External audit report 2016/17

Chesterfield Borough Council

September 2017

Summary for Standards & Audit Committee

Financial statements

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

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

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

The following outstanding matters are currently outstanding:

- Receipt of the management representation letter;
- Post balance sheet events review up to the date of signing the audit opinion;
- Final review of the revised financial statements and Annual Governance Statement; and
- Final review following clearance of remaining matters.

Based on our work, we have raised one recommendation, which can be found in Appendix 1.

The agreed recommendations raised in our ISA 2015/16 have been fully implemented.

We are now in the completion stage of the audit and anticipate issuing our completion certificate by the deadline of 30 September 2017.

Use of resources

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

We therefore anticipate issuing an unqualified value for money opinion.

See further details in section two

Acknowledgements

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

We ask the Standards & Audit Committee to note this report.

Contents

The key contacts in relation to our audit are:

Tony Crawley
Director
KPMG LLP (UK)

+44 (0)116 256 6067
tony.crawley@kpmg.co.uk

Richard Walton
Senior Manager
KPMG LLP (UK)

+44 (0)7917 232307
richard.walton@kpmg.co.uk

Joseph Mugwagwa
Assistant Manager
KPMG LLP (UK)

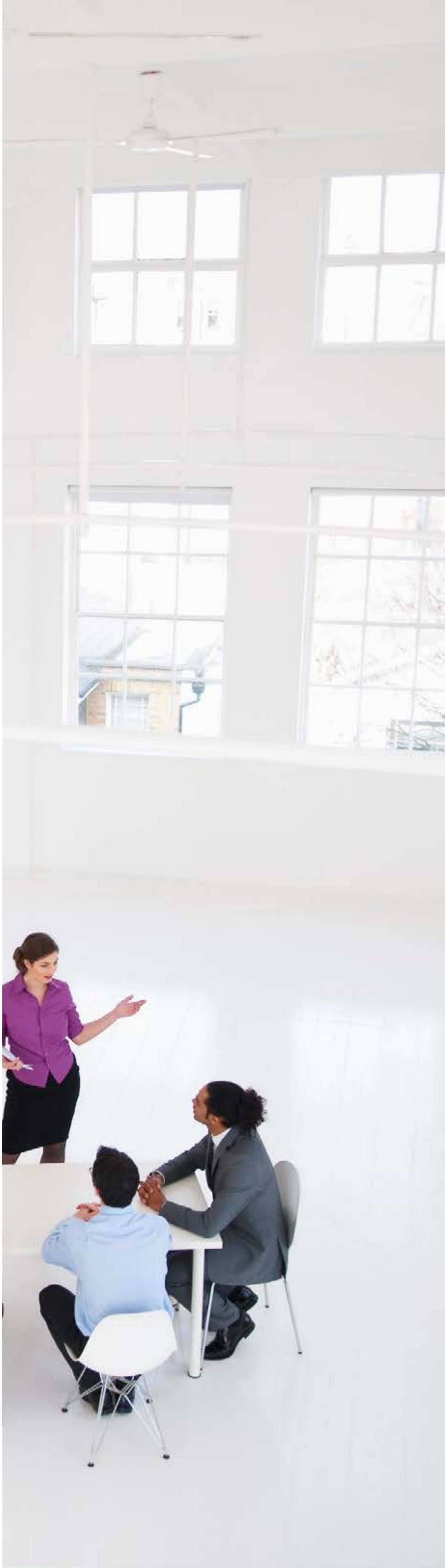
+44 (0)7391 733760
Joseph.mugwagwa@kpmg.co.uk

Section one

Financial Statements

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

For the year ending 31 March 2017, the Authority has reported an underspend of £100,000 against the revised General Fund budget.



Significant audit risks

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

Significant audit risks - 1. Significant changes in the pension liability due to LGPS Triennial Valuation

Why is this a risk?

During the year, the Pension Fund has undergone a triennial valuation with an effective date of 31 March 2016 in line with the *Local Government Pension Scheme (Administration) Regulations 2013*. The share of pensions assets and liabilities for each admitted body is determined in detail, and a large volume of data is provided to the actuary to support this triennial valuation.

There is a risk that the data provided to the actuary for the valuation exercise is inaccurate and that these inaccuracies affect the actuarial figures in the accounts. Most of the data is provided to the actuary by Derbyshire County Council, who administer the Pension Fund.

