KPMG

External Audit ISA260 Report 2017/18

Oadby and Wigston Borough Council

July 2018

APPENDIX 2

Summary for Policy, Finance and Development Committee

This document summarises the key findings in relation to our 2017-18 external audit at Oadby and Wigston Borough Council ('the Authority').

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

Organisational and IT control environment	We reviewed your IT control environment and identified an area of weakness relating to user access. Whilst we have mitigated this weakness for the audit, we have raised a recommendation to strengthen the IT control environment. Further detail can be found in **Appendix 1**.
Controls over key financial systems	We have tested controls as part of our focus on significant audit risks and other parts of your key financial systems on which we rely as part of our audit. Based on the work performed, we are satisfied that the majority of controls are performing effectively, but identified areas of weaknesses in respect of evidencing the business rates parameter uplift and the completion of the payroll reconciliation. Whilst we have mitigated these weaknesses for the audit, we have raised recommendations to strengthen the control environment. Further detail can be found in **Appendix 1**.
Accounts production	We consider that the overall process for the preparation of your financial statements is adequate. The Authority incorporated a number of measures into its closedown plan to improve the project management of this process. 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. Officers met the new deadline of 31 May for publishing the draft Statement of Accounts. The majority of working papers were made available to the audit team at the start of the onsite visit. However, some reports were not available in the required format until part way through the audit. We also found some quality issues in relation to the working papers provided in 2017/18. This placed additional pressures on the audit. There is an opportunity for improvements to be made in providing clear and concise management trails of underlying transactions.

Summary for Policy, Finance and Development Committee (cont.)

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 and onwards**):

— **Valuation of PPE** – The Authority operates a cyclical revaluation approach, which sees all land and buildings physically revalued every five years, with interim desktop revaluation completed between each physical revaluation. The Code of Practice on Local Authority Accounting in the United Kingdom 2017-18 ('the Code') requires that all land and buildings be held at fair value. In addition the Authority has had a number of amendments in this area of the financial statements in the previous year. We considered the way in which the Authority ensures that assets not subject to in-year revaluation are not materially misstated. We also reviewed the instructions and source of the information provided to, and used by, the valuer to inform the Authority's valuation; and

— **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 process that the Authority has in place over the information sent directly to the Pension Fund and reviewed management assessment of assumptions used in the valuation report and accounts.

We have not identified any material audit adjustments. We have raised four recommendations which can be found in **Appendix 1**.

Subject to clearance of our final queries and final (including Director) review we are moving into the completion stage of the audit. We will not be able to issue our certificate alongside the opinion and VFM conclusion due to the Whole of Government Accounts work being outstanding (the deadline for submission is 31 August).

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 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 audit. As a result of this we identified the following significant VFM audit risk:

— **Financial Resilience** – The Authority continues to face similar financial pressures and uncertainties to those experienced by others in the local government sector, such as the future of business rate distribution. For 2017/18, the Authority has a balanced budget through the use of planned reserves of £0.150m. The Medium Term Financial Strategy (MTFS) 2018-2020 identifies funding gap on the general fund of £0.410m for 2019/20 and forecasts a reduction in reserve balances of the Housing Revenue Account to £0.300m by 2017/18, the recommended minimum level of reserves. We reviewed the arrangements the Authority has in place to ensure financial resilience.

See further details on **Page 23**.

Summary for Policy, Finance and Development Committee (cont.)

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 relation to our 2017/18 audit. 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 continued 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 an area of weakness, specifically relating to user access.

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 are in place. 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 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 except for the weakness noted below:

— Issue: The Authority's payroll function is outsourced to Leicestershire County Council. Our testing identified no specific user responsibility review has been undertaken at Leicestershire County Council since 2015. In addition we identified twenty leavers (system users) who had not had their access revoked in a timely manner.

Whilst we have mitigated this weakness for the audit, we have made one recommendation to strengthen the IT control environment - see **Appendix 1**.

Aspect of controls	Assessment
IT controls:	
System changes and maintenance	3
Access to systems and data	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

Based on the work performed, we are satisfied that the majority of controls are performing effectively, but identified areas of weaknesses in respect of evidencing the business rates parameter uplift and the completion of the payroll reconciliation.

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.

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.

