External Audit ISA260 Report 2017/18

Kettering Borough Council

—

July 2018

Summary for Monitoring and Audit Committee

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

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

Organisational and IT control environment	We consider that your organisational and IT controls are effective overall, but noted a number of areas for further improvement around access to systems and data and controls for system changes see page 4 for further details.
Controls over key financial systems	Based on our work we have determined that the controls over all of the key financial systems are sound. See page 6 for further details.
Accounts production	The timetable for the production of the financial statements has been significantly advanced with draft accounts having to be prepared by 31 May (2017: 30 June) and the final accounts signed by 31 July (2017: 30 September). We worked with the Authority in advance of our audit to understand the steps being taken to meet these deadlines and felt little impact on our work.
Financial statements	**Subject to all outstanding queries being resolved to our satisfaction we anticipate issuing an unqualified audit opinion on the Authority's financial statements before the deadline of 31 July 2018.** Based upon our initial assessment of risks to the financial statements (as reported to you in our *External Audit Plan 2017/18* and updated during our audit) we identified the following significant risks (excluding those mandated by International Standards on Auditing) – see Page 11 — **Valuation of PPE** – Whilst the Authority operates a cyclical revaluation approach, the Code requires that all land and buildings be held at fair value. We considered the way in which the Authority ensured that assets not subject to in-year revaluation were not materially misstated, and found no issues to note; — **Pensions Liabilities** – The valuation of the Authority's pension liability, as calculated by the Actuary, is dependent upon both the accuracy and completeness of the data provided and the assumptions adopted. We reviewed the processes in place to ensure accuracy of data provided to the Actuary and gained assurance that the assumptions used in determining the valuation were appropriate; — **Faster Close –** See accounts production above. We have identified no material audit adjustments. We are now in the completion stage of the audit and anticipate issuing our completion certificate on 24 July 2018 and are presenting our Annual Audit Letter at this meeting.

Summary for Monitoring and Audit Committee (cont.)

Value for money arrangements

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

We therefore anticipate issuing an unqualified value for money opinion.

We set out our assessment of those areas requiring additional risk based work in our *External Audit Plan 2017/18* and have updated this assessment during our interim visit. As a result of this we have identified the following significant VFM audit risks:

— **Delivery of Budgets** – As a result of reductions in central government funding, and other pressures, the Authority is having to make additional savings beyond those from prior years and also pursue income generation strategies. We considered the way in which the Authority identifies, approves, and monitors both savings plans and income generation projects and how budgets are monitored throughout the year and found processes were appropriate to deliver the Authority's budgets.

— **Investment Properties**– The Authority undertook a significant programme of investment in properties. This included the decision to bring forward the capital budget associated with the programme from 2018/19 to 2017/18 to allow opportunities to be taken in a way that is not constrained by a specific year end. We reviewed the governance and decision making associated with investment decisions as part of our value for money work and found no issues to note.

See further details on page 22.

Exercising of audit powers

We have a duty to consider whether to issue a report in the public interest about something we believe the Authority should consider, or if the public should know about.

We have not identified any matters that would require us to issue a public interest report.

In addition, we have not had to exercise any other audit powers under the Local Audit & Accountability Act 2014.

Acknowledgements

We would like to take this opportunity to thank Officers and Members for their continuing help.

Section one

Control Environment

Organisational and IT control environment

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

Despite this, we have noted a number of areas for further improvement:

- **Access Revocation for Finance General Ledger**
- **Password Configuration**
- **Program Changes**

Work completed

Controls operated at an organisational level often have an impact on controls at an operational level and if there were weaknesses this would have implications for our audit. We obtain an understanding of the Authority's overall control environment and determine if appropriate controls have been implemented. We do not complete detailed testing of these controls.

The Authority relies on information technology ("IT") to support both financial reporting and internal control processes. In order to satisfy ourselves that we can rely on the use of IT, we test controls over access to systems and data, system changes, system development and computer operations.

Key findings

We consider that your organisational and IT controls are effective overall, but noted a number of areas for further improvement:

- Access Revocation for Finance GL: We identified one leaver 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.
- Password Configuration: There are no logical password settings for the payroll system (Pyramid). Since December 2016 passwords cannot be saved.
- Program Changes: Inadequate testing of system functionality following a software release may lead to erroneous data, leading to inaccurate reporting.

As in the previous year, 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.

Organisational and IT control environment (cont.)

Aspect of controls	Assessment
Organisational controls:	
Management's philosophy and operating style	3
Culture of honesty and ethical behaviour	3
Oversight by those charged with governance	3
Risk assessment process	3
Communications	3
Monitoring of controls	3
IT controls:	
Access to systems and data	2
System changes and maintenance	2
Development of new systems and applications	3
Computer operations and end-user computing	3

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

Controls over key financial systems

The controls over all of the key financial systems are sound.

