External audit report 2016-17

Ashfield District Council

–

September 2017

Summary for Audit Committee

Financial statements

This document summarises the key findings in relation to our 2016-17 external audit at Ashfield District 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 on pages 4 – 5.

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.

Our audit of the Authority's financial statements has not identified any audit adjustments which impact on the bottom line figures reported in the core statements. We have, however, identified a number of presentational issues. We understand that the Authority has amended the statements for all such issues identified. Further details can be seen in Appendix Three.

Based on our work, we have raised four recommendations. Details on our recommendations can be found in Appendix One.

Our audit is substantially complete however matters communicated in this Report may change pending receipt of further evidence on the below items. We will provide a verbal update on the status of our audit at the Audit Committee meeting but would highlight the following work is still outstanding:

- General audit file completion and review procedures;
- Receipt of final amended accounts;
- Final review of amended accounts; and
- Letter of Management Representation.

We anticipate issuing our completion certificate and Annual Audit Letter in October 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 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.

See further details on page 14**.**

Public Interest Report

We have a duty to consider whether to issue a report in the public interest about something we believe the Authority should consider, or if the public should know about. We have nothing to report.

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.

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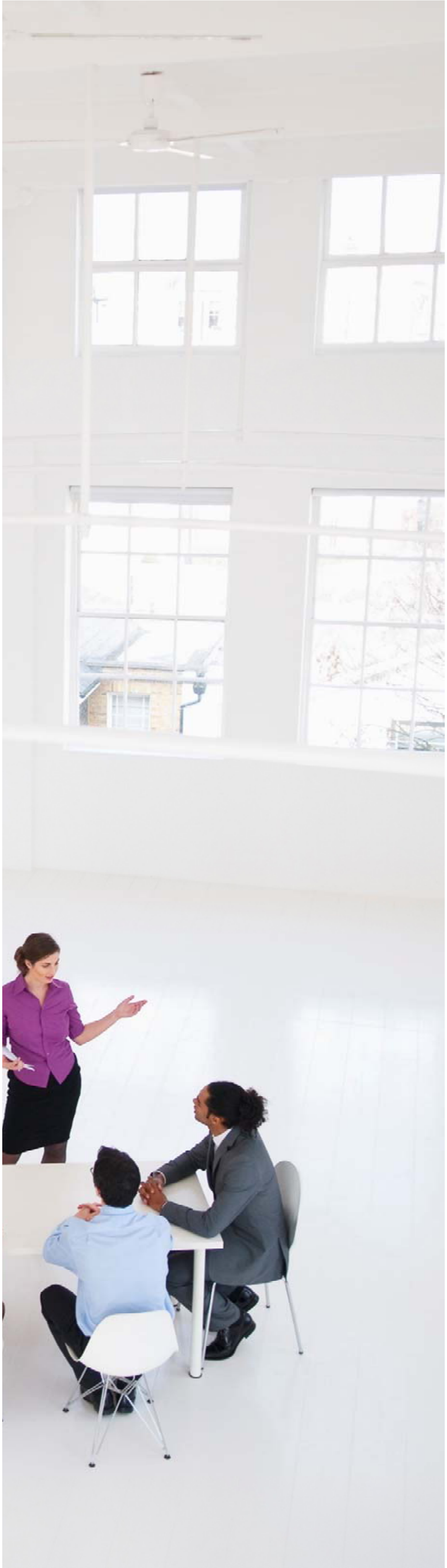
Section one

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 a general fund surplus of £0.495 million. The General Fund has increased by £0.5m compared to the previous year with the balance of £4.39 million.



