External audit report 2016/17

Kettering Borough Council

–

September 2017

Summary for Monitoring and Audit Committee

Financial statements

This document summarises the key findings in relation to our 2016-17 external audit at Kettering Borough Council ('the Authority'). [We previously reported on our interim work in our *External Audit Interim Letter 2016/17* in March 2017.

This report focusses on our on-site work which was completed in June 2017 on the Authority's significant risk areas, as well as other areas of your financial statements. Our findings are summarised on pages 5 – 8.

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

We have identified no material audit adjustments.

We are now in the completion stage of the audit and anticipate issuing our opinion and completion certificate following approval of the Statement of Accounts by the Monitoring and Audit Committee on 12 September 2017.

Use of resources

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

We therefore anticipate issuing an unqualified value for money opinion.

See further details on pages 14 -17.

Public Interest Report

We have a duty to consider whether to issue a report in the public interest about something we believe the Authority should consider, or if the public should know about. We have not needed to issue such a report in the year.

Acknowledgements

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

We ask the Monitoring and Audit Committee to note this report.

The key contacts in relation to our audit are:

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Contents

This report is addressed to Kettering Borough Council (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.

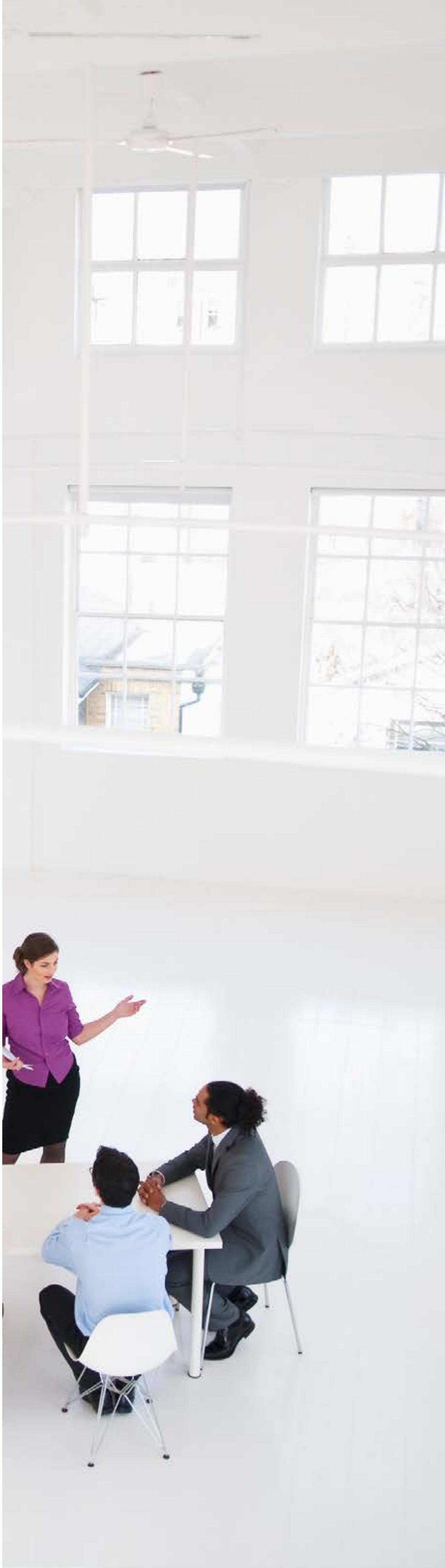
We are committed to providing you with a high quality service. If you have any concerns or are dissatisfied with any part of KPMG's work, in the first instance you should contact Jon Gorrie, the engagement lead to the Authority, who will try to resolve your complaint. If you are dissatisfied with your 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

Financial Statements

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

For the year ending 31 March 2017, the Authority has maintained the General Fund and Housing Revenue Account balances at £1.415 and £0.850 million respectively.



Significant audit risks

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

Significant changes in the pension liability due to LGPS Triennial Valuation

Why is this a risk?

During the year, the Pension Fund has undergone a triennial valuation with an effective date of 31 March 2016 in line with the *Local Government Pension Scheme (Administration) Regulations 2013*. The share of pensions assets and liabilities for each admitted body is determined in detail, and a large volume of data is provided to the actuary to support this triennial valuation.

There is a risk that the data provided to the actuary for the valuation exercise is inaccurate and that these inaccuracies affect the actuarial figures in the accounts. Most of the data is provided to the actuary by Northamptonshire County Council Pension Fund, who administer the Pension Fund.