Work completed

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

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

Key findings

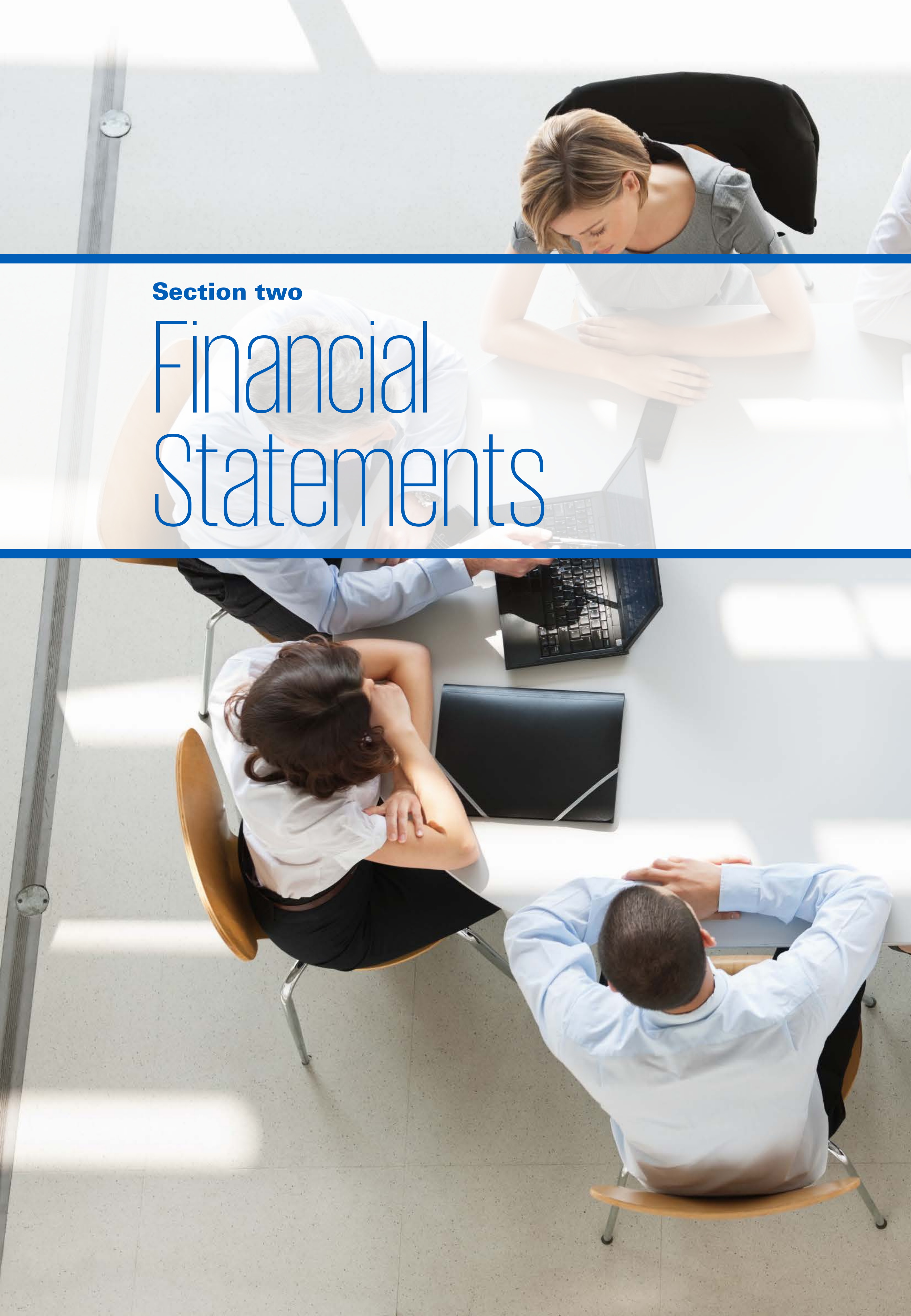
Based on our work we have determined that the controls over all of the key financial systems are sound.

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

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

Section two

Financial Statements



Accounts production and audit process

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

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

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

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

Accounts practices and production process

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

We consider that the overall process for the preparation of your financial statements is adequate.

We also consider the Authority's accounting practices appropriate.

Going concern

The financial statements of the Authority have been prepared on a going concern basis. We confirm that we have identified no significant matters which would, in our view, affect the ability of the Authority to continue as a going concern.

