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Report to those charged with governance (ISA 260) 2012/13

Kettering Borough Council

24 September 2013

Contents

The contacts at KPMG in connection with this report are:

Jon Gorrie
Director
KPMG LLP (UK)

Tel: 0121 232 3645
jonathan.gorrie@kpmg.co.uk

Trevor Croote
Manager
KPMG LLP (UK)

Tel: 0116 256 6070
trevor.croote@kpmg.co.uk

Phillipa Hunt
In-charge Auditor
KPMG LLP (UK)

Tel: 0782 565 6252
phillipa.hunt@kpmg.co.uk

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

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

If you have any concerns or are dissatisfied with any part of KPMG's work, in the first instance you should contact Jon Gorrie, the appointed engagement lead to the Authority, who will try to resolve your complaint. If you are dissatisfied with your response please contact Trevor Rees on 0161 246 4000, or by email to trevor.rees@kpmg.co.uk, who is the national contact partner for all of KPMG's work with the Audit Commission. After this, if you are still dissatisfied with how your complaint has been handled you can access the Audit Commission's complaints procedure. Put your complaint in writing to the Complaints Unit Manager, Audit Commission, 3rd Floor, Fry Building, 2 Marsham Street, London, SW1P 4DF or by email to complaints@audit-commission.gsi.gov.uk. Their telephone number is 03034448330.

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 2013; and
- our assessment of the Authority's arrangements to secure value for money (VFM) in its use of resources.

Financial statements

Our *External Audit Plan 2012/13* presented to you in January 2013 set out the four stages of our financial statements audit process.

Planning → Control Evaluation → Substantive Procedures → Completion

This report focuses on the second and third stages of the process: control evaluation and substantive procedures. Our on site work for these took place in two tranches during March 2013 (interim audit) and July 2013 (year end audit). We carried out the following work:

Control Evaluation	
	Evaluate and test selected controls over key financial systems Review internal audit function Review accounts production process Review progress on critical accounting matters

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

Our *External Audit Plan 2012/13* explained our risk-based approach to VFM work, which follows guidance provided by the Audit Commission. We have completed our work to support our 2012/13 VFM conclusion. This included:

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

Structure of this report

This report is structured as follows:

- Section 2 summarises the headline messages.
- Section 3 sets out the key findings from our audit work in relation to the 2012/13 financial statements.
- Section 4 outlines the key findings from our work on the VFM conclusion.

Our recommendations are included in Appendix 1. We have also reviewed your progress in implementing prior year recommendations 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 2013. We will also report that the wording of your Annual Governance Statement accords with our understanding.
Audit adjustments and misstatements	Our audit identified one audit misstatement with a total value of £311k. This is not considered to be a material misstatement. Our audit also identified a small number of presentational and disclosure adjustments which were amended by the Authority. We have included the above misstatement at Appendix 3. The misstatement was not corrected.
Critical accounting matters	We have worked with Officers throughout the year to discuss any specific risk areas. No risk areas were highlighted during our planning and this was consistent with the results of our audit.
Accounts production and audit process	We have noted that the quality of the accounts and the supporting working papers continues to be of a high standard. Officers dealt efficiently with audit queries and the audit process has been completed within the planned timescales. The Authority has implemented the recommendation raised in our *ISA 260 Report 2011/12* relating to the financial statements. Some control deficiencies were identified in relation to asset valuation, including compliance with a five year rolling programme of revaluation and ensuring in year additions are considered in asset valuations. We have raised a recommendation in relation to the control deficiencies, which is at Appendix 1.
Control environment	The Authority's organisation and IT control environment is effective overall, and controls over the key financial systems are sound. We are satisfied that internal audit are compliant with the Code of Practice for Internal Audit in Local Government and have again been able to place reliance on their work where this was relevant to our work.
Completion	At the date of this report our audit of the financial statements is complete. Before we can issue our opinion we require a signed management representation letter. We confirm that we have complied with requirements on objectivity and independence in relation to this year's audit of the Authority's financial statements.
VFM conclusion and risk areas	We have concluded that the Authority has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources. We therefore anticipate issuing an unqualified VFM conclusion by 30 September 2013.