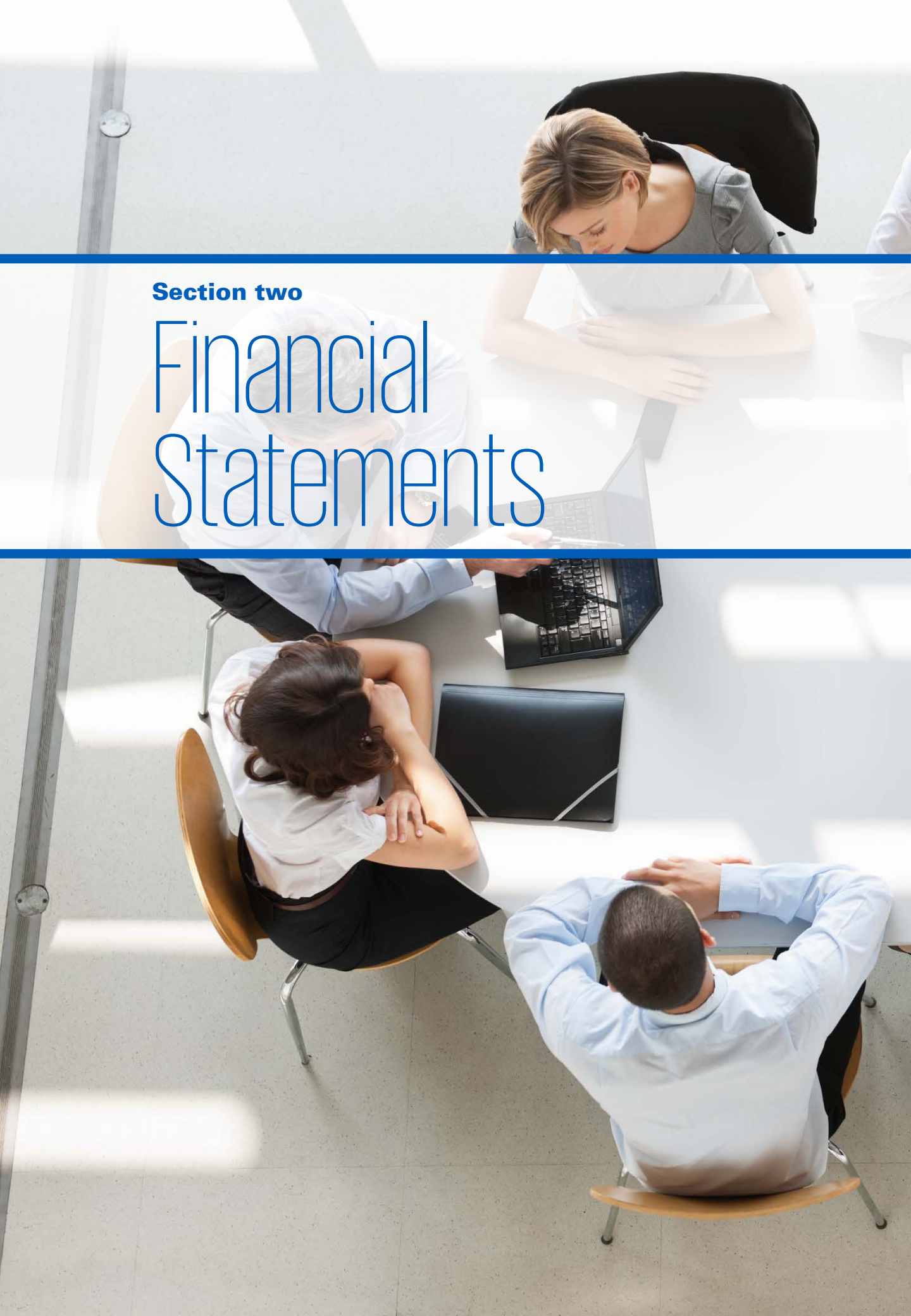
Our assessment of a system will not always be in line with your internal auditors' opinion on that system. This is because we are solely interested in whether our audit risks are mitigated through effective controls, i.e. whether the system is likely to produce materially reliable figures for inclusion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

Key findings

Based on the work performed, we are satisfied that the majority of controls are performing effectively, but identified the following weaknesses:

- Issue 1: There was no evidence retained to show that business rates parameter had been entered into business system and reviewed by the Head of Finance, Revenues and Benefits.
- Issue 2: The March 2018 payroll reconciliation had been signed off as prepared and reviewed without being fully completed. This error was identified during the final accounts audit and was isolated to the reconciliation picking up the wrong codes for tax credits from the ledger. The value of the error in total was below our triviality value (£25k) but highlights a control deficiency. Further review of all monthly payroll reconciliations for 2017/18 identified that this omission was an isolated instance.

Whilst we have mitigated these weaknesses for the audit, we have raised recommendations to strengthen the control environment - see **Appendix 1**.



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.

In respect of the recommendations raised in our ISA260 Report 2016/17, the Authority has implemented fully one recommendation and partially implemented two others during 2017/18. One recommendation has been superseded.

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, and enabled the Authority to meet the tighter submission deadline of 31 May 2018.

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 financial resilience is included at **Page 23**.

Implementation of recommendations

We raised two recommendations in our ISA 260 Report 2016/17 and rolled forward two recommendations from 2015/16. The Authority has implemented fully one recommendation and partially implemented two others during 2017/18. One recommendation has been superseded. Further details are included in **Appendix 2**.

Completeness of draft accounts

We received a complete set of draft accounts on 31 May 2018, which is the statutory deadline.

Response to audit queries

Our onsite visit turnaround time for dealing with audit queries was achieved in most areas, except for cash flow statement, journals and Property, Plant and Equipment. Evidence relating to these areas took two additional weeks to provide. This caused some delays to the audit process, nevertheless there has been some improvement from prior year.

Accounts production and audit process (cont.)

Quality of supporting working papers

We issued our Accounts Audit Protocol to Head of Finance, Revenues and Benefits in February 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 followed this up with a meeting with Management to discuss specific requirements of the document request list.

We found some quality issues in relation to the working papers provided in 2017/18. The quality of audit evidence for some areas of the accounts did not align to our expectations, which was set out in our Accounts Audit Protocol 2017/18. This placed additional pressures on the audit. There is a opportunity for improvements to be made in providing clear and concise audit trails of underlying transactions.

We have raised a recommendation in respect of this, see **Appendix 1**.

Specific audit areas

We anticipate issuing an unqualified audit opinion on the Authority's 2017-18 financial statements by 31 July 2018.