Further commentary on the Authority's arrangements in place to secure the effective delivery of budgets is included at page 21.

Implementation of recommendations

We raised one recommendation in our ISA 260 Report 2016/17. The Authority has implemented the recommendation relating to the financial statements in line with the timescales of the action plan. The table below sets out the Authority's progress against high priority recommendations. Further details are included in Appendix 1..

Issue	Progress
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.	The Authority has ensured that there was a clear working paper to evidence their acceptance of the assumptions included within the actuary's final report once received.

Accounts production and audit process (cont.)

Completeness of draft accounts

We received a complete set of draft accounts on 30th May 2018, that were signed off on 24th May, which was in advance of the statutory deadline of the 31st May 2018.

Quality of supporting working papers

We issued our Accounts Audit Protocol to Jo Haines (Group Accountant) and Dean Mitchell (Group Accountant) on 22nd January 2018. This important document sets out our audit approach and timetable. It also summarises the working papers and other evidence we require the Authority to provide to support our audit work. This helps the Authority to provide audit evidence in line with our expectations.

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

Response to audit queries

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

Specific audit areas

We anticipate issuing an unqualified audit opinion on the Authority's 2017/18 financial statements by 31 July 2018. We will also report that your Annual Governance Statement complies with the guidance issued by CIPFA/SOLACE ('Delivering Good Governance in Local Government') published in April 2016.

For the year ending 31 March 2018, the Authority has reported a deficit on the provisions of services of £12.3m, this was reversed out through the Movement in Reserves and therefore had no impact on the General Fund which remained at £1.4m at year end.

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

01

Management override of controls

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

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

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

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

02

Fraudulent revenue recognition

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

In our *External Audit Plan 2017/18* we reported that we do not consider this to be a significant risk for Local Authorities as there is unlikely to be an incentive to fraudulently recognise revenue.

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

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

Specific audit areas

Significant Audit Risks – Authority

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

Risk:

Valuation of PPE

The Code requires that where assets are subject to revaluation, their year end carrying value should reflect the appropriate fair value at that date. The Authority has adopted a rolling revaluation model which sees all land and buildings revalued over a five year cycle. As a result of this, however, individual assets may not be revalued for four years.

This creates a risk that the carrying value of those assets not revalued in year differs materially from the year end fair value. In addition, as the valuation is undertaken as at 1 April, there is a risk that the fair value is different at the year end.

Our assessment and work undertaken:

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

In addition, we considered movements in market indices between revaluation dates and the year end in order to determine whether these indicate that fair values had moved materially over that time.

In relation to those assets which have been revalued during the year we reviewed the accounting entries made to record the results of the revaluation in order to ensure that they were appropriate.

We also assessed the valuer's qualifications, objectivity and independence to carry out such valuations and reviewed the methodology used (including testing the underlying data and assumptions).

As a result of this work we determined that we were able to gain sufficient assurance to conclude the carrying value of assets at the year end materially reflects the fair value at that date.

We have set out our view of the assumptions used in relation to accounting for Property, Plant & Equipment at page 14.

Specific audit areas (cont.)

Significant Audit Risks – Authority

Risk:	**Pension Liabilities** The net pension liability represents a material element of the Authority's balance sheet. The Authority is an admitted body of Northamptonshire Pension Fund, which had its last triennial valuation completed as at 31 March 2016. This forms an integral basis of the valuation as at 31 March 2018. The valuation of the Local Government Pension Scheme relies on a number of assumptions, most notably around the actuarial assumptions, and actuarial methodology which results in the Authority's overall valuation. There are financial assumptions and demographic assumptions used in the calculation of the Authority's valuation, such as the discount rate, inflation rates, mortality rates etc. The assumptions should also reflect the profile of the Authority's employees, and should be based on appropriate data. The basis of the assumptions is derived on a consistent basis year to year, or updated to reflect any changes. There is a risk that the assumptions and methodology used in the valuation of the Authority's pension obligation are not reasonable. This could have a material impact to net pension liability accounted for in the financial statements.
Our assessment and work undertaken:	As part of our work we reviewed the controls that the Authority has in place over the information sent directly to the administering authority/Pension Fund. Administering authority/Pension Fund is responsible for submitting the information to the Scheme Actuary. We also liaised with the auditors of the Pension Fund in order to gain an understanding of the effectiveness of those controls operated by the Pension Fund. We also assessed the controls with respect to the management review of assumptions used in the valuation report and accounts. We also evaluated the competency, objectivity and independence of Hymans Robertson. We reviewed the appropriateness of the key assumptions included within the valuation, compared them to expected ranges and involved a KPMG Actuary to provide a specialist assessment of those assumptions. We also reviewed the methodology applied in the valuation by Hymans Robertson. In addition, we reviewed the overall Actuarial valuation and considered the disclosure implications in the financial statements. In order to determine whether the net pension liability has been appropriately accounted for we also considered the valuation of pension assets. We obtained assurance from the Pension Fund auditors over the overall value of fund assets. We then liaised with the actuary to understand how these assets are allocated across participating bodies and reperformed this allocation As a result of this work we determined that the assumptions and methodology used in the valuation of the Authority's pension obligation were materially appropriate. We have set out our view of the assumptions used in valuing pension assets and liabilities at page 15.

