External Audit Report 2015/16

Kettering Borough Council

—

August 2016

Contents

The contacts at KPMG in connection with this report are:

Jon Gorrie
Director

KPMG LLP (UK)

Tel: 0121 232 3645
Jonathan.Gorrie@kpmg.co.uk

Dan Hayward
Manager
KPMG LLP (UK)

Tel: 0121 232 3280
Daniel.Hayward@kpmg.co.uk

Phillipa Hunt
Assistant Manager
KPMG LLP (UK)

Tel: 0121 232 3101
Phillipa.Hunt@kpmg.co.uk

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. Public Sector Audit Appointments issued a document entitled Statement of Responsibilities of Auditors and Audited Bodies summarising where the responsibilities of auditors begin and end and what is expected from audited bodies. We draw your attention to this document 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 Jon Gorrie, 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 (on 0207 694 8981, or 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 3H.

Section one: Introduction

Section one

Introduction

This document summarises:

- **The key issues identified during our audit of the financial statements for the year ended 31 March 2016 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 2015/16 financial statements; and
- The work to support our 2015/16 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 2015/16*, presented to you in January 2016, set out the four stages of our financial statements audit process.

Planning → Control Evaluation → Substantive Procedures → Completion

This report focuses on the third stage of the process: substantive procedures. Our on site work for this took place during June and July 2016.

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 2015/16 explained our risk-based approach to VFM work. We have now completed the work to support our 2015/16 VFM conclusion. This included:

- Assessing the potential VFM risks and identifying the residual audit risks for our VFM conclusion;
- Considering the results of any relevant work by the Authority and other inspectorates and review agencies in relation to these risk areas; and
- Carrying out additional risk-based work.

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 2015/16 financial statements of the Authority.
- 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 year recommendations.

Acknowledgements

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

Section two: Headlines

Headlines

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

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 following approval of the Statement of Accounts by the Monitoring and Audit Committee on 22 September 2016. We will also report that your Annual Governance Statement complies with guidance issued by CIPFA/SOLACE in June 2007.
Audit adjustments	Our audit has not identified any material misstatements. We identified a number of presentational adjustments and some disclosure amendments, all of which have been amended by management. There has been no net impact on the General Fund or HRA as a result of these amendments.
Key financial statements audit risks	We review risks to the financial statements on an ongoing basis. We identified one risk to the financial statements audit risk in our 15/16 External Audit Plan issued in January 2016. This related to the East Kettering Development. We have worked with Officers throughout the year to discuss this key risk and our detail findings are reported in section 3 of this report. There are no matters of any significance arising as a result of our audit work in the key risk area.
Accounts production and audit process	We received complete draft accounts by 27 June 2016 in advance of the DCLG deadline. The accounting policies, accounting estimates and financial statement disclosures are in line with the requirements of the Code. During the year the Authority reviewed the categorisation of its investment properties following the approval of a new property strategy. The impact of this was to reclassify 33 properties valued at £4.4 million of Investment Property to into Property, Plant and Equipment due to the fact they are no longer held solely for the purpose of income generation but are linked to wider strategic priorities for the Authority. We have reviewed this accounting treatment and have no significant issues to report. We have noted that the quality of the accounts and the supporting working papers continues to be of a good standard. Officers dealt efficiently with audit queries and the audit process has been completed within the planned timescales. The Authority has implemented the recommendation from our *ISA 260 Report 2014/15* relating to the financial statements. The Authority has effective processes in place for the production of the accounts and good quality supporting working papers. We have completed a detailed assessment of working papers and our requirements during the audit, and have feed back to Officers ideas for efficiency and working paper improvements, such as no longer producing hard copy working papers. As in previous years, we will debrief with the Finance team to share views on the final accounts audit. Hopefully this will lead to further efficiencies in the 2016/17 audit process. In particular we would like to thank Officers who were available throughout the audit visit to answer our queries.

Headlines (cont.)

