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Audit and Accounts Committee

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Date of Meeting: Wednesday 8 April 2015
Time: 10am
Venue: G21, Kelham Hall

26 March 2015

To: All Members of the Audit & Accounts Committee

You are hereby requested to attend the above Meeting to be held at the time/place and on the date mentioned above for the purpose of transacting the business on the Agenda as under.

A pre-meeting for Members of the Committee will be held prior to the meeting, at 9:30am in G21.

A W Muter
Chief Executive

AGENDA
8 APRIL 2015
10am, G21

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11	Date of Next Meeting- Wednesday, 8 April 2015 at 10am	

Any questions relating to the agenda items should be submitted to David Dickinson- Director-Resources, at least 24 hours prior to the meeting in order that a full response can be provided.

Distribution

Councillors:

- Mrs R. Crowe
- J. Bradbury
- Mrs M. Dobson
- P. Handley
- Mrs S.M. Michael (C)
- D. Staples

Officers:

- D. Dickinson
- N. Lovely
- A. Hunt (Audit Lincs)
- Lucy Pledge (Audit Lincs)
- John Sketchley (Audit Lincs)
- John Cornett (KPMG)
- Helen Bayne (x2)

NEWARK & SHERWOOD DISTRICT COUNCIL

Minutes of the meeting of the **AUDIT & ACCOUNTS COMMITTEE** held in Room G21, Kelham Hall on Wednesday 11 February 2015 at 10:00am.

PRESENT: Councillor Mrs S.M. Michael (Chairman)

Councillors: J. Bradbury, G.P. Handley and D. Staples.

ALSO IN ATTENDANCE: David Dickinson (Director – Resources (NSDC))
Nicola Lovely (Business Manager – Financial Services (NSDC))
Richard Bates (Safety and Risk Management Officer)
Tara Beesley (Accountant- NSDC)
John Sketchley (Audit Lincolnshire)
Amanda Hunt (Audit Lincolnshire)
John Cornett – (KPMG)

38. APOLOGIES FOR ABSENCE

Apologies for absence were submitted by Councillors Mrs R. Crowe, Mrs M. Dobson, and Helen Brookes- (KPMG).

39. DECLARATIONS OF INTEREST BY MEMBERS AND OFFICERS AND AS TO THE PARTY WHIP

NOTED: that no Member or Officer declared any interest pursuant to any statutory requirement in any matter discussed or voted upon at the meeting.

40. DECLARATION OF ANY INTENTION TO RECORD THE MEETING

None.

41. MINUTES OF MEETING HELD ON 5 NOVEMBER 2014

AGREED that the Minutes of the meeting held on 5 November 2014 be approved as a correct record and signed by the Chairman.

The Chairman agreed to take the items on Risk Management Report, and Strategic Risk Register first, and then revert to original agenda order.

42. RISK MANAGEMENT REPORT

The Safety and Risk Management Officer presented a report regarding the Council Risk Management progress, including corporate risk management and risk management across the Council.

The Council's Risk Management Policy was under review, with the assistance of the Council's insurers Zurich, alongside work on the Council's Risk Appetite. The Council's Risk Management Group continued to meet which helped to raise insight into risks faced by the Council, including Safeguarding, the new office project, devolution and development of the new leisure company.

In response to a query from a Member of the Committee, the Safety and Risk

Management Officer explained that risks were presented to CMT on a quarterly basis, highlighting high risks and monitoring. It was acknowledged that the Council had risks that could not be minimised as they were outside of the control of the Council, however, it was important to identify and continue to monitor such risks.

AGREED That the report be noted.

43. STRATEGIC RISK REGISTER

The Safety and Risk Management Officer presented a report advising the status of the Strategic Risk Register for the Council. The nine risks included on the Strategic Risk Register were those that had potential to cause the Authority to fail, and were broadly similar to those faced by all local authorities. Each of the risks were assigned to a member of CMT and with the assistance of relevant business managers, action plans have been developed to manage, mitigate or reduce the risk accordingly.

Members reviewed the Strategic Risk Profile, noting that risks SR001 - Reduced public sector funding and major income streams leading to potential inability to meet objectives and SR003 - Growth Delivery, were both categorised as high risks and with both these risks, external issues beyond the control of the Council affected the impact and likelihood.

SR007 had been renamed from Severe Weather to Continuity of Service. The risk still encompassed severe weather, but had been downgraded due to the increased capacity to prepare for such events and thus reduce the impact.

The Committee considered the report, and in relation to SR002 - Major Projects, raised concern about the level of financial exposure these created for the Council. Officers advised the Committee that those projects relating to construction were required to have individual risk logs, which fed into the strategic risk.

With regard to risk SR005 - Workforce Planning, Development and Transformational Change, Members questioned whether this risk was higher due to increased levels of sick leave and stress. Members also felt that SR006 - Community Cohesion could increase in risk profile due to the impending election, though it was noted that this would be reviewed prior to the election.

AGREED That the report be noted.

44. TREASURY PERFORMANCE REPORT- APRIL TO DECEMBER 2014

Members considered the Treasury Performance Report regarding the Council’s treasury activity and prudential indicators up to 31 December 2014. None of the prudential indicators had been breached during the period, and no new borrowing or investment had been undertaken. The base rate had remained the same and the Council’s treasury advisors, Arlingclose, had advised the Council that they felt it was unlikely to increase until next year.

AGREED That the report be noted.

45. DRAFT TREASURY STRATEGY 2015/16

The Accountant presented the Draft Treasury Strategy 2015/16 which would be considered by Council on 10 March 2015. The Strategy set out the expected treasury operations for the period, based on the latest capital programme submitted, and adjusted for known variations.

The report detailed Prudential Indicators, the Minimum Revenue Provision Policy, the Treasury Management Strategy statement and the Investment Strategy. Within the Investment Strategy, Member's attention was drawn to an updated counterparty list, which had been amended due to a change in legislation. It was confirmed that the Director - Resources had authority to invest in overseas banks, but would consult the Audit and Accounts Committee prior to such action.

AGREED (unanimously) that the Committee recommend to Council:

a) The Treasury Management Strategy 2015/16;
b) The investment counterparty criteria listed in paragraph 5.4 of the report;
c) The Prudential Indicators and Limits set out in the report; and
d) The Minimum Revenue Provision statement contained in paragraph 7.3 of the report.

46. INTERNAL AUDIT PROGRESS REPORT

The Committee considered the Internal Audit Progress Report, including the key messages, work completed and reports issued and the number of audits in progress.
Officers from Audit Lincolnshire informed the Committee that it was anticipated that all fieldwork for the audits programmed would be completed by the end of April 2015, however, it was difficult to determine when final reports would be issued, due to the uncertainty around potential issues identified and recommendations, as well as feedback from business managers.

With regard to audits for ICT Partnerships/Projects, and Treasury Management, both of which had been given an assurance level of 'Some Improvement Needed', Members noted there were a number of recommendations. Amanda Hunt explained that these would be monitored, although it was noted that the recommendations were not yet due.

AGREED That the report be noted.

47. COMBINED ASSURANCE REPORT

The Director - Resources presented the Combined Assurance Report for consideration by the Committee. The Committee considered the report, and noted the following:

- Collaboration and Partnerships - should include reference to the proposed Combined Authority; Officers advised that the report was as at a point in time and the Combined Authority was not in existence at the time. It would be included in the next report.
- Growth - Planning Policy - should include information regarding enforcement;
- Members requested information on recycling levels, particularly comparison data

with other neighbouring authorities; and

- Safety - HR - Members noted that sickness levels were over target, although the target had been reduced last year due to very good sickness level performance. It was also noted the performance for completion of appraisals was below target, although reasons for this were detailed in the report, and the Director-Resources explained that those staff on very short hours did not require an appraisal.

AGREED That the report be noted.

48. ANNUAL INTERNAL AUDIT PLAN AND STRATEGY

The Business Manager – Financial Services presented the Annual Internal Audit Plan and Strategy, detailing the proposed work of internal audit for 2015/16.

Members considered whether it would be appropriate to request any additional items to include, with particular reference to affordable housing, and whether any gap between the Council's policy and achieved affordable housing could be audited. The Director-Resources explained that individual committees had responsibility to monitor performance within their remits, but acknowledged some areas may cut across committees.

AGREED (unanimously) that the Annual Internal Audit Plan and Strategy be approved.

49. EXTERNAL AUDITORS PROGRESS REPORT

John Cornett, KPMG, was in attendance to present the External Auditors Annual Progress report, detailing progress on the 2013/14 Audit and the initial planning process for the 2014/15 Audit. The report also included an oversight of national issues and relevant developments.

Mr Cornett explained that as part of the audit process for the Housing Benefits Claim, the Council's benefits staff had undertaken completion of the testing, to help to reduce the Audit fee. It was noted that the Certification work had been delayed due to the nature of some of the errors found, but the issues were comparable to other authorities, with no unique issues. An additional fee of £900 for NNDR work for 2014/15 audit was highlighted.

During the discussion regarding the report, in response to a query from the Director-Resources, Mr Cornett explained that the Council had the power to appoint an external auditor for a wholly owned Council company, such as the new Leisure Company which was in development. Details were also clarified regarding the split of responsibilities of the Audit Commission, which would close in March 2015. The setting of Audit Fees and Charges would be approved by a company set up and wholly owned by the LGA. The Code of Audit practice would be under the National Audit Office and National Fraud Initiative work would transfer to the Cabinet Office.

AGREED That the report be noted.

50. RESULTS OF THE REVIEW OF THE EFFECTIVENESS OF THE INTERNAL AUDIT FUNCTION

The Business Manager - Financial Services presented the results of the Assessment of the Effectiveness of the Internal Audit function. The review was split into two parts - the review of the internal audit function, and the self-assessment of the effectiveness of the Audit and Accounts Committee, and had been undertaken by a group comprising the Chairman of the Committee, plus one other member of the Committee, the Director - Resources and the Business Manager - Financial Services.

The Group had highlighted and commended the quality of the audit reports, although acknowledged there were still some frustrations due to timing and delay of reports. Further evidence had been requested to support the statements included in the self-assessment. The Group also felt that the Chairman of Audit and Accounts Committee should keep regular meetings with chairs of the Council's other functional committees. An action plan had been developed, reflecting the work of the group, which was included as an appendix to the report.

AGREED (unanimously) that the Committee:

a) Notes the results of the Review of the Effectiveness of the Internal Audit Function;
b) Notes the results of the Self-Assessment of the Effectiveness of the Audit and Accounts Committee; and
c) Adopts the Action Plan.

51. REVIEW OF SIGNIFICANT GOVERNANCE ISSUES HIGHLIGHTED IN THE ANNUAL GOVERNANCE STATEMENT

The Director-Resources presented a report updating the Committee in regard to significant governance issues identified in the Annual Governance Statement. The report included updates on Organisational Change, Devolution, Management of Leisure Services, Collaboration Agreement and Major Projects. The Committee noted the appointment of a consultant to oversee major projects, following the departure of the Business Manager - Asset Management.

AGREED That the Committee notes the results of the review of significant governance Issues highlighted in the Annual Governance Statement.

52. PROTECTING THE PUBLIC PURSE REPORT

The Committee considered the report from the Audit Commission entitled Protecting the Public Purse - Fighting Fraud Against Local Government, summarising the findings from the annual survey on counter fraud in local government. This was the last report to be produced by the Commission prior to its closure in 2015.

Common areas of fraud in local government were highlighted as Council Tax, Right to Buy, Social Care and Insurance. Concern was also raised in regard to tenancy fraud. Of particular note, one of the biggest issues facing local government was the fall in number of fraud investigators within local government, reducing the overall capacity, which was generally associated with lower detection rates.

The Business Manager Financial Services detailed the work that the Council had undertaken towards counter fraud, including the Counter Fraud Strategy and training for officers and members. However, the impact of the development of the Single Fraud Investigation Service under the DWP would have a significant negative impact on the Council's ability to detect fraud by removing the only dedicated officer resource the Council had in fraud detection.

Members heard that a review of the Single Person Discount was currently on-going, across Nottinghamshire with co-operation of the County Council, Fire and Police. Members agreed that anti-fraud work was a very important part of overall prevention of fraud.

