ASHFIELD DISTRICT COUNCIL

Council Offices,
Urban Road,
Kirkby in Ashfield
Nottingham
NG17 8DA

Addendum

Audit Committee

Date:	**Monday, 26th September, 2016**
Time:	**6.30 pm**
Venue:	**Committee Room, Council Offices, Urban Road, Kirkby-in-Ashfield**

For any further information please contact:

Lynn Cain

l.cain@ashfield-dc.gov.uk

01623 457317

If you require an adjustment to enable you to participate or access the meeting, please contact the Democratic Services team at least 48 hours before the meeting.

ADDITIONAL PAPERS

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Agenda Item 5

REPORT TO: AUDIT COMMITTEE **DATE**: 26th September 2016

HEADING: AUDITED STATEMENT OF ACCOUNTS 2015/16

PORTFOLIO HOLDER: N/A

KEY DECISION: **NO** **SUBJECT TO CALL-IN:** **NO**

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1. PURPOSE OF REPORT

This report is intended to provide the Audit Committee with the outcome of the external audit of the Statement of Accounts for the financial year 2015/16 and to seek approval of the Statement. A copy of the audited accounts is attached.

2. RECOMMENDATION

It is recommended that:-

1) the findings of the Statement of Accounts audit are noted.
2) the audited Statement of Accounts for 2015/16 including the Annual Governance Statement are approved together with the associated Letter of Representation.

3. REASON FOR RECOMMENDATION

To comply with statutory and constitutional requirements.

4. ALTERNATIVE OPTIONS CONSIDERED (with reasons why not adopted)

There are no alterative options.

5. BACKGROUND

A copy of the Statement of Accounts can be accessed via the following link:

Statement_of_Accounts_2015-16.pdf

The Letter of Representation is attached to the report.

Amendments to the Statement of Accounts 2015/16

The audit has resulted in some changes being necessary to the Statement of Accounts.

The Council's accounts consist of Ashfield District Council only statements and Group Accounts which consolidate both the Council's and Ashfield Homes Ltd statements.

In summary, the amendments made to the Council accounts have required notes to be changed however these changes have had no material impact on the key financial statements (i.e. Comprehensive Income & Expenditure Account, Balance Sheet and Movement in Reserves). There has therefore been no change to the previously reported out-turn position for the General Fund and the Housing Revenue Account.

Material amendments have been required to the Group Accounts key financial statements. The changes have been necessary as a result of one issue – not including the Council's obligations in respect of the pension liability of Ashfield Homes Ltd. This is outlined further in the report.

The primary changes made to the Council's accounts are as follows:-

1) EU Referendum. Narrative Statement (page 18) & Events after the Balance Sheet date (Note 5).

   A note has been added to include the outcome of the EU Referendum which took place on 23rd June 2016 and resulted in the UK voting to leave the European Union. Exit negotiations will determine what arrangements apply in relation to EU legislation and funding in the future. A 'non-adjusting event' arises and therefore no changes are made to the financial statements.

2) Tangible Non-current Assets (Note 10)

   In-year depreciation up to the date of valuation (31st January 2016) in respect of Non-current Assets had been charged to Depreciation and Impairments when the correct accounting treatment was to reverse in-year depreciation following revaluation. This has now been amended and has resulted in a reduction of £2.596m in the Depreciation and Impairments amount with a corresponding change to Cost or Valuation value. There is no change to the final Non-current asset values.

3) Teversal Grange Provision for Bad Debt. Debtors (Note 18) & Provisions (Note 22)

   The Provisions note includes an amount for bad debt relating to amounts owing at Teversal Grange. This is still required but should be provided for within the overall bad debt provision rather than separately identified. The change results in a reduction in the Provision note of £120k and an addition to overall bad debt provision from £2.858m to £2.978m. This results in the Debtors total reducing from £6.351m to £6.231m.

4) Exit Packages – Note 28b

   There was an error in the working paper which has required a change to the total cost of exit packages for those receiving £20k or less. The amount has changed by £1,226 from £78,451 to £77,225.

5) Audit Fees – Note 29

   No change has been made to the table showing the cost of audit fees but further explanation has been added as to how these arose.

6) Asset held as Lessor – operating leases (Note 33 b)

This matter was reported to the June 2016 Audit Committee. The note in the accounts had been linked to the incorrect table in the working papers. The correct table is now present.

7) Pension Obligation Ashfield Homes Ltd - Amendments to Group Accounts 2015/16 and Prior Year Adjustment 2014/15 and 2013/14 (pages 117 to page 134).

Prior to commencement of the audit, it was noted that the Group Accounts did not include AHL pension obligations for the current year and prior years. This was notified to KPMG at commencement of the audit.

The pensions transfer from the Council to the Company was effected on the basis of deficits remaining with the Council, therefore it was agreed that the Council would be responsible for the liability up to the date of transfer. In addition, as the sole shareholder it was agreed the Council would indemnify AHL in respect of all liabilities that may have arisen from its pension obligations.

The pension position has been reported within the AHL statements and should be included within the Group position. It has been necessary to amend the Group Statements, details of which are outlined in note 2 of the Group Accounting Policies.

In summary, as shown within the Group Balance Sheet the Net Assets of the Group has :-

- for 2015/16 reduced from £117.619m (unaudited position) to £107.419m (audited position) a change of £10.2m. This has required an unusable reserve of £10.2m to correspond with the liability.

- for 2014/15 reduced from £100.01m (originally audited position) to £87.275m (restated position) a change of £12.735m. This has required an unusable reserve of £12.735m to correspond with the liability.

- for 2013/14 reduced from £106,872m (originally audited position) to £98,165m, a change of £8.707m. This has required an unusable reserve of £8.707m to correspond with the liability.

All amendments have been updated in the Statement of Accounts 2015/16 and the Statement is recommended for approval.

Weaknesses in Internal Control

The following control issues have been identified by KPMG and discussed as part of their report. This section of the report provides detail of the Council's intended actions to meet recommendations proposed.

Purchase Ordering – Raising of Purchase Orders.

Analysis has been undertaken by KPMG from purchase order and creditor data supplied by the Council. There is evidence to indicate that purchase orders are being raised after the invoice has been received. Financial Regulations require purchase orders to be raised at the start of the process when items are required. Without the purchase order at the outset, it is difficult to demonstrate that the items/ service purchased has been delivered/supplied in full and at the correct price. In addition by raising a purchase order this aids the budgeting process by placing a commitment against the budget on the main accounting system.

This matter was reported by Internal Audit to the December 2015 Audit Committee, together with details of the level of compliance from each Directorate during the period July to September 2015. During September and October 2015 members of the Financial Management team provided 9 training sessions to all employees who were involved with ordering and payment of goods and services and stressed the importance of compliance with Financial Regulations.

Further analysis based upon June and July 2016 processing is being reported to Corporate Leadership Team highlighting the key sections where non-compliance occurs with a view to taking further action. A non-compliance report will also be reported to the next Audit Committee.

Shared Services Payroll Processing– Authorisation of Payroll by Ashfield District Council

The Council's payroll service is provided by Mansfield District Council (MDC). Although checks are undertaken by MDC staff prior to submission of the payroll to the bank no pre-checks are undertaken by ADC. As client of the service and on the basis that values go through the ADC bank account, such controls should be in place.

This issue has been discussed by senior officers of Ashfield and Mansfield councils. Internal Audit have reviewed the exceptions report which is currently received by the management of the payroll service at Mansfield and concluded that it is fit for purpose. It is the intention that in future the Client officer (Service Director, Corporate Services and Transformation) will receive this exceptions report and discuss this with the Deputy Chief Executive (Resources), using monthly budget information provided by the Financial Management Team, to check at a high level that the exceptions were transactions which the Council was expecting. This information will also be used to assess the overall value of the payroll transactions to ensure that this corresponds to the amount of budget set aside for that month's payroll. This discussion will take place prior to the payroll file being sent to the bank.