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

This table summarises the headline messages. The remainder of this report provides further details on each area.

VFM conclusion and risk areas	We identified the following VFM risk in our External audit plan 2015/16 issued in January 2016. — Financial resilience in the local and national economy We have worked with Officers throughout the year to discuss the VFM risk and our detailed findings are reported in section 4 of this report. There are no matters of any significance arising as result of our audit work in these VFM risk areas. We have concluded that in all significant respects, the audited body 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 therefore anticipate issuing an unqualified VFM conclusion following approval of the Statement of Accounts by the Monitoring and Audit Committee on 22 September 2016.
Completion	At the date of this report our audit of the financial statements is complete. You are required to provide us with representations on specific matters such as your going concern assertion and whether the transactions in the accounts are legal and unaffected by fraud. We provided a draft of this representation letter to the Section 151 Officer on 3 August 2016. We draw your attention to the requirement in our representation letter for you to confirm to us that you have disclosed all relevant related parties to us. 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.

Section three: Financial Statements

Proposed opinion and audit differences

We have identified no issues in the course of the audit of the Authority that are considered to be material.

We anticipate issuing an unqualified audit opinion in relation to the Authority's financial statements by 22 September 2016.

The wording of your Annual Governance Statement complies with guidance issued by CIPFA/SOLACE in June 2007.

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 Monitoring and Audit Committee on 22 September 2016.

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 two for more information on materiality) level for this year's audit was set at £500,000. Audit differences below £25,000 are not considered significant.

We did not identify any material misstatements.

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 2015/16 ('the Code'), and to ensure correct disclosure in the supporting notes to the accounts. We understand that the Authority will be addressing these.

We also noted that the Authority has not addressed the expectations for the Narrative Report as set out in the Code, for example, by not including performance indicators for the Authority. We have raised a recommendation to underpin this at Appendix 1.

Annual governance statement

We have reviewed the Annual Governance Statement and confirmed that:

- It generally 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.

We note that the Authority does not currently have a 'Code of Corporate Governance' in place, which is included in the CIPFA/SOLACE published example AGS (December 2012). The Head of Legal and Democratic Services is developing a Code of Corporate Governance for the Authority to adopt. We have raised a recommendation to underpin this at Appendix 1.

Significant audit risks

We have worked with the Authority throughout the year to discuss significant risks and key areas of audit focus.

This section sets out our detailed findings on those risks.

In our *External Audit Plan 2015/16*, presented to you in January 2016, we identified the significant risks affecting the Authority's 2015/16 financial statements. We have now completed our testing of 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.

Significant Risk 1 - East Kettering Development

— ***Risk***

On 1 April 2010 outline planning permission was granted for the East Kettering Sustainable Urban Extension, now 'Hanwood Park'. When completed, the development will provide 5,500 homes as well as businesses, schools and community buildings. Within this context, our work will include review of grant income, working with partners, fees income, planning costs, and capitalisation of costs.

— ***Findings***

We have continued to meet with key Officers to keep updated on the Hanwood Park development and to develop our understanding of any accounts impact. We have completed detailed work in a number of areas that give assurance over the risk;

- Grant income and working with partners: we have completed additional review of S106 grant recognition and grant register management, as the number and value of S106 grants will increase as the development continues. The Authority receives S106 funds on behalf of Northamptonshire County Council – we did not find any issues with the partnership working for S106 agreements. We did not identify any material areas of concern or errors from our work.
- Capitalisation of costs: we reviewed a sample of additions and a sample of the capital balances and confirmed no associated costs had been incorrectly capitalised by the Authority.
- Fee income and planning costs: we did not identify any errors or areas of concern from our work in these areas.

We will continue to keep abreast of the Hanwood Park development and to assess any future impact on the accounts. From our audit work performed, we have concluded that the risk has had limited impact on the accounts in 2015/16 and we did not identify any areas of concern or errors in our additional risk work performed.

Significant audit risks

We have worked with the Authority throughout the year to discuss significant risks and key areas of audit focus.

