

NORTH LINCOLNSHIRE COUNCIL

AUDIT COMMITTEE

EXTERNAL AUDIT REPORTS

1. OBJECT AND KEY POINTS IN THIS REPORT

1.1 To consider external audit's reports:

- External Audit Plan 2016/17
- Certification of Grants and Returns Report 2015/16
- Technical Update and Progress Report

2. BACKGROUND INFORMATION

- 2.1 The Audit Plan 2016/17 (appendix A) provides details of external audit's work required to give an opinion on whether the accounts give a true and fair view and a statutory conclusion on the council's arrangements to secure economy, efficiency and effectiveness. The proposed fee for the audit is £104,138, the same as the previous year. The fee provides for basic audit work.
- 2.2 The Certification of Grant Claims and Returns 2015/16 report is attached at appendix B. No recommendations have been made during the year and the one recommendation previously made was confirmed as implemented.
- 2.3 The Technical Update and Progress Report provides the Audit Committee with a summary on progress in delivering external audit's statutory responsibilities. It also highlights key emerging national issues and developments which may be of interest to Members. A copy of the report is attached in appendix C.

3. OPTIONS FOR CONSIDERATION

- 3.1 The Audit Committee should consider the external auditor's reports and the assurance that has been given or can be implied from their conclusions. The Committee should seek clarification from the external auditors or council officers as necessary.

4. ANALYSIS OF OPTIONS

- 4.1 The Audit Plan is the result of a risk assessment and complies with statutory requirements governing external audit and inspection work.

5. RESOURCE IMPLICATIONS (FINANCIAL, STAFFING, PROPERTY, IT)

- 5.1 Audit Plan fees of £104,138 are met within existing budgets.
- 5.2 Additional costs could be incurred subject to any follow up audits or challenge from residents.

6. OUTCOMES OF INTEGRATED IMPACT ASSESSMENT (IF APPLICABLE)

- 6.1 An Integrated Impact Assessment is not required.

7. OUTCOMES OF CONSULTATION AND CONFLICTS OF INTERESTS DECLARED

- 7.1 There are no conflicts of interests to declare.

8. RECOMMENDATIONS

- 8.1 That the Audit Committee notes the following reports:
- a) External Audit Plan 2016/17
 - b) Certification of Grants and Returns Report 2015/16
 - c) Technical Update and Progress Report

DIRECTOR OF GOVERNANCE AND PARTNERSHIPS

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Author: Peter Hanmer
Date: 27 March 2017

Background Papers used in the preparation of this report:

KPMG reports:
External Audit Plan 2016/17
Certification of Grants and Returns Report 2015/16
Technical Update and Progress Report;



Technical update

North Lincolnshire Council

March 2017

Contents

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This report provides the Audit Committee with an overview on progress in delivering our responsibilities as your external auditors.


The report also highlights the main technical issues which are currently having an impact in local government.

If you require any additional information regarding the issues included within this report, please contact a member of the audit team.

We have flagged the articles that we believe will have an impact at the Authority and given our perspective on the issue:

 High impact

 Medium impact

 Low impact

 For information

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.psa.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 John Prentice, 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 PSA'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.



External audit progress report

External audit progress report

This document provides the audit committee with a high level overview on progress in delivering our responsibilities as your external auditors.

At the end of each stage of the audit we issue certain deliverables, including reports and opinions. A summary of progress against these deliverable is provided in Appendix 1 of this report.

Area of responsibility	Commentary
Financial statements	<p><i>We agreed the 2016/17 Audit Plan which is part of the agenda for this meeting in February 2017.</i></p> <p><i>We have now largely completed our interim work which evaluates and tests the controls for significant financial systems. This includes the ledger, payroll, accounts payable and receivable, revenues systems including housing benefit, council tax and business rates. We carried out this work at North Lincolnshire Business Connect as part of our interim audits for both the Council and North East Lincolnshire Council.</i></p> <p><i>There were no significant matters to report to you in this early work.</i></p>
Value for Money	<p><i>We have completed our risk assessment and this is included in the 2016/17 Audit Plan. We will continue to assess any VFM risk as part of our on-going work.</i></p>
Certification of claims and returns	<p><i>The Report from our 2015/16 work is on the agenda for this meeting.</i></p> <p><i>Our 2016/17 work on Housing Benefits will commence in Summer 2017 to be completed in Autumn 2017.</i></p>
Other work	<p><i>No additional work has been requested.</i></p>



Technical developments

Update to the 2016-17 Code of Practice on Local Authority Accounting

Level of impact: ● (Low)	KPMG perspective
<p>The Update to the 2016-17 Code of Practice on Local Authority Accounting in the United Kingdom (the accounting code) has been issued. The main change to the 2016-17 accounting code reflects the delay announced by CIPFA/LASAAC to the implementation of the highways network asset.</p> <p>Further information can be found on the CIPFA website at http://www.cipfa.org/policy-and-guidance/technical-panels-and-boards/cipfa-lasaac-local-authority-code-board/ifrsbased-code-of-practice-on-local-authority-accounting-in-the-united-kingdom-the-code</p> <p>At its meeting on March 8th, the CIPFA/LASAAC Code Board decided not to proceed with the introduction of the Highways Network Asset Code into the financial reporting requirements for local authorities. The Board decided that, currently and in particular in the absence of central support for key elements of the valuation, the benefits are outweighed by the costs of implementation for local authorities. The Board determined that it will give further consideration to this issue only if provided with clear evidence that benefits outweigh costs for local authorities.</p>	<p><i>The Committee should familiarise themselves with the key changes.</i></p>

NAO Report - Housing in England: overview

Level of impact: ● (For Information)

The NAO has recently published an overview of the housing market in England, the Department for Communities and Local Government's (DCLG) housing strategy and the overall housing policy landscape, which may be of interest to auditors in considering bodies' arrangements to secure value for money. The need for housing in England has in recent years grown faster than its supply.