Specific audit areas (cont.)

Significant Audit Risks – Authority

Risk:

Faster Close

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

During 2016/17, the Authority started to prepare for these revised deadlines and advanced its own accounts production timetable so that draft accounts were signed off in May and were provided to audit by 15 June and the final signed accounts by 12 September.

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

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

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

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

Our assessment and work undertaken:

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

We received draft financial statements in advance of the statutory deadline of 31 May 2018. The high quality of this draft was consistent with that of prior years.

As a result of this work we determined that there was no impact on the audit as a result of the faster close.

Judgements

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

Level of prudence

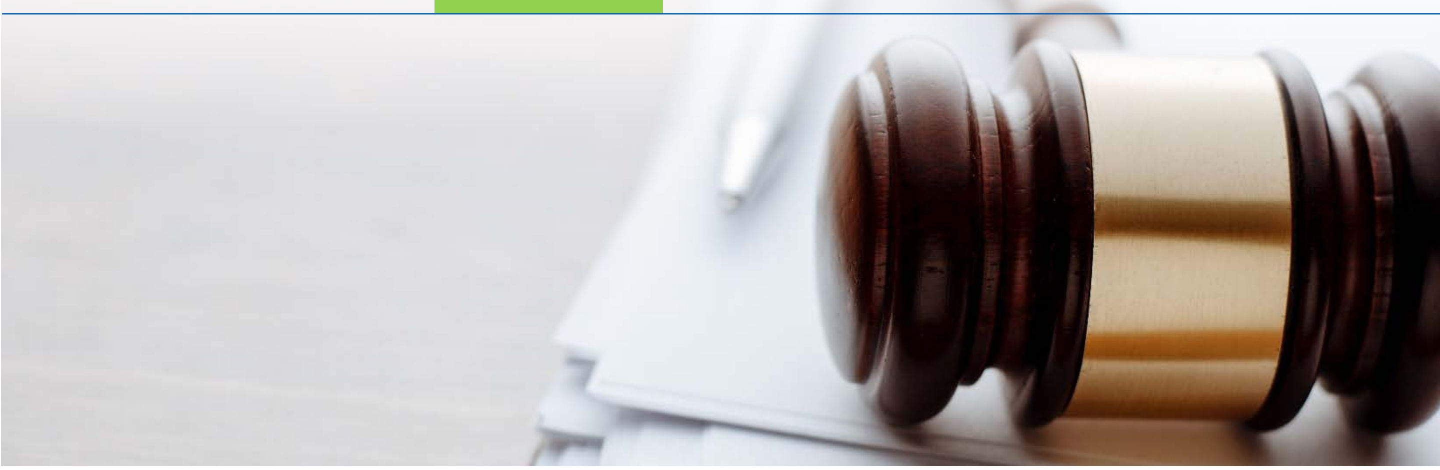
0	1	2	3	4	5	6
Audit Difference	Cautious		Balanced		Optimistic	**Audit Difference**
	Acceptable Range					

Subjective area	2017/18	2016/17	Commentary
Provisions (excluding Business Rates)	2	2	Provisions have remained constant with good judgement in calculating provisions in the year. NNDR3 provisions attributable by Kettering Borough Council has increased by £0.5m which is a 20% increase over the last year. However, bad debt provision has decreased slightly from last year but there was a significant write off of bad debts which has meant that the amount that is provided has not deviated significantly. Most of the provisions made last year have remained constant this year thus showing that there is not a significant amount of bad debt and that the Authority is judging the bad debt correctly even though it is on the side of caution.
Business Rates provision	3	3	Since 2013/14 the Authority has been responsible for a proportion of successful rateable value appeals. The rating assigned from last year has remained constant and a similar rating has been assigned this year. From the audit work, there has been a significant increase in small business relief due to Government Autumn statement changes and due to a change in grading of small business rates. Also 2016/17 was the final year of the 2010 valuation list and therefore transitional relief amounts were small. The 2017 valuation list came into effect on 1 April 2017 and therefore 2017/18 represents the first year of the new transitional relief and restrictions and the amount is accordingly much larger.
Property Plant & Equipment: HRA Assets	3	3	The Authority continues its use of the beacon methodology in line with the DCLG's Stock Valuation for Resource Accounting published in November 2016. The Authority has utilised an external valuation expert to provide valuation estimates. We have reviewed the instructions provided and deem that the valuation exercise is in line with the instructions. The resulting increase of 9.5% is in line with regional indices provided by Gerald Eve, the valuation firm engaged by the NAO to provide supporting valuation information.

