KPMG

External Audit ISA260 Report 2017/18

Rushcliffe Borough Council

24th July 2018

DRAFT

Summary for Corporate Governance Group

This document summarises the key findings in relation to our 2017-18 external audit at Rushcliffe Borough Council ('the Authority').

This report covers both our on-site work which was completed in March and June - July 2018 on the Authority's significant risk areas, as well as other areas of your financial statements, and the control environment in place to support the production of timely and accurate financial statements.

Organisational and IT control environment	We have reviewed the Financial and IT control environment, and do not have any significant issues to raise.
Controls over key financial systems	We have reviewed the controls over the key financial systems, and we have raised one issue regarding accrual of retentions
Accounts production	We received the draft accounts on the 4th of June 2018. The Draft accounts were complete and were of a high standard.

Financial statements

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 31 July 2018.

The remaining audit work includes the following matters:

- Completing our work in respect of pensions, fixed assets, provisions and our substantive analytical reviews
- Final Audit Director review;
- Addressing any remaining audit queries and any further matters arising from our completion procedures;
- General audit file completion and review procedures;
- Post balance sheet events review up to the date of signing the audit opinion; and
- Final review of the working papers and amended accounts.

Based upon our initial assessment of risks to the financial statements (as reporting to you in our *External Audit Plan 2017/18* and updated during our audit) we identified the following significant risks (excluding those mandated by International Standards on Auditing – see Page 11):

— **Valuation of PPE** – We have reviewed the valuation of Property Plant and Equipment, including Investment property. We have not identified any audit differences;

— **Pensions Liabilities** – We have reviewed the valuation of the Local Government Pension Scheme net Liability, including accounting for the up-front payment made in April 2017 to fund the deficit. We have not identified any audit differences.;

We have not identified any audit adjustments above our triviality threshold.

We have raised one recommendation as a result of our audit work.

We are now in the completion stage of the audit and have provided management with a list of outstanding items. We expect to resolve these issues prior to the Corporate Governance Group meeting.

Summary for Corporate Governance Group (cont.)

Value for money arrangements	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** We set out our assessment of those areas requiring additional risk based work in our *External Audit Plan 2017/18* and have updated this assessment during our interim visit. As a result of this we have identified the following significant VFM audit risks: — **Delivery of financial and saving plan** – We have assessed the Authority's financial performance in year, as well as their financial plans for future years, which incorporate savings targets. We have not identified any significant issues from this process. — **Management of the Asset Investment Strategy Fund** – We have reviewed the Authority's Governance arrangements over the Asset Investment Fund, including authorisation of new investments, and ongoing monitoring of existing investments. We do not have any issues to raise from this process. See further details on page 18.
Exercising of audit powers	We have a duty to consider whether to issue a report in the public interest about something we believe the Authority should consider, or if the public should know about. We have not identified any matters that would require us to issue a public interest report. In addition, we have not had to exercise any other audit powers under the Local Audit & Accountability Act 2014
Acknowledgements	We would like to take this opportunity to thank officers and Members for their continuing help

Section one

Control Environment

Organisational and IT control environment

We have identified no significant issues with the Authority's organisational and IT control environment and consider that the overall arrangements that have been put in place are reasonable.

Work completed

Controls operated at an organisational level often have an impact on controls at an operational level and if there were weaknesses this would have implications for our audit. We obtain an understanding of the Authority's overall control environment and determine if appropriate controls have been implemented. We do not complete detailed testing of these controls.

The Authority relies on information technology ("IT") to support both financial reporting and internal control processes. In order to satisfy ourselves that we can rely on the use of IT, we test controls over access to systems and data, system changes and computer operations.

Key findings

We consider that your organisational and IT controls are effective overall.

Aspect of IT controls	Assessment
Access to systems and data	3
System changes and maintenance	3
Computer operations and end-user computing	3

Key	
1	Significant gaps in the control environment.
2	Deficiencies in respect of individual controls
3	Generally sound control environment.

The controls over all of the key financial systems are sound.

Where we have determined that this is the most efficient audit approach to take, we evaluate the design and implementation of the control and then test selected controls that address key risks within these systems. The strength of the control framework informs the substantive testing we complete during our final accounts visit.

