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Wyre Borough Council
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Audit Committee Supplement

Audit Committee meeting on Tuesday, 24 July 2018 at 6.00 pm in the Civic Centre, Poulton-le-Fylde

Report of the Head of Finance (Section 151 officer) – Report to follow.

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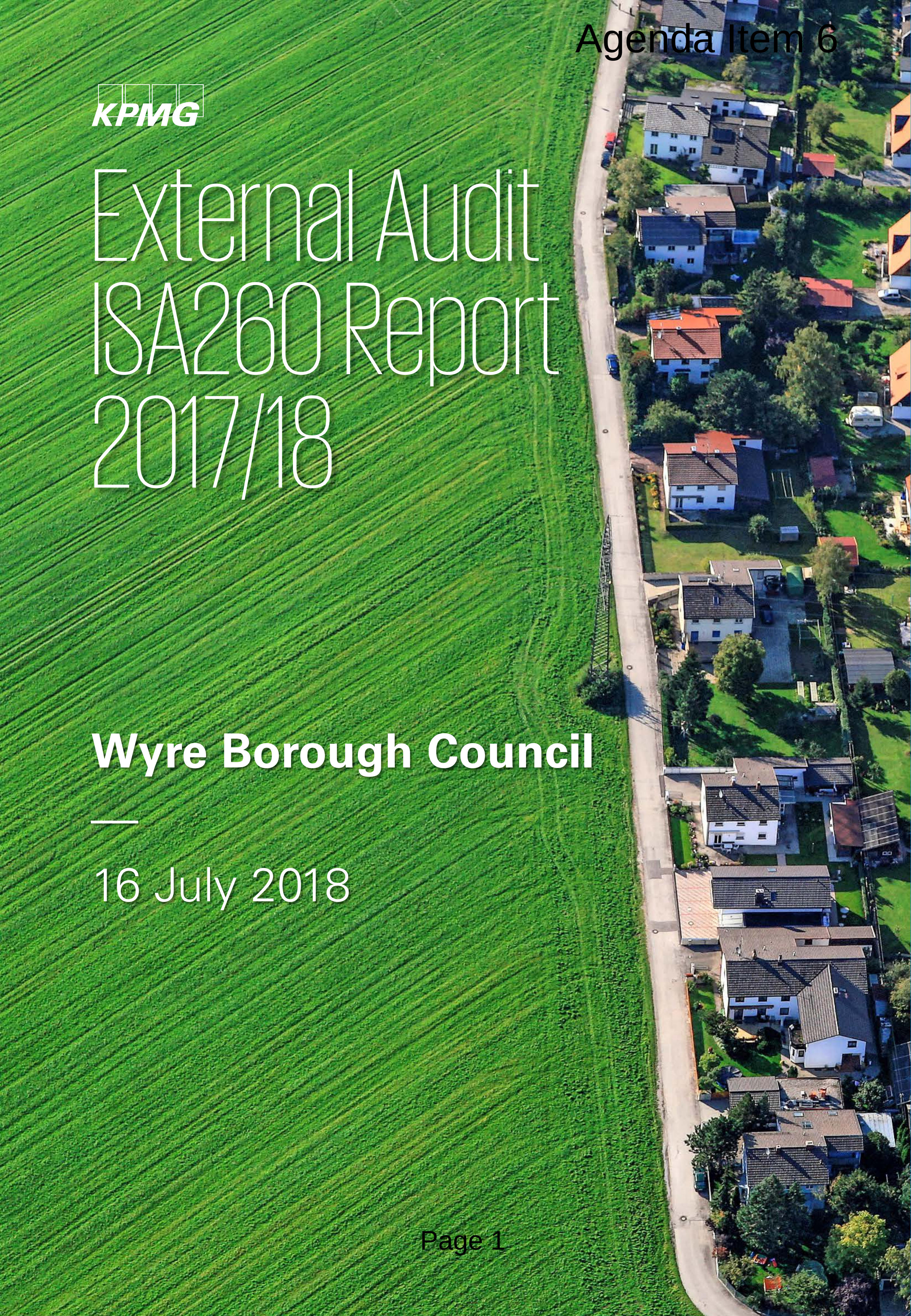


External Audit ISA260 Report 2017/18

Wyre Borough Council

16 July 2018

Summary for Audit Committee

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

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

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 reporting 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 5):

— **Valuation of PPE** – no issues or material risks identified as a result of our work over this significant risk; and

— **Pensions Liabilities** – no issues or material risks identified as a result of our work over this significant risk.

