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Report to those charged with governance (ISA 260) 2011/12

Kettering Borough Council

September 2012

Contents

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This report is addressed to the Authority and has been prepared for the sole use of the Authority. We take no responsibility to any member of staff acting in their individual capacities, or to third parties. The Audit Commission has issued a document entitled *Statement of Responsibilities of Auditors and Audited Bodies*. This summarises where the responsibilities of auditors begin and end and what is expected from the audited body. We draw your attention to this document which is available on the Audit Commission's website at www.auditcommission.gov.uk.

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

If you have any concerns or are dissatisfied with any part of KPMG's work, in the first instance you should contact Jon Gorrie, the appointed engagement lead to the Authority, who will try to resolve your complaint. If you are dissatisfied with your response please contact Trevor Rees on 0161 246 4000, or by email to trevor.rees@kpmg.co.uk, who is the national contact partner for all of KPMG's work with the Audit Commission. After this, if you are still dissatisfied with how your complaint has been handled you can access the Audit Commission's complaints procedure. Put your complaint in writing to the Complaints Unit Manager, Audit Commission, Westward House, Lime Kiln Close, Stoke Gifford, Bristol, BS34 8SR or by email to complaints@audit-commission.gov.uk. Their telephone number is 0844 798 3131, textphone (minicom) 020 7630 0421.

Introduction

This report summarises:

- **the key issues identified during our audit of Kettering Borough Council's ('the Authority's) financial statements for the year ended 31 March 2012; and**
- **our assessment of the Authority's arrangements to secure value for money (VFM) in its use of resources.**

We do not repeat matters we have previously communicated to you.

Financial statements

Our audit of the financial statements can be split into four phases:

Planning → Control Evaluation → Substantive Procedures → Completion

We previously reported on our work on the first stage in our *External audit plan 2011/12* issued in January 2012.

This report focuses on the final two stages: substantive procedures and completion. There were no issues to report in respect of our control evaluation carried out in March 2012.

Our final accounts visit on site took place between July and August. During this period, we carried out the following work:

Substantive Procedures

- Planning and performing substantive audit procedures.
- Concluding on critical accounting matters.
- Identifying audit adjustments.
- Reviewing the Annual Governance Statement.

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

Completion

- Declaring our independence and objectivity.
- Obtaining management representations.
- Reporting matters of governance interest.
- Forming our audit opinion.

VFM conclusion

We have also now completed our work in respect of the 2011/12 VFM conclusion. This included:

- A review of the specific VFM risks following our assessment of the Authority's VFM arrangements.

Structure of this report

This report is structured as follows:

- Section 2 summarises the headline messages.
- Section 3 sets out the key findings from our audit work in relation to the 2011/12 financial statements.
- Section 4 outlines the key findings from our work on the VFM conclusion.

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

Acknowledgements

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

Headlines

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

Proposed audit opinion	We anticipate issuing an unqualified audit opinion by 30 September 2012. We will also report that the wording of your Annual Governance Statement accords with our understanding.
Audit adjustments and Annual Governance Statement	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. We did not identify any material misstatements. Management has corrected an immaterial adjustment which was highlighted through our audit. This adjustment did not affect the General Fund balance. We have reviewed the Annual Governance Statement and confirmed that: ■ it complies with *Delivering Good Governance in Local Government: A Framework* published by CIPFA/SOLACE in June 2007; and ■ it is not misleading or inconsistent with other information we are aware of from our audit of the financial statements.
Critical accounting matters	We have worked with Officers throughout the year to discuss specific risk areas. The Authority addressed these issues appropriately. A summary of our findings against these risk areas is detailed below. The Authority has delivered a balanced budget against the backdrop of tough economic conditions and challenging savings targets for 2011-12. The Authority is working on delivering £1.3m budget gap for 2012-13 as well as identifying the savings required for the 2013-14 budget gap of £0.77m. Our testing has highlighted that the Authority has, on the whole, adopted Code changes in the year. However, our review of the financial statements highlighted a small number of exceptions. Whilst these exceptions are not material in nature, and are highly unlikely to affect the decision making of the user of the accounts, they are not in line with Code requirements. We have communicated these to management in detail and summarised this observation in Appendix 1. The Authority has completed the Market Place units in the year. These units have been revalued in the year to reflect their true recoverable amounts in the financial statements. The Authority has correctly reflected the HRA self financing debt settlement payment in the financial statements. The accounting treatment is in line with LAAP guidance.
Accounts production and audit process	The Authority have reassigned responsibilities for the year end accounts process. These clear lines of responsibility have resulted the delivery of an efficient and robust accounts production. We have noted an improvement in the quality of the accounts and the supporting working papers. There was good communication with the audit team throughout the year to highlight, and deal with, potential audit issues. This resulted in a marked reduction in the number of audit adjustments. Officers dealt efficiently with audit queries and the audit process has been completed within the planned timescales. The Authority has implemented the majority of the recommendations in our *ISA 260 Report 2010/11* relating to the financial statements.

