Item 6

External audit report 2016/17

Wyre Borough Council

—

July 2017

FINAL

Summary for Audit Committee

Financial statements

This document summarises the key findings in relation to our 2016-17 external audit at Wyre Borough Council ('the Authority').

This report focusses on our on-site work which was completed in June and July 2017 on the Authority's significant risk areas, as well as other areas of your financial statements. Our findings are summarised on pages 4 - 11.

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 25 July 2017:

- Review of Narrative Report and Annual Governance Statement for consistency with the financial statements, our understanding of the Authority and the requirements of the CIPFA Code of Practice and CIPFA/SOLACE framework;
- Final checking of the arithmetic accuracy and internal consistency of the Statement of Accounts; and
- Receipt of correspondence from the Pension Fund auditor, Grant Thornton, regarding the data provided by the Pension Fund administering authority, Lancashire County Council, to the scheme actuary, Mercer. We will then need to update our audit documentation accordingly.

Subject to all outstanding queries being resolved to our satisfaction we anticipate issuing an unqualified audit opinion on the Authority's financial statements by 31 July 2017, which is eight weeks ahead of this year's statutory deadline of 30 September. This is in line with the Authority's plan in response to next year's accelerated timeline.

We have identified no audit adjustments arising from our audit. See Appendix 3.

Based on our work, we have raised 1 recommendation. Details on our recommendations can be found in Appendix 1.

We have followed up on prior year recommendations in Appendix 2.

We are now in the completion stage of the audit and anticipate issuing our completion certificate and Annual Audit letter by 31 July 2017.

Use of resources

We have completed our risk-based work to consider whether in all significant respects the Authority has proper arrangements to ensure has taken properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. We have concluded that the Authority has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

We therefore anticipate issuing an unqualified value for money opinion.

See further details on pages 12 - 16.

Acknowledgements

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

We ask the Audit Committee to note this report.

Contents

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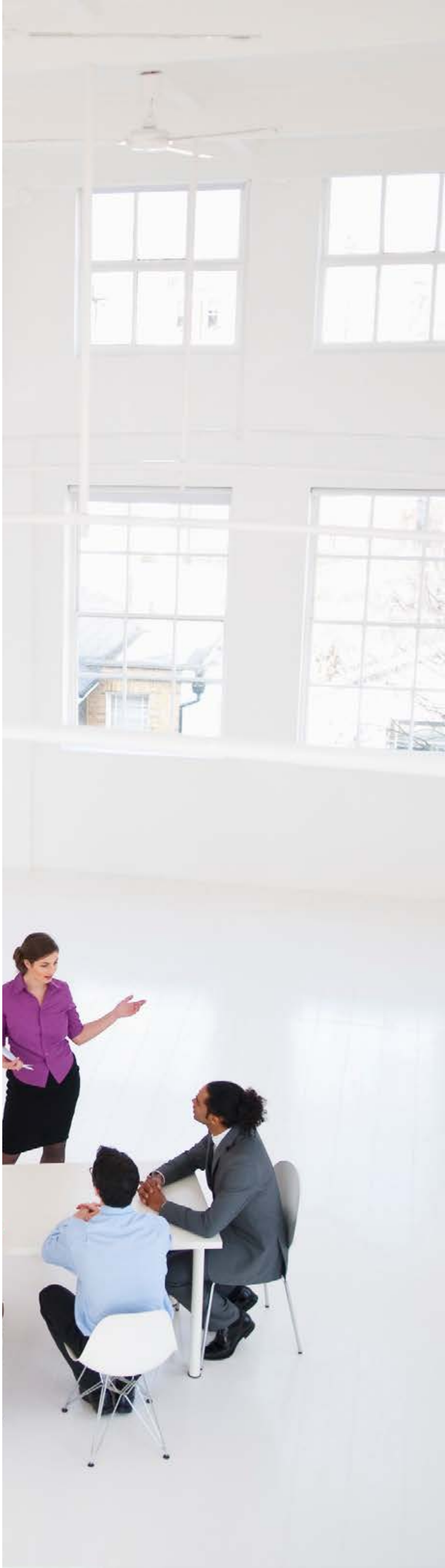
Section one

Financial Statements

We anticipate issuing an unqualified audit opinion on the Authority's 2016/17 financial statements by 31 July 2017. 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 2017, the Authority has reported a surplus on the General Fund of £2.5 million, after transfers to/from earmarked reserves.