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

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 cyclical revaluation approach, which sees all land and buildings physically revalued every five years, with interim desktop revaluation completed between each physical revaluation. As a result of this, however, individual assets may not be physically revalued for four years. This creates a risk that the carrying value of those assets not physically revalued in the interim years differs materially from the actual year end fair value. Due to the level of amendments required in this area of the financial statements in the previous year, this creates a further risk that the asset values stated in the financial statements may not be accurate.
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. 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 the valuation is appropriately stated.

Specific audit areas (cont.)

Significant Audit Risks

Risk:	**Pension Liabilities** The net pension liability represents a material element of the Authority's balance sheet. The Authority is an admitted body of Leicestershire County Council, 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 process that the Authority has in place over the information sent directly to the Pension Fund. The Pension Fund is responsible for submitting the information to the Scheme Actuary. This included consideration of the process and controls with respect to the assumptions used in the valuation of scheme assets. 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 evaluated the competency, objectivity and independence of Hymans Robertson. We also reviewed management assessment of assumptions used in the valuation report and accounts. We reiterate the importance of implementing the outstanding recommendation relating to the documentation of management's review of pension assumptions - see **Appendix 2**. Work is on-going to confirm information sent to the Pension Fund. Work at the Leicestershire Pension Fund is on-going due to clarifications being sought from the actuary. We have set out our view of the assumptions used in valuing pension assets and liabilities at **page 17.**

Specific audit areas (cont.)

Other areas of audit focus

Those risks with less likelihood of giving rise to a material error but which are nevertheless worthy of audit understanding.

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.

These changes represent a significant change to the timetable that the Authority has previously worked to. The time available to produce draft accounts has been reduced by one month and the overall time available for completion of both accounts production and audit is two months shorter than in prior years.

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 Policy, Finance and Development Committee meeting schedules have been updated to permit signing in July; and
- Applying a shorter paper deadline to the July meeting of the Policy, Finance and Development 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 and the Pension Fund Annual Report. 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 on the statutory deadline of 31 May 2018. The quality of this draft was consistent with that of prior years. There were a number of presentational adjustments were identified.

As a result of this work we determined that although some issues were identified in relation to the quality and timeliness of the audit working papers prepared and provided, overall the authority were able to meet the requirements of the faster close down.

Specific audit areas (cont.)

Other areas of audit focus (cont,)

Issue:	**Provision for Business Rates Appeals** The level of business rates appeals has not significantly reduced nationally and the Valuation Office Agency (VOA) has revalued the rateable value of business properties on 1 April 2017 to reflect change in the property market. There is a continuing risk that the amounts set aside as provisions may not be reasonable. The Authority's provision is expected to be material (2016/17: £0.58m).
Our assessment and work undertaken:	We reviewed the basis of 2017/18 business rates provision and are currently working with officers to understand the calculation of the provision. The Authority's share of provision for business rates appeals as at 31 March 2018 is £0.62m, which includes £0.19m relating to 2017 Valuation. Currently there is no available appeals information from the Valuation Office Agency relating to the 2017 Valuation following the introduction of a new appeals process. We agree that it is prudent to set aside this estimated amount as it is reasonable to assume that there will be successful appeals emerging from the new process. However, in our view, the most appropriate way to do this would be to create a reserve rather than a provision (which requires there to be an obligating event under IAS 37). Whilst we have as a result assessed the approach to provisions as cautious, we recognise that management is not seeking to amend balances inappropriately as creating a reserve would have the same overall impact on the Authority's accounts. Officers have set out to us why they are content that they have met the requirements of IAS 37, and have confirmed that they will continue to review their approach to setting aside resources for potential 2017 appeals as updates are received from the Valuation Office.

.

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
Business Rates provision	1	3	The Authority's share of provision for business rates appeals as at 31 March 2018 is £0.62m, which includes £0.19m relating to 2017 Valuation. As set out on page 14, currently there is no available appeals information from the Valuation Office Agency relating to the 2017 Valuation following the introduction of a new appeals process. We agree that it is prudent to set aside this estimated amount as it is reasonable to assume that there will be successful appeals emerging from the new process. However, in our view, the most appropriate way to do this would be to create a reserve rather than a provision (which requires there to be an obligating event under IAS 37). Whilst we have as a result assessed the approach to provisions as cautious, we recognise that management is not seeking to amend balances inappropriately as creating a reserve would have the same overall impact on the Authority's accounts.
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 utilises an external valuation expert to ensure assets reflect the correct valuation as at 31 March 2018. All valuations property have been carried out by an external valuer. We consider this to be a balanced approach.
Property Plant & Equipment: Non-HRA Assets	3	3	The Authority carries out a cyclical valuation programme that ensures that all properties are physically revalued every 5 years, with interim desktop revaluation completed between each physical revaluation to ensure assets reflect the correct valuation as at 31 March 2018. All property valuations have been carried out by an external valuer. We consider this to be a balanced approach.

Judgements (cont.)

Subjective area	Commentary
Valuation of pension assets and liabilities	The Authority continues to 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 £5.1 million. The below table compares Authority's and KPMG's assumptions using the range on the previous page. The overall set of assumptions proposed by the Authority can be considered to be balanced relative to our central rates for a typical UK scheme with a duration of 16.7 years and within our normally acceptable range. In particular the discount rate, which in isolation is outside the optimistic end of our normally acceptable range, is offset by the cautious assumption for pension increases such that the net rate (which drives the liability calculation) is comfortably within our normally acceptable range.

