External audit report 2016/17

Gedling Borough Council

—

September 2017

Summary for Audit Committee

Financial statements

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

This report focusses on our on-site work which was completed in July 2017 on the Authority's significant risk areas, as well as other areas of your financial statements. Our findings are summarised on page 5.

Subject to all outstanding queries being resolved to our satisfaction we anticipate issuing an unqualified audit opinion on the Authority's financial statements before the deadline of 30 September.

We have identified no audit adjustments, although we have agreed a small number of presentational adjustments.

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

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

Use of resources

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

We therefore anticipate issuing an unqualified value for money opinion.

See further details from page 13.

Acknowledgements

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

We ask the Audit Committee to note this report.

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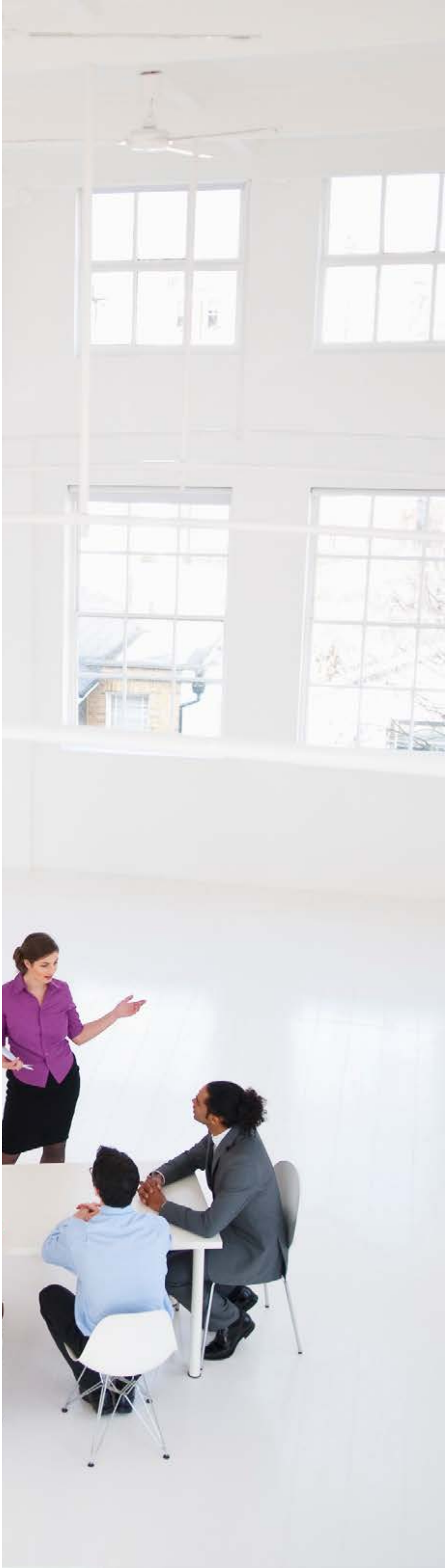
Section one

Financial Statements

We anticipate issuing an unqualified audit opinion on the Authority’s 2016/17 financial statements by 30 September 2017. We will also report that your Annual Governance Statement complies with the guidance issued by CIPFA/SOLACE (*‘Delivering Good Governance in Local Government’*) published in April 2016.

For the year ending 31 March 2017, the Authority has reported a deficit of £1.75m on the provision of services and total Other Comprehensive Expenditure of £8.76m.

Overall there has been a £0.18m reduction on the General Fund balance.