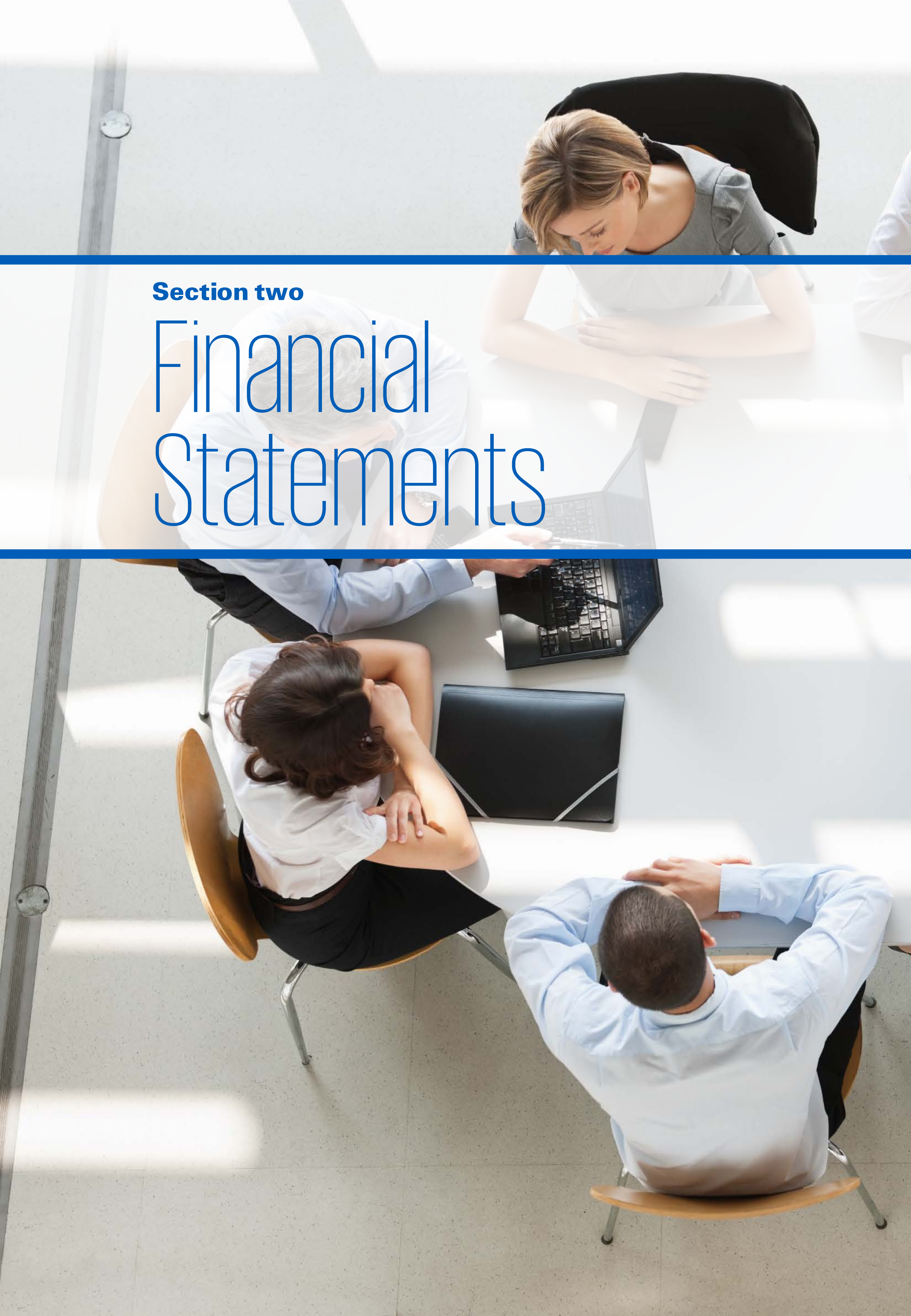
Our assessment of a system will not always be in line with your internal auditors' opinion on that system. This is because we are solely interested in whether our audit risks are mitigated through effective controls, i.e. whether the system is likely to produce materially reliable figures for inclusion in the financial statements.

Key findings

Based on our work, we have determined that the controls over the majority of the key financial systems are sound.

Section two

Financial Statements



Accounts production and audit process

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.

The Authority's overall process for the preparation of the financial statements is adequate.

Accounts practices and production process

The Authority incorporated a number of measures into its closedown plan to further improve the project management of this complex process. This includes ensuring the accounts were completed by the deadline, and liaising with us to ensure all 3rd party confirmations were received. Specifically, the Authority recognised the additional pressures which the earlier closedown brought and we engaged with officers in the period leading up to the year end in order to proactively address issues as they emerge.

We consider that the overall process for the preparation of your financial statements is adequate.

Going concern

The financial statements of the Authority have been prepared on a going concern basis. We confirm that we have identified no significant matters which would, in our view, affect the ability of the Authority to continue as a going concern.

Implementation of recommendations

We raised 2 recommendations in our ISA 260 Report 2016/17. The Authority has implemented both of the recommendations.

Accounts production and audit process (cont.)

Completeness of draft accounts

We received a complete set of draft accounts on the 4th of June 2018, in line with our timeline.

Quality of supporting working papers

We issued our Accounts Audit Protocol to the Head of Finance on the 12th of June 2018. This important document sets out our audit approach and timetable. It also summarises the working papers and other evidence we require the Authority to provide to support our audit work. This helps the Authority to provide audit evidence in line with our expectations. We followed this up with a meeting with Management to discuss specific requirements of the document request list.

Response to audit queries

In general, the time taken by officers to deal with our audit queries was in line with that which was agreed at the onset of the audit.

Group audit

To gain assurance over the Authority's group accounts, we placed reliance on the work completed by the Component Audit team (also KPMG) on the financial statements of the Authority's subsidiary, Streetwise Environmental Limited

There are no specific matters to report pertaining to the group audit.

We are also pleased to report that there were no issues to note in relation to the consolidation process.

Specific audit areas

We anticipate issuing an unqualified audit opinion on the Authority's 2017-18 financial statements by 31 July 2018.

