Purpose of report
To advise members of the audit opinion provided by KPMG on their audit of the financial statements and conclusion on the use of resources in 2017/18.

Attachment(s)
Appendix 1 – Independent Auditor’s Report

1. Independent Auditor’s Report

1.1. The Independent Auditor’s Report is in accordance with Part 5 of the Local Audit and Accountability Act 2014 and states to members of the authority those matters which the auditors are required to set out within the report.

1.2. The External Auditors have a responsibility to audit the financial statements and to provide an opinion on them. The report sets out the scope of the work that was undertaken on the financial statements and confirms that these:

- give a true and fair view of the financial position of the Authority as at 31 March 2018 and of the Authority’s expenditure and income for the year then ended;

- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18.

1.3. The report also states that KPMG are satisfied that the Council has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2018.

1.4. The Independent Audit Report is provided to members for information in 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. **Customer Service Implications**

7.1. There are no customer service implications arising from this report.

8. **Privacy Implications**

8.1. There are no privacy implications arising from this report.

9. **Corporate Outcomes**

9.1. This report links to the following Corporate Outcomes:
   - Effective Management

10. **Recommendation**

10.1. The committee is recommended to note the contents of the Independent Auditor’s Report.

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

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**Legal**

| Power: Local Audit and Accountability Act 2014 |
| Other considerations: CIPFA/LASAAC Code of Practice on Local Authority Accounting in the UK |

**Background Papers:**

Person Originating Report: Michelle Drewery, Head of Resources

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Date: 17/08/18

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(CFO | MO | CX)

(Committee Report Normal Rev. 22)
Section one

Summary for Governance and Audit Committee
Summary for Governance and Audit Committee

This Annual Audit Letter summarises the outcome from our audit work at East Northamptonshire District Council ("the Authority") in relation to the 2017-18 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.

This is KPMG’s last Annual Audit Letter to the Authority. We would like to take this opportunity to thank the Authority’s officers and the members of the Governance and Audit Committee for their support throughout the six years of our audit appointment.

Audit opinion

We issued an unqualified opinion on the Authority’s financial statements on 31 July 2018. This 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.

Financial statements audit

We received a complete set of accounts for audit on 1 June 2018, which was after the statutory deadline of 31 May 2018. The draft Statement of Accounts were approved by the Chief Finance Officer on 31 May 2018 however, they were not published on the authority’s website until the following day due to an administrative issue. We note that the Authority met the deadline last year, and officers have assured us that the administrative procedures will be tightened for next year.

Our audit procedures are designed to identify misstatements which are material to our opinion on the financial statements as a whole. Materiality for the Authority’s accounts was set at £0.7 million, which equates to around 1.55% of gross expenditure. We design our procedures to detect errors in specific accounts at a lower level of precision.

We report to the Governance and Audit Committee any misstatements of lesser amounts, other than those that are “clearly trivial”, to the extent that these are identified by our audit work. In the context of the Authority, an individual difference is considered to be clearly trivial if it is less than £35,000.

We did not identify any material misstatements and there were no unadjusted misstatements identified during our audit that we needed to report to you. We raised three medium priority recommendations as part of our audit work relating to the journals authorisation and review process, strengthening the PPE valuation process and timely submission of related party disclosure letters.

The working papers provided this year were of a good standard and were available at the start of the audit visit. The finance team responded promptly to any requests for additional information or explanation and were available throughout the audit visit to answer. We thank the finance team for their co-operation throughout the visit which allowed the audit to progress within the allocated timeframe.

Our audit work was designed to specifically address the following significant risks:

- **Management Override of Controls** – our audit methodology incorporates the risk of management override as a default significant risk. We did not identify any specific additional risks of management override relating to the audit.
- **Valuation of PPE** – the Authority has adopted a rolling revaluation model which sees all land and buildings revalued over a five year cycle. This creates a risk that the carrying value of those assets not revalued in year differs materially from the year end fair value; and
- **Pensions Liabilities** – the net pension liability represents a material element of the Authority’s balance sheet. This carries a significant risk due to the long-term nature of this liability.