Significant audit risks

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

Significant audit risks	Work performed
1. Significant changes in the pension liability due to LGPS Triennial Valuation	**Why is this a risk?** During the year, the Local Government Pension Scheme for Nottinghamshire County (the Pension Fund) has undergone a triennial valuation with an effective date of 31 March 2016 in line with the Local Government Pension Scheme (Administration) Regulations 2013. The Authority's share of pensions assets and liabilities is determined in detail, and a large volume of data is provided to the actuary in order to carry out this triennial valuation. The pension liability numbers to be included in the financial statements for 2016/17 will be based on the output of the triennial valuation rolled forward to 31 March 2017. For 2017/18 and 2018/19 the actuary will then roll forward the valuation for accounting purposes based on more limited data. There is a risk that the data provided to the actuary for the valuation exercise is inaccurate and that these inaccuracies affect the actuarial figures in the accounts. Most of the data is provided to the actuary by Nottinghamshire County Council, who administer the Pension Fund. **Our work to address this risk** We have agreed the data provided by the Authority to the Actuary, back to relevant systems and reports and in turn agreed the total figures as per the IAS19 report received from the Actuary to the accounts. Our KPMG Actuary team have reviewed the assumptions used by the Scheme Actuary to assess whether the assumptions, such as the discount rate are appropriate. Our KPMG Actuary team have not raised any issues with the assumptions used, although they have noted that two key assumptions in regards to the discount factor and CPI (inflation) are towards the upper end of the acceptable range, which increases the value of the pension liability. Additionally, we have engaged with the Pension Fund auditors to gain further assurance over the pension figures. There are no issues to note.

Considerations required by professional standards

Fraud risk of revenue recognition

Professional standards require us to make a rebuttable presumption that the fraud risk from revenue recognition is a significant risk.

In our *External Audit Plan 2016/17* we reported that we do not consider this to be a significant risk for Local Authorities as there is unlikely to be an incentive to fraudulently recognise revenue.

This is still the case. Since we have rebutted this presumed risk, there has been no impact on our audit work.

Management override of controls

Professional standards require us to communicate the fraud risk from management override of controls as significant because management is typically in a unique position to perpetrate fraud because of its ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively.

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

In line with our methodology, we carried out appropriate controls testing and substantive procedures, including over journal entries, accounting estimates and significant transactions that are outside the normal course of business, or are otherwise unusual.

There are no matters arising from this work that we need to bring to your attention.

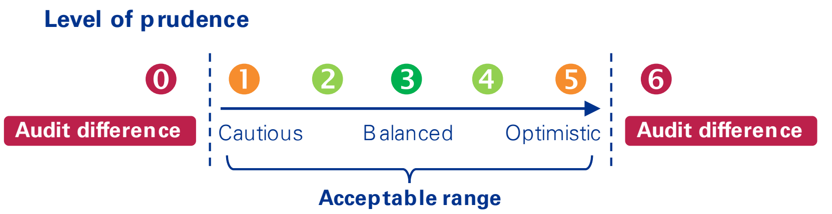
Other areas of audit focus

We identified one other area of audit focus. This is not considered a significant risk as it is less likely to give rise to a material error. Nonetheless it is an area of importance where we would carry out substantive audit procedures to ensure that there is no risk of material misstatement.

Other areas of audit focus	Our work to address the areas
1. Disclosures associated with retrospective restatement of CIES, EFA and MiRS	**Background** CIPFA has introduced changes to the 2016/17 Local Government Accounting Code (Code): — Allowing local authorities to report on the same basis as they are organised by removing the requirement for the Service Reporting Code of Practice (SeRCOP) to be applied to the Comprehensive Income and Expenditure Statement (CIES); and — Introducing an Expenditure and Funding Analysis (EFA) which provides a direct reconciliation between the way local authorities are funded and prepare their budget and the CIES. This analysis is supported by a streamlined Movement in Reserves Statement (MiRS) and replaces the current segmental reporting note. The Authority was required to make a retrospective restatement of its CIES (cost of services) and the MiRS. New disclosure requirements and restatement of accounts require compliance with relevant guidance and correct application of applicable accounting standards. **What we have done** For the restatement, we have obtained an understanding of the methodology used to prepare the revised statements. We have also agreed figures disclosed to the Authority's general ledger and found no issues to note.