Our work to address this risk

We have reviewed the process used to submit payroll data to the Pension Fund and have found no issues to note. We have also tested the year-end submission process and agreed pension costs, liabilities and disclosures under IAS19 to confirmations from the scheme actuary.

We have liaised with our own internal actuary as well as engaging with our Pension Fund audit team to gain assurance over the pensions figures. We have received formal letter of assurance from the Pension Fund audit team.

Considerations required by professional standards

Fraud risk of revenue recognition

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

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

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

Management override of controls

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

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

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

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

Other areas of audit focus

We identified two areas of audit focus. These areas are not considered as significant risks as there are less likely to give rise to a material error. Nonetheless these are areas of importance where we would carry out substantive audit procedures to ensure that there is no risk of material misstatement.

Other areas of audit focus - Disclosures associated with retrospective restatement of CIES, EFA and MiRS

Background

CIPFA has introduced changes to the 2016/17 Local Government Accounting Code (Code):

- Allowing local authorities to report on the same basis as they are organised by removing the requirement for the Service Reporting Code of Practice (SeRCOP) to be applied to the Comprehensive Income and Expenditure Statement (CIES); and
- Introducing an Expenditure and Funding Analysis (EFA) which provides a direct reconciliation between the way local authorities are funded and prepare their budget and the CIES. This analysis is supported by a streamlined Movement in Reserves Statement (MiRS) and replaces the current segmental reporting note.

The Authority was required to make a retrospective restatement of its CIES (cost of services) and the MiRS. New disclosure requirements and restatement of accounts require compliance with relevant guidance and correct application of applicable accounting standards.

What we have done

For the restatement, we have obtained an understanding of the methodology used to prepare the revised statements. We have also agreed figures disclosed to the Authority's supporting working papers and found no issues to note.

Business rates appeals

Background

The provision for business rate appeals is an area of audit focus 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 a matter of judgement as to when the financial impact will fall.

We will review the Authority's approach to estimating its provision for business rate appeals against the requirements of IAS 37 – Provisions, Contingent Liabilities and Contingent Assets. payments required

What we have done

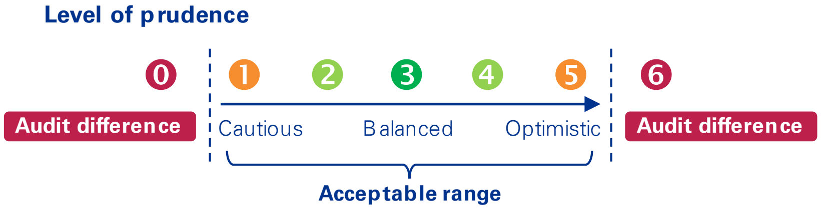
We have reviewed the estimation technique and confirmed that the same methodology as the prior year has been followed.

To check the accuracy of this estimate we have reviewed the actual payments made in relation to the provision made in the prior year.

We do not have concerns to raise as a result of our testing.

Judgements

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



Subjective areas	2016/17	2015/16	Commentary
Provisions for business rate appeals	3	3	In 2013/14, changes in local authority funding arrangements meant that the Authority became responsible for a proportion of successful rateable value appeals. We have reviewed the Authority's calculation of the appeals provision. The provision remains at a similar level as 2015/16 as there has been no significant changes in 2016/17.
Debtors provisioning	3	3	We have reviewed the calculation and consider the provision to be reasonable. The overall amount of outstanding debt has remained at a similar level to the prior year, with a slight decrease to £6.550 million (2015/16: £6.873 million).
Property, plant and equipment (valuations and asset lives)	3	3	The Authority continues its use of the beacon methodology in line with the DCLG's *Stock Valuation for Resource Accounting* published in November 2016. The Authority has utilised an external valuation expert to provide valuation estimates. We have reviewed the instructions provided and deem that the valuation exercise is in line with the instructions. The large change in overall valuation is due to the change in social housing discount factor applied to Council Dwellings. This change is consistent with other Authorities. Asset lives used have not changed significantly from the prior year, and are considered reasonable.
Pensions liability	3	3	The balance of £63.741 million (2015/16: £60.998 million) represents the deficit on the pension scheme. The reported balance, together with assumptions and disclosures, are consistent with the report from the external actuary.