Significant audit risks

Our *External Audit Plan 2016/17* sets out our assessment of the Authority's significant audit risks. We have completed our testing in these areas and set out our evaluation following our work:

Significant audit risks	Work performed
1. Significant changes in the pension liability due to LGPS Triennial Valuation	**Why is this a risk?** During the year, the 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 share of pensions assets and liabilities for each admitted body is determined in detail, and a large volume of data is provided to the actuary to support this triennial valuation. 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 Lancashire County Council, who administer the Pension Fund. There is a further risk that inappropriate actuarial assumptions will be adopted by the scheme actuary, Mercer, which impacts materially on Wyre Borough Council's recognised share of the assets and liabilities of the scheme. **Our work to address this risk** We used our KPMG actuaries to review the methodology and assumptions applied by Mercer, to gain assurance that these were reasonable. We also relied on the work of the auditors of the Pension Scheme, Grant Thornton (see below). We tested the year-end submission process and other year-end controls. We found that there was no management review of actuarial assumptions. Management has subsequently confirmed that the assumptions used by the actuary are appropriate. We have also substantively agreed the total figures submitted to the actuary to the ledger with no issues to note. We have engaged with the Pension Fund auditors, Grant Thornton, to gain assurance over the pension figures. **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.**
2. Valuation of Property, Plant and Equipment	**Why is this a risk?** The Authority undertakes a rolling revaluation of its Property, Plant and Equipment (PPE) assets. Assets are revalued sufficiently regularly to ensure that their carrying amount is not materially different from their current net book value; as a minimum, all assets are revalued at least every five years. The valuation of these assets is impacted significantly by the assumptions adopted by the Authority's expert valuation specialist. Further, Authorities are required to consider annually the possibility of any impairment to its existing estate. The asset valuation and impairment review processes are both estimates and therefore present a higher level of risk to the audit. **Our work to address this risk** We have reviewed the valuation basis adopted by the Authority's expert valuer, and considered that this is appropriate. We have undertaken work to understand the basis upon which any impairments to land and buildings have been calculated. We have reviewed the associated assumptions, including discussion with the Authority's expert valuer, including with reference to national and local property value indices. We have re-performed the calculations of the movements in value on an individual asset basis and confirmed that these have been reflected appropriately in the Statement of Accounts. Lastly, we have assessed the independence and objectivity of the expert valuer, and the terms under which they were engaged by the Authority.

Significant audit risks (continued)

Significant audit risks	Work performed
3. Coast Protection Scheme – completeness, accuracy and existence of scheme expenditure	**Why is this a risk?** The Authority is the administrating body for a significant £63.2m coast protection scheme at Rossall. The scheme is predominantly grant funded by the Environment Agency, with further additional contributions received from Fleetwood Town Council and The Regenda Group, a registered provider of social housing. The Authority's capital programme (considered by Cabinet in February 2017) shows that £20.7m was budgeted for the scheme in 2016/17, with £20.6m also budgeted for 2017/18. This is 85% and 90% of the Authority's total capital programme in each year, respectively. The scheme therefore involves significant transactions for the Authority, and such schemes are often complex, time consuming and at risk of significant year on year slippage. Further, there is a risk around the recognition of a debtor/creditor balance at year end, where capital expenditure exceeds or falls short of the amount of grant funding received during the year. **Our work to address this risk** We have reviewed the accounting treatment of the grant receipts and associated capital additions to the scheme, to ensure these are in line with the CIPFA Code of Practice. We have completed sample testing of capital additions associated with the scheme to ensure that they have been accounted for correctly and that the associated expenditure does relate to the Rossall work. The spend in year is shown within assets under construction on the fixed assets note in the financial statements. This is the correct accounting treatment for the asset at this stage. Funding is received in advance for this scheme. We did not identify any issues or material misstatements as a result of our work on this significant risk.

Considerations required by professional standards

Fraud risk of 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 2016/17* 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.

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.

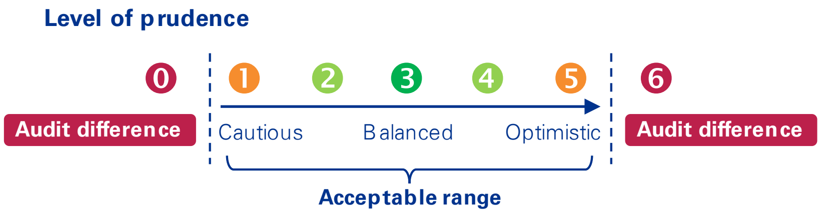
Our audit methodology incorporates the risk of management override as a default significant risk. We have not identified any specific additional risks of management override relating to this audit.