This section sets out our detailed findings on those risks.

In our *External Audit Plan 2015/16* we reported that we would consider two risk areas that are specifically required by professional standards and report our findings to you. These risk areas were Management override of controls and the Fraud risk of revenue recognition.

The table below sets out the outcome of our audit procedures and assessment on these risk areas.

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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 2015/16 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.

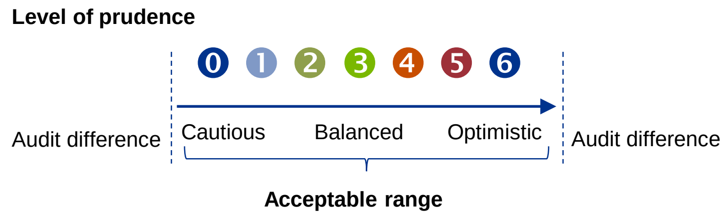
Our audit methodology incorporates the risk of management override as a default significant risk. We have not identified any specific additional risks of management override relating to this audit.

In line with our methodology, we carried out appropriate controls testing and substantive procedures, including 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.

Judgements

We always consider the level of prudence within key judgements in your financial statements. We have summarised our view below using the following range of judgement:



Assessment of subjective areas				
Asset/liability class	**15/16**	**14/15**	**Balance (£m)**	**KPMG comment**
Business rate appeals	3	3	£1.22 million *(PY: £0.75 million)*	We have reviewed the calculations behind the appeals provision, which uses the best information available to estimate the value. We consider the provision disclosures to be proportionate.
Debtors provisioning	3	3	£2.6 million *(PY: £2.2 million)*	We have reviewed the calculation of the impairment allowance and there is no change in methodology from prior year. We consider the provision disclosures to be proportionate.
Land and Buildings (valuations / asset lives)	3	3	£39.4 million *(PY: £28 million)*	We have reviewed the estimates in the valuation of Land and Buildings, including agreement of valuations to the report from the external valuer. The overall balance reflects increases in valuation and transfers of Investment Properties to Land and Buildings. We have reviewed the asset lives as part of our testing of depreciation and PPE. We have not noted a significant change in asset lives used by the Authority and our testing of existence of assets has not noted any dilapidated buildings which flag an inappropriate useful life.
Council Dwellings (valuations / asset lives)	3	3	£125.4 million *(PY: £114.2 million)*	We have reviewed the estimates in the valuation of Council Dwellings, including agreement of valuations to the report from the external valuer, and review of the year end material asset review. We have reviewed the asset lives as part of our testing of depreciation and PPE. We have not noted a significant change in asset lives used by the Authority and our testing of existence of assets has not noted any dilapidated buildings which flag an inappropriate useful life.
Pensions	3	3	£38.9 million *(PY: £48.9 million)*	The overall balance represents the deficit in the pension scheme. We have reviewed the report from the external actuary and reviewed the discount rate, inflation, discount rate, salary growth, and life expectancy. We consider the pension disclosures to be in line with the actuarial report and proportionate.

Accounts production and audit process

We have noted a continual good standard in the quality of the accounts and the supporting working papers.

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

The Authority has implemented the recommendations in our ISA 260 Report 2014/15.

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 its financial reporting process. There is scope to become more efficient in working paper production by creating electronic working papers only, saving time for the Finance team. We consider that accounting practices are appropriate.
Completeness of draft accounts	We received a complete set of draft accounts on 27 June 2016, ahead of the DCLG deadline.
Quality of supporting working papers	Our *Accounts Audit Protocol*, which we issued on 27 January 2016 and discussed with the Group Accountants, set out our working paper requirements for the audit. The quality of working papers provided was good and met the majority of the standards specified in our *Accounts Audit Protocol*.
Response to audit queries	Officers resolved audit queries in a reasonable time, and made themselves available to the audit team.