Total estimated government spending on housing in England was approximately £28 billion in 2015-16. The most significant element of this is housing benefit. In 2015-16 there were 4.1 million claimants in England, costing around £20.9 billion. Two of DCLG's four strategic objectives for this Parliament are focused on housing: increasing home ownership, and increasing the supply of homes, with an ambition of delivering a million new homes in England by 2020.

The report finds that housebuilding has not kept pace with need, and this is particularly acute in London. It notes that DCLG is reliant on the market to achieve its housing objectives and it is not yet clear what impact the result of the referendum on Britain's membership of the European Union will have on the market.

The report also finds that housing has become more affordable for existing homeowners, whereas by contrast housing has become less affordable for first-time buyers, and social housing rents have been increasing faster than earnings since 2001-02. Homelessness has also increased over the past five years. At the end of March 2016, 71,500 homeless households in England were in temporary accommodation, up from around 48,000 in 2010-11.

Various public bodies have responsibilities for housing, often using housing as a means of achieving other objectives. In addition, changes made in one area of housing policy can have impacts in other areas. In July 2015, for example, the government announced a reduction in the rents housing associations and local authorities could charge of 1% per year. This reduced the ability of housing associations to finance the construction of new housing.

The report is available from the NAO website at <https://www.nao.org.uk/report/housing-in-england-overview/>

NAO Report: Local Support for People with a Learning Disability

Level of impact: ● (For Information)

On 3 March 2017, the NAO published a report on [Local Support for People with a Learning Disability](#). The report examines how NHS in England and local authorities seek to improve the lives of the 129,000 people aged 18 to 64 who use local authority learning disability support services.

The report highlights the good progress made by the Department of Health and NHS England in setting up a programme to close hospital beds for people with a learning disability, but concludes that the programme is not yet on track to achieve value for money. The programme partners have yet to resolve a number of complex challenges if they are to achieve the ambition of a substantial shift away from reliance on inpatient care.

Between £135 million and £195 million annually will need to be made available to pay for health and social care support in the community for people with learning disabilities discharged from mental health hospitals. Unless more funding is made available for local services, this will be an unfunded pressure on the budgets of local authorities and clinical commissioning groups (CCGs). NHS England has recognised that it will take time for funding to move from hospitals to community support. To help in the short-term, it has provided £30 million revenue funding over three years, to be match-funded by partnerships, and £100 million of capital funding.

Technical developments

Comptroller and Auditor General (C&AG) keynote speech: 'The implications of central decision-making on the delivery of frontline services'

Level of impact: ● (For Information)

The Comptroller and Auditor General (C&AG), Sir Amyas Morse, recently gave a keynote speech on 'The implications of central decision-making on the delivery of frontline services' at the Strand Group, the Policy Institute at King's College London's signature seminar series.

Drawing on his unique perspective looking across the whole of the public sector, the C&AG explored some of the elements of strategic financial management and planning that influence the success of major reform programmes in connected systems.

The speech examined how central government introduces reforms to locally delivered services to achieve its policy objectives, and the effect of its approach on funding, budgeting and efficiency.

Using the examples of local government, adult social care, and the NHS in England, the C&AG argued that the focus of local public services has shifted from providing 'more for less' to providing 'less for less', and that the lack of joined-up decision-making and funding arrangements between connected systems can often lead to consequences such as:

- unforeseen conflicting objectives for local bodies;
- cost shunting between parts of connected systems; and ultimately
- risks of financial, or service, failure locally.

The C&AG explained how year-on-year funding reductions can impact on the accessibility and quality of the services provided, not only for the local government sector, but across the health and social care system more widely.

The C&AG concluded that central government can do more to understand how assumptions about the efficiencies that may be available are likely to affect their objectives across public services, to help them promptly manage major risks. He urged those in the centre to do more to look outside of their 'silos' to understand the complexity and interconnectedness of the environment they are seeking to reform.

Finally, he encouraged central government to work more closely with local bodies to ensure that funding and decision-making arrangements drive not only economy and efficiency, but also effectiveness.

A link to the full transcript of the speech is available on the homepage of the NAO website. <https://www.nao.org.uk/>

Technical developments

Public Sector Audit Appointments - Updated terms of appointment and statement of responsibilities published

Level of impact: ● (For Information)

On 23 February 2017, Public Sector Audit Appointments Ltd (PSAA), issued the revised document *Terms of Appointment: Principal Local Authorities and Police Bodies*. There are minimal changes to the document issued in September 2015 the re-write is intended to clarify or simplify the arrangements within the document.

PSAA has also issued an updated *Statement of Responsibilities of auditors and audited bodies Principal Local Authorities and Police Bodies* applicable for 2017/18. The Statement explains where the differing responsibilities of auditors and of audited bodies begin and end, and sets out what auditors should expect of the audited bodies in certain areas. The Statement is consistent with those issued previously, but removes references to local NHS bodies and smaller authorities.

Both documents are available on the PSAA's website at <http://www.psa.co.uk/appointing-auditors/terms-of-appointment/>.

Technical developments

100% Business Rates Retention - Department for Communities and Local Government (DCLG) consultation

Level of impact: ● (For Information)

The Department for Communities and Local Government (DCLG) has launched a further consultation on its proposals for 100% retention of business rates by the local government sector. This consultation is part of DCLG's ongoing process of engagement and collaboration on the design of reforms. It seeks views on some of the detailed aspects of the design of the reformed system, including:

- the operation of partial resets;
- how to measure growth over a reset period;
- plans for business rate pooling and local growth zones;
- how to best move to a centrally managed appeals risk system;
- the approach to tier splits;
- the operation of a future safety net; and
- proposals for the central list.

