External Audit Report 2015/16

Gedling Borough Council

September 2016

Contents

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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 Andrew Bush, 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

Section one

Introduction

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 Gedling Borough 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 April 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 2016.

We are now in the final phase of the audit, the completion stage. 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 fund.
- Section 4 outlines our key findings from our work on the VFM conclusion.

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.

This table summarises the headline messages. Sections three and four of this report provide further details on each area.

Proposed audit opinion	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 are pleased to report that our audit of your financial statements did not identify any material adjustments. The Authority made a small number of non-trivial adjustments, all of which were of a presentational nature
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 March 2016; — Pension Liability Assumptions — NNDR Business Rates Provisions In addition to the standard risks required per profession standards in regards to: — Fraud Risk of Revenue Recognition — Management Override of Controls 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.
Accounts production and audit process	The Authority has good processes in place for the production of the accounts and provided a strong draft set of accounts for audit. This was supported by good quality supporting working papers. Officers dealt efficiently with audit queries and the audit process has been completed within the planned timescales.

Headlines (cont.)

This table summarises the headline messages for the Authority. Sections three and four of this report provide further details on each area.

VFM conclusion and risk areas	We identified the following VFM risks in our External audit plan 2015/16 issued in March 2016; — Financial resilience in the local and national economy; We have worked with officers throughout the year to discuss these VFM risks and our detailed findings are reported in section 4 of this report. There are no matters of any significance arising which impact on our overall VFM conclusion. 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.
Completion	At the date of this report our audit of the financial statements is substantially complete. Outstanding areas include: — awaiting a letter of assurance from the pension fund auditors; — clearance of director review points; — one outstanding bank confirmation; — whole of government accounts return; and — final director and manager review; Before we can issue our opinion we will need to perform our accounts finalisations and disclosure procedures. We will also require a signed management representation letter. 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 have not identified any issues in the course of the audit that are considered to be material.

We anticipate issuing an unqualified audit opinion in relation to the Authority's financial statements by 30 September 2016.

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

Proposed audit opinion

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 20 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 2 for more information on materiality) level for this year's audit was set at £800,000. Audit differences below £40,000 are not considered significant.

We did not identify any material misstatements. We identified a small number of presentational adjustments for example the classification of senior officers remuneration within the respective note, which are required to ensure that the accounts are compliant with the Code of Practice on Local Authority Accounting in the United Kingdom 2015/16 ('the Code'). We understand that the Authority will be addressing these where significant.

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, presented to you in April 2016, we identified the significant risks affecting the Authority's 2015/16 financial statements. We have now completed our testing of these areas and set out our evaluation following our substantive work.

The table below sets out our detailed findings for each of the risks that are specific to the Authority.

Significant Risk 1

Pension Liability assumptions

— The net pension liability for the Authority at 31 March 2015 was £43.6m, following an actuarial re-measurement in the prior year of pension assets and liabilities of an increase in the liability of £9.9m. The assumptions which form the basis of the actuarial valuation present a significant risk of material misstatement. There is also a risk that the data provided to the actuary for their valuation exercise is inaccurate and that these inaccuracies affect the actuarial figures in the accounts. Most of the data is provided to the actuary by Nottinghamshire County Council who administer the pension fund.

Findings:

— We have liaised with the separate KPMG audit team for the Nottinghamshire Pension Fund, while from discussion no issues have been flagged that will impact upon the net pension liability presented in the accounts, we await final written confirmation.

— As part of our audit process, the National Audit Office has engaged an expert in year, PriceWaterhouseCoopers, to compare the assumptions made by the leading five actuaries, nationally, in calculating IAS19 figures for local government pensions schemes, which includes the actuary used by the Nottinghamshire Pension Fund. The report highlights how the expert is comfortable with the methodologies used to calculate assumptions, and the strength of the assumptions used. We have placed reliance on this work.

— We note that the pension deficit within the funded LGPS has decreased over the year mainly due to the actuarial assumptions that have been applied, in particular financial assumptions for example 0.3% increase in discount rate applied reduces the pension benefit obligation. We consider the overall accounting basis to be appropriate.

— The pension fund is due to undergo its triennial revaluation in 2016, which given the current economic conditions, could potentially impact on the pension contributions rates required to be paid by the Authority in the medium term, resulting in an adverse impact on the revenue outturn position.