Assumption	Authority	KPMG	Assessment (See previous page for range definitions)	Commentary
Discount rate	2.60%	2.50%	5	The Authority's proposed assumption is considered to be optimistic but within our normally acceptable range.
Pension Increase Rate	2.40%	2.16%	1	The proposed assumption is considered to be cautious but within our normally acceptable range.
Salary increases	CPI plus 1.0%	CPI plus 0% to 2.0%	3	We would typically expect salary increases to fall in the range of CPI plus 0% to 2%. Salary increase assumptions have been derived consistently with the approach taken at the most recent LGPS valuation. We would consider this approach to be reasonable.
Life expectancy at retirement Males currently aged 45 / 65 Females currently aged 45 / 65	 23.8 / 22.1 26.2 / 24.3	 23.5 / 22.1 25.4 / 23.9	1	The life expectancies assumptions are consistent with those used in the most recent LGPS valuation and can be considered acceptable.

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 Policy, Finance and Development Committee on 17 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 4**) for this year's audit was set at £0.5 million. Audit differences below £25k are not considered significant.

We did not identify any material misstatements. In addition, we identified a number of presentational adjustments required to ensure that the accounts are compliant with the Code of Practice on Local Authority Accounting in the United Kingdom 2017-18 ('the Code'). These adjustments have been set out in **Appendix 3.** We understand that the Authority will be addressing these where significant.

Proposed opinion and audit differences (cont.)

Annual Governance Statement

We have reviewed the Authority's 2017-18 Annual Governance Statement and confirmed that 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. A small number of minor presentational changes have been identified, which will be amended in the final version of the report.

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 Oadby and Wigston Borough Council for the year ending 31 March 2018, we confirm that there were no relationships between KPMG LLP and Oadby and Wigston Borough Council, its directors and senior management and its affiliates that we consider may reasonably be thought to bear on the objectivity and independence of the audit engagement lead and audit staff. We also confirm that we have complied with Ethical Standards and the Public Sector Audit Appointments Ltd requirements in relation to independence and objectivity.

We have provided a detailed declaration in Appendix 6 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 Director of Finance and Transformation s.151 Officer) for presentation to the Policy, Finance and Development 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 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 2017-18 financial statements.

Section three

Value for Money Arrangements

Specific value for money risk areas

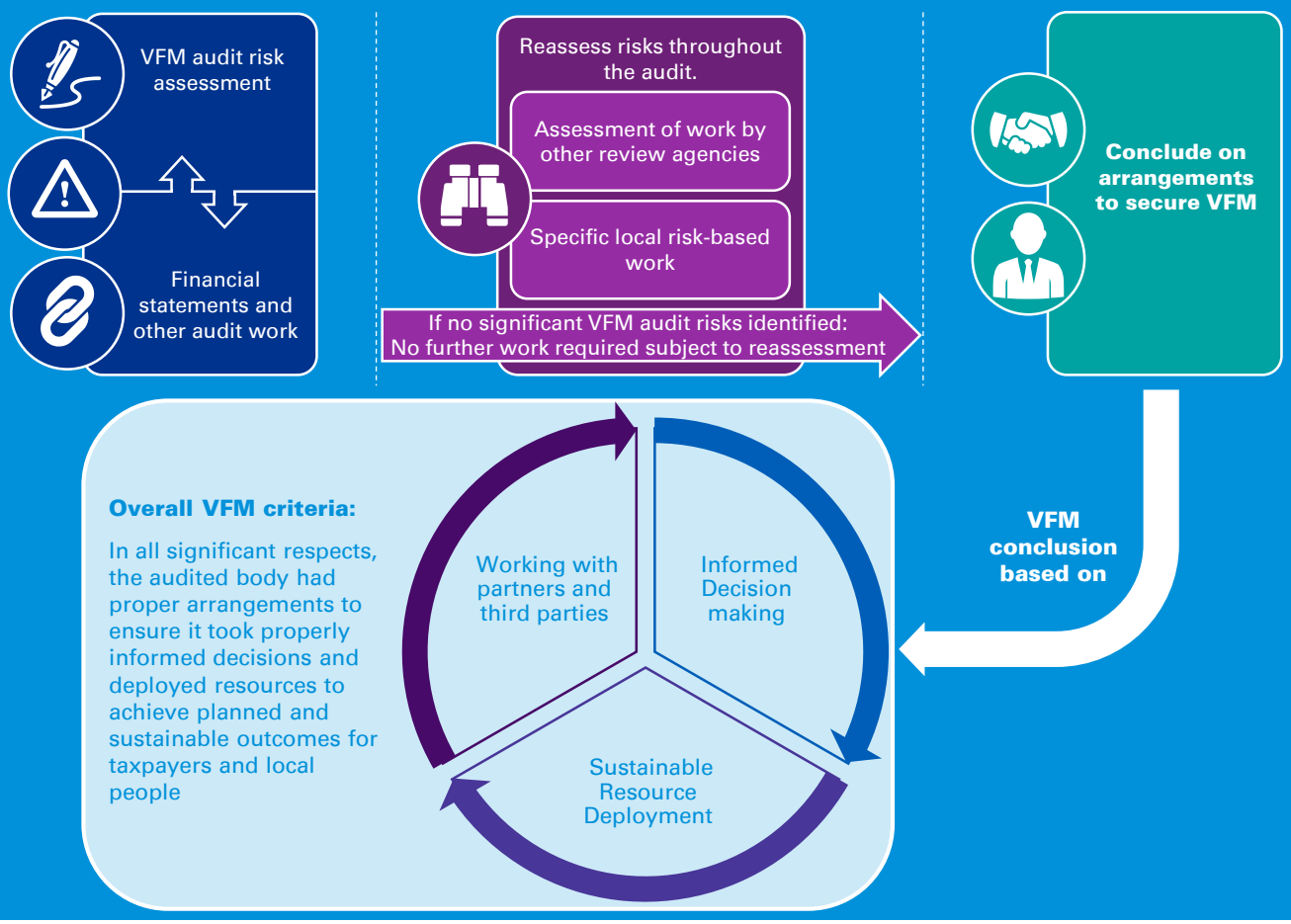
Our 2017-18 VFM conclusion considers whether the Authority had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.