AGREED That the report be noted.

53. RESPONSES TO QUESTIONS RAISED AT PREVIOUS MEETING

AGREED that the questions and answers be noted.

54. WORK PLAN

AGREED that the workplan be noted.

55. DATE OF NEXT MEETING

The next meeting would be on Wednesday 8 April 2015, 10am.

The meeting closed at 12.04pm

Chairman

AUDIT AND ACCOUNTS COMMITTEE **AGENDA ITEM NO.5**
8th April 2015

STATEMENT OF ACCOUNTING POLICIES 2014/2015

REPORT PRESENTED BY: NICOLA PICKAVANCE, ASSISTANT BUSINESS MANAGER FINANCIAL SERVICES

1.0 Purpose of Report

1.1 To provide Members with any updates made to the Council's accounting policies in relation to the closedown of the 2014/2015 financial year.

2.0 Introduction

2.1 Prior to the completion of the Statement of Accounts for 2014/2015 it is important that Members are given the opportunity to discuss and comment on the accounting policies to be used in the production of the financial statements. These policies will be applied to the treatment of all transactions that make up the figures in the Statement of Accounts to ensure the accounts present a true and fair view of the financial position of the Council as at 31st March 2015.

2.2 The 2014/2015 Statement of Accounts will be prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2014-15 (the Code) which is based on International Financial Reporting Standards (IFRS).

3.0 Updates to the Statement

3.1 The 2014/2015 Code introduces changes to the following standards

IAS1 - Presentation of Financial Statements
IFRS 10 – Consolidated Financial Statements
IFRS 11 – Joint Arrangements
IFRS 12 – Disclosure of Interest in Other Entities
IAS 27 – Separate Financial Statements
IAS 28 – Investments in Associates and Joint Ventures
IAS 32 – Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities.

3.2 Policy 1.3 Prior Period Adjustments, Changes to Accounting Policies and Estimates and errors has been amended to describe changes which have been made to the Code but do not require a change in an existing, or adoption of a new, policy.

3.3 The Council's policies 1.14 Financial Liabilities and 1.15 Financial Assets do not require amending following Code changes in respect of IAS 32 – Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities.

3.4 The Council's policy 1.16 Interest in Companies and Other Entities does not require amending in view if the Code changes in respect of consolidation of accounts and the recognition of interest in other bodies as detailed in:

IFRS 10 – Consolidated Financial Statements
IFRS 11 – Joint Arrangements
IFRS 12 – Disclosure of Interest in Other Entities
IAS 27 – Separate Financial Statements
IAS 28 – Investments in Associates and Joint Ventures

3.5 The Council does not have a specific policy regarding how the statement of accounts is presented, therefore the changes introduced by the Code to IAS1 - Presentation of Financial Statements will not require any change in policy for 2014/2015.

3.6 A complete set of the Accounting Policies for 2014/2015 are attached at Appendix A.

4.0 RECOMMENDATION

a) Members approve the amended Statement of Accounting Policies for 2014/2015

Background Papers

Nil.

For further information please contact Nicola Pickavance on extension 5326

D. Dickinson
Director – Resources

APPENDIX A

1 Accounting Policies

1.1 General Principles

The Statement of Accounts summarises the Council's transactions for the 2014/2015 financial year and its position at the year-end of 31 March 2015. It has been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2014/15 (the Code). The accounting convention adopted is historical cost, modified firstly by the revaluation of certain categories of non current assets and secondly as regards the valuation of stocks. Accounting policies and estimation techniques have been selected and exercised, having regard to the accounting principles and concepts set out in IAS 8, specifically the qualitative characteristics of financial information:

- Relevance
- Reliability
- Comparability
- Understandibility
- Materiality

and pervasive accounting concepts:

- Accruals
- Going Concern
- Primacy of legislative requirements

1.2 Accruals of Income and Expenditure

Activity is accounted for in the year that it takes place, not simply when cash payments are made or received. In particular:

- Fees, charges and rents due from customers are accounted for as income at the date the Council provides the relevant goods or services.
- Supplies are recorded as expenditure when they are consumed - where there is a gap between the date supplies are received and their consumption, they are carried as stocks on the Balance Sheet.
- Works are charged as expenditure when they are completed, before which they are carried as works in progress on the Balance Sheet.
- Interest payable on borrowings and receivable on investments is accounted for on the basis of the effective interest rate for the relevant financial instrument rather than the cash flows fixed or determined by the contract.
- Where income and expenditure have been recognised but cash has not been received or paid, a debtor or creditor for the relevant amount is recorded in the Balance Sheet. Where it is doubtful that debts will be settled, the balance of debtors is written down and a charge made to revenue for the income that might not be collected.

Income and expenditure are credited and debited to the relevant service revenue account, unless they properly represent capital receipts or capital expenditure.

1.3 Prior Period Adjustments, Changes in Accounting Policies and Estimates and Errors

Prior period adjustments may arise as a result of a change in accounting policy or to correct a material error. Changes in accounting estimates are accounted for prospectively ie in the current and future years affected by the change and do not give rise to a prior period adjustment.

Changes in accounting policies are only made when required by proper accounting practices or the change provides more reliable or relevant information about the effect of transactions, other events and conditions on the Council's financial position or financial performance. Where a change is made, it is applied retrospectively (unless stated otherwise) by adjusting opening balances and comparative amounts for the prior period as if the new policy had always been applied.

Amendments have been made to the following accounting standards which have been adopted fully by the Council in the 2014/2015 statements:

- IFRS 10 Consolidated Financial Statements
- IFRS 11 Joint Arrangements
- IFRS 12 Disclosure of Interest in Other Entities
- IAS 27 Separate Financial Statements
- IAS 28 Investments in Associates and Joint Ventures
- IAS 32 Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities
- IAS 1 Presentation of Financial Statements

The preparation of IFRS accounts requires the use and calculation of estimates. It also requires management to exercise its judgement in applying the use of the Council's accounting policies. The areas involved in a higher degree of judgement or complexity or areas where assumptions and estimates are significant to the financial statements are disclosed in the relevant sections of the financial statements. Although these estimates are based on management's best knowledge of current events and actions they may undertake in the future, actual results may differ from these estimates.

1.4 Provisions

Provisions are made where an event has taken place that gives the Council an obligation that probably requires settlement by a transfer of economic benefits, but where the timing of the transfer is uncertain. For instance, the Council may be involved in a court case that could eventually result in the making of a settlement or the payment of compensation.

Provisions are charged to the appropriate service revenue account in the year that the authority becomes aware of the obligation, based on the best estimate of the likely settlement. When payments are eventually made, they are charged to the provision set up in the Balance Sheet. Estimated settlements are reviewed at the end of each financial year - where it becomes more likely than not that a transfer of economic benefits will not now be required (or a lower settlement than anticipated is made), the provision is reversed and credited back to the relevant service revenue account.

Where some or all of the payment required to settle a provision is expected to be met by another party (e.g. from an insurance claim), this is only recognised as income in the relevant service revenue account if it is virtually certain that reimbursement will be received if the obligation is settled.

Provisions may also be created where there is some uncertainty over the Council's entitlement to receive income. This may arise in connection with changes in the eligibility criteria of central government programmes or as a result of the interpretation of new legislation.

1.5 Reserves

The Council sets aside specific amounts as reserves for future policy purposes or to cover contingencies. Reserves are created by appropriating amounts in the Movement in Reserves Statement. When expenditure to be financed from a reserve is incurred, it is charged to the appropriate service revenue account in that year to score against the Surplus/Deficit on Continuing Operations in the Comprehensive Income and Expenditure Statement. The reserve is then appropriated back into the General Fund Balance statement so that there is no net charge against council tax for the expenditure.

Certain reserves are kept to manage the accounting processes for non current fixed assets and retirement benefits and do not represent usable resources for the Council - these reserves are explained in the relevant policies below.

1.6 Government and Other Grants and Contributions

Whether paid on account, by instalments or in arrears, government grants and third party contributions and donations (including donated assets), both revenue and capital, are recognised as due to the Council when there is reasonable assurance that

- The Council will comply with any conditions attached to the payments
- The grants or contributions will be received.

Amounts recognised as due to the Council are not credited to the Comprehensive Income and Expenditure Statement until conditions attached to the grant or contribution have been satisfied.

Monies advanced as grants and contributions for which conditions have not been satisfied are carried in the Balance Sheet as creditors. When conditions are satisfied the grant or contribution is credited to the Comprehensive Income and Expenditure Account.

Revenue grants are matched in service revenue accounts with the service expenditure to which they relate. Grants to cover general expenditure (e.g. Revenue Support Grant and New Homes Bonus Grant) and all capital grants and contributions are credited to Taxation and Non Specific Grant Income. Capital grants are reversed out of the General Fund Balance in the Movement in Reserves Statement.

1.7 Post Employment Benefits

The Council fully complies with the requirements of IAS 19 Employee Benefits and recognises the cost of retirement benefits in the revenue account when employees earn them rather than when the benefits are eventually paid as pensions.

Employees of the Council are members of the Local Government Pensions Scheme, administered by Nottinghamshire County Council (the pension fund). The scheme provides defined benefits to members (retirement lump sums and pensions), earned as employees worked for the Council.

The liabilities of the pension scheme attributable to the Council are included in the Balance Sheet on an actuarial basis using the projected unit method - i.e. an assessment of the future payments that will be made in relation to retirement benefits earned to date by employees, based on assumptions about mortality rates, employee turnover rates, etc, and projections of projected earnings for current employees.

Liabilities are discounted to their value at current prices, using a discount rate based on the indicative rate of return on high quality corporate bonds.

The assets of the pension fund attributable to the Council are included in the Balance Sheet at their fair value:

- quoted securities – current bid price
- unquoted securities - professional estimate
- unitised securities - current bid price
- property - market value.

The change in the net pensions liability is analysed into the following components:

- Service Cost comprising
    - current service cost - the increase in liabilities as a result of years of service earned this year - allocated in the Comprehensive Income and Expenditure Statement to the revenue accounts of services for which the employees worked
    - past service cost - the increase in liabilities arising from current year decisions whose effect relates to years of service earned in earlier years - debited to the (Surplus)/Deficit on Continuing Operations in the Comprehensive Income and Expenditure Statement as part of Non Distributed Costs
    - net interest on the net defined benefit liability or asset ie net interest expense for the authority – the change during the period in the net defined benefit liability or asset that arises from the passage of time charged to the Financing and Investment Income and Expenditure line of the Comprehensive Income and Expenditure Statement – this is calculated by applying the discount rate used to measure the defined benefit obligation at the beginning of the period to the net defined benefit liability or asset at the beginning of the period – taking into account any changes in the net defined benefit liability or asset during the period as a result of contribution and benefit payments
- Remeasurements comprising
    - the return on plan assets – excluding amounts included in net interest on the defined benefit liability or asset – charged to the Pensions Reserve as Other Comprehensive Income and Expenditure
    - actuarial gains and losses – changes in the net pensions liability that arise because events have not coincided with assumptions made at the last actuarial valuation or because the actuaries have updated their assumptions – charged to the Pensions Reserve as Other Comprehensive Income and Expenditure
- Contributions paid to the pension fund - cash paid as employer's contributions to the pension fund in settlement of liabilities; not accounted for as an expense.

Statutory provisions require the General Fund balance to be charged with the amount payable by the Council to the pension fund in the year, not the amount calculated according to the relevant accounting standards. In the Movement in Reserves Statement on the General Fund Balance this means that there are appropriations to and from the Pensions Reserve to remove the notional debits and credits for retirement benefits and replace them with debits for the cash paid to the pension fund and any amounts payable to the fund but unpaid at the year-end.

The Council also has restricted powers to make discretionary awards of retirement benefits in the event of early retirements. Any liabilities estimated to arise as a result of an award to any member of staff are accrued in the year of the decision to make the award and accounted for using the same policies as are applied to the Local Government Pension Scheme.

1.8 Value Added Tax

Income and expenditure excludes any amounts related to VAT, as all VAT collected is payable to HM Revenue and Customs and all VAT paid is recoverable from them.