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	Work performed
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 Nottinghamshire County Council, who administer the Pension Fund. **Testing carried out at the Pension Fund** We liaised with your Pension Fund audit team to gain assurance over: ▪ the operation of the Fund's controls, including the controls over the transfer of data to the actuary; ▪ the figures submitted from the Fund to the actuary, including the completeness and accuracy of the data; and ▪ investment balances. **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 other year-end controls. We found that the actuarial assumptions were reviewed by the management who confirmed that the assumptions used by the actuary are appropriate. We have substantively agreed the total figures submitted to the actuary to the ledger with no issues to note. We have engaged with your Pension Fund auditors to gain assurance over the pension figures. We have no issues to note. We are satisfied from the procedures we have undertaken that the pension assets and liabilities are not materially misstated in the financial statements.
2. Bringing Ashfield Homes Limited back under the control of the Authority	**Why is this a risk?** The Authority set up Ashfield Homes Ltd in April 2002 as an Arm's Length Housing Management Organisation to manage and maintain the Authority's housing stock. Following an option appraisal, a decision was reached by Members on 14 April to directly deliver the housing management service i.e. bringing AHL back under the control of the Authority. The transition date was set for 1 October 2016. There is a risk that the Authority does not account for the Group transactions correctly or provide adequate disclosure in the financial statements. There is also a risk that there are errors in the data migration exercise undertaken as part of the transition to bring AHL back under the control of the Authority. **Our work to address this risk** As part of our audit, we: ▪ Considered the arrangements the Authority has put in place to ensure the accuracy of the data migration exercise; ▪ Considered whether any legal issues have arisen as a result of the transfer; ▪ Reviewed the consolidation of AHL six month trading information, working closely with AHL's auditors; ▪ Reviewed AHL closing balance sheet position to ensure the opening balances have transferred into the Authority's financial ledger correctly;

Significant audit opinion risks	Work performed
2. Bringing Ashfield Homes Limited back under the control of the Authority (cont.)	▪ Reviewed the reports issues by the internal auditor and noted that no issues had been highlighted; ▪ We have gained assurance over the arrangements the Authority had put in place to ensure the accuracy of the data migration; ▪ Reviewed the adequacy of the disclosures in the financial statements in relation to the pension liability, HRA transactions and any redundancy payments made as a result of the transfer; and ▪ Reviewed the accounting treatment for the Group transactions to ensure it is in line with the Code of Practice. We are satisfied from the procedures we have undertaken that the Group transactions and disclosures are not materially misstated in the financial statements.

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

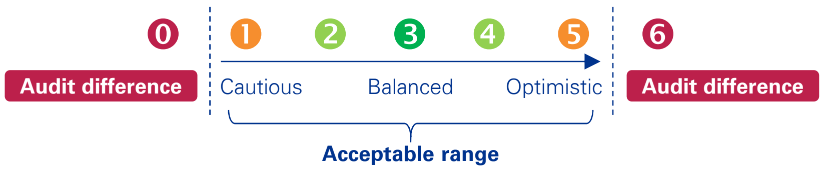
We identified one area of audit focus. This is not considered as a significant risk as it is less likely to give rise to a material error. Nonetheless this is an area of importance where we would carry out substantive audit procedures to ensure that there is no risk of material misstatement.

Other areas of audit focus	Our work to address the areas
1. 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** We carried out this work during our interim visit in order for us to feed back any findings ahead of our final audit. 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 general ledger and found no issues to note. The Authority had not excluded the recharges from the prior year figures, thus the prior year figures in the Comprehensive Income and Expenditure statement and Expenditure and Funding Analysis statement needed to be restated to exclude the recharges to make them comparable with the current year in line with new guidance released in 2016-17. This had been amended in the latest version of the financial statements received.

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.

Level of prudence



Subjective areas	2016-17	2015-16	Commentary
Provisions	3	3	The total provision includes Business Rates Appeals (£1,164k) which has been explained below: The Authority employed LG Futures in the prior year to review the reasonableness of the assumptions used to calculate the provision however they were not engaged to do the same in 2016-17 and the assessment was made by the Authority itself. Appeals relating to 2016-17 and the years prior to that are expected to decrease in the coming years as a result of change in appeals regime with new obligations and fees to be encountered in the process. We consider the assumptions used by Ashfield District Council to be reasonable, as the same % of probable reduction in rateable value (8%) has been applied to the new cases under the amended rules, as has been done historically.
PPE: 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. From our review, we noted the Authority has applied the appropriate social housing discount factor. 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 of 14.8% is in line with regional indices provided by Gerald Eve, the valuation firm engaged by the NAO to provide supporting valuation information.

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 25 September 2017.

Status of our audit

Our audit is substantially complete however matters communicated in this Report may change pending receipt of further evidence on the below items. We will provide a verbal update on the status of our audit at the Audit Committee meeting but would highlight the following work is still outstanding:

- Completion of audit procedures in relation to non pay and payroll journals;
- Addressing any residual audit queries arising from our completion procedures;
- General audit file completion and review procedures;
- Receipt of final accounts;
- Final review of amended accounts; and
- Letter of Management Representation.