Judgements

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



Subjective areas	2016/17	2015/16	Commentary
Provisions (excluding NDR)	3	3	The Authority's provision balance is predominantly made up of the provision for business rate appeals (£1.04 million) representing outstanding business rate appeals. For 2016/17 the Authority have used Local Analyse (an external service) to calculate the balance. We have not identified any issues with the value of provisions.
Property, Plant and Equipment (valuations / asset lives)	3	3	The Authority has utilised an internal valuation expert to provide valuation estimates. We have agreed PPE valuations carried out in 2016/17 back to the internally generated valuation certificates. Additionally, we have reviewed the instructions provided by the Authority to the Valuer and deem that the valuation exercise is in line with the instructions. We also made inquiries of the Valuer concerning the judgements over the valuations as at 31 March 2017. In line 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. We have raised a low priority recommendation in regards to the PPE valuation, and whether in line with best practice, the Authority should consider undertaking valuations at 31 March, as opposed to the start of the year (1 April).
Pensions	2	3	The pension deficit within the funded LGPS has increased over the year by £11.7 million. Our Actuarial team have reviewed the assumptions used to determine this calculation and have not raised any issues with the assumptions used, although they have noted that two key assumptions in regards to the discount factor and CPI (inflation) are towards the upper end of the acceptable range, which increases the value of the pension liability.

Proposed opinion and audit differences

Subject to all outstanding queries being resolved to our satisfaction, we anticipate issuing an unqualified audit opinion on the Authority's 2016/17 financial statements following approval of the Statement of Accounts by the Audit Committee on 12 September 2017.

Audit differences

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

The final materiality (see Appendix 4 for more information on materiality) level for this year's audit was set at £0.8 million. Audit differences below £40,000 are not considered significant.

We did not identify any misstatements, as illustrated on the tables to the right.

We did however identify a small number of presentational adjustments required to ensure that the accounts are compliant with the Code of Practice on Local Authority Accounting in the United Kingdom 2015/16 ('the Code'). We understand that the Authority will be addressing these.

Annual governance statement

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

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

and

— It is not misleading or inconsistent with other information we are aware of from our audit of the financial statements. We did identify one amendment which management have made.

Narrative report

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

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

Movements on the general fund 2016/17

£m	Pre-audit	Post-audit
Deficit on the provision of services	(1.75)	(1.75)
Adjustments between accounting basis and funding basis under Regulations	1.16	1.16
Transfers from earmarked reserves	0.41	0.41
Decrease in General Fund	**(0.18)**	**(0.18)**

Balance sheet as at 31 March 2017

£m	Pre-audit	Post-audit
Property, plant and equipment	28.93	28.93
Other long term assets	6.01	6.01
Current assets	14.47	14.47
Current liabilities	(4.49)	(4.49)
Long term liabilities	(62.28)	(62.28)
Net worth	**(17.36)**	**(17.36)**
General Fund	5.98	5.98
Other usable reserves	5.06	5.06
Unusable reserves	(28.38)	(28.38)
Total reserves	**(17.36)**	**(17.36)**

Accounts production and audit process

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

Our audit standards (*ISA 260*) require us to communicate our views on the significant qualitative aspects of the Authority's accounting practices and financial reporting.

We also assessed the Authority's process for preparing the accounts and its support for an efficient audit. The efficient production of the financial statements and good-quality working papers are critical to meeting the tighter deadlines.

Accounting practices and financial reporting

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

We consider the Authority's accounting practices appropriate.

Completeness of draft accounts

We received a complete set of draft accounts by 30 June 2017, which is the statutory deadline.

Quality of supporting working papers

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

The quality of working papers provided was high and met the standards specified in our Accounts Audit Protocol.

Response to audit queries

Officers dealt with our audit queries efficiently, responding within appropriate timescales. As a result of this, we were able to complete our on-site work in the agreed timescales with only minor queries outstanding.

Additional findings in relation to the Authority's control environment for key financial systems

After our interim visit we reported that there were a number of year end controls that we will be testing during our year end audit.

We have since completed the testing of these controls and have found no significant issues to note.

We also concluded our General IT controls testing, in which one minor issue was identified in relation to the payroll system and password lengths. However, this has since been addressed by the Authority.

Prior year recommendations

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

The Authority has implemented the recommendation in our ISA 260 Report 2015/16.

Appendix two provides further details.