1.9 Overheads and Support Services

The costs of overheads and support services are charged to those that benefit from the supply or service in accordance with the costing principles of the CIPFA Service Reporting Code of Practice 2013/2014 (SeRCOP). The total absorption costing principle is used - the full cost of overheads and support services are shared between users in proportion to the benefits received, with the exception of:

- Corporate and Democratic Core - costs relating to the Council's status as a multi-functional, democratic organisation.
- Non Distributed Costs - discretionary benefits awarded to employees retiring early and depreciation and impairment losses chargeable on non operational properties.

These two cost categories are defined in SeRCOP and accounted for as separate headings in the Comprehensive Income and Expenditure Statement Account, as part of Continuing Operations.

The bases of allocation used for the main categories of overhead and support services are outlined below:

Service	Basis of Charge
Administrative Buildings	Area occupied
Information Communication Technology	Systems operated and equipment utilised
Audit	Staff time
Revenue Collection Services	Transactions
Human Resources	Staff numbers
Administrative Services	Staff time
Legal	Staff time
Financial Services	Staff time and transactions
Central printing, telephones and postages	Transactions
Corporate Property Services	Staff time
Management and Administration	Staff time

1.10 Non Current Assets

Non current assets are assets that have physical substance and are held for use in the provision of services or for administrative purposes on a continuing basis.

Recognition: expenditure on the acquisition, creation or enhancement of non current assets is capitalised on an accruals basis, provided that it yields benefits to the Council and the services that it provides for more than one financial year. Expenditure that secures but does not extend the previously assessed standards of performance of an asset (e.g. repairs and maintenance) is charged to revenue as it is incurred. Expenditure under the value of £15,000 is treated as de-minimis.

Measurement: assets are initially measured at cost, comprising all expenditure that is directly attributable to bringing the asset into working condition for its intended use. Assets are then carried in the Balance Sheet using the following measurement bases:

- Investment properties – fair value
- Infrastructure assets – are written off in full if they have no tangible value
- Community Assets (including property Heritage Assets) and Assets Under Construction (excluding Investment Property under construction) – measured at historical cost
- Other Land and Buildings, Vehicles, Plant and Equipment and Surplus Assets – fair value or, where there is no market based evidence of fair value, depreciated historical cost
- Council dwellings – fair value measured using existing use value – social housing
- Assets Held for Sale – the lower of carrying amount and fair value less costs to sell
- Heritage Assets (non property) – insurance cost valuation

Fair Value is defined as the amount for which an asset could be exchanged between knowledgeable, willing parties in an arm's length transaction and can be further assessed as follows:

- Property Plant and Equipment – the amount that would be paid for the asset in its existing use
- Investment Properties – the amount that would be paid for the asset in its highest and best use ie market value
- Assets Held for Sale – the amount that would be paid for the asset in its highest and best use ie market value

Valuation: assets are included in the Balance Sheet at current value on the basis recommended by CIPFA and in accordance with the Appraisal and Valuation Manual issued by the Royal Institution of Chartered Surveyors (RICS). Non current assets are classified into the groupings required by the CIPFA Code of Practice on Local Authority Accounting.

Assets included in the Balance Sheet at current value are revalued where there have been material changes in the value, but as a minimum every five years. Community Assets, Infrastructure Assets and Assets Under Construction are held at historical cost and are not revalued. Increases in valuations (except increases in Investment Properties) are matched by credits to the Revaluation Reserve to recognise unrealised gains. Exceptionally, gains might be credited to the Comprehensive Income and Expenditure Statement where they arise from the reversal of an impairment loss previously charged to a service revenue account. All gains on Investment Properties are charged to a service revenue account.

The Revaluation Reserve contains revaluation gains recognised since 1st April 2007 only, the date of its formal implementation. Gains arising before that date have been consolidated into the Capital Adjustment Account.

Impairment: the values of each category of assets and of material individual assets that are not being depreciated are reviewed at the end of each financial year for evidence of reductions in value. Where impairment is identified as part of this review or as a result of a valuation exercise, this is accounted for by:

- Non-revalued asset – recognised in the Comprehensive Income and Expenditure Statement
- Revalued asset (for both asset specific and non asset specific impairment) - recognised in the Revaluation Reserve up to the credit balance existing in respect of the asset and thereafter to the Comprehensive Income and Expenditure Statement
- Investment Properties and Assets Held for Sale– all impairments are charged direct to the Comprehensive Income and Expenditure Statement

Impairment losses are not proper charges to the General Fund and any such amounts are transferred to the Capital Adjustment Account and reported in the Movement in Reserves Statement.

Disposals: when an asset is disposed of or decommissioned, the value of the asset in the Balance Sheet is written off to the Comprehensive Income and Expenditure Statement as part of other operating expenditure. Receipts from disposals are credited to the Comprehensive Income and Expenditure Statement as part of other operating expenditure (i.e. netted off against the carrying value of the asset at the time of disposal). Any revaluation gains in the Revaluation Reserve are transferred to the Capital Adjustment Account.

Amounts in excess of £10,000 are categorised as capital receipts. A proportion of receipts relating to housing disposals is payable to the Government. The balance of receipts is required to be credited to the Capital Receipts Reserve, and can then only be used for new capital investment or set aside to reduce the Council's underlying need to borrow (the capital financing requirement). Receipts are appropriated to the Reserve from the Movement in Reserves Statement.

The written-off value of disposals is not a charge against council tax, as the cost of non current assets is fully provided for under separate arrangements for capital financing. Amounts are appropriated to the Capital Adjustment Account from the Movement in Reserves Statement.

The Council has taken advantage of the ability to earmark all sales of non right to buy housing revenue account land and property for the provision of affordable housing. In this way 100% of such sales can be retained.

Depreciation: depreciation is provided for on all non current assets with a determinable finite life (except for investment properties, assets held for sale and land with an unlimited useful life) by allocating the value of the asset in the Balance Sheet over the periods expected to benefit from their use.
Depreciation is calculated on the following bases:

Asset	Depreciation Method	Useful Life in Years
Council Dwellings	Straight line allocation over the life of the property as estimated by the Valuer	35 – 50
Other Buildings	Straight line allocation over the life of the property as estimated by the Valuer	20 – 100
Vehicle, Plant and Equipment	Straight line allocation, taking into account any residual value, over their useful life as advised by a suitably qualified officer	5 – 10
Infrastructure	Straight line (where asset has tangible value)	25
Community Assets	Straight line	100
Surplus Assets	Straight line	10 -100
Land	No depreciation charged	
Assets Under Construction	No depreciation charged	
Assets Held for Sale	No depreciation charged	
Investment Properties	No depreciation charged	

Where an asset has major components with different estimated useful lives these are depreciated separately. Land and buildings are separate assets and are accounted for separately, even when they are acquired together.

Revaluation gains are also depreciated with an amount equal to the difference between current value depreciation charged on assets and the depreciation that would have been chargeable based on their historical cost being transferred each year from the Revaluation Reserve to the Capital Adjustment Account.

Heritage Assets: Heritage Assets are assets with historical, artistic, scientific, technological, geophysical or environmental qualities that are held and maintained principally for their contribution to knowledge and culture. Assets are recognised and valued in accordance with the policy on Property, Plant and Equipment unless the cost of the valuation is not commensurate with the benefit to the users of the financial statement; in such an instance historical cost (less any accumulated depreciation, amortisation and impairment losses) is used. Valuation is made by an appropriate method and after an appropriate period. Depreciation is not charged on heritage assets which have indefinite lives, however, the value of an asset will be reviewed where there is evidence of impairment and any such impairment will be dealt with in accordance with the non current asset impairment policy above. Disposals of heritage assets are dealt with in accordance with the non current asset disposal policy above.

Intangible Assets: expenditure on assets that do not have physical substance but are identifiable and controlled by the Council (e.g. software licences) is capitalised when it will bring benefits to the Council for more than one financial year. The balance is amortised to the relevant service revenue account over the economic life of the investment to reflect the pattern of consumption of benefits.

1.11 Charges to Revenue for Non Current Assets

General Fund service revenue accounts, support services and trading accounts are debited with the following amounts to record the real cost of holding non current assets during the year:

- depreciation attributable to the assets used by the relevant service
- impairment losses where there are no accumulated gains in the Revaluation Reserve against which they can be written off or which have been recognised on investment properties and assets held for sale
- amortisation of intangible assets attributable to the service.

The Council is not required to raise council tax to cover depreciation, impairment losses or amortisations. However, it is required to make an annual contribution from revenue to contribute towards the reduction in its overall borrowing requirement (equal to at least 4% of the underlying amount measured by the adjusted Capital Financing Requirement, excluding amounts attributable to HRA activity). Depreciation, revaluation and impairment losses and amortisations are therefore replaced by the contribution in the General Fund Balance, by way of an adjusting transaction with the Capital Adjustment Account in the Movement in Reserves Statement for the difference between the two.

1.12 Revenue Expenditure Funded from Capital under Statute

Expenditure incurred during the year that may be capitalised under statutory provisions but does not result in the creation of non current assets has been charged as expenditure to the relevant service revenue account in the year. Where the Council has determined to meet the cost of this expenditure from existing capital resources or by borrowing, a transfer to the Capital Adjustment Account then reverses out the amounts charged in the Movement in Reserves Statement so there is no impact on the level of council tax.

1.13 Leased Assets

Finance leases. Assets acquired under finance leases are capitalised in the authority's accounts, together with the liability to pay future rentals. The Council accounts for leases as finance leases when substantially all the risks and rewards relating to the leased property transfer to the Council. Rentals payable are apportioned between

- a charge for the acquisition of the interest in the property (recognised as a liability in the Balance Sheet at the start of the lease, matched with a non current asset - the liability is written down as the rent becomes payable) and
- a finance charge (debited to (Surplus)/Deficit on Continuing Services in the Comprehensive Income and Expenditure Statement as the rent becomes payable).

Non current assets recognised under finance leases are accounted for using the policies applied generally to Non Current Assets, subject to depreciation being charged over the lease term if this is shorter than the asset’s estimated useful life.

Operating Leases. Leases that do not meet the definition of finance leases are accounted for as operating leases. Rentals payable are charged to the relevant service revenue account on a straight-line basis over the term of the lease, generally meaning that rentals are charged when they become payable.

1.14 Financial Liabilities

Financial liabilities are recognised on the Balance Sheet where the authority becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value and carried at their amortised cost. Annual charges to the Comprehensive Income and Expenditure Statement for interest payable are based on the carrying amount of the liability multiplied by the effective rate of interest for the instrument. The effective annual interest rate is the rate that exactly discounts estimated future cash payments over the life of the instrument to the amount at which it was originally recognised. For most of the borrowings held by the Council this means the amount presented in the Balance Sheet is the outstanding principal repayable (plus accrued interest) and interest charged to the Comprehensive Income and Expenditure Statement is the amount payable for the year according to the loan agreement.

Gains and losses on the repurchase or early settlement of borrowing are credited and debited to (Surplus)/Deficit on Provision of Services in the Comprehensive Income and Expenditure Statement in the year of repurchase/settlement. However, where repurchase has taken place as part of a restructuring of the loan portfolio that involves the modification or exchange of existing instruments, the premium or discount is respectively deducted from or added to the amortised cost of the new or modified loan and the write-down to the Comprehensive Income and Expenditure Statement is spread over the life of the loan by an adjustment to the effective interest rate.

Where premiums and discounts have been charged to the Comprehensive Income and Expenditure Statement, regulations allow the impact on the General Fund Balance to be spread over future years. The Council has a policy of spreading the gain/loss over the term that was remaining on the loan against which the premium was payable or discount receivable when it was repaid. The reconciliation of amounts charged to the Comprehensive Income and Expenditure Statement to the net charge required against the General Fund Balance is managed by a transfer to or from the Financial Instruments Adjustment Account in the Movement in Reserves Statement.

1.15 Financial Assets

Financial assets are classified into two types:

- Loans and Receivables – assets that have fixed or determinable payments but are not quoted in an active market
- Available for Sale assets – assets that have a quoted market price and/or do not have fixed or determinable payments. The Council does not hold any assets of this type.