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.

Judgements

We have considered the level of prudence within key judgements in your 2016/17 financial statements and accounting estimates. We have set out our view below across the following range of judgements.



Subjective areas	2016/17	2015/16	Commentary
Defined benefit pension liability – valuation	4	4	We have reviewed the assumptions adopted by the Pension Fund's actuary, Mercer. In particular, we have reviewed the key assumptions of discount rate, RPI/CPI inflation, salary increases and mortality. We have used KPMG's own actuarial specialists to review these assumptions and comment on their reasonableness. In general, the assumptions adopted by Mercer all fall within KPMG's acceptable range and can therefore be considered to be reasonable. The assumptions adopted on RPI/CPI inflation were slightly more optimistic than KPMG's central figure, with CPI at 2.3% against KPMG's assumption of 2.4%, however this was still within the acceptable range set out by KPMG's actuaries.
Valuation of Property, Plant and 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 2015/16.
NNDR provisions	3	3	In 2013/14, local authority funding arrangements meant that the Authority is now responsible for a proportion of successful rateable value appeals. The Authority uses in-house expertise to review and assess its extant business rates appeals. Using its own data, the Authority assesses 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.

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 2016/17 financial statements following approval of the Statement of Accounts by the Audit Committee on 25 July 2017.

Audit differences

In accordance with ISA 260 we are required to report uncorrected audit differences to you. We also report any material misstatements which have been corrected and which we believe should be communicated to you to help you meet your governance responsibilities.

The final materiality (see Appendix 4 for more information on materiality) level for this year's audit was set at £1.1 million. Audit differences below £55,000 are not considered significant.

We are pleased to report that we did not identify any material misstatements.

In addition, we identified a number of presentational adjustments required to ensure that the accounts are compliant with the Code of Practice on Local Authority Accounting in the United Kingdom 2016/17 ('the Code'). We understand that the Authority has addressed each of these points.

Annual governance statement

We have reviewed the Authority's 2016/17 Annual Governance Statement and confirmed that:

— It complies with *Delivering Good Governance in Local Government: A Framework published by CIPFA/SOLACE*;

and

— It is not misleading or inconsistent with other information we are aware of from our audit of the financial statements.

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

Narrative report

We have reviewed the Authority's 2016/17 narrative report and have confirmed that it is consistent with the financial statements and our understanding of the Authority.

Accounts production and audit process

The Accounts and Audit Regulations 2015 introduces a statutory requirement to produce a draft set of financial statements earlier for the year 2017/18. It also shortens the time available for the audit.

Our 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.

Accounting practices and financial reporting

The Authority has recognised the additional pressures which the earlier closedown in 2017/18 will bring. We have been engaging with the Authority in the period leading up to the year end in order to proactively address issues as they emerge.

We consider the Authority's accounting practices to be appropriate during 2016/17.

Completeness of draft accounts

The Authority has strengthened its financial reporting by finalising the accounts in a shorter timescale. This puts the Authority in a good position to meet the new 2017/18 deadline.

Quality of supporting working papers

We issued our *Accounts Audit Protocol 2016/17* ("Prepared by Client" request) in May 2017 which outlines our documentation request. This helps the Authority to provide audit evidence in line with our expectations.

We worked with management to ensure that working paper requirements are understood and aligned to our expectations. We are pleased to report that this has resulted in good-quality working papers with clear audit trails.

Response to audit queries

We have agreed a turnaround time of 2-3 working days for all audit queries. We are pleased to report that this was achieved by Officers, including those who are not part of the finance team. As a result of this, all of our audit work were completed within the timescales expected with no outstanding queries. This achievement puts the Authority in a good position to take on the 2017/18 earlier closedown with no significant concerns.

Prior year recommendations

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

The Authority has implemented all of the recommendations in our ISA 260 Report 2015/16.

Controls over key financial systems

We have tested controls as part of our focus on significant audit risks and other parts of your key financial systems on which we rely as part of our audit. The strength of the control framework informs the substantive testing we complete during our final accounts visit.

Below we have highlighted exceptions in relation to controls:

Evidence of segregation of duties in preparation and review of control account reconciliations

— Our testing of monthly creditor and payroll control account to general ledger reconciliations identified that while evidence of management review of the reconciliations is clearly documented, the identity of the preparer is not documented. This means that we are unable to confirm that segregation of duties between the preparation and review of these reconciliations was effective throughout the year.

Further detail and associated recommendation can be found in Appendix 1.

