External Audit Report 2015/16

Newark and Sherwood District Council

— September 2016

Contents

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This report is addressed to the Authority and has been prepared for the sole use of the Authority. We take no responsibility to any member of staff acting in their individual capacities, or to third parties. Public Sector Audit Appointments issued a document entitled Statement of Responsibilities of Auditors and Audited Bodies summarising where the responsibilities of auditors begin and end and what is expected from audited bodies. We draw your attention to this document which is available on Public Sector Audit Appointment's website (www.psaa.co.uk).

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

We are committed to providing you with a high quality service. If you have any concerns or are dissatisfied with any part of KPMG's work, in the first instance you should contact Jonathan Gorrie, the engagement lead to the Authority, who will try to resolve your complaint. If you are dissatisfied with your response please contact the national lead partner for all of KPMG's work under our contract with Public Sector Audit Appointments Limited, Andrew Sayers (on 0207 694 8981, or by email to andrew.sayers@kpmg.co.uk). After this, if you are still dissatisfied with how your complaint has been handled you can access PSAA's complaints procedure by emailing generalenquiries@psaa.co.uk, by telephoning 020 7072 7445 or by writing to Public Sector Audit Appointments Limited, 3rd Floor, Local Government House, Smith Square, London, SW1P 3H.

Section one: Introduction

Section one

Introduction

This document summarises:

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

Scope of this report

This report summarises the key findings arising from:

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

Financial statements

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

Planning | **Control Evaluation** | **Substantive Procedures** | **Completion**

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

We are now in the final phase of the audit, the completion stage. Some aspects of this stage are also discharged through this report.

VFM Conclusion

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

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

Structure of this report

This report is structured as follows:

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

Our recommendations are included in Appendix 1.

Acknowledgements

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

Section two: Headlines

Headlines

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

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

Proposed audit opinion	We anticipate issuing an unqualified audit opinion on the Authority's financial statements by 30 September 2016. We will also report that your Annual Governance Statement complies with guidance issued by CIPFA/SOLACE in June 2007.
Audit adjustments	We are pleased to report that our audit of your financial statements has not identified any material adjustments. We have identified one uncorrected misstatement above our reporting threshold and this is detailed at Appendix 2. We have agreed a number of minor presentational changes to the accounts with the finance team. Overall, the quality of the financial statements was good and we would like to thank the finance team for their hard work in producing the accounts.
Key financial statements audit risks	We identified one key financial statements audit risk relating to the provision for business rate appeals in our 2015/16 External Audit Plan issued in February 2016: We have worked with officers throughout the year to discuss this risk and our detailed findings are reported in section 3 of this report. We have raised one recommendation for improving the audit trail and justification of this balance as a result of our audit work in this key risk area.

Headlines (cont.)

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

This table summarises the headline messages. The remainder of this report provides further details on each area.

Accounts production and audit process	We received complete draft accounts by 30 June 2016 in accordance with the DCLG deadline. The accounting policies, accounting estimates and financial statement disclosures are in line with the requirements of the Code. The Authority has good processes in place for the production of the accounts and good quality supporting working papers. Officers dealt efficiently with audit queries and the audit process has been completed within the planned timescales. As in previous years, we will debrief with the finance team to share views on the final accounts audit. Hopefully this will lead to further efficiencies in the 2016/17 audit process. In particularly we would like to thank Authority Officers who were available throughout the audit visit to answer our queries.
VFM conclusion and risk areas	We identified the following VFM risk as part of our VFM risk assessment. — Financial resilience — The devolution agenda We have worked with officers throughout the year to discuss this VFM risk and our detailed findings are reported in section 4 of this report. There are no matters of any significance arising as result of our audit work on this VFM risk area. We have concluded that the Authority has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources. We therefore anticipate issuing an unqualified VFM conclusion by 30 September 2016.

Headlines (cont.)

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

This table summarises the headline messages. The remainder of this report provides further details on each area.