Loans and Receivables: are recognised in the Balance Sheet when the authority becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value and carried at their amortised cost. Annual credits to the Comprehensive Income and Expenditure Statement for interest receivable are based on the carrying amount of the asset multiplied by the effective rate of interest for the instrument. For most of the loans the Council has made this means the amount presented in the Balance Sheet is the outstanding principal receivable (plus accrued interest) and interest credited to the Comprehensive Income and Expenditure Statement is the amount receivable for the year in the loan agreement.

However, the Council has made a number of loans under its Enterprise Scheme to help new businesses at less than market rates (soft loans). Where these are material a loss is recorded in the Comprehensive Income and Expenditure Statement in line with statutory guidelines.

Where assets are identified as impaired because of a likelihood arising from a past event that payments due under the contract will not be made, the asset is written down and a charge made to the Comprehensive Income and Expenditure Statement.

Any gains and losses that arise on the derecognition of the asset are credited/debited to the Comprehensive Income and Expenditure Statement.

Instruments entered into before 1st April 2006: the Council does not hold any instruments of this type.

1.16 Interests in Companies and Other Entities

The Council has material interests in companies and other entities that have the nature of subsidiaries, associates and joint ventures and require it to prepare group accounts. In the Council's own single entity accounts the interests in companies and other entities are recorded as investments i.e. at cost less any provision for losses.

Newark and Sherwood Homes Ltd is a wholly owned subsidiary of the authority which manages the housing stock, owned by the Council, under an arms length arrangement and their accounts are consolidated with the authority's in accordance with IAS 27.

Mansfield Crematorium has been recognised as a joint arrangement between Mansfield District Council, Ashfield District Council and Newark and Sherwood District Council. The authority accounts directly for its part of the assets, liabilities, income, expenditure and cash flows held arising from the operations of the crematorium.

1.17 Cash Equivalents

Cash equivalents are held for the purpose of meeting short term commitments rather than for investment or other purposes. The Council classifies the following as cash equivalents:

- Overdrawn balances on the Council's bank accounts. Bank overdrafts are an integral part of the authority's cash management and bank balances fluctuate on a regular basis from being positive to overdrawn.
- Short term investments with immediate call back or instant access. Any short term investment which is for a fixed term, regardless of the remaining length of that term, is accounted for as a financial instrument. Interest follows the related investment.

AUDIT AND ACCOUNTS COMMITTEE **AGENDA ITEM NO.6**
8TH APRIL 2015

EXTERNAL AUDITORS' CERTIFICATION OF CLAIMS AND RETURNS 2012/13

1.0 Purpose of Report

1.1 To present the external auditor's report on the certification of grant claims and returns for 2013/14 for Newark & Sherwood District Council.

2.0 Introduction

2.1 Each year an audit of the Council's grant claims and returns is carried out by the Council's external auditors, KPMG.

2.2 The report for 2013/14 covers one grant claim totalling £27.20m and one return totalling £1.47m.

3.0 Certification of Claims & Returns

3.1 A qualified opinion was given for the audit of the Housing Benefit Subsidy grant worth £27.2m. The reasons for the qualification were small value errors identified in a sample of benefits payments. No adjustments were necessary to the amount of grant as a result of the audit work.

3.2 An error relating to omission of a buy-back was found in the Capital Receipts Pooling Return amounting to £37,500.

4.0 Fees

4.1 The total fee for the grants and returns certification work was £11,203. This was an increase of £3,408 on the indicative fee, but is comparable to that charged for the 2012/13 certification work. The increase was due to additional work required.

5.0 RECOMMENDATION that

Members consider the external auditors report on the certification of grant claims and returns for 2013/14.

Background Papers

Nil

For further information please contact David Dickinson, Director of Resources on extension 5300.

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Our ref HB/1B9

25 February 2015

Dear David

Certification of claims and returns - annual report 2013/14

The Audit Commission requires its external auditors to prepare an annual report on the claims and returns it certifies for each client. This letter is our annual report for the certification work we have undertaken for 2013/14.

In 2013/14 we carried out certification work on the following claims/returns:

Claim/return	**Certified value (£)**
BEN01 – Housing Benefit Subsidy Claim	27,202,866
CFB06 – Pooling of Housing Capital Receipts	1,467,553
Total	**28,670,419**

Matters arising

Housing Benefit Subsidy

As in previous years, our certification work identified a range of issues in relation to the Housing Benefit Subsidy claim as follows:

- Although no specific errors in respect of self-employed income were identified in the initial sample, issues were identified in the previous year with miscalculation of allowable expenses against self-employed income and this necessitated further testing in the current year. This testing identified 3 cases (value £128) where benefit had been underpaid as self- employed income had been incorrectly calculated.
- We had to issue a qualification letter due to various issues we identified as a result of our sample testing from which we could not reach a conclusion as to whether the claim was fairly stated. These issues included errors relating to:

- overpaid benefit which had been awarded twice for the same period - the error occurred because the Authority had correctly cancelled the council tax support element of the claim but had failed to cancel the housing benefit element;
- underpaid benefit where the Authority had failed to diminish notional capital income;
- underpaid benefit as the Civica benefits system duplicated an offset of the benefit award. The Authority discussed the issue with the software supplier, who become aware of it during an audit in September, and have issued a bulletin confirming that they have discussed it with the Audit Commission and will fix the calculation in 2014.
- miscalculation of earned income which can result in either underpayment or overpayment of benefit. This issue was also a feature of the 2012/13 certification work.

As there are no specific causes for these errors, with all arising from general processing errors, we have made no recommendations to the Authority to improve its claims completion processes in respect of this claim for this year. There were, however, significant delays in the certification work due to issues with the Authority's completion of the testing and the nature of the errors found. This resulted in extra work at all levels, to support Authority staff in completing the worksheets and in interpreting the results. For the coming year, the Authority should clarify responsibilities and timescales for testing at an early stage in order to meet the deadline of 30 November 2015.

Pooling of Housing Capital Receipts

Our certification work in respect of this claim identified one error of £37,500 relating to the omission of a buy back. The claim was amended for this error and further work was required to evidence and process this amendment. This was a general processing error and consequently we have made no recommendations to the Authority in respect of this claim for this year.

There are no further matters to report to you regarding our certification work.

Certification work fees

The Audit Commission set an indicative fee for our certification work in 2013/14 of £7,795 which is based on the fee for 2011/12, adjusted for certain factors. Our actual fee was higher than the indicative fee due to the effect of the errors found in this year and the roll forward of errors from 2012/13. The fee for 2013/14 compares to the 2012/13 fee for these claims of £11,737. The fee variation is subject to approval by the Audit Commission.

The details are set out in the table below.

Claim	**2013/14 Indicative fee (£)**	**2013/14 Final fee (£)**	**2012/13 Final fee (£)**
BEN01 – Housing Benefit subsidy claim	7,367	10,613	11,170
CFB06 – Pooling of Housing Capital Receipts	428	590	567
Total	**7,795**	**11,203**	**11,737**

John Cornett
Director, for and on behalf of KPMG LLP

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. The Audit Commission has issued a document entitled Statement of Responsibilities of Auditors and Audited Bodies. This summarises where the responsibilities of auditors begin and end and what is expected from the audited body. We draw your attention to this document.
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.

If you have any concerns or are dissatisfied with any part of KPMG's work, in the first instance you should contact John Cornett, who is the engagement leader to the Authority (telephone 0116 256 6082; e-mail john.cornett@kpmg.co.uk who will try to resolve your complaint. If you are dissatisfied with your response please contact Trevor Rees (telephone 0161 236 4000, e-mail trevor.rees@kpmg.co.uk) who is the national contact partner for all of KPMG's work with the Audit Commission. After this, if you are still dissatisfied with how your complaint has been handled you can access the Audit Commission's complaints procedure. Put your complaint in writing to the Complaints Unit Manager, Audit Commission, 3rd Floor, Fry Building, 2 Marsham Street, London, SW1P 4DF or by email to complaints@audit-commission.gsi.gov.uk. Their telephone number is 0303 444 8330.

AUDIT AND ACCOUNTS COMMITTEE **AGENDA ITEM NO. 7**
8th APRIL 2015

ANNUAL EXTERNAL AUDIT PLAN 2014/15

REPORT PRESENTED BY: JOHN CORNETT - DIRECTOR KPMG

1.0 Purpose of Report

1.1 To present the External Audit Plan for 2014/15.

2.0 Introduction

2.1 The External Audit Plan (Appendix A) sets out the proposed work of the Council's external auditors for 2014/15, relating to the audit of the financial statements and the Value for Money conclusion.

2.2 The plan describes the audit approach, the key financial statement audit risks and the Value for Money audit approach. It details the audit team, the deliverables from the work, the timeline and the planned audit fee.

3.0 RECOMMENDATION

That the Audit Committee note the External Audit plan.

Background Papers
Nil.

For further information please contact John Cornett on 0116 2566064

David Dickinson
Director of Resources

KPMG

cutting through complexity

External Audit Plan 2014/15

Newark and Sherwood District Council

April 2015

Contents

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Section one

Introduction

This document describes how we will deliver our audit work for Newark and Sherwood District Council

Scope of this report

This document supplements our *Audit Fee Letter 2014/15* presented to you in April 2014. It describes how we will deliver our financial statements audit work for Newark and Sherwood District Council ('the Authority'). It also sets out our approach to value for money (VFM) work for 2014/15.

We are required to satisfy ourselves that your accounts comply with statutory requirements and that proper practices have been observed in compiling them. We use a risk based audit approach.

The audit planning process and risk assessment is an on-going process and the assessment and fees in this plan will be kept under review and updated if necessary.

Statutory responsibilities

Our statutory responsibilities and powers are set out in the *Audit Commission Act 1998* and the Audit Commission's *Code of Audit Practice*.

The Audit Commission will cease to exist on 31 March 2015. However our audit responsibilities under the *Audit Commission Act 1998* and the *Code of Audit Practice* in respect of the 2014/15 financial year remain unchanged.

The *Code of Audit Practice* summarises our responsibilities into two objectives, requiring us to audit/review and report on your:

- *financial statements (including the Annual Governance Statement):* providing an opinion on your accounts; and
- *use of resources:* concluding on the arrangements in place for securing economy, efficiency and effectiveness in your use of resources (the Value for Money conclusion).

The Audit Commission's *Statement of Responsibilities of Auditors and Audited Bodies* sets out the respective responsibilities of the auditor and the Authority.

The Audit Commission will cease to exist on 31 March 2015. Details of the new arrangements are set out in Appendix 4. The Authority can expect further communication from the Audit Commission and its successor bodies as the new arrangements are established. This plan restricts itself to reference to the existing arrangements.

Structure of this report

This report is structured as follows:

- Section 2 includes our headline messages, including any key risks identified this year for the financial statements audit and Value for Money (VFM) Conclusion.
- Section 3 describes the approach we take for the audit of the financial statements.
- Section 4 provides further detail on the financial statements audit risks.
- Section 5 explains our approach to VFM arrangements and sets out our initial risk assessment for the VFM conclusion..
- Section 6 provides information on the audit team, our proposed deliverables, the timescales and fees for our work.

Acknowledgements

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

Headlines

Audit approach	Our overall audit approach is unchanged from last year. Our work is carried out in four stages and the timings for these, and specifically our on site work, have been agreed with the Assistant Business Manager Financial Services. Our audit strategy and plan remain flexible as risks and issues change throughout the year. We will review the initial assessments presented in this document throughout the year and should any new risks emerge we will evaluate these and respond accordingly.
Key financial statements audit risks	We have completed our initial risk assessment for the financial statements audit and have identified no specific significant risks, beyond the standard risks that are described on page 10.
VFM audit approach	We have identified no specific VFM risks.
Audit team, deliverables, timeline and fees	We have refreshed our audit team this year. We have a new Assistant Manager, Sundeep Gill. His role and responsibilities are detailed on page 15. Our audit timeline is detailed on page 17. In summary our interim is scheduled for mid March 2015 and the main financial statements audit is scheduled to commence on 6th July 2015. Upon conclusion of our work we will again present our findings to you in our *Report to Those Charged with Governance (ISA 260 Report)*. The planned fee for the 2014/15 audit is £64,438. This is £900 higher than the position set out in our *Audit Fee Letter 2014/15*, due to the increase agreed by the Audit Commission to reflect the work associated with NNDR.

