



Annual Audit Letter 2017/18

North Kesteven District Council

August 2018



Section one

Summary for Audit Committee

Summary for Audit Committee

This Annual Audit Letter summarises the outcome from our audit work at North Kesteven District Council ("the Authority") in relation to the 2017-18 audit year.

Although it is addressed to Members of the Authority, it is also intended to communicate these key messages to key external stakeholders, including members of the public, and will be placed on the Authority's website.

This is KPMG's last Annual Audit Letter to the Authority. We would like to take this opportunity to thank the Authority's officers and the members of the Audit Committee for their support throughout the six years of our audit appointment.

Audit opinion

We issued an unqualified opinion on the Authority's financial statements on 31 July 2018. This means that we believe the financial statements give a true and fair view of the financial position of the Authority and of its expenditure and income for the year.

Financial statements audit

Our audit procedures are designed to identify misstatements which are material to our opinion on the financial statements as a whole. Materiality for the Authority's accounts was set at £1 million which equates to around 2% of gross expenditure. We design our procedures to detect errors in specific accounts at a lower level of precision.

We report to the Audit Committee any misstatements of lesser amounts, other than those that are "clearly trivial", to the extent that these are identified by our audit work. In the context of the Authority, an individual difference is considered to be clearly trivial if it is less than £50,000.

We did not identify any material misstatements, there were no adjusted misstatements and there were no unadjusted misstatements during our audit that we are required to report to you.

The working papers provided this year have been of a good standard and were available at the start of the audit visit. The Finance team responded promptly to any requests for additional information or explanation and were available throughout the audit visit. We thank the Finance team for their co-operation throughout the visit which allowed the audit to progress within the allocated timeframe.

Our audit work was designed to specifically address the following significant risks:

- **Management Override of Controls** – Our audit methodology incorporates the risk of management override as a default significant risk. We did not identify any specific additional risks of management override relating to the audit.
- **Valuation of PPE** – The Authority has adopted a rolling revaluation model which sees all land and buildings revalued over a five year cycle. This creates a risk that the carrying value of those assets not revalued in year differs materially from the year end fair value.
- **Pensions Liabilities** – The net pension liability represents a material element of the Authority's balance sheet. There is a risk that the assumptions and methodology used in the actuarial valuation of the Authority's pension obligation are not reasonable which could have a material impact on the net pension liability accounted for in the financial statements.
- **Faster Close** – The bringing forward of the national year-end timetable represented a risk to the completion of the audit by the 31 July deadline.

We did not identify any evidence of material misstatement as a result of our audit work on these significant risk areas.

Summary for Audit Committee (cont.)

Other information accompanying the financial statements

Whilst not explicitly covered by our audit opinion, we review other information that accompanies the financial statements to consider its material consistency with the audited accounts. This year we reviewed the Annual Governance Statement and Narrative Report. We concluded that they were consistent with our understanding and did not identify any significant issues.

Whole of Government Accounts

The Authority prepares a consolidation pack to support the production of Whole of Government Accounts by HM Treasury. We are not required to review your pack in detail as the Authority falls below the threshold where an audit is required. As required by the guidance we have confirmed this with the National Audit Office.

Value for Money conclusion

We issued an unqualified conclusion on the Authority's arrangements to secure value for money (VFM conclusion) for 2017-18 on 31 July 2018. This means we are satisfied that during the year the Authority had appropriate arrangements for securing economy, efficiency and effectiveness in the use of its resources. To arrive at our conclusion we looked at the Authority's arrangements to make informed decision making, sustainable resource deployment and working with partners and third parties.

Value for Money risk areas

We undertook a risk assessment as part of our VFM audit work to identify the key areas impacting on our VFM conclusion and considered the arrangements you have put in place to mitigate these risks. Our work identified the following significant risks:

- **Financial Resilience** - As a result of reductions in central government funding, and other pressures, the Authority continues to face similar financial pressures and uncertainties to those experienced by others in the local government sector. The Authority needs to have effective arrangements in place for managing its annual budget, generating income and identifying and implementing any savings required to balance its medium term financial plan. As part of our additional risk based work, we reviewed the arrangements the Authority has in place to ensure continued financial resilience.
- **Excite** - As part of the Excite Project the Authority is looking at various opportunities including working in joint ventures with a number of other organisations. We reviewed the arrangements to ensure that they meet the Authority's objectives and are accounted for in accordance with the code.
- **Lafford Homes** - The Authority has established a wholly owned Council Housing Company to assist in the overall delivery of housing across the District to meet current and emerging housing demand. The Authority set up the Company in the previous year and has needed to revise and refresh its procedures to accommodate the administration and monitoring of the new Company. As part of our VFM work we reviewed the overall governance arrangement around the establishment and running of the Company.