We have not identified any audit adjustments as a result of our work. We have raised one recommendation. Details of our recommendations can be found in Appendix 1.

At the time of preparing our draft report, we have the following outstanding areas of work, which we aim to have completed by the date of the Audit Committee on 24 July 2018:

— Payroll logic check completion;

— Pensions – awaiting response from the Pension Fund auditor;

— Journals – final sample checks;

— NNDR reconciliation and final queries;

— WGA audit programme;

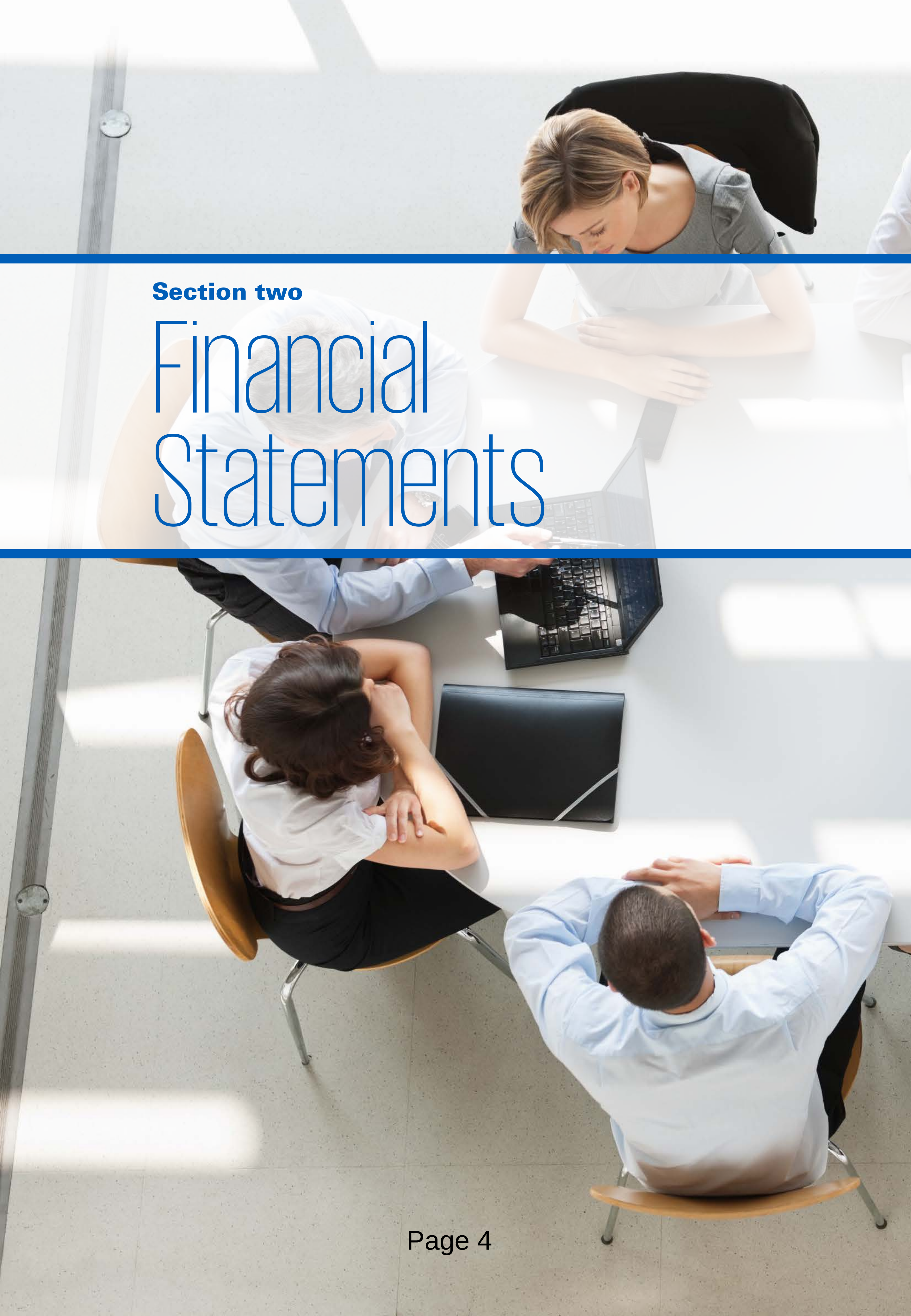
— Final VFM documentation review;

— Final creditors, debtors and provisions queries; and

— Related parties final queries.