For the year ending 31 March 2018, the Authority has reported a deficit on provision of services of £1.995m. There has been no net overall impact on the General Fund as a result of this. The deficit on provision of services is largely driven by impairment on the Valuation of newly developed investment properties.

Auditing standards require us to consider two standard risks for all organisations. We consider these as a matter of course in our audit and will have set out the findings arising from our work in our ISA 260 Report below.

01

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.

02

Fraudulent 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 2017-18* 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.

Over the following pages we have set out our assessment of the specific significant risks and areas of audit focus we identified in relation to the audit of the Authority's financial statements.

Specific audit areas

Significant Audit Risks – Authority

Those risks requiring specific audit attention and procedures to address the likelihood of a material financial statement error in relation to the Authority.

Risk:	**Valuation of PPE** The Code requires that where assets are subject to revaluation, their year end carrying value should reflect the appropriate fair value at that date. The Authority has adopted a rolling revaluation model which sees all land and buildings revalued over a five year cycle. As a result of this, however, individual assets may not be revalued for four years. This creates a risk that the carrying value of those assets not revalued in year differs materially from the year end fair value.
Our assessment and work undertaken:	We considered the instructions and source of the information provided to, and used by, the valuer to inform the Authority's PPE valuation and undertake appropriate testing to ensure both its completeness and accuracy. We confirmed the appropriateness of any amendments made by management to the information received and incorporated into the financial statements. This included a review of, and understanding of any fluctuations in current year valuations to those in the previous year. We reviewed the approach that the Authority adopted to assess the risk that assets not subject to valuation are materially misstated and consider the robustness of that approach. We also assessed the risk of the valuation changing materially during the year. In addition, we considered movement in market indices between revaluation dates and the year end in order to determine whether these indicated that fair values moved materially over that time. In relation to those assets which had been revalued during the year we assessed the valuer's qualifications, objectivity and independence to carry out such valuations and reviewed the methodology used (including testing the underlying data and assumptions where possible). For newly acquired investment properties, including the industrial unit at Coalville, and the one additional property purchased before the year end, we considered all of the above items, as well as a consideration of the year end valuation in comparison to the purchase price. We also assessed the accounting treatment adopted for these two acquisitions. We did not identify any issues as a result of this process.

Specific audit areas (cont.)

Significant Audit Risks – Authority (cont.)

Risk:

Pension Liabilities

The net pension liability represents a material element of the Authority's balance sheet. The Authority is an admitted body of Nottinghamshire County Council Pension Fund, which had its last triennial valuation completed as at 31 March 2016. This forms an integral basis of the valuation as at 31 March 2018.

The valuation of the Local Government Pension Scheme relies on a number of assumptions, most notably around the actuarial assumptions, and actuarial methodology which results in the Authority's overall valuation.

There are financial assumptions and demographic assumptions used in the calculation of the Authority's valuation, such as the discount rate, inflation rates, mortality rates etc. The assumptions should also reflect the profile of the Authority's employees, and should be based on appropriate data. The basis of the assumptions is derived on a consistent basis year to year, or updated to reflect any changes.

There is a risk that the assumptions and methodology used in the valuation of the Authority's pension obligation are not reasonable. This could have a material impact to net pension liability accounted for in the financial statements.

The Council also made a pensions contribution prepayment in April 2018 to reduce the pension deficit. There are specific complex accounting requirements related to this transaction.

Our assessment and work undertaken:

As part of our work we reviewed the controls that the Authority has in place over the information sent to the Scheme Actuary, including the Authority's process and controls with respect to the assumptions used in the valuation. We also evaluated the competency, objectivity and independence of Barnett Waddingham.

We reviewed the appropriateness of the key assumptions included within the valuation and compared them to expected ranges and involved a KPMG Actuary to provide a specialist assessment of those assumptions] We also reviewed the methodology applied in the valuation by Barnett Waddingham.

In addition, we reviewed the overall Actuarial valuation and considered the disclosure implications in the financial statements.

In order to determine whether the net pension liability has been appropriately accounted for we also considered the valuation of pension assets. As part of our audit of the Pension Fund we gained assurance over the overall value of fund assets. We then liaised with the actuary to understand how these assets are allocated across participating bodies and reperformed this allocation.

As a result of this work we determined that the valuation of the pension net liability was appropriate.

We have set out our view of the assumptions used in valuing pension assets and liabilities at page 14.

We also reviewed the accounting entries around the pensions contribution prepayment, and did not identify any issues.

Specific audit areas (cont.)

Other areas of audit focus

Those risks with less likelihood of giving rise to a material error but which are nevertheless worthy of audit understanding.

Issue:

Faster Close

In prior years, the Authority has been required to prepare draft financial statements by 30 June and then final signed accounts by 30 September. For years ending on and after 31 March 2018 however, revised deadlines apply which require draft accounts by 31 May and final signed accounts by 31 July.