Investment Properties

During the year the Authority reviewed the categorisation of its investment properties following the approval of a new property strategy. The impact of this was to reclassify 33 properties valued at £4.4 million of Investment Property to into Property, Plant and Equipment due to the fact they are no longer held solely for the purpose of income generation but are linked to wider strategic priorities for the Authority. We have reviewed this accounting treatment and have no significant issues to report.

Additional findings in respect of the control environment for key financial systems

From our interim audit we identified that the controls over the majority of the key financial systems are sound.

We noted no control weaknesses in respect of individual financial systems that impacted our audit. We did identify a procedural improvement for supplier ID checks.

This was raised as part of our interim audit and immediately addressed. The detail of this recommendation is included in Appendix one.

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 the recommendation from our *ISA 260 Report 2014/15*.

Appendix one provides further details.

Completion

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 2016, 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 Public Sector Audit Appointments Ltd requirements in relation to independence and objectivity.

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

Management representations

You are required to provide us with representations on specific matters such as your financial standing and whether the transactions within the accounts are legal and unaffected by fraud. We have provided a template to the Head of Resources for presentation to the Monitoring and 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 2015/16 financial statements.

Section four: Value for Money

VFM Conclusion

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 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.

Background

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.'

The VFM approach is fundamentally unchanged from that adopted in 2014/2015 and the process is shown in the diagram below. However, the previous two specified reporting criteria (financial resilience and economy, efficiency and effectiveness) have been replaced with a single criteria supported by three sub-criteria.

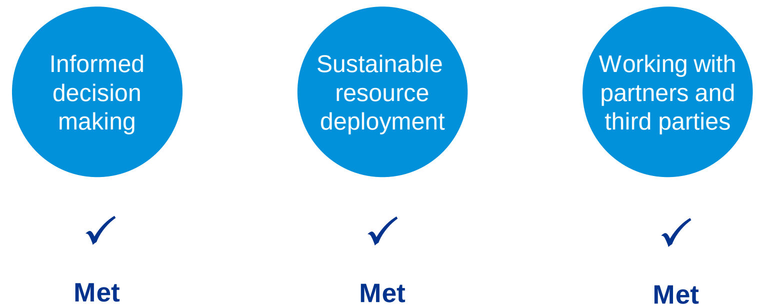
These sub-criteria provide a focus to our VFM work at the Authority.

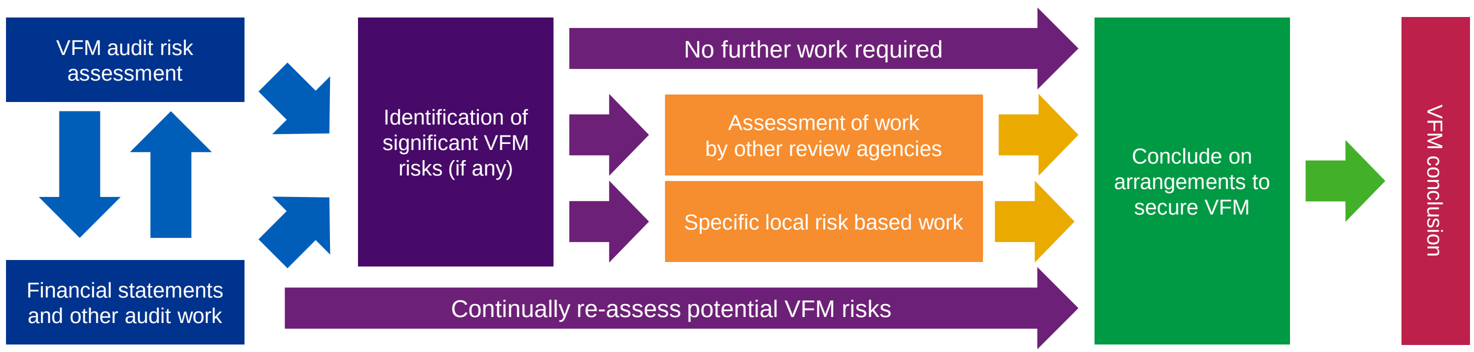
Conclusion

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.