Completion

We confirm that we have complied with requirements on objectivity and independence in relation to this year's audit of the Authority's 2016/17 financial statements.

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

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

Declaration of independence and objectivity

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

In relation to the audit of the financial statements of Wyre Borough Council for the year ending 31 March 2017, 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 Chief Financial Officer for presentation to the Audit Committee. We require a signed copy of your management representations before we issue our audit opinion.

We have not requested any specific management representations, outside of the usual set of representations that we have requested in previous years.

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 2016/17 financial statements.

Section two

Value for money

Our 2016/17 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.

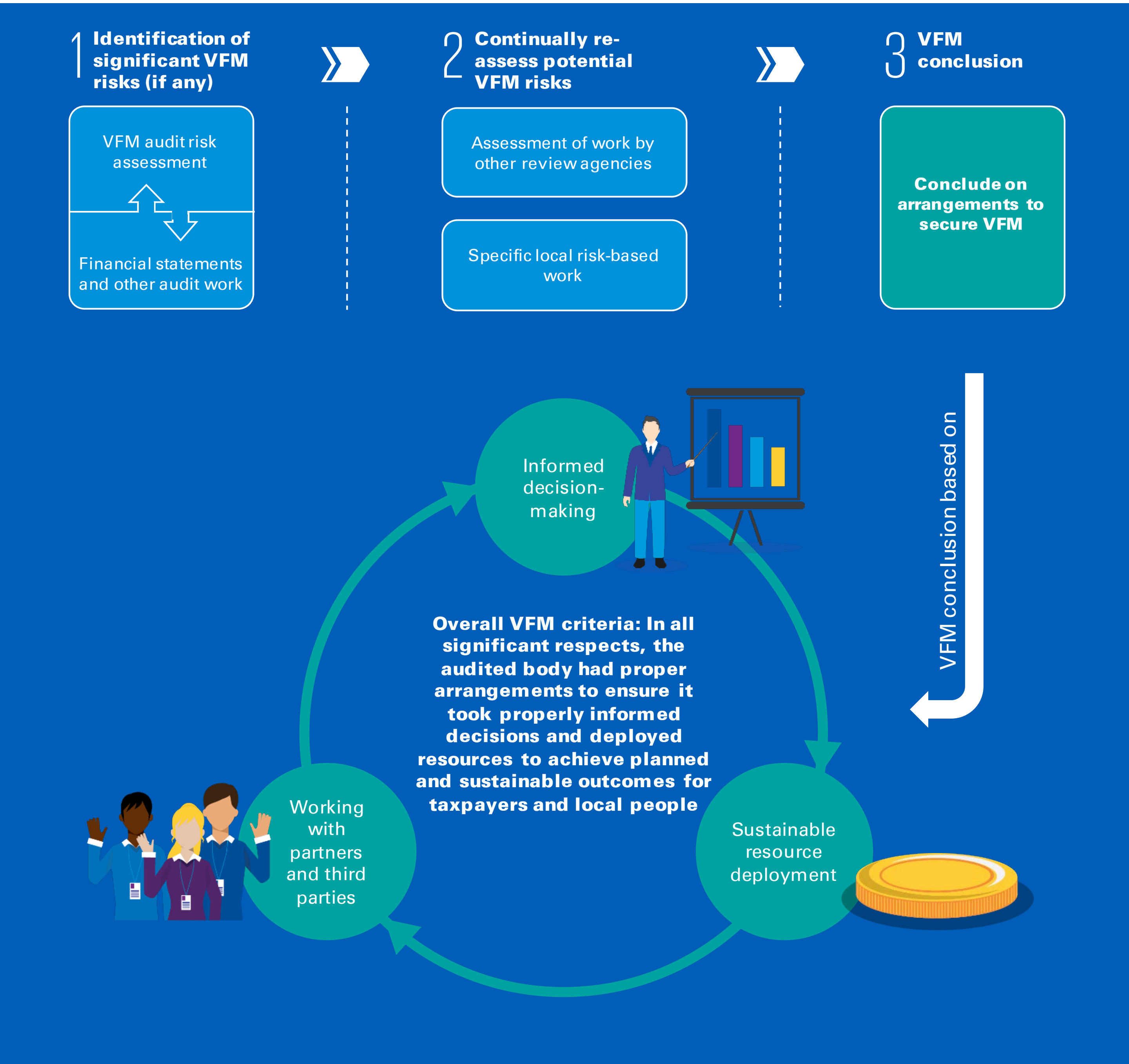
VFM conclusion

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.'