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 £1,200,000. Audit differences below £60,000 are not considered significant.

We did not identify any material misstatements.

Presentational Errors

We identified a small number of errors in the financial statements, mentioned below. These have been discussed with management and the financial statements have been amended for all of them.

The prior year figures in the Comprehensive Income and Expenditure statement and Expenditure and Funding Analysis statement needed to be restated to exclude the recharges to make them comparable with the current year in line with new guidance released in 2016-17.

Debtors were also amended as the split between the Long Term and Short Term Debtors had been calculated based on the ageing rather than the due date. This did not have any impact on the total debtors.

In addition, we identified a 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 significant.

Annual Governance Statement

We have reviewed the Authority's 2016-17 Annual Governance Statement and following a small amendment we confirm 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.

Section one: financial statements

Accounts production and audit process

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 recognised the additional pressures which the earlier closedown in 2017-18 will bring. We have been engaging with the Authority in the period leading up to the year end in order to proactively address issues as they emerge.

We consider the Authority's accounting practices appropriate.

Completeness of draft accounts

We received a complete set of accounts for audit on 28th June 2017, which is before the statutory deadline.

Quality of supporting working papers

We issued our *Accounts Audit Protocol 2016-17* ("Prepared by Client" request) in February 2017 (Interim) and March 2017 (Final) which outlines our documentation request. This helps the Authority to provide audit evidence in line with our expectations. We followed this up with a meeting with Management to discuss specific requirements of the document request list.

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.

However, there is an opportunity for further improvements to be made in providing clear and concise audit trails in particular areas. We have raised recommendations in respect of this, see recommendation two and three relating to housing benefits and bank reconciliations.

Response to audit queries

Available officers dealt with our audit queries on a timely basis. However, we experienced a number of delays due to the absence of key staff, which made it difficult at times to plan work and resulted in some delays. As a result of this, not all of our audit work was completed within the timescales expected.

Prior year recommendations

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

The Authority has implemented all of the recommendations in our ISA 260 Report 2015/16.

Appendix Two provides further details.

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.

As noted above, we identified a number of areas were controls could be further improved and therefore have raised a number of recommendations as detailed in 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.

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 2017, 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.

We have provided a detailed declaration in Appendix 5 in accordance with ISA 260.

