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Report to those charged with governance (ISA 260) 2013/14

Kettering Borough Council

July 2014

Contents

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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. The Audit Commission has issued a document entitled *Statement of Responsibilities of Auditors and Audited Bodies*. This summarises where the responsibilities of auditors begin and end and what is expected from the audited body. We draw your attention to this document which is available on the Audit Commission's website at www.auditcommission.gov.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.

If you have any concerns or are dissatisfied with any part of KPMG's work, in the first instance you should contact Jon Gorrie, the appointed engagement lead to the Authority, who will try to resolve your complaint. If you are dissatisfied with your response please contact Trevor Rees on 0161 246 4000, or by email to trevor.rees@kpmg.co.uk, who is the national contact partner for all of KPMG's work with the Audit Commission. After this, if you are still dissatisfied with how your complaint has been handled you can access the Audit Commission's complaints procedure. Put your complaint in writing to the Complaints Unit Manager, Audit Commission, 3rd Floor, Fry Building, 2 Marsham Street, London, SW1P 4DF or by email to complaints@audit-commission.gsi.gov.uk. Their telephone number is 0303 4448 330.

Section one

Introduction

This document summarises:

- **the key issues identified during our audit of the financial statements for the year ended 31 March 2014 for the Authority; and**
- **our assessment of the Authority's arrangements to secure value for money.**

Scope of this report

This report summarises the key findings arising from:

- our audit work at Kettering Borough Council ('the Authority') in relation to the Authority's 2013/14 financial statements; and
- the work to support our 2013/14 conclusion on the Authority's arrangements to secure economy, efficiency and effectiveness in its use of resources ('VFM conclusion').

Financial statements

Our *External Audit Plan 2013/14*, presented to you in January 2014, set out the four stages of our financial statements audit process.

This report focuses on the second and third stages of the process: control evaluation and substantive procedures. Our on site work for these took place during March 2014 (interim audit) and June 2014 (year end audit).

We are now in the final phase of the audit, the completion stage. Some aspects of this stage are also discharged through this report.

VFM conclusion

Our *External Audit Plan 2013/14* explained our risk-based approach to VFM work, which follows guidance provided by the Audit Commission. We have now completed our work to support our 2013/14 VFM conclusion. This included:

- assessing the potential VFM risks and identifying the residual audit risks for our VFM conclusion; and
- considering the results of any relevant work by the Authority and other inspectorates and review agencies in relation to these risk areas.

Structure of this report

This report is structured as follows:

- Section 2 summarises the headline messages.
- Section 3 sets out our key findings from our audit work in relation to the 2013/14 financial statements.
- Section 4 outlines our key findings from our work on the VFM conclusion.

Our recommendations are included in Appendix 1. We have also reviewed your progress in implementing prior recommendations and this is detailed in Appendix 2.

Acknowledgements

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

Headlines

This table summarises the headline messages.
Sections three and four of this report provide further details on each area.

Proposed audit opinion	We anticipate issuing an unqualified audit opinion on the Authority's financial statements by 30 September 2014. We will also report that the wording of your Annual Governance Statement accords with our understanding.
Audit adjustments	Our audit has identified one non-adjusted audit difference with a total value of £0.22 million to date. There is nil impact on the General Fund as a result of the audit difference. The proposed adjustment will not be corrected as the liability and overall finance costs are corrected by the end of the lease period. This adjustment is detailed further in Appendix 3. Our audit also identified a small number of presentational and disclosure adjustments which were amended by the Authority.
Key financial statements audit risks	We review risks to the financial statements on an ongoing basis. We have worked with officers throughout the year to discuss specific risk areas. During the financial year, the arrangements in relation to business rates pooling were confirmed. As a result, we identified a further risk to the Authority's financial statements. The Authority addressed all issues appropriately.
Accounts production and audit process	We have noted that the quality of the accounts and the supporting working papers continues to be of a high standard. Officers dealt efficiently with audit queries and the audit process has been completed within the planned timescales. The Authority has made progress in implementing the recommendation raised in our ISA 260 Report 2012/13 relating to the financial statements. The Authority made good progress in undertaking an exercise to streamline and de-clutter the draft accounts.
Control environment	The Authority's organisational control environment is effective overall, and we have not identified any significant weaknesses in controls over key financial systems. We undertook a review of the work of internal audit. Our review did not identify any significant issues and were able to rely on their work where appropriate.
Completion	At the date of this report our audit of the financial statements is substantially complete subject to conclusion of our final audit procedures. Before we can issue our opinion we require a signed management representation letter. We confirm that we have complied with requirements on objectivity and independence in relation to this year's audit of the Authority's financial statements.
VFM conclusion and risk areas	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 VFM conclusion by 30 September 2014.

