the Authority under the Code of Audit Practice for the year. The ratio of audit fees to non-audit fees for the year was 2.5:1. We do not consider that the total of non-audit fees creates a self-interest threat since the absolute level of fees is not significant to our firm as a whole.

Facts and matters related to the provision of non-audit services and the safeguards put in place that bear upon our independence and objectivity, are set out table on the following page.

Declaration of independence (cont.)

Analysis of Non-audit services for the year ended 31 March 2018

Description of scope of services	Principal threats to independence and Safeguards applied	Basis of fee	Value of services delivered in the year ended 31 March 2018 £	Value of services committed but not yet delivered £
Mandatory assurance services				
Grant Certification – Housing Benefit Subsidy Return	The nature of this mandatory assurance service is to provide independent assurance on each of the returns. As such we do not consider it to create any independence threats.	Fixed Fee	£15,646	£19,900
Pooling Claim	The nature of this assurance service is to provide independent assurance on the housing pooling capital receipts claim. As such we do not consider it to create any independence threats	Fixed Fee	£3,000	£3,500

Declaration of independence (cont.)

Independence and objectivity considerations relating to other matters

There are no other matters that, in our professional judgement, bear on our independence which need to be disclosed to the Audit Committee.

Confirmation of audit independence

We confirm that as of the date of this report, in our professional judgement, KPMG LLP is independent within the meaning of regulatory and professional requirements and the objectivity of the Audit Director and audit staff is not impaired.

This report is intended solely for the information of the Audit Committee of the Authority and should not be used for any other purposes.

We would be very happy to discuss the matters identified above (or any other matters relating to our objectivity and independence) should you wish to do so.

KPMG LLP

Appendix 7:

Audit fees

As communicated to you in our *External Audit Plan 2017-18*, our scale fee for the audit is £56,036 plus VAT (£56.036 in 2016/17), which is consistent with the prior year.

Our work on the certification of the Authority's Housing Benefit Subsidy return is planned for September 2018. The planned scale fee for this is £19,900 plus VAT (£15,146 in 2016/17). See further details below.

Component of the audit	2017/18 Planned Fee £	2016/17 Actual Fee £
Accounts opinion and value for money work		
PSAA Scale fee Ashfield District Council	56,036	56,036
Additional fee in relation to Group Accounts	0	3,805
Total audit services	**56,036**	**59,841**
Mandatory assurance services		
Housing Benefits Certification (work planned for August 2018	19,900	15,146
Pooling Claim	3,500	3,000
Total Non-Audit Services	**23,400**	**18,146**
Grand total fees for the Authority	**79,436**	**77,987**

All fees quoted are exclusive of VAT.

The key contacts in relation to our audit are:

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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. We draw your attention to the Statement of Responsibilities of auditors and audited bodies, 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, 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 3HZ.

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