The consultation closes on Wednesday 3 May 2017. Details are available on the web-site:

<https://www.gov.uk/government/consultations/100-business-rates-retention-further-consultation-on-the-design-of-the-reformed-system>



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Annual Report on grants and returns 2015/16

North Lincolnshire Council

January 2017



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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. Public Sector Audit Appointments issued a document entitled Statement of Responsibilities of Auditors and Audited Bodies summarising where the responsibilities of auditors begin and end and what is expected from audited bodies. We draw your attention to this document which is available on Public Sector Audit Appointment's website (www.psaa.co.uk).

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

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Introduction and background

This report summarises the results of work we have carried out on the Council's 2015/16 grant claims and returns.

This includes the work we have completed under the Public Sector Audit Appointment certification arrangements, as well as the work we have completed on other grants/returns under separate engagement terms. The work completed in 2015/16 is:

- Under the Public Sector Audit Appointments arrangements we certified one claim – the Council's 2015/16 Housing Benefit Subsidy claim. This had a value of £45.3 million.
- Under separate assurance engagements we certified 2 claims/returns as listed below.
 - Teachers' Pensions Return with a value of £6.7m; and
 - National College of Training and Leadership Grant with a value of £0.15m.

Certification and assurance results (Pages 3-4)

Our certification work on the Housing Subsidy Benefit claim included:

- agreeing standard rates, such as for allowances and benefit incomes, to the DWP Circular communicating the value of each rate for the year;
- sample testing of benefit claims to confirm that the entitlement had been correctly calculated and was supported by appropriate evidence;
- undertaking an analytical review of the claim form considering year-on-year variances and key ratios;
- confirming that the subsidy claim had been prepared using the correct benefits system version; and
- completing testing in relation to modified schemes payments, uncashed cheques and verifying the accurate completion of the claim form.

Following the completion of our work, the claim was subject to a qualification letter.

- One error was identified in our testing of rent allowances due to the incorrect input of working tax credits.
- This error was not identified in 2014/15.

Our work on the other grant assurance engagements did not identify any errors.

An adjustment was necessary to the Housing Subsidy Benefit claim as a result of our certification work this year. The value of the adjustment was £58, compared to £21,011 in the previous year.

Recommendations (Pages 7 – 8)

We have made no recommendations to the Council from our work this year.

In addition there was 1 recommendation outstanding from previous years' work on grants and returns. The Council has implemented the recommendation, with no overpayment classification errors identified in 2015/16.

Fees (Page 5)

Our fee for certifying the Council's 2015/16 Housing Benefit Subsidy grant was £13,417 which is in line with the indicative fee set by PSAA.

Our fees for the other 'assurance' engagements were subject to agreement directly with the Council and were:

- Teachers' Pensions Return - £3,500; and
- National College of Training and Leadership Grant - £3,000.

Summary of reporting outcomes

Overall, we carried out work on 3 grants and returns:

- 2 were unqualified with no amendment;
- 1 required a qualification to our audit certificate and minor amendment to the final figures.

Detailed comments are provided overleaf.

Detailed below is a summary of the reporting outcomes from our work on the Council’s 2015/16 grants and returns, showing where either audit amendments were made as a result of our work or where we had to qualify our audit certificate or assurance report.

A qualification means that issues were identified concerning the Council’s compliance with a scheme’s requirements that could not be resolved through adjustment. In these circumstances, it is likely that the relevant grant paying body will require further information from the Council to satisfy itself that the full amounts of grant claimed are appropriate.

	Comments overleaf	Qualified	Significant adjustment	Minor adjustment	Unqualified
Public Sector Audit Appointments regime					
— Housing Benefit Subsidy	1	●		●	
Other assurance engagements					
— Teachers’ Pension Return					●
— National College of Training and Leadership Grant					●
		1	0	1	2

Summary of certification work outcomes

This table summarises the key issues behind each of the adjustments or qualifications that were identified on the previous page.

Ref	Summary observations	Amendment
1	<p>Housing Benefit Subsidy Claim</p> <ul style="list-style-type: none"> — An error was identified in the input of a claimant’s working tax credits, resulting in an overpayment of benefit. — Additional testing identified a further input error that resulted in an underpayment of benefit. As there is no eligibility to subsidy for benefit that has not been paid, this additional error did not affect subsidy and therefore was not classed as an error for subsidy purposes. — We did not identify similar errors in the prior year. 	<p>A minor decrease in the subsidy claimed for non HRA rent rebates of £58 was made to the claim form.</p>

Fees

Our fees for the Housing Benefit Subsidy claim are set by Public Sector Audit Appointments.

Our fees for other assurance engagements on grants/returns are agreed directly with the Council.

The overall fees we charged for carrying out all our work on grants/returns in 2015/16 was £19,917.

Public Sector Audit Appointments certification arrangements

Public Sector Audit Appointments set an indicative fee for our work on the Council's Housing Benefit Subsidy claim in 2015/16 of £13,417. Our actual fee was the same as the indicative fee, and this compares to the 2014/15 fee for this claim of £20,820.

Grants subject to other assurance engagements

The fees for our assurance work on other grants/returns are agreed directly with the Council. Our fees for 2015/16 were less than those in 2014/15, with a reduction of £500 for the NCTL return.

Breakdown of fees for grants and returns work

Breakdown of fee by grant/return		
	2015/16 (£)	2014/15 (£)
Housing Benefit Subsidy claim	13,417	20,820
Teachers' Pensions Return	3,500	3,500
National College of Training and Leadership Grant	3,000	3,500
Total fee	19,917	27,820



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External Audit Plan 2016/2017

North Lincolnshire Council

February 2017

The Local Government Landscape



Financial Statement Audit



There are no significant changes to the Code of Practice on Local Authority Accounting in 2016/17, which provides stability in terms of the accounting standards the Authority needs to comply with.