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 risk 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
Financial Resilience	✓	✓	✓

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 one risk requiring specific audit attention and procedures to address the likelihood that proper arrangements are not in place to deliver value for money.

We are satisfied that external or internal scrutiny provides sufficient assurance that the Authority's current arrangements in relation to this risk area are adequate.

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

VFM Risk

Financial Resilience

The Authority continues to face similar financial pressures and uncertainties to those experienced by others in the local government sector, such as the future of business rate distribution. For 2017/18, the Authority has a balanced budget through the use of planned reserves of £0.150m.

The Medium Term Financial Strategy (MTFS) 2018/19 to 2019/20 identifies funding gap on the general fund of £0.410m for 2019/20 as a result of increasing cost pressures and reduction in Revenue Support Grant. Potential saving programme have been identified by the Authority and are currently under review.

Following the July 2015 Budget, which introduced a 1% per annum rent reduction for tenants over the next four years, the Authority reviewed its HRA business plan to assess the impact of these reductions. The updated plan showed that the plan was still viable, but that HRA balances would drop to their minimum sustainable level and remain there until around 2023. The MTFS forecasts a reduction in reserve balances of the Housing Revenue Account to £0.300m by 2017/18, the recommended minimum level of reserves.

The Authority needs to have effective arrangements in place for managing its annual budget, generating income and identifying and implementing any savings required to balance its medium term financial plan.

Our assessment and work undertaken:

We have undertaken the following procedures over this VFM risk:
- Reviewed the arrangements the Authority has in place to ensure financial resilience;
- Reviewed the Authority's arrangements in place to deliver services through partnerships.

We have completed our assessment by:
- Regular liaison with the Director of Finance and Transformation, and key personnel;
- Review of the Medium Term Financial Strategy 2018/19 to 2019/20; and
- Review of 2017/18 outturn vs budget and 2018/19 budget.

Our findings are summarised below:
- The Authority reported an underspend of £0.07m on its net expenditure revised general fund budget for 2017/18. General Fund reserve stands at £0.6m as at 31 March 2018. This is still above the minimum General Fund reserve balance set by the Authority of 5% of net expenditure.
- The Authority reported an underspend of £0.33m on its Housing Revenue Account (HRA) against the 2017/18 revised budget. As a result the closing balance on the HRA is £0.33m higher than the revised budget.

Specific value for money risk areas (cont.)

Significant VFM Risks (cont.)

Our assessment and work undertaken:

- The Authority has set a General Fund balanced budget of £6.4m for 2018/19 with planned use of reserves of £0.2m. The use of planned reserves still enables the Authority to have General Fund reserve of £0.61m as at 31/03/2019 (forecast), which is above the minimum General Fund reserve balance set by the Authority of 5% of net expenditure. The Authority has also set a balanced HRA budget with forecasted closing HRA balance of £0.3m as at 31 March 2019.
- The Authority has refreshed its Medium Term Financial Strategy 2018/19 to 2019/20 and revisited its assumptions in July 2018. Based on these assumptions the Authority has a balanced budget for 2019/20, which has been achieved by identifying various schemes that can be implemented and be fully operational by April 2019 to delivery £0.2m savings required.
- The Authority works with a number of third party partners to deliver services including utilising payroll services and IT services from Leicestershire County Council and Hinckley and Bosworth Borough Council. The Authority is also a works with partners through its community safety partnership to reduce the incidents of anti social behaviour, substance misuse, acquisitive crime (robbery and burglary) and violent and hate crime (including domestic abuse) within the borough.
- Like most of local government, the Authority faces a challenging future driven by funding reductions and an increase in demand for services. This is further complicated by the uncertainty relating to the future of financing of local government, particularly business rate reform, fair funding review and the strategy for funding social care, as well as the more general uncertainties in relation to Brexit.
- The Authority needs make tough decisions ahead to deliver balanced budgets over the coming years, but also maintain strict budgetary control to minimise overspends and continue to monitor delivery of savings targets tightly.

Appendices

Appendix 1:

Key issues and recommendations

Our audit work on the Authority's 2017-18 financial statements has identified a number of issues. We have listed these issues in this appendix together with our recommendations which we have agreed with Management. We have also included Management's responses to these recommendations.

The Authority should closely monitor progress in addressing the risks, including the implementation of our recommendations.