Our work to address this risk

We have reviewed the process used to submit payroll data to the Pension Fund and have found no issues to note. We have also tested the year-end submission process and other year-end controls. We found that there was no documented management review of actuarial assumptions. Management has subsequently confirmed that the assumptions used by the actuary are appropriate. Nonetheless, there is a risk that the inappropriate assumptions were used by the actuary to calculate the Authority's pension liability, thus potentially resulting in an incorrect liability being recognised. We have raised a recommendation that actuarial assumptions should be reviewed to ensure that they are appropriate for the Authority (see recommendation 1). We have substantively agreed the total figures submitted to the actuary to the ledger with no issues to note. We have also engaged with your Pension Fund audit team to gain assurance over the pension figures.

Considerations required by professional standards

Fraud risk of revenue recognition

Professional standards require us to make a rebuttable presumption that the fraud risk from revenue recognition is a significant risk.

In our *External Audit Plan 2016/17* we reported that we do not consider this to be a significant risk for Local Authorities as there is unlikely to be an incentive to fraudulently recognise revenue.

This is still the case. Since we have rebutted this presumed risk, there has been no impact on our audit work.

Management override of controls

Professional standards require us to communicate the fraud risk from management override of controls as significant because management is typically in a unique position to perpetrate fraud because of its ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively.

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

In line with our methodology, we carried out appropriate controls testing and substantive procedures, including over journal entries, accounting estimates and significant transactions that are outside the normal course of business, or are otherwise unusual.

There are no matters arising from this work that we need to bring to your attention.

Other areas of audit focus

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

Other areas of audit focus	Our work to address the areas
1. Disclosures associated with retrospective restatement of CIES, EFA and MiRS	**Background** CIPFA has introduced changes to the 2016/17 Local Government Accounting Code (Code): — Allowing local authorities to report on the same basis as they are organised by removing the requirement for the Service Reporting Code of Practice (SeRCOP) to be applied to the Comprehensive Income and Expenditure Statement (CIES); and — Introducing an Expenditure and Funding Analysis (EFA) which provides a direct reconciliation between the way local authorities are funded and prepare their budget and the CIES. This analysis is supported by a streamlined Movement in Reserves Statement (MiRS) and replaces the current segmental reporting note. The Authority was required to make a retrospective restatement of its CIES (cost of services) and the MiRS. New disclosure requirements and restatement of accounts require compliance with relevant guidance and correct application of applicable accounting standards. **What we have done** We discussed the approach to the restatement with officers during our interim visit so we could agree an overall approach to this new requirement, but were not at that stage able to provide more detailed feedback as the Authority had not completed the restatement exercise. For the restatement, we obtained an understanding of the methodology used to prepare the revised statements. We also agreed figures disclosed to the Authority's general ledger and found no issues to note.
2. Provision for business rates appeals	**Background** The volatility surrounding changes to business circumstances continues in 2016/17. Under the business rates regime the authority retains a greater share of business rates collected and hence any successful appeals will directly impact on this income stream. Also, there is a change in criteria for recognising the provision for business rate appeal in 2016/17. Factors such as business rate reliefs, valuations for new businesses and change in recognition criteria will have an impact on accounting for business rates provision and remain a risk to the Authority. **What we have done** We reviewed the basis for the provision and assessed its adequacy. There were no issues arising.
3. Flexible Resourcing Review	**Background** The Council has undertaken a Flexible Resourcing review which includes a restructure of the Strategic Management Team. This is being worked through in accordance with the Council's policies. **What we have done** We reviewed the restructure undertaken in year, including the exit package provided to the outgoing Chief Executive, and ensure that the Authority had included adequate disclosures within the financial statements. We asked the Authority to include additional narrative in the accounts to explain the disclosures and provide further context relating to the Senior Management restructure.

Proposed opinion and audit differences

We anticipate issuing an unqualified audit opinion on the Authority's 2016/17 financial statements following approval of the Statement of Accounts by the Monitoring and Audit Committee on 12 September 2017.

Audit differences

In accordance with ISA 260 we are required to report uncorrected audit differences to you. We also report any material misstatements which have been corrected and which we believe should be communicated to you to help you meet your governance responsibilities.

The final materiality (see Appendix 4 for more information on materiality) level for this year's audit was set at £500,000. Audit differences below £25,000 not considered significant.

We did not identify any material misstatements which would impact the core financial statements.

We raised one audit adjustment relating to the value of HRA operational assets disclosed, which resulted in an increase of £5.6 million in the applicable disclosure note.