Judgements (cont.)

Subjective area	2017/18	2016/17	Commentary
Property Plant & Equipment: Non-HRA Assets	3	3	Non-HRA property has continued to maintain the same rating as prior year We have reviewed the instructions provided and deem that the valuation exercise is in line with the instructions. The Authority has used external valuations again this year with differing valuations depending on the type of asset. The asset valuations used are: Industrial – plus 3% to 4%, Office – minus 3% to 4%, Retail – 0%, Development Land – plus 1% to 2% and Community Assets which are in line with expectations.
Valuation of pension assets and liabilities	4	4	The Authority is an admitted body of Northamptonshire Pension Fund who use Hymans Robertson to provide actuarial valuations in relation to the assets and liabilities recognised as a result of participation in the Local Government Pension Scheme. Due to the overall value of the pension assets and liabilities, small movements in the assumptions can have a significant impact on the overall valuation. For example, a 0.5% change in the discount rate would change the net liability by £14.2 million. The actual assumptions adopted by the actuary fell within our expected ranges with the exception of the Discount rate and Salary Growth as set out below:

Assumption	Actuary Value	KPMG Range	Assessment
Discount rate	2.70%	2.20-2.60%	5
CPI inflation	2.40%	1.90-2.50%	4
Net discount rate	0.3%	0.10-0.30%	4
Salary Growth	2.70%	3.35-4.85%	1
Life expectancy Current male / female Future male/female	 22.1/ 24.2 23.9/ 26.1	 22.2/24.3 24.0/26.2	2



Proposed opinion and audit differences

Subject to all outstanding queries being resolved to our satisfaction, we anticipate issuing an unqualified audit opinion on the Authority's 2017/18 financial statements following approval of the Statement of Accounts by the Monitoring and Audit Committee on 24th July 2018.

Audit differences

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

The final materiality (see Appendix 2) for this year's audit was set at £700,000. Audit differences below £525,000 are not considered significant.

We did not identify any material misstatements. We did however, identify a small number of presentational adjustments that were required to ensure that the accounts are compliant with the Code of Practice on Local Authority Accounting in the United Kingdom 2017/18 ('the Code'). None of these have been deemed material..

The was no impact of audit differences on the Authority's movements on the General Fund and Housing Revenue Account for the year and balance sheet as at 31 March 2018.

Annual Governance Statement

We have reviewed the Authority's 2017/18 Annual Governance Statement and confirmed that:

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

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

Narrative Report

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

Completion

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

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

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

Declaration of independence and objectivity

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

In relation to the audit of the financial statements of Kettering Borough Council and Northamptonshire Pension Fund for the year ending 31 March 2018, we confirm that there were no relationships between KPMG LLP and Kettering Borough Council and Northamptonshire Pension Fund, 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 4 in accordance with ISA 260.

Management representations

You are required to provide us with representations on specific matters such as your financial standing and whether the transactions within the accounts are legal and unaffected by fraud. We have provided a template to Mark Dickenson (S151) 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 judgement, are significant to the oversight of the financial reporting process; and
- Matters specifically required by other auditing standards to be communicated to those charged with governance (e.g. significant deficiencies in internal control; issues relating to fraud, compliance with laws and regulations, subsequent events, non disclosure, related party, public interest reporting, questions/objections, opening balances etc.).

There are no other matters which we wish to draw to your attention in addition to those highlighted in this report or our previous reports relating to the audit of the Authority's 2017/18 financial statements.