In order to meet the revised deadlines, the Authority may need to make greater use of accounting estimates. In doing so, consideration will need to be given to ensuring that these estimates remain valid at the point of finalising the financial statements. In addition, there are a number of logistical challenges that will need to be managed. These include:

Ensuring that any third parties involved in the production of the accounts (including valuers, actuaries and subsidiaries) are aware of the revised deadlines and have made arrangements to provide the output of their work in accordance with this;

Revising the closedown and accounts production timetable in order to ensure that all working papers and other supporting documentation are available at the start of the audit process;

Ensuring that the Corporate Governance Committee meeting schedule has been updated to permit signing in July; and

Applying a shorter paper deadline to the July meeting of the Corporate Governance Group meeting in order to accommodate the production of the final version of the accounts and our ISA 260 report.

Our assessment and work undertaken:

In the event that the above areas are not effectively managed there is a risk that the audit will not be completed by the 31 July deadline.

There is also an increased likelihood that the Audit Certificate (which confirms that all audit work for the year has been completed) may be issued separately at a later date if work is still ongoing in relation to the Authority's Whole of Government Accounts return. This is however not a matter of concern and is not seen as a breach of deadlines.

We are pleased to report that the Authority allocated appropriate resources to the faster close process, allowing us to perform our audit within the accelerated timeline with minimal issues.

Specific audit areas (cont.)

Other areas of audit focus

Those risks with less likelihood of giving rise to a material error but which are nevertheless worthy of audit understanding.

Issue:	**Provision for Business Rates** The level of business rates appeals has not significantly reduced nationally and the Valuation Office Agency (VOA) has revalued the rateable value of business properties on 1st April 2017 to reflect change in the property market. There is a continuing risk that the amounts set aside as provisions may not be reasonable. The Authority's provision is expected to be material (2016/17: £1.48m). We have also noted that there will be a changed methodology at the Valuation Office Agency, which means that there is an increased risk of the information provided not being complete.
Our assessment and work undertaken:	We have reviewed the provision created in respect of claims for Business Rates. Our work is currently being finalised, but we have not identified any significant issues to date.

Judgements

We have considered the level of prudence within key judgements in your 2017-18 financial statements and accounting estimates. We have set out our view below across the following range of judgements.

Level of prudence

0	1	2	3	4	5	6
Audit Difference	Cautious		Balanced		Optimistic	**Audit Difference**
	Acceptable Range					

Subjective area	2017-18	2016-17	Commentary
Provisions (excluding Business Rates)	3	3	We have not identified any specific issues relating to provisions – all provisions identified appear balanced and based on objective evidence.
Business Rates provision	2	3	We reviewed the basis of 2017/18 business rates provision. The Authority's share of provision for business rates appeals as at 31 March 2018 is £1.2m. Currently there is no available appeals information from the Valuation Office Agency relating to the 2017 Valuation following the introduction of a new appeals process. We agree that it is prudent to set aside this estimated amount as it is reasonable to assume that there will be successful appeals emerging from the new process. However, in our view, arguably the most appropriate way to do this would be to create a reserve rather than a provision (which requires there to be an obligating event under IAS 37). Whilst we have as a result assessed the approach to provisions as cautious (see page 13), we recognise that management is not seeking to amend balances inappropriately as creating a reserve would have the same overall impact on the Authority's accounts. Officers have set out to us why they are content that they have met the requirements of IAS 37, and have confirmed that they will continue to review their approach to setting aside resources for potential 2017 appeals as updates are received from the Valuation Office.
Property Plant & Equipment	3	3	We have agreed PPE valuations carried out in 2017/18 back to internally generated valuation certificates, carried out by the Authority's professionally qualified valuer. In line within accounting standards and the Code, the Authority values its operational land and buildings using either Existing Use Valuation or Depreciation Replacement Cost –depending on the specialised nature of the building. We performed specific procedures over the valuation of the Arena, noting that the assumptions used to develop the valuation were based on appropriate, objective sources.
Pensions (continued overleaf)	3	2	The pension deficit within the funded LGPS has decreased over the year by £5.1m. Our Actuarial team has reviewed the assumptions that make up this calculation, and have noted that the assumptions are balanced. In the previous year, the CPI assumption of 2.7% was outside our expected range, meaning the estimation of the liability was more prudent than we would expect, but overall, did not create a material difference (thus was rated towards the cautious end of our acceptable range). We have included a separate report outlining the specific details of our assessment of the assumptions inherent to the pension liability estimate.

Judgements (cont.)

Subjective area	2017-18	2016-17	Commentary
Valuation of pension assets and liabilities	3	2	The Authority continues to use Barnett Waddingham to provide actuarial valuations in relation to the assets and liabilities recognised as a result of participation in the Local Government Pension Scheme. Due to the overall value of the pension assets and liabilities, small movements in the assumptions can have a significant impact on the overall valuation. For example, a 0.1% change in the discount rate would change the net liability by £2.0 million. The actual assumptions adopted by the actuary fell within our expected ranges as set our below:

Assumption	Actuary Value	KPMG Range	Assessment
Discount rate	2.55%	2.36-2.66%	3
CPI inflation	2.30%	1.90-2.40%	2
Net discount rate	0.25%	0.21-0.41%	3
Salary Growth	3.80%	3.35-4.85%	3
Life expectancy Current male / female Future male/female	 24.8/ 27.9 22.6/ 25.60	 22.2/24.3 24.0/26.2	2

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 2017-18 financial statements following approval of the Statement of Accounts by the Corporate Governance Group on the 24th of July 2018 and Full Council on the 27th of July 2018.