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.

Significant Risk 2

NNDR Business Rate Appeals Provision

— The Business Rate Retention regime places a liability on the Authority to refund ratepayers who successfully appeal against the rateable value of their properties on the rating list. A provision of £710,900 was made in 2014/15, which represented the Authority's estimated share of such liabilities at 31 March 2015, however the continuing prevalence of appeals poses a significant risk to the material misstatement of NNDR income.

Findings:

— The Authority has increased its business rates provision to £942k. The increasing of the provision is in line with other Nottinghamshire Authorities.

— Across the sector their continues to be varying approaches in regards to how the Business Rate appeals provision is calculated. The provision calculation is complex and guidance continues to evolve. Across Nottinghamshire Authorities we have seen the increased use of external experts to help calculate the provision, the Authority continues to refine its in-house methodology.

— One of the most notable issues for 2015/16, is the approach taken to provide for un-lodged appeals. The Code suggests that Authorities should consider business rate appeals not yet received, or include as a contingent liability. The Authority has performed a high level calculation, underpinned by setting an expectation of appeals based on the average number of appeals typically received each year. This has resulted in an £87k increase in the business rates provision for those appeals not yet lodged. We deem this to be a balanced approach but expect it to be further refined going forward.

— We reviewed the proposed treatment for calculating the business rate provision as part of our interim visit. The Authority demonstrated a comprehensive understanding in regards to the CIPFA guidance and has drawn on guidance provided during local government accounting workshops.

— Importantly, the Authority has demonstrated that it continues to refine the business rates provision based on past evidence in regards to the success rate of past appeals and impact of those historic successful appeals on rateable values. Currently this is done on a high level basis, and as more past evidence becomes available we would expect the Authority to continue to develop the provision going forward, for example by reviewing individual outstanding appeals for high rate payers.

— There are no issues we wish to highlight as part of our review of the NNDR Business Rate Appeals Provision.

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.

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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:

Assessment of subjective areas				
Asset/liability class	**15/16**	**14/15**	**Balance (£m)**	**KPMG comment**
Provisions	3	3	£1 million *(PY: £0.9 million)*	The Authority's provision balance is predominantly made up of the provision for business rate appeals (£942k) representing outstanding business rate appeals. We have noted that the Authority continues to carry out analysis over the appropriateness of the balance using evidence of previous business rate appeals. Going forward as more past evidence becomes available we would anticipate that the level of provision continues to be refined.
Property, Plant and Equipment (valuations / asset lives)	3	3	£26.8 million *(PY: £26.5 million)*	We have agreed PPE valuations carried out in 2015/16 back to internally generated valuation certificates, carried out by the Authority's professionally qualified valuer. Inline within accounting standards and the Code, the Authority values its operational land and buildings using either Existing Use Valuation or Depreciation Replacement Cost – depending on the specialised nature of the building,
Pensions	3	3	£40.7 million *(PY: £43.6 million)*	The pension deficit within the funded LGPS has decreased over the year mainly due to the actuarial assumptions that have been applied, in particular financial assumptions for example 0.3% increase in discount rate applied reduces the pension benefit obligation. We consider the overall accounting basis to be appropriate.

Accounts production and audit process

The Authority has a well established and strong accounts production process. This operated well in 2015/16, and the standard of accounts and supporting working papers was high.

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

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. The Authority have made a small number of presentational changes to the accounts presented for audit however there have been no changes which we consider to be fundamental.
Quality of supporting working papers	We issued our Accounts Audit Protocol including our required working papers for the audit in April 2016. The quality of working papers provided was high and fully met the standards specified in our Accounts Audit Protocol.
Response to audit queries	Officers resolved audit queries in a reasonable time.

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.

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 Gedling Borough Council for the year ending 31 March 2016, we confirm that there were no relationships between KPMG LLP and Gedling Borough Council, its directors and senior management and its affiliates that we consider may reasonably be thought to bear on the objectivity and independence of the audit engagement lead and audit staff. We also confirm that we have complied with Ethical Standards and the Public Sector Audit Appointments Ltd requirements in relation to independence and objectivity.

We have provided a detailed declaration in Appendix three 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 Corporate Director 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.