Completion	At the date of this report our audit of the financial statements is substantially complete subject to completion of the following areas: — Finalisation of the work on the VFM conclusion — Consolidation of group accounts — Assurance from the auditor of the Nottinghamshire Pension Fund — Checking and agreeing the final set of financial statements. You are required to provide us with representations on specific matters such as your going concern assertion and whether the transactions in the accounts are legal and unaffected by fraud. We have provided a draft of this representation letter to the Assistant Business Manager Financial Services. We draw your attention to the requirement in our representation letter for you to confirm to us that you have disclosed all relevant related parties to us. We confirm that we have complied with requirements on objectivity and independence in relation to this year's audit of the Authority's financial statements.

Section three: Financial Statements

Proposed opinion and audit differences

We have not identified any issues in the course of the audit that are considered to be material.

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

Proposed audit opinion

We anticipate issuing an unqualified audit opinion on the Authority's financial statements following approval of the Statement of Accounts by the Audit and Accounts Committee on 7 September 2016.

Audit differences

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

The final materiality level (see Appendix two for more information on materiality) for this year's audit was set at £700k. Audit differences below £35k are not considered significant.

We did not identify any material misstatements. We identified a number of issues that have been adjusted by management and we identified one uncorrected misstatement above our reporting threshold.

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

- Short term debtors and creditors were overstated by £373k due to a prior year adjustment that was incorrectly reversed
- There was a classification error of £250k between short term and long term creditors.

In addition, we identified a small number of presentational adjustments required to ensure that the accounts are compliant with the Code of Practice on Local Authority Accounting in the United Kingdom 2015/16 ('the Code'). We understand that the Authority will be addressing these where significant.

Annual governance statement

We have reviewed the Annual Governance Statement and confirmed that:

- It complies with *Delivering Good Governance in Local Government: A Framework* published by CIPFA/SOLACE; and
- It is not misleading or inconsistent with other information we are aware of from our audit of the financial statements.

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

Significant audit risks

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

This section sets out our detailed findings on those risks.

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

The table below sets out our detailed findings for the risk that is specific to the Authority.

Significant Risk 1

— Business rate appeals

Business rate appeals – the provision for business rate appeals is a risk area since local authorities have little control over the level of appeals and their outcome. It is difficult to anticipate the financial impact of successful appeals as the potential change in rateable value cannot be predicted. Also, there is usually no indication of timescales to settle an appeal, making it hard to measure when the financial impact will fall.

— Findings

Recognising the risk associated with this balance, the Authority has used a specialist for the first time this year, to assist in its assessment of the provision. The Authority has taken into account the information provided by the specialist, as well as its knowledge of the likelihood of future losses and the model that it used previously and has increased the provision in the accounts from £700k to £1.4m which represents its contribution. Discussion with the Authority indicates that they are likely to increase the provision in future years as there is more clarity around the success of appeals.

We have benchmarked the provision in the accounts against other authorities and against the likely provision using the previous method used by the Authority and found that it was not unreasonable. However, there is considerable scope for the Authority to improve the audit trail and the documentation of the judgements made in assessing the provision in future years against all the information from all sources . Going forward as more past evidence becomes available, we would anticipate that the level of provision continues to be refined.

Significant audit risks

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

This section sets out our detailed findings on those risks.

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

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

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Fraud risk of revenue recognition

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

In our External Audit Plan 2015/16 we reported that we do not consider this to be a significant risk for Local Authorities as there is unlikely to be an incentive to fraudulently recognise revenue.

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

Management override of controls

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

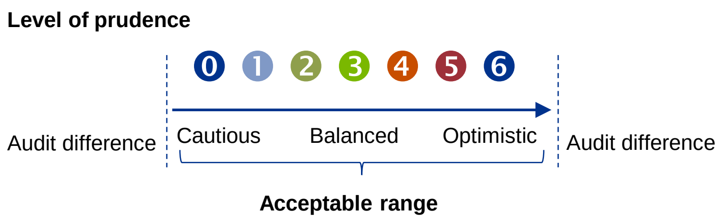
Our audit methodology incorporates the risk of management override as a default significant risk. We have not identified any specific additional risks of management override relating to this audit.