Our audit approach

We undertake our work on your financial statements in four key stages:

- **Planning – January/February 2015**
- **Control Evaluation - March 2015**
- **Substantive Procedures - July 2015**
- **Completion - September 2015**

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We have summarised the four key stages of our financial statements audit process for you below:

Jan Feb Mar Apr May Jun Jul Aug Sep

1	**Planning**	Update our business understanding and risk assessment.	
		Assess the organisational control environment.	
		Determine our audit strategy and plan the audit approach.	
		Issue our *Accounts Audit Protocol*.	
2	**Control evaluation**	Evaluate and test selected controls over key financial systems.	
		Review the accounts production process.	
		Review progress on critical accounting matters.	
3	**Substantive procedures**	Plan and perform substantive audit procedures.	
		Conclude on critical accounting matters.	
		Identify audit adjustments.	
		Review the Annual Governance Statement.	
4	**Completion**	Declare our independence and objectivity.	
		Obtain management representations.	
		Report matters of governance interest.	
		Form our audit opinion and report to those charged with governance.	

Our audit approach – planning (continued)

During January and February 2015 we complete our planning work.

We assess the key risks affecting the Authority's financial statements and discuss these with officers.

We assess if there are any weaknesses in respect of central processes that would impact on our audit.

Our planning work takes place in January and February 2015. This involves the following aspects:

Planning

- Update our business understanding and risk assessment including fraud risk.
- Assess the organisational control environment.
- Determine our audit strategy and plan the audit approach.
- Issue our *Accounts Audit Protocol*.

Business understanding and risk assessment

We update our understanding of the Authority's operations and identify any areas that will require particular attention during our audit of the Authority's financial statements.

We identify the key risks, including risk of fraud affecting the Authority's financial statements. These are based on our knowledge of the Authority, our sector experience and our ongoing dialogue with Authority staff. Any risks identified to date through our risk assessment process are set out in this document. Our audit strategy and plan will, however, remain flexible as the risks and issues change throughout the year. It is the Authority's responsibility to adequately address these issues. We encourage the Authority to raise any technical issues with us as early as possible so that we can agree the accounting treatment in advance of the audit visit.

We meet with the finance team on a regular basis to consider issues and how they are addressed during the financial year end closedown and accounts preparation.

Organisational control environment

Controls operated at an organisational level often have an impact on controls at an operational level and if there were weaknesses this would impact on our audit.

In particular risk management, internal control and ethics and conduct have implications for our financial statements audit. The scope of the relevant work of your internal auditors also informs our risk assessment.

Audit strategy and approach to materiality

Our audit is performed in accordance with International Standards on Auditing (ISAs) (UK and Ireland). The Engagement Lead sets the overall direction of the audit and decides the nature and extent of audit activities. We design audit procedures in response to the risk that the financial statements are materially misstated. The materiality level is a matter of professional judgement and is set by the Engagement Lead.

In accordance with ISA 320 (UK&I) '*Audit materiality*', we plan and perform our audit to provide reasonable assurance that the financial statements are free from material misstatement and give a true and fair view. Information is considered material if its omission or misstatement could influence the economic decisions of users taken on the basis of the financial statements.

Further details on assessment of materiality is set out on page 6 of this document.

Our audit approach –planning (continued)

When we determine our audit strategy we set a monetary materiality level for planning purposes.

For 2014/15 we have set this at £1.4m.

We will report all audit differences over £70k to Audit and Accounts Committee.

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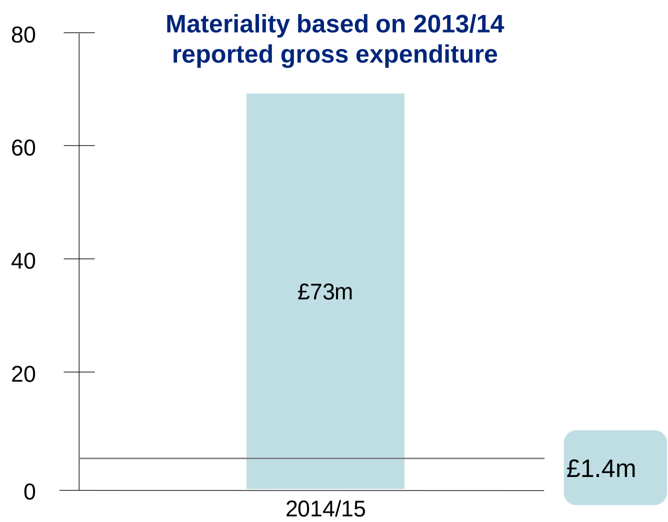
Materiality

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.



Materiality for planning purposes has been set at £1.4m this is based on 2013/14 reported gross expenditure. This figure is a guide only.

We design our procedures to detect errors in specific accounts at a lower level of precision.

Reporting to Audit and Accounts 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 and Accounts Committee any misstatements of lesser amounts to the extent that these are identified by our audit work.

Under ISA 260(UK&I) *'Communication with those charged with governance'*, we are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. ISA 260 (UK&I) 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 (UK&I), *'Evaluation of misstatements identified during the audit',* 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 £70k.

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

Our audit approach – control evaluation

During March 2015 we will complete our interim audit work.

We assess if controls over key financial systems were effective during 2014/15.

We work with your finance team to enhance the efficiency of the accounts audit.

We will report any significant findings arising from our work to the Audit and Accounts Committee.

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Our on site interim visit will be completed during March 2015. During this time we will complete work in the following areas:

Control Evaluation

- Evaluate and test controls over key financial systems identified as part of our risk assessment.
- Review the work undertaken by the internal audit function on controls relevant to our risk assessment.
- Review the accounts production process.
- Review progress on critical accounting matters.

Controls over key financial systems

We update our understanding of the Authority's key financial processes where our risk assessment has identified that these are relevant to our final accounts audit and where we have determined that this is the most efficient audit approach to take. We confirm our understanding by completing walkthroughs for these systems. We then test selected controls that address key risks within these systems. The strength of the control framework informs the substantive testing we complete during our final accounts visit.

Review of internal audit

Where our audit approach is to undertake controls work on financial systems, we seek to review any relevant work internal audit have completed to minimise unnecessary duplication of work. This will inform our overall risk assessment process.

Accounts production process

We will assess the Authority's progress in preparing for the closedown and accounts preparation.

Critical accounting matters

We will discuss the work completed to address the specific risks we identified at the planning stage. Wherever possible, we seek to review relevant workings and evidence and agree the accounting treatment as part of our interim work.

If there are any significant findings arising from our interim work these will be discussed at the next available Audit and Accounts Committee.

Our audit approach – substantive procedures

During July 2015 we will be on site for our substantive work.

We complete detailed testing of accounts and disclosures and conclude on critical accounting matters, such as specific risk areas. We then agree any audit adjustments required to the financial statements.

We also review the Annual Governance Statement for consistency with our understanding.

We will present our *ISA 260 Report* to the Audit and Accounts Committee in September 2015.

Our final accounts visit on site has been provisionally scheduled for 6th July 2015. During this time, we will complete the following work:

Substantive Procedures

- Plan and perform substantive audit procedures.
- Conclude on critical accounting matters.
- Identify and assess any audit adjustments.
- Review the Annual Governance Statement.

Substantive audit procedures

We complete detailed testing on significant balances and disclosures. The extent of our work is determined by the Engagement Lead based on various factors such as our overall assessment of the Authority's control environment, the effectiveness of controls over individual systems and the management of specific risk factors.

Critical accounting matters

We conclude our testing of key risk areas identified at the planning stage and any additional issues that may have emerged since.

We will discuss our early findings of the Authority's approach to address the key risk areas with the Business Manager Financial Services prior to reporting to the Audit and Accounts Committee.

Audit adjustments

During our on site work, we will meet with the Assistant Business Manager Financial Services on a weekly basis to discuss the progress of the audit, any differences found and any other issues emerging.

At the end of our on site work, we will hold a closure meeting, where we will provide a schedule of audit differences and agree a timetable for the completion stage and the accounts sign off.

To comply with auditing standards, we are required to report uncorrected audit differences to the Audit and Accounts Committee. 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.

Annual Governance Statement

We are also required to satisfy ourselves that your Annual Governance Statement complies with the applicable framework and is consistent with our understanding of your operations. Our review of the work of internal audit and consideration of your risk management and governance arrangements are part of this.

We report the findings of our final accounts work in our *ISA 260 Report*, which we will issue to Audit and Accounts Committee in September 2015.

Our audit approach – other matters

In addition to the financial statements, we also review the Authority's Whole of Government Accounts pack.

We may need to undertake additional work if we receive objections to the accounts from local electors.

We will communicate with you throughout the year, both formally and informally.

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Whole of Government Accounts (WGA)

We are required to review your WGA consolidation and undertake the work specified under the approach that is agreed with HM Treasury and the National Audit Office. Deadlines for production of the pack and the specified approach for 2014/15 have not yet been confirmed.

Elector challenge

The Audit Commission Act 1998 gives electors certain rights. These are:

- The right to inspect the accounts;
- The right to ask the auditor questions about the accounts; and
- The right to object to the accounts.

As a result of these rights, in particular the right to object to the accounts, we may need to undertake additional work to form our decision on the elector's objection. The additional work could range from a small piece of work where we interview an officer and review evidence to form our decision, to a more detailed piece of work, where we have to interview a range of officers, review significant amounts of evidence and seek legal representations on the issues raised.

The costs incurred in responding to specific questions or objections raised by electors is not part of the fee. This work will be charged in accordance with the Audit Commission's fee scales.

Reporting and communication

Reporting is a key part of the audit process, not only in communicating the audit findings for the year, but also in ensuring the audit team are accountable to you in addressing the issues identified as part of the audit strategy. Throughout the year we will communicate with you through meetings with the finance team and the Audit and Accounts Committee. Our deliverables are included on page 16.

Independence and objectivity confirmation

Professional standards require auditors to communicate to those charged with governance, at least annually, all relationships that may bear on the firm's independence and the objectivity of the audit engagement partner and audit staff. The standards also place requirements on auditors in relation to integrity, objectivity and independence.

The standards define 'those charged with governance' as 'those persons entrusted with the supervision, control and direction of an entity'. In your case this is the Audit and Accounts Committee.

KPMG LLP is committed to being and being seen to be independent. APB Ethical Standard 1 *Integrity, Objectivity and Independence* requires us to communicate to you in writing all significant facts and matters, including those related to the provision of non-audit services and the safeguards put in place, which in our professional judgement, may reasonably be thought to bear on KPMG LLP's independence and the objectivity of the Engagement Lead and the audit team.

Appendix 1 provides further detail on auditors' responsibilities regarding independence and objectivity.

Confirmation statement

We confirm that as of March 2015 in our professional judgement, KPMG LLP is independent within the meaning of regulatory and professional requirements and the objectivity of the Engagement Lead and audit team is not impaired.

Key financial statements audit risks

In this section we set out our assessment of the significant risks to the audit of the Authority's financial statements for 2014/15.

Professional standards require us to consider two standard risks for all organisations. We are not elaborating on these standard risks in this plan but consider them as a matter of course in our audit and will include any findings arising from our work in our *ISA 260 Report*.

- Management override of controls – Management is typically in a powerful position to perpetrate fraud owing to 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. In line with our methodology, we carry 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.
- Fraudulent revenue recognition – We do not consider this to be a significant risk for local authorities as there are limited incentives and opportunities to manipulate the way income is recognised. We therefore rebut this risk and do not incorporate specific work into our audit plan in this area over and above our standard fraud procedures.

We will revisit our assessment throughout the year and should any additional risks present themselves we will adjust our audit strategy as necessary.

Appendix 3 covers more details on our assessment of fraud risk.

VFM audit approach

Our approach to VFM work follows guidance provided by the Audit Commission.

Background to approach to VFM work

In meeting their statutory responsibilities relating to economy, efficiency and effectiveness, the Commission's *Code of Audit Practice* requires auditors to:

- plan their work based on consideration of the significant risks of giving a wrong conclusion (audit risk); and
- carry out only as much work as is appropriate to enable them to give a safe VFM conclusion.

To provide stability for auditors and audited bodies, the Audit Commission has kept the VFM audit methodology unchanged from last year. There are only relatively minor amendments to reflect the key issues facing the local government sector.