Summary for Audit Committee (cont.)

Value for money arrangements	We have completed our risk-based work to consider whether in all significant respects the Authority has proper arrangements to ensure it has taken properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. We have concluded that the Authority has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources. **We therefore anticipate issuing an unqualified value for money opinion.** See further details on page 12.
Exercising of audit powers	We have a duty to consider whether to issue a report in the public interest about something we believe the Authority should consider, or if the public should know about. We have not identified any matters that would require us to issue a public interest report. In addition, we have not had to exercise any other audit powers under the Local Audit & Accountability Act 2014.
Acknowledgements	We would like to take this opportunity to thank officers and Members for their continuing help.



Section two

Financial Statements

Audit process

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

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

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

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

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.

Implementation of recommendations

We raised one recommendations in our ISA 260 Report 2016/17. The Authority has implemented this recommendation relating to the financial statements in line with the timescales of the action plan. 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.

Quality of supporting working papers

We found the quality of supporting working papers provided by the Authority to be of a high quality and also found officers to be very responsive to queries that arose as part of our audit work.

Specific audit areas

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

For the year ending 31 March 2018, the Authority has reported a surplus of £1.2m.

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.

Specific audit areas

Significant Audit Risks – Authority

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

Risk:

Valuation of PPE

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

This creates a risk that the carrying value of those assets not revalued in year differs materially from the year end fair value.

Our assessment and work undertaken:

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

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

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

As a result of this work we did not identify any issues or material misstatements as a result of our work on this significant risk.

We have set out our view of the assumptions used in relation to accounting for Property, Plant & Equipment at page 9.

Specific audit areas (cont.)

Significant Audit Risks – Authority (cont.)

Risk:

Valuation of net pension liability

The net pension liability represents a material element of the Authority's balance sheet. It represents the net balance of the Pension Liability and the Pension Asset.

The Authority is an admitted body of Lancashire County Council Pension Fund which had its last triennial valuation completed as at 31 March 2016. This forms an integral basis of the valuation as at 31 March 2018.

The valuation of the gross pension liability then relies on the application of 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 gross liability, 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 gross pension liability are not reasonable. This could have a material impact to net pension liability accounted for in the financial statements.

We have not identified a significant risk around the valuation of the gross pension asset, but this will remain an area of audit focus due to its materiality.

Our assessment and work undertaken:

As part of our work we reviewed the controls that the Authority has in place over the information sent directly to the Scheme Actuary. We also liaised with the auditors of the Pension Fund in order to gain an understanding of the effectiveness of those controls operated by the Pension Fund. This included consideration of the process and controls with respect to the assumptions used in the valuation. We also evaluated the competency, objectivity and independence of Mercer's.

We reviewed the appropriateness of the key assumptions included within the valuation, compared them to expected ranges and involved a KPMG Actuary to provide a specialist assessment of those assumptions. We also reviewed the methodology applied in the valuation by Mercer's.

In addition, we reviewed the overall Actuarial valuation and considered the disclosure implications in the financial statements.

In order to determine whether the net pension liability has been appropriately accounted for we also considered the valuation of pension assets. We obtained assurance from the Pension Fund auditors (Grant Thornton) over the overall value of fund assets. We then liaised with the actuary to understand how these assets are allocated across participating bodies and re-performed this allocation. As a result of this work we did not identify any issues or material misstatements as a result of our work on this significant risk. We have set out our view of the assumptions used in valuing pension assets and liabilities at page 19.

Note that at the time of our draft report we are awaiting the response from the Pension Fund auditor to confirm that the procedures we have requested over the source data used by the actuary – as provided by the Pension Fund administrator – have been completed, and that there are no issues arising from this work. We are also awaiting further information on the roll forward of assets by the actuary and the allocation of these assets to the Authority.

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.

Issue:

Faster Close

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

During 2016/17, the Authority started to prepare for these revised deadlines and advanced its own accounts production timetable so that draft accounts were ready by mid-June and the final signed accounts by the end of July (although owing to delays to the pension fund auditor's work, sign off took place in September). Whilst this was an advancement on the timetable applied in preceding years, further work is still required in order to ensure that the statutory deadlines for 2017/18 are met.