Following from the consideration of the Exception Report as described above, the Service Director, Corporate Services and Transformation will give approval for the file to be submitted to the bank.

The Payroll Reconciliation will be considered during the same discussion and approved. The preferred method for this will be an exchange of e mails.

Letter of Representation

The Letter of Representation is attached for consideration and approval.

IMPLICATIONS:

1. **Corporate Plan:**
Production of timely and accurate Statement of Accounts is a statutory requirement. Achievement of this reflects sound financial management supporting the Corporate Plan.

2. **Legal:**
This report enables the Council to present for approval the audited Statement of Accounts by 30th September 2016 in accordance with statute.

3. **Financial:**
The report outlines the detailed changes required to the Statement of Accounts as a result of the External Audit being completed.

4. **Health and Well-Being / Environmental Management and Sustainability:**
The findings of this report have no direct impact on the Council's environment or sustainability.

5. **Human Resources:**
There are no HR implications in relation to the content of this report.

6. **Diversity/Equality:**
There are no diversity or equality issues relevant to this report.

7. **Community Safety:**
With reference to Section 17, Crime and Disorder Act 1998 (as amended) there are no crime and disorder implications contained within this report

8. **Other Implications:**
None

REASON(S) FOR URGENCY
N/A

EXEMPT REPORT
N/A

BACKGROUND PAPERS
None
REPORT AUTHOR AND CONTACT OFFICER

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Contact:	Mr. D. Greenwood	**Our Ref:**	DG/SC
Direct Line:	01623 457201	**Your Ref:**	
Email:	d.greenwood@ashfield-dc.gov.uk	**Date:**	26 September, 2016

Dear Sophie,

This representation letter is provided in connection with your audit of the financial statements of Ashfield District Council ("the Authority"), for the year ended 31 March 2016 for the purpose of expressing an opinion:

i. as to whether these financial statements give a true and fair view of the financial position of the Authority and the Group as at 31 March 2016 and of the Authority's expenditure and income for the year then ended;

ii. whether the financial statements have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16.

These financial statements comprise the Authority and Group Movement in Reserves Statement, the Authority and Group comprehensive Income and Expenditure Statement, the Authority and Group Balance Sheet, the Authority and Group Cash Flow Statement, the Housing Revenue Account Income and Expenditure Statement, the Movement on the Housing Revenue Account Statement and the Collection Fund and the related notes.

The Authority confirms that the representations it makes in this letter are in accordance with the definitions set out in the Appendix to this letter.

The Authority confirms that, to the best of its knowledge and belief, having made such inquiries as it considered necessary for the purpose of appropriately informing itself:

Financial statements

1. The Authority has fulfilled its responsibilities, as set out in the Accounts and Audit Regulations 2015, for the preparation of financial statements that:

   i. give a true and fair view of the financial position of the Authority and the Group as at 31 March 2016 and of the Authority's and the Group's expenditure and income for the year then ended;

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ii. have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16.

iii. The financial statements have been prepared on a going concern basis.

2. Measurement methods and significant assumptions used by the Authority in making accounting estimates, including those measured at fair value, are reasonable.

3. All events subsequent to the date of the financial statements and for which IAS 10 *Events after the reporting period* requires adjustment or disclosure have been adjusted or disclosed.

4. The effects of uncorrected misstatements are immaterial, both individually and in aggregate, to the financial statements as a whole.

5. In respect of the restatement of the Group Accounts pension asset and liability, the 2014/15 net assets of the Group reduced by £12.735m. This required an unusable reserve of £12.735m to correspond with the liability. The restatement was required due to the omission of Ashfield Homes Ltd pension obligation for the current year and the prior years.

Information provided

6. The Authority has provided you with:

- access to all information of which it is aware, that is relevant to the preparation of the financial statements, such as records, documentation and other matters;
- additional information that you have requested from the Authority for the purpose of the audit; and
- unrestricted access to persons within the Authority and the Group from whom you determined it necessary to obtain audit evidence.

7. All transactions have been recorded in the accounting records and are reflected in the financial statements.

8. The Authority confirms the following:

i) The Authority has disclosed to you the results of its assessment of the risk that the financial statements may be materially misstated as a result of fraud.
Included in the Appendix to this letter are the definitions of fraud, including misstatements arising from fraudulent financial reporting and from misappropriation of assets.

ii) The Authority has disclosed to you all information in relation to:

a) Fraud or suspected fraud that it is aware of and that affects the Authority and the Group and involves:
- management;
- employees who have significant roles in internal control; or

- others where the fraud could have a material effect on the financial statements; and

b) allegations of fraud, or suspected fraud, affecting the Authority's and the Group's financial statements communicated by employees, former employees, analysts, regulators or others.

In respect of the above, the Authority acknowledges its responsibility for such internal control as it determines necessary for the preparation of financial statements that are free from material misstatement, whether due to fraud or error. In particular, the Authority acknowledges its responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud and error.

9. The Authority has disclosed to you all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing the financial statements.

10. The Authority has disclosed to you and has appropriately accounted for and/or disclosed in the financial statements, in accordance with IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*, all known actual or possible litigation and claims whose effects should be considered when preparing the financial statements.

11. The Authority has disclosed to you the identity of the Authority's and the Group's related parties and all the related party relationships and transactions of which it is aware. All related party relationships and transactions have been appropriately accounted for and disclosed in accordance with IAS 24 *Related Party Disclosures*.

12. The Authority confirms that:

    a) The financial statements disclose all of the key risk factors, assumptions made and uncertainties surrounding the Authority's and the Group's ability to continue as a going concern as required to provide a true and fair view.
    b) Any uncertainties disclosed are not considered to be material and therefore do not cast significant doubt on the ability of the Authority and the Group to continue as a going concern.

13. On the basis of the process established by the Authority and having made appropriate enquiries, the Authority is satisfied that the actuarial assumptions underlying the valuation of defined benefit obligations are consistent with its knowledge of the business and are in accordance with the requirements of IAS 19 (revised) Employee Benefits.

    The Authority further confirms that:

    a) all significant retirement benefits, including any arrangements that are:
        - statutory, contractual or implicit in the employer's actions;
        - arise in the UK and the Republic of Ireland or overseas;
        - funded or unfunded; and
        - approved or unapproved,

    have been identified and properly accounted for; and

b) all plan amendments, curtailments and settlements have been identified and properly accounted for.

This letter was tabled and agreed at the meeting of the Audit Committee on 26th September 2016.

Yours sincerely,

Chair of the Audit Committee   Chief Financial Officer

Appendix to the Authority Representation Letter of Ashfield District Council: Definitions

Financial Statements

A complete set of financial statements comprises:

- A Comprehensive Income and Expenditure Statement for the period;
- A Balance Sheet as at the end of the period;
- A Movement in Reserves Statement for the period;
- A Cash Flow Statement for the period; and
- Notes, comprising a summary of significant accounting policies and other explanatory information.

A local authority is required to present group accounts in addition to its single entity accounts where required by chapter nine of the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16.

A housing authority must present:

- a HRA Income and Expenditure Statement; and
- a Movement on the Housing Revenue Account Statement.

A billing authority must present a Collection Fund Statement for the period showing amounts required by statute to be debited and credited to the Collection Fund.