Proposed opinion and audit differences

Subject to all outstanding queries being resolved to our satisfaction, we anticipate issuing an unqualified audit opinion on the Authority's 2016/17 financial statements following approval of the Statement of Accounts by the Standards & Audit Committee on 20 September 2017.

Audit differences

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

The final materiality (see Appendix 4 for more information on materiality) level for this year's audit was set at £1.4m million. Audit differences below £0.055 million are not considered significant.

Our audit did not identify material audit differences. We have recommended two amendments to the accounts presented for audit – the impact of the change in social housing factor has been moved to be an exceptional item in the CIES and the Collection Fund has been re-stated to correct a drafting error. These adjustments are presentational and do not impact on the General Fund and Housing Revenue Account balances as at 31 March 2017.

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 2016/17 ('the Code'). We understand that the Authority will be addressing these where necessary.

Annual governance statement

We have reviewed the Authority's 2016/17 draft Annual Governance Statement and have made a number of comments in respect of its format, content and the requirements of *Delivering Good Governance in Local Government: A Framework published by CIPFA/SOLACE (2016).*

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

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

— It is not misleading or inconsistent with other information we are aware of from our audit of the financial statements.

Narrative report

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

Accounts production and audit process

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

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

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

Accounting practices and financial reporting

The Authority has strengthened its financial reporting by finalising the accounts in a shorter timescale. This puts the Authority in a generally good position to meet the new 2017/18 deadline. We consider the Authority's accounting practices appropriate.

Completeness of draft accounts

We received a set of draft accounts ahead of the statutory deadline of 30 June 2017.

Quality of supporting working papers

We issued our Prepared by Client ("PBC") list in January 2017 which outlines the documentation requested for our audit. This helps the Authority to provide audit evidence in line with our expectations.

We found that the quality of working papers provided was good and met the standards specified in our Accounts Audit Protocol 2016/17.

Response to audit queries

Officers dealt with our audit queries efficiently, responding within appropriate timescales.

Prior year recommendations

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

The agreed recommendations raised in our ISA 2015/16 have been fully implemented.

Controls over key financial systems

We have tested controls as part of our focus on significant audit risks and other parts of your key financial systems on which we rely as part of our audit. The strength of the control framework informs the substantive testing we complete during our final accounts visit.

We have no concerns to report in relation to our testing of controls.

Completion

We confirm that we have complied with requirements on objectivity and independence in relation to this year's audit of the Authority's 2016/17 financial statements. We updated the Committee in July on our additional specific safeguards for the audit manager.

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

Once we have finalised our opinions and conclusions we will 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 Chesterfield Borough Council and for the year ending 31 March 2017, taking into account the independence declaration at Appendix 5, we confirm that there were no relationships between KPMG LLP and Chesterfield Borough Council, its directors and senior management and its affiliates that we consider may reasonably be thought to bear on the objectivity and independence of the audit engagement lead and audit staff. We also confirm that we have complied with Ethical Standards and the Public Sector Audit Appointments Ltd requirements in relation to independence and objectivity.

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

Management representations

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

Other matters

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

- Significant difficulties encountered during the audit;
- Significant matters arising from the audit that were discussed, or subject to correspondence with management;
- Other matters, if arising from the audit that, in the auditor's professional judgment, are significant to the oversight of the financial reporting process; and
- Matters specifically required by other auditing standards to be communicated to those charged with governance (e.g. significant deficiencies in internal control; issues relating to fraud, compliance with laws and regulations, subsequent events, non disclosure, related party, public interest reporting, questions/objections, opening balances).