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 and 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 Audit Committee meeting schedules have been updated to permit signing in July; and
- Applying a shorter paper deadline to the July meeting of the Audit Committee meeting in order to accommodate the production of the final version of the accounts and our ISA 260 report.

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

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

Our assessment and work undertaken:

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

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

As a result of this work we determined that the authority has responded appropriately to this potential risk.

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	3	3	Since 2013/14 the Authority has been responsible for a proportion of successful rateable value appeals. The Authority uses in-house expertise to review and assess each appeal in order to establish an appropriate provision for business rates appeals at each year-end. In general, having reviewed the historic accuracy of the provisions made by the Authority, we consider that the provisions made have historically been balanced.
Valuation of Property Plant & Equipment:	3	3	We have reviewed the assumptions by the Authority's valuation specialist, who is a RICS-qualified surveyor. We consider that the assumptions adopted are reasonable and balanced, in line with our findings in 2016/17.
Valuation of pension assets and liabilities	3	4	The Authority continues to use Mercer's 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 0.1% increase in the discount rate would change the net liability by £1.9 million. The actual assumptions adopted by the actuary fell within our expected ranges as set our below:

Assumption	Actuary Value	KPMG Value	Assessment
Discount rate	2.60%	2.5%	5
CPI inflation	2.10%	2.17%	3
Salary Growth	CPI plus 1.5%	CPI plus 0-2%	3
Life expectancy Males currently aged 45/65 Females currently aged 45/65	 25.0/22.7 28.0 / 25.4	 23.5 / 22.1 25.4 / 23.9	1

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 Audit Committee on 24 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 3) for this year's audit was set at £1.05 million. Audit differences below £52k are not considered significant.

We did not identify any material misstatements. We identified a small number of presentational issues that have been adjusted by management.

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.

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 Wyre Borough Council for the year ending 31 March 2018, we confirm that there were no relationships between KPMG LLP and Wyre 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 5 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 Responsible Finance Officer for presentation to the Audit Committee. We require a signed copy of your management representations before we issue our audit opinion.

Other matters

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

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

There are no 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

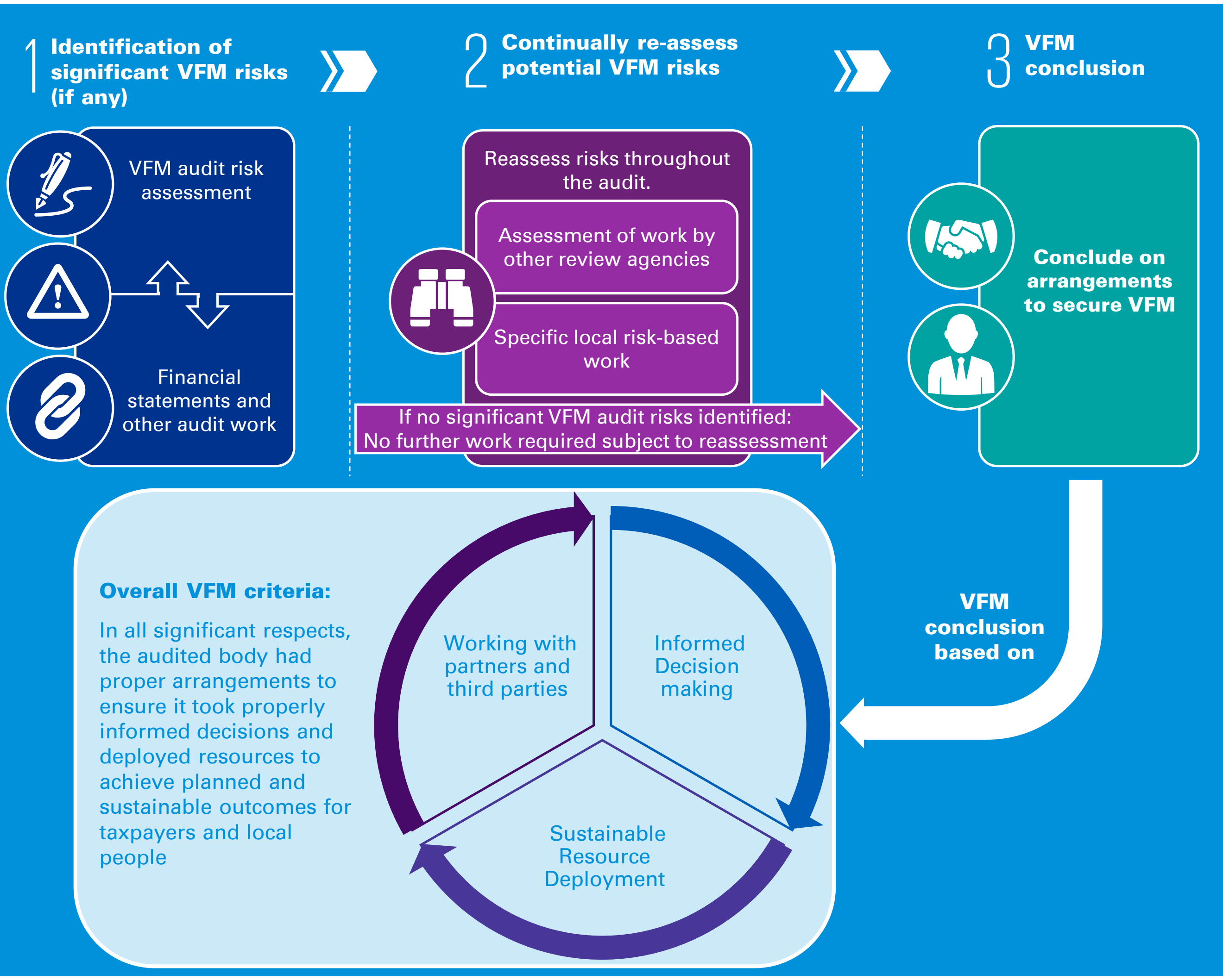
Our 2017-18 VFM conclusion considers whether the Authority had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.

