



## Governance and Audit Committee - 29 November 2017

### Annual Audit Letter 2016/17

#### **Purpose of report**

The Annual Audit report summarises the key findings from the 2016/17 External Audit of the Statement of Accounts.

#### **Attachment(s)**

Appendix 1 – Annual Audit Letter

#### **1. Annual Audit Letter**

- 1.1. The Annual Audit letter sets out the key findings of the 2016/17 External Audit. The letter is intended to communicate these issues to key external stakeholders.
- 1.2. The External Auditors issued an unqualified value for money (VFM) conclusion and an unqualified opinion of the financial statements on 18 August 2017 ahead of the statutory deadline of 30 September. This means that KPMG believe the financial statements give a true and fair view of the financial position of the Authority and of its expenditure and income for the year.
- 1.3. A review of the Annual Governance Statement concluded that it was consistent with External Audit's understanding.
- 1.4. The audit identified that one audit adjustment valued at £0.269m and made a number of recommendations to strengthen the financial environment of the council.
- 1.5. Further detail is provided in the Annual Audit Letter which is provided to members for information at Appendix 1.

#### **2. Equality and Diversity Implications**

- 2.1. There are no equality and diversity implications arising from this report.

#### **3. Legal Implications**

- 3.1. There are no legal implications arising from this report.

#### **4. Risk Management**

- 4.1. There are no additional risks arising from this report.

#### **5. Resource and Financial Implications**

- 5.1. There are no financial implications arising from this report.

#### **6. Constitutional Implications**

- 6.1. There are no constitutional implications arising from this report.

#### **7. Implications for our Customers**

- 7.1. There are no implications for our customers arising from this report.

**8. Corporate Outcomes**

8.1. This report links to the Corporate Outcome of Effective Management

*(Ensuring robust processes are in place to manage the Councils financial management processes)*

**9. Recommendation**

8.1 The Governance and Audit Committee is recommended to note the Annual Audit Letter

*(Reason: To ensure Members and key stakeholders are made aware of the findings of the 2016/17 External Audit)*

<b>Legal</b>	Power: <b>Local Government Act 2003</b>				
	<b>Audit and Accounts Regulations</b>				
Other considerations:					
<b>Background Papers:</b>					
<b>Person Originating Report:</b> Michelle Drewery, Finance Manager ☎ 01832 742267 ✉ mdrewery@east-northamptonshire.gov.uk					
<b>Date:</b> 10/11/17					
<b>CFO</b>		<b>MO</b>		<b>CX</b>	

(Committee Report Normal Rev. 22)



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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](http://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 Jon Gorrie, 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 ([andrew.sayers@kpmg.co.uk](mailto: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](mailto: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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# Headlines

This Annual Audit Letter summarises the outcome from our audit work at East Northamptonshire District Council in relation to the 2016/17 audit year. Although it is addressed to Members of the Authority, it is also intended to communicate these key messages to key external stakeholders, including members of the public, and will be placed on the Authority's website.



## Audit opinion

We issued an unqualified opinion on the Authority's financial statements on 18 August 2017, ahead of the statutory deadline. This puts the Authority in a good position to meet the earlier deadline in 2017/18. Our unqualified opinion means that we believe the financial statements give a true and fair view of the financial position of the Authority and of its expenditure and income for the year.

We have made a number of recommendations to strengthen the Authority's financial environment. This includes two medium-priority recommendations.



## 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'.

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.

As part of our work we reviewed the 2016/17 outturn, the processes for developing the 2017/18 budget and the reasonableness of the assumptions underlying the Medium Term Financial Plan (MTFP).

The Authority reported an surplus position on its net expenditure budget for 2016/17 after the net contribution of £441k to the Earmarked General Fund reserve. The Authority's MTFP details a balanced budget for 2017/18 including savings of £698,000 in year, all of which have been identified. In MTFS Pay inflation equates to around 1.5% each year from 2016/17 onwards which is based on modelling assumptions around the 1% pay inflation announcement in the Spending Review and Autumn Statement 2015 as well as the introduction of the new National Living wage. As part of the review of assumptions, general inflation has been removed. Only pay, contractual and utilities inflation is assumed within the MTFS.