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

Section two

Value for money

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

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

VFM conclusion

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

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

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

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

1 Identification of significant VFM risks (if any)

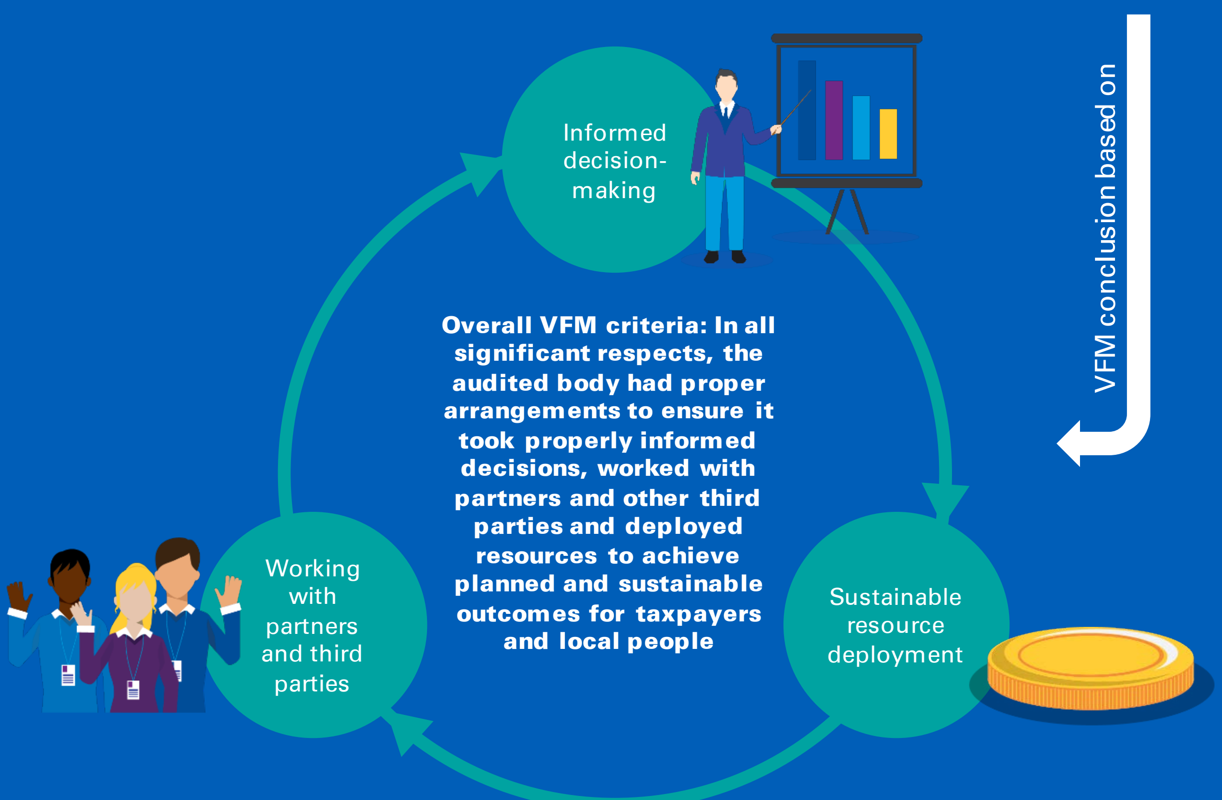
- VFM audit risk assessment
- Financial statements and other audit work

2 Continually re-assess potential VFM risks

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

3 VFM conclusion

- **Conclude on arrangements to secure VFM**



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

VFM assessment summary			
VFM area of focus	**Informed decision-making**	**Sustainable resource deployment**	**Working with partners and third parties**
1. Medium Term Financial Planning	✓	✓	✓
Overall summary	✓	✓	✓

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

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

VFM - Area of focus

We identified one VFM Significant Risk, as communicated to you in our *2016/17 External Audit Plan*. We are satisfied that a combination of external and internal scrutiny and our own review provides us with sufficient assurance to enable us to conclude that the Authority's current arrangements in relation to this area is adequate. Nevertheless, there are significant challenges ahead.

VFM – Significant Risk - Medium Term Financial Planning

Why is this an area of focus?

The Authority continues to face similar financial pressures and uncertainties to those experienced by others in the local government sector. The Authority needs to have effective arrangements in place for managing its annual budget, generating income and identifying and implementing any savings required to balance its medium term financial plan.

Summary of our work

We reviewed the financial outturn position against original plans, comparing the outturn with both the original and revised estimates for the financial year.

The original budget set by the Authority for 2016/17 showed a deficit position of £236k after allowing for planned savings of £1,051k. As at February 2017, the Authority was forecasting that it will deliver its 2016/17 budget and achieve a surplus of £105k.

This outturn position provides the Authority with its planned level of financial resilience against risks including uncertainties relating to the reduction in Government grants, NNDR and New Homes Bonus, alongside some flexibility to enable it to invest either to save or to generate returns. The Authority has been able to balance the General Fund with a £100k surplus in 2016/17 in financially challenging times. However the surplus only represents 0.1% of net expenditure.