Materiality

Materiality for planning purposes has been based on last year's expenditure and set at **£6 million**.

We are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance and this has been set at **£300,000**.

Significant risks

Those risks requiring specific audit attention and procedures to address the likelihood of a material financial statement error have been identified as:

- changes in the pensions liability due to LGPS Triennial Valuation; and
- creation of the shared services arrangement with North East Lincolnshire Council.

Other areas of audit focus

No other areas of audit focus (that is those risks with less likelihood of giving rise to a material error but which are nevertheless worthy of audit understanding) have been identified during our audit planning

See pages 3 to 6 for more details.

Value for Money Arrangements work



Our risk assessment is ongoing and we will report any significant VFM risks during our audit

See pages 7 to 10 for more details.

Logistics



Our team is:

- John Prentice – Director
- Rob Walker – Manager
- Louise Stables – Assistant Manager

More details are on **page 13**.

Our work will be completed in four phases from December 2016 to September 2017 and our key deliverables are this Audit Plan and a Report to those charged with Governance as outlined on **page 12**.

Our fee for the audit is £104,138 as it was in 2015/16.- see **page 11**.

Introduction

Background and Statutory responsibilities

This document supplements our Audit Fee Letter 2016/17 presented to you in April 2016, which also sets out details of our appointment by Public Sector Audit Appointments Ltd (PSAA).

Our statutory responsibilities and powers are set out in the Local Audit and Accountability Act 2014 and the National Audit Office's Code of Audit Practice.

Our audit has two key objectives, requiring us to audit/review and report on your:

- *Financial statements (including the Annual Governance Statement)*: Providing an opinion on your accounts; and
- *Use of resources*: Concluding on the arrangements in place for securing economy, efficiency and effectiveness in your use of resources (the value for money conclusion).

The audit planning and risk assessment process is an on-going process and the assessment and fees in this plan will be kept under review and updated if necessary.

Acknowledgements

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

Financial Statements Audit

Our financial statements audit work follows a four stage audit process which is identified below. Appendix 1 provides more detail on the activities that this includes. This report concentrates on the Financial Statements Audit Planning stage of the Financial Statements Audit.



Value for Money Arrangements Work

Our Value for Money (VFM) Arrangements Work follows a five stage process which is identified below. Page 7 provides more detail on the activities that this includes. This report concentrates on explaining the VFM approach for the 2016/17 audit.





Financial Statements Audit Planning

Our planning work takes place during December 2016 to February 2017. This involves the following key aspects:

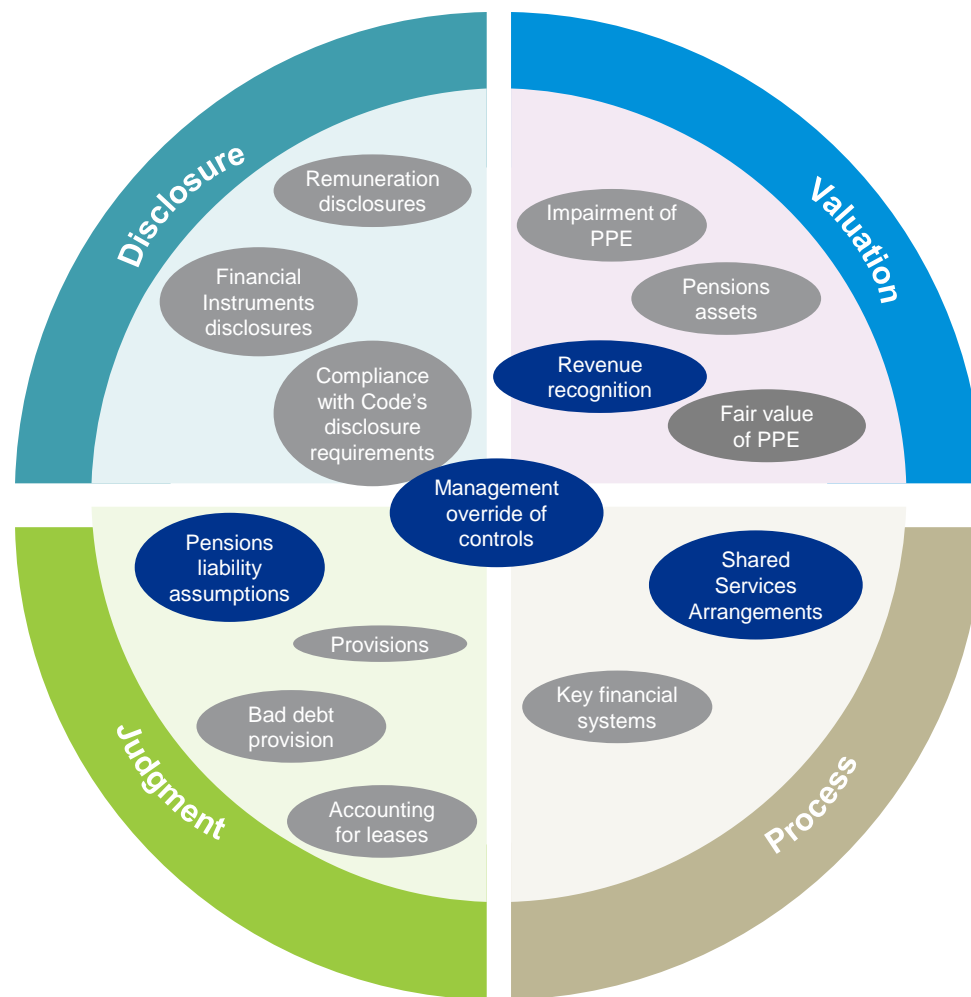
- Risk assessment;
- Determining our materiality level; and
- Issuing this audit plan to communicate our audit strategy.