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

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

Judgements

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



Assessment of subjective areas				
Asset/liability class	**15/16**	**14/15**	**Balance (£m)**	**KPMG comment**
Provisions	4	4	£1.4 million *(PY: £0.7 million)*	The Authority's provision balance comprises the losses expected for business rate appeals. Going forward as more past evidence becomes available we would anticipate that the level of provision continues to be refined.
Property, Plant and Equipment (valuations / asset lives)	3	3	£222 million *(PY: £208 million)*	We have agreed PPE valuations carried out in 2015/16 back to valuation certificates, carried out by the Authority's external valuer. We have concluded that the Authority values its assets in accordance with accounting standards and the Code,
Pensions	3	3	£57 million *(PY: £67 million)*	The pension deficit within the funded LGPS has decreased over the year mainly due to the actuarial assumptions that have been applied. We consider the overall accounting basis to be appropriate.

Accounts production and audit process

We have noted the accounts presented for audit were of good quality as were the supporting working papers.

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

Accounts production and audit process

ISA 260 requires us to communicate to you our views about the significant qualitative aspects of the Authority's accounting practices and financial reporting. We also assessed the Authority's process for preparing the accounts and its support for an efficient audit.

We considered the following criteria:

Element	Commentary
Accounting practices and financial reporting	The Authority has maintained it effective processes for accounts production and in particular, has improved the processes for producing the property, plant and equipment (PPE) notes. The Authority must now aim to bring forward the production of the accounts in readiness for the new deadlines whilst also ensuring that presentational errors are kept to a minimum. We consider that accounting practices are appropriate.
Completeness of draft accounts	We received a complete set of draft accounts on 8 June 2016.
Quality of supporting working papers	Our Accounts Audit Protocol, which we issued on 10 February 2016 and discussed with the Assistant Business Manager Financial Services, set out our working paper requirements for the audit. The quality of working papers provided met the standards specified in our *Accounts Audit Protocol*.
Response to audit queries	Officers dealt efficiently with audit queries, responding in a reasonable time

Additional findings in respect of the control environment for key financial systems

In previous years, we have been unable to rely on segregation of duties as a control over journals since the system for journal entries did not generally require authorisation, The Authority has introduced authorisation levels but we consider these to be too high to give us assurance and we therefore are required to test journals throughout the year, rather than at year end only. We would therefore recommend that management revisits its authorisation limits for journals.

Completion

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

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

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

Declaration of independence and objectivity

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

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

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

Management representations

You are required to provide us with representations on specific matters such as your financial standing and whether the transactions within the accounts are legal and unaffected by fraud. We have provided a template to the Assistant Business Manager Financial Services for presentation to the Audit and Accounts Committee. We require a signed copy of your management representations before we issue our audit opinion.

Other matters

ISA 260 requires us to communicate to you by exception 'audit matters of governance interest that arise from the audit of the financial statements' which include:

— Significant difficulties encountered during the audit;

— Significant matters arising from the audit that were discussed, or subject to correspondence with management;

— Other matters, if arising from the audit that, in the auditor's professional judgment, are significant to the oversight of the financial reporting process; and

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

There are no others matters which we wish to draw to your attention in addition to those highlighted in this report.

Section four: Value for Money

VFM Conclusion

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

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

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

Background

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

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

The VFM approach is fundamentally unchanged from that adopted in 2014/2015 and the process is shown in the diagram below. However, the previous two specified reporting criteria (financial resilience and economy, efficiency and effectiveness) have been replaced with a single criteria supported by three sub-criteria.