The Medium Term Financial Plan shows that planned savings in future years is currently minimal compared with those previously achieved. A deficit of £209k and £458k is being forecast for 2017/18 and 2018/19 respectively. This represents a significant challenge and the increasing localisation of financial risk means that there is less certainty about income levels. We will continue to discuss the position and the Authority's plans and options in our regular liaison meetings with senior officers.

Appendices

Key issues and recommendations

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

The Authority should closely monitor progress in addressing the risk, including the implementation of our recommendation. We will formally follow up this recommendation next year.

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

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

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

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

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

2016/17 recommendations summary

Priority	Number raised from our audit
High	-
Medium	-
Low	1
Total	**1**

Low priority

1. Review of financial statements

During the audit a drafting error (relating to the prior year Collection Fund comparative figures) meant that the accounts presented for audit were not arithmetically accurate and missed some comparative figures.

This was easily corrected but could have been found prior to the audit if the accounts were reviewed by someone independent to the production process.

Recommendation

Prior to submission for audit the accounts should be reviewed by someone not involved in the accounts process.

Management Response

Agreed. The accounts will be reviewed by our Internal Audit department for 2017/18.

Owner

Director of Finance & Resources

Deadline

May 2018

Follow-up of prior year recommendations

In the previous year, we raised three recommendations which we reported in our *External Audit Report 2015/16 (ISA 260)*. The agreed recommendations raised in our ISA 2015/16 have been fully implemented.

We have used the same rating system as explained in Appendix 1.

Each recommendation is assessed during our 2016/17 work, and we have obtained the recommendation's status to date. We have also obtained Management's assessment of each outstanding recommendation.

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

2015/16 recommendations status summary

Priority	Number raised	Number implemented / superseded
High	-	-
Medium	3	3
Low	-	-
Total	**3**	**3**

Medium priority

1. Accounts Production Process

The deadline for the production of the accounts is moving to 31 May with effect from 2017/18. The Authority now only has one more year to bring forward the production of the accounts in light of this change. 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.

Management original response

Agreed

We have already begun bringing deadlines forward as part of the 2015/16 final accounts process which was reflected in the timetable issued.
The final accounts timetable for 2016/17 will detail a 31 May 2017 completion date.

KPMG assessment

The Authority have reviewed and changed their closedown timetable. This remains a challenge for next year but the Council are working with CIPFA on accelerated closedown for 2017/18

Fully implemented

Medium priority

2. Pension Shortfall

The Authority is reliant on the Pension Fund Administrator to provide pension shortfall figures which are required to be disclosed in the exit packages note where the Authority is committed to redundancy. This information was not disclosed in 2015/16 as the information was not available from the Pension Fund Administrator in time.

Recommendation

It is recommended that the information from the Pension Fund Administrator is requested earlier in the process in order to ensure that pension shortfall figures can be disclosed.

Management original response

Agreed

Pension Shortfall figures where included in the 2015/16 Exit Packages note for the individuals we had received estimates for from the Pension Fund Administrator.

We requested pension shortfall estimates from the Pension Fund Administrator for all individuals whose employment terminated as soon as we became aware of the termination. We are unable to influence the time taken for responses to the request.

KPMG assessment

We did not find any issues in relation to this during the 2016/17 audit.

Fully implemented

Medium priority

3. Financial Outturn

The financial outturn position showed a positive variation on that being forecast and reported to Members throughout the year. A summary of the most significant variances was reported to Cabinet in June 2016, however it was noted that further work was required to establish which variances are likely to recur in future years.

Recommendation

It is recommended that the reasons behind the variances and their continued impact on the financial position be produced as soon as possible so that learning points can be established and amendments made to current year budgets, as necessary.

Management original response

Agreed

An analysis of areas (Expenditure and Income) which have consistently underspent over the past 3 years has been produced. This analysis is currently being used in budget challenge sessions and should enable us to build savings into our latest budget therefore ensuring we are communicating as accurate a position as possible to Members.

KPMG assessment

We have not noted any further areas for improvement in the reporting as a result of our work this year.

Fully implemented

Appendix 3

Audit differences

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

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

Adjusted audit differences

The following table sets out the material audit differences identified by our audit of Chesterfield Borough Council's financial statements for the year ended 31 March 2017. It is our understanding that these will be adjusted. However, we have not yet received a revised set of financial statements to confirm this.

