External Audit Report 2015/16

Chesterfield Borough Council

— September 2016

Contents

The contacts at KPMG in connection with this report are:

Tony Crawley
Director

KPMG LLP (UK)

Tel: 0116 256 6067
tony.crawley@kpmg.co.uk

Helen Brookes
Manager

KPMG LLP (UK)

Tel: 0115 945 4476
Helen.brookes@kpmg.co.uk

Kay Meats
Assistant Manager

KPMG LLP (UK)

Tel: 0115 945 4455
kay.meats@kpmg.co.uk

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

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

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

Section one: Introduction

Introduction

This document summarises:

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

Scope of this report

This report summarises the key findings arising from:

- Our audit work at Chesterfield Borough 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 March 2016, set out the four stages of our financial statements audit process.

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

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 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 the following key financial statements audit risks in our 2015/16 External Audit Plan issued in March 2016: - New bank accounts; and - Business rate appeals. During the year we identified an additional risk in relation to the implementation of a new housing repairs and maintenance system which resulted in us carrying out additional work. We have worked with officers throughout the year to discuss these key risks and our detail findings are reported in section 3 of this report. There are no matters of any significance arising as a result of our audit work in these key risk areas.

Headlines (cont.)

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

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 on 29 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 particular we would like to thank officers who were available throughout the audit visit.
VFM conclusion and risk areas	We identified financial resilience as a VFM risk in our External Audit Plan 2015/16 issued in March 2016. 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. The Authority has experienced capacity issues with the Section 151 Officer post being vacant over the summer. It is important that the Authority continues to monitor the financial position and that the reasons behind the variances in the 2015/16 outturn position are understood. 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 our final procedures in respect of the following areas: — A review of assurances from the Derbyshire County Council LGPS auditor; — Our final file reviews; and — 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 provided a draft of this representation letter to the Section 151 Officer on 23 August 2016. We draw your attention to the requirement in our representation letter for you to confirm to us that you have disclosed all relevant related parties to us. We confirm that we have complied with requirements on objectivity and independence in relation to this year's audit of the Authority's financial statements.

Section three: Financial Statements

Proposed opinion and audit differences

We 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 Standards and Audit Committee on 21 September 2016.

Audit differences

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

The final materiality (see Appendix two for more information on materiality) level for this year's audit was set at £1.1m. Audit differences below £55k are not considered significant.

We did not identify any material misstatements. Of the other audit adjustments we have identified, the most significant in monetary value was as follows:

— an increase to the business rates rateable value disclosed in the collection fund of £417k to reflect the figure provided by the Valuation Office Agency.

In addition, we identified a 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 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 March 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 each of the risks that are specific to the Authority.

Significant Risk 1

— New bank accounts

The Authority has transferred its banking arrangements during the year from the previous provider and there is consequently a risk that data was not transferred correctly.

— Findings

We reviewed the transfer of the bank accounts to the new provider and identified no issues of concern.

Significant Risk 2

— Business rate appeals

The provision for business rate appeals is a risk as local authorities have little control over the level of appeals and their outcome. It is difficult to anticipate the financial impact of successful appeals and so the potential change in rateable value needs to be estimated. Also, there is usually no indication of timescales to settle an appeal, making it hard to measure when the financial impact will fall.

— Findings

We reviewed the approach to estimating the provision for business rate appeals against the requirements of International Auditing Standard 37 – Provisions, Contingent Liabilities and Contingent Assets and no issues were identified.

Significant audit risks (cont.)

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.

During the year we identified the following additional significant risk:

Significant Risk 3

— Change of repairs and maintenance system

In July 2015 the Authority implemented a new housing repairs and maintenance system. There is an associated risk in terms of potential loss of data on transition to the new system and for the control environment to become weakened as a result of the change.

— Findings

We reviewed the processes in place for ensuring that the information from the old system fully transferred into the new system including a reconciliation between the systems. No issues were identified.

We tested the controls in operation in the new system and found these to be operating effectively.

Significant audit risks

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

This section sets out our detailed findings on those risks.