Risk assessment

Professional standards require us to consider two standard risks for all organisations. We are not elaborating on these standard risks in this plan but consider them as a matter of course in our audit and will include any findings arising from our work in our ISA 260 Report.

- **Management override of controls** – Management is typically in a powerful position to perpetrate fraud owing to 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. In line with our methodology, we carry 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.
- **Fraudulent revenue recognition** – We do not consider this to be a significant risk for local authorities as there are limited incentives and opportunities to manipulate the way income is recognised. We therefore rebut this risk and do not incorporate specific work into our audit plan in this area over and above our standard fraud procedures.

The diagram opposite identifies significant risks and other areas of audit focus, which we expand on overleaf. The diagram also identifies a range of other areas considered by our audit approach.



Keys: ● Significant risk ● Other area of audit focus ● Example other areas considered by our approach



Significant Audit Risks

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

Risk : Significant changes in the pensions liability due to LGPS Triennial Valuation

During the year, the Local Government Pension Scheme for North Lincolnshire Council (the East Riding Pension Fund) has undergone a triennial valuation with an effective date of 31 March 2016 in line with the Local Government Pension Scheme (Administration) Regulations 2013. The Council's share of pensions assets and liabilities is determined in detail, and a large volume of data is provided to the actuary in order to carry out this triennial valuation.

The pensions liability numbers to be included in the financial statements for 2016/17 will be based on the output of the triennial valuation rolled forward to 31 March 2017. For 2017/18 and 2018/19 the actuary will then roll forward the valuation for accounting purposes based on more limited data.

There is a risk that the data provided to the actuary for the valuation exercise is inaccurate and that these inaccuracies affect the actuarial figures in the accounts. Most of the data is provided to the actuary by East Riding of Yorkshire Council which administers the Pension Fund.

Approach : As part of our audit, we will agree any data provided by the Council to the actuary, back to the relevant systems and reports from which it was derived, in addition to checking the accuracy of this data.

We will also liaise with the ERPF Audit Team, who are the auditors of the Pension Fund, where this data was provided by the Pension Fund on the Council's behalf to check the completeness and accuracy of such data.

Significant Audit Risks

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

Risk : Implementation of Shared Services with North East Lincolnshire Council for financial services, audit and assurance services and other central services

The Council has set up a shared services organisation from 1st April 2016, alongside neighbours, North East Lincolnshire Council. This service covers financial services, audit and assurance services and other central services.

The shared services arrangements present a risk to the delivery of the audit. The new structure will present additional pressures for the service to closedown two sets of financial statements. At this stage there is a risk that the changes in structure and closedown procedures **may** lead to a fall in the quality of the prepared accounts and audit working papers and the ability to meet the deadlines in place.

There is also a risk that we do not have appropriate channels of communication in place with Council staff and those in Northern Lincolnshire Business Connect (NLBC).

Approach : We will discuss the requirements with the new team leaders and review the Council's proposed closedown plans as part of our interim audit visit. We will agree with the new team a joint approach to the audit across both Councils to ensure that any issues are identified at the earliest opportunity. We will also assess the Council's planned quality assurance and review. We will agree reporting lines with Council staff and NLBC staff to ensure audit issues are discussed with relevant staff who have the appropriate authority to deal with matters raised.

Our work on the 2015/16 accounts was not adversely affected by the creation of NLBC as transitional arrangements were in place. Our early discussions for 2016/17 has shown that good progress has been made in setting up the arrangements.

Financial statements audit planning (cont.)



Materiality

We are required to plan our audit to determine with reasonable confidence whether or not the financial statements are free from material misstatement. An omission or misstatement is regarded as material if it would reasonably influence the user of financial statements. This therefore involves an assessment of the qualitative and quantitative nature of omissions and misstatements.

Generally, we would not consider differences in opinion in respect of areas of judgement to represent 'misstatements' unless the application of that judgement results in a financial amount falling outside of a range which we consider to be acceptable.

Materiality for planning purposes has been set at £6million which equates to 1.7 percent of gross expenditure.

We design our procedures to detect errors in specific accounts at a lower level of precision.

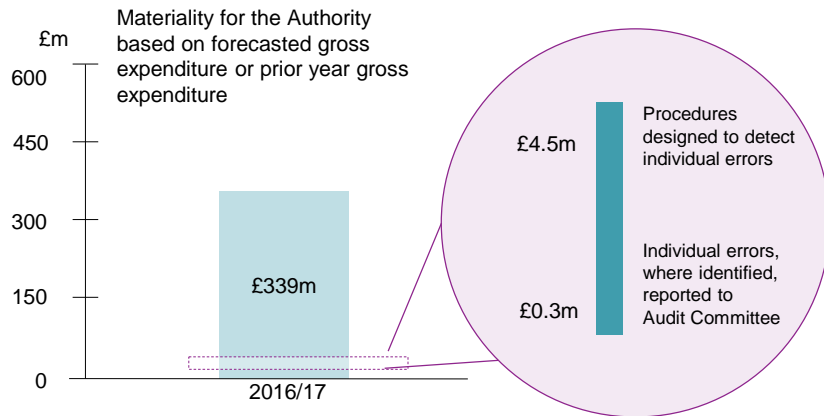
Reporting to the Audit Committee

Whilst our audit procedures are designed to identify misstatements which are material to our opinion on the financial statements as a whole, we nevertheless report to the Audit Committee any unadjusted misstatements of lesser amounts to the extent that these are identified by our audit work.

Under ISA 260(UK&I) 'Communication with those charged with governance', we are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. ISA 260 (UK&I) defines 'clearly trivial' as matters that are clearly inconsequential, whether taken individually or in aggregate and whether judged by any quantitative or qualitative criteria.