Management representations

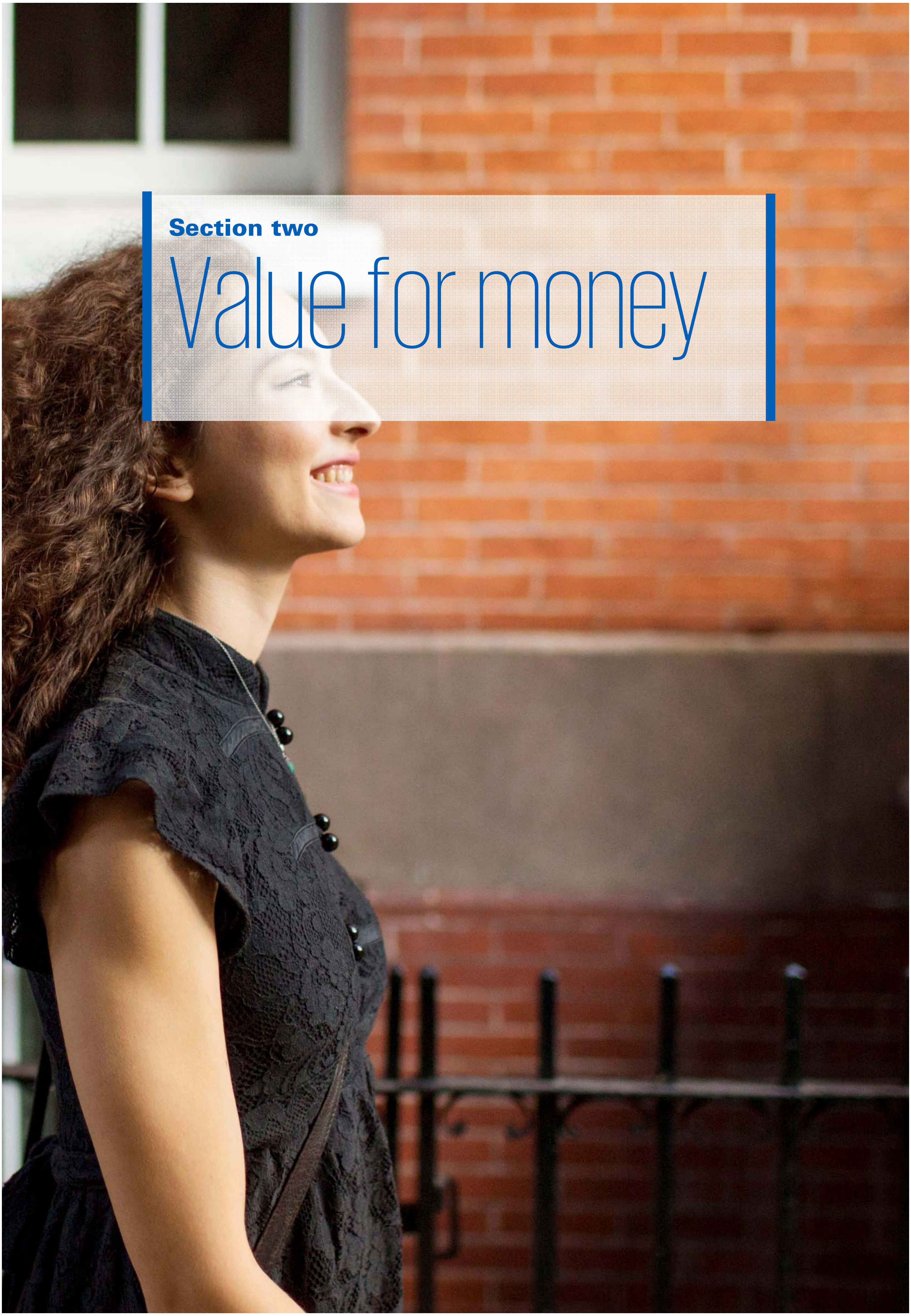
You are required to provide us with representations on specific matters such as your financial standing and whether the transactions within the accounts are legal and unaffected by fraud. We have provided a template to the Responsible Finance Office for presentation to the Audit Committee. We require 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.



Section two

Value for money

Our 2016-17 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.