Proposed opinion and audit differences

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

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

Proposed audit opinion

We anticipate issuing an unqualified audit opinion by 30 September 2013.

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.

We did not identify any material misstatements. We identified one audit difference that has not been adjusted by management (as this does not have a material effect on the financial statements). The adjustment was an understatement of four assets incorrectly classified as Council Dwellings rather than Other Land & Buildings. The estimated understatement of the four assets is £311k.

In addition, we identified a small number of presentational adjustments required to ensure that the accounts are compliant with the *Code of Practice on Local Authority Accounting the United Kingdom 2012/13 ('the Code')*. The Authority has updated the financial statements to reflect these adjustments.

Annual Governance Statement

We have reviewed the Annual Governance Statement and confirmed that:

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

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

Accounts production and audit process

We have noted that the quality of the accounts and the supporting working papers continues to be of a high standard.

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

The Authority has implemented the recommendation in our *ISA 260 Report 2011/12* 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 maintained a strong financial reporting process through review of working papers and early preparation of the accounts and supporting working papers. We consider that accounting practices are appropriate, however the accuracy of asset valuation would be improved if assets were valued at year end (rather than the beginning of the financial year).
Completeness of draft accounts	We received a complete set of draft accounts on 3 July 2013. Any adjustments made to the accounts were tracked and version controls were put in place.
Quality of supporting working papers	Our *Accounts Audit Protocol*, which we issued on 5 February 2013 and discussed with the Acting Head of Finance, set out our working paper requirements for the audit. The quality of working papers provided was good and met the standards specified in our *Accounts Audit Protocol*.
Response to audit queries	Officers resolved the majority of audit queries in a reasonable time. All key staff were available to respond to queries during the audit.

Prior year recommendations

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

The Authority has implemented the recommendation in our *ISA 260 Report 2011/12* relating to the financial statements.

Appendix 2 provides further details.

Organisational and IT control environment

The Authority's organisational and IT control environment is effective overall.

Work completed

Controls operated at an organisational level often have an impact on controls at an operational level and if there were weaknesses this would have implications for our audit.

We obtain an understanding of the Authority's overall control environment and determine if appropriate controls have been implemented. We do not complete detailed testing of these controls.

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 tested relevant IT controls.

In completing this work, we can partially rely on internal audit's review of core financial systems. This has been complemented by our own testing of the general ledger system and network controls.

There were no specific risk areas for IT controls and no new systems implemented within the year.

Key findings

We consider that your organisational and IT controls are effective overall.

Review of internal audit

Internal audit fully complies with the *Code of Practice for Internal Audit in Local Government.*

We were able to place reliance on their work on the key financial systems.

Work completed

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

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

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

For 2012/13, the *Code of Practice for Internal Audit in Local Government* defined the way in which the internal audit service should undertake its functions. Internal audit completed a self-assessment against the eleven standards, which was provided directly to us.

Key findings

We did not identify any significant issues with internal audit's work and are pleased to report that we are able to place reliance on internal audit's work on the key financial systems.

We particularly noted improvements in terms of quality of system documentation (process notes) and the sample sizes used were generally in line with our *Internal/ External Audit Protocol.*

Since April 2013, the United Kingdom Public Sector Internal Audit Standards (PSIAS) apply across the whole of the public sector, including local government. These standards are intended to promote further improvement in the professionalism, quality, consistency and effectiveness of internal audit across the public sector. The PSIAS replace the *Code of Practice for Internal Audit in Local Government*.

Additional guidance for local authorities is included in the *Local Government Application Note* on the PSIAS.

The Monitoring and Audit Committee should seek assurance from internal audit that they are fully compliant with the PSIAS. Internal Audit should submit a self-assessment against the standards to the Committee. This should be formally presented to the Committee and reviewed by members.

Controls over key financial systems

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

Work completed

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

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

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

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

Key findings

Based on the work of your internal auditors, the controls over all of the financial systems are sound.

Internal audit included recommendations in their reports as appropriate.

Financial system	Internal audit rating
Core Financial Systems	Full
Housing Benefit	Significant
NNDR	Significant
Council tax	Full
Sundry Debtors	Significant
Fixed Assets	Full
Creditors	Significant

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 2013, we confirm that there were no relationships between KPMG LLP and Kettering Borough Council, its directors and senior management and its affiliates that we consider may reasonably be thought to bear on the objectivity and independence of the audit engagement lead and audit staff. We also confirm that we have complied with Ethical Standards and the Audit Commission's requirements in relation to independence and objectivity.