Section three

Value for Money Arrangements

Specific value for money risk areas

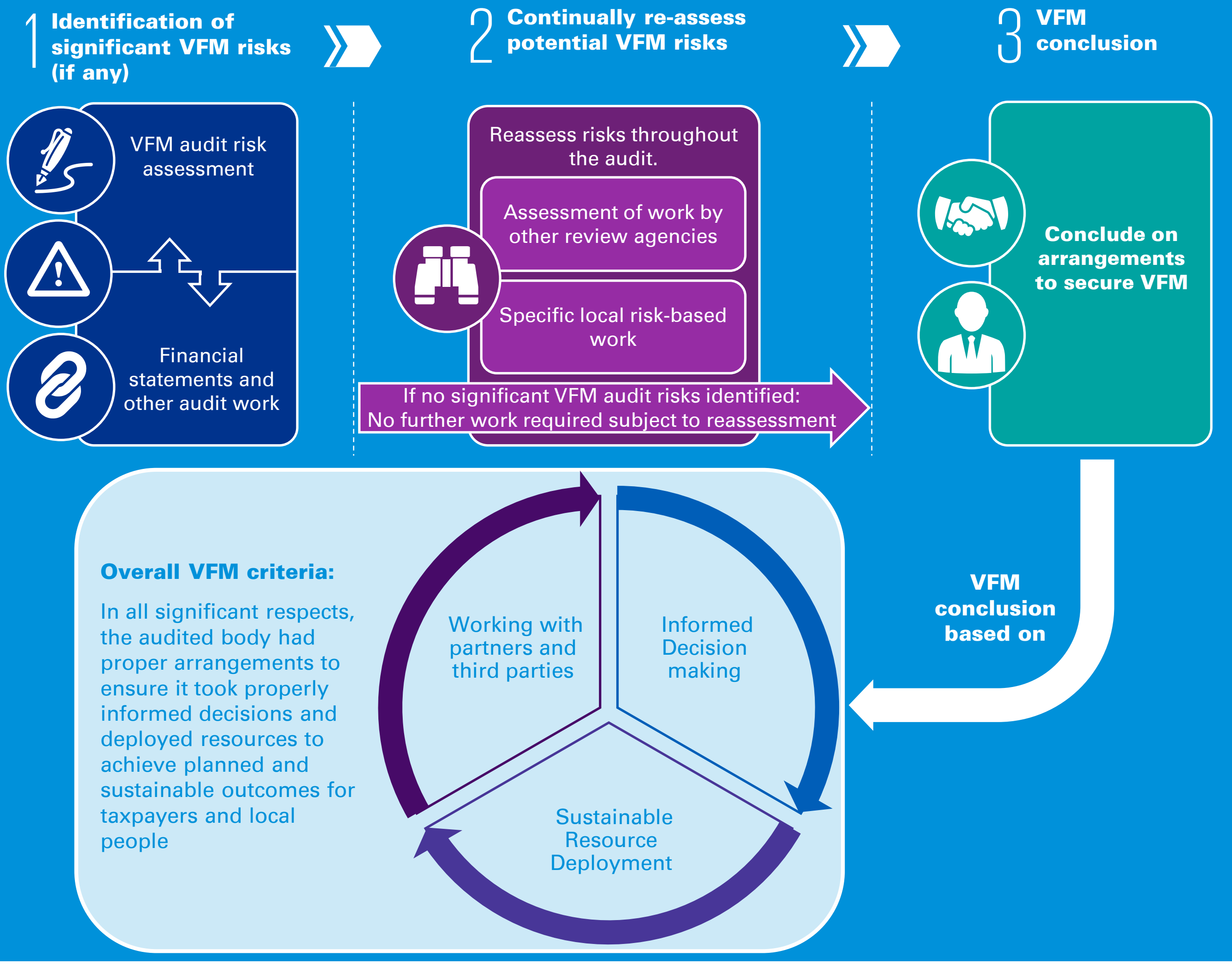
Our 2017/18 VFM conclusion considers whether the Authority had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.

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

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

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

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



Specific value for money risk areas (cont.)

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

Applicability of VFM Risks to VFM sub-criteria			
VFM Risk	**Informed decision making**	**Sustainable resource deployment**	**Working with partner and third parties**
Delivery of budgets	✓	✓	✓
Investment Properties	✓	✓	✓

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

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

Specific value for money risk areas (cont.)

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

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

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

Risk:	**Delivery of budgets** When identifying the risk the Authority had identified the need to make savings of £1.38 million in 2017/18. The current forecast shows that the Authority will deliver efficiency savings in line with the budget for the current year. The Authority's draft budget for 2018/19 was brought to the Council meeting in February 2018 and will recognise a need for £1.47 million in savings. The approved budget includes individual proposals to support the delivery of the overall savings requirement. Further savings of £3.6million will be required over the over the next four years to principally address future reductions to Local Authority funding alongside service cost and demand pressures. As a result, the need for savings will continue to have a significant impact on the Authority's financial resilience.
Our assessment and work undertaken:	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 2017/18, the Authority had identified the needed to deliver £1.38 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 overspend of £193k due to a mixture of lower income owing to higher voids and expenditure pressures. Despite the County Council's own financial pressures, for the 2017/18 financial year there has been no direct financial impact on the Authority. The Business Rates Retention Scheme has however made longer-term predictions difficult. The financial pressure on the Authority is 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 2019/10 to 2022/23, a total of £3.6 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.