Overall criterion

In all significant respects, the audited body had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.





Specific VFM Risks

We have identified a number of specific VFM risks.

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.

Work completed

In line with the risk-based approach set out on the previous page, and in our *External Audit Plan* we have:

- Assessed the Authority's key business risks which are relevant to our VFM conclusion;
- Identified the residual audit risks for our VFM conclusion, taking account of work undertaken in previous years or as part of our financial statements audit;
- Considered the results of relevant work by the Authority, inspectorates and review agencies in relation to these risk areas; and
- Completed specific local risk based work.

Key findings

Below we set out the findings in respect of those areas where we have identified a residual audit risk for our VFM conclusion.

We concluded that we needed to carry out additional work for some of these risks. This work is now complete and we also report on this below.

Key VFM risk	Risk description and link to VFM conclusion	Assessment
Financial resilience	Risk per our plan issued January 2016: ▪ The Authority, like most of local government, faces a challenging future. The Authority has been modelling for significant reductions in Government funding in its budget forecasts, it also only has a part dependence on NHB funding – nevertheless it will need to ensure that it continues to deliver efficiencies and moves forward its policy for generating income through investments and commercial activities. It is against this backdrop that we will asses the arrangements the Authority has in place to maintain its strong record of meeting efficiency savings against a worsening national picture. *Continued overleaf…*	The Authority maintains a Medium Term Financial Plan (MTFP) which factors in levels of uncertainty in future funding and the overall local government environment. Reporting against the MTFP is completed monthly to the Executive Committee and this is transparent to staff and to the public. **Specific risk based work required: Yes** We have reviewed the overall performance of the Authority and its achievement of savings targets in 2015/16. We have met with key Officers to understand the impact of the national and local economy on the Authority and the direct effect on the finances of the Authority.

Specific VFM Risks (cont.)

We have identified a number of specific VFM risks.

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 undertaken some work to date in response these risks:

- Financial resilience in the local and national economy.

Key VFM risk	Risk description and link to VFM conclusion	Assessment
	■ At a local level, Northamptonshire County Council at January 2016 was reporting a predicted £8.7 million overspend, in the context of a requirement to achieve in year cost saving plans of £68 million. As part of our VFM work we reviewed how partnership working with the County Council and other local authorities has been affected by the local cost pressures, and assessed the overall impact on the Authority. As at June 2016 the County Council is reporting a predicted 2016/17 overspend of £14.6m, with a requirement to achieve saving plans of £15.5m. This is relevant to the informed decision making, sustainable resource deployment, and working with partners and third parties sub-criteria of the VFM conclusion.	The Authority has a strong track record of achieving savings, which has continued in 2015/16 with delivery of savings of £1.579 million (3.4% of gross expenditure), in line with the savings target. The Authority achieved a balanced budget. The future uncertainty of levels of government grant has been factored into the MTFP and the Authority has not needed to use reserves to meet savings targets; the General Fund balance remains constant from 2014/15 at £1.415 million. The Authority has begun to invest in commercial properties to develop further income streams which are non-reliant on central government. The 2016/17 budget required savings of £1.522 million which have already been identified in full by the Authority and are on track for being delivered. The Authority set a balanced budget for 2016/17 in line with the Authority's 'Budget Delivery Framework'. Despite the County Council cost pressures, for the 2015/16 financial year there has been no direct financial impact on the Authority. We have concluded that the Authority has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources, in relation to this specific risk.

Appendices

Key issues and recommendations

We have given each 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 recommendations.