In addition, we identified a number of other presentational and disclosures adjustments that help ensure that the accounts are compliant with the Code of Practice on Local Authority Accounting in the United Kingdom 2016/17 ('the Code'). The Authority has adjusted for these where appropriate.

Annual governance statement

We have reviewed the Authority's 2016/17 Annual Governance Statement and confirmed that:

— It complies with *Delivering Good Governance in Local Government: A Framework published by CIPFA/SOLACE*; and

— It is not misleading or inconsistent with other information we are aware of from our audit of the financial statements.

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

Narrative report

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

Movements on the general fund 2016/17

£m	Pre-audit	Post-audit
Surplus (Deficit) on the provision of services	47,524	47,524
Adjustments between accounting basis and funding basis under Regulations	(45,805)	(45,805)
Transfers [to) from earmarked reserves	(1,720)	(1,720)
Increase (Decrease) in General Fund and HRA Balances	**Nil**	**Nil**

Balance sheet as at 31 March 2017

£m	Pre-audit	Post-audit
Property, plant and equipment	232	232
Other long term assets	10	10
Current assets	29	29
Current liabilities	(16)	(16)
Long term liabilities	(108)	(108)
Net worth	**147**	**147**
General Fund	(1)	(1)
Other usable reserves	(26)	(26)
Unusable reserves	(120)	(120)
Total reserves	**(147)**	**(147)**

Accounts production and audit process

Our audit standards (*ISA 260*) require us to communicate our views on the significant qualitative aspects of the Authority's accounting practices and financial reporting.

We also assessed the Authority's process for preparing the accounts and its support for an efficient audit. The efficient production of the financial statements and good-quality working papers are critical to meeting the tighter deadlines.

Accounting practices and financial reporting

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

We received a complete set of the draft accounts signed off by the S151 Officer on 25 May 2017, ahead of the statutory deadline. This puts the Authority in a positive position for 2017/18 when the statutory deadline for the draft accounts will be 31 May 2018.

At the same time, the Authority provided us with all of the working papers we had requested and these were of a high standard.

We consider the Authority's accounting practices appropriate.

Quality of supporting working papers

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

We 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 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.

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 2017/18 audit process. In particular we would like to thank Officers who were available throughout the audit visit to answer our queries.

Response to audit queries

Officers resolved audit queries in a reasonable time, and made themselves available to the audit team.

Prior year recommendations

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

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

Controls over key financial systems

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

Below we have highlighted exceptions in relation to controls:

IT General Controls

- There are no logical password settings for the payroll system (Pyramid). Since December 2016 passwords cannot be saved.
- Pyramid updates are not formally tested. There is also no separate test environment for releases to be tested. A change management policy also does not exist which would provide appropriate guidance.
- We identified four leavers of the Agresso General Ledger system for which user access was not revoked once they left the Authority. We confirmed separately their accounts had not been used to access the system subsequently.

We were able to identify mitigating controls that allowed us to rely on the systems for the purpose of our audit. We have also previously discussed these issues with management and received responses to the points raised so that they are logged and can be addressed when practicable.

Completion

We confirm that we have complied with requirements on objectivity and independence in relation to this year's audit of the Authority's 2016/17 financial statements.

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

Once we have finalised our opinions and conclusions we will prepare our Annual Audit Letter and close our audit.

Declaration of independence and objectivity

As part of the finalisation process we are required to provide you with representations concerning our independence.

In relation to the audit of the financial statements of Kettering Borough Council for the year ending 31 March 2017, 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 5 in accordance with ISA 260.

Management representations

You are required to provide us with representations on specific matters such as your financial standing and whether the transactions within the accounts are legal and unaffected by fraud. We have provided a template to the Section 151 Officer 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 2016/17 financial statements.

Status of our audit

Our audit is largely complete. We will provide an oral update on the status of our audit at the Audit Committee meeting but would highlight the following work is still outstanding:

- Final review procedures and checks on final draft financial statements;
- Receipt of management representation letter; and
- Finalisation of subsequent events review.

Section two

Value for money

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

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

VFM conclusion

The Local Audit and Accountability Act 2014 requires auditors of local government bodies to be satisfied that the authority 'has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources'.

This is supported by the Code of Audit Practice, published by the NAO in April 2015, which requires auditors to 'take into account their knowledge of the relevant local sector as a whole, and the audited body specifically, to identify any risks that, in the auditor's judgement, have the potential to cause the auditor to reach an inappropriate conclusion on the audited body's arrangements.'