In the context of the Authority, we propose that an individual difference could normally be considered to be clearly trivial if it is less than £0.35million.

If management have corrected material misstatements identified during the course of the audit, we will consider whether those corrections should be communicated to the Audit Committee to assist it in fulfilling its governance responsibilities.



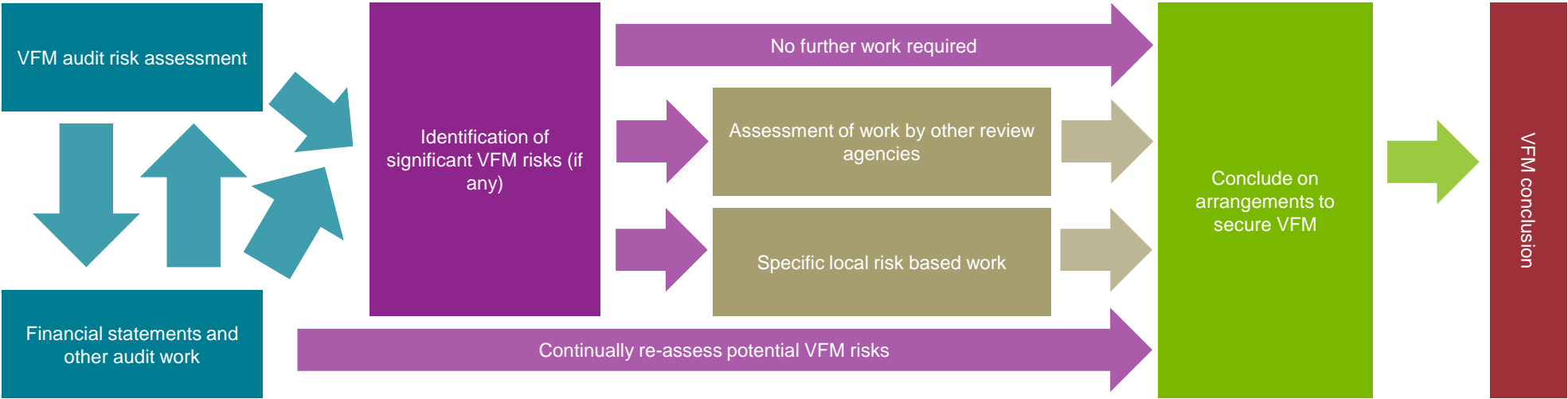


Background to approach to VFM work

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.'

The VFM approach is fundamentally unchanged from that adopted in 2015/16 and the process is shown in the diagram below. The diagram overleaf shows the details of the criteria for our VFM work.





Overall criterion

In all significant respects, the audited body had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.

Informed decision making

Proper arrangements:

- Acting in the public interest, through demonstrating and applying the principles and values of sound governance.
- Understanding and using appropriate and reliable financial and performance information to support informed decision making and performance management.
- Reliable and timely financial reporting that supports the delivery of strategic priorities.
- Managing risks effectively and maintaining a sound system of internal control.

Sustainable resource deployment

Proper arrangements:

- Planning finances effectively to support the sustainable delivery of strategic priorities and maintain statutory functions.
- Managing and utilising assets to support the delivery of strategic priorities.
- Planning, organising and developing the workforce effectively to deliver strategic priorities.

Working with partners and third parties

Proper arrangements:

- Working with third parties effectively to deliver strategic priorities.
- Commissioning services effectively to support the delivery of strategic priorities.
- Procuring supplies and services effectively to support the delivery of strategic priorities.



VFM audit stage	Audit approach
VFM audit risk assessment	<p>We consider the relevance and significance of the potential business risks faced by all local authorities, and other risks that apply specifically to the Authority. These are the significant operational and financial risks in achieving statutory functions and objectives, which are relevant to auditors' responsibilities under the <i>Code of Audit Practice</i>.</p> <p>In doing so we consider:</p> <ul style="list-style-type: none"> ■ The Authority's own assessment of the risks it faces, and its arrangements to manage and address its risks; ■ Information from the Public Sector Auditor Appointments Limited VFM profile tool; ■ Evidence gained from previous audit work, including the response to that work; and ■ The work of other inspectorates and review agencies.
Linkages with financial statements and other audit work	<p>There is a degree of overlap between the work we do as part of the VFM audit and our financial statements audit. For example, our financial statements audit includes an assessment and testing of the Authority's organisational control environment, including the Authority's financial management and governance arrangements, many aspects of which are relevant to our VFM audit responsibilities.</p> <p>We have always sought to avoid duplication of audit effort by integrating our financial statements and VFM work, and this will continue. We will therefore draw upon relevant aspects of our financial statements audit work to inform the VFM audit.</p>
Identification of significant risks	<p>The Code identifies a matter as significant '<i>if, in the auditor's professional view, it is reasonable to conclude that the matter would be of interest to the audited body or the wider public. Significance has both qualitative and quantitative aspects.</i>'</p> <p>If we identify significant VFM risks, then we will highlight the risk to the Authority and consider the most appropriate audit response in each case, including:</p> <ul style="list-style-type: none"> ■ Considering the results of work by the Authority, inspectorates and other review agencies; and ■ Carrying out local risk-based work to form a view on the adequacy of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources.

Value for money arrangements work (cont.)