Completion

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

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

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

Declaration of independence and objectivity

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

In relation to the audit of the financial statements of Gedling Borough Council for the year ending 31 March 2017, we confirm that there were no relationships between KPMG LLP and the Authority, its directors and senior management and its affiliates that we consider may reasonably be thought to bear on the objectivity and independence of the audit engagement lead and audit staff. We also confirm that we have complied with Ethical Standards and the Public Sector Audit Appointments Ltd requirements in relation to independence and objectivity.

We have provided a detailed declaration in Appendix 5 in accordance with ISA 260.

Management representations

You are required to provide us with representations on specific matters such as your financial standing and whether the transactions within the accounts are legal and unaffected by fraud. We have provided a template to Deputy Chief Executive and Director of Finance for presentation to the Audit Committee.

We require a signed copy of your management representations before we issue our audit opinion.

We are seeking specific management points in regards to the Land and Building Valuations, Grenfell Tower related disclosure, and Erasmus Grant and the eligibility of cash holdings.

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 judgement, are significant to the oversight of the financial reporting process; and
- Matters specifically required by other auditing standards to be communicated to those charged with governance (e.g. significant deficiencies in internal control; issues relating to fraud, compliance with laws and regulations, subsequent events, non disclosure, related party, public interest reporting, questions/objections, opening balances etc.).

There are no others matters which we wish to draw to your attention in addition to those highlighted in this report or our previous reports relating to the audit of the Authority's 2016/17 financial statements.

Section two

Value for money

Our 2016/17 VFM conclusion considers whether the Authority had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.

We have concluded that the Authority has made proper arrangements to ensure it took properly-informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.

VFM conclusion

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

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

Our VFM conclusion considers whether the Authority had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.

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

1 Identification of significant VFM risks (if any)

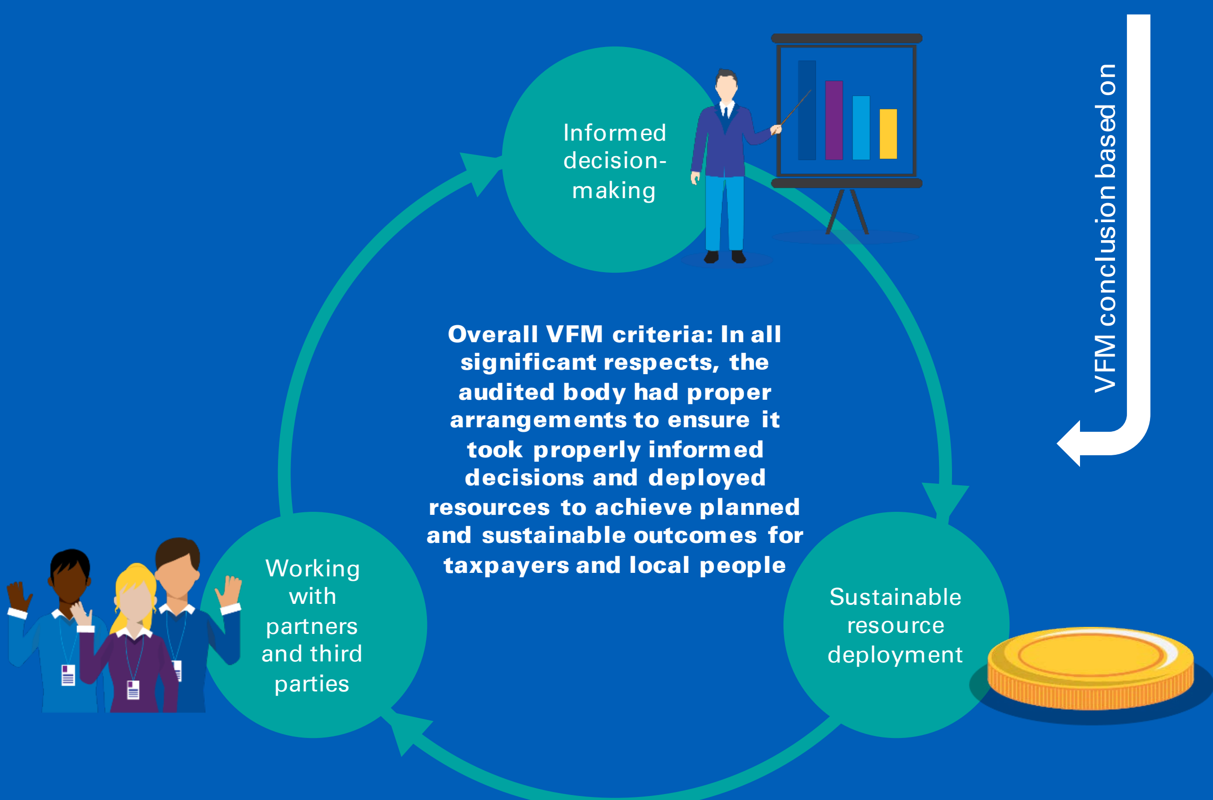
- VFM audit risk assessment
- Financial statements and other audit work