We have provided a detailed declaration in Appendix 4 in accordance with ISA 260.

Management representations

You are required to provide us with representations on specific matters such as your financial standing and whether the transactions within the accounts are legal and unaffected by fraud. We have provided a template to the Acting Head of Finance, a draft of which is reproduced in Appendix 5. We require a signed copy of your management representations before we issue our audit opinion.

Other matters

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

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

There are no 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 2012/13 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	✓

The following page includes further details of our VFM risk assessment.

VFM work completed

Our risk assessment did not identify any specific VFM risks.

We did not carry out any additional work as no specific risks were identified.

Work completed

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

- assessed the Authority's key business risks which are relevant to our VFM conclusion;
- identified the residual audit risks for our VFM conclusion, taking account of work undertaken in previous years or as part of our financial statements audit; and
- considered the results of relevant work by the Authority, the Audit Commission, other inspectorates and review agencies in relation to these risk areas.

Key findings

We did not identify any specific VFM residual audit risks and therefore no additional work was considered necessary.

Audit fees

This section provides information on our audit fees for 2012/13.

To make sure that there is openness between us and your Monitoring and Audit Committee about the extent of our fee relationship with you, we have summarised below the outturn against the 2012/13 planned external audit fee.

External audit

Our final fee for the 2012/13 audit of Kettering Borough Council was £70,680. This is an overall reduction of £47,120 (40%) from the comparative total fee for 2011/12 of £117,800. The fee is consistent with the proposed fee set out in our fee letter dated 08 October 2012.

Grant certification

Our grants certification work is ongoing. The final fee position will be confirmed in our Annual Audit Letter.

Other services

We also charged £20,709 for tax services provided in 2012/13. This work was not related to our responsibilities under the Audit Commission's *Code of Audit Practice*.

Appendix 1: Key issues and recommendations

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

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

We will formally follow up this recommendation next year, including review during our interim audit.

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	❷	**Valuation of Fixed Assets** Our audit identified control deficiencies and judgmental misstatements in the valuation of fixed assets. In summary: • There is insufficient data in the fixed asset register to evidence that the Authority has followed a five-year rolling programme of valuation for fixed assets. • The fair value of investment properties at 31 March 2013 does not incorporate possible impairment of in-year additions of £450k. • Four assets were incorrectly classified as HRA assets, resulting in a understated valuation of the assets by an estimated £311k. *Recommendation* A) The Authority currently values assets at the beginning of the financial year, rather than at the balance sheet date (in line with the Code of Practice). The Authority should consider valuing assets at the balance sheet date to ensure that all in year additions are incorporated into asset valuations. B) The Authority should ensure that all assets are revalued every five years, and that the fixed asset register tracks valuation dates. *Continued overleaf…*	A) The authority has a rolling five year revaluation programme and the fixed asset register now incorporates valuation dates. B) Agreed C) Agreed D) Agreed **Acting Head of Finance, 31 March 2014**

Appendix 1: Key issues and recommendations (cont.)

No.	Risk	Issue and recommendation (continued)	Management response / responsible officer / due date
1		C) The four assets should be reclassified and revalued in 2013/14. A review of the fixed asset register should be performed to ensure that assets are held within the correct category. D) The information provided to the valuer at year end should allow for the valuer to complete a detailed impairment review that takes into account changes in asset base, including in year additions.	

Appendix 2: Follow up of prior year recommendations

The Authority has implemented the recommendation in our *ISA 260 Report 2011/12.*

This appendix summarises the progress made to implement the recommendation identified in our *ISA 260 Report 2011/12* and re-iterates any recommendations still outstanding.

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

No.	Risk	Issue and recommendation	Officer responsible and due date	Status as at 24 September 2013
1	3	**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.	**Fully Implemented** All discrepancies have been addressed within the 2012/13 financial statements. The accounts are disclosed and presented in line with Code and IFRS requirements.

Appendix 3: Audit differences

This appendix sets out the audit differences identified during our audit.