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 3 for this year's audit was set at £0.6 million. Audit differences below £30k are not considered significant.

We did not identify any material misstatements. We identified a very small number of issues that have not been adjusted by management as they are below our triviality limit.

We identified a small number of minor presentational adjustments required to ensure that the accounts are compliant with the Code of Practice on Local Authority Accounting in the United Kingdom 2017-18 ('the Code'). We understand that the Authority will be addressing these where appropriate.

Proposed opinion and audit differences (cont.)

Annual governance statement

We have reviewed the Authority's 2017-18 Annual Governance Statement and confirmed that it is not misleading and is consistent with other information we are aware of from our audit of the financial statements.

Narrative report

We have reviewed the Authority's 2017-18 narrative report and have confirmed that it is consistent with the financial statements and our understanding of the Authority.

Annual report

We have reviewed the Authority's 2017-8 Annual Report and can confirm it is not inconsistent with the financial information contained in the audited financial statements.

For the three areas above, we have made minor comments for management's consideration, which have resulted in minor changes in wording.

Completion

We confirm that we have complied with requirements on objectivity and independence in relation to this year's audit of the Authority's 2017/18 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 Rushcliffe Borough Council for the year ending 31 March 2018, we confirm that there were no relationships between KPMG LLP and Rushcliffe 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 Executive Manager – Finance and Commercial - for presentation to the Corporate Governance Group. We require a signed copy of your management representations before we issue our audit opinion.

Other matters

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

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

There are no others matters which we wish to draw to your attention in addition to those highlighted in this report or our previous reports relating to the audit of the Authority's 2017-18 financial statements.

Section three

Value for Money Arrangements

Specific value for money risk areas

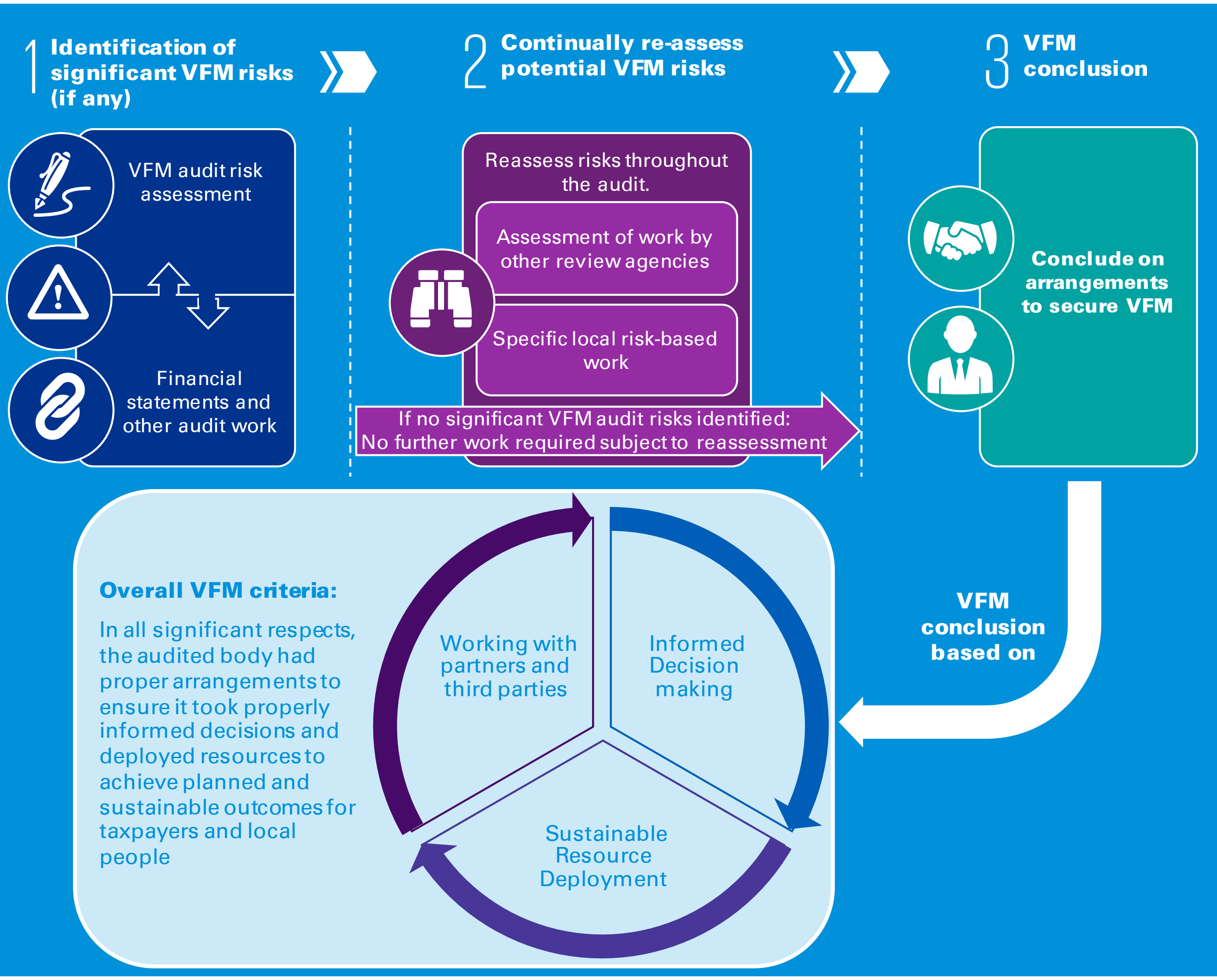
Our 2017-18 VFM conclusion considers whether the Authority had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.