An entity may use titles for the statements other than those used in IAS 1. For example, an entity may use the title 'statement of comprehensive income' instead of 'statement of profit or loss and other comprehensive income'.

Material Matters

Certain representations in this letter are described as being limited to matters that are material.

IAS 1.7 and IAS 8.5 state that:

“Material omissions or misstatements of items are material if they could, individually or collectively, influence the economic decisions that users make on the basis of the financial statements. Materiality depends on the size and nature of the omission or misstatement judged in the surrounding circumstances. The size or nature of the item, or a combination of both, could be the determining factor.”

Fraud

Fraudulent financial reporting involves intentional misstatements including omissions of amounts or disclosures in financial statements to deceive financial statement users.

Misappropriation of assets involves the theft of an entity's assets. It is often accompanied by false or misleading records or documents in order to conceal the fact that the assets are missing or have been pledged without proper authorisation.

Error

An error is an unintentional misstatement in financial statements, including the omission of an amount or a disclosure.

Prior period errors are omissions from, and misstatements in, the entity's financial statements for one or more prior periods arising from a failure to use, or misuse of, reliable information that:

a) was available when financial statements for those periods were authorised for issue; and
b) could reasonably be expected to have been obtained and taken into account in the preparation and presentation of those financial statements.

Such errors include the effects of mathematical mistakes, mistakes in applying accounting policies, oversights or misinterpretations of facts, and fraud.

Management

For the purposes of this letter, references to "management" should be read as "management and, where appropriate, those charged with governance".

Related Party and Related Party Transaction

Related party:

A related party is a person or entity that is related to the entity that is preparing its financial statements (referred to in IAS 24 *Related Party Disclosures* as the "reporting entity").

a) A person or a close member of that person's family is related to a reporting entity if that person:
   i. has control or joint control over the reporting entity;
   ii. has significant influence over the reporting entity; or
   iii. is a member of the key management personnel of the reporting entity or of a parent of the reporting entity.
b) An entity is related to a reporting entity if any of the following conditions applies:
   i. The entity and the reporting entity are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).
   ii. One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).
   iii. Both entities are joint ventures of the same third party.
   iv. One entity is a joint venture of a third entity and the other entity is an associate of the third entity.
   v. The entity is a post-employment benefit plan for the benefit of employees of either the reporting entity or an entity related to the reporting entity. If the reporting entity is itself such a plan, the sponsoring employers are also related to the reporting entity.
   vi. The entity is controlled, or jointly controlled by a person identified in (a).

vii. A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

Key management personnel in a local authority context are all chief officers (or equivalent), elected members, the chief executive of the authority and other persons having the authority and responsibility for planning, directing and controlling the activities of the authority, including the oversight of these activities.

A reporting entity is exempt from the disclosure requirements of IAS 24.18 in relation to related party transactions and outstanding balances, including commitments, with:

a) a government that has control, joint control or significant influence over the reporting entity; and
b) another entity that is a related party because the same government has control, joint control or significant influence over both the reporting entity and the other entity.

Related party transaction:

A transfer of resources, services or obligations between a reporting entity and a related party, regardless of whether a price is charged.

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External Audit Report 2015/16

Ashfield District Council

—

September 2016

Agenda Item 6

Contents

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

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

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 Sophie Jenkins, 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 (on 0207 694 8981, or 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 3H.

Section one: Introduction

Introduction

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This document summarises:

- **The key issues identified during our audit of the financial statements for the year ended 31 March 2016 for the Authority; and**
- **Our assessment of the Authority's arrangements to secure value for money.**

Scope of this report

This report summarises the key findings arising from:

- Our audit work at Ashfield District Council ('the Authority') in relation to the Authority's 2015/16 financial statements; and
- The work to support our 2015/16 conclusion on the Authority's arrangements to secure economy, efficiency and effectiveness in its use of resources ('VFM conclusion').

Financial statements

Our *External Audit Plan 2015/16*, presented to you in February 2016, set out the four stages of our financial statements audit process.

Planning → Control Evaluation → Substantive Procedures → Completion

This report focuses on the third stage of the process: substantive procedures. Our on-site work for this took place during July and August 2016.

It also includes findings in respect of our control evaluation work which we identified during the first and second stage of the audit process.

We are now in the final phase of the audit, the completion stage, which includes final review and checking processes. Some aspects of this stage are also discharged through this report.

VFM Conclusion

Our External Audit Plan 2015/16 explained our risk-based approach to VFM work. We have now completed the work to support our 2015/16 VFM conclusion. This included:

- assessing the potential VFM risks and identifying the residual audit risks for our VFM conclusion;
- Considering the results of any relevant work by the Authority and other inspectorates and review agencies in relation to these risk areas; and
- Carrying out additional risk-based work.

Structure of this report

This report is structured as follows:

- Section 2 summarises the headline messages.
- Section 3 sets out our key findings from our audit work in relation to the 2015/16 financial statements of the Authority and the Group.
- Section 4 outlines our key findings from our work on the VFM conclusion.

Our recommendations are included in Appendix 1. We have also reviewed your progress in implementing prior year recommendations.

Acknowledgements

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

Section two: Headlines

Headlines

This table summarises the headline messages for the Authority.

Sections three and four of this report provide further details on each area.

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Proposed audit opinion	Subject to our completion processes, we anticipate issuing an unqualified audit opinion on the Authority's financial statements by 30 September 2016. We will also report that your Annual Governance Statement complies with guidance issued by CIPFA/SOLACE in June 2007.
Audit adjustments	We have identified a total of five audit adjustments (which have been adjusted by management) and are detailed in Appendix two. In summary: A. Two adjustments do not have an impact on Ashfield District Council's individual financial statements, but impact the Authority's Group Accounts and relate to the Ashfield Homes Ltd (AHL) pension asset and liability as noted below: — Increase the Pension Liability and Pension Reserve by £12,735k; and — Increase in the net surplus from the provision of services for the year ended 31 March 2016 by £2,535K. As the amount involved a material sum, an in-year reclassification is not sufficient and a prior period adjustment is required. We are working with officers to agree the amendments required to the accounts. B. We have included a full list of audit adjustments for Ashfield District Council's individual financial statements at Appendix two. C. In addition we noted a number of presentational and disclosure adjustments. All of these were adjusted by the Authority.
Key financial statements audit risks	We review risks to the financial statements on an on-going basis. We identified the following key financial statements audit risks in our 2015/16 External Audit Plan issued in February 2016: - Management override of controls; and - Fraudulent revenue recognition. We have worked with officers throughout the year to discuss these key risks and our detail findings are reported in section 3 of this report. There are no matters of any significance arising as a result of our audit work in these key risk areas.

Headlines (cont.)

This table summarises the headline messages for the Authority.

Sections three and four of this report provide further details on each area.

Accounts production and audit process	We received complete draft accounts on 30 June 2016 in accordance with the DCLG deadline. The accounting policies, accounting estimates and financial statement disclosures are in line with the requirements of the Code. There are no significant changes in accounting policies compared to the prior year that we would like to bring to your attention. The Authority has good processes in place for the production of the accounts and has continued to enhance the quality of supporting working papers. Officers dealt efficiently with audit queries and the audit process has been completed within the planned timescales. The Authority has implemented all of the recommendations in our ISA 260 Report 2014/15 relating to the financial statements. As in previous years, we will hold a debrief session with the Finance team to share views on the final accounts audit. Hopefully this will lead to further efficiencies in the 2016/17 audit process, which will become even more important with a faster closedown timetable in 2017/18. In particular we would like to thank Authority officers who were available throughout the audit visit to answer our queries.
VFM conclusion and risk areas	We identified the following VFM risks in our External audit plan 2015/16 issued in February 2016: - Financial Resilience in the local and national economy; and - Future of Ashfield Homes Ltd. We have worked with officers throughout the year to discuss these VFM risks and our detailed findings are reported in section four of this report. There are no matters of any significance arising as result of our audit work in these VFM risk areas. 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 VFM conclusion by 30 September 2016.