Proposed opinion and audit differences

Our audit has identified one audit adjustment.

There is nil impact on the General Fund as a result of audit adjustment.

We anticipate issuing an unqualified audit opinion in relation to the Authority's financial statements by 30 September 2014.

The wording of your Annual Governance Statement accords with our understanding.

Proposed audit opinion

We anticipate issuing an unqualified audit opinion on the Authority's financial statements following approval of the Statement of Accounts by the Audit Committee.

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.

Our audit to date has identified one non-adjusted audit difference with a total value of £0.22 million which we set out in Appendix 3. It is our understanding that this will not be adjusted in the final version of the financial statements. This difference is not material to the financial statements. There is nil impact on the General Fund as a result of audit adjustment.

The Authority entered into new lease agreements during the financial year. The discount factor applied to the leases was not apportioned to reflect the fact that the charges related to a partial year.

As a result, interest expense was incurred for the full year despite the leases only becoming operational partway through 2013/14.

The Authority has not recalculated the interest against all 109 leases, and therefore this is a judgemental error based on removing interest for 9/12ths of the year. No correction is proposed as the liability and overall finance cost is corrected by the end of the lease period as in the last year there is reduced finance cost impact.

In addition, 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 the United Kingdom 2013/14 ('the Code')*.

Annual Governance Statement

We have reviewed the Annual Governance Statement and confirmed that:

- it complies with *Delivering Good Governance in Local Government: A Framework* published by CIPFA/SOLACE; and
- it is not misleading or inconsistent with other information we are aware of from our audit of the financial statements.

We have made a number of comments in respect of its format and content which the Authority has agreed to amend.

Key financial statements audit risks

We have worked with officers throughout the year to discuss the specific risk areas. The Authority addressed the issues appropriately.

In our *External Audit Plan 2013/14*, presented to you in January 2014, we identified the key risk affecting the Authority's 2013/14 financial statements.

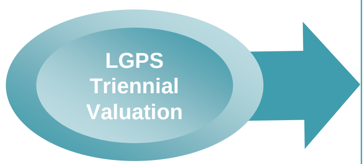
During the financial year, the arrangements in relation to business rates pooling were confirmed. As a result, we identified a further risk to the Authority's financial statements.

We have now completed our testing on these areas and set out our evaluation following our substantive work.

The table below sets out our detailed findings for each of the risks that are specific to the Authority.

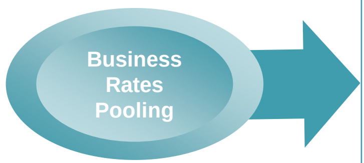
Additionally, we considered the risk of management override of controls, which is a standard risk for all organisations.

Our 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, did not identify any issues.