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

Priority Rating for Recommendations

1	**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. Recommendations Raised: 0	2	**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. Recommendations Raised: 4	3	**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. Recommendations Raised: 0

No.	Risk	Issue & Recommendation	Management Response
1	2	***Revoking IT access of leavers*** The Authority's payroll function is outsourced to Leicestershire County Council. Testing of payroll general IT controls identified that no Leicestershire County Council specific user responsibility review has been undertaken since 2015. Furthermore our testing of payroll leavers (system users) identified that access had not been revoked in a timely manner in 20 cases. Further investigation identified that of the twenty cases, twelve had not logged onto their accounts after their HR leaving date. Of the remaining eight who had logged on after their leaving date, each individual had either re-joined the organisation or had not raised any orders since their leaving dates. ***Risk*** There is an increased risk of unauthorised access to the payroll system and data. ***Recommendation*** A regular specific user responsibility review should be introduced and evidenced to ensure that all user access is current and relevant.	As part of the GDPR programme, leavers have systems access withdrawn after their leaving date and this is now part of the "leavers cycle". We will work closely with partners at Leicestershire County Council and Internal Audit to ensure this is carried out in a timely manner. ***Responsible Officer*** Karen Pollard, Head of Corporate Services ***Implementation Deadline*** Ongoing

Appendix 1:

Key issues and recommendations

Our audit work on the Authority's 2017-18 financial statements has identified a number of issues. We have listed these issues in this appendix together with our recommendations which we have agreed with Management. We have also included Management's responses to these recommendations.

The Authority should closely monitor progress in addressing the risks, including the implementation of our recommendations.

No.	Risk	Issue & Recommendation	Management Response
2	2	***Evidencing business rates parameter uplift & review*** Our testing of the business rates system identified that there was no evidence retained to show that business rates parameter have been entered into business rates system and subject to review by the Head of Taxation and Welfare. ***Risk*** Incorrect parameters are used resulting in incorrect billing. ***Recommendation*** The Authority should evidence the input of annual business rates parameter into the business rates system and also demonstrate the checking and review of this parameter by Head of Finance, Revenues and Benefits.	This issue occurred as part of the management transition period in early 2017. This issue will not apply during 2018/19 as the Head of Finance, Revenues and Benefits has already input the parameters and this is evidenced. ***Responsible Officer*** Head of Finance Revenues and Benefits ***Implementation Deadline*** Implemented
3	2	***Completeness of payroll reconciliation*** Our testing of the year end payroll reconciliation (March 2018) identified that the reconciliation had been signed off as prepared and reviewed without being fully completed. The error identified was isolated to the reconciliation picking up the wrong codes from the ledger for tax credits. The value of the error in total was below our reporting threshold. ***Risk*** Payroll expenditure is incorrectly stated. ***Recommendation*** The Authority should strengthen the payroll reconciliation review process to ensure that each reconciliation is only signed off as reviewed where fully complete.	This error in process has been corrected, and subsequent payroll reconciliations have been correct. ***Responsible Officer*** Head of Finance Revenues and Benefits ***Implementation Deadline*** Implemented

Appendix 1:

Key issues and recommendations

Our audit work on the Authority's 2017-18 financial statements has identified a number of issues. We have listed these issues in this appendix together with our recommendations which we have agreed with Management. We have also included Management's responses to these recommendations.

The Authority should closely monitor progress in addressing the risks, including the implementation of our recommendations.

No.	Risk	Issue & Recommendation	Management Response
4	2	***Quality of audit working papers*** The majority of audit working papers were made available to the audit team at the start of the onsite visit. However, we found some quality issues in relation to the working papers provided in 2017/18. The quality of audit evidence initially provided did not align to our expectations which were set out in our Accounts Audit Protocol 2017/18, for some areas of the accounts. Nevertheless we note there has been some improvements from the prior year. ***Risk*** Financial statements contain errors and audit visit taking longer than necessary. ***Recommendation*** The Authority should ensure that all audit evidence is available at the start of the audit, in a quality and format which aligns with our Accounts Audit Protocol.	As part of the pre-audit working with KPMG, the Authority did highlight that some papers would not be available by the commencement of the audit due the ongoing discussion of working paper requirements. Once this has been cleared up, papers were issued. The team will continuously strive to create perfect working papers and consider this an ongoing goal. ***Responsible Officer*** Head of Finance Revenues and Benefits ***Implementation Deadline*** Ongoing

Appendix 2:

Follow-up of prior year recommendations

The Authority has not implemented all of the recommendations raised through our previous audit work.

We re-iterate the importance of the outstanding recommendations and recommend that these are implemented as a matter of urgency.

This appendix summarises the progress made to implement the recommendations identified in our *ISA 260 Report 2016/17* and outstanding recommendations from previous audit years and re-iterates any recommendations still outstanding.

Number of recommendations that were	
Included in the original report	4
Implemented in year or superseded	2
Outstanding at the time of our final accounts audit	2

No.	Risk	Issue & Recommendation	Management's Original Response	Status as at July 2018
1	2	***Issue*** Our Prepared by Client list, issued in April 2017 to the Interim Finance and Accountancy Manager, set out our working paper requirements for the audit. As part of our final accounts visit, it was noted that: —Working papers provided were not fully checked against the requirements listed in the Prepared by Client list. As a result, we were required to request working papers during the audit which could have been provided at the outset. In particular, this related to payroll, debtors and creditors. This caused avoidable delays to the audit process. —The Prepared by Client list was not clearly referenced to the working papers provided. This caused delays and avoidable queries where we were not able to clearly identify the location or contents of the working papers. ***Recommendation*** The Authority should ensure that, at the outset of the audit, a set of working papers is provided that fully meets the requirements of the Prepared by Client list, and that these are clearly referenced	In previous years the Finance Team has been complimented on the quality of the working papers provided to auditors. In bringing forward the deadline for closure it is accepted the Prepared for Client list could have been more clearly cross-referenced to specific working papers and this will be addressed in future years. ***Responsible Officer*** Chris Raymakers – Head of Finance, Revenues and Benefits ***Implementation Deadline*** Evidence for interim audit - February 2018 and main audit - June 2018.	**Superseded** A new recommendation relating Quality of audit working papers has been raised in **Appendix 1**.