The approach is structured under two themes, as summarised below:

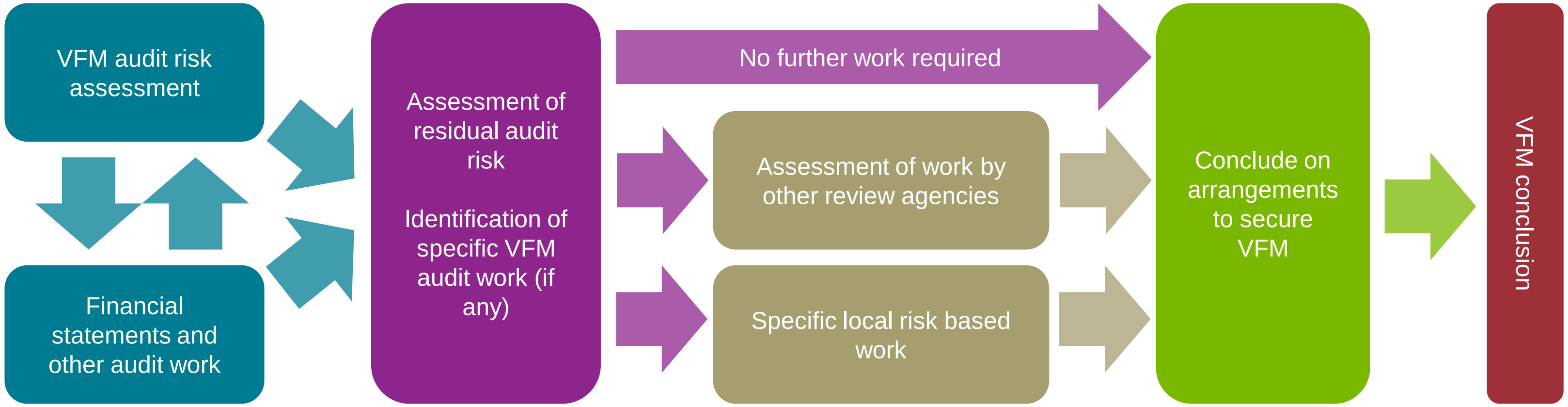
Specified criteria for VFM conclusion	Focus of the criteria	Sub-sections
The organisation has proper arrangements in place for securing **financial resilience**.	The organisation has robust systems and processes to: ■ manage effectively financial risks and opportunities; and ■ secure a stable financial position that enables it to continue to operate for the foreseeable future.	■ Financial governance ■ Financial planning ■ Financial control
The organisation has proper arrangements for challenging how it **secures economy, efficiency and effectiveness**.	The organisation is prioritising its resources within tighter budgets, for example by: ■ achieving cost reductions; and ■ improving efficiency and productivity.	■ Prioritising resources ■ Improving efficiency and productivity

VFM audit approach (continued)

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

Overview of the VFM audit approach

The key elements of the VFM audit approach are summarised below.



Each of these stages are summarised further below.

VFM audit stage	Audit approach
VFM audit risk assessment	We consider the relevance and significance of the potential business risks faced by all local authorities, and other risks that apply specifically to the Authority. These are the significant operational and financial risks in achieving statutory functions and objectives, which are relevant to auditors' responsibilities under the *Code of Audit Practice*. In doing so we consider: ■ the Authority's own assessment of the risks it faces, and its arrangements to manage and address its risks; ■ information from the Audit Commission's VFM profile tool; ■ evidence gained from previous audit work, including the response to that work; and ■ the work of other inspectorates and review agencies.

VFM audit approach (continued)

Our VFM audit will draw heavily on other audit work which is relevant to our VFM responsibilities and the results of last year's VFM audit.

We will then form an assessment of residual audit risk to identify if there are any areas where more detailed VFM audit work is required.

VFM audit stage	Audit approach
Linkages with financial statements and other audit work	There is a degree of overlap between the work we do as part of the VFM audit and our financial statements audit. For example, our financial statements audit includes an assessment and testing of the Authority's organisational control environment, including the Authority's financial management and governance arrangements, many aspects of which are relevant to our VFM audit responsibilities. We have always sought to avoid duplication of audit effort by integrating our financial statements and VFM work, and this will continue. We will therefore draw upon relevant aspects of our financial statements audit work to inform the VFM audit.
Assessment of residual audit risk	It is possible that further audit work may be necessary in some areas to ensure sufficient coverage of the two VFM criteria. Such work may involve interviews with relevant officers and / or the review of documents such as policies, plans and minutes. We may also refer to any self assessment the Authority may prepare against the characteristics. To inform any further work we must draw together an assessment of residual audit risk, taking account of the work undertaken already. This will identify those areas requiring further specific audit work to inform the VFM conclusion. At this stage it is not possible to indicate the number or type of residual audit risks that might require additional audit work, and therefore the overall scale of work cannot be easily predicted. If a significant amount of work is necessary then we will need to review the adequacy of our agreed audit fee.
Identification of specific VFM audit work	If we identify residual audit risks, then we will highlight the risk to the Authority and consider the most appropriate audit response in each case, including: ▪ considering the results of work by the Authority, inspectorates and other review agencies; and ▪ carrying out local risk-based work to form a view on the adequacy of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources.

VFM audit approach (continued)

Where relevant, we may draw upon the range of audit tools and review guides developed by the Audit Commission.

We have completed our initial risk assessment and have not identified any specific risks to our VFM conclusion at this stage. We will update our assessment at year end.

We will conclude on the results of the VFM audit through our ISA 260 Report.

VFM audit stage	Audit approach
Delivery of local risk based work	Depending on the nature of the residual audit risk identified, we may be able to draw on audit tools and sources of guidance when undertaking specific local risk-based audit work, such as: ▪ local savings review guides based on selected previous Audit Commission national studies; and ▪ update briefings for previous Audit Commission studies. The tools and guides will support our work where we have identified a local risk that is relevant to them. For any residual audit risks that relate to issues not covered by one of these tools, we will develop an appropriate audit approach drawing on the detailed VFM guidance and other sources of information.
Concluding on VFM arrangements	At the conclusion of the VFM audit we will consider the results of the work undertaken and assess the assurance obtained against each of the VFM themes regarding the adequacy of the Authority's arrangements for securing economy, efficiency and effectiveness in the use of resources. If any issues are identified that may be significant to this assessment, and in particular if there are issues that indicate we may need to consider qualifying our VFM conclusion, we will discuss these with management as soon as possible. Such issues will also be considered more widely as part of KPMG's quality control processes, to help ensure the consistency of auditors' decisions.
Reporting	We have completed our initial VFM risk assessment and have not identified any specific key issues. We are aware of the financial and operational pressures that you are dealing with. At present, we consider that we will be able to obtain the assurances that we need to fulfil our responsibilities for the VFM conclusion from our standard programme of work. We will update our assessment throughout the year should any issues present themselves and report against these in our ISA260. We will report on the results of the VFM audit through our *ISA 260 Report*. This will summarise any specific matters arising, and the basis for our overall conclusion. The key output from the work will be the VFM conclusion (i.e. our opinion on the Authority's arrangements for securing VFM), which forms part of our audit report.

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Audit team

Your audit team has been drawn from our specialist public sector assurance department. Our audit team have been refreshed from last year's audit, with a new Assistant Manager.

Contact details are shown on page 1.

The audit team will be assisted by other KPMG specialists as necessary.

John Cornett

Director

"My role is to lead our team and ensure the delivery of a high quality external audit opinion. I will be the main point of contact for the Audit and Accounts Committee and Corporate Directors."

Helen Brookes

Manager

"I am responsible for the management, review and delivery of the whole audit and providing quality assurance for any technical accounting areas. I will work closely with the Director to ensure we add value."

Sundeep Gill

Assistant Manager

"I will be responsible for the on-site delivery of our work and will supervise the work of our audit assistants."

Audit deliverables

At the end of each stage of our audit we issue certain deliverables, including reports and opinions.

Our key deliverables will be delivered to a high standard and on time.

We will discuss and agree as appropriate each report with the Authority's officers prior to publication.

Deliverable	Purpose	Committee dates
Planning		
External Audit Plan	■ Outlines our audit approach. ■ Identifies areas of audit focus and planned procedures.	**April 2015**
Control evaluation and substantive procedures		
Report to Those Charged with Governance (ISA 260 Report)	■ Details control and process issues. ■ Details the resolution of key audit issues. ■ Communicates adjusted and unadjusted audit differences. ■ Highlights performance improvement recommendations identified during our audit. ■ Comments on the Authority's value for money arrangements.	**September 2015**
Completion		
Auditor's Report	■ Provides an opinion on your accounts (including the Annual Governance Statement). ■ Concludes on the arrangements in place for securing economy, efficiency and effectiveness in your use of resources (the VFM conclusion).	**September 2015**
Whole of Government Accounts	■ Provide our assurance statement on the Authority's WGA pack submission.	**September 2015**
Annual Audit Letter	■ Summarises the outcomes and the key issues arising from our audit work for the year.	**November 2015**
Grant Certificate Letter	■ Summarises the outcomes and the key issues arising from our grant work for the year.	**January 2016**

Audit timeline

We will be in continuous dialogue with you throughout the audit.

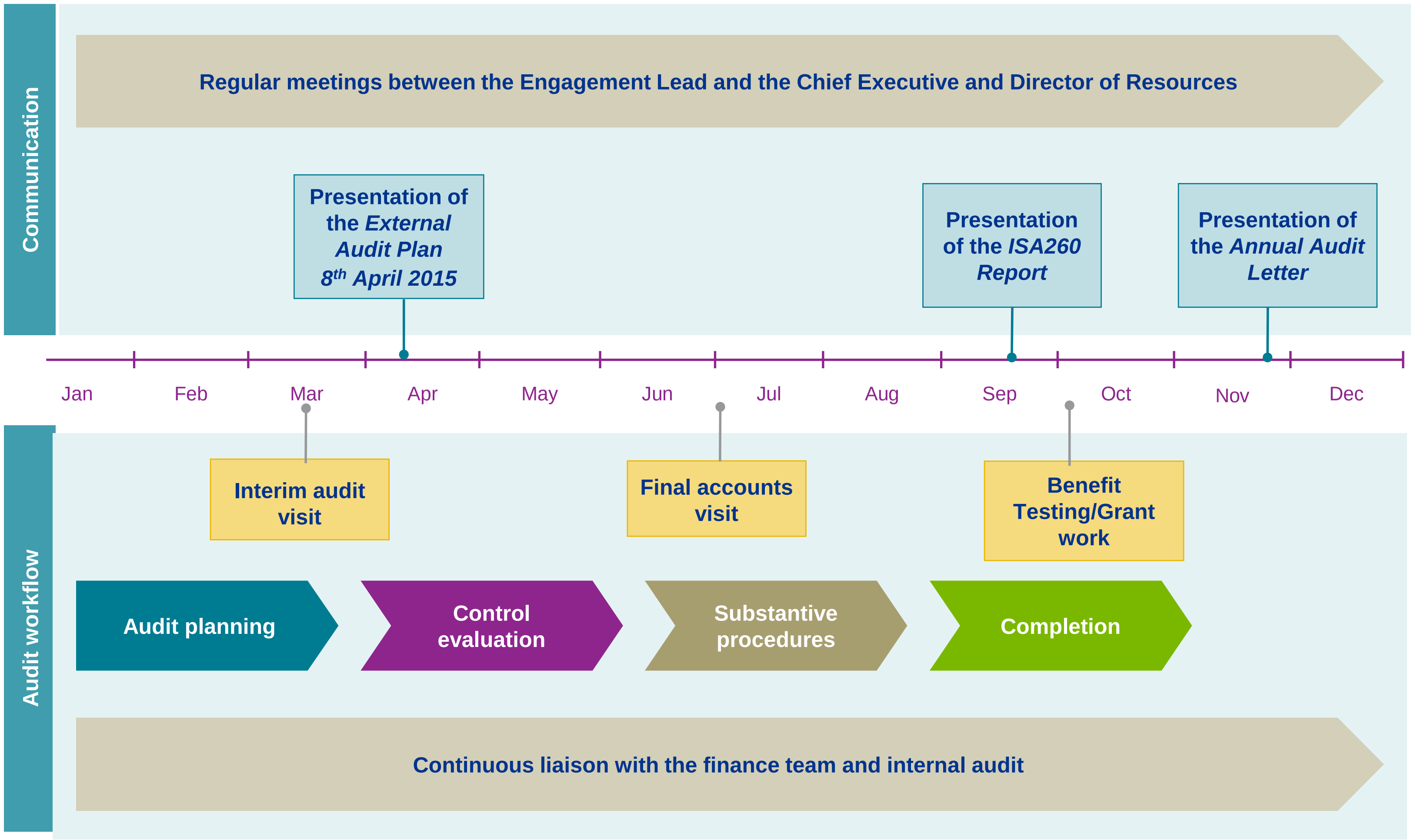
Key formal interactions with the Audit and Accounts Committee are:

- April 2015 - External Audit Plan;
- September - ISA 260 Report;
- November - Annual Audit Letter.