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

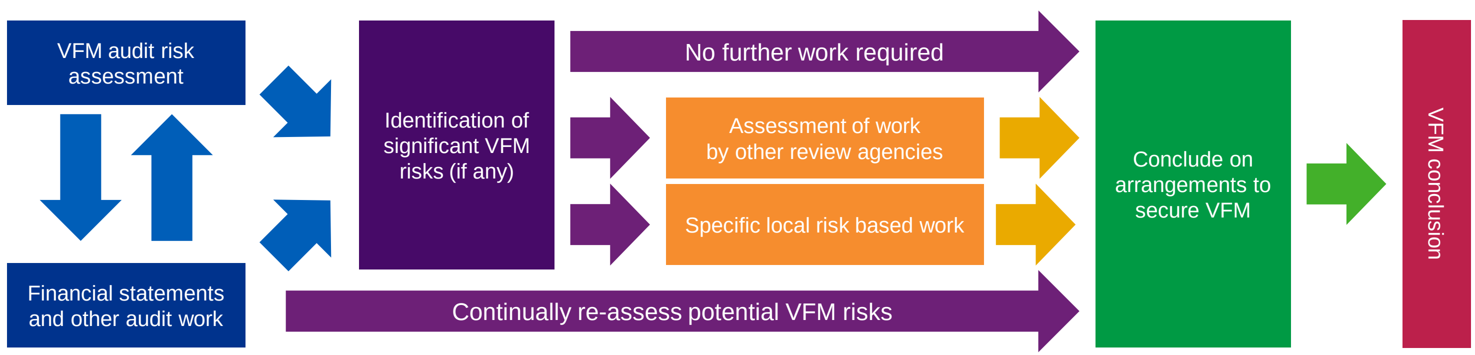
Conclusion

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

Overall criterion

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

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



Specific VFM Risks

We have identified specific VFM risks around financial resilience and the devolution agenda.

In all cases we are satisfied that external or internal scrutiny provides sufficient assurance that the Authority's current arrangements in relation to these risk areas are adequate.

We have undertaken some work to date in response these risks.

Work completed

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

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

Key findings

Below we set out the findings in respect of those areas where we have identified a residual audit risk for our VFM conclusion.

We concluded that we needed to carry out some work on this risk. This work is now almost complete and we also report on this below.

Specific VFM Risks (cont.)

Key VFM risk	Risk description and link to VFM conclusion	Assessment
Financial resilience and devolution	**Financial Resilience and Devolution** The Government's Autumn Statement and Spending Review indicated its intention to change funding sources over the next few years, with reduced reliance on Revenue Support Grant and increasing dependence on business rates income. That, together with likely reductions in New Homes Bonus (NHB) funding from 2017/18 means that local government bodies face a challenging future. The Authority has anticipated the reductions in Government funding in budget forecasts, as well as inflationary pressures, but it will need to ensure that it continues to deliver efficiencies. There are risks around the sustainability of the financial position which relies on the successful delivery of a number of strategic initiatives. In addition, the progress of devolution will present opportunities for local government bodies but it will be important to ensure that it does not pull focus from the business of individual authorities and that any uncertainties are managed so that local economies are not destabilised.	We have reviewed the Authority's Medium Term Financial Plan (MTFP) and outturn for 205/16. We have also discussed the implications of the devolution agenda. The key findings are: • The Authority recognises the budget pressures it faces in the medium term, most notably reductions in the Revenue Support Grant provided centrally. Projections in the revised plan show the need to make savings of £840k over the life of the current MTFP, following the agreement of council tax increases for future yeas. • As a result of stronger financial management and housing and business rates growth, the Authority has been able to consistently benefit from year end budget underspends and budgeted contributions to reserves. The Authority's general fund reserves target is £2.9 million and the working balance at the end of 2015/16 was £2.939 million, after a significant contribution to earmarked reserves. At 31 March 2016 Authority has £22,111 million of earmarked reserves and the overall usable reserves, including the HRA and major repairs reserve represent 67% of annual gross expenditure. The MTFP includes £8.6 million as the amount available from usable capital receipts over the period 2015/16 to 2020/21. • Government grant income is based on known settlement funding or reasonable assumptions concerning future entitlement. We have agreed amounts included in the MTFP for revenue support grant and baseline finding to the local government finance settlement from DCLG.

Specific VFM Risks (cont.)