Specific value for money risk areas (cont.)

Significant VFM Risks (cont.)

Risk:	**Investment Properties** The Authority is undertaking a significant programme of investment in properties. This is has included the decision to bring forward the capital budget associated with the programme from 2018/19 to 2017/18 to allow opportunities to be taken in a way that is not constrained by a specific year end. We will review the governance and decision making associated with investment decisions as part of our value for money work.
Our assessment and work undertaken:	As part of our additional risk based work, we reviewed the Authority's investment strategy, alongside the in-year capital plan and expenditure incurred. We also reviewed the decisions and governance around these decisions, including how the Authority considers the appropriateness of the capital investments in order to achieve value for money for the taxpayer. We found no issues to note. The initial capital plan budgeted for a spend of £22.3m this was increased to £42.3m in April 2017 when the Executive approved a Commercial Property Investment Strategy in accordance with the Authority's corporate and financial objectives. The majority of the increase in budget was allocated in Invest to Save Projects specifically Commercial Properties which increased from a budget of £22.3m to £42.3m with an eventual spend of £34.7m. One investment included a warehouse in Corby where the Authority and Corby Borough Council are jointly the beneficial owners of a warehouse located in Corby. The two authorities established a Trust to administer the day to day control of the management of the property, and for any future joint acquisitions. The decisions of the trustees are binding on the beneficial owners, which share equally all expenditure and income associated with the venture. Another large investment was made in a warehouse at Denby (£14.8m) and another in Nene House (£1.2m). The commercial investments undertaken to date have been done in accordance with the requirements of (1) the Council Constitution and (2) the Authority's Investment Strategy.

Appendices

Follow-up of prior year recommendations

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

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

Number of recommendations that were	
Included in the original report	1
Implemented in year	1

No.	Risk	Issue & Recommendation	Management Response	Status as at 06/07/2018
1	3	***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 Robertson 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	A working paper will be produced to evidence the acceptance of the assumptions in the actuary report ***Responsible Officer*** Mark Dickenson – Head of Resources ***Implementation Deadline*** April 2018	The Authority have produced a working paper to evidence the acceptance of the assumptions of the actuary report. This appropriately challenges the assumptions raised and gives reasons as to why they appropriate.

Materiality and reporting of audit differences

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

We have no material audit differences which impact the balance sheet or comprehensive income and expenditure statement.

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 at the start of the final accounts audit. The review of the draft accounts indicated the actual gross expenditure in the CIES (page 16) has increased by over £35 m. The major difference was as a result of a revaluation adjustment in the HRA). The actual gross expenditure is now £46m. We consider this as a significant change that would impact the overall materiality calculation benchmark. Therefore we have updated the amount of the benchmark from our planning stage.

Materiality for the Authority's accounts was set at £0.7 million which equates to around 1.5 percent of gross expenditure. We design our procedures to detect errors in specific accounts at a lower level of precision.

Reporting to the 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, an individual difference is considered to be clearly trivial if it is less than £0.525 million 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.

Appendix 3:

Required communications with the Monitoring and Audit Committee

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

Required Communication	Commentary
Our draft management representation letter	We have not requested any specific representations in addition to those areas normally covered by our standard representation letter for the year ended 31 March 2018.
Adjusted audit differences	We have identified a number of presentational differences throughout our audit but no material adjusted audit differences to note.
Unadjusted audit differences	We have identified no unadjusted differences as a result of our audit of the Authority's financial statements
Related parties	There were no significant matters that arose during the audit in connection with the entity's related parties.
Other matters warranting attention by the Monitoring and Audit Committee	There were no matters to report arising from the audit that, in our professional judgement, are significant to the oversight of the financial reporting process.
Control deficiencies	We have set out our assessment of the Authority's internal control environment, including confirmation that there were no significant deficiencies identified, in Section one of this report. We have highlighted room for improvement in the general IT controls around system access and system updates and non-pay 3 way match controls (see pages 3 to 6).
Actual or suspected fraud, noncompliance with laws or regulations or illegal acts	We identified no actual or suspected fraud involving the Authority's Member or officers with significant roles in internal control, or where the fraud resulted in a material misstatement in the financial statements.
Significant difficulties	No significant difficulties were encountered during the audit.
Modifications to auditor's report	There are no modifications to our audit report.
Disagreements with management or scope limitations	The engagement team had no disagreements with management and no scope limitations were imposed by management during the audit.

Appendix 3:

Required communications with the Monitoring and Audit Committee (cont.)