Headlines (cont.)

This table summarises the headline messages for the Authority.

Sections three and four of this report provide further details on the area.

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Completion	At the date of this report our audit of the financial statements is substantially complete subject to completion of the following areas: • Final review of the amended financial statements; • Addressing any residual audit queries arising from our completion procedures; and • Final review processes by the Engagement lead. You are required to provide us with representations on specific matters such as your going concern assertion and whether the transactions in the accounts are legal and unaffected by fraud. We provided a draft of this representation letter to the Section 151 Officer on 16 September 2016. We draw your attention to the requirement in our representation letter for you to confirm to us that you have disclosed all relevant related parties to us. We confirm that we have complied with requirements on objectivity and independence in relation to this year's audit of the Authority's financial statements.

Section three: Financial Statements

Proposed opinion and audit differences

We anticipate issuing an unqualified audit opinion in relation to the Authority's Statement of Accounts by 30 September 2016.

Our audit has identified a total of five audit differences:

- **two in relation to the Authority's Group Accounts; and**
- **three in relation to the Authority's financial statements.**

All have been adjusted by management.

The wording of your Annual Governance Statement complies with guidance issued by CIPFA/SOLACE in June 2007.

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Proposed audit opinion

Subject to all outstanding queries being resolved to our satisfaction, we anticipate issuing an unqualified audit opinion on the Authority's financial statements following approval of the Statement of Accounts by the Audit Committee on 26 September 2016.

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 two for more information on materiality) level for this year's audit was set at £1.2 million. Audit differences below £60k are not considered significant.

There are five corrected material audit differences to report that has been amended by management, detailed in Appendix two. In addition, we identified a small number of presentational adjustments required to ensure that the accounts are compliant with the Code of Practice on Local Authority Accounting the United Kingdom 2015/16 ('the Code').

Of the audit adjustments we identified, the most significant in value are as follows:

— Increase the Pension Liability and Pension Reserve by £12,735k for the Group; and

— Increase in the net surplus from the provision of services for the Group for year ending 31 March 2016 by £2,535K as a result of the movement in the Pension Reserve.

Prior period adjustment:

As noted above we identified the pension liability for AHL had been omitted from the Group Accounts for 2015/16 and previous years. As the amount involved is a material sum an in-year reclassification is not sufficient and a prior period adjustment is required. We are working with officers to agree the amendments required to the accounts.

Annual governance statement

We have reviewed the 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.

Significant audit risks

We have worked with the Authority throughout the year to discuss significant risks and key areas of audit focus.

This section sets out our detailed findings on those risks.

In our *External Audit Plan 2015/16* we reported that we would consider two risk areas that are specifically required by professional standards and report our findings to you. These risk areas were Management override of controls and the Fraud risk of revenue recognition.

The table below sets out the outcome of our audit procedures and assessment on these risk areas.

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 2015/16 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.

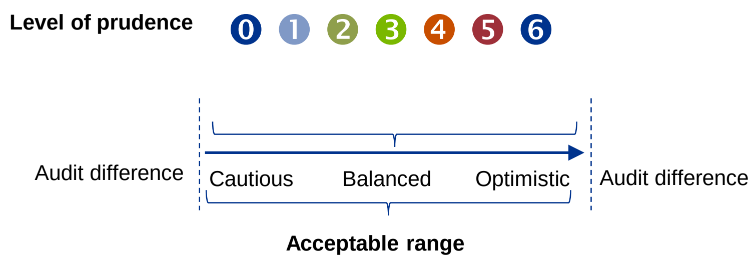
Our audit methodology incorporates the risk of management override as a default significant risk. We have not identified any specific additional risks of management override relating to this audit.

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 always consider the level of prudence within key judgements in your financial statements. We have summarised our view below using the following range of judgement:



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Assessment of subjective areas				
Asset/liability class	**15/16**	**14/15**	**Balance (£m)**	**KPMG comment**
Provisions	3	4	£1.46 million *(PY: £1.56 million)*	The total provision includes Business Rates Appeals (£586k) which has been explained below: Business Rates Appeals –This comprises of provisions for in year and backdated appeals. We consider the assumptions used by Ashfield District Council as more balanced as LG Futures were employed to review the reasonableness of the assumptions used by the Authority to calculate the provision which suggests that appeals relating to 2015-16 and the years prior to that will decrease in the coming years as a result of change in laws and regulation.
Accruals / Revenue Recognition / Grants	4	4	£35 million *(PY: £35 million)*	We confirm that the Authority has not changed its approach to accounting for accruals. The main accruals are consistent with the prior year and in line with our expectations.
Property, Plant and Equipment (valuations / asset lives)	3	3	£250 million *(PY: £238 million)*	We have agreed PPE valuations carried out in 2015/16 back to valuation certificates from Mathew Kirk applicable for both council dwellings and other assets. We reviewed the assumptions made and confirmed they were in line with accounting standards and the Code. The asset lives used in the calculation of depreciation are not unreasonable.
Pensions	3	3	£70 million *(PY: £76 million)*	The due to balance represents the deficit on the pension scheme. The reported balance, together with assumptions and disclosures for inflation, discount rate, salary growth, life expectancy etc. are consistent with the report from the external actuary and we have reviewed the assumptions made. The pension liability has decreased over the year mainly due to the actuarial assumptions that have been applied to the valuation.

Accounts production and audit process

We have noted an improvement in the quality of the accounts and the supporting working papers.

Officers dealt efficiently with audit queries and the audit process was completed within the planned timescales.

The Authority has implemented the recommendations in our 2014/15 ISA 260 Report.

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Accounts production and audit process

ISA 260 requires us to communicate to you our views about 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.

We considered the following criteria:

Element	Commentary
Accounting practices and financial reporting	The Authority continues to maintain a strong financial reporting process and produce statements of accounts to a good standard. We consider that accounting practices are appropriate.
Completeness of draft accounts	We received a complete set of draft accounts on 30 June 2016.
Quality of supporting working papers	Our *Accounts Audit Protocol*, which we issued on 9 February 2016 and discussed with Corporate Finance Manager, set out our working paper requirements for the audit. The quality of working papers provided was of a good standard as specified in our *Accounts Audit Protocol.* There is scope to improve this further by: - Enhance monthly reconciliations between the council tax system and the general ledger (this is currently completed annually); - Consider enhancing reporting functions within Civica to provide a better audit trail over completeness of journals; and - Reconcile all lines within the fixed asset register to the general ledger. We have raised a recommendation in Appendix One in relation to this matter.
Response to audit queries	Officers resolved the majority of audit queries in a reasonable time.
Group audit	To gain assurance over the Authority's Group Accounts, we placed reliance on work completed by KPMG on the financial statements of *Ashfield Homes Ltd.* As noted on page 10 and Appendix two, we identified two audit misstatements in the Group Accounts in relation to the pension liability of Ashfield Homes Limited (AHL) net impact £10.2m in 2015/16. The audit differences have been adjusted by the Authority.
Prior year recommendations	As part of our audit we have specifically followed up the Authority's progress in addressing the recommendations in last year's ISA 260 report. The Authority has implemented all of the recommendations in our *ISA 260 Report 2014/15.* Appendix one provides further details.

Accounts production and audit process

We have noted an improvement in the quality of the accounts and the supporting working papers.

Officers dealt efficiently with audit queries and the audit process was completed within the planned timescales.