2 Continually re-assess potential VFM risks

- Assessment of work by other review agencies
- Specific local risk-based work

3 VFM conclusion

- **Conclude on arrangements to secure VFM**



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

VFM assessment summary			
VFM risk	**Informed decision-making**	**Sustainable resource deployment**	**Working with partners and third parties**
1. Financial resilience in the local and national economy	✓	✓	✓
Overall summary	✓	✓	✓

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

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

Significant VFM risks

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

Significant VFM risks	Work performed
1. Financial resilience in the local and national economy	**Why is this a risk?** The Authority continues to face medium term financial pressures, a combination of reduced funding and cost pressures. As reported in the Gedling Plan 2016-19, the Authority has accepted a four year funding settlement, along with 97% of other local authorities. The funding settlement outlines the income the Authority will receive from the Revenue Support Grant and Business Rates. The settlement sets out a £1.9m cash reduction for the Authority over the four years. There will also be further reduced funding from the New Homes Bonus. To help manage these cost pressures the Authority implemented an Efficiency/Budget Reduction Programme in 2014-15, designed to deliver savings of c.£2.5m by 2018/19. Furthermore, the Authority approved a new efficiency target of £1.15m for the period 2017/18 to 2020/21. **Summary of our work** In line with the rest of the sector, the Authority faces a challenging future driven by funding reductions and an increase in demand for services. In reaching our VFM conclusion we have considered the Authority's arrangements for making properly informed decisions, sustainable resource deployment and working with partners and third parties. This has included detailed reviews of key documents including the Medium Term Financial Plan, The Gedling Plan, the 2016/17 General Fund Budget and corresponding outturn report, and the Local Government Funding Settlement. We have reviewed the Authority's financial performance and position for the 2016/17 year, not noting any specific short term issues or concerns regarding its financial position. The Authority has a good track record of delivering savings plans to date. The Authority has delivered its financial plan for 2016/17 and required savings for the year. Granular budget information and variances are provided to Cabinet for scrutiny, and there is transparency over the future financial challenges the Authority faces in the medium term. Most notably, the Authority is required to generate a further £1.9m of savings, and at present has not worked up detailed plans, which inherently presents a risk to achievement. The Authority is cognisant of these challenges and is subsequently driving initiatives, including a commercialism agenda, housing development and also a leisure strategy.

Appendices

Key issues and recommendations

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

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

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

High priority — Issues that are fundamental and material to your system of internal control. We believe that these issues might mean that you do not meet a system objective or reduce (mitigate) a risk.

Medium priority — Issues that have an important effect on internal controls but do not need immediate action. You may still meet a system objective in full or in part or reduce (mitigate) a risk adequately but the weakness remains in the system.