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

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

Fraud risk of revenue recognition

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

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

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

Management override of controls

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

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

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

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

Other areas of focus

In our External Audit Plan 2015/16, presented to you in March 2016, we identified one area of audit focus. This was not considered as significant risks but area of importance where we would carry out some substantive audit procedures to ensure there is no risk of material misstatement.

We have now completed our testing. The table sets out our detailed findings for the area of audit focus.

Area of focus 1

— Changes to accounting standards

Our audit will consider changes to accounting standards, for example the measurement at fair value of any surplus assets which are not held for sale and when you should recognise a liability for a levy imposed by a government.

— Findings

We have undertaken a review of the treatment adopted in respect of surplus assets and we are satisfied that the treatment adopted is reasonable. We have not identified any issues in respect of the recognition of liabilities from levies.

Judgements

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

Level of prudence

0 1 2 3 4 5 6

Audit difference | Cautious | Balanced | Optimistic | Audit difference

Acceptable range

Assessment of subjective areas				
Asset/liability class	**15/16**	**14/15**	**Balance**	**KPMG comment**
Business Rate Appeals Provision	3	3	£4.6m *(PY: £4.5m)*	The Authority employs an independent company to assess the appeals and assist in the calculation of an appropriate provision. If further appeals come to light, the Authority will need to ensure there are sufficient reserves to fund this.
Property, Plant and Equipment (valuations / asset lives)	3	3	£359m *(PY: £343m)*	The value of Council Dwellings has increased this year as a result of additions totalling £15m relating largely to property improvements. This has been partly offset by a downward revaluation and corresponding disposals.
Pensions Reserve	3	3	£61m *(PY: £75m)*	This balance includes a movement in discount rate, inflation, discount rate and life expectancy. There has been an actuarial gain in year to the Authority. Management review the assumptions made by the actuary and we have agreed the reported figures to actuary reports.

Accounts production and audit process

We have noted that the quality of the accounts and the working papers met the required standard.

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 continued to maintain a good financial reporting process. The Authority must now aim to bring forward the production of the accounts in readiness for the new 31 May statutory deadline which comes into effect in 2017/18. This will need to achieved whilst also maintaining the quality of the accounts and working papers. We consider that accounting practices are appropriate.
Completeness of draft accounts	We received a complete set of draft accounts on 29 June 2016. The deadline of 30 June will end after the submission of the 2016/17 accounts.
Quality of supporting working papers	Our Accounts Audit Protocol, which we issued on 27 June 2016 and discussed with the Acting Section 151 Officer, 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.

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 Chesterfield Borough Council for the year ending 31 March 2016, 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 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 Acting Chief Finance Officer for presentation to the Standards and Audit Committee. We require a signed copy of your management representations before we issue our audit opinion.

Other matters

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

— Significant difficulties encountered during the audit;

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

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

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

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

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.

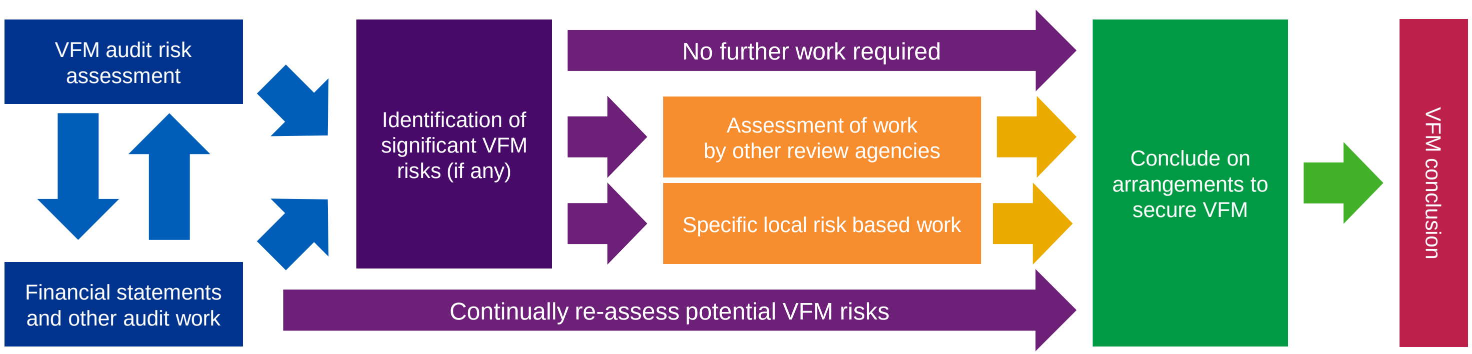
Conclusion

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
✓	✓	✓
Met	**Met**	**Met**



Specific VFM Risks

We have identified a specific VFM risk around financial resilience. 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 this risk.