We will formally follow up these recommendations 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	**Supplier ID checks** During our interim audit we identified that the Authority does not perform ID checks on new suppliers. Suppliers could, therefore, be fraudulent, unreliable, or non-compliant with industry standards, and the Authority would be unaware. However, there have been no known instances of Supplier fraud in 2015/16. **Recommendation** The Authority should introduce supplier checks such as: - Checks to Companies House; - Reverse phone number look up; - Check of the company's website; - Google search for reviews of the company; and - Check the email address is a company email address.	Following the interim audit we immediately enhanced our supplier ID check process. **Officer**: Pina Patel (Group Accountant) **Due date:** March 2016

Key issues and recommendations

We have given each 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 recommendations.

We will formally follow up these recommendations next year.

No.	Risk	Issue and recommendation	Management response/responsible officer/due date
2	3	**Code of Governance** The CIPFA/SOLACE example AGS (published December 2012) and overall guidance suggests that the Authority should have a 'Code of Corporate Governance'. This Code should demonstrate compliance with the *Delivering Good Governance in Local Government: A Framework.* **Recommendation** The Authority should develop a Code of Corporate Governance for the Authority to adopt.	A Code of Governance is currently being drafted. **Officer:** Sue Lyons (Head of Democratic and Legal) **Due date**: December 2016
3	3	**Narrative Report** The Code of Practice guidance (including supplementary LAAP Bulletin 104) sets out the requirements for the Authority to produce a Narrative Report and to include certain data and information. The Authority has not addressed the expectations for the Narrative Report set out in the Code, for example by excluding performance indicators. **Recommendation** The Authority should comply with the Code of Practice and redesign the Narrative Report to address the requirements.	The Authority has given consideration to the requirements for the Narrative Report. The Authority will continue to review and implement the requirements of the Code of Practice as part of the Final Accounts Process. **Officer:** Mark Dickenson (Head of Resources) **Due date:** Ongoing

Key issues and recommendations

We have given each 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 recommendations.

We will formally follow up these recommendations next year.

No.	Risk	Issue and recommendation	Management response/responsible officer/due date
4	3	**Evidencing review of valuations** The Authority engages Wilks, Head and Eve (WHE) to value the asset base on a cyclical basis. As part of the valuation process the Group Accountant and the Property Services Manager meet with the valuer to challenge any unexpected movements in value or changes in valuation methodology The review of valuations by the Property Services Manager is not currently documented, therefore this level of 'challenge' is not evidenced. **Recommendation** The Authority should evidence their valuation 'challenge' process to demonstrate thorough review of the assumptions and methodologies used by the Valuer. This could be evidence via detailed meeting minutes, or a supporting working paper, and should include review of the valuations report by the Property Services Manager.	Meeting notes are already taken as evidence. We will work with KPMG to enhance the evidence we produce to support the challenge process. **Officer:** Dean Mitchell (Group Accountant) **Due date**: Ongoing

Follow up of prior year recommendations

The Authority has implemented the recommendations from our *ISA 260 Report 2014/15*.

This appendix summarises the progress made to implement the recommendations identified in our ISA 260 Report 2014/15 and re-iterates any recommendations still outstanding.

Number of recommendations that were:	
Included in original report	1
Implemented in year or superseded	1
Remain outstanding (re-iterated below)	0

No.	Risk	Issue and recommendation	Officer responsible and due date	Status as at August 2016
1	3	**Third Party Reports** The Authority should continue to strengthen internal assurance procedures in relation to third party reports received. In addition the Authority should ensure that it quality checks in respect of the production of accounts, reviews the resulting impact on the financial statements, and ensures the correct information has been provided for inclusion in the accounts.	Agreed. Acting Head of Finance. 31 March 2016	The Authority has improved its quality checks over the accounts and third party reports, particularly with reference to the actuarial report.

Audit differences

This appendix sets out the audit differences.

The financial statements have been amended for the errors and/ or presentational issues identified through the audit process.

There is no net impact on the General Fund or HRA as a result of the amendments.

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 Monitoring and 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 differences

We are pleased to report that there are no uncorrected audit differences.

Corrected audit differences

Our audit identified a small number of non material errors in the financial statements. These have been discussed with management and the financial statements have been amended accordingly.