The Authority has implemented the recommendations in our 2014/15 ISA 260 Report.

Accounts production and audit process

ISA 260 requires us to communicate to you our views about 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.

We considered the following criteria:

Element	Commentary
Internal Systems of Control	**Payroll Assurance** The Authority outsourced their payroll services to Mansfield and Ashfield Shared HR Services in 2015/16. We reviewed the controls in place and noted controls could be further strengthened. In particular, the Authority should request and review exception reports produced by Mansfield and Ashfield Shared HR Services. In addition, the Authority should review the payroll file and approve the BACS payment before the submission deadline. This will give the Authority additional assurances that the payroll data is being processed correctly. We have included a recommendation in relation to our findings in Appendix One. **Data Analytics – Non Pay Expenditure** We have completed a number of data analytics routines over the Authority's Non-Pay Expenditure records within the Accounts Payable system for the period 1 April 2015 to 31 March 2016. This has not identified significant risks as part of our audit of the financial statements. We have however identified one recommendation detailed in Appendix One in relation to raising purchase orders prior to receiving the goods and invoice.

Completion

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

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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 Ashfield District Council for the year ending 31 March 2016, we confirm that there were no relationships between KPMG LLP and Ashfield District 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 five 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 Section 151 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 2015/16 financial statements.

Section four: Value for Money

VFM Conclusion

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.

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.

Background

The Local Audit and Accountability Act 2014 requires auditors of local government bodies to be satisfied that the authority 'has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources'.

This is supported by the Code of Audit Practice, published by the NAO in April 2015, which requires auditors to 'take into account their knowledge of the relevant local sector as a whole, and the audited body specifically, to identify any risks that, in the auditor's judgement, have the potential to cause the auditor to reach an inappropriate conclusion on the audited body's arrangements.'

The VFM approach is fundamentally unchanged from that adopted in 2015/2016 and the process is shown in the diagram below. However, the previous two specified reporting criteria (financial resilience and economy, efficiency and effectiveness) have been replaced with a single criteria supported by three sub-criteria.

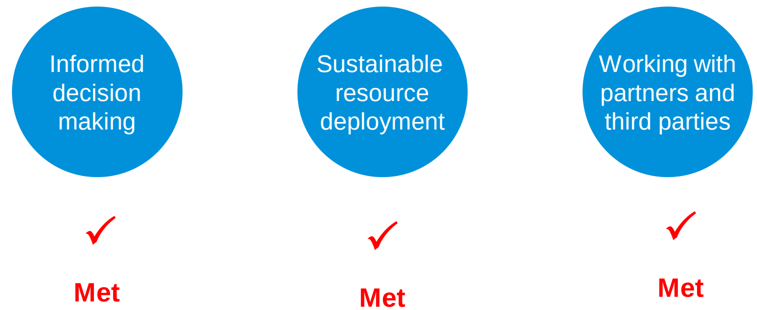
These sub-criteria provide a focus to our VFM work at the Authority.

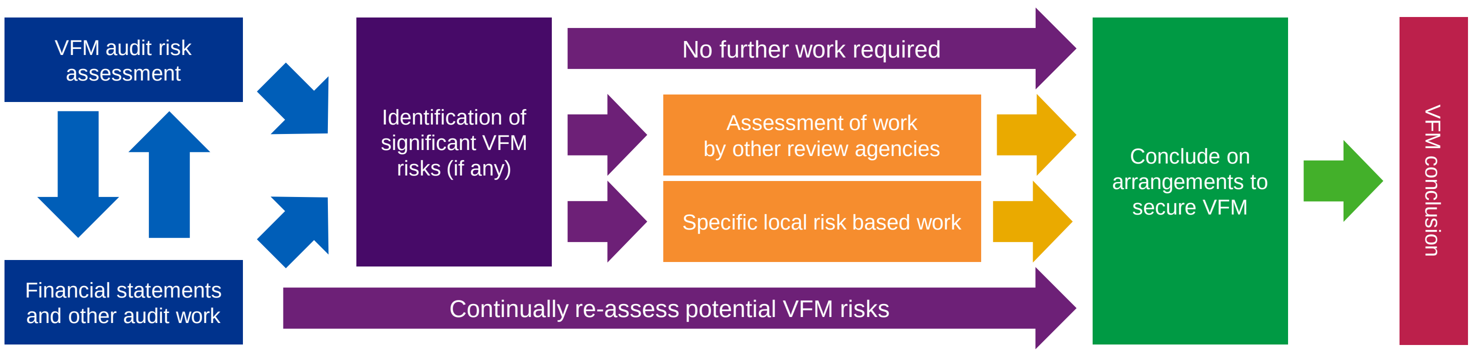
Conclusion

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.

Overall criterion

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





Specific VFM Risks

We have identified a number of specific VFM risks.

In all cases 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.

As a result of the work undertaken, nothing came to our attention that would lead to a non standard VFM conclusion.

Work completed

In line with the risk-based approach set out on the previous page, and in our *External Audit Plan* we have:

- Assessed the Authority's key business risks which are relevant to our VFM conclusion;
- Identified the residual audit risks for our VFM conclusion, taking account of work undertaken in previous years or as part of our financial statements audit; and
- Considered the results of relevant work by the Authority, inspectorates and review agencies in relation to these risk areas.

Key findings

Below we set out the findings in respect of those areas where we have identified a residual audit risk for our VFM conclusion. We concluded that we needed to carry out additional work for some of these risks. This work is now complete and we also report on this below.

Key VFM risk	Risk description and link to VFM conclusion	Assessment
Ashfield Homes	The Authority set up Ashfield Homes Ltd in April 2002 as an Arm's Length Housing Management Organisation to manage and maintain the Authority's housing stock. The agreement runs until 2027 with a break clause in April 2017, when the Authority can give the Company 12 months' notice. Following an option appraisal / analysis of a number of options, the Authority has recommended (subject to call-in) to bring Ashfield Homes back in-house.	As part of our VFM work we considered the governance arrangements/steps the Authority took to reach the decision to bring Ashfield Homes back in-house and noted the Authority: • Carried out a detailed feasibility study prior to making the decision as part of Phase 1; • Consulted with a wide range of stakeholders including tenants; • Savings of circa £500,000 a year have been identified by the Phase 2 report; • A decision was reached by Members on 14 April to directly deliver the housing management service i.e. bringing AHL back under the control of the Authority; • The Authority has issued 12 months notice to AHL to confirm the management arrangements will end by April 2017; • The transition date has been set to 1 October 2016; • The Authority has developed a Better Together Project Risk Register and Action Plan; • The Authority has developed individual Departmental Plans, in addition to an overarching plan. These plans were reviewed by KPMG and the timelines noted appear to be reasonable; and • Weekly meetings are being held by the Authority to track progress with the Action Plans. There are no issues arising from our work which will lead to a non-standard VFM conclusion at ADC

Specific VFM Risks

We have identified a number of specific VFM risks.

In cases 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.