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;
- considered the results of relevant work by the Authority, inspectorates and review agencies in relation to these risk areas; and
- completed specific local risk based work.

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.

The financial outturn for the year was a net surplus of £448k compared with the original budget forecast of a £94k deficit and a revised budget forecast of £225k surplus. The key variances were predominantly in relation to planning and health and wellbeing.

In the report to cabinet on 14 June 2016 it was noted that further work was required to establish which variances were likely to recur in future years. The results of this exercise were due to be included in the next budget monitoring report to Cabinet, however, this work has yet to be undertaken due to a lack of senior capacity with the Section 151 Officer post being vacant over the summer.

The new Section 151 Officer will need to act quickly to get the required understanding of the Authority in order to lead the financial analysis, however tackling the financial position is a matter for all officers.

Specific VFM Risks (cont.)

Key VFM risk	Risk description and link to VFM conclusion	Assessment
Financial resilience	**Financial Resilience** The Government's Autumn Statement and Spending Review indicated its intention to change funding sources over the next few years, with less 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 there deductions in Government funding in budget forecasts, as well as inflationary pressures, but it will need to ensure that it continues to deliver efficiencies. A balanced budget was set for 2015/16 including circa £600k planned savings. Going forward, the financial position remains challenging for the Authority with significant deficits forecast before savings for the next four years. In addition to the pressures upon the Authority's General Fund, recent government announcements concerning future rent reductions for social housing will impact upon the Authority's Housing Revenue Account. This is relevant to the informed decision making and sustainable resource deployment sub-criteria of the VFM conclusion.	We have reviewed the Authority's Medium Term Financial Plan (MTFP) and outturn for 2015/16. 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 over £11m over the life of the current MTFP, in addition to the savings already achieved. The Authority has acknowledged the need to analyse savings achieved in previous years to assess what measures have been successful. • The Authority has reported a surplus of £448k in 2015/16 against an original budgeted deficit of £94k and a revised budget surplus of £225k. The year end outturn position showed a significant positive variation on the outturn position being forecast and reported to Members throughout the year. The most significant variances have been identified, however it is important that the reasons behind the variances and the impact of these on future years is understood. • The Authority has achieved its general fund reserves target of £1.5 million at the end of 2015/16. At 31 March 2016 the Authority has £10.4 million of general fund earmarked reserves. However, it should be noted that the majority of these are already committed to projects. As per the report to Cabinet on 14 June 2016 the uncommitted balance on these reserves was £1.35m.

Addressing the VFM conclusion

In reaching our VFM conclusion we have considered the Authority's arrangements for securing financial resilience.

Addressing the VFM conclusion

In reaching our VFM conclusion we have considered the Authority's arrangements for securing financial resilience. This has included detailed reviews of key documents including the MTFP.

We have taken into account the issues which the Authority has been addressing throughout the year in respect of devolution, the impact that this has on the Authority's plans going forward and the actions taken to mitigate those risks.

We have also given consideration to the robustness of the MTFP and whether the assumptions around future funding and income streams are appropriate. This includes regular discussion with key officers about the Authority's plans for growth and future income generation.

We also considered whether the proposed budgets appropriately reflected the financial risks being faced by the Authority including the phasing out of Revenue Support Grant (RSG), probable changes to the New Homes Bonus scheme which are expected to be confirmed during 2016/17 and reforms to National Non Domestic Rates (NNDR).

Our work concluded that the planning assumptions made by the Authority were reasonable. We recognise that there are significant uncertainties about the future of local government financing, for example the details of reform to Business Rates and New Homes Bonus. When clarity is provided by Central Government, we will discuss the implications with the Section 151 officer at our regular liaison meetings.