Headlines (continued)

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

Completion	At the date of this report our audit of the financial statements is substantially complete subject to the completion of the following areas; ▪ Final review of the financial statements; and ▪ Audit of the Whole of Government Accounts Before we can issue our opinion we require a signed management representation letter. We confirm that we have complied with requirements on objectivity and independence in relation to this year's audit of the Authority's financial statements.
VFM conclusion	We have concluded that the Authority has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources. We therefore anticipate issuing an unqualified VFM conclusion by 30 September 2012.

Critical accounting matters

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

The Authority has delivered a balanced budget for 2011-12 and is on course to delivery a balanced budget for 2012-13.

The Authority has a good track record in delivering savings.

In our *External Audit Plan 2011/12*, presented to you in January 2012, we identified the key risks affecting the Authority's 2011/12 financial statements.

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

Our findings confirmed that the Authority has addressed the issues appropriately.

The table below sets out our detailed findings for each risk.

Key audit risk	Issue	Findings
Savings plan	The Authority needed to deliver £2m of savings in 2011-12 in order to deliver a balanced budget. Of these savings, £1m was delivered early in the previous year and the remaining £1m was delivered in the year. The Authority expected to overachieve this target by up to £0.75m. The Authority continues to face a challenging financial position in 2012-13 and beyond in light of HRA self financing, council tax freezes, changes to the NNDR system, welfare reforms and the new Localism Bill. The Authority currently estimates that it will need to deliver an additional £1.3m in savings during 2012-13 to address further reductions to local authority funding and continued cost pressures. The Authority has identified these savings and is confident that they will be delivered. The Authority has implemented a Budget Delivery Framework consisting of eight work streams which it uses as its vehicle to deliver savings and a balanced budget and progress is reported monthly to Executive Committee. The Authority will need to manage and monitor the delivery of its savings plans to secure longer term financial and operational sustainability and ensure that any related liabilities are accounted for in its 2011-12 financial statements.	The Authority has delivered a balanced budget for 2011-12. In addition to this, the Authority also delivered early savings of £0.85m which were transferred to Earmarked Reserves. As a result, the Authority has maintained its General Fund balance at £1.42m. The Authority's Medium Term Financial Plan highlighted a budget deficit of c£1.3m for 2012-13. The Authority has used the Budget Delivery Framework (BDF) to identify savings of c£0.5m and additional fees and income of c£0.8m to fill this budget gap. As at the time of this report, the Authority was on track to deliver its savings for 2012-13. As well as delivering savings for 2012-13, the Authority has continued to identify savings for 2013-14. At the time of the audit, the Authority has identified c£0.23m of the £0.77m savings required to the balance the 2013-14 budget. The Authority has a good track record of delivering savings. In the last three years it has successfully delivering savings of c£4.5m.

Critical accounting matters (continued)

The financial statements were prepared, on the whole, inline with the Code and IFRS.

Our testing highlighted some immaterial instances of non compliance. These have been communicated, in detail, to management and raised as a recommendation at Appendix 1.

Town centre assets were accounted for inline with the Code to reflect their recoverable values.