Table 1: Adjusted audit differences (£'000)

No.	Income and expenditure statement	Movement in reserves statement	Assets	Liabilities	Reserves	Basis of audit difference
1	Dr Housing Expenses £54m Cr Exceptional item £54m					During the year a national policy decision was taken to alter the % used to discount the valuation of Council Dwelling to recognize their use as social housing. This resulted in a large decrease in the value of Council Dwellings in the Statement of Financial Position and therefore there was a large credit shown within the HRA and the CIES. We recommended to officers that it would be better to show the impact of this change as an exceptional item on the face of the CIES in order to not confuse the underlying position. Officers agreed to make this amendment to improve the transparency of financial reporting. This amendment has no impact on the financial outturn for the Council or the retained General Fund balance.
2						The comparative figures for the Collection Fund in the accounts presented for audit excluded some lines which led to the financial statements not being arithmetically accurate or consistent with the audited accounts from the prior year. This was a drafting error and was corrected as soon as it was brought to the attention of officers. This had no impact on the financial position of the Council.
	Dr/Cr £0m	**Dr/Cr £0m**	**Dr/Cr £0m**	**Dr/Cr £0m**	**Dr/Cr £0m**	**Total impact of adjustments**

Materiality and reporting of audit differences

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 2016/17, presented to you in February 2017.

Materiality for the Authority's accounts was set at £1.4m which equates to around 1.1 percent of gross expenditure. We design our procedures to detect errors in specific accounts at a lower level of precision.

Reporting to the Standards & Audit Committee

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

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

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

In the context of the Authority, we propose that an individual difference could normally be considered to be clearly trivial if it is less than £0.055m.

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

Declaration of independence and objectivity

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

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

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

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

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

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

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

General procedures to safeguard independence and objectivity

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

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

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

Auditor declaration

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

Declaration of independence and objectivity (cont.)

Non-audit work and independence

Below we have listed the non-audit work performed during 2016/17 and set out how we have considered and mitigated (where necessary) potential threats to our independence.

Summary of non-audit work		
Description of non-audit service	**Estimated fee**	**Potential threat to auditor independence and associated safeguards in place**
Pooling of Housing Capital Receipts claim 2015/16 (performed in 2016/17)	£3,000	**Self-interest**: This engagement is entirely separate from the audit through a separate contract, engagement team and lead partner. In addition, the audit fee scale rates were set independently to KPMG by the PSAA. Therefore, the proposed engagement will have no perceived or actual impact on the audit team and the audit team resources that will be deployed to perform a robust and thorough audit. **Self-review:** The nature of this work is auditing these grant claims. The Pooling of Capital Receipt claim has no impact on the main audit because completed after the audit was completed. Therefore this does not impact on our opinion and we do not consider that the outcome of this work threats to our role as external auditors. Consequently we consider we have appropriately managed this threat. **Management threat:** This work will be audit work only – all decisions will be made by the Authority. **Familiarity**: This threat is limited given the scale, nature and timing of the work. The existence of the separate team for this work is the key safeguard. **Advocacy**: We will not act as advocates for the Authority in any aspect of this work. We will draw on our experience in such roles to provide the Authority with a range of approaches but the scope of this work falls well short of any advocacy role. **Intimidation**: not applicable
Total estimated fees	**£3,000**	
Total estimated fees as a percentage of the external audit fees	**6%**	

Appendix 6

Audit fees

Audit fees

As communicated to you in our External Audit Plan 2016/17, our scale fee for the audit is £52,445 plus VAT *(£52,445 in 2015/16)*, which is in line with the prior year.

Our work on the certification of Housing Benefits (BEN01) is not yet complete. The planned scale fee for this is £6,465 plus VAT (£6,465 in 2015/16). See further details below.

PSAA fee table		
Component of audit	**2016/17** *(planned fee)* £	**2015/16** *(actual fee)* £
Accounts opinion and use of resources work		
PSAA scale fee set in 2015/16	52,445	52,445
Estimated additional work to conclude our opinions (note 1)	TBC	-
Subtotal	**52,455***	**52,445**
Housing benefits (BEN01) certification work		
PSAA scale fee set in 2015/16 – planned for October 2017	6,465	6,465
Total fee for the Authority	**58,910***	**58,910**

All fees are quoted exclusive of VAT.

Note 1: Accounts opinion and use of resources work

For 2016/17, we will discuss additional fee in relation to the work undertaken in respect of the CIES restatement with the Director of Finance & Resources. This is still subject to final agreement and PSAA approval.

*Total excludes this additional fee.

KPMG