External Audit Report 2015/16

Ashfield District Council

—

September 2016

Contents

The contacts at KPMG in connection with this report are:

Sophie Jenkins
Director

KPMG LLP (UK)

Tel: 044 7766 725 217
Sophie.Jenkins@kpmg.co.uk

Deborah Stokes
Manager

KPMG LLP (UK)

Tel: 044 7551 135 715
Deborah.Stokes@kpmg.co.uk

Rachit Babbar
In-charge

KPMG LLP (UK)

Tel: 044 7468 367330
Rachit.Babbar2@kpmg.co.uk

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

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.

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.

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.

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.

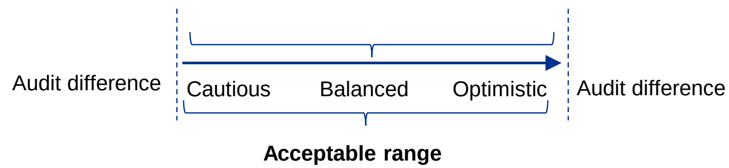
In line with our methodology, we carried out appropriate controls testing and substantive procedures, including over journal entries, accounting estimates and significant transactions that are outside the normal course of business, or are otherwise unusual.

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:

Level of prudence 0 1 2 3 4 5 6



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.

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.

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.

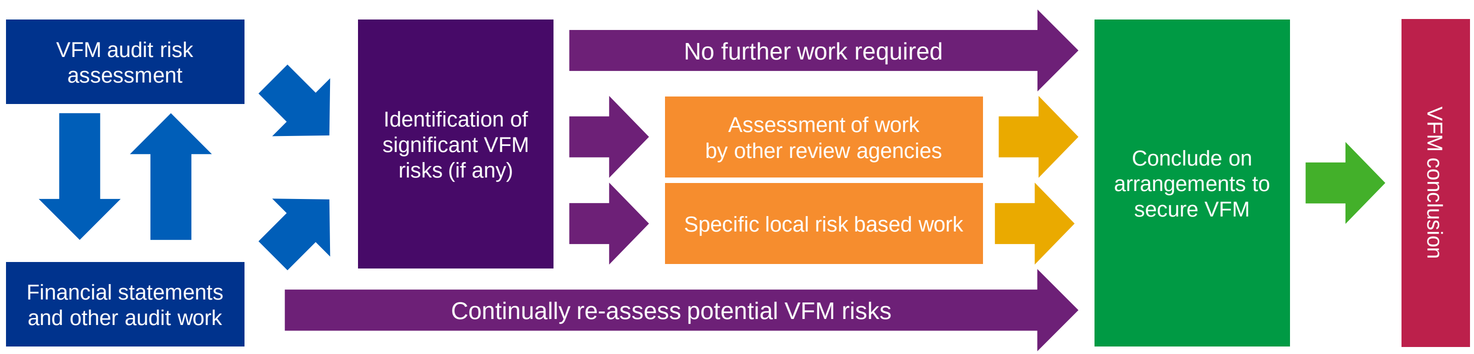
Conclusion

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.

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



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.

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.

We will formally follow up these recommendations next year.

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	❷	**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*.

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	3	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

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.

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.

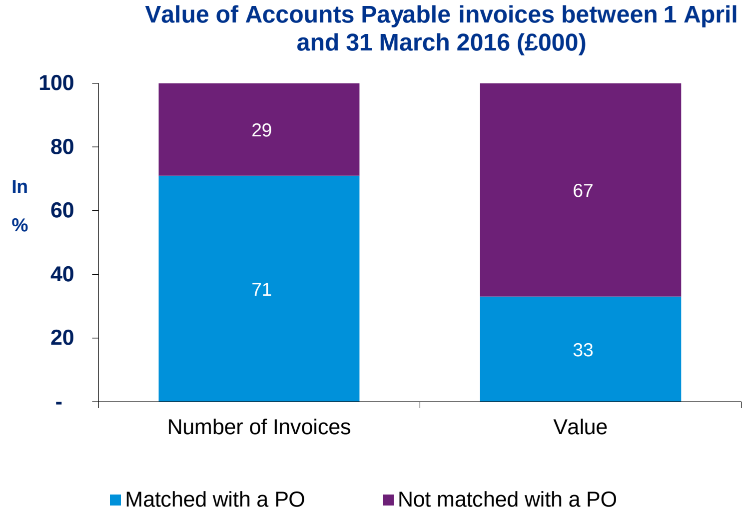
Accounts Payable - Data Analytics

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.