Key audit risk	Issue	Findings
Code changes	The Authority needed to review and appropriately address the changes introduced by the Code of Practice on Local Authority Accounting in the United Kingdom 2011/12 (‘the Code’). These include d a new requirement to obtain valuations for certain ‘heritage assets’. As the Authority has a museum and Art Gallery, it needed to review if any assets met the criteria of a heritage asset.	Our review of the Authority’s financial statement has highlighted some instances of non compliance. These areas of non compliance are not material in nature and are highly unlikely to affect the decision making of the user of the accounts. We have communicated these, in detail, to management so that they can be addressed in the future. We have raised this observation and a supporting recommendation at Appendix 1. One of the new requirement of the Code was the adoption of FRS 30 Heritage Assets. Our testing confirmed that the new standard was adopted in line with Code requirements.
Town Centre Regeneration	The Authority has completed the c£6m Market place and Public Realm developments in 2011-12. The Market Place site consists of restaurant units and flats. The flats are fully occupied with tenants. The Authority has appointed agents to promote the retail sites to national restaurant chains which are presently unoccupied. Under IAS 36 (impairment of assets) the retails units can be defined as cash generating units. If the units are under occupied at the balance sheet date, there is risk that the assets are held at a carrying amount which exceeds their recoverable amount and should be impaired. The Authority needs to consider this as part of its annual impairment review	The Authority recognised the completion of the Market Place developments in the year. The asset was transferred from assets under construction to investment assets. The assets were also revalued as at 31 March 2012 to £1.38m, which reduced the book value by £2.3m. This reflected both the market value of the unoccupied assets against backdrop of a stagnant property market, and the wider regeneration objectives of the scheme, which cannot be recognised in the book value. The asset was funded through external grants from a number of bodies including the DCLG and the HCA. At the time of the audit, the Authority has agreed a rental lease with a national restaurant chain for one of the units. The remaining unit continues to be marketed. The Authority will continue to assess impairment indicators as at the balance sheet date to determine whether an impairment loss is required.

Critical accounting matters (continued)

The Authority has taken on c£73m of PWLB loans to finance its HRA self financing settlement. Our testing confirmed that the accounting entries are inline with Code and LAAP requirements.

Key audit risk	Issue	Findings
	The Authority was informed that it was required to take on £73m of debt for its housing with effect from 28 March 2012. It discussed the loans and sought advice from consultants on how this debt should be structured and accounted for.	The Authority has taken on c£73m of PWLB loans to finance its HRA self financing settlement payment to the Secretary of State. The Authority has taken these loans across a period ranging from 1 to 50 years at a fixed rate of interest. These loans will be repaid on their maturity date. Our testing has confirmed that the accounting entries recorded for the loans are in line with the Code and LAAP guidance.

Accounts production and audit process

The Authority have continued to deliver quality supporting working papers.

There was good communication with the audit team throughout the year to highlight, and deal with, potential audit issues. This resulted in a marked reduction in the number of audit adjustments.

The Authority has implemented all of the recommendations in our *ISA 260 Report 2010/11* relating to the financial statements.

Accounts production and audit process

ISA 260 requires us to communicate to you our views about the significant qualitative aspects of the Authority's accounting practices and financial reporting. We also assessed the Authority's process for preparing the accounts and its support for an efficient audit.

We considered the following criteria:

Element	Commentary
Accounting practices and financial reporting	The Authority has strengthened the robustness of its financial reporting process. The Authority has reallocated responsibilities to other members of the finance team. As such, there are clear improvements in the efficiency of the reporting process. Furthermore, there are clear lines of responsibility and authorisation which has facilitated the delivery of a quality reporting process. We consider that accounting practices are appropriate.
Completeness of draft accounts	Prior to the start of our year end audit visit, we received a complete set of draft accounts. The accounts were produced to a good quality. Following our audit, we highlighted a number of presentational adjustments which the Authority has updated.
Quality of supporting working papers	Our *Prepared by Client List*, which we issued on 6 February 2012, and discussed with the Acting Head of Finance (Mark Dickenson) and the Service Accountants (Pina Patel and Dean Mitchell), set out our working paper requirements for the audit. The quality of working papers provided was of a very good standard. The Authority provided hard and soft copies of all working papers which facilitated the delivery of our electronic audit.
Response to audit queries	We have worked closely with the Interim Head of Finance and the Service Accountants to highlight potential contentious issues (such as code changes and asset valuations) prior to our final audit visit. We have worked with officers to set out methodologies and approaches to ensure these contentious issues were resolved in advance of the audit. This two way communication has resulted in a marked reduction in audit adjustments from the prior year. Officers resolved all of our audit queries in a reasonable time.

Prior year recommendations

The Authority has now implemented all of the recommendations in our *ISA 260 Report 2010/11* relating to the financial statements.

Appendix 2 provides further details.

Completion

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

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

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

Declaration of independence and objectivity

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

In relation to the audit of the financial statements of Kettering Borough Council for the year ending 31 March 2012, we confirm that there were no relationships between KPMG LLP and Kettering Borough Council, its directors and senior management and its affiliates that we consider may reasonably be thought to bear on the objectivity and independence of the audit engagement lead and audit staff. We also confirm that we have complied with Ethical Standards and the Audit Commission's requirements in relation to independence and objectivity.