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 2014/2015 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.

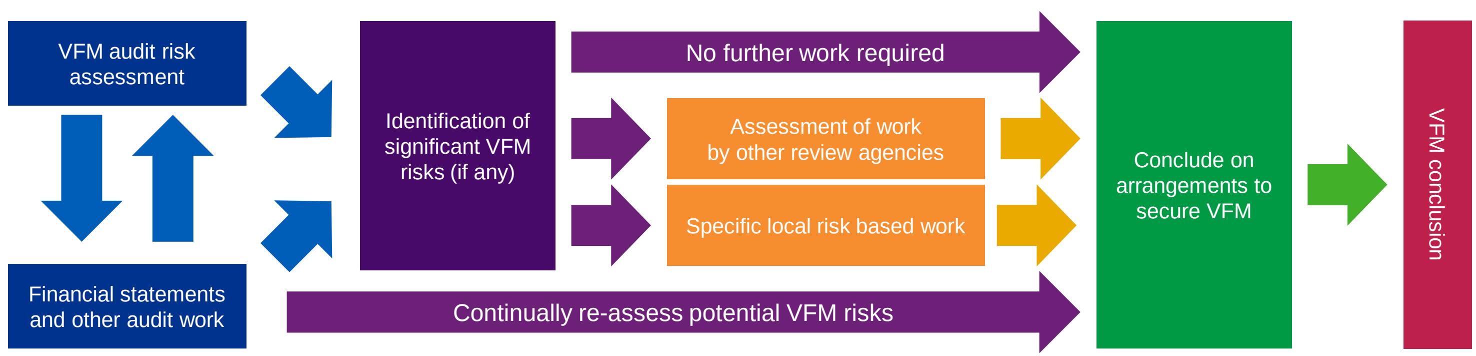
Conclusion

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.

Informed decision making	Sustainable resource deployment	Working with partners and third parties
✓	✓	✓
Met	**Met**	**Met**



Specific VFM Risks

We have identified one specific VFM risk.

We are satisfied that external or internal scrutiny provides sufficient assurance that the Authority's current arrangements in relation to this risk area are adequate.

We have undertaken work to in response to the risk:

1 - Financial resilience in the local and national economy.

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

Over the page 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.

Specific VFM Risks (cont.)

We have identified one specific VFM risk.

We are satisfied that external or internal scrutiny provides sufficient assurance that the Authority's current arrangements in relation to this risk area are adequate.

We have undertaken work to in response to the risk:

1 - Financial resilience in the local and national economy.

Key VFM risk	Risk description and link to VFM conclusion	Assessment
Risk 1	**Financial resilience in the local and national economy** The Authority continues to be under financial pressure. In recent years, over the period 2012/13 to 2014/15 GBC has had government grant settlement reductions of £3.2million equivalent to a 34% cash reduction. In addition, over the period 2015/16 to 2017/18 the Authority is expecting settlement funding to reduce by a further £2.6m. The Authority has had to reduce its planned expenditure and increase the delivery of efficiency savings in order to maintain service levels. The Authority has in place a savings plan to help deliver efficiencies and resulting savings. The Authority has a good track record of delivering its savings plans.	The Authority recognises the budget pressures its faces in the medium term, most notably reductions in the Revenue Support Grant provided centrally and cost pressures for example from the Payline review. The Authority carried out a budgeting exercise in 2014-15 and identified required savings of £2.458m between 2014/15 and 2016/17 to support the medium term financial position. The Authority currently forecasts 92% of the original identified savings will be delivered, however the savings have been re-profiled to reflect for example the slippages in some schemes. This has been reflected in the latest Medium Term Financial Plan (MTFP). For 2015/16 the Authority delivered a small underspend against its revised budget. Within the latest version of the Gedling Plan which sets out the MTFP 2016-19, the Authority has identified further savings required in the region of £1.1m from 2017-18 onwards. The Authority acknowledges that it needs to develop a robust strategy and plan to deliver these savings. There will be further financial risks to the Authority including the upcoming pensions triennial revaluation which is likely to result in an adverse impact on the Authorities revenue position in the medium term. **Specific risk based work required: No** We do not consider that this impacts on the overall VFM conclusion.