VFM audit stage	Audit approach
<p>Assessment of work by other review agencies</p> <p>and</p> <p>Delivery of local risk based work</p>	<p>Depending on the nature of the significant VFM risk identified, we may be able to draw on the work of other inspectorates, review agencies and other relevant bodies to provide us with the necessary evidence to reach our conclusion on the risk.</p> <p>If such evidence is not available, we will instead need to consider what additional work we will be required to undertake to satisfy ourselves that we have reasonable evidence to support the conclusion that we will draw. Such work may include:</p> <ul style="list-style-type: none"> ■ Meeting with senior managers across the Authority; ■ Review of minutes and internal reports; ■ Examination of financial models for reasonableness, using our own experience and benchmarking data from within and without the sector.
<p>Concluding on VFM arrangements</p>	<p>At the conclusion of the VFM audit we will consider the results of the work undertaken and assess the assurance obtained against each of the VFM themes regarding the adequacy of the Authority's arrangements for securing economy, efficiency and effectiveness in the use of resources.</p> <p>If any issues are identified that may be significant to this assessment, and in particular if there are issues that indicate we may need to consider qualifying our VFM conclusion, we will discuss these with management as soon as possible. Such issues will also be considered more widely as part of KPMG's quality control processes, to help ensure the consistency of auditors' decisions.</p>
<p>Reporting</p>	<p>We will report on the results of the VFM audit through our ISA 260 Report. This will summarise any specific matters arising, and the basis for our overall conclusion.</p> <p>The key output from the work will be the VFM conclusion (i.e. our opinion on the Authority's arrangements for securing VFM), which forms part of our audit report.</p>

Whole of government accounts (WGA)

We are required to review your WGA consolidation and undertake the work specified under the approach that is agreed with HM Treasury and the National Audit Office. Deadlines for production of the pack and the specified approach for 2016/17 have not yet been confirmed.

Elector challenge

The Local Audit and Accountability Act 2014 gives electors certain rights. These are:

- The right to inspect the accounts;
- The right to ask the auditor questions about the accounts; and
- The right to object to the accounts.

As a result of these rights, in particular the right to object to the accounts, we may need to undertake additional work to form our decision on the elector's objection. The additional work could range from a small piece of work where we interview an officer and review evidence to form our decision, to a more detailed piece of work, where we have to interview a range of officers, review significant amounts of evidence and seek legal representations on the issues raised.

The costs incurred in responding to specific questions or objections raised by electors is not part of the fee. This work will be charged in accordance with the PSAA's fee scales.

Our audit team

Our audit team will be led by John Prentice. Appendix 2 provides more details on specific roles and contact details of the team.

Reporting and communication

Reporting is a key part of the audit process, not only in communicating the audit findings for the year, but also in ensuring the audit team is accountable to you in addressing the issues identified as part of the audit strategy. Throughout the year we will communicate with you through meetings with Business Connect, with Council officers and the Audit Committee. Our communication outputs are included in Appendix 1.

Independence and Objectivity

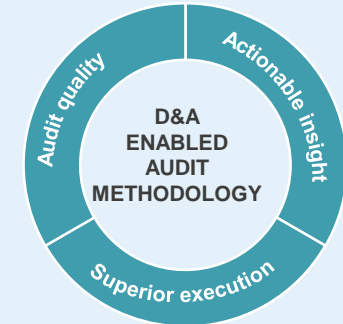
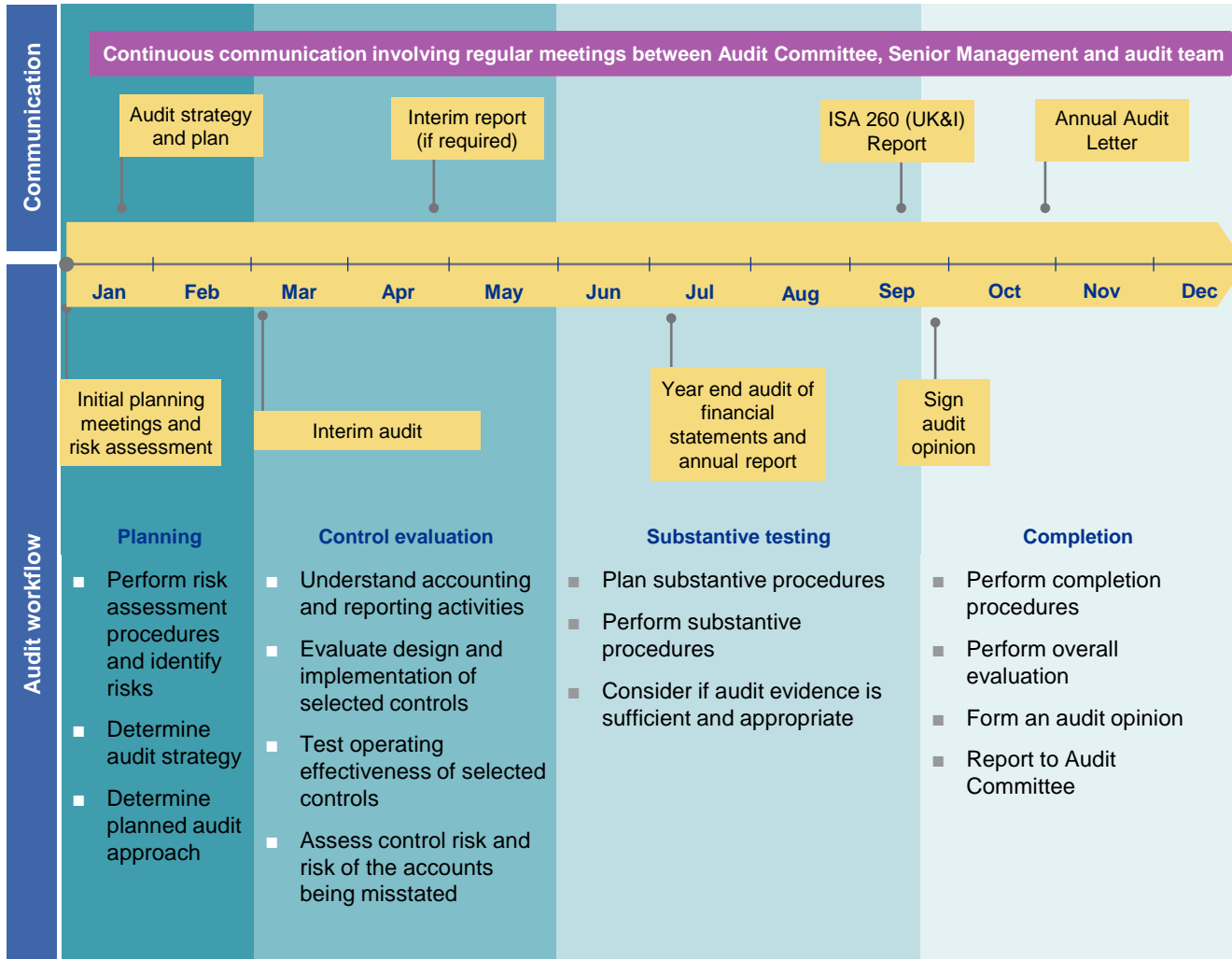
Auditors are also required to be independent and objective. Appendix 3 provides more details of our confirmation of independence and objectivity.