A number of minor amendments focused on presentational improvements have also been made to the draft financial statements.

The Finance team are committed to continuous improvement in the quality of the financial statements submitted for audit in future years.

Materiality and reporting of audit differences

For 2015/16 our materiality is £0.5 million for the Authority's accounts.

We have reported all non material errors in the financial statements to management, and these have been amended.

Materiality

The assessment of what is material is a matter of professional judgment and includes consideration of three aspects: materiality by value, nature and context.

- Material errors by value are those which are simply of significant numerical size to distort the reader's perception of the financial statements. Our assessment of the threshold for this depends upon the size of key figures in the financial statements, as well as other factors such as the level of public interest in the financial statements.
- Errors which are material by nature may not be large in value, but may concern accounting disclosures of key importance and sensitivity, for example the salaries of senior staff.
- Errors that are material by context are those that would alter key figures in the financial statements from one result to another – for example, errors that change successful performance against a target to failure.

We reassessed materiality for the Authority prior to our interim accounts audit. In line with best practice recommendations from our regulators, we revised materiality to a lower level.

Materiality for the Authority's accounts was set at £0.5 million which equates to around 1% percent of gross expenditure.
We design our procedures to detect errors in specific accounts at a lower level of precision.

Reporting to the Monitoring and 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 Monitoring and 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 £25,000 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 Monitoring and Audit Committee to assist it in fulfilling its governance responsibilities.

Accounts Payable – Data Analytics

Driving more value from the audit through data and analytics.

Technology is embedded throughout our audit approach to deliver a high quality audit opinion.

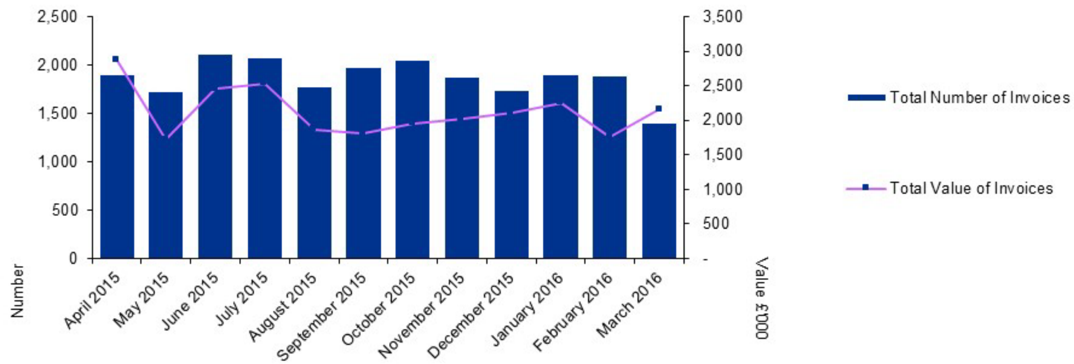
We strive to deliver new quality insight into your operations that enhances our and your preparedness and improves your collective 'business intelligence.'

Key Findings

To support our audit approach and to provide insight into the Authority's Non-Pay Expenditure, we have conducted Data & Analytics on the Accounts Payable system, across the financial year; from 1 April 2015 to 31 March 2016. We undertook 15 tests, and followed up on particular exceptions with management. We have provided management with the in depth results, which will enable the Authority to focus on service areas which are not obtaining appropriate internal approval prior to committing to purchases.

During 2015/16 a total of 23,220 invoices have been recorded with a value of £26.2m. We tested the whole population of data, including review of the three way match process, dating of purchase orders, and overall monthly analysis. We did not identify any duplicate purchase orders or invoices during our testing. We did not identify any errors or areas of concern that impacted our audit. Below we have shown a high level analysis of invoices received and processed throughout the year, and an analysis of the results.