Appendix 2:

Follow-up of prior year recommendations

No.	Risk	Issue & Recommendation	Management's Original Response	Status as at July 2018
1	2	(cont.) to the list. This will aid the completion of the audit in line with next year's tighter deadline. Working papers should provide a clear and concise trail from the financial statements through to sufficient and appropriate evidence within supporting documentation.	See above	See above
2	2	***Issue*** Our audit identified that a small number of notes in the financial statements had not been updated for the current year, and still reflected the content of the previous year's accounts. These were: —Details of the capital programme in the Narrative Report; and —Capital commitments disclosed as part of the Property, Plant and Equipment note. This has led to the Authority having to process subsequent alterations to the draft accounts. We would expect these issues to be identified as part of the review process prior to publishing the draft financial statements. ***Recommendation*** The Authority should ensure that, prior to publication of the draft financial statements for 2017/18, a full review is carried out to ensure that no content has been rolled forward from the previous year's template. This is particularly important with the tighter deadline in place next year, as the Authority will have less time to process amendments.	In rolling forward the standard notes to the financial statements from last financial year (2015/16) some of the commentary that was specific to the previous year was unintentionally duplicated in the draft 2016/17 notes. In future years a full review of the notes will be undertaken to ensure this does not happen again. ***Responsible Officer*** Chief Finance Officer ***Implementation Deadline*** Main audit – June 2018	**Implemented**

Appendix 2:

Follow-up of prior year recommendations

No.	Risk	Issue & Recommendation	Management's Original Response	Status as at July 2018
3	3	***Issue*** Our review of intangible assets showed that a large proportion of them had been fully amortised. There is a possibility that some of these assets are no longer in use and should be written out of the cost and accumulated amortisation. ***Recommendation*** Complete a thorough review of all items on the intangibles listing and determine whether the assets are still in use. If an asset is no longer in use then it should be removed from the asset register. Where assets are found to still be in use, but fully amortised, the Authority should consider whether the amortisation period is appropriate, and also whether it is exposed to a risk of using out of date software.	A full review of all assets on the fixed asset register will take place before year end. In particular this will take in Intangible Assets and Plant and Equipment to establish the assets continual use. ***Responsible Officer*** Interim Finance and Accountancy Manager ***Implementation Deadline*** September 2017	**Partially Implemented** Our testing of intangible assets has identified that the Authority have completed an exercise to identify which intangible assets are still in use and evidence of this has been retained and provided to audit. However, of those intangible assets identified as no longer in use, some still remain on the 2017/18 intangible FAR and have not been written out. Confirmation has been obtained from the Capital Accountant that further review is required over these items as to the appropriateness of their non use, in discussion with the relevant departments. This exercise will continue into 2018/19.

Appendix 2:

Follow-up of prior year recommendations

No.	Risk	Issue & Recommendation	Management's Original Response	Status as at July 2018
4	2	***Issue*** Our review of the Authority's documentation and discussion with relevant officers identified that the Authority do not evidence their review of the assumptions used by the actuaries upon receipt of their report. There is therefore a risk of potential errors arising from incorrect assumption applied by the actuaries, which impacts on the Authority's financial statements. ***Recommendation*** The Authority should document their review of these assumptions, and as part of best practice the actuarial assumptions report should be taken to the Policy, Finance and Development Committee for approval by members. This is in line with the best practice approach taken at a number of Authorities.	Although a sense check is carried out on the assumptions each year this is not generally documented. In 2016/17 any review will be documented and evidence that the review was carried out will be kept. A new triennial review will be taking place during 2016/17. Update: September 2017: In future the Council's s151 Officer will meet with pension fund actuaries ahead of the close of accounts and the production of their annual report to review assumptions and report these to Policy, Finance and Development Committee. ***Responsible Officer*** Interim Finance and Accountancy Manager ***Implementation Deadline*** Original:31 May 2017 Updated: 31 May 2018	**Partially Implemented** Due to staff changes, the Director of Finance and Transformation (S151 officer) did not meet with pension fund actuaries in 2017/18. Some review of the actuarial work was completed by the Head of Finance, Revenue and Benefits in 2017/18, specifically around RPI and CPI. In the future, the Authority should build upon this and produce a report on these assumptions which is taken to the Policy, Finance and Development Committee.

Appendix 3:

Audit differences

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

Presentational adjustments – Authority

There are no material audit adjustment.

We identified a number of presentational adjustments required to ensure that the Authority's financial statements for the year ending 31 March 2018 are fully compliant with the Code of Practice on Local Authority Accounting in the United Kingdom 2017-18 ('the Code').

Whilst these adjustments were not significant, we identified a limited number of adjustments of a more significant nature and details of these are provided in the following table.

It is our understanding that these will be adjusted. However, we have not yet received a revised set of financial statements to confirm this.