Key audit risk	Issue	Findings
	**Risk** During the year, the Local Government Pension Scheme for Northamptonshire Pension Fund (the Pension Fund) has undergone a triennial valuation with an effective date of 31 March 2013 in line with the Local Government Pension Scheme (Administration) Regulations 2008. The Authority's share of pensions assets and liabilities is determined in detail and a large volume of data is provided to the actuary in order to carry out this triennial valuation. The IAS19 numbers to be included in the financial statements for 2013/14 will be based on the output of the triennial valuation rolled forward to 31 March 2014. For 2014/15 and 2015/16 the actuary will then roll forward the valuation for accounting purposes based on more limited data. 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 Northamptonshire County Council who administer the Pension Fund.	**Our audit work** As part of our audit, have agreed the data provided to the actuary back to the systems and reports from which it was derived, and tested the accuracy of this data. There were no issues arising from our work. The Authority addressed the issue appropriately.

Key financial statements audit risks

We have worked with officers throughout the year to discuss the specific risk areas. The Authority addressed the issues appropriately.

Key audit risk	Issue	Findings
	**Risk** Per the Local Governance Finance Act 2012 the Secretary of State can designate two or more relevant authorities as a pool of authorities. Authorities that are part of a pool need to recognise their income and expenditure and debtors and creditors in line with the agreed arrangements for the distribution of the pool income and expenditure. This change in business rates pooling arrangements has been implemented alongside authorities now being able to retain non-domestic rating income growth above a specific level. KBC is the lead pooling authority across Northamptonshire. As the lead authority the council has had to set up a model for calculating the income growth, retention, levy rates, and I&E/ Dr and Cr balances for all authorities within the pool. There is a lack of formal guidance from CIPFA, and the complexity of the arrangements has been emerging over the 2013/14 year. There is a risk that the pooling arrangements set up by the authority are not in line with CIPFA guidance and that income growth and pooling arrangements are accounted for incorrectly or calculated incorrectly.	**Our audit work** We have confirmed that the Authority has presented and accounted for business rates in accordance with the Code of Practice, taking into account the changes for business rates retention and considered the arrangements for KBC as lead authority for the business rates pool. This included: ■ Review of the accounting model developed by the Authority, incorporating a reconciliation to the CIPFA model; ■ Agreement of key information and model inputs to source data; ■ Recalculation of business rate growth and levy; ■ Review the calculation of the NNDR provision; and ■ Review of controls over the NNDR system. There were no issues arising from our work. The Authority addressed the issue appropriately.

Accounts production and audit process

We have noted further improvement in the quality of the accounts and the supporting working papers which were again of a good standard.

Officers dealt efficiently with audit queries and the audit process could be completed within the planned timescales.

The Authority has partially implemented the prior year recommendation in our *ISA 260 Report 2012/13.*

Accounts production and audit process

ISA 260 requires us to communicate to you our views about 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. We considered the following criteria:

Element	Commentary
Accounting practices and financial reporting	The Authority has maintained a strong financial reporting process through review of working papers and early preparation of the accounts and supporting working papers. We consider that accounting practices are appropriate, however the accuracy of asset valuation would be improved if assets were valued at year end (rather than the beginning of the financial year). Our audit commenced on 23 June 2014, prior to the statutory deadline for draft accounts of 30 June. Our onsite work was completed by the first week of July.
Completeness of draft accounts	We received a complete set of draft accounts on 23 June 2014 and commenced the audit on the same day. Any adjustments made to the accounts were tracked and version controls were put in place. The Authority made good progress in streamlining and de-cluttering the draft accounts.
Quality of supporting working papers	Our *Accounts Audit Protocol*, which we issued in February 2014 and discussed with the Acting Head of Finance, set out our working paper requirements for the audit. The quality of working papers provided was generally good and met the standards specified in our *Accounts Audit Protocol*.
Response to audit queries	Officers resolved audit queries in a reasonable time. All key staff were available to respond to queries during the audit.

Prior year recommendation

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

The Authority has partially implemented the recommendation in our *ISA 260 Report 2012/13*. Further detail can be found in Appendix 2.

Organisational control environment

Your organisational control environment are effective overall.

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.

Key findings

We consider that your organisational are effective overall.