Key VFM risk	Risk description and link to VFM conclusion	Assessment
Financial resilience and devolution	**Financial Resilience and Devolution** The Government's Autumn Statement and Spending Review indicated its intention to change funding sources over the next few years, with reduced reliance on Revenue Support Grant and increasing dependence on business rates income. That, together with likely reductions in New Homes Bonus (NHB) funding from 2017/18 means that local government bodies face a challenging future. The Authority has anticipated the reductions in Government funding in budget forecasts, as well as inflationary pressures, but it will need to ensure that it continues to deliver efficiencies. There are risks around the sustainability of the financial position which relies on the successful delivery of a number of strategic initiatives. In addition, the progress of devolution will present opportunities for local government bodies but it will be important to ensure that it does not pull focus from the business of individual authorities and that any uncertainties are managed so that local economies are not destabilised.	• The Authority has agreed policies on budgeting, council tax increases, reserves and value for money which we have reviewed. Whilst the Authority has made savings over a number of years without impacting significantly on front line services, it recognised that strategic solutions would be required. It has established its strategic direction for achieving savings which includes collaboration with other authorities, devolution of services and assets to local town and parish councils, changes to the arrangements for providing services and the relocation of the main council offices. • The Authority flags a number of risks and uncertainties within its MTFP, including interest rates, inflation and the effect of the national living wage and apprenticeship schemes. We have reviewed the assumptions contained within the MTFP and concluded they are reasonable. The MTFP also includes sensitivity analyses to assess the impact of any changes in assumptions and we have assessed these and found them to be reasonable. • The devolution process in Nottinghamshire and Derbyshire has not progressed as quickly as expected. Currently, there is no evidence that it is having an adverse effect on the Authority.

Appendices

Key issues and recommendations

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

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

We will formally follow up these recommendations next year.

Priority rating for recommendations					
1	***Priority one***: issues that are fundamental and material to your system of internal control. We believe that these issues might mean that you do not meet a system objective or reduce (mitigate) a risk.	2	***Priority two***: issues that have an important effect on internal controls but do not need immediate action. You may still meet a system objective in full or in part or reduce (mitigate) a risk adequately but the weakness remains in the system.	3	***Priority three***: issues that would, if corrected, improve the internal control in general but are not vital to the overall system. These are generally issues of best practice that we feel would benefit you if you introduced them.

No.	Risk	Issue and recommendation	Management response/responsible officer/due date
1	2	**Accounts Production Process** Bringing forward the production of the accounts with a view to producing them by 31 May for 2017/18. This will need to be done whilst ensuring that the quality of the accounts is not diminished. **Recommendation** The closedown plan for 2016/17 should allow for an earlier closedown and preparation of the financial statements.	
2	2	**Authorisation of journals** The Authority has introduced authorisation levels for journals but we consider these to be too high to give us assurance and we therefore are required to test journals throughout the year, rather than at year end only. **Recommendation** We recommend that management revisits its authorisation levels for journals.	

Key issues and recommendations

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

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

No.	Risk	Issue and recommendation	Management response/responsible officer/due date
3	2	**Provisions** There is considerable scope for the Authority to improve the audit trail and the documentation of the judgements made in assessing the NNDR appeals provision in future years. Going forward as more past evidence becomes available we would anticipate that the level of provision continues to be refined. **Recommendation** The Authority should retain evidence and clearly document its assessment of the provision for NNDR appeals in future years, including refining the provision as past evidence becomes available.	

Audit differences

This Appendix sets out the audit differences.

The financial statements have been amended for all but one of the errors identified through the audit process.

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

Uncorrected audit differences

There was one uncorrected audit difference of £36k relating to impairment of other Housing Revenue Account (HRA) assets which was shown in the HRA but was not reflected in the Capital Adjustment Account (CAA).

Corrected audit differences

Material misstatements

There were no material misstatements.

Non material audit differences

Our audit identified a small number of non material errors in the financial statements. These have been discussed with management and we understand that the financial statements will be amended for all of them. The key non material adjustments to the accounts are as follows:

- Short term debtors and creditors were overstated by £373k due to a prior year adjustment that was incorrectly reversed
- There was a classification error of £250k between short term and long term creditors

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

Materiality and reporting of audit differences

For 2015/16 our materiality is £700k for the Authority's accounts.

We have reported all audit differences over £35k for the Authority's accounts.

Materiality

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

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

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

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

We used the same planning materiality reported in our External Audit Plan 2015/16, presented to you in February 2016.

Materiality for the Authority's accounts was set at £700k which equates to around 1 percent of gross expenditure. We design our procedures to detect errors in specific accounts at a lower level of precision.

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

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

In the context of the Authority, we propose that an individual difference could normally be considered to be clearly trivial if it is less than £35k for the Authority.