We 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.

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.’

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



Specific value for money risk areas (cont.)

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

Applicability of VFM Risks to VFM sub-criteria

VFM Risk	Informed decision making	Sustainable resource deployment	Working with partner and third parties
Delivery of financial and savings plan			
Management of the Asset Investment Strategy Fund			

In consideration of the above, we have concluded that in 2017-18, 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.

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

Specific value for money risk areas (cont.)

As communicated to you in our *External Audit Plan 2017-18* we have identified 2 risks requiring specific audit attention and procedures to address the likelihood that proper arrangements are not in place to deliver value for money.

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 provided below a summary of the risk areas identified, our work undertaken and the conclusions reached.

Risk:	**Delivery of financial and saving plans** The Authority continues to face similar financial pressures and uncertainties to those experienced by others in the local government sector. For 2017/18, the Authority has set a balanced budget, and as at Q2, was forecasting achieving additional efficiencies of £0.19m. The Authority has developed a transformation strategy covering the next five years, which will ensure that the Authority is financially viable going forward, however, there is still a £0.29m shortfall in this strategy that still needs to be identified.
Our assessment and work undertaken:	Like most of local government, the Authority faces a challenging future driven by funding reductions and an increase in demand for services. The Authority reported a surplus on provision of services (in the general fund) of £317k, and total deficit on provision of services of £(1,995)k. This deficit is largely caused by impairment of investment properties in the CIES, of £(2,718) The Authority's MTFP details a balanced budget for 2018/19, with only £195k of additional savings to be delivered in 2018/19.

Specific value for money risk areas (cont.)

Significant VFM Risks (cont.)

Risk:	**Management of the Asset Investment Strategy Fund** The Authority had a £10m Investment Fund, and in September the Council approved an increase of £5m to this fund. It is likely this fund will increase by a further £5m to £20m in total. In 2017/18 the Authority has made a number of investments, with an industrial unit in Coalville being purchased for £1.9m, and one additional investment property in area purchased prior to the year end for £0.925m.
Our assessment and work undertaken:	We reviewed the Governance arrangements around the Asset Investment Strategy Fund, as well as the approval process, including management's financial assessment of new investments made in year. We also reviewed the ongoing monitoring processes for existing investments, such as the Cricket Club Loan. We did not identify any significant issues from this process.

Appendices

Key issues and recommendations

Our audit work on the Authority's 2017-18 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 responses to these recommendations.

The Authority should closely monitor progress in addressing this risk, including the implementation of our recommendation.

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

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. Recommendations Raised: 0	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. Recommendations Raised: 0	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. Recommendations Raised: 1

No.	Risk	Issue & Recommendation	Management Response
1	3	***Accrual of Retentions*** We identified one project in year where the retentions on the construction contract were not accrued for at year end. Whilst not material, should there be significant capital contracts ongoing in a future period, not accruing for capital retentions could lead to a material misstatement. We also note that we identified that non-material capital retentions were not accrued for in 2016-17, ***Risk*** The Authority does not accrue for capital retentions, leading to unrecorded liabilities. ***Recommendation*** The Authority should implement a process of reviewing all its ongoing capital projects at the year end, to identify if there are any capital retentions that require accrual at the year end.	The Council does review its year-end capital position of capital projects. Unfortunately the one instance was not identified and it was not material. The Council will continue to look to be vigilant with finance having dialogue with project managers at the year-end ***Responsible Officer*** Sarah Whittaker – Financial Services Manager ***Implementation Deadline*** 31/04/2019

Follow-up of prior year recommendations

The Authority has implemented all of the recommendations raised through our previous audit work.

This appendix summarises the progress made to implement the recommendations identified in our *ISA 260 Report 2016/17* and re-iterates any recommendations still outstanding.

Number of recommendations that were	
Included in the original report	2
Implemented in year or superseded	2
Outstanding at the time of our interim audit	0

No.	Risk	Issue & Recommendation	Management Response	Status as at 17th July 2018
1	3	**Inflationary Assumptions (Value for Money)** The Authority should review its Medium Term Financial Strategy, and quantify the amount of savings that will be required due to inflationary pressures.	**Accepted** Over at least the past 4 years the Council has adopted the same approach with no adverse impact on budgetary control with no overall budget overspend as a result of inflation. Our premises, transport and supplies and services costs amount to around £8m (in Section 4 of the MTFS). Where there are contracts in place then contractual inflation is built into the budget or for areas of higher risk e.g. fuel, increased budget has been provided. The 0% is the broad brush application across many of the budget headings. Even allowing for the £8m in totality 2.5% CPi(average, cpiacross the last year) this amounts to £200k. We are aware of the 'in-built' savings, which have been, and have to be, achieved year on year. we will include wording in the next MTFS to articulate the savings for inflation which are built into the Strategy currently. **Owner** Executive Manager –Finance and CorporateServices **Deadline** March 2018	**Implemented** The Authority have now included a figure tracking the impact that inflation has on the budget setting process, quantifying how much additional saving is required to be found by the individual Service Lines.