We have provided a detailed declaration in Appendix 3 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 Interim Head of Finance, a draft of which is reproduced in Appendix 4. 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 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 2011/12 financial statements.

VFM conclusion

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

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

Background

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

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

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

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

Conclusion

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

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

We were satisfied that in all cases, sufficient work in relation to VFM risks had been carried out by the Authority, the Audit Commission, other inspectorates to mitigate the residual audit risks for our VFM conclusion. Therefore we concluded that we did not need to carry out any specific additional work ourselves.

Appendix 1: Key issues and recommendations

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

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

We will formally follow up this recommendation next year.

Priority rating for recommendations		
❶ ***Priority one***: issues that are fundamental and material to your system of internal control. We believe that these issues might mean that you do not meet a system objective or reduce (mitigate) a risk.	❷ ***Priority two***: issues that have an important effect on internal controls but do not need immediate action. You may still meet a system objective in full or in part or reduce (mitigate) a risk adequately but the weakness remains in the system.	❸ ***Priority three***: issues that would, if corrected, improve the internal control in general but are not vital to the overall system. These are generally issues of best practice that we feel would benefit you if you introduced them.

No.	Risk	Issue and recommendation	Management response / responsible officer / due date
1	❸	**Presentation of the Financial Statements and consistency with the Code** Our audit highlighted there were some small discrepancies in the presentation and disclosures of the financial statements against Code and IFRS requirements. These discrepancies are not material, and are highly unlikely to materially affect the decision making of the user of the accounts. We have communicated these discrepancies, in detail, to management. Management should ensure these points are addressed in in the FY2012-13 financial statements.	Agreed - the minor changes in the presentation and disclosure of the accounts will be incorporated into the 2012/13 accounts. Responsible Officer - Acting Head of Finance Due Date - 31/03/13.

Appendix 2: Follow up of prior year recommendations

The Authority has implemented all of the recommendations in our *ISA 260 Report 2010/11.*

This appendix summarises the progress made to implement the recommendations identified in our *ISA 260 Report 2010/11* and re-iterates any recommendations still outstanding.

Number of recommendations that were:	
Included in original report	3
Implemented in year or superseded	3

No.	Risk	Issue and recommendation	Officer responsible and due date	Status as at August 2012
1	❶	**Valuation of assets held for sale** We identified that the Authority have not revalued the assets disclosed as Assets Held For Sale at the year end as per the requirements of IFRS 5. Furthermore our testing also highlighted that the Authority have entered into an option agreement to sell the Lawrence's site which is classified as a 'held for sale' asset. The Executive Committee passed a resolution authorising the Head of Legal and Democratic Services to negotiate and agree the disposal of the Lawrence's site. The Authority have received a conditional offer for the sale of Lawrence's site for £2.106m. The Authority will need to carry out an independent valuation prior to sale. An independent surveyor, as at March 2010, valued the asset at £3.216m. In light of the option agreement the Authority has adjusted the accounts to account for an impairment charge of £1.11m (see corrected audit adjustments at Appendix 3) to reflect the fair value of the asset. Going forward the Authority should: • ensure all assets classified as held for sale at the year end are independently revalued as required by IFRS 5: and • revalue all assets prior to their sale to ensure assets are being sold at a fair price which ensures value for money for the Authority.	Agreed Acting Head of Finance 31 October 2011	Our testing confirmed that the Authority reassessed all Assets Held For Sale (AHFS) against the criteria outlined in IFRS 5. Furthermore, all AHFS revalued in line with IFRS 5 and the Code. The largest of the sites; Lawrence's site; continues to be disclosed as an AHFS. The Lawrence's site was revalued upwards by £23k in the year to ensure that the carrying value of the asset reflects its recoverable value. This revaluation is permitted against the code as it reverses a previous impairment charge. The Authority have confirmed that the assets will be revalued prior to sale.

Appendix 2: Follow up of prior year recommendations

The Authority has made considerable progress in addressing these minor control deficiencies.