Aspect	Assessment
Organisational controls:	
Management's philosophy and operating style	3
Culture of honesty and ethical behaviour	3
Oversight by those charged with governance	3
Risk assessment process	3
Communications	3
Monitoring of controls	3

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

Review of internal audit

Following our assessment of internal audit, we were able to place reliance on their work on the key financial systems.

Work completed

The scope of the work of your internal auditors and their findings inform our audit risk assessment.

We work with your internal auditors to assess the control framework for certain key financial systems and seek to rely on any relevant work they have completed to minimise unnecessary duplication of work. Our audit fee is set on the assumption that we can place full reliance on their work.

Where we intend to rely on internal audit’s work in respect of the Authority’s key financial systems, auditing standards require us to complete an overall assessment of the internal audit function and to evaluate and test aspects of their work.

We reviewed internal audit’s work on the key financial systems and re-performed a sample of tests completed by them. We also reviewed internal audit’s self assessment against the United Kingdom Public Sector Internal Audit Standards (PSIAS), which have applied to local authorities since April 2013. The PSIAS require public sector organisations to commission an external review of internal audit; our work does not constitute an external review with respect to this requirement.

Key findings

Based on the self-assessment performed by internal audit, our assessment of their files, attendance at Audit Committee and regular meetings during the course of the year, we have not identified any significant matters which would indicate internal audit are not compliant with the PSIAS.

We are again able to place full reliance on internal audit’s work on the key financial systems where this was relevant to our audit.

Controls over key financial systems

The controls over the key financial systems are sound.

Work completed

We review the outcome of internal audit's work on the financial systems to influence our assessment of the overall control environment, which is a key factor when determining the external audit strategy.

We also work with your internal auditors to update our understanding of some of the Authority's key financial processes where these are relevant to our final accounts audit.

Where we have determined that this is the most efficient audit approach to take, we test selected controls that address key risks within these systems. The strength of the control framework informs the substantive testing we complete during our final accounts visit.

Our assessment of a system will not always be in line with your internal auditors' opinion on that system. This is because we are solely interested in whether our audit risks are mitigated through effective controls, i.e. whether the system is likely to produce materially reliable figures for inclusion in the financial statements.

Key findings

Based on the work of your internal auditors and our own testing, the controls over the key financial systems are sound.

Internal audit included recommendations in their reports as appropriate.

Financial system	Controls Assessment
Property, Plant & Equipment	3
Cash	3
Pensions Liabilities	3
NNDR	3

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

We confirm that we have complied with requirements on objectivity and independence in relation to this year's audit of the Authority's 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 Kettering Borough Council for the year ending 31 March 2014, we confirm that there were no relationships between KPMG LLP and Kettering Borough Council, its directors and senior management and its affiliates that we consider may reasonably be thought to bear on the objectivity and independence of the audit engagement lead and audit staff. We also confirm that we have complied with Ethical Standards and the Audit Commission's requirements in relation to independence and objectivity.

We have provided a detailed declaration in Appendix 4 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 Acting Head of Finance for presentation to the Audit Committee. We require a signed copy of your management representations before we issue our audit opinion.

Other matters

ISA 260 requires us to communicate to you by exception 'audit matters of governance interest that arise from the audit of the financial statements' which include:

- significant difficulties encountered during the audit;
- significant matters arising from the audit that were discussed, or subject to correspondence with management;
- other matters, if arising from the audit that, in the auditor's professional judgment, are significant to the oversight of the financial reporting process; and
- matters specifically required by other auditing standards to be communicated to those charged with governance (e.g. significant deficiencies in internal control; issues relating to fraud, compliance with laws and regulations, subsequent events, non disclosure, related party, public interest reporting, questions/objections, opening balances etc).

There are no 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 2013/14 financial statements.

VFM conclusion

Our VFM conclusion considers how the Authority secures financial resilience and challenges how it secures economy, efficiency and effectiveness.