Appendix 2:

Follow-up of prior year recommendations (cont)

No.	Risk	Issue & Recommendation	Management Response	Status as at 17th July 2018
2	3	**IT Controls** ***Risk*** The Authority should review the issues identified, and address them appropriately, considering putting the following in place: —Performing an annual review of all e-financials user accounts and the level of access granted; and —Reviewing powerful user accounts in e-financials, and considering whether these accounts are required. Where the accounts are required, consider locking the accounts until they are required. As the Authority's payroll is provided by Gedling Borough Council, the Authority cannot control the password controls in place over this system, but the Authority should consider discussing with GBC how they will address this issue.	User Access to e-financials: Accepted –the authority does not perform a regular review of user access to e-financials (the general ledger). The authorised user list will be reviewed annually. There is a low turnover of staff at the Council and with the monthly review of starters and leavers (which are the main changes to the list) combined with alternative strong access parameters, compensating controls exist. Action: September 2017 Password settings: Accepted –these have now been strengthened (Owner: Gedling BC) –accepted. Deadline: August 2017 (already actioned) Redundant powerful accounts: partially accepted–access to these accounts can only be gained by the passwords being reset through the security system of which there are only a limited number of users that have access. The risk of these accounts being used by an unauthorised user is very low. Two accounts remain to be used for system testing and several other of these accounts have now been removed. (Owner: Executive Manager – Finance and Corporate Services) –accepted. Deadline: August 2017 (already actioned)	**Implemented** We confirmed that the Payroll password settings have been updated by Gedling Borough Council. Our IT controls work identified that a high level review of user accounts has taken place in the year.

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 2017-18*, presented to you in May 2018.

Reporting to the Corporate Governance Group

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 Corporate Governance Group 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, an individual difference is considered to be clearly trivial if it is less than £0.03 million for the Authority.

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

Appendix 4:

Required communications with the Corporate Governance Group

We have provided below at-a-glance summary of the information we are required to report to you in writing by International Accounting Standards.

Required Communication	Commentary
Our draft management representation letter	We have not requested any specific representations in addition to those areas normally covered by our standard representation letter for the year ended 31 March 2018.
Adjusted audit differences	We have identified no adjusted differences as a result of our audit of the Authority's financial statements.
Unadjusted audit differences	We have identified no unadjusted differences as a result of our audit of the Authority's financial statements
Related parties	There were no significant matters that arose during the audit in connection with the entity's related parties.
Other matters warranting attention by the Audit Committee	There were no matters to report arising from the audit that, in our professional judgment, are significant to the oversight of the financial reporting process.
Control deficiencies	We have set out our assessment of the Authority's internal control environment, including confirmation that there were no significant deficiencies identified, in Section one of this report. We communicated to management in writing all deficiencies in internal control over financial reporting of a lesser magnitude than significant deficiencies identified during the audit that had not previously been communicated.
Actual or suspected fraud, noncompliance with laws or regulations or illegal acts	We identified no actual or suspected fraud involving the Authority's Member or officers with significant roles in internal control, or where the fraud resulted in a material misstatement in the financial statements.
Significant difficulties	No significant difficulties were encountered during the audit.
Modifications to auditor's report	There are no modifications to our audit report.
Disagreements with management or scope limitations	The engagement team had no disagreements with management and no scope limitations were imposed by management during the audit.

Required communications with the Corporate Governance Group (cont.)

Required Communication	Commentary
Other information	No material inconsistencies were identified related to other information in the Narrative Report or Annual Governance Statement. These reports were found to be fair, balanced and comprehensive, and compliant with applicable requirements.
Our declaration of independence and any breaches of independence	No matters to report. The engagement team have complied with relevant ethical requirements regarding independence. See Appendix 5 for further details.
Accounting practices	Over the course of our audit, we have evaluated the appropriateness of the Authority's accounting policies, accounting estimates and financial statement disclosures. In general, we believe these are appropriate. We have set out our view of the assumptions used in valuing pension assets and liabilities at page 14.
Significant matters discussed or subject to correspondence with management	There were no significant matters arising from the audit which were discussed, or subject to correspondence, with management.

Declaration of independence

ASSESSMENT OF OUR OBJECTIVITY AND INDEPENDENCE AS AUDITOR OF RUSHCLIFFE BOROUGH COUNCIL

Professional ethical standards require us to provide to you at the conclusion of the audit a written disclosure of relationships (including the provision of non-audit services) that bear on KPMG LLP's objectivity and independence, the threats to KPMG LLP's independence that these create, any safeguards that have been put in place and why they address such threats, together with any other information necessary to enable KPMG LLP's objectivity and independence to be assessed.