Key VFM risk	Risk description and link to VFM conclusion	Assessment
Financial Resilience	**Financial Resilience in the local and national economy** The Government's Autumn Statement and Spending Review confirmed their intention to move to a different funding system over the next few years – with less reliance on Revenue Support Grant and an increasing dependence on business rate income as a major source of income. That, together with likely significant reductions in New Homes Bonus funding from 2017/18 means that the Authority, like most of local government, faces a challenging future. The Authority has been modelling for significant reductions in Government funding in its budget forecasts, nevertheless it will need to ensure that it continues to deliver efficiencies and moves forward its policy for generating income through investments and commercial activities. It is against this backdrop that we will assess the arrangements the Authority has in place to maintain its strong record of meeting efficiency savings against a worsening national picture.	As part of our VFM work: • We reviewed the Authority's financial governance, financial planning and financial control arrangements. This included monitoring the Council's financial position in year and reviewing the Council's progress in delivering its budget as part of its wider arrangements to secure financial resilience in the short and medium term. • We noted the Authority achieved a surplus of £1.3m in 2015/16 which was transferred to reserves. • Capital expenditure for the year amounted to £12.7 million against a plan of £17.3m. • The Authority achieved a favourable position on the HRA with a total income of £13,393k compared to an approved budget income of £12,889k. • We reviewed the Authority's Medium Term Financial Plan (MTFP) and its key assumptions for the period 2016/17 – 2020/21 and note the Authority has projected savings of £750k each year from 2016/17-2020/21. The savings are supported by individual saving plans. • Through efficiency and delivery of the Transformation Programme the Authority is planning to achieve a balance in General Reserve of £1.35 million in 2020/21. • The estimated resources available (£9.16m and £7.88m respectively) will decline due to the withdrawal of RSG, which is largely expected to be met by an increased proportion of business rates that the Authority can retain. • The Authority is confident its MTFP and long term financial planning is appropriate and realistic. At the same time the Authority acknowledges that the delivery of the plan has some risks associated with it. The Authority will need to continue to review its financial plans and manage its savings plans to continue to achieve longer term financial and operational sustainability. There are no issues arising from our work which will lead to a non-standard VFM conclusion at ADC.

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Appendices

Appendix 1: Key issues and recommendations

Appendix 2: Audit differences

Appendix 3: Materiality and reporting of audit differences

Appendix 4: Data Analytics

Appendix 5: Independence and objectivity

Key issues and recommendations

We have given each recommendation a risk rating and agreed what action management will need to take.

The Authority should closely monitor progress in addressing specific risks and implementing our recommendations.

We will formally follow up these recommendations next year.

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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.	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.	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.

No.	Risk	Issue and recommendation	Management response/responsible officer/due date
1	2	**Payroll Assurance** The Authority outsourced its payroll processing to Mansfield and Ashfield Shared HR Services in 2015/16. We reviewed the controls in place and noted controls could be furthered strengthened. **Recommendation** The Authority should review the current process in place and in particular we recommend that the Authority should, • Request and review exception reports produced by Mansfield and Ashfield Shared HR Services. This will allow the Authority to gain additional assurance that the payroll is being completed correctly; • Review the payroll file and approve the BACS payment before the submission deadline; and • The Council should evidence the review of the monthly payroll control reconciliation received from Mansfield and Ashfield Shared HR Services by way of a signature or stamp.	**Agreed.** A meeting has been scheduled with all relevant parties later this month with a view to putting the recommendations in place as soon as possible but definitely no later than the December 2016 Payroll.

Key issues and recommendations (Cont.)

We have given each recommendation a risk rating and agreed what action management will need to take.

The Authority should closely monitor progress in addressing specific risks and implementing our recommendations.

We will formally follow up these recommendations next year.

No.	Risk	Issue and recommendation	Management response/responsible officer/due date
2	2	**Fixed Asset Register (FAR) reconciliation to the General Ledger (GL)** The Authority as part of its year end process reconciles the net book value (NBV) per the Fixed Asset Register to the general ledger. However, to ensure accuracy of records the Authority should reconcile all lines of the FAR e.g. gross book value and depreciation etc. In addition, the Authority should also consider completing a monthly reconciliation which reduces the time required to carry out this exercise during the closedown process. **Recommendation** We recommend that the Council reconciles the Fixed Asset Register to the General Ledger on a monthly basis, in addition to reconciling all lines with the FAR.	**Agreed.** The Authority to undertake a year-end reconciliation as suggested as part of the 2016/17 close-down process. The Authority will also consider monthly reconciliations but will evaluate in terms of the time taken and benefit received.
3	2	**Non-Pay Expenditure - Data Analytics** We undertook data analytics over non-pay expenditure for the period 1 April 2015 to 31 March 2016. This work highlighted in a number of instances that invoices were either not matched to a purchase order (PO) or matched to PO dated after the invoice date. We are aware that the Finance team has been working hard to improve controls by delivering training to raise awareness about the purchasing process. **Recommendation** We recommend that the Authority continues to periodically review the effectiveness of the controls around the purchase order system and in particular review recurring patterns of non compliance.	**Agreed.** A report has already been prepared for the Corporate Leadership Team in respect of compliance performance in the 2016-17 financial year.

Follow up of prior year recommendations

The Authority has implemented all of the recommendations in our *ISA 260 Report 2014/15*.

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This appendix summarises the progress made to implement the recommendations identified in our ISA 260 Report 2014/15.

Number of recommendations that were:	
Included in original report	3
Implemented in year or superseded	3
Remain outstanding (re-iterated below)	0

No.	Risk	Issue and recommendation	Status as at August 2016
1	1	We reported in our previous ISA260 report that there would be a need to ensure continued momentum with the delivery of savings through the Authority's savings plans. This recommendation is still relevant and the Authority has continued to develop its work by generating actual savings and identifying areas for longer term savings. Members will have a pivotal role in ensuring that strategic decisions are made to support the savings plans involved.	The Council updates its MTFS twice each year, and having made a forecast of its need to spend on services against its likely resources, sets equal savings targets for the following five financial years. The aim is to reduce net expenditure on a gradual basis, using an amount from the General Fund Reserve each year, to reduce the balance from its current level of £4.2 million (31 March 2015) to no less than £1.35 million at March 2022. The MTFS is clear that many factors will change over the period, and that is why the forecasts are re-calculated in February and October of each year.
2	2	The extent of housing benefit overpayments also remains an issue for the Authority as reported in the previous year's ISA260, with associated issues surrounding the recovery of the overpayments involved. It is recommended that the Authority continues to take action to reduce the level of these overpayments. .	The service currently has no backlog of work. This has been achieved mainly with the use of additional resources, namely Civica On-Demand and Agency staff. This has helped the service to process work sooner and thereby reduce the level of Local Authority overpayments due to delays in processing.

Follow up of prior year recommendations

The Authority has implemented all of the recommendations in our *ISA 260 Report 2014/15*.

No.	Risk	Issue and recommendation	Status as at August 2016
3	❸	The authorising officer was not appropriate for 1 of 25 randomly selected purchase orders and invoices. The certification limit of £250k had been exceeded by the authorising officer who authorised an invoice valued at £406k. It is recommended that the operation of this control is reviewed by management to ensure that authorising officers are appropriate to the level of expenditure involved.	The workshops have taken place in which the importance of authorisation limits has been stressed. The Creditors team notify authorising officers annually of their limits and require them to acknowledge their limits.

Audit differences

This appendix sets out the significant audit differences identified during the audit for the year ended 31 March 2016.

We are reporting all audit differences over £60k

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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.

Uncorrected audit differences

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

Corrected audit differences

The following table sets out the significant audit differences (over AMPT of £60K) identified by our audit of Ashfield District Council's financial statements for the year ended 31 March 2016. The adjustments were agreed with management and have been adjusted for in the latest set of financial statements.