The MTFP details the increasingly difficult financial challenges faced each year, resulting in the need for ever rising savings which have yet to be identified, up to £1 million cumulative by 2020/21. The efficiency plan sets out a number of work streams for the council to focus on which will help to reduce the projected funding gap from 2018/19 onwards. By the end of the spending review the councils aim is to achieve at least a balanced budget position but with an aspiration for achieving a surplus position.

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.

# Summary of the 2016/17 audit

## Financial statements audit

We have identified 1 audit adjustment with a total value of £0.269 million. The misstatement resulted due to the revaluation figures from valuers report are not incorporated in FAR and Financial statements. The Authority adjusted the Financial statements for the misstatement.

We have not undertaken any non-audit work for the Authority during 2016-17.

## Other information accompanying the financial statements

Whilst not explicitly covered by our audit opinion, we review other information that accompanies the financial statements to consider its material consistency with the audited accounts. We reviewed the Annual Governance Statement and Narrative Report. We concluded that they were not inconsistent with our understanding.

## Whole of Government Accounts

We reviewed the consolidation pack which the Authority prepared to support the production of Whole of Government Accounts ('WGA') by HM Treasury. We signed our WGA Assurance Statement prior to the deadline of 30 September 2017.

## Recommendations update

Below is a summary of the recommendations raised in year and outstanding recommendations from the prior year.

### 2016/17 recommendations summary

Priority	Number raised in our interim report	Number raised from our year-end audit	Total raised for 2016/17
High	0	0	0
Medium	0	2	2
Low	0	1	1
<b>Total</b>	<b>0</b>	<b>3</b>	<b>3</b>

We will formally follow up these recommendations and report as part of our 2017/18 work.

## Certificate

We issued our certificate on 18 August 2017. The certificate confirms that we have concluded the audit for 2016/17 in accordance with the requirements of the Local Audit & Accountability Act 2014 and the Code of Audit Practice.

## Audit fee

Subject to agreement with the Public Sector Audit Appointments (PSAA), our total proposed fee for 2016/17 is £48,300. See further detail in appendix two.



## Summary of the 2016/17 audit

# Summarised audit misstatements

We have summarised below the significant adjustments identified during our audit of the Authority's Statement of Accounts:

- a. We identified one material audit adjustment which was corrected by management.