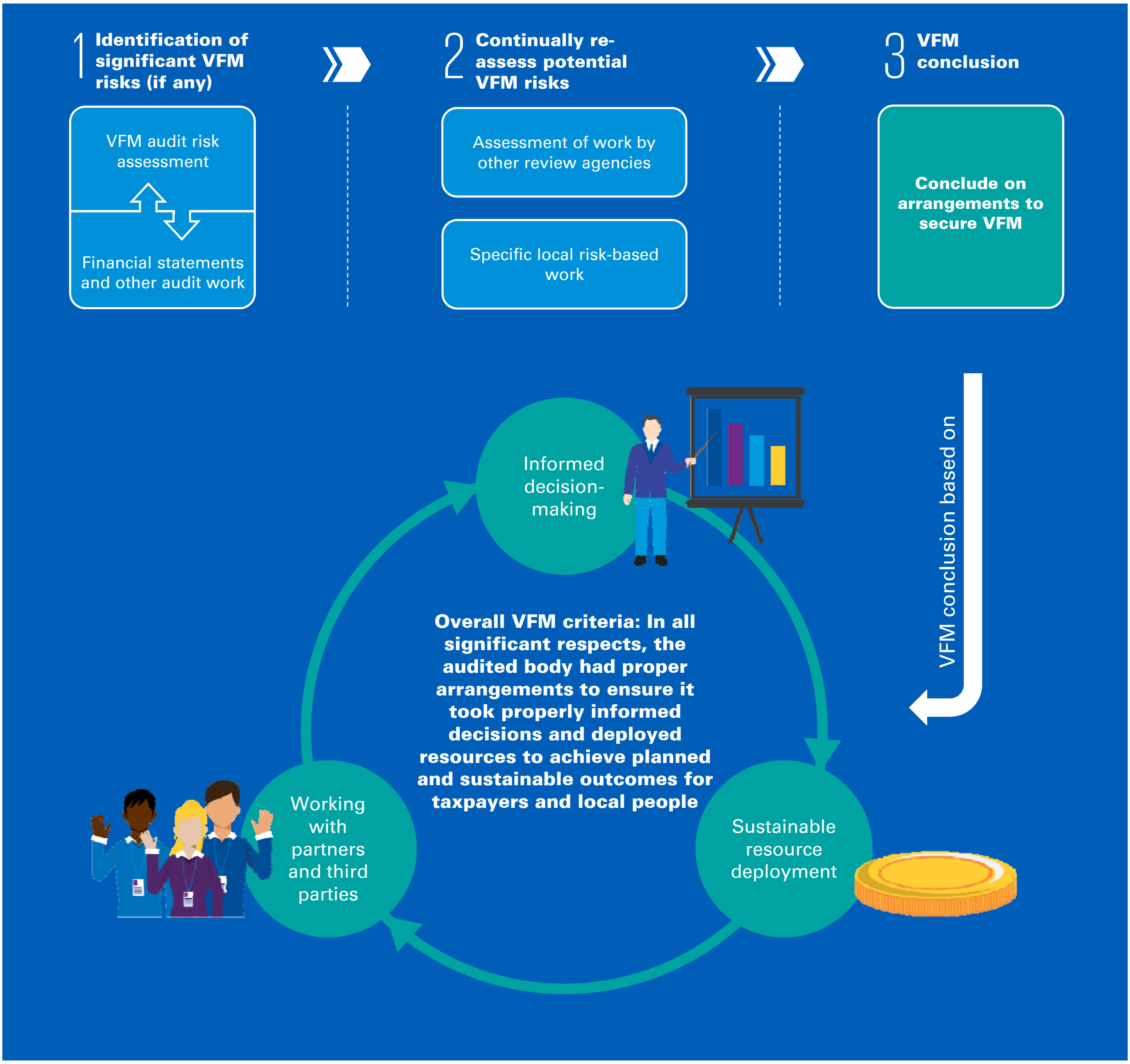
VFM conclusion

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 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.



We have identified one significant VFM risk, as communicated to you in our *2016-17 External Audit Plan*. We are satisfied that external or internal scrutiny provides sufficient assurance that the Authority's current arrangements in relation to this risk area are adequate.

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.

VFM assessment summary

VFM risk	Informed decision-making	Sustainable resource deployment	Working with partners and third parties
1. Financial resilience in the local and national economy	✓	✓	✓
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 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 page.

Significant VFM risks

Significant VFM risks	Work performed

1. Financial resilience in the local and national economy	**Why is this a risk?**
	There has been a significant shift in the national outlook over the last 12 months, primarily driven by the outcome of the referendum on 23 June 2016 on the UK's membership of the European Union. Consequently GDP growth forecasts have been revised downwards, which potentially reduces the level of any growth in business rates income. Inflationary pressures, service pressures, and a reduction in the local government finance settlement will impact on the Authority's finances.
	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. This is relevant to the sustainable resource deployment sub-criteria of the VFM conclusion.
	Summary of our work
	We undertook the following procedures over this significant risk:
	▪ Reviewed the arrangements for assuring delivery of the Authority's savings programme and reviewed the delivery of the saving plans to date including actions taken by the Authority where savings were not achieved in line with the plan. In addition, we evaluated the arrangements the Authority has in place in identifying further savings for future years.
	▪ We continued to meet regularly with the S151 Officer and key staff to understand the Authority's financial position and assess the adequacy of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources.
	We noted:
	▪ 2016/17 was a financially challenging year for the sector, however the Authority, achieved a net general fund surplus (after transfer to reserves) of £0.495m which was better than budget. This enabled the General Fund balance to increase to £4.4 million and earmarked reserves to increase to £6.3m as of 31 March 2017. In addition, the Authority achieved a £1.779m surplus in the HRA after transfer, resulting in an increase in HRA balance to £23.7m.
	▪ In February 2017, the Authority approved a Medium Term Financial Strategy (MTFS) 2017-18 –2021-22 that sets out a balanced budget for 2017-18. The MTFS includes identified savings of £820k for the General Fund and £324k for the HRA for 2017-18.
	▪ The MTFS identifies the need to save a further £3.8 million from its net revenue budget over the five year period 2018-19 – 2022-23 as Revenue Support Grant is phased out by 2020 and New Homes Bonus is estimated to reduce to £1.98m in 2021-22. It is envisaged that the savings will be identified through a number of initiatives including:
	    ▪ Further development of a Commercial Enterprise Strategy;
	    ▪ Improved IT efficiency;
	    ▪ Efficient use of assets; and
	    ▪ Service reviews and shared services.
	▪ The MTFS highlights the increasingly difficult financial challenges that the Authority is going to face. Members will be required to make some difficult decisions which may require them to become less risk averse.