Section one:
Summary for Governance and Audit Committee (cont.)

sheet. There is a risk that the assumptions and methodology used in the actuarial valuation of the Authority’s pension obligation are not reasonable which could have a material impact on the net pension liability accounted for in the financial statements.

We did not identify any evidence of material misstatement as a result of our audit work on these significant risk areas.

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. This year we reviewed the Annual Governance Statement and Narrative Report. We concluded that they were consistent with our understanding and did not identify any significant issues.

Whole of Government Accounts

The Authority prepares a consolidation pack to support the production of Whole of Government Accounts by HM Treasury. We are not required to review your pack in detail as the Authority falls below the threshold where an audit is required. As required by the guidance we have confirmed this with the National Audit Office.

Value for Money conclusion

We issued an unqualified conclusion on the Authority’s arrangements to secure value for money (VFM conclusion) for 2017-18 on 31 July 2018. This means we are satisfied that during the year the Authority had appropriate arrangements for securing economy, efficiency and effectiveness in the use of its resources. To arrive at our conclusion we looked at the Authority’s arrangements to make informed decision making, sustainable resource deployment and working with partners and third parties.

Value for Money risk areas

We undertook a risk assessment as part of our VFM audit work to identify the key areas impacting on our VFM conclusion and considered the arrangements you have put in place to mitigate these risks. Our work identified the following significant risks:

• Delivery of Budgets - The Authority continues to face similar financial pressures and uncertainties to those experienced by others in the local government sector. The Authority needs to have effective arrangements in place for managing its annual budget and generating savings and income required to balance its medium term financial plan; and

• Investments in 2017-18 - We concluded that the Authority has the appropriate and reliable financial and performance information to support informed decision making. However, we raised a medium priority recommendation to strengthen this area.

We were satisfied that there were adequate arrangements in place during 2017-18 and there were no significant matters relating to these risk areas which prevented us from giving an unqualified VFM conclusion.

High priority recommendations

We raised no high priority recommendations as a result of our 2017-18 work.

Certificate

We issued our certificate on 17 August 2018. The certificate confirms that we have concluded the audit for 2017-18 in accordance with the requirements of the Local Audit & Accountability Act 2014 and the Code of Audit Practice.
Audit fee

The scale fee set by Public Sector Audit Appointments Limited (PSAA) for the 2017-18 audit is £45,030 plus VAT. The PSAA scale fee for 2016-17 was £45,030 plus VAT.

Further detail is contained in Appendix 2.

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.
Appendices
Appendix 1: Summary of reports issued

This appendix summarises the reports we issued since our last Annual Audit Letter.

Certification of Grants and Returns
This report summarised the outcome of our certification work on the Authority’s 2016-17 grants and returns.

External Audit Plan
The External Audit Plan set out our approach to the audit of the Authority’s financial statements and to support the VFM conclusion.

Report to Those Charged with Governance
The Report to Those Charged with Governance summarised the results of our audit work for 2017-18 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.

Annual Audit Letter and certificate
We issued the certificate after completing our work on WGA (deadline 31 August). This Annual Audit Letter provides a summary of the results of our audit for 2017-18.
Appendix 2:

Audit fees

This appendix provides information on our final fees for the 2017-18 audit.

External audit

The scale fee set by Public Sector Audit Appointments Limited (PSAA) for the 2017-18 audit is £45,030 plus VAT. The PSAA scale fee for 2016-17 was £45,030 plus VAT.

For 2016/17, an additional fee of £3,370 was charged in relation 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.

Certification of grants and returns

Under our terms of engagement with PSAA we undertake prescribed work in order to certify the Authority’s 2017-18 housing benefit grant claim. This certification work is still ongoing, and the certification deadline is 30 November 2018. The PSAA scale fee for this work is £5,742 and the final fee will be confirmed through our reporting on the outcome of that work in January 2019.

Other services

We have not provided any other services to the Authority during 2017-18.
This report is addressed to the Authority and has been prepared for the sole use of the Authority. We take no responsibility to any member of staff acting in their individual capacities, or to third parties. We draw your attention to the Statement of Responsibilities of auditors and audited bodies, which is available on Public Sector Audit Appointment’s website (www.psaa.co.uk).

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

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

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