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

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

1 Identification of significant VFM risks (if any)

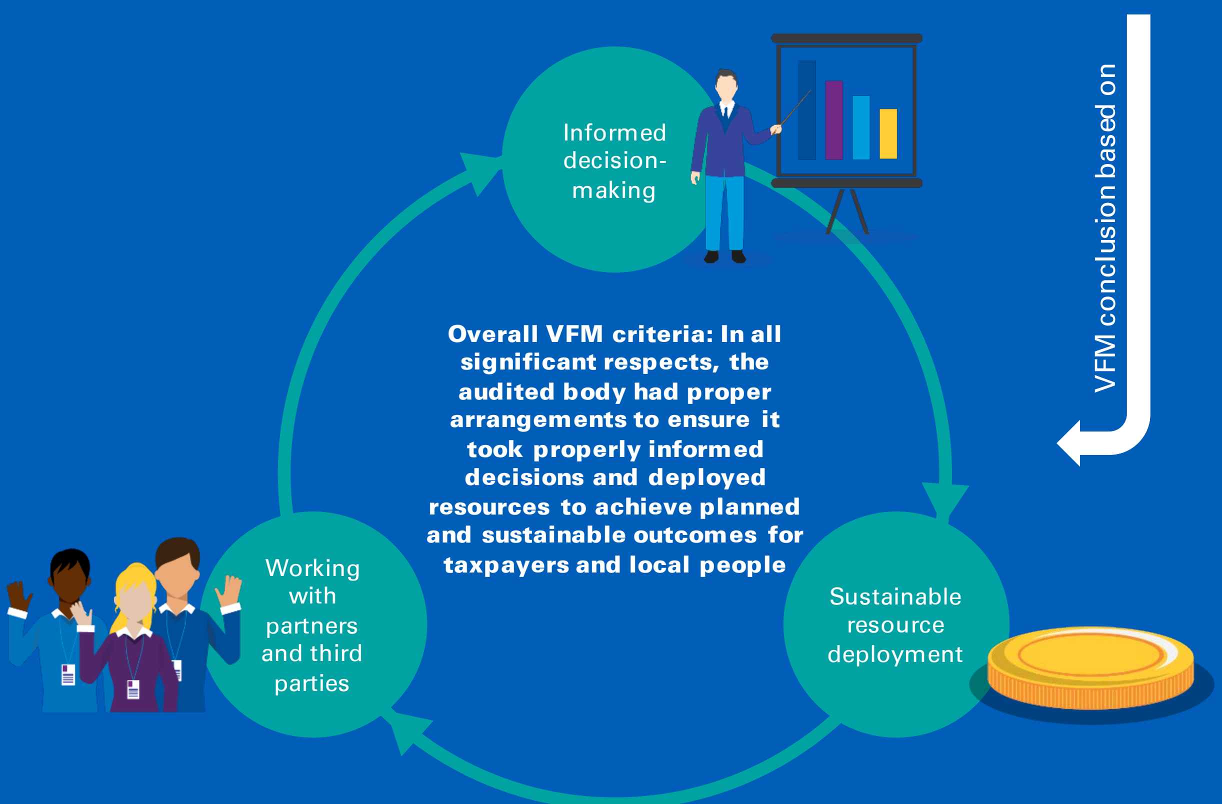
- VFM audit risk assessment
- Financial statements and other audit work