Appendices

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.

Priority rating for recommendations					
❶	***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.	❷	***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.	❸	***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	❸	**Narrative Statement** This is the first year that local authorities have been asked to include within their accounts a narrative statement, which replaces the previous explanatory foreword. The narrative statement is intended to be an effective guide to support the accounts but also reflect upon the performance of the Authority. The Authority provided a good draft narrative statement and we have worked with officers to ensure it meets the minimum requirements of the Code. Going forward, we have agreed with officers that it can be enhanced further for 2016/17 to further complement the accounts and adopt good practice. **Recommendation** The Authority should enhance the narrative statement in 2016/17 based on feedback provided by External Audit in 2015/16 and best practice.	Agreed. The Authority will work to enhance its Narrative Statement for the 2016/17 Accounts. Financial Services Manager 30 June 2016

Materiality and reporting of audit differences

For 2015/16 our materiality is £800,000 for the Authority's accounts.

We have reported all audit differences over £40,000 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 April 2016.

Materiality for the Authority's accounts was set at £800,000 which equates to around 1.5 percent of gross expenditure. We design our procedures to detect errors in specific accounts at a lower level of precision.

Reporting to the Audit Committee

Whilst our audit procedures are designed to identify misstatements which are material to our opinion on the financial statements as a whole, we nevertheless report to the Audit Committee any misstatements of lesser amounts to the extent that these are identified by our audit work.

Under ISA 260, we are obliged to report omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. ISA 260 defines 'clearly trivial' as matters that are clearly inconsequential, whether taken individually or in aggregate and whether judged by any quantitative or qualitative criteria.

ISA 450 requires us to request that uncorrected misstatements are corrected.

In the context of the Authority, we propose that an individual difference could normally be considered to be clearly trivial if it is less than £40,000 for the Authority.

Where management have corrected material misstatements identified during the course of the audit, we will consider whether those corrections should be communicated to the Audit Committee to assist it in fulfilling its governance responsibilities.

Declaration of independence and objectivity

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

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.

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 Gedling Borough Council for the financial year ending 31 March 2016, we confirm that there were no relationships between KPMG LLP and Gedling Borough Council, its directors and senior management and its affiliates that we consider may reasonably be thought to bear on the objectivity and independence of the audit engagement lead and audit staff. We also confirm that we have complied with Ethical Standards and the Public Sector Audit Appointments Ltd requirements in relation to independence and objectivity.

Audit Independence

Audit Fees

Our scale fee for the audit was £42,570 plus VAT in 2015/16. This fee was in line with that highlighted within our audit plan agreed by the Audit Committee in March 2016. Our scale fee for certification for the HBCOUNT is £10,562 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.

Description of non-audit service	Estimated fee	Potential threat to auditor independence and associated safeguards in place
In May 2011 the Council engaged KPMG to provide services to assist with the recovery of VAT in respect of sports fields and related facilities. The fee was originally contingent however following our appointment as external auditor in 2012/13 was converted to an agreed fixed fee basis which was approved by Public Sector Appointments Limited (PSAA) in January 2016. 2015/16 billed fees totalling £33,000, of this £30,000 was in respect of work carried out up to 31 March 2015, and £3000 to that undertaken during 2015/16.	£33K	**Self interest** – This engagement is entirely separate from the audit through a separate contract, engagement team and lead partner. In addition, the audit fee scale rates were set independently to KPMG by the PSAA (previously Audit Commission). Therefore, the proposed engagement will have no perceived or actual impact on the audit team and the audit team resources that will be deployed to perform a robust and thorough audit. **Self review** – In May 2011 the Authority engaged KPMG to provide services to assist with the recovery of VAT in respect of sports fields and related facilities. Therefore, it does not impact on our opinion and we do not consider that the outcome of this work will be a threat to our role as external auditors. The existence of a separate team for this work is a further safeguard. Consequently, we consider we have appropriately managed this threat. **Management threat** – This work will be advice and support only – all decisions will be made by the Authority. **Familiarity** – This threat is limited given the scale, nature and timing of the work. The existence of the separate team for this work is the key safeguard. **Advocacy** – We will not act as advocates for the Authority in any aspect of this work. **Intimidation** – not applicable
Total estimated fees	**£33K**	

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