Number and value of Accounts Payable invoices in 2015/16



Analysis of results

The graph above shows the pattern of invoices across 2015/16. The number and value of Accounts Payable invoices throughout the year has not significantly fluctuated, which indicates that there is limited issued with the processing of transactions, and limited risk that amounts that have been missed entirely. April 2015 has the highest value of invoices, at £2.864m. This is expected as general business practice is to invoice at the beginning of the financial year, particularly for any goods or services paid in advance. The largest number of invoices related to June 2015, with 2,113 invoices.

Declaration of independence and objectivity

Auditors appointed by Public Sector Audit Appointments Ltd must comply with the Code of Audit Practice.

Requirements

Auditors appointed by Public Sector Audit Appointments Ltd must comply with the Code of Audit Practice (the 'Code') which states that:

"The auditor should carry out their work with integrity, objectivity and independence, and in accordance with the ethical framework applicable to auditors, including the ethical standards for auditors set by the Financial Reporting Council, and any additional requirements set out by the auditor's recognised supervisory body, or any other body charged with oversight of the auditor's independence. The auditor should be, and should be seen to be, impartial and independent. Accordingly, the auditor should not carry out any other work for an audited body if that work would impair their independence in carrying out any of their statutory duties, or might reasonably be perceived as doing so."

In considering issues of independence and objectivity we consider relevant professional, regulatory and legal requirements and guidance, including the provisions of the Code, the detailed provisions of the Statement of Independence included within the Public Sector Audit Appointments Ltd *Terms of Appointment* ('Public Sector Audit Appointments Ltd Guidance') and the requirements of APB Ethical Standard 1 *Integrity, Objectivity and Independence* ('Ethical Standards').

The Code states that, in carrying out their audit of the financial statements, auditors should comply with auditing standards currently in force, and as may be amended from time to time. Public Sector Audit Appointments Ltd guidance requires appointed auditors to follow the provisions of ISA (UK&I) 260 Communication of *Audit Matters with Those Charged with Governance'* that are applicable to the audit of listed companies. This means that the appointed auditor must disclose in writing:

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

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

Declaration of independence and objectivity (cont.)

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.

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.

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 2016, 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 Public Sector Audit Appointments Ltd requirements in relation to independence and objectivity.

Audit Independence

Audit Fees

Our scale fee for the audit was £53,685 plus VAT (£53,685 in 2014/15). This fee was in line with that highlighted within our audit plan agreed by the Monitoring and Audit Committee in January 2016. Our scale fee for certification for the HBCOUNT was £10,904 plus VAT (£10,904 in 2014/15).

Non-audit services

We have summarised below the non-audit services that we have been engaged to provide, the estimated fee, the potential threats to auditor independence and the associated safeguards we have put in place to manage these.

Description of non-audit service	Estimated fee	Potential threat to auditor independence and associated safeguards in place
VAT advisory work carried out in respect of the Authority's 4 year trade waste services claim, and VAT helpline	£6K	**Self interest** – This engagement is entirely separate from the audit through a separate contract, engagement team and lead partner. In addition, the audit fee scale rates were set independently to KPMG by the PSAA (previously Audit Commission). Therefore, the proposed engagement will have no perceived or actual impact on the audit team and the audit team resources that will be deployed to perform a robust and thorough audit. **Self review** – The nature of this work is to advise the Authority on VAT claims for waste services relying on underlying tax legislation. Therefore, it does not impact on our opinion and we do not consider that the outcome of this work will be a threat to our role as external auditors. The existence of a separate team for this work is a further safeguard. Consequently, we consider we have appropriately managed this threat. **Management threat** – This work will be advice and support only – all decisions will be made by the Authority. **Familiarity** – This threat is limited given the scale, nature and timing of the work. The existence of the separate team for this work is the key safeguard. **Advocacy** – We will not act as advocates for the Authority in any aspect of this work. We will draw on our experience in such roles to provide the Authority with a range of approaches but the scope of this work falls well short of any advocacy role. **Intimidation** – not applicable
Total estimated fees	**£6K**	
Total estimated fees as a percentage of the external audit fees	**11%**	

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