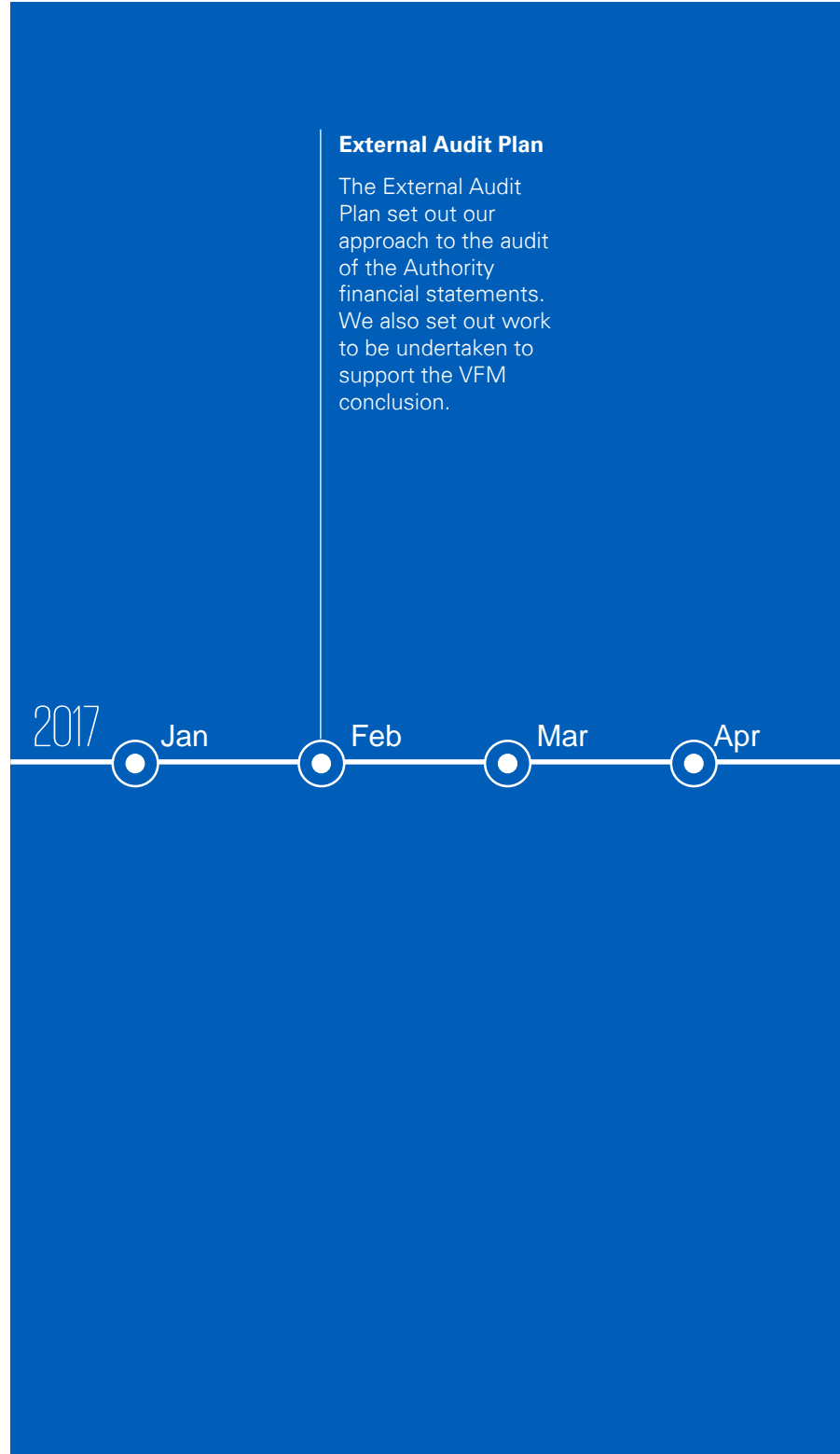
**Table 1: Adjusted audit differences (£'000)**

No.	Income and expenditure statement	Movement in reserves statement	Assets	Liabilities	Reserves	Basis of audit difference
1	-	Cr Revaluation Reserve £269,472	Dr Fixed Assets (PPE) £269,472	-	Cr Revaluation Reserve £269,472	Revaluation figures from valuers report are not incorporated in FAR and Financial statements.
	-	<b>Cr £269,472</b>	<b>Dr £269,472</b>	-	<b>Dr £269,472</b>	<b>Total impact of adjustments</b>

## Appendix One

# Summary of reports issued

This appendix summarises the reports we issued since our Annual Audit Letter published in 2016.



### External Audit Plan

The External Audit Plan set out our approach to the audit of the Authority financial statements. We also set out work to be undertaken to support the VFM conclusion.



## Audit Fee Letter

The Audit Fee Letter set out the proposed audit work and draft fee for the 2017/18 financial year.

## Annual Audit Letter

This Annual Audit Letter provides a summary of the results of our audit for 2016/17.

May

Jun

Jul

Aug

Sep

Oct

Nov

## External Audit Report

The External Audit Report summarised the results of our audit work for 2016/17 including key issues and recommendations raised as a result of our observations. We also provided the mandatory declarations required under auditing standards as part of this report.

## Auditor's Report

The Auditor's Report included our audit opinion on the financial statements along with our VFM conclusion.

## Appendix Two

# Audit fees

This appendix provides information on our final fees for the 2016/17 audit.

To ensure transparency about the extent of our fee relationship with the Authority, we have summarised below and in the chart opposite the outturn against the 2016/17 planned audit fee.

### External audit

Our proposed fee for the 2016/17 audit of East Northamptonshire District Council is £48,300. This comprises a planned scale rate fee of £45,030 and a further £3,270. The £3,270 is still subject to PSAA determination and relates to delay in completion of the general IT controls work, additional work on the triennial Pensions valuation and the procedures to audit the CIES restatement.

### Other services (non-PSAA services)

During the financial year 2016/17 we have not undertaken any non-audit services for the Authority.

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