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

Declaration of independence and objectivity

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

Requirements

Auditors appointed by Public Sector Audit Appointments Ltd must comply with the Code of Audit Practice (the 'Code') which states that:

"The auditor should carry out their work with integrity, objectivity and independence, and in accordance with the ethical framework applicable to auditors, including the ethical standards for auditors set by the Financial Reporting Council, and any additional requirements set out by the auditor's recognised supervisory body, or any other body charged with oversight of the auditor's independence. The auditor should be, and should be seen to be, impartial and independent. Accordingly, the auditor should not carry out any other work for an audited body if that work would impair their independence in carrying out any of their statutory duties, or might reasonably be perceived as doing so."

In considering issues of independence and objectivity we consider relevant professional, regulatory and legal requirements and guidance, including the provisions of the Code, the detailed provisions of the Statement of Independence included within the Public Sector Audit Appointments Ltd *Terms of Appointment* ('Public Sector Audit Appointments Ltd Guidance') and the requirements of APB Ethical Standard 1 *Integrity, Objectivity and Independence* ('Ethical Standards').

The Code states that, in carrying out their audit of the financial statements, auditors should comply with auditing standards currently in force, and as may be amended from time to time. Public Sector Audit Appointments Ltd guidance requires appointed auditors to follow the provisions of ISA (UK&I) 260 Communication of *Audit Matters with Those Charged with Governance'* that are applicable to the audit of listed companies. This means that the appointed auditor must disclose in writing:

- Details of all relationships between the auditor and the client, its directors and senior management and its affiliates, including all services provided by the audit firm and its network to the client, its directors and senior management and its affiliates, that the auditor considers may reasonably be thought to bear on the auditor's objectivity and independence.
- The related safeguards that are in place.
- The total amount of fees that the auditor and the auditor's network firms have charged to the client and its affiliates for the provision of services during the reporting period, analysed into appropriate categories, for example, statutory audit services, further audit services, tax advisory services and other non-audit services. For each category, the amounts of any future services which have been contracted or where a written proposal has been submitted are separately disclosed. We do this in our *Annual Audit Letter*.

Appointed auditors are also required to confirm in writing that they have complied with Ethical Standards and that, in the auditor's professional judgement, the auditor is independent and the auditor's objectivity is not compromised, or otherwise declare that the auditor has concerns that the auditor's objectivity and independence may be compromised and explaining the actions which necessarily follow from his. These matters should be discussed with the Audit and Accounts Committee.

Ethical Standards require us to communicate to those charged with governance in writing at least annually all significant facts and matters, including those related to the provision of non-audit services and the safeguards put in place that, in our professional judgement, may reasonably be thought to bear on our independence and the objectivity of the Engagement Lead and the audit team.

Declaration of independence and objectivity (cont.)

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

General procedures to safeguard independence and objectivity

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

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

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

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

Auditor declaration

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

Appendix four

Audit Independence

Audit Fees

Our scale fee for the audit was £48,329 plus VAT (£64,438 in 2014/15). This fee was in line with that highlighted within our audit plan agreed by the Audit and Accounts Committee in February 2016. Our scale fee for certification for the HBCOUNT is £5,525 plus VAT.

Non-audit services

We will carry out the following non-audit service related to 2015/16.

Description of non-audit service	Estimated fee	Potential threat to auditor independence and associated safeguards in place
Certification of the Pooling of Housing Capital Receipts Return	£3,000	**Self interest** – This engagement is entirely separate from the audit through a separate engagement letter. The proposed engagement will have no perceived or actual impact on the audit team and the audit team resources that will be deployed to perform a robust and thorough review. **Self review** – The nature of this work is to review the return in line with guidance. Therefore, it does not impact on our opinion and we do not consider that the outcome of this work will be a threat to our role as external auditors. **Management threat** – This work will be confined to reviewing the relevant entries in the return and there is no evidence of management threat in relation to these entries. **Familiarity** – This threat is limited given the scale, nature and timing of the work. **Advocacy** – We will not act as advocates for the Authority in any aspect of this work which is limited to assurance on the entries within the return. **Intimidation** – not applicable.
Total estimated fees	**£3,000**	
Total estimated fees as a percentage of the external audit fees	**6.2%**	

In 2011 the Council engaged KPMG to provide services to assist the Council with the recovery of VAT in respect of sports fields and related facilities. The fee for this work of £30,500 has been charged in the current year and is shown under expenditure on the Corporate and Democratic Core.

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