Audit fee

Our Audit Fee Letter 2016/17 presented to you in April 2016 first set out our fees for the 2016/17 audit. This letter also sets out our assumptions. We have not considered it necessary to make any changes to the agreed fees at this stage.

The planned audit fee for 2016/17 is £104,138 the same as 2015/16. Our audit fee includes our work on the VFM conclusion and our audit of the Authority's financial statements.

Appendix 1: Key elements of our financial statements audit approach



Driving more value from the audit through data and analytics

Technology is embedded throughout our audit approach to deliver a high quality audit opinion. Use of Data and Analytics (D&A) to analyse large populations of transactions in order to identify key areas for our audit focus is just one element. We strive to deliver new quality insight into your operations that enhances our and your preparedness and improves your collective 'business intelligence.' Data and Analytics allows us to:

- Obtain greater understanding of your processes, to automatically extract control configurations and to obtain higher levels of assurance.
- Focus manual procedures on key areas of risk and on transactional exceptions.
- Identify data patterns and the root cause of issues to increase forward-looking insight.

We anticipate using data and analytics in our work around key areas such as payroll and journals. We also expect to provide insights from our analysis of these tranches of data in our reporting to add further value from our audit.

Appendix 2: Audit team



Your audit team has been drawn from our specialist public sector assurance department.



Name	John Prentice
Position	Director
	'My role is to lead our team and ensure the delivery of a high quality, valued added external audit opinion. I will be the main point of contact for the Audit Committee and Service Directors People and Places.

John Prentice
Director

0113 2313935 / 07827 939020
john.prentice@kpmg.co.uk



Name	Rob Walker
Position	Manager
	'I provide quality assurance for the audit work and specifically any technical accounting and risk areas. I will work closely with John Prentice to ensure we add value. I will liaise with the Service director Policy and Resources'

Rob Walker
Manager

0113 231 3619 / 07765 082948
rob.walker@kpmg.co.uk



Name	Louise Stables
Position	Assistant Manager
	'I will be responsible for the on-site delivery of our work and will supervise the work of our audit assistants.'

Louise Stables
Assistant Manager

0113 2314747 / 07880 052693
louise.stables@kpmg.co.uk



Appendix 3: Independence and objectivity requirements

Independence and objectivity

Professional standards require auditors to communicate to those charged with governance, at least annually, all relationships that may bear on the firm's independence and the objectivity of the audit engagement partner and audit staff. The standards also place requirements on auditors in relation to integrity, objectivity and independence.

The standards define 'those charged with governance' as 'those persons entrusted with the supervision, control and direction of an entity'. In your case this is the Audit Committee.

KPMG LLP is committed to being and being seen to be independent. APB Ethical Standards require us to communicate to you in writing all significant facts and matters, including those related to the provision of non-audit services and the safeguards put in place which, in our professional judgement, may reasonably be thought to bear on KPMG LLP's independence and the objectivity of the Engagement Lead and the audit team.

Further to this auditors are required by the National Audit Office's Code of Audit Practice to:

- Carry out their work with integrity, independence and objectivity;
- Be transparent and report publicly as required;
- Be professional and proportionate in conducting work;
- Be mindful of the activities of inspectorates to prevent duplication;
- Take a constructive and positive approach to their work;
- Comply with statutory and other relevant requirements relating to the security, transfer, holding, disclosure and disposal of information.

PSAA's Terms of Appointment includes several references to arrangements designed to support and reinforce the requirements relating to independence, which auditors must comply with. These are as follows:

- Auditors and senior members of their staff who are directly involved in the management, supervision or delivery of PSAA audit work should not take part in political activity.

- No member or employee of the firm should accept or hold an appointment as a member of an audited body whose auditor is, or is proposed to be, from the same firm. In addition, no member or employee of the firm should accept or hold such appointments at related bodies, such as those linked to the audited body through a strategic partnership.
- Audit staff are expected not to accept appointments as Governors at certain types of schools within the local authority.
- Auditors and their staff should not be employed in any capacity (whether paid or unpaid) by an audited body or other organisation providing services to an audited body whilst being employed by the firm.
- Auditors appointed by the PSAA should not accept engagements which involve commenting on the performance of other PSAA auditors on PSAA work without first consulting PSAA.
- Auditors are expected to comply with the Terms of Appointment policy for the Engagement Lead to be changed on a periodic basis.
- Audit suppliers are required to obtain the PSAA's written approval prior to changing any Engagement Lead in respect of each audited body.
- Certain other staff changes or appointments require positive action to be taken by Firms as set out in the Terms of Appointment.

Confirmation statement

We confirm that as of February 2017 in our professional judgement, KPMG LLP is independent within the meaning of regulatory and professional requirements and the objectivity of the Engagement Lead and audit team is not impaired.



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