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.)

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

As part of our work, we have considered the general approaches the Authority uses to achieve value for money, such as the approval and monitoring of the Medium Term Financial Plan (MTFP), relevant findings from the work of internal audit, management of specific large capital schemes as well as relevant reports and correspondence from regulators. We have not identified any matters that have caused us to re-assess our initial risk assessment or to lead us to produce an adverse value for money conclusion.

Appendices

Key issues and recommendations

Our audit work on the Authority's 2017-18 financial statements has identified one area for improvement. We have listed this issue in this appendix together with our recommendation 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: 0	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: 1

No.	Risk	Issue & Recommendation	Management Response
1	3	***NNDR Property Number Reconciliations*** Weekly reports of property numbers and rateable values are downloaded from the Valuation Office and from the Council's Northgate system, these should be reconciled weekly, in line with the council tax equivalent. At present, due to staff availability, these reconciliations are not always carried out on a weekly basis and when they are carried out, they do not contain sufficient information to explain how the figures have been reconciled. ***Risk*** There is a risk that the property numbers recorded in Northgate do not match the Valuation Office and are not updated on a regular basis meaning the Council does not have up to date information to make decisions. There is also a risk that incorrect changes could be made to Northgate data if supporting information is not retained to explain how the system has been reconciled to Valuation Office report. ***Recommendation*** The Authority should implement a process to ensure that NNDR property number reconciliations are carried out on a weekly basis and should develop a template so that sufficient supporting evidence is retained to show how the two systems have been reconciled.	A weekly reconciliation will be undertaken and recorded by the Control Team commencing immediately. ***Responsible Officers:*** Kathy Redman and Andy Hadgraft. ***Implementation Deadline:*** Immediate.

Appendix 2:

Follow-up of prior year recommendations

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

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

Number of recommendations that were	
Included in the original report	1
Implemented in year or superseded	1
Outstanding at the time of our interim audit	0