Table 5: Presentational adjustments – Authority

No.	Basis of audit difference
1	Removal of balancing figure within draft cash flow statement (£42k).
2	The Audit fee for 2016/17 has been incorrectly adjusted in the current year draft accounts. This should be reflected in the 2016/17 comparatives.
3	One senior officers remuneration in note 35 was incomplete. An adjustment of £3k will be made to this note.
4	The Narrative Report does not contain all the required disclosures per the CIPFA code. Omissions include key relationships with other parties for effective service delivery and challenges facing the Authority. Risks and opportunities, performance indicators & relationship with the expenditure and funding analysis and an outlook of cashflows during the year and the factors that may affect future cash flows.
5	A number of other minor presentational amendments have been identified, including adding omitted hierarchy level disclosures to financial instruments note, adding missing accounting standards not yet adopted and making a small number of presentational changes to the accounting policies note to allow full compliance with the CIPFA code and our understanding of the Authority.
6	Review of the draft accounts identified that other comprehensive income and expenditure in the CIES and MIRS did not reconcile. This was due to an omission of a late actuary adjustment that was reflected in the pensions reserve and MIRS but not within the actuarial gains and losses on the pension fund reported in the other income and expenditure as part of the CIES.

Appendix 4:

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.

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

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

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

We used the same planning materiality reported in our *External Audit Plan 2017-18*, presented to you in May 2018.

Materiality for the Authority's accounts was set at £0.5 million which equates to around 1.9 percent of gross expenditure. We design our procedures to detect errors in specific accounts at a lower level of precision.

Reporting to the Policy, Finance and Development 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 Policy, Finance and Development 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 £25k 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 Policy, Finance and Development Committee to assist it in fulfilling its governance responsibilities.

Appendix 5:

Required communications with the Policy, Finance and Development Committee

We have provided below at-a-glance summary of the information we are required to report to you in writing by International Audting 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 no adjusted material audit differences. See page **33** for details
Unadjusted audit differences	We have identified no unadjusted audit differences
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 Policy, Finance and Development Committee	There were no matters to report arising from the audit that, in our professional judgment, 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 details of significant deficiencies identified, see **pages 26 to 28**. We communicated to management in writing all deficiencies in internal control over financial reporting of a lesser magnitude than significant deficiencies identified during the audit that had not previously been communicated in writing.
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.
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 and others in the firm, as appropriate, the firm and, when applicable, KPMG member firms have complied with relevant ethical requirements regarding independence. See **Appendix 6** 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 16.**
Significant matters discussed or subject to correspondence with management	There were no significant matters arising from the audit.

Appendix 6:

Declaration of independence

ASSESSMENT OF OUR OBJECTIVITY AND INDEPENDENCE AS AUDITOR OF OADBY AND WIGSTON 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 6:

Declaration of independence (cont.)

Independence and objectivity considerations relating to the provision of services

Summary of fees

We have detailed the fees charged by us to the authority for professional services provided by us during the reporting period. 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	42,784	47,534
Total audit services	**42,784**	**47,534**
Audit related assurance services	3,000	4,000
Total Non Audit Services	**3,000**	**4,000**
Mandatory assurance services	7,560	9,314
Total mandatory assurance services Services	**7,560**	**9,314**

No approval is required from PSAA for the non-audit services above as they are below the relevant threshold. In addition, we monitor our fees to ensure that we comply with the 70% non-audit fee cap set by the NAO.

Facts and matters related to the provision of non-audit services and the safeguards put in place that bear upon our independence and objectivity, are set out table on the following page.

Appendix 5:

Declaration of independence (cont.)

Analysis of 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 £
Audit-related assurance services				
Grant Certification – Pooling of Housing Capital Receipts Return 2016/17 (Performed in 2017/18 but related to 2016/17)	**Self-interest:** This engagement is entirely separate from the audit through separate contract. In addition, the statutory audit fee scale rates were set independently to KPMG by the PSAA. Therefore, this engagement has no perceived or actual impact on the audit team and the audit team resources that will be deployed to perform a robust and thorough audit. **Self-review:** The nature of this work is auditing this grant return. The return has no impact on the main audit. Therefore this does not impact on our opinion and we do not consider that the outcome of this work threats to our role as external auditors. Consequently we consider we have appropriately managed this threat. **Management threat:** This work will be audit work only – all decisions are made by the Authority. **Familiarity:** This threat is limited given the scale, nature and timing of the work. **Advocacy:** We will not act as advocates for the Authority in any aspect of this work. We will draw on our experience in such roles to provide the Authority with a range of approaches but the scope of this work falls well short of any advocacy role. **Intimidation:** not applicable.	Fixed Fee	3,000	-
Mandatory assurance services				
Grant Certification – Housing Benefit Subsidy Return	The nature of this mandatory assurance service is to provide independent assurance on this return. The fee is set by the PSAA. As such we do not consider it to create any independence threats.	Fixed Fee	9,314	7.560

Declaration of independence (cont.)

Independence and objectivity considerations relating to other matters

There are no other matters that, in our professional judgment, bear on our independence which need to be disclosed to the Policy, Finance and Development 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 Policy, Finance and Development 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

The key contacts in relation to our audit are:

Tony Crawley
Director

T: +44 (0) 7966 184819
E: Tony.Crawley@kpmg.co.uk

Sundeep Gill
Manager

T: +44 (0) 7798 572337
E: Sundeep.Gill@kpmg.co.uk

Laura Bedford
Assistant Manager

T: +44 (0) 7920 502249
E: Laura.Bedford@kpmg.co.uk

kpmg.com/uk

This report is addressed to the Authority and has been prepared for the sole use of the Authority. We take no responsibility to any member of staff acting in their individual capacities, or to third parties. 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 Tony Crawley, 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.