We have concluded that the Authority has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

Background

Auditors are required to give their statutory VFM conclusion based on two criteria specified by the Audit Commission. These consider whether the Authority has proper arrangements in place for:

- securing financial resilience: looking at the Authority's financial governance, financial planning and financial control processes; and
- challenging how it secures economy, efficiency and effectiveness: looking at how the Authority is prioritising resources and improving efficiency and productivity.

We follow a risk based approach to target audit effort on the areas of greatest audit risk. We consider the arrangements put in place by the Authority to mitigate these risks and plan our work accordingly.

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

Work completed

We performed a risk assessment earlier in the year and have reviewed this throughout the year.

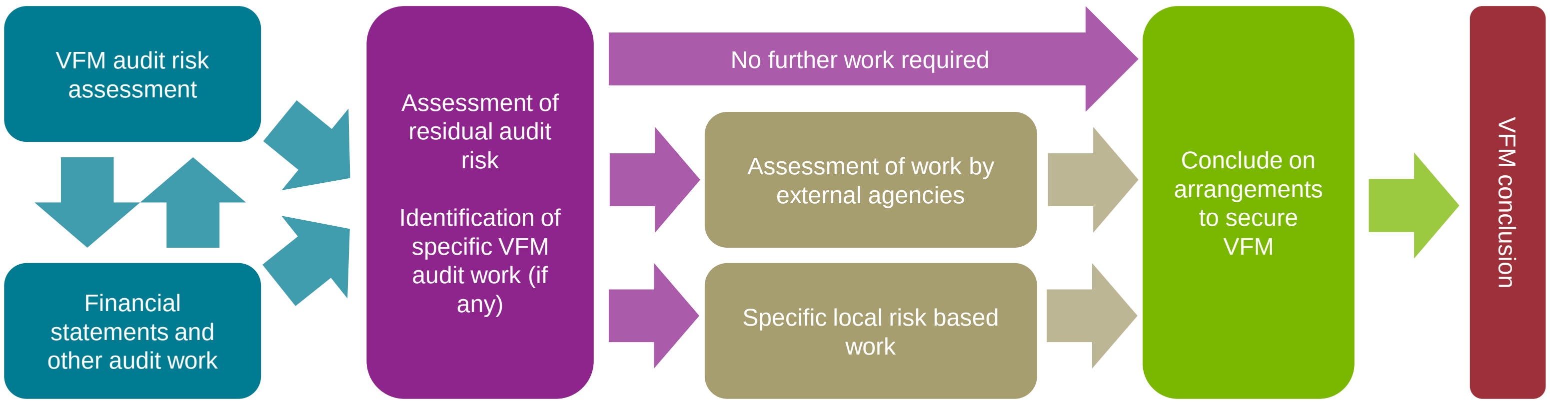
This includes reviewing documentation and evidence in relation to specific risk indicators regarding financial position, financial governance, financial planning, financial control, prioritising resources, and improving efficiency and productivity. This includes review of the Authority's budget setting process and in year budget management, as well as review of the financial reports and committee papers, as well as discussions with key Officers throughout the year.

We have not identified any significant risks to our VFM conclusion and therefore have not completed any additional work.

Conclusion

We have concluded that the Authority has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

VFM criterion	Met
Securing financial resilience	✓
Securing economy, efficiency and effectiveness	✓



Appendix 1: Key issues and recommendations

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

The Authority should closely monitor progress in addressing specific risks and implementing our recommendation.

We will formally follow up this recommendation next year.

Priority rating for recommendations		
❶ ***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.	❷ ***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.	❸ ***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.