Appendices

Appendix 1

Key issues and recommendations

Our audit work on the Authority's 2016-17 financial statements have identified a number of presentational issues. We have listed these issues in this appendix together with our recommendations which have been 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 will formally follow up these recommendations 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	Total raised for 2016-17
High	1
Medium	1
Low	2
Total	4

Appendix 1

Priority	Finding	Management Response
High priority	**1. Asset Verification Exercises** The Authority does not conduct regular verification exercises for the infrastructure assets, as a result assets worth £866k were written off due to lack of evidence over their existence. Thus there is an increased fraud risk that fictitious assets are added on to the Fixed Assets Register and are then subsequently written off. **Recommendation** We recommend that the Authority reviews its asset verification procedures, to ensure every asset is verified on a regular basis.	**Management Response** **Accepted** **Owner** Principal Accountant – Capital & Treasury Management **Deadline** Immediately
Low priority	**2. Housing Benefits Reconciliation** We identified that the Authority performs a reconciliation between the payments per the revenue systems and ledger. The Authority does not however, perform a reconciliation between the ledger and the claim form. Moreover, the reconciliations performed are not reviewed by any other officer of the Finance team. **Recommendation** The Authority should reconcile the expenditure per the ledger to the claim form on an annual basis. The reconciliation should be reviewed by an officer other than the preparer.	**Management Response** ADC systems do not currently facilitate a summary report in order for this to take place. KPMG will provide an example reconciliation. Accepted **Owner** Principal Accountant – Revenues **Deadline** Immediately
Low priority	**3. Bank Reconciliation** We identified that the Authority performs a monthly reconciliation between the bank statement and the ledger. Whilst this reconciliation is signed as reviewed, it's not signed off by the preparer. Thus there is lack of evidence to confirm that there is enough segregation of duties in the reconciliation process. **Recommendation** The Authority should ensure that these reconciliations are signed off as prepared by the concerned officer.	**Management Response** Accepted **Owner** Principal Accountant – Capital & Treasury Management **Deadline** Immediately

Medium priority

4. Working papers and audit process

We experienced a number of delays due to the absence of key staff, which made it difficult at times to plan and complete work. As a result of this, not all of our audit work was completed within the timescales expected. Whilst this has not unduly delayed the audit, there is scope to coordinate the audit work with staff availability for future years.

Recommendation

The Authority should coordinate the audit work with staff availability to ensure there are no delays in meeting the earlier deadlines from 2017-18.

Management Response

Although some leave was granted, we feel that there was sufficient resource and knowledge within the team to respond to queries. These matters will be discussed between ADC and KPMG in the de-brief to determine if there are lessons to be learnt.

Owner

Corporate Finance Manager (Section 151 Officer)

Deadline

October 2017

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 Authority has implemented all of the recommendations.*

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 outstanding
High	0	0	**0**
Medium	3	3	**0**
Low	0	0	**0**
Total	**3**	**3**	**0**

Medium priority

1. Payroll Assurance

The Authority outsourced its payroll processing to Mansfield and Ashfield Shared HR Services in 2015/16. We reviewed the controls in place and noted controls could be further strengthened.

Recommendation

The Authority should review the current process in place and in particular we recommend that the Authority should:

- Request and review exception reports produced by Mansfield and Ashfield Shared HR Services. This will allow the Authority to gain additional assurance that the payroll is being completed correctly;
- Review the payroll file and approve the BACS payment before the submission deadline; and
- The Council should evidence the review of the monthly payroll control reconciliation received from Mansfield and Ashfield Shared HR Services by way of a signature or stamp.

Management original response

A meeting has been scheduled with all relevant parties later this month with a view to putting the recommendations in place as soon as possible but definitely no later than the December 2016 Payroll.

KPMG's July 2017 assessment

Fully implemented

Medium priority

2. Fixed Asset Register(FAR) reconciliation to the General Ledger (GL)

The Authority as part of its year end process reconciles the net book value (NBV) per the Fixed Asset Register to the general ledger. However, to ensure accuracy of records the Authority should reconcile all lines of the FAR e.g. gross book value and depreciation etc.