Our findings in relation to 2015/16

Our findings in respect of the financial outturn for 2015/16 are summarised on page 21. Other key findings from our review of your arrangements are as follows:

- 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 funding to the local government finance settlement from DCLG.
- The Authority has agreed policies on budgeting, fees and charges and, reserves which we have reviewed. Whilst the Authority has made savings over a number of years, it recognises that strategic solutions will be necessary to deliver the required level of savings for the coming years . It has established its strategic direction for achieving savings under the transformation programme "Great Place: Great Service" (GPGS) which focuses on Customer Service, ICT, Workforce and Asset Management to transform and modernise service delivery.

Addressing the VFM conclusion (cont.)

In reaching our VFM conclusion we have considered the Authority's arrangements for securing financial resilience.

Our findings in relation to 2015/16 (cont.)

- The Authority flags a number of risks and uncertainties within its MTFP, including interest rates, inflation and business rates growth. 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 is progressing well, however the work involved has had a significant impact on the capacity of the Chief Executive. The devolution process will continue to impact on the time of senior management over the next 12 months and this will need to be managed carefully.

2016/17

We have reviewed the assumptions made in drafting the 2016/17 budgets.

The budget forecasts approved at the start of the year showed a deficit for 2016/17 before savings of £1.4m. In the latest cabinet report dated 23 February 2016 the forecast for 2016/17 is a £236k deficit. The medium term forecast will need to be updated to reflect the impact of the budget variances recorded in 2015/16 that are likely to be of a recurring nature. This will require further work to get a better understanding of why the variances occurred.

Appendices

Appendix 1: Key issues and recommendations

Appendix 2: Materiality and reporting of audit differences

Appendix 3: Independence and objectivity

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** 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.	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.
2	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.	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.

Key issues and recommendations (cont.)

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

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

We will formally follow up these recommendations next year.

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

No.	Risk	Issue and recommendation	Management response/responsible officer/due date
3	❷	**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.	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.

Audit differences

This appendix sets out the audit differences.

The financial statements have been amended for all 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 Standards and Audit Committee). We are also required to report all material misstatements that have been corrected but that we believe should be communicated to you to assist you in fulfilling your governance responsibilities.

Uncorrected audit differences

We are pleased to report that there are no uncorrected audit differences.

Corrected audit differences

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 the financial statements have been amended for all of them.

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

Materiality and reporting of audit differences

For 2015/16 our materiality is £1.1m for the Authority's accounts.

We have reported all audit differences over £55k 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 March 2016.

Materiality for the Authority's accounts was set at £1.1m which equates to around 1% of gross expenditure. We design our procedures to detect errors in specific accounts at a lower level of precision.

Reporting to the Standards and 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 and 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 £55k 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 Standards and 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.

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 Standards and Audit Committee.

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

Declaration of independence and objectivity (cont.)

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

General procedures to safeguard independence and objectivity

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

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

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

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

Auditor declaration

In relation to the audit of the financial statements of Chesterfield Borough Council Council for the financial year ending 31 March 2016, 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.

Audit Independence

Audit Fees

Our scale fee for the audit was £52,445 plus VAT (£69,927 in 2014/15). This fee was in line with that highlighted within our audit plan agreed by the Standards and Audit Committee in March 2016. Our scale fee for certification for the HBCOUNT was £6,465 plus VAT.

Non-audit services

We have summarised below the non-audit services that we have been engaged to provide, the estimated fee, the potential threats to auditor independence and the associated safeguards we have put in place to manage these.

Description of non-audit service	Estimated fee	Potential threat to auditor independence and associated safeguards in place
Certification of the Pooling of Housing Capital Receipts Return	£3,000	**Self interest** – This engagement is entirely separate from the audit and there is a separate engagement letter in place. **Self review** – The nature of this work is to certify the Pooling of Housing Receipts in accordance with the specific assurance instructions set out by DCLG in CFB06. 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 being undertaken in accordance with the Assurance Instruction CFB06 provided by DCLG. **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. We report our findings directly to DCLG. **Intimidation** – Not applicable.
Total estimated fees	**£3,000**	
Total estimated fees as a percentage of the external audit fees	**5.7%**	

kpmg.com/uk