We work with the finance team and internal audit throughout the year.

Our main work on site will be our:

- Interim audit visits during March 2015.
- Final accounts audit during July 2015.



Key: ● Audit and Accounts Committee meetings.

Audit fee

The fee for the 2014/15 audit of the Authority is £64,438. The fee has changed from that set out in our *Audit Fee Letter 2014/15* issued in April 2014 because of an uplift of £900 for NNDR work.

Our audit fee remains indicative and based on you meeting our expectations of your support.

Meeting these expectations will help the delivery of our audit within the proposed audit fee

Audit fee

Our *Audit Fee Letter 2014/15* sent to you in April 2014 first set out our fees for the 2014/15 audit. The planned audit fee for 2014/15 is £64,438, (£63,538 in 2013/14) and this reflects an increase of £900 for additional work around the NNDR as we are no longer required to audit the NNDR (LA01) claim.

Our audit fee includes our work on the VFM conclusion and our audit of the Authority's financial statements.

Audit fee assumptions

The fee is based on a number of assumptions, including that you will provide us with complete and materially accurate financial statements, with good quality supporting working papers, within agreed timeframes. It is imperative that you achieve this. If this is not the case and we have to complete more work than was envisaged, we will need to charge additional fees for this work. In setting the fee, we have assumed:

- the level of risk in relation to the audit of the financial statements is not significantly different from that identified for 2013/14;
- you will inform us of any significant developments impacting on our audit;
- you will identify and implement any changes required under the *CIPFA Code of Practice on Local Authority Accounting in the UK 2014/15* within your 2014/15 financial statements;
- you will comply with the expectations set out in our *Accounts Audit Protocol*, including:
  - the financial statements are made available for audit in line with the agreed timescales;
  - good quality working papers and records will be provided at the start of the final accounts audit;
  - requested information will be provided within the agreed timescales;
  - prompt responses will be provided to queries and draft reports;
- internal audit meets appropriate professional standards;
- internal audit adheres to our joint working protocol and completes appropriate work on all systems that provide material figures for the financial statements and we can place reliance on them for our audit; and
- additional work will not be required to address questions or objections raised by local government electors or for special investigations such as those arising from disclosures under the Public Interest Disclosure Act 1998.

Meeting these expectations will help ensure the delivery of our audit within the agreed audit fee.

The Audit Commission requires us to inform you of specific actions you could take to keep the audit fee low. Future audit fees can be kept to a minimum if the Authority achieves an efficient and well-controlled financial closedown and accounts production process which complies with good practice and appropriately addresses new accounting developments and risk areas.

Changes to the audit plan

Changes to this plan and the audit fee may be necessary if:

- new significant audit risks emerge;
- additional work is required of us by the Audit Commission or other regulators; and
- additional work is required as a result of changes in legislation, professional standards or financial reporting requirements.

If changes to this plan and the audit fee are required, we will discuss and agree these initially with the Director of Resources.

Appendix 1: Independence and objectivity requirements

This Appendix summarises auditors' responsibilities regarding independence and objectivity.

Independence and objectivity

Auditors are required by the Code to:

- carry out their work with independence and objectivity;
- exercise their professional judgement and act independently of both the Commission and the audited body;
- maintain an objective attitude at all times and not act in any way that might give rise to, or be perceived to give rise to, a conflict of interest; and
- resist any improper attempt to influence their judgement in the conduct of the audit.

In addition, the Code specifies that auditors should not carry out work for an audited body that does not relate directly to the discharge of the auditors' functions under the Code. If the Authority invites us to carry out risk-based work in a particular area, which cannot otherwise be justified to support our audit conclusions, it will be clearly differentiated as work carried out under section 35 of the Audit Commission Act 1998.

The Code also states that the Commission issues guidance under its powers to appoint auditors and to determine their terms of appointment. The Standing Guidance for Auditors includes several references to arrangements designed to support and reinforce the requirements relating to independence, which auditors must comply with. These are as follows:

- Auditors and senior members of their staff who are directly involved in the management, supervision or delivery of Commission-related work, and senior members of their audit teams should not take part in political activity.
- No member or employee of the firm should accept or hold an appointment as a member of an audited body whose auditor is, or is proposed to be, from the same firm. In addition, no member or employee of the firm should accept or hold such appointments at related bodies, such as those linked to the audited body through a strategic partnership.
- Audit staff are expected not to accept appointments as Governors at certain types of schools within the local authority.
- Auditors and their staff should not be employed in any capacity (whether paid or unpaid) by an audited body or other organisation providing services to an audited body whilst being employed by the firm.
- Firms are expected to comply with the requirements of the Commission's protocols on provision of personal financial or tax advice to certain senior individuals at audited bodies, independence considerations in relation to procurement of services at audited bodies, and area wide internal audit work.
- Auditors appointed by the Commission should not accept engagements which involve commenting on the performance of other Commission auditors on Commission work without first consulting the Commission.
- Auditors are expected to comply with the Commission's policy for the Engagement Lead to be changed on a periodic basis.
- Audit suppliers are required to obtain the Commission's written approval prior to changing any Engagement Lead in respect of each audited body.
- Certain other staff changes or appointments require positive action to be taken by Firms as set out in the standing guidance.

Appendix 2: KPMG Audit Quality Framework

We continually focus on delivering a high quality audit.

This means building robust quality control procedures into the core audit process rather than bolting them on at the end, and embedding the right attitude and approaches into management and staff.

KPMG's Audit Quality Framework consists of seven key drivers combined with the commitment of each individual in KPMG.

The diagram summarises our approach and each level is expanded upon.

At KPMG we consider audit quality is not just about reaching the right opinion, but how we reach that opinion. KPMG views the outcome of a quality audit as the delivery of an appropriate and independent opinion in compliance with the auditing standards. It is about the processes, thought and integrity behind the audit report. This means, above all, being independent, compliant with our legal and professional requirements, and offering insight and impartial advice to you, our client.

KPMG's Audit Quality Framework consists of seven key drivers combined with the commitment of each individual in KPMG. We use our seven drivers of audit quality to articulate what audit quality means to KPMG.

We believe it is important to be transparent about the processes that sit behind a KPMG audit report, so you can have absolute confidence in us and in the quality of our audit.

Tone at the top: We make it clear that audit quality is part of our culture and values and therefore non-negotiable. Tone at the top is the umbrella that covers all the drives of quality through a focused and consistent voice. John Cornett as the Engagement Lead sets the tone on the audit and leads by example with a clearly articulated audit strategy and commits a significant proportion of his time throughout the audit directing and supporting the team.

Association with right clients: We undertake rigorous client and engagement acceptance and continuance procedures which are vital to the ability of KPMG to provide high-quality professional services to our clients.

Clear standards and robust audit tools: We expect our audit professionals to adhere to the clear standards we set and we provide a range of tools to support them in meeting these expectations. The global rollout of KPMG's eAudIT application has significantly enhanced existing audit functionality. eAudIT enables KPMG to deliver a highly technically enabled audit. All of our staff have a searchable data base, Accounting Research Online, that includes all published accounting standards, the KPMG Audit Manual Guidance as well as other relevant sector specific publications, such as the Audit Commission's *Code of* Audit Practice.

Recruitment, development and assignment of appropriately qualified personnel: One of the key drivers of audit quality is assigning professionals appropriate to the Authority's risks. We take great care to assign the right people to the right clients based on a number of factors including their skill set, capacity and relevant experience.

We have a well developed technical infrastructure across the firm that puts us in a strong position to deal with any emerging issues. This includes:

- A national public sector technical director who has responsibility for co-ordinating our response to emerging accounting issues, influencing accounting bodies (such as CIPFA) as well as acting as a sounding board for our auditors.

- A national technical network of public sector audit professionals is established that meets on a monthly basis and is chaired by our national technical director.

- A dedicated Department of Professional Practice comprised of over 100 staff that provide support to our audit teams and deliver our web-based quarterly technical training.

Appendix 2: KPMG Audit Quality Framework

We continually focus on delivering a high quality audit.

This means building robust quality control procedures into the core audit process rather than bolting them on at the end, and embedding the right attitude and approaches into management and staff.

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Quality must build on the foundations of well trained staff and a robust methodology.

Commitment to technical excellence and quality service delivery: Our professionals bring you up- the-minute and accurate technical solutions and together with our specialists are capable of solving complex audit issues and delivering valued insights.

Our audit team draws upon specialist resources including Forensic, Corporate Finance, Transaction Services, Advisory, Taxation, Actuarial and IT. We promote technical excellence and quality service delivery through training and accreditation, developing business understanding and sector knowledge, investment in technical support, development of specialist networks and effective consultation processes.

Performance of effective and efficient audits: We understand that how an audit is conducted is as important as the final result. Our drivers of audit quality maximise the performance of the engagement team during the conduct of every audit. We expect our people to demonstrate certain key behaviors in the performance of effective and efficient audits. The key behaviors that our auditors apply throughout the audit process to deliver effective and efficient audits are outlined below:

- timely Engagement Lead and manager involvement;
- critical assessment of audit evidence;
- exercise of professional judgment and professional scepticism;
- ongoing mentoring and on the job coaching, supervision and review;
- appropriately supported and documented conclusions;
- if relevant, appropriate involvement of the Engagement Quality Control reviewer (EQC review);
- clear reporting of significant findings;
- insightful, open and honest two-way communication with those charged with governance; and
- client confidentiality, information security and data privacy.

Commitment to continuous improvement: We employ a broad range of mechanisms to monitor our performance, respond to feedback and understand our opportunities for improvement.

Our quality review results

We are able to evidence the quality of our audits through the results of Audit Commission reviews. The Audit Commission publishes information on the quality of work provided by KPMG (and all other firms) for audits undertaken on behalf of them (http://www.audit-commission.gov.uk/audit-regime/audit-quality-review-programme/principal-audits/kpmg-audit-quality).

The latest Annual Regulatory Compliance and Quality Report (issued June 2014) showed that we are meeting the Audit Commission's overall audit quality and regularity compliance requirements.

Appendix 3 : Assessment of fraud risk

We are required to consider fraud and the impact that this has on our audit approach.

We will update our risk assessment throughout the audit process and adapt our approach accordingly.

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Members /Officers responsibilities

- Adopt sound accounting policies.
- With oversight from those charged with governance, establish and maintain internal control, including controls to prevent, deter and detect fraud.
- Establish proper tone/culture/ethics.
- Require periodic confirmation by employees of their responsibilities.
- Take appropriate action in response to actual, suspected or alleged fraud.
- Disclose to Audit and Accounts Committee and auditors:
  - any significant deficiencies in internal controls.
  - any fraud involving those with a significant role in internal controls.

KPMG's identification of fraud risk factors

- Review of accounting policies.
- Results of analytical procedures.
- Procedures to identify fraud risk factors.
- Discussion amongst engagement personnel.
- Enquiries of management, Audit and Accounts Committee and others.
- Evaluate controls that prevent, deter and detect fraud.

KPMG's response to identified fraud risk factors

- Accounting policy assessment.
- Evaluate design of mitigating controls.
- Test effectiveness of controls.
- Address management override of controls.
- Perform substantive audit procedures.
- Evaluate all audit evidence.
- Communicate to Audit and Accounts Committee and management.