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

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

2016/17 recommendations summary

Priority	Total raised for 2016/17
High	-
Medium	4
Low	1
Total	5

Medium priority

1. Savings Plans

The Authority updates its Medium Term Financial Plan (MTFP) on an annual basis, the most recent, for 2017/18 –2021/22, was presented to Council on 1 March 2017. This annual refresh of the MTFP, re-assesses budgets, progress on savings, and emerging risks facing the Authority. The most recent MTFP has highlighted that the Authority needs to deliver a further £1.9m of cumulative efficiency savings from 2018/19 onwards. The Authority has a good track record of both delivering and monitoring its savings plans, however at present has not worked up detailed plans for the £1.9m, which inherently presents a risk to achievement. The Authority is cognisant of these challenges as reported to both Cabinet and Council and is subsequently driving initiatives, including a commercialism agenda, housing development and also a leisure strategy. If these savings are realised, there remains a planned reduction in the General Fund balance from £5.01m in 2017/18, reducing to £1.59m by 2020/21.

Recommendation

The Authority should continue to refresh savings plans to ensure they are achievable as well as minimise overspends against budget to reduce further savings required.

Management Response

Accepted

The development of the detailed plans for delivery of the £1.9m savings target for 2018/19 to 2020/21 is currently underway and will be presented to Council for approval in March 2018. The ongoing monitoring and refresh of approved savings plans and budgets is a well-developed and embedded process with regular quarterly performance and budget setting reports submitted to Cabinet, as evidenced by the delivery of previous budget reduction programmes. This monitoring process will continue to ensure saving plans are constantly refreshed and targets are achieved within required timescales.

Owner

Service Manager, Financial Services

Deadline

On-going

Low priority

2. PPE Valuations

In line with the previous year, the Authority's in-house valuer revalued the Authority's land and buildings on 01 April 2016, and then carried out a further review on 31 March 2017 to assess if there had been any material movements in the valuations.

Recommendation

In line with best practice, the Authority should consider undertaking land and building valuations to coincide with the balance sheet date, which we also consider will help ensure accurate and timely valuations are reflected on the year-end balance sheet.

Management Response

Accepted

The process and timing of the land and property valuations will be reviewed.

Owner

Service Manager, Property

Deadline

31 March 2018

Medium priority

3. Discretionary Redundancy Costs

Statutory redundancy payments are based on a number of weeks' pay, the actual number being determined in law by a combination of age and length of continuous service. The Authority has in place a policy which allows for additional payment up to the same amount again as the statutory payment, in effect doubling the redundancy payment to be made. Given the financial challenges facing the Authority in the medium term, challenge should be applied to discretionary redundancies, and evidence retained to support why it is considered to offer value for money.

Recommendation

The Authority should consider its policy for discretionary redundancy and ensure discretionary redundancy is appropriately challenged and evidence retained which sets out why discretionary redundancy is considered to represent value for money.

Management Response

Accepted

The policy for redundancy payments will be reviewed.

Owner

Service Manager, Organisational Development

Deadline

31 March 2018

Medium priority

4. Pension Strain Costs

To meet the financial challenges facing the Authority, there were two key department restructures undertaken in year, Audit and Asset Management, and Housing Management Arrangements, both of which led to subsequent redundancies as the Authority looks to streamline services and reduce costs. Whilst we could see that all such decisions were subject to correct approval, our review of the consultation papers for both restructures noted that the papers did not contain estimates for pension strain costs associated with potential redundancies. This was due to the redundancy proposals being incomplete at the time of writing as posts remained open for redeployment.

Recommendation

As part of future restructures, documentation should be retained which evidences that decision makers were provided with details of the final pension strain costs associated with restructures prior to final approval.

Management Response

Accepted

Owner

Service Manager, Organisational Development

Deadline

Immediate

Medium priority

5. IT Controls

As part of our review of your General IT controls, we identified three IT issues as follows:

- The Authority does not perform a regular review of user access to Agresso (the general ledger) and Northgate (the payroll system);
- There are weak password settings on Northgate (the payroll system); and
- We identified two redundant powerful accounts on Agresso.

Despite the gaps in the control environment, we identified the following compensating controls:

- There were appropriate controls over starters and leavers on Agresso and Northgate;
- There are strong network access password parameters; and
- None of the redundant powerful user accounts accessed Agresso in year.

As all the controls had mitigating factors, there was no impact on our audit, however, strengthening these controls would be appropriate.