Our 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 follow a risk based approach to target audit effort on the areas of greatest audit risk.



VFM conclusion

The table below summarises our assessment of the individual VFM risk identified against the three sub-criteria. This directly feeds into the overall VFM criteria and our value for money opinion.

VFM assessment summary			
VFM risk	**Informed decision-making**	**Sustainable resource deployment**	**Working with partners and third parties**
1. Coast protection scheme	✓	✓	✓
Overall summary	✓	✓	✓

In consideration of the above, we have concluded that in 2016/17, the Authority has made proper arrangements to ensure it took properly-informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.

Further details on the work done and our assessment are provided on the following pages.

Significant VFM risks

We have identified one significant VFM risks as communicated to you in our *2016/17 External Audit Plan*. In consideration of this risk, we are satisfied that external or internal scrutiny provides sufficient assurance that the Authority's current arrangements in relation to these risk areas are adequate.

Significant VFM risks	Work performed
1. Coast protection scheme	**Why is this a risk?** The Authority is the administrating body for a significant £63.2m coast protection scheme at Rossall. The scheme is predominantly grant funded by the Environment Agency, with further additional contributions received from Fleetwood Town Council and The Regenda Group, a registered provider of social housing. The project represents a significant undertaking for the Authority, which has a responsibility to manage the deployment of resources appropriately and in a manner which delivers value for money. There is a risk that if the Authority does not have appropriate arrangements to exercise informed decision making over the deployment of this significant tranche of grant funding, that value for money will not be achieved. **Summary of our work** We reviewed the arrangements put in place by the Authority for managing and monitoring the Coast Protection Scheme. This included: — Interviewing officers of the Authority to develop our understanding of the systems and processes in place for managing the project; — Reviewing documentation to confirm that these systems and processes are operating effectively; and — Reviewing the formal and informal arrangements for reporting on progress to the Cabinet and to the Council. The findings of our work on this significant risk indicate that the Council has established effective arrangements for managing and monitoring this process. Council officers attend regular project meetings with Project Officers. Spend profile is monitored and project risks are continuously assessed to ensure that they are appropriately mitigated. Our work in connection with this significant risk has not identified any issues which would indicate that the Authority has not put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

Appendices

Key issues and recommendations

Our audit work on the Authority's 2016/17 financial statements has identified one issue. We have outlined this issue in this appendix together with our recommendations which we have agreed with Management. We have also included Management's responses to these recommendations.

The Authority should closely monitor progress in addressing the risks, including the implementation of our recommendation. We will formally follow up this recommendation next year.

Each issue and recommendation have been given a priority rating, which is explained below.

High priority: 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.

Medium priority: 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.

Low priority: Issues that would, if corrected, improve internal control in general but are not vital to the overall system. These are generally issues of good practice that we feel would benefit if introduced.

The following is a summary of the issues and recommendations raised in the year 2016/17.

2016/17 recommendations summary

Priority	Number raised in our interim controls audit	Number raised from our year-end audit	Total raised for 2016/17
High	0	0	**0**
Medium	0	0	**0**
Low	1	0	**1**
Total	**1**	**0**	**1**

Low priority

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 had 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 identity 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.

Management Response

Recommendation accepted.

This recommendation follows a similar audit recommendation from Mazars who recently conducted an audit and documented the same segregation of duties issue. 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.

Owner

Section 151 Officer

Deadline

Immediate

Follow-up of prior year recommendations

In the previous year, we raised one recommendation which we reported in our *External Audit Report 2015/16 (ISA 260)*. The Authority has implemented this recommendations.

We have used the same rating system as explained in Appendix 1.

Each recommendation is assessed during our 2016/17 work, and we have obtained the recommendation's status to date.

Below is a summary of the prior year's recommendations.

2015/16 recommendations status summary

Priority	Number raised	Number implemented / superseded	Number outstanding
High	0	0	**0**
Medium	0	0	**0**
Low	1	1	**0**
Total	**1**	**1**	**0**

Low priority

1. Full completion and signature of Heads of Service Declaration of Interest forms

We noted during our testing of related party transactions disclosed in 2015/16 that one Declaration of Interest form was signed but not correctly completed by the relevant Head of Service.

If the Authority fails to maintain a complete and up-to-date record of officer interests, there is a risk that it will not be sighted on the identity of its related parties, and by corollary the transactions that the Authority undertakes with these related parties (if any). This impacts both on the completeness and accuracy of the Authority's related party transaction disclosure in the Statement of Accounts, but also on its ability to manage conflicts of interest effectively.