Table 1 – Ashfield District Council

Impact							
No.	**Income and expenditure statement**	**Movement in reserves statement**	**Assets**	**Liabilities**	**Reserves**	**Basis of audit difference**
Adjustments impacting Individual Ashfield District Council's Financial Statements						
1	-	-	Cr Debtors £120k	Dr Provisions £ 120k	-	Misclassification of a provision created for income due from the Teversal Trust.
2	-	-	Cr HRA Assets (Cost) £2,090k	Dr Accumulated Depreciation Account £2,090k	-	Correct classification of movement in the value of the assets as a result of the revaluation between the cost of the asset and depreciation.
3	-	-	Cr Land & Building Assets (Cost) £476k	Dr Accumulated Depreciation Account £476k	-	Correct classification of movement in the value of the assets as a result of the revaluation between the cost of the asset and depreciation.
	-	**-**	**Cr £2,686k**	**Cr £2,686k**		**Total impact of corrected audit differences**

Audit differences (cont.)

No uncorrected audit misstatements to report.

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Table 2 – Ashfield District Council Group Accounts

Impact						
No.	Income and expenditure statement	Movement in reserves statement	Assets	Liabilities	Reserves	Basis of audit difference
Adjustments impacting Group Financial Statements						
1	-	-	-	Cr Pension Liability £12,735k	Dr Pension Reserve £12,735k	Omission of Ashfield Homes pension liability on consolidation with Ashfield District Council accounts.
	Cr Surplus from Provision of Services £2,535k	-	-	Dr Pension Liability £2,535k		Omission of Ashfield Homes pension liability on consolidation with Ashfield District Council accounts.
	Cr £2,535k			**Cr £10,200k**	**Dr £12,735k**	**Total Adjustment in the Pension Liability and Pension Reserves will be £10,200k**

Presentational adjustments

We identified a small number of trivial errors in the financial statements. These have been discussed with management and the financial statements have been amended for all of them.

A number of minor amendments focused on presentational improvements have also been made to the draft financial statements. The Finance Department are committed to continuous improvement in the quality of the financial statements submitted for audit in future years.

Materiality and reporting of audit differences

For 2015/16 our materiality is £1.2 million for the Authority's accounts.

We have reported all audit differences over £60k for the Authority's accounts.

Materiality

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 2015/16, presented to you in June 2016.

Materiality for the Authority's accounts was set at £1.2 million which equates to around 1.5% 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, we propose that an individual difference could normally be considered to be clearly trivial if it is less than £60K 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.

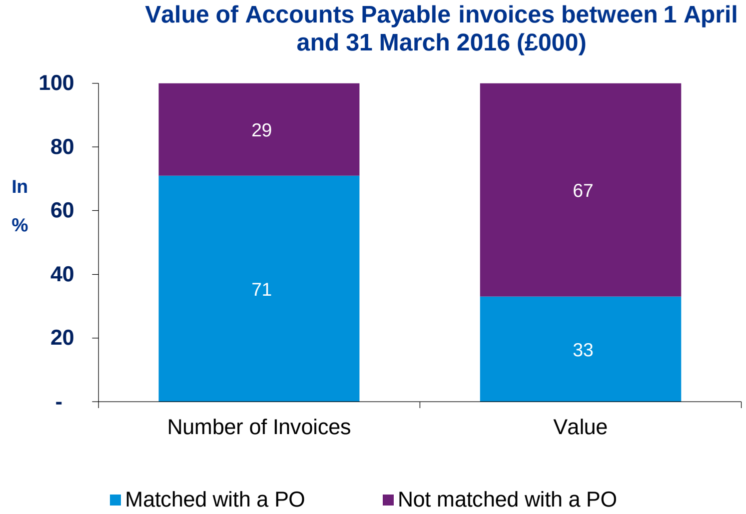
Accounts Payable - Data Analytics

We analysed all the invoices and noted that there were 3,336 invoices which did not have a matching PO. Thus no three way match was performed for these.

Key Findings

We have completed a number of data analytics routines over the Authority's Non-Pay Expenditure records within the Accounts Payable system for the period 1 April 2015 to 31 March 2016. This has not identified significant risks as part of our audit of the financial statements. We have however identified one recommendation as noted below.

1. Analysis by purchase order status, compared to the previous year



Analysis of results

We noted that 3,336 invoices were not matched to a purchase order. This is common practice for some areas of expenditure such as utilities, however it would be inappropriate for a number of expenditure types.

These invoices represent 29% of the total number, and 67% of the total value of invoices recorded in the period.

Accounts Payable - Data Analytics (cont.)

Top 10 suppliers in terms of the invoice amount were analysed and no unusual expenditure items were noted.

Details of Top 3 have been given below:

1. **Willmott Dixon Housing Limited :** Majority of the spend relates to the construction of the properties at Spring Street, Hucknall.
2. **Nottinghamshire County Council (Pension Fund Account) :** This is the pension fund contribution paid to NCC.
3. **Nottinghamshire County Council :** Pool Levy charges for 2015-16 paid to NCC**.**

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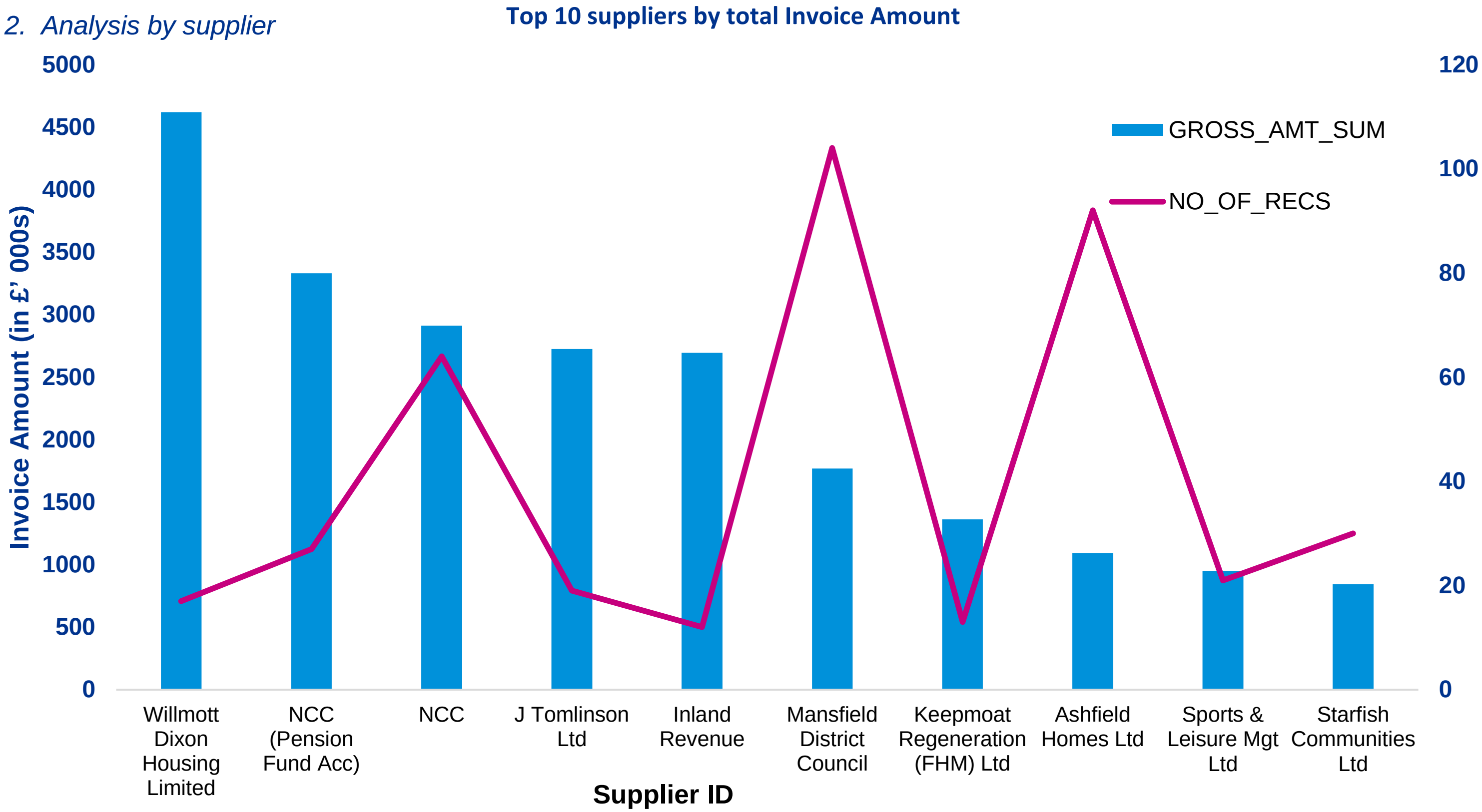
2. Analysis by supplier



Analysis of results

The top 10 suppliers by invoice amount are in line with our expectations. These included mainly the payments for capital projects and pension fund contributions to Nottinghamshire County Council Pension Fund. Payments were also made to NCC relating to Pool Levy charges which made it the third largest supplier in terms of the value of the invoices.