Recommendation

The Authority should review the issues identified above, and address them appropriately, considering putting the following in place:

- Performing an annual review of all Agresso and Northgate user accounts and the level of access granted;
- Reviewing powerful user accounts in Agresso, and considering whether these accounts are required. Where the accounts are required, consider locking the accounts until they are required; and
- Increasing the complexity of password controls to access the Northgate system.

Management Response

Accepted

Owner

Service Manager, Financial Services

Deadline

Immediate

Follow-up of prior year recommendations

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

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

High priority Issues that are fundamental and material to your system of internal control. We believe that these issues might mean that you do not meet a system objective or reduce (mitigate) a risk.

Medium priority Issues that have an important effect on internal controls but do not need immediate action. You may still meet a system objective in full or in part or reduce (mitigate) a risk adequately but the weakness remains in the system.

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

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

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

2015/16 recommendations status summary

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

Low priority

1. 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.

Management original response

Agreed. The Authority will work to enhance its Narrative Statement for the 2016/17 Accounts.

Owner

Financial Services Manager

Original deadline

30 June 2016

KPMG's July 2017 assessment

Implemented

We have found that the Authority's Narrative Statement has been significantly improved with regards to more in depth explanations. It meets the minimum requirements of the Code and complements the Statement of Accounts.

Audit differences

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

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

In addition to this, we identified within Note 28 "Officers' Remuneration" that two service managers had not been included within the disclosure. This does not have a material effect on the accounts but due to the nature of the note this has been adjusted by management.

Adjusted audit differences

We are pleased to report that our audit of your financial statements did not identify any material adjustments.

Materiality and reporting of audit differences

The assessment of what is material is a matter of professional judgement and includes consideration of three aspects: materiality by value, nature and context.

Material errors by value are those which are simply of significant numerical size to distort the reader's perception of the financial statements. Our assessment of the threshold for this depends upon the size of key figures in the financial statements, as well as other factors such as the level of public interest in the financial statements.

Errors which are material by nature may not be large in value, but may concern accounting disclosures of key importance and sensitivity, for example the salaries of senior staff.

Errors that are material by context are those that would alter key figures in the financial statements from one result to another – for example, errors that change successful performance against a target to failure.

We used the same planning materiality reported in our External Audit Plan 2016/17, presented to you in March 2017.

Materiality for the Authority's accounts was set at £0.8 million 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 (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.

General procedures to safeguard independence and objectivity

KPMG LLP is committed to being and being seen to be independent. As part of our ethics and independence policies, all KPMG LLP Audit Partners and staff annually confirm their compliance with our Ethics and Independence Manual including in particular that they have no prohibited shareholdings.

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

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

Auditor declaration

In relation to the audit of the financial statements of Gedling Borough Council for the financial year ending 31 March 2017, we confirm that there were no relationships between KPMG LLP and the Authority, 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.

Non-audit work and independence

Below we have listed the non-audit work performed and set out how we have considered and mitigated (where necessary) potential threats to our independence.

Summary of non-audit work		
Description of non-audit service	**Fees Billed in 2016/17**	**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 £3,000 to that undertaken during 2015/16. No fees have been billed since this time, however the claim remains open.	£0	**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. 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

Audit fees

Audit fees

As communicated to you in our External Audit Plan 2016/17, our scale fee for the audit is £42,570 plus VAT *(£42,570 in 2015/16)*, which is the same as the prior year.

In addition, and in agreement with the Authority, we have undertaken additional work in the year to review the Authority's restated CIES statement. We have agreed with the Authority that we will apply for a £800 fee variation with Public Sector Audit Appointments Ltd to support this work.

Our work on the certification of Housing Benefits (BEN01) is not yet complete. The planned scale fee for this is £10,313 plus VAT.

Fee table

Component of audit	2016/17 *(planned fee)* £	2015/16 *(actual fee)* £
Accounts opinion and use of resources work		
PSAA scale fee	42,570	42,570
Additional work in regards to restated CIES	800	0
Subtotal	**43,370**	**42,570**
Housing benefits (BEN01) certification work	10,313	10,562
Total fee for the Authority set by the PSAA	**53,683**	**53,132**

All fees are quoted exclusive of VAT.