No.	Risk	Issue and recommendation	Management response / responsible officer / due date
1	❸	**Third Party Reports** The Authority should strengthen internal assurance procedures in relation to third party reports received, including those in relation to asset valuations. This should include review of relevant indices, benchmarking and comparison against other Authorities and/or public sector bodies, as well as a detailed review of the resulting impact on the financial statements. This could be incorporated into the impairment review process. This will ensure that where reports are received, these are deemed fully suitable for its needs, and that unusual movements are investigated. This should include a review of: ■ Third party methodologies and assumptions, and how these compare to those previously used; ■ The accuracy and completeness of data provided by the Authority; and ■ Benchmarking against suitable comparatives. This approach could also be applied in respect of actuarial assumptions and information provided for pensions accounting, as well as other third party reports.	Agreed. The Council strengthened the process for third party valuations in 2013/14. The Council will undertake an enhanced review as part of the revaluation and impairment process at year end which will take account of key indices. Mark Dickenson, Acting Head of Finance 31 March 2015

Appendix 2: Follow up of prior year recommendations

The Authority has made progress in implementing the recommendation in our *ISA 260 Report 2012/13.*

This appendix summarises the progress made to implement the recommendation identified in our *ISA 260 Report 2012/13* and re-iterates any recommendations still outstanding.

No.	Risk	Issue and recommendation	Status as at July 2014
1	2	**Valuation of Fixed Assets** Our audit identified control deficiencies and judgmental misstatements in the valuation of fixed assets. In summary: • There is insufficient data in the fixed asset register to evidence that the Authority has followed a five-year rolling programme of valuation for fixed assets. • The fair value of investment properties at 31 March 2013 does not incorporate possible impairment of in-year additions of £450k. • Four assets were incorrectly classified as HRA assets, resulting in a understated valuation of the assets by an estimated £311k. *Recommendation* A) The Authority currently values assets at the beginning of the financial year, rather than at the balance sheet date (in line with the Code of Practice). The Authority should consider valuing assets at the balance sheet date to ensure that all in year additions are incorporated into asset valuations. B) The Authority should ensure that all assets are revalued every five years, and that the fixed asset register tracks valuation dates. C) The four assets should be reclassified and revalued in 2013/14. A review of the fixed asset register should be performed to ensure that assets are held within the correct category. D) The information provided to the valuer at year end should allow for the valuer to complete a detailed impairment review that takes into account changes in asset base, including in year additions.	**In Progress** The Authority is still in the process of implementing some aspects of this recommendation. The Authority has confirmed it will continue valuing assets as of the start of each financial year, in order to ensure timely closure of the accounts. There were a number of assets which had not been revalued for over five years. These were individually immaterial and the cost of valuing each asset was deemed uneconomical. The scope of the CAMT Group that is charged with monitoring additions and disposals, as well as indications of impairment, is currently under review. The property manager identifies any possible impairment and this is undertaken in conjunction with the Council's external valuers. We have set out more detail where improvements could still be made in the recommendation in Appendix 1.

Appendix 3: Audit differences

This appendix sets out the significant audit differences.

It is our understanding that this will not be adjusted.

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.

Uncorrected audit difference

The following table sets out the significant audit difference identified by our audit of Kettering Borough Council's financial statements for the year ended 31 March 2014. It is our understanding that this will not be adjusted due to the uncertainty around the exact adjustment required.

	Impact					Basis of audit difference
No.	Income and Expenditure Statement	Movement in Reserves Statement	Assets	Liabilities	Reserves	
1	Cr Interest element of finance leases (lessee) £216k	Dr Transfers to/ (from) earmarked Reserves £216k	Cr Capital Adjustment Account £216k	Dr Finance Lease Liabilities £216k		The Authority entered into new lease agreements during the financial year. Technical accounting differences arose regarding the discount factor, resulting in interest expense being incurred for the full year rather than from the date of commencement. There is nil impact on the General Fund as a result of audit adjustment. The adjustment will not be corrected as the liability and overall finance costs are corrected by the end of the lease period.
	Cr £216k	**Dr £216k**	**Cr £216k**	**Dr £216k**		**Total impact of adjustments**

Appendix 4: Declaration of independence and objectivity

The *Code of Audit Practice* requires us to exercise our professional judgement and act independently of both the Commission and the Authority.