No.	Risk	Issue and recommendation	Officer responsible and due date	Status as at August 2012
2	2	**Minor control deficiencies** Our review of the internal controls confirmed that the Authority has an adequate control environment. However, we did identify four areas where there was scope to improve the effectiveness of the controls. These included: • *Review of open orders:* Our testing highlighted that the ledger recorded orders as open when the goods had been received, invoiced and paid. This issue was also raised by internal audit. The Authority should review and clear down open orders on a quarterly basis. • *Independent review of journals:* Our review confirmed that journals are not independently reviewed for appropriateness. The Finance Team deem this to be impractical, however the Group Accountant should consider reviewing a sample of journals on a monthly basis. • *Closing inactive bank accounts and cancelling out of date cheques:* The Authority is holding two inactive bank accounts with a total balance of £5,277. We also identified £2,675 of unpresented cheques over 6 months old. The Authority should close the redundant bank accounts and write off the unpresented cheques. • *Council tax and NNDR debtors older than 7 years:* The Authority is carrying council tax arrears of £29K and NNDR arrears of £58K at the year end which are older than 7 years. These debts are provided for at 99% and 85% respectively. The Authority should write off these balances. The implementation of the above recommendations will help to further strengthen the Authority's control environment.	Agreed an annual review will be undertaken Acting Head of Finance 31st March 2012	The Authority has made considerable progress in addressing these minor control deficiencies. This is detailed below: • *Review of open orders:* Open orders were reviewed at the year end and those orders which were not active were cleared down. •*Inactive bank accounts and unpresented cheques:* The Authority is still holding two inactive bank accounts. The balance in the accounts is c£1k. We understand the accounts will be closed down in the year. Our review of the year end bank reconciliation confirmed that all cheques over 6 months old are cleared down. • *Council tax and NNDR debtors >7years old:* The Authority are writing off these debts if they are over 7 years old and do not have a payment arrangement in place.

Appendix 2: Follow up of prior year recommendations

The Authority has carried out an in year review of its component accounting policy. The policy was deemed apprropraite.

No.	Risk	Issue and recommendation	Officer responsible and due date	Status as at August 2012
3	2	**Component accounting** Following the introduction of the CIPFA/LASAAC Code of Practice on Local Authority Accounting, Local Authorities are now required to implement component accounting across their asset base (both general fund assets and HRA assets). The Authority undertook an exercise, with appropriate advice from independent valuers, to calculate a depreciation charge for the entire housing stock on a component basis. The Authority found that the difference in the depreciation charges under the existing policy against a full componentised housing stock was not material. As such the Authority has opted not to implement full componentisation accounting. We have reviewed the appropriateness of the Council's policy against the requirements of the Code of Practice and IAS 16. We have outlined a number of considerations that the authority should keep under review to ensure the policy is appropriate. These considerations include: • Where the level of capital expenditure in a year is significant and relates to an individual component such as a Roof then the Authority would need to consider whether the policy is still appropriate or whether the amount spent over the class of asset should be separately accounted for as an individual component; and • the impending changes to the HRA. The consultation paper issued by CIPFA in Feb 2011 outlined the proposed abolition of the Housing Subsidy and the MRA. This will increase the importance of an accurate depreciation charges in the HRA to ensure that suitable provisions are in place to fund major repairs to housing stock.	Agreed. An annual review will be undertaken. Acting Head of Finance 31 March 2012	The Authority carried out a review of its component accounting policy. The review confirmed that the difference in depreciation charges, under a full component basis, would not be material. The Authority should continue to monitor the appropriateness of its component accounting policy for the HRA and General Fund asset stock. Emerging factors such as the changes to the HRA financing arrangements and capital program should be incorporated into the assessments.

Appendix 3: Declaration of independence and objectivity

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

Requirements

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

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

In considering issues of independence and objectivity we consider relevant professional, regulatory and legal requirements and guidance, including the provisions of the Code, the detailed provisions of the Statement of Independence included within the Audit Commission's Standing guidance for local government auditors (Audit Commission Guidance) and the requirements of APB Ethical Standard 1 *Integrity, Objectivity and Independence* (Ethical Standards).

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

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

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

General procedures to safeguard independence and objectivity

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

Appendix 3: Declaration of independence and objectivity (continued)

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

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

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

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

Auditor declaration

In relation to the audit of the financial statements of Kettering Borough Council for the financial year ending 31 March 2012, 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.

Whilst we do not believe the objectivity and independence of the audit was affected, we will bring to your attention the following non audit services provided in the year. We did provide VAT services worth £24k, through KPMG *Tax and People Services*, to Kettering Borough Council for the financial year ending 31 March 2012. The provision of this service was provided in line with the safeguards detailed above. In addition to this, the provision of VAT services was delivered by a team and engagement partner who are different to the team and partner, responsible for the delivery of the audit.