No.	Risk	Issue & Recommendation	Management Response	Status as at 16 July 2018
1	3	***Evidence of segregation of duties in the preparation and review of control account reconciliations*** Our interim controls testing of creditors and payroll control account to general ledger reconciliations identified that while there was clear evidence that the reconciliations have been reviewed on a timely basis by a senior member of the Finance team, there was no evidence noted on the reconciliations to confirm the identify of the preparer, or the date of preparation. While we are satisfied that the reconciliations were completed appropriately, we were unable to obtain evidence that segregation of duties between the preparation and review of these reconciliations had been enforced and was effective. ***Recommendation*** We recommend that all control account to general ledger reconciliations are signed and dated both by the preparer and the reviewer, to ensure that an adequate audit trail is preserved that demonstrates appropriate segregation of duties.	Recommendation accepted. This recommendation follows a similar audit recommendation from Mazars who recently conducted an audit and documented the same segregation of duties issues. The recommendation had therefore already been accepted and implemented. From March 2017, both the preparer and the reviewer have been signing the reconciliations to fully document the current process. ***Responsible Officer*** Section 151 Officer ***Implementation Deadline*** Immediate	As part of our controls testing for the 2017/18 audit, we confirmed that adequate segregation of duties was demonstrated for control account to general ledger reconciliations. We therefore consider this recommendation to have been implemented.

Materiality and reporting of audit differences

The assessment of what is material is a matter of professional judgment 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 March 2018.

Materiality for the Authority's accounts was set at £1.05 million which equates to around 1.95 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 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 £52k 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 Audit Committee to assist it in fulfilling its governance responsibilities.

Appendix 4:

Required communications with the Audit Committee

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

Required Communication	Commentary
Our draft management representation letter	We have not requested any specific representations in addition to those areas normally covered by our standard representation letter for the year ended 31 March 2018.
Adjusted audit differences	We have identified no adjusted differences as a result of our audit of the Authority's financial statements.
Unadjusted audit differences	We have identified no unadjusted differences as a result of our audit of the Authority's financial statements.
Related parties	There were no significant matters that arose during the audit in connection with the entity's related parties.
Other matters warranting attention by the Audit 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 not identified any significant deficiencies in internal control, nor have we identified any control deficiencies of a lesser magnitude than significant deficiencies.
Actual or suspected fraud, noncompliance with laws or regulations or illegal acts	We identified no actual or suspected fraud involving the Authority's Members or officers with significant roles in internal control, or where the fraud resulted in a material misstatement in the financial statements.
Significant difficulties	No significant difficulties were encountered during the audit.
Modifications to auditor's report	There are no modifications to our audit report.
Disagreements with management or scope limitations	The engagement team had no disagreements with management and no scope limitations were imposed by management during the audit.

Appendix 4:

Required communications with the Audit Committee (cont.)

Required Communication	Commentary
Other information	No material inconsistencies were identified related to other information in the Narrative Report or Annual Governance Statement. These reports were found to be fair, balanced and comprehensive, and compliant with applicable requirements.
Our declaration of independence and any breaches of independence	No matters to report. The engagement team have complied with relevant ethical requirements regarding independence. See Appendix 5 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 9.
Significant matters discussed or subject to correspondence with management	There were no significant matters arising from the audit which were discussed, or subject to correspondence, with management.

Appendix 5:

Declaration of independence

ASSESSMENT OF OUR OBJECTIVITY AND INDEPENDENCE AS AUDITOR OF WYRE 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.

Declaration of independence (cont.)

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

Summary of fees

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

	2017-18 £	2016-17 £
Audit of the Authority and use of resources work	48,661	48,662
Total audit services	**48,661**	**48,662**
Housing benefits (BEN01) certification work	6,799	5,580
Investigation Support	12,674	N/A
Total Non Audit Services	**19,472**	**5,580**

We are required by AGN 01 to limit the proportion of fees charged for non-audit services (excluding mandatory assurance services) to 70% of the total fee for all audit work carried out in respect of the Authority under the Code of Audit Practice for the year. The ratio of non-audit fees to audit fees for the year was 0.43:1. We do not consider that the total of non-audit fees creates a self-interest threat since the absolute level of fees is not significant to our firm as a whole.

We confirm that all non-audit services were approved by the audit committee or equivalent.

Declaration of independence (cont.)

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

Description of scope of services	Principal threats to independence and Safeguards applied	Basis of fee	Value of services delivered in the year ended 31 March 2018 £	Value of services committed but not yet delivered £
Mandatory assurance services				
Grant Certification – Housing Benefit Subsidy Return	The nature of this mandatory assurance service is to provide independent assurance on each of the returns. As such we do not consider it to create any independence threats.	Fixed Fee	1,123	5,676
Allowable non-audit services				
Investigation Support	This nature of this work was to support the authority with an investigation it was carrying out for the purpose of a disciplinary hearing. This work was carried out by a completely separate team to the audit team and did not have any impact on the financial performance or records of the Authority. Furthermore, we do not consider this incident to have had an impact on the internal control system therefore we do not consider this work to create any independence threats.	Fixed daily rate	12,674	0

In addition to the above we have currently submitted written proposals for the following services which have not yet been awarded:

— Proposal for the provision of grant certification for the housing benefit subsidy return for the 2018/19 audit year.