In considering issues of independence and objectivity we consider relevant professional, regulatory and legal requirements and guidance, including the provisions of the Code of Audit Practice, the provisions of Public Sector Audit Appointments Limited's ('PSAA's') Terms of Appointment relating to independence, the requirements of the FRC Ethical Standard and the requirements of Auditor Guidance Note 1 - General Guidance Supporting Local Audit (AGN01) issued by the National Audit Office ('NAO') on behalf of the Comptroller and Auditor General.

This Statement is intended to comply with this requirement and facilitate a subsequent discussion with you on audit independence and addresses:

— General procedures to safeguard independence and objectivity;

— Independence and objectivity considerations relating to the provision of non-audit services; and

— Independence and objectivity considerations relating to other matters.

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 partners, Audit Directors and staff annually confirm their compliance with our ethics and independence policies and procedures. Our ethics and independence policies and procedures are fully consistent with the requirements of the FRC Ethical Standard. As a result we have underlying safeguards in place to maintain independence through:

— Instilling professional values

— Communications

— Internal accountability

— Risk management

— Independent reviews.

We are satisfied that our general procedures support our independence and objectivity.

Declaration of independence (cont.)

Independence and objectivity considerations relating to the provision of non-audit services

Summary of fees

We have considered the fees charged by us to the authority and its controlled entities for professional services provided by us during the reporting period. We have detailed the fees charged by us to the authority and its controlled entities for significant professional services provided by us during the reporting period in Appendix 6, as well as the amounts of any future services which have been contracted or where a written proposal has been submitted. Total fees charged by us for the period ended 31 March 2018 can be analysed as follows:

	2017-18 £	2016-17 £
Audit of the Authority	41,288	41,288
Audit of controlled entity (Streetwise)	6,000	6,500
Total audit services	**47,288**	**47,788**
Mandatory assurance services	6,898	6,898
Total Non Audit Services	**6,898**	**6,898**

We are required by AGN 01 to limit the proportion of fees charged for non-audit services (excluding mandatory assurance services) to 70% of the total fee for all audit work carried out in respect of the Authority under the Code of Audit Practice for the year. The ratio of non-audit fees to audit fees for the year was 0:1. We do not consider that the total of non-audit fees creates a self-interest threat since the absolute level of fees is not significant to our firm as a whole.

We confirm that all non-audit services were approved by the Corporate Governance Group

Facts and matters related to the provision of non-audit services and the safeguards put in place that bear upon our independence and objectivity, are set out table on the following page.

Declaration of independence (cont.)

Analysis of Non-audit services for the year ended 31 March 2018

Description of scope of services	Principal threats to independence and Safeguards applied	Basis of fee	Value of services delivered in the year ended 31 March 2018 £	Value of services committed but not yet delivered £
Allowable non-audit services				
Mandatory assurance services				
Grant Certification – Housing Benefit Subsidy Return	The nature of this mandatory assurance service is to provide independent assurance on each of the returns. As such we do not consider it to create any independence threats.	Fixed Fee	2,000	4,898

Independence and objectivity considerations relating to other matters

There are no other matters that, in our professional judgment, bear on our independence which need to be disclosed to the Audit Committee.

Confirmation of audit independence

We confirm that as of the date of this report, in our professional judgment, KPMG LLP is independent within the meaning of regulatory and professional requirements and the objectivity of the Audit Director and audit staff is not impaired.

This report is intended solely for the information of the Audit Committee of the authority and should not be used for any other purposes.

We would be very happy to discuss the matters identified above (or any other matters relating to our objectivity and independence) should you wish to do so.

[add electronic signature]

KPMG LLP

Appendix 6:

Audit fees

As communicated to you in our *External Audit Plan 2017-18*, our scale fee for the audit is £41,288 plus VAT (£41,288 in 2016/17), which is consistent with the prior year.

However, we have proposed an additional fee of £4,817 for 2016/17 in relation to additional work performed over accounting for the consolidation of Streetwise's Pension Liability, and additional valuation work on the Rushcliffe Arena. We have discussed and agreed this additional fee with the S151 officer. This is still subject to PSAA's final determination.

Our work on the certification of the Authority's Housing Benefit Subsidy return is not yet complete. The planned scale fee for this is £6,898 plus VAT (£6,898 in 2016/17).

Component of the audit	2017-18 Planned Fee £	2016-17 Actual Fee £
Accounts opinion and value for money work		
PSAA Scale fee for Rushcliffe Borough Council	41,288	41,288
Additional fee in relation to 16/17 (to be confirmed by PSAA)	-	4,817
Total audit services	**41,288**	**46,105**
Mandatory assurance services		
Housing Benefits Certification (work planned for August 2018	6,898	6,898
Total mandatory assurance services	**6,898**	**6,898**
Total non-audit services	**6,898**	**6,898**
Grand total fees for the Authority	**48,186**	**53,003**

All fees quoted are exclusive of VAT.

The key contacts in relation to our audit are:

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This report is addressed to the Authority and has been prepared for the sole use of the Authority. We take no responsibility to any member of staff acting in their individual capacities, or to third parties. We draw your attention to the Statement of Responsibilities of auditors and audited bodies, 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 [...], 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, 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 3HZ.

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