Required Communication	Commentary
Other information	No material inconsistencies were identified related to other information in the Narrative Report or Annual Governance Statement. These reports were found to be fair, balanced and comprehensive, and compliant with applicable requirements.
Our declaration of independence and any breaches of independence	No matters to report. The engagement team have complied with relevant ethical requirements regarding independence. See Appendix 4 for further details.
Accounting practices	Over the course of our audit, we have evaluated the appropriateness of the Authority's accounting policies, accounting estimates and financial statement disclosures. In general, we believe these are appropriate. We have set out our view of the assumptions used in valuing pension assets and liabilities at page 15.
Significant matters discussed or subject to correspondence with management	There were no significant matters arising from the audit which were discussed, or subject to correspondence, with management.

Appendix 4:

Declaration of independence

ASSESSMENT OF OUR OBJECTIVITY AND INDEPENDENCE AS AUDITOR OF KETTERING BOROUGH COUNCIL

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

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

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

— General procedures to safeguard independence and objectivity;

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

— Independence and objectivity considerations relating to other matters.

General procedures to safeguard independence and objectivity

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

— Instilling professional values

— Communications

— Internal accountability

— Risk management

— Independent reviews.

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

Appendix 5:

Declaration of independence (cont.)

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

Summary of fees

We have considered the fees charged by us to the Authority and its controlled entities for professional services provided by us during the reporting period. We have detailed the fees charged by us to the Authority and its controlled entities for significant professional services provided by us during the reporting period in Appendix 6, as well as the amounts of any future services which have been contracted or where a written proposal has been submitted. Total fees charged by us for the period ended 31 March 2018 can be analysed as follows:

	2017/18 £	2016/17 £
Audit of the Authority	53,685	53,685
Total audit services	**53,685**	**53,685**
Housing benefits (BEN01) certification work (planned for Oct 2018)	10,904	11,438
Fees for additional work	850	2,890
Total Non Audit Services	**11,754**	**14,328**

Non-audit services

During the financial year 2017/18 we undertook work in relation to an overpayments claim to the value of £850. In 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.

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

Description of scope of services	Principal threats to independence and Safeguards applied	Basis of fee	Value of services delivered in the year ended 31 March 2018 £	Value of services committed but not yet delivered £
Mandatory assurance services				
Grant Certification – Housing Benefit Subsidy Return	The nature of this mandatory assurance service is to provide independent assurance on each of the returns. As such we do not consider it to create any independence threats.	Fixed Fee	0	10,904

Declaration of independence (cont.)

Independence and objectivity considerations relating to other matters

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

Confirmation of audit independence

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

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

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

KPMG LLP

KPMG LLP

Appendix 6:

Audit fees

As communicated to you in our *External Audit Plan 2017/18*, our scale fee for the audit is £53,685 plus VAT (£58,685 in 2016/17), which is consistent with the prior year.

Our work on the certification of the Authority's Housing Benefit Subsidy return is planned for September 2018. The planned scale fee for this is £10,904 plus VAT (£11,438in 2016/17).

Component of the audit	2017/18 Planned Fee £	2016/17 Actual Fee £
Accounts opinion and value for money work		
PSAA Scale fee (Kettering Borough Council)	53,685	53,685
Total audit services	**53,685**	**53,685**
Mandatory assurance services		
Housing Benefits Certification (work planned for September)	10,904	11,438
Total non-audit services	**10,904**	**11,438**
Grand total fees for the Authority	**64,589**	**65,123**

All fees quoted are exclusive of VAT.

The key contacts in relation to our audit are:

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This report is addressed to the Authority and has been prepared for the sole use of the Authority. We take no responsibility to any member of staff acting in their individual capacities, or to third parties. We draw your attention to the Statement of Responsibilities of auditors and audited bodies, which is available on Public Sector Audit Appointment's website (www.psaa.co.uk).

External auditors do not act as a substitute for the audited body's own responsibility for putting in place proper arrangements to ensure that public business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively.

We are committed to providing you with a high quality service. If you have any concerns or are dissatisfied with any part of KPMG's work, in the first instance you should contact […], the engagement lead to the Authority, who will try to resolve your complaint. If you are dissatisfied with your response please contact the national lead partner for all of KPMG's work under our contract with Public Sector Audit Appointments Limited, Andrew Sayers, by email to Andrew.Sayers@kpmg.co.uk. After this, if you are still dissatisfied with how your complaint has been handled you can access PSAA's complaints procedure by emailing generalenquiries@psaa.co.uk by telephoning 020 7072 7445 or by writing to Public Sector Audit Appointments Limited, 3rd Floor, Local Government House, Smith Square, London, SW1P 3HZ.

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