Recommendation

We recommend that all Declaration of Interest forms are updated by all key officers and members at least annually, and signed by the relevant individual to evidence that the document is a complete and accurate record of their financial and other interests.

Management original response

A completed form will be obtained from the relevant officer by the 19 September 2016 and the s.151 officer will in future sign off all Related Party Transaction forms to ensure a satisfactory record is kept.

Owner

Section 151 Officer

Original deadline

19 September 2016

KPMG's July 2017 assessment

Fully implemented

Our testing of Declaration of Interest forms during our final audit in July 2017 confirmed that all DoI forms have been completed and signed for 2016/17 by all key officers.

Audit differences

We are required by ISA 260 to report all uncorrected misstatements, other than those that we believe are clearly trivial, to those charged with governance (which in your case is the Audit Committee). We are also required to report all material misstatements that have been corrected but that we believe should be communicated to you to assist you in fulfilling your governance responsibilities.

A number of minor amendments focused on presentational improvements have been made to the 2016/17 draft financial statements. These changes have all been made by management. The Finance team is committed to continuous improvement in the quality of the financial statements submitted for audit in future years.

Adjusted audit differences

We are pleased to report that there were no material adjusted audit differences arising from our 2016/17 audit.

Unadjusted audit differences

We are pleased to report that there are no uncorrected audit differences.

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 2016/17, presented to you in February 2017.

Materiality for the Authority's accounts was set at £1.1 million which equates to around 1.98 percent of actual gross expenditure per the 2016/17 draft Statement of Accounts. 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, we propose that an individual difference could normally be considered to be clearly trivial if it is less than £55,000 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

Declaration of independence and objectivity

Auditors appointed by Public Sector Audit Appointments Ltd must comply with the Code of Audit Practice (the 'Code') which states that:

> *"The auditor should carry out their work with integrity, objectivity and independence, and in accordance with the ethical framework applicable to auditors, including the ethical standards for auditors set by the Financial Reporting Council, and any additional requirements set out by the auditor's recognised supervisory body, or any other body charged with oversight of the auditor's independence. The auditor should be, and should be seen to be, impartial and independent. Accordingly, the auditor should not carry out any other work for an audited body if that work would impair their independence in carrying out any of their statutory duties, or might reasonably be perceived as doing so."*

In considering issues of independence and objectivity we consider relevant professional, regulatory and legal requirements and guidance, including the provisions of the Code, the detailed provisions of the Statement of Independence included within the Public Sector Audit Appointments Ltd Terms of Appointment ('Public Sector Audit Appointments Ltd Guidance') and the requirements of APB Ethical Standard 1 Integrity, Objectivity and Independence ('Ethical Standards').

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

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

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

Ethical Standards require us to communicate to those charged with governance in writing at least annually all significant facts and matters, including those related to the provision of non-audit services and the safeguards put in place that, in our professional judgement, may reasonably be thought to bear on our independence and the objectivity of the Engagement Lead and the audit team.

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 Audit Partners and staff annually confirm their compliance with our Ethics and Independence Manual including in particular that they have no prohibited shareholdings.

Our Ethics and Independence Manual is fully consistent with the requirements of the Ethical Standards issued by the UK Auditing Practices Board. As a result we have underlying safeguards in place to maintain independence through: Instilling professional values, Communications, Internal accountability, Risk management and Independent reviews.

We would be happy to discuss any of these aspects of our procedures in more detail.

Auditor declaration

In relation to the audit of the financial statements of Wyre Borough Council for the financial year ending 31 March 2017, 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 not completed any pieces of non-audit work at the Authority during 2016/17, that we need to bring to your attention.

Appendix 5

Audit fees

Audit fees

As communicated to you in our External Audit Plan 2016/17, our scale fee for the audit is £48,662 plus VAT *(£48,662 in 2015/16)*. Our work on the certification of Housing Benefits (BEN01) is planned for September and October 2017. The planned scale fee for this is £5,580 plus VAT.

PSAA fee table		
Component of audit	**2016/17** *(planned fee)* £	**2015/16** *(actual fee)* £
Accounts opinion and use of resources work		
PSAA scale fee set in 2014/15	48,662	48,662
Housing benefits (BEN01) certification work		
PSAA scale fee set in 2014/15 – planned for September and October 2017	5,580	5,676
Total fee for the Authority set by the PSAA	**54,242**	**54,338**

All fees are quoted exclusive of VAT.