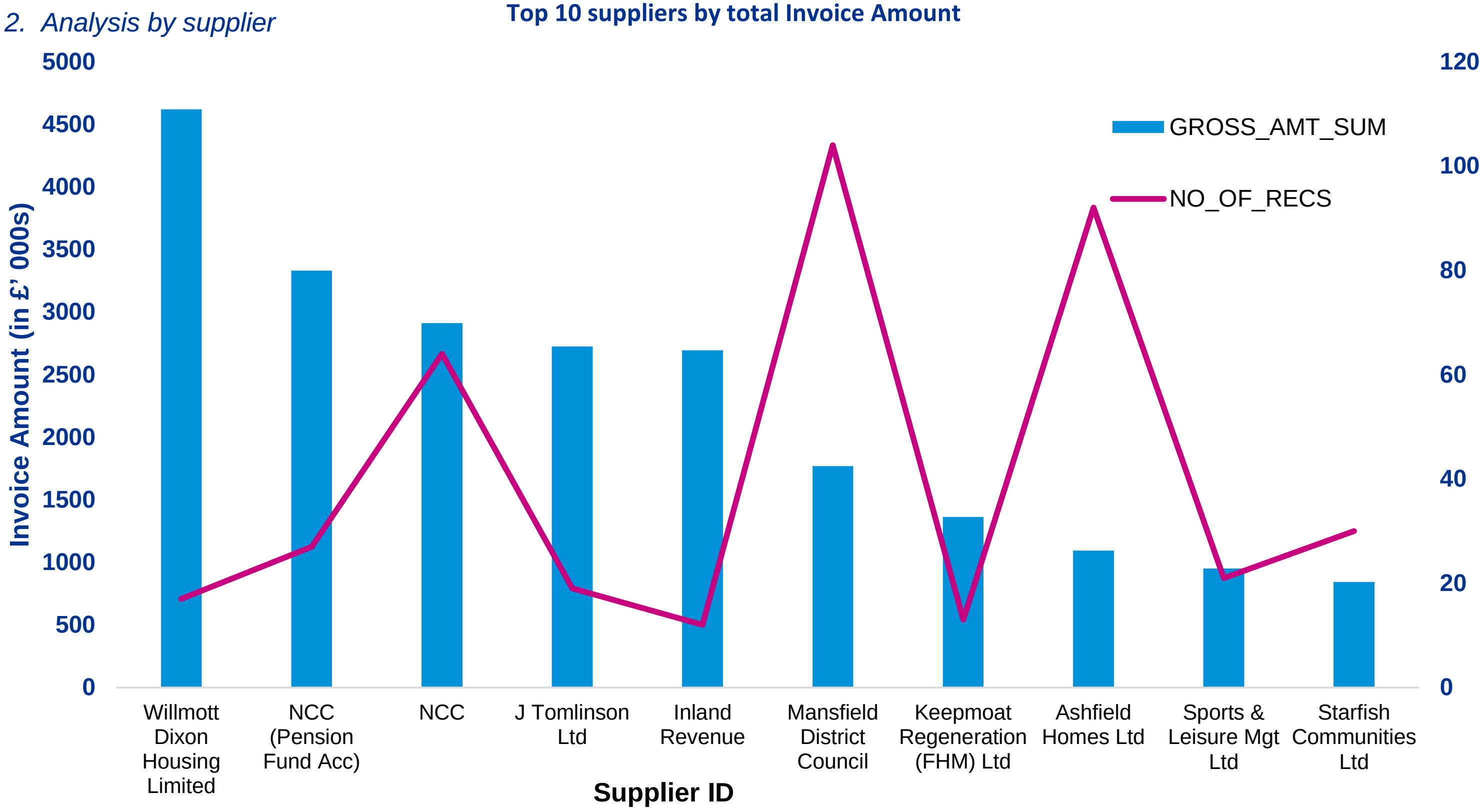
Accounts Payable - Data Analytics (cont.)

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.

2. Analysis by supplier



Analysis of results

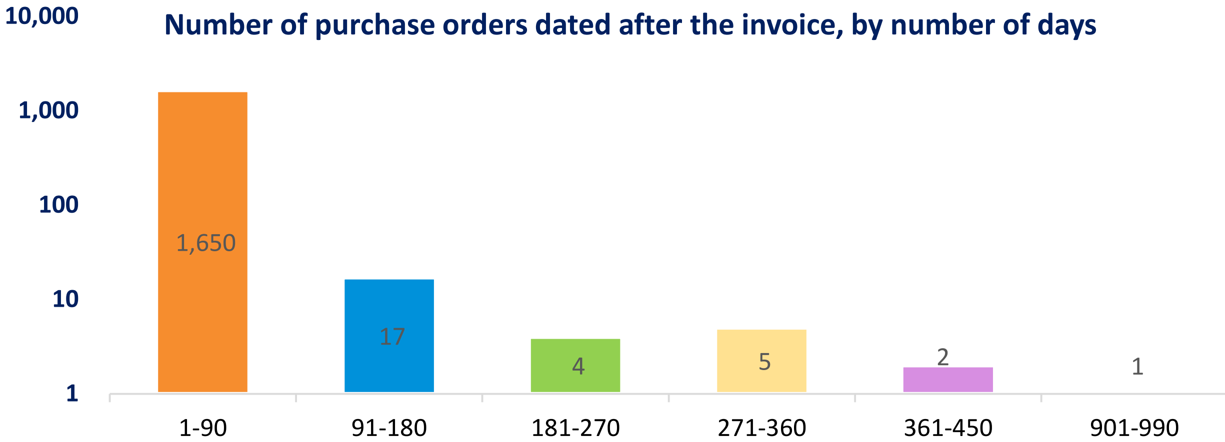
The top 10 suppliers by invoice amount are in line with our expectations. These included mainly the payments for capital projects and pension fund contributions to Nottinghamshire County Council Pension Fund. Payments were also made to NCC relating to Pool Levy charges which made it the third largest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

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.

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 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.

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%**	

kpmg.com/uk