Appropriate approvals have been obtained from PSAA for all non-audit services above the relevant thresholds provided by us during the reporting period.

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 Audit Committee.

Declaration of independence (cont.)

Confirmation of audit independence

We confirm that as of the date of this report, in our professional judgment, 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 Audit Committee of the authority and should not be used for any other purposes.

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

Kpmg LLP

KPMG LLP

Appendix 6:

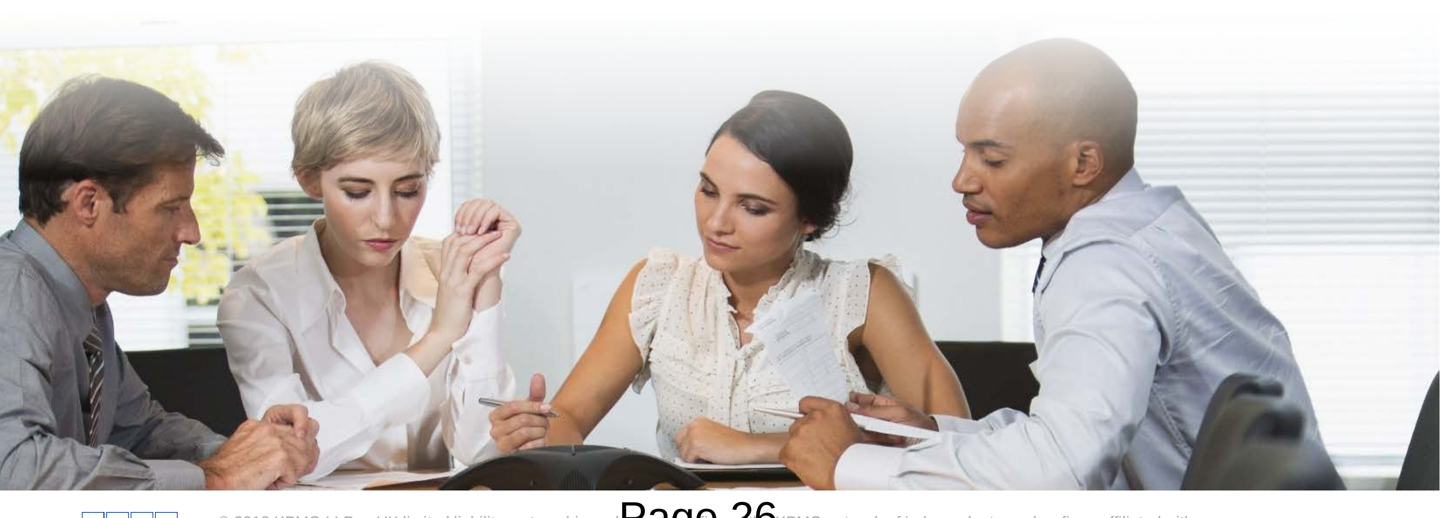
Audit fees

As communicated to you in our *External Audit Plan 2017-18*, our scale fee for the audit is £48,661 plus VAT (£48,662 in 2016/17), which is consistent with the prior year.

Our work on the certification of the Authority's Housing Benefit Subsidy return is planned for August 2018. The planned scale fee for this is £5,676 plus VAT (£5,580 in 2016/17). We also received a fee variation of £1,123 in relation to the 16/17 certification work due to additional testing which was required.

Component of the audit	2017-18 Planned Fee £	2016-17 Actual Fee £
Accounts opinion and value for money work		
PSAA Scale fee	48,661	48,662
Total audit services	**48,661**	**48,662**
Mandatory assurance services		
Housing Benefits Certification (work planned for August 2018)	6,799	5,580
Total mandatory assurance services	**6,799**	**5,580**
Other services		
Investigation Support	12,674	0
Total other services	**12,674**	**0**
Total non-audit services	**19,473**	**5,580**
Grand total fees for the Authority	**70,669**	**54,242**

All fees quoted are exclusive of VAT.



The key contacts in relation to our audit are:

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

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

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

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