We also confirm that we have complied with Ethical Standards and the Audit Commission’s requirements in relation to independence and objectivity.

Appendix 4: Draft management representation letter

We ask you to provide us with representations on specific matters such as whether the transactions within the accounts are legal and unaffected by fraud.

The wording for these representations is prescribed by auditing standards.

We require a signed copy of your management representations before we issue our audit opinion.

Dear Sirs

This representation letter is provided in connection with your audit of the Authority financial statements of Kettering Borough Council ("the Authority"), for the year ended 31 March 2012, for the purpose of expressing an opinion as to whether these:

i. give a true and fair view of the financial position of Kettering Borough Council as at 31 March 2012 and of its income and expenditure for the year then ended; and

ii. have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2011/12.

These financial statements comprise the Authority Movement in Reserves Statement, the Authority Comprehensive Income and Expenditure Statement, the Authority Balance Sheet, the Authority Cash Flow Statement, the Housing Revenue Account Income and Expenditure Statement, the Movement on the Housing Revenue Account Statement and the Collection Fund and the related notes.

The Authority confirms that the representations it makes in this letter are in accordance with the definitions set out in the Appendix to this letter.

The Authority confirms that, to the best of its knowledge and belief, having made such inquiries as it considered necessary for the purpose of appropriately informing itself:

Financial statements

1. The Authority has fulfilled its responsibilities, as set out in regulation 8 of the Accounts and Audit (England) Regulations 2011, for the preparation of financial statements that:
   - give a true and fair view of the financial position of Kettering Borough Council as at 31 March 2012 and of its income and expenditure for the year then ended; and
   - have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2011/12.

   The financial statements have been prepared on a going concern basis.

2. Measurement methods and significant assumptions used by the Authority in making accounting estimates, including those measured at fair value, are reasonable.

3. All events subsequent to the date of the financial statements and for which the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2011/12 require adjustment or disclosure have been adjusted or disclosed.

Information provided

4. The Authority has provided you with:
   - access to all information of which it is aware, that is relevant to the preparation of the financial statements, such as records, documentation and other matters;
   - additional information that you have requested from the Authority for the purpose of the audit; and
   - unrestricted access to persons within the Authority from whom you determined it necessary to obtain audit evidence.

5. All transactions have been recorded in the accounting records and are reflected in the financial statements.

6. The Authority acknowledges its responsibility for such internal control as it determines necessary for the preparation of financial statements that are free from material misstatement, whether due to fraud or error. In particular, the Authority acknowledges its responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud and error.

Appendix 4: Draft management representation letter

We ask you to provide us with representations on specific matters such as whether the transactions within the accounts are legal and unaffected by fraud.

The wording for these representations is prescribed by auditing standards.

We require a signed copy of your management representations before we issue our audit opinion.

7. The Authority has disclosed to you the results of its assessment of the risk that the financial statements may be materially misstated as a result of fraud.

8. The Authority has disclosed to you all information in relation to:

a) Fraud or suspected fraud that it is aware of and that affects the Authority and involves:

- management;
- employees who have significant roles in internal control; or
- others where the fraud could have a material effect on the financial statements; and

b) allegations of fraud, or suspected fraud, affecting the Authority's financial statements communicated by employees, former employees, analysts, regulators or others.

9. The Authority has disclosed to you all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing the financial statements.

10. The Authority has disclosed to you and has appropriately accounted for and/or disclosed in the financial statements in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2011/12 all known actual or possible litigation and claims whose effects should be considered when preparing the financial statements.

11. The Authority has disclosed to the identity of the Authority's related parties and all the related party relationships and transactions of which it is aware of and all related party relationships and transactions have been appropriately accounted for and disclosed in accordance with CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2011/12.

12. On the basis of the process established by the Authority and having made appropriate enquiries, the Authority is satisfied that the actuarial assumptions underlying the valuation of pension scheme liabilities are consistent with its knowledge of the business.

13. The Authority further confirms that:

a) all significant retirement benefits, including any arrangements that:

- are statutory, contractual or implicit in the employer's actions;
- arise in the UK and the Republic of Ireland or overseas;
- are funded or unfunded; and
- are approved or unapproved,

have been identified and properly accounted for; and

b) all settlements and curtailments have been identified and properly accounted for.

This letter was tabled and agreed at the meeting of the Monitoring and Audit Committee on *[date]*.

Yours faithfully,

[Chair of the Monitoring and Audit Committee] , [Chief Financial Officer] cutting through complexity™