2 Continually re-assess potential VFM risks

- Assessment of work by other review agencies
- Specific local risk-based work

3 VFM conclusion

- **Conclude on arrangements to secure VFM**



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

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

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

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

Significant VFM risks

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

Significant VFM risks	Work performed
1. Financial resilience in the local and national economy	**Why is this a risk?** The Government's Spending Review in 2015 confirmed their intention to move to a different funding system over the next few years – with less reliance on Revenue Support Grant and an increasing dependence on business rates income as a major source of income. That, together with likely significant reductions in New Homes Bonus funding from 2017/18 means the Authority continues to face similar financial pressures and uncertainties to those experienced by others in the local government sector. The Authority continues to respond to and plan to address these challenges through its budget strategy, underpinned by the same guiding principles that that been applied in previous budgets. A key initiative reflected in the current plan has been to significantly increase the planned level of investment into commercial developments that will generate future income streams to contribute to Framework Savings. The East Kettering Development remains a key focus for growth, although given the current stage of development does not yet feed directly into financial models and plans. **Summary of our work** Like most of local government, Kettering Borough Council faces a challenging future driven by funding reductions and an increase in demand for services. At a local level, this is compounded by the County Council's financial difficulties. During 2016/17, the Authority set a General Fund Budget of £51.8 million which included the need to identify and deliver £1.522 million of savings. This consisted of a mixture of income generation and efficiency savings. Furthermore, the Housing Revenue Account had a budget of £15.8 million during the year, but reported an underspend of £350k due to a mixture of contingencies and bad debt provision not being required. The outturn was that both the General Fund and HRA Reserves remained stable at £1.415 million and £850k respectively. The capital programme reported an underspend of £3.3 million against the £9.3 million budget, mainly due to £2.5 million of Invest to Save Projects (commercial property works) not being undertaken during the current financial year. Despite the County Council's own financial pressures, for the 2016/17 financial year there has been no direct financial impact on the Authority. For 2017/18, the Authority set a net budget before savings and efficiencies of £10.9 million. The Authority had a requirement to achieve £1.4 million of savings during the financial year, and identified a mixture of additional income generation (£865k) and reduced expenditure (£515k) during the budget process. As of July 2017, it is reporting that about 1/3 of these have already been delivered. Over the subsequent four years from 2018/19 to 2022/23, the Authority has set an overall net budget requirement which decreases from £9.9 million in 2018/19 to £9.1 million in 2022/23.

...(continued)

Significant VFM risks	Work performed
	…(continued) Feeding into the budget, the Authority has assumed a gradual decrease in Revenue Support Grant from Central Government, as well as a decline in funding through Business Rates to £2m per year, after an initial increase to £2.4 million and £2.5 million in 2018/19 and 2019/20 respectively. The Authority notes that the uncertainty regarding the Business Rates Retention Scheme have made longer-term predictions difficult. The Authority has referred to the two years 2018/19 and 2019/20 as the 'Zone of Unpredictability', and the following three years as 'Severe Unpredictability' being predicated on indicative figures for government grant settlements in the period. The financial pressure on the Authority is therefore likely to increase over the coming years and it is imperative that work continues to identify savings well in advance of the periods of unpredictability most especially savings which may require initial investment and a longer lead time to realise their benefits. The Authority has a positive track record of delivering savings, but this will only get more difficult. Over the period from 2018/19 to 2022/23, a total of £4.6 million of savings are currently predicted as being required, all of which have yet to be identified. Furthermore, difficult decisions will need to be made in respect of other sources of funding such as Council Tax, as more Authorities begin to increase this in order to mitigate the financial pressures felt elsewhere and maintain the desired level of services to the public. Careful financial planning is required, and the Authority should also ensure that the assumptions it feeds into its Medium Term Financial Strategy (such as demographics, service demand etc) are regularly refreshed to provide an up-to-date and reliable indicator of future pressure points. To move towards greater self-sufficiency and develop a commercial approach the Authority needs to increase its resources for capital investment, and a key part of the Council's Medium Term Financial Strategy is a new Commercial Property Investment Strategy (2017-2022). This supports the plans set out in the MTFS to invest significantly in property to generate income streams with a planned programme of borrowing of up to £20m each year over the next 5 years. The Council has established an Asset Management Board to govern the strategy, support investment decisions and oversee implementation. The Investment Strategy sets out a framework and criteria for making decisions on investments and to help develop a balanced portfolio over time. The challenge initially is to identify and secure suitable investments that will meet an appropriate balance of the criteria established. Clearly a programme of borrowing and investment on this scale brings with it increased risks which will need to be carefully managed over the period of the plan.

Appendices

Key issues and recommendations

Our audit work on the Authority's 2016/17 financial statements has identified one recommendation which we have detailed below. We have also included Management's response to this recommendation.

We will formally follow up this recommendation next year.

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

High priority	Issues that are fundamental and material to your system of internal control. We believe that these issues might mean that you do not meet a system objective or reduce (mitigate) a risk.
Medium priority	Issues that have an important effect on internal controls but do not need immediate action. You may still meet a system objective in full or in part or reduce (mitigate) a risk adequately but the weakness remains in the system.
Low priority	Issues that would, if corrected, improve internal control in general but are not vital to the overall system. These are generally issues of good practice that we feel would benefit if introduced.

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

Low priority

1. Management review of third party information

The Authority receives new calculations relating to their assets and liabilities of the Local Government Pension Scheme on an annual basis. These calculations are undertaken by Hymans Roberston who act as actuaries to the Scheme (which is run by Northamptonshire County Council).