In addition, the Authority should also consider completing a monthly reconciliation which reduces the time required to carry out this exercise during the closedown process.

Recommendation

We recommend that the Council reconciles the Fixed Asset Register to the General Ledger on a monthly basis, in addition to reconciling all lines with the FAR.

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Management original response

Agreed.

The Authority to undertake a year-end reconciliation as suggested as part of the 2016-17 close-down process.

The Authority will also consider monthly reconciliations but will evaluate in terms of the time taken and benefit received.

KPMG's July 2017 assessment

Fully implemented

Medium priority

3. Non-Pay Expenditure – Data Analytics

We undertook data analytics over non-pay expenditure for the period 1 April 2015 to 31 March 2016. This work highlighted in a number of instances that invoices were either not matched to a purchase order (PO) or matched to PO dated after the invoice date.

We are aware that the Finance team has been working hard to improve controls by delivering training to raise awareness about the purchasing process.

Recommendation

We recommend that the Authority continues to periodically review the effectiveness of the controls around the purchase order system and in particular review recurring patterns of non compliance.

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Management original response

Agreed.

A report has already been prepared for the Corporate Leadership Team in respect of compliance performance in the 2016-17 financial year.

KPMG's July 2017 assessment

Ongoing

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 significant audit differences identified by our audit of Ashfield District 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			Cr Long Term Debtors £1,168,000			Long Term debtors were incorrectly classified based on their ageing rather than their due date.
2			Dr Short Term Debtors £1,168,000			As above
			No impact on the total debtors figure			**Total impact of adjustments – It is a presentational error and doesn't impact the total debtors**

In addition, the prior year figures in the Comprehensive Income and Expenditure statement and Expenditure and Funding Analysis statement needed to be restated to exclude the recharges to make them comparable with the current year in line with new guidance released in 2016-17.

Unadjusted audit differences

We are happy to report that there were no unadjusted audit differences.

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 2016-17, presented to you in February 2017.

Materiality for the Authority's accounts was set at £1,200,000 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, we propose that an individual difference could normally be considered to be clearly trivial if it is less than £60,000 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

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 this. 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.

Auditor declaration

In relation to the audit of the financial statements of Ashfield District Council for the financial year ending 31 March 2017, 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.

Appendix 5

Non-audit work and independence

Below we have listed the non-audit work performed 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 Return	**£3,000**	**Self-interest:** The work involves verifying data included in the claim. The work being carried out is therefore factual and not judgemental and does not constitute a threat to our independence. The engagement did not have either a perceived or actual impact on the audit team and the audit team resources that will be deployed to perform a robust and thorough audit. The fee is a small percentage of the overall fee. **Self-review:** The nature of this work is to confirm the accuracy of the data included in the claim. Management have prepared the claim, so there is no threat of self review. **Management threat:** All decisions surrounding the claim will be made by the Authority. **Familiarity**: This threat is limited given the scale, nature and timing of the work. **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 as a percentage of the external audit fees	**5%**	

Appendix 6

Audit fees

Audit fees

As communicated to you in our External Audit Plan 2016-17, our scale fee for the audit is £56,036 including VAT *(£56,036 in 2015-16)*. However, we propose an additional fee of £[TBC] due to additional work undertaken in relation to the CIES restatement, transfer of Ashfield Homes Limited (AHL) and the triennial pension revaluation. See table below for further detail.

Our work on the certification of Housing Benefits (BEN01) is not yet complete. The planned scale fee for this work has been determined by the PSAA, 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 2014-2015	56,036	56,036
Additional work to conclude our opinions (note 1)	TBC	5,000
Subtotal	**56,036**	**61,036**
Housing benefits (BEN01) certification work		
PSAA scale fee set in 2014-15 – planned for September/October 2017	15,146	12,930
Pooling of Housing Capital Receipts Return	3,000	3,000
Total fee for the Authority set by the PSAA	**74,182**	**76,966**

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 CIES restatement with the S151 officer. This is still subject to PSAA determination.

We are also in discussions with management about extra fees as a result of the additional work we carried out on payroll and data migration in relation to AHL being brought in-house this year and costs incurred due to delays in response to audit queries.