Accounts Payable – Data Analytics (cont.)

Purchase orders were analysed and it was noted that there were 1,679 invoices which matched to PO dated after the invoice.

Majority of these were post dated by 0-90 days.

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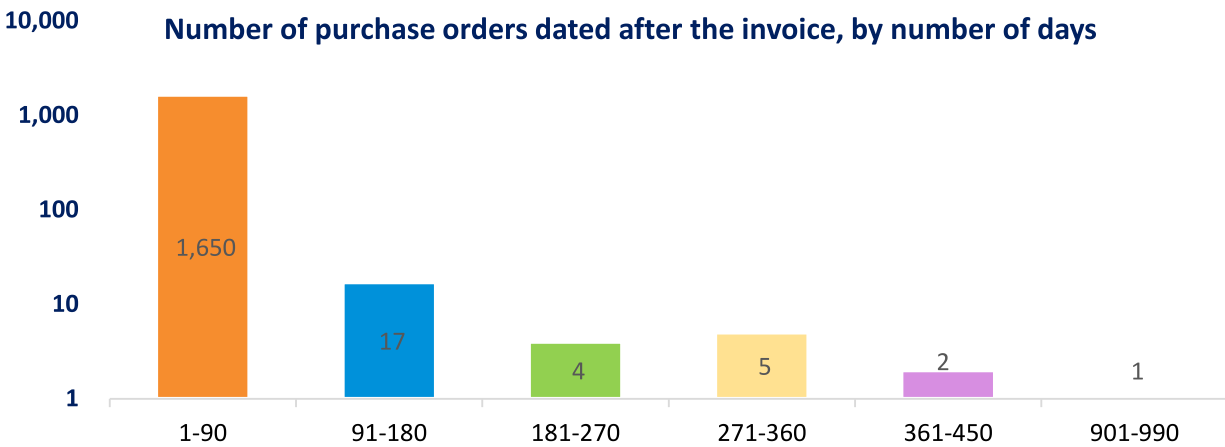
3. Analysis of purchase orders dated after the invoice date



Analysis of results

The graph shows an analysis of the number of purchase orders dated after the invoice, by number of days. The longest period after the date of an invoice that was approved is 367 days (an invoice from Pirtek Mansfield, dated 07/03/2015).
We noted a total number of 1,679 invoices matched to purchase orders, dated before the date of the purchase order. This is approximately 15% of the invoices recorded in the period, and they have a total value of £2.2m.

The Finance team has worked hard to improve controls and raise awareness in the Authority and provided training to the teams on the purchasing process.

Recommendations
We recommend that the Authority continues to periodically review the effectiveness of the controls around the purchase order system and in particular review recurring patterns of non compliance.

Declaration of independence and objectivity

Auditors appointed by Public Sector Audit Appointments Ltd must comply with the Code of Audit Practice.

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Requirements

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 this. 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.

Declaration of independence and objectivity (cont.)

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

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General procedures to safeguard independence and objectivity

KPMG's reputation is built, in great part, upon the conduct of our professionals and their ability to deliver objective and independent advice and opinions. That integrity and objectivity underpins the work that KPMG performs and is important to the regulatory environments in which we operate. All partners and staff have an obligation to maintain the relevant level of required independence and to identify and evaluate circumstances and relationships that may impair that independence.

Acting as an auditor places specific obligations on the firm, partners and staff in order to demonstrate the firm's required independence. KPMG's policies and procedures regarding independence matters are detailed in the *Ethics and Independence Manual* ('the Manual'). The Manual sets out the overriding principles and summarises the policies and regulations which all partners and staff must adhere to in the area of professional conduct and in dealings with clients and others.

KPMG is committed to ensuring that all partners and staff are aware of these principles. To facilitate this, a hard copy of the Manual is provided to everyone annually. The Manual is divided into two parts. Part 1 sets out KPMG's ethics and independence policies which partners and staff must observe both in relation to their personal dealings and in relation to the professional services they provide. Part 2 of the Manual summarises the key risk management policies which partners and staff are required to follow when providing such services.

All partners and staff must understand the personal responsibilities they have towards complying with the policies outlined in the Manual and follow them at all times. To acknowledge understanding of and adherence to the policies set out in the Manual, all partners and staff are required to submit an annual ethics and independence confirmation. Failure to follow these policies can result in disciplinary action.

Auditor declaration

In relation to the audit of the financial statements of Ashfield District Council for the financial year ending 31 March 2016, we confirm that there were no relationships between KPMG LLP and Ashfield District 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.

Audit Independence

Audit Fees

Our planned fee for the audit (as highlighted in our audit plan agreed by the Audit Committee in February 2016) was £56,036 plus VAT in 2015/16. We are in discussions with management about overruns as a result of the additional work we carried on the GL reconciliation to the FAR and also reviewing the prior period adjustments in relation to AHL pension asset and liabilities.

Our planned fee for certification for the HBCOUNT is £12,930 plus VAT in 2015/16).

Non-audit services

We have summarised below the non-audit services that we have been engaged to provide, the estimated fee, the potential threats to auditor independence and the associated safeguards we have put in place to manage these.

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Description of non-audit service	Estimated fee	Potential threat to auditor independence and associated safeguards in place
KPMG to perform procedures to agree a schedule of anticipated savings resulting from bringing back the ALMO in house and reducing the management team to budgeted payroll costs as set out by management.	£1.8K (Including VAT)	**Self interest –** The work involves verifying data which is relevant to Ashfield Homes Ltd, the ALMO of Ashfield District Council and an audit client of KPMG. However, the work being carried out is factual and not judgemental and does not constitute a threat to our independence. The engagement did not have either a perceived or actual impact on the audit team and the audit team resources that will be deployed to perform a robust and thorough audit. The fee is a small percentage of the overall fee. **Self review** – The nature of this work was to confirm the accuracy of the payroll costs to payroll records. Management have prepared the analysis, so there is no threat of self review. **Management threat** – This work will be advice and support only – all decisions were made by the Council. **Familiarity** – This threat is limited given the scale, nature and timing of the work. **Advocacy** – We have not acted as advocates for the Authority in any aspect of this work. We drew on our experience in such roles to provide the Authority with a range of approaches but the scope of this work falls well short of any advocacy role. **Intimidation** – not applicable.
Pooling of Housing Capital Receipts Return	TBC	We are in discussions with the Authority about completing the audit of the Pooling of Housing Capital Receipts Return.
Total estimated fees	**£1.8K**	
Total estimated fees as a percentage of the external audit fees	**3.2%**	

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