The Authority received a presentation from the actuaries in November 2016 which detailed their approach for the forthcoming year, and management has also signed off on the pension contribution rates for the next three years.

We noted that there was no documented management review of the assumptions used by the actuary in order to confirm they were satisfied with the key variables impacting the figures in their final report (and therefore impacting the financial statements). Management has confirmed that the assumptions used by the actuary are appropriate. Nonetheless, there is a risk that the inappropriate assumptions were used by the actuary to calculate the Authority's pension liability, thus potentially resulting in an incorrect liability being recognised.

Recommendation

The Authority should ensure that there is a clear working paper to evidence their acceptance of the assumptions included within the actuary's final report once received at year.

Management Response

A working paper will be produced to evidence the acceptance of the assumptions in the actuary report.

Owner

Mark Dickenson

Deadline

April 2018

Follow-up of prior year recommendations

In the previous year, we raised four recommendations which we reported in our *External Audit Report 2015/16 (ISA 260)*. The Authority has made progress in implementing all but one of these. We re-iterate the importance of the outstanding recommendation and recommend that it is implemented by the Authority.

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

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

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

2015/16 recommendations status summary

Priority	Number raised	Number implemented / superseded	Number outstanding
High	-	-	-
Medium	-	-	-
Low	4	3	1
Total	**4**	**3**	**1**

Low priority

1. 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

Management original response

A Code of Governance is currently being drafted.

Owner

Sue Lyons (Head of Democratic and Legal)

Original deadline

December 2016

Management's September response

A revised deadline of March 2018 has been agreed.

Audit differences

We are required by ISA 260 to report all uncorrected misstatements, other than those that we believe are clearly trivial, to those charged with governance (which in your case is the 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.

Unadjusted audit differences

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

Adjusted audit differences

We are pleased to report that there were no material audit differences.

We raised one audit adjustment relating to the value of HRA operational assets disclosed, which resulted in an increase of £5.6 million in the applicable disclosure note but did not impact the core financial statements.

Our audit also identified a small number of non material errors in the financial statements and we identified a number of presentational and disclosures adjustments to help ensure that the accounts are compliant with the Code of Practice on Local Authority Accounting in the United Kingdom 2016/17.

The Authority has adjusted for these where appropriate. 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

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

Material errors by value are those which are simply of significant numerical size to distort the reader's perception of the financial statements. Our assessment of the threshold for this depends upon the size of key figures in the financial statements, as well as other factors such as the level of public interest in the financial statements.

Errors which are material by nature may not be large in value, but may concern accounting disclosures of key importance and sensitivity, for example the salaries of senior staff.

Errors that are material by context are those that would alter key figures in the financial statements from one result to another – for example, errors that change successful performance against a target to failure.

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

Materiality for the Authority's accounts was set at £500,000 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.

Declaration of independence and objectivity

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

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

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

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

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

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

General procedures to safeguard independence and objectivity

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

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

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

Auditor declaration

In relation to the audit of the financial statements of Kettering Borough Council for the financial year ending 31 March 2017, 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 fees

Audit fees

As communicated to you in our External Audit Plan 2016/17, our scale fee for the audit is £53,685 plus VAT *(£53,685 in 2016/17)*. However, due to the additional work undertaken in relation to the CIES restatement and the triennial pension revaluation, additional audit fees will be required. We will agree these with the Authority and the PSAA, and communicate these to the Monitoring and Audit Committee once finalised. This additional work is applicable across all local authorities for 2016/17.

We will also request a specific additional fee in relation to the additional work we have undertaken in respect of reviewing the exit package provided to the Chief Executive following the restructuring of the Authority during the financial year.

Our work on the certification of Housing Benefits (BEN01) is planned for September 2017. The planned scale fee for this is £11,438 plus VAT. Our fees are summarised in the table below.

PSAA fee table

Component of audit	2016/17 (planned fee) £	2015/16 (actual fee) £
Accounts opinion and use of resources work		
PSAA scale fee	53,685	53,685
Fees for additional work	TBC	
Subtotal	**53,685**	**53,685**
Housing benefits (BEN01) certification work		
PSAA scale fee set – planned for September 2017	11,438	11,438
Total fee for the Authority set by the PSAA	**65,123**	**65,123**

All fees are quoted exclusive of VAT.

Non-audit services

During the financial year 2016/17 we undertook a review of the Authority's Capital Receipts Return for 2015/16 made to the Department of Communities and Local Government. We charged a fee of £2,890 for this work.