We are required by ISA 260 to report all uncorrected misstatements, other than those that we believe are clearly trivial, to those charged with governance (which in the Authority's case is the Monitoring and Audit Committee). We are also required to report all material misstatements that have been corrected but that we believe should be communicated to you to assist you in fulfilling your governance responsibilities. There were no adjusted material misstatements identified during our audit.

Uncorrected audit differences

The following table sets out the uncorrected audit differences identified by our audit of Kettering Borough Council's financial statements for the year ended 31 March 2013. The audit difference was not correct by the Authority as it does not have a material effect on the financial statements. There were no corrected audit differences.

	Impact					
No.	**Income and Expenditure Statement**	**Movement in Reserves Statement**	**Assets**	**Liabilities**	**Reserves**	**Basis of audit difference**
1			Dr PPE (OL&B) £311k		Cr Revaluation Reserve £311k	Four assets were held as HRA assets, therefore valued using the Existing Use Value-Social Housing rate. The valuation and carrying amount is 34% of the full value of the asset. The assets should have been classified as Other Land and Buildings and valued at 100% of their value. This adjustment represents the understatement in asset valuation due to this misclassification.
			Dr £311k		**Cr £311k**	**Total impact of uncorrected audit differences**

Appendix 4: Declaration of independence and objectivity

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

Requirements

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

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

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

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

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

Appointed auditors are also required to confirm in writing that they have complied with Ethical Standards and that, in the auditor's professional judgement, the auditor is independent and the auditor's objectivity is not compromised, or otherwise declare that the auditor has concerns that the auditor's objectivity and independence may be compromised and explaining the actions which necessarily follow from his. These matters should be discussed with the 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 4: Declaration of independence and objectivity (continued)

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

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

KPMG is committed to ensuring that all partners and staff are aware of these principles. To facilitate this, the Manual is available on the KPMG intranet. 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 2013, 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.

Non Audit Services

We provided additional non-audit tax advisory services to the Council in 2012/13, including support with VAT compliance and reclaims. The fees associated with this work are disclosed in section five of our report. The additional work was approved by the Audit Commission on the basis that it does not conflict with our role as external auditors for the following reasons:

a) the work does not represent a significant proportion of our fee income and has no impact on the setting of external audit fees, which are controlled by the Audit Commission;

b) KPMG was not involved in any management decisions or implementing any systems, processes or controls;

c) the work was undertaken by an independent team with no involvement in the audit;

d) no transactions were initiated by KPMG and the team did not provide any advice relating to accounting entries in the financial statements subject to audit; and

e) the work was based on an established regulatory framework and caselaw and did not put KPMG in a position of acting as an advocate for the authority.

Appendix 5: 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. This includes an appendix for uncorrected misstatements.

Dear Sirs

This representation letter is provided in connection with your audit of the financial statements of Kettering Borough Council ("the Authority") for the year ended 31 March 2013, for the purpose of expressing an opinion:

- as to whether these financial statements give a true and fair view of the financial position of the Authority as at 31 March 2013 and of the Authority's expenditure and income for the year then ended; and
- whether the financial statements have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2012/13.

These financial statements comprise the Movement in Reserves Statement, the Comprehensive Income and Expenditure Statement, the Balance Sheet, the 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 the Authority as at 31 March 2013 and of the Authority's expenditure and income for the year then ended; and
- have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2012/13.

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 2012/13 requires adjustment or disclosure have been adjusted or disclosed

4. The effects of uncorrected misstatements are immaterial, both individually and in the aggregate, to the financial statements as a whole. A list of the uncorrected misstatements is attached to this representation letter.

Information Provided

5. 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.

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

7. 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 5: Draft management representation letter

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 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 2012/13 all known actual or possible litigation and claims whose effects should be considered when preparing the financial statements.

11. The Authority has disclosed to you the identity of the Authority's related parties and all the related party relationships and transactions of which it is aware and all related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2012/13.

Included in the Appendix to this letter are the definitions of both a related party and a related party transaction as the Authority understands them and as defined in IAS 24, except where interpretations or adaptations to fit the public sector are detailed in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2012/13.

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.

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 24 September 2013.

Yours faithfully,

[Chair of the Audit Committee]

[Section 151 Officer]

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