KPMG's identified fraud risk factors

- We will monitor the following areas throughout the year and adapt our audit approach accordingly.
  - Revenue recognition.
  - Management override of controls.

Appendix 4: Transfer of Audit Commission functions

The Audit Commission will be writing to audited bodies and other stakeholders in the coming months with more information about the transfer of the Commission regulatory and other functions.

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From 1 April 2015 a transitional body, Public Sector Audit Appointments Limited (PSAA), established by the Local Government Association (LGA) as an independent company, will oversee the Commission's audit contracts until they end in 2017 (or 2020 if extended by DCLG). PSAA's responsibilities will include setting fees, appointing auditors and monitoring the quality of auditors' work. The responsibility for making arrangements for publishing the Commission's value for money profiles tool will also transfer to PSAA.

From 1 April 2015, the Commission's other functions will transfer to new organisations:

- responsibility for publishing the statutory Code of Audit Practice and guidance for auditors will transfer to the National Audit Office (NAO) for audits of the accounts from 2015/16;
- the Commission's responsibilities for local value for money studies will also transfer to the NAO; and
- the National Fraud Initiative (NFI) will transfer to the Cabinet Office.

KPMG

cutting through complexity™

AUDIT & ACCOUNTS COMMITTEE **AGENDA ITEM NO.8**
8TH APRIL 2015

COUNTER-FRAUD ACTIVITIES FROM 1st OCTOBER 2014 TO 24TH MARCH 2015

1.0 Purpose of Report

1.1 To inform Members of counter-fraud activity undertaken since the last update reported on 5th November 2014.

2.0 Background Information

2.1 An element of the role of the Audit & Accounts Committee is to provide assurance to the Council that its anti-fraud arrangements are operating effectively. In order to do this counter-fraud activity reports are brought to the Committee twice a year. These reports detail the number of cases detected, amounts lost, the outcome of cases and amounts recovered, together with any other counter fraud work that has been undertaken.

3.0 Counter Fraud Detection

3.1 Since the beginning of October 2014, the Council has successfully prosecuted one person for a fraudulent benefit claim. This fraudulent claim resulted in overpayments of housing benefit of £16,434.29 and council tax benefit/support of £4,071.65. These overpayments are recoverable.

3.2 One person accepted an administration penalty for a fraudulent housing benefit claim of £3,057.67 and council tax benefit/support of £228.90. Administration penalties are implemented where the fraud is admitted, and the person chooses to accept a penalty rather than be prosecuted, reducing officer time and costs.

3.3 Six other cases of overpayments have also been identified, totalling £14,064.67 for housing benefit and £1,345.93 for council tax benefit/support. However, these cases were identified as errors on the part of the claimant that were not fraudulent. These overpayments are also recoverable.

3.4 The actual court costs charged to the Council since October 2014 are £7,131. These costs relate to cases of non-payment of Council Tax, as well as to fraud cases. The Revenues and Benefits Business Unit recovers costs from claimants wherever possible.

4.0 Other Counter-Fraud Work

4.1 A counter-fraud audit was carried out early in 2015 looking at the controls in place to manage procurement/contract fraud risks. The review confirmed that the Council has effective controls in place to manage the risks.

4.2 A county-wide single persons discount review is underway.

5.0 The National Fraud Initiative (NFI)

5.1 The National Fraud Initiative (NFI) is a bi-annual data-matching exercise where electronic data is collected from numerous agencies including police authorities, local probation boards, fire and rescue authorities as well as local councils and a number of private sector bodies. The data collection is carried out by the Audit Commission and is reviewed for any matches that might reveal fraudulent activity. e.g. a record of a person's death exists, but that person is still claiming state pension. The potential matches are sent to individual bodies for investigation to check if there is another, innocent explanation. The NFI is successful nationally.

5.2 Data was submitted for the 2014/15 exercise and possible matches have been returned. Staff are currently working through these to determine whether they are potentially fraudulent.

6.0 Equalities Implications

6.1 There are no equality implications, as all cases of fraud and error are investigated, regardless of the characteristics of the persons involved.

7.0 Impact on Budget/Policy Framework

7.1 Overpayments can be a serious drain on the Council's resources, whether due to fraud or error. Work undertaken to prevent and detect fraud and error and to reclaim overpayments can support the Councils' budget at a time of funding cuts.

8.0 Comments of Director - Resources

8.1 Successful prosecution of fraudulent claims sends out a message that fraud will be detected and action will be taken. Publicity is important as a deterrent, and training will ensure that all staff are aware of their role in preventing and detecting fraud.

8.2 The NFI data matching exercise requires resources to investigate the potential matches, and it is a government requirement that Councils take part.

9.0 RECOMMENDATION

That Members note the content of the report.

Reason for Recommendations

To promote a strong counter-fraud culture, it is important that Members are aware of the Council's response to fraud and the results of any actions taken.

Background Papers
None

For further information please contact Nicky Lovely on Ext 5317
David Dickinson
Director - Resources

AUDIT & ACCOUNTS COMMITTEE **AGENDA ITEM NO.9**
8th APRIL 2015

RESPONSES TO QUESTIONS RAISED AT THE PREVIOUS MEETING

REPORT PRESENTED BY: BUSINESS MANAGER – FINANCIAL SERVICES

1.0 Purpose of Report

1.1 To provide answers to questions raised at the last meeting of the Audit & Accounts Committee.

2.0 The Committee would like to see details of the Council's recycling performance together with any comparison data from other neighbouring authorities.

2.1 The recycling rates for Nottinghamshire authorities in 2013/14 are shown below.

Percentage of Household Waste sent for Reuse, Recycling or Composting							
NSDC	Ashfield	Bassetlaw	Broxtowe	Gedling	Mansfield	Nottingham City	Rushcliffe
26.50%	32.9%	21.4%	40.2%	36.8%	38.1%	32.9%	51.3%

2.2 For 2013/14 the national average recycling rate was 44.2%. However, this figure includes urban areas where the cost of waste collection is lower due to the lower cost of transport. There is also a correlation between the amount of resources an authority chooses to apply to waste collection and the level of recycling.

3.0 RECOMMENDATION

That Members consider the response provided.

Background Papers

Nil

For further information contact Nicky Lovely, Business Manager - Financial Services, on extension 5317.

David Dickinson
Director - Resources

AUDIT & ACCOUNTS COMMITTEE **AGENDA ITEM NO.10**
8 APRIL 2015

WORK PLAN

Meeting at which action to be undertaken	Subject and Brief Description	Who will present the report	Intended Outcome
11th February 2015	Treasury Performance Report	Tara Beesley	Gain assurance that treasury management activities are in line with the current Treasury Management Strategy
	Draft Treasury Strategy	Tara Beesley	Gain assurance that risks in relation to the Council's treasury management activities are to be managed in accordance with need and the Council's risk appetite
	Internal Audit Progress Report	Lucy Pledge/John Sketchley (Audit Lincs)	Understand the level of assurance for audited activities and ensure management progress recommended actions to mitigate identified risks
	Draft Annual Internal Audit Plan 2014/15	Lucy Pledge/John Sketchley (Audit Lincs)	Ensure that an appropriate plan is in place which will provide assurance on the Council's activities
	Combined Assurance Report	David Dickinson	Understand the level of assurance for critical systems, due diligence activities, key risks and projects
	External Audit Progress Report	John Cornett/Helen Brookes (KPMG)	Gain assurance that claims and returns are managed appropriately
	Results of the Review of the Assessment of Effectiveness of the Internal Audit Function	Nicky Lovely	Gain assurance that the Internal Audit function is operating effectively and that an action plan is in place to address any required improvements
	Review of significant governance issues highlighted in the Annual Governance Statement	David Dickinson	Gain assurance that the Council is making progress on any governance issues that were raised in the AGS
	Risk Management report	Lisa Lancaster	Gain assurance that appropriate risk management arrangements are in place

	Strategic Risk Register	Lisa Lancaster	Gain assurance that the Council considers its strategic risks and that these are being managed effectively
	Protecting the Public Purse report	Nicky Lovely	Understand the level of fraud in local government and the approach taken to counter it. Enable comparison with the fraud risks facing NSDC
	Responses to questions raised at previous meeting	Nicky Lovely	
	Audit Committee Work Programme	David Dickinson	
8th April 2015	Statement of Accounting Policies	Nicola Pickavance	Gain assurance that the Council has appropriate accounting policies in place that reflect the way items are treated in the annual Statement of Accounts
	External Audit Certification of Grant Claims and Returns	John Cornett/Helen Brookes (KPMG)	Gain assurance that claims and returns have been managed appropriately
	External Audit Plan for 2014/15 Accounts and VFM Conclusion	John Cornett/Helen Brookes (KPMG)	Ensure that an appropriate plan is in place which will provide assurance on the Council's Statement of Accounts and arrangements to achieve Value for Money
	Counter-Fraud Activity Report	Nicky Lovely	Gain assurance that counter-fraud activity is appropriately targeted and effective
	Responses to questions raised at previous meeting:	Nicky Lovely	
	Audit Committee Work Programme	David Dickinson	
25th June 2015	Treasury Management Outturn Report	Tara Beesley	Gain assurance that treasury management activities were in line with the Treasury Management Strategy for the past financial year
	IAS 19 Pension Assumptions	Nicola Pickavance	Gain assurance that the pension assumptions used by the actuary to produce the figures in the Statement of Accounts are appropriate for the Council's circumstances

	Internal Audit Progress Report	Lucy Pledge/John Sketchley (Audit Lincs)	Understand the level of assurance for audited activities and ensure management progress recommended actions to mitigate identified risks
	Annual Internal Audit Report	Lucy Pledge/John Sketchley (Audit Lincs)	Gain assurance that the Council's Annual Governance Statement accurately represents governance arrangements, that future risks are identified and that governance arrangements support the achievement of the Council's objectives
	Knowledge and skills assessment for Committee members	Nicky Lovely	Ensure that the Committee has the appropriate skills
	Responses to questions raised at previous meeting:	Nicky Lovely	
	Audit Committee Work Programme	David Dickinson	
TBA	Training session on Statement of Accounts	Nicola Pickavance	Ensure that the Committee has the appropriate skills to be able to review the Council's Statement of Accounts and consider the integrity of financial reporting
September 2015	External Audit Annual Governance Report	John Cornett/Helen Brookes	To gain assurance that the Council's Statement of Accounts are a true and fair representation of the Council's financial performance for the previous financial year and financial standing as at the Balance Sheet date, and that the Council has effective arrangements for achieving Value for Money
	Statement of Accounts & Annual Governance Statement	David Dickinson / Nicola Pickavance	Gain assurance on the integrity of financial reporting By considering the assurance gained through its activities throughout the previous year, to give assurance that the Council's Annual Governance Statement accurately represents governance arrangements, that future risks are identified, and that

			arrangements in place support the achievement of the Council’s objectives
	Internal Audit Progress Report	Lucy Pledge/John Sketchley (Audit Lincs)	Understand the level of assurance for audited activities and ensure management progress recommended actions to mitigate identified risks
	Fraud Risk Assessment	Nicky Lovely	Gain assurance that the Council understands its fraud risks and that actions are in place to address them.
	Proposals for Future Training for the Committee	Nicky Lovely	
	Responses to questions raised at previous meeting:	Nicky Lovely	
	Audit Committee Work Programme	David Dickinson	
November 2015	Treasury Performance half-yearly report	Tara Beesley	Gain assurance that treasury management activities are in line with the current Treasury Management Strategy
	Internal Audit Progress Report	Lucy Pledge/John Sketchley (Audit Lincs)	Understand the level of assurance for audited activities and ensure management progress recommended actions to mitigate identified risks
	Annual Audit Letter	John Cornett/Helen Brookes (KPMG)	Gain assurance on the Council’s Statement of Accounts and arrangements for achieving Value for Money
	Counter-Fraud Activity Report	Nicky Lovely	Gain assurance that counter-fraud activity is appropriately targeted and effective
	Initiating the Annual Review of the Effectiveness of the Internal Audit Function	David Dickinson/Nicky Lovely	To consider whether the Internal Audit function is operating effectively and produce an action plan to address any required improvements
	Responses to questions raised at previous meeting	Nicky Lovely	
	Audit Committee Work Programme	David Dickinson	