Requirements

Auditors appointed by the Audit Commission must comply with the *Code of Audit Practice* (the 'Code') which states that:

"Auditors and their staff should exercise their professional judgement and act independently of both the Commission and the audited body. Auditors, or any firm with which an auditor is associated, should not carry out work for an audited body that does not relate directly to the discharge of auditors' functions, if it would impair the auditors' independence or might give rise to a reasonable perception that their independence could be impaired."

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 Audit Commission's *Standing Guidance for Local Government Auditors* ('Audit Commission 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. Audit Commission Guidance requires appointed auditors to follow the provisions of ISA (UK &I) 260 Communication of *Audit Matters with Those Charged with Governance*' that are applicable to the audit of listed companies. This means that the appointed auditor must disclose in writing:

- Details of all relationships between the auditor and the client, its directors and senior management and its affiliates, including all services provided by the audit firm and its network to the client, its directors and senior management and its affiliates, that the auditor considers may reasonably be thought to bear on the auditor's objectivity and independence.
- The related safeguards that are in place.
- The total amount of fees that the auditor and the auditor's network firms have charged to the client and its affiliates for the provision of services during the reporting period, analysed into appropriate categories, for example, statutory audit services, further audit services, tax advisory services and other non-audit services. For each category, the amounts of any future services which have been contracted or where a written proposal has been submitted are separately disclosed. We do this in our *Annual Audit Letter*.

Appointed auditors are also required to confirm in writing that they have complied with Ethical Standards and that, in the auditor's professional judgement, the auditor is independent and the auditor's objectivity is not compromised, or otherwise declare that the auditor has concerns that the auditor's objectivity and independence may be compromised and explaining the actions which necessarily follow from his. These matters should be discussed with the Audit Committee.

Ethical Standards require us to communicate to those charged with governance in writing at least annually all significant facts and matters, including those related to the provision of non-audit services and the safeguards put in place that, in our professional judgement, may reasonably be thought to bear on our independence and the objectivity of the Engagement Lead and the audit team.

General procedures to safeguard independence and objectivity

KPMG's reputation is built, in great part, upon the conduct of our professionals and their ability to deliver objective and independent advice and opinions. That integrity and objectivity underpins the work that KPMG performs and is important to the regulatory environments in which we operate. All partners and staff have an obligation to maintain the relevant level of required independence and to identify and evaluate circumstances and relationships that may impair that independence.

Appendix 4: Declaration of independence and objectivity (continued)

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

Acting as an auditor places specific obligations on the firm, partners and staff in order to demonstrate the firm's required independence. KPMG's policies and procedures regarding independence matters are detailed in the *Ethics and Independence Manual* ('the Manual'). The Manual sets out the overriding principles and summarises the policies and regulations which all partners and staff must adhere to in the area of professional conduct and in dealings with clients and others.

KPMG is committed to ensuring that all partners and staff are aware of these principles. To facilitate this, a hard copy of the Manual is provided to everyone annually. The Manual is divided into two parts. Part 1 sets out KPMG's ethics and independence policies which partners and staff must observe both in relation to their personal dealings and in relation to the professional services they provide. Part 2 of the Manual summarises the key risk management policies which partners and staff are required to follow when providing such services.

All partners and staff must understand the personal responsibilities they have towards complying with the policies outlined in the Manual and follow them at all times. To acknowledge understanding of and adherence to the policies set out in the Manual, all partners and staff are required to submit an annual ethics and independence confirmation. Failure to follow these policies can result in disciplinary action.

Auditor declaration

In relation to the audit of the financial statements of Kettering Borough Council for the financial year ending 31 March 2014, we confirm that there were no relationships between KPMG LLP and Kettering Borough Council, its directors and senior management and its affiliates that we consider may reasonably be thought to bear on the objectivity and independence of the audit engagement lead and audit staff. We also confirm that we have complied with Ethical Standards and the Audit Commission's requirements in relation to independence and objectivity.

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