We were satisfied that there were adequate arrangements in place during 2017-18 and there were no significant matters relating to these risk areas which prevented us from giving an unqualified VFM conclusion.

High priority recommendations

We raised no high priority recommendations as a result of our 2017-18 work.

Certificate

We issued our certificate on 31 July 2018. The certificate confirms that we have concluded the audit for 2017-18 in accordance with the requirements of the Local Audit & Accountability Act 2014 and the Code of Audit Practice.

Summary for Audit Committee (cont.)

Audit fee

The scale fee set by Public Sector Audit Appointments Limited (PSAA) for the 2017-18 audit is £39,193 plus VAT. We have raised two additional fees in 2017-18. The first was for £2,520 plus VAT in respect of the VFM risks associated with ExCite and Lafford Homes. The second was for £2,681 for the additional work in auditing the Group Accounts for the Authority and Lafford Homes. These additional fees have been agreed with the s151 Officer and are subject to approval by PSAA.

The PSAA scale fee for 2016-17 was £39,193 plus VAT. We raised an additional fee of £6,023 plus VAT in 2016-17. This related to additional work we had to undertake in respect of the VFM risks associated with Lafford Homes and the Group Accounting requirements for Lafford Homes.

Further detail is contained in Appendix 2.

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.



Appendices



Appendix 1:

Summary of reports issued

This appendix summarises the reports we issued since our last Annual Audit Letter.

Certification of Grants and Returns ◆

This report summarised the outcome of our certification work on the Authority’s 2016-17 grants and returns.

External Audit Plan ◆

The External Audit Plan set out our approach to the audit of the Authority’s financial statements and to support the VFM conclusion.

Report to Those Charged with Governance ◆

The Report to Those Charged with Governance summarised the results of our audit work for 2017-18 including key issues and recommendations raised as a result of our observations.

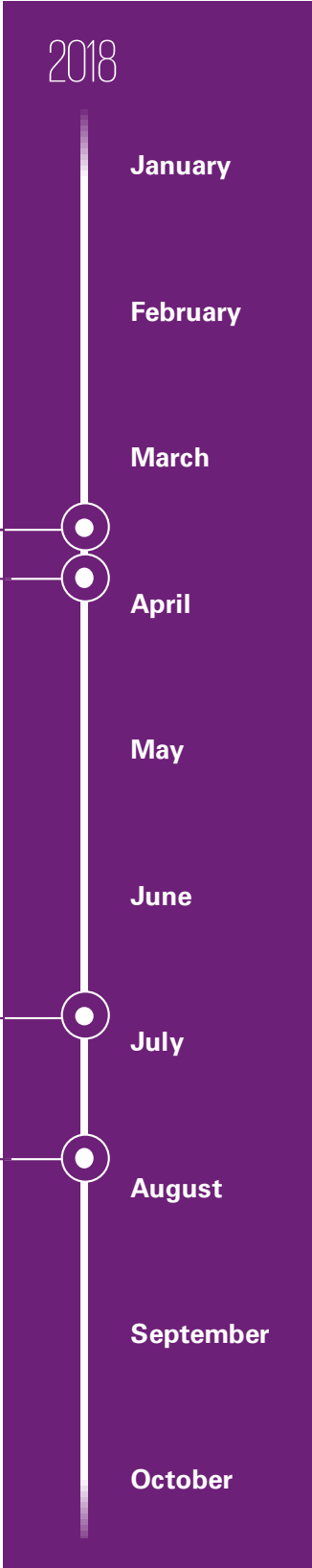
We also provided the mandatory declarations required under auditing standards as part of this report.

Auditor’s Report ◆

The Auditor’s Report included our audit opinion on the financial statements along with our VFM conclusion and our certificate.

Annual Audit Letter ◆

This Annual Audit Letter provides a summary of the results of our audit for 2017-18.



Audit fees

This appendix provides information on our final fees for the 2017-18 audit.

External audit

The scale fee set by Public Sector Audit Appointments Limited (PSAA) for the 2017-18 audit is £39,193 plus VAT. We have raised two additional fees in 2017-18. The first was for £2,520 plus VAT in respect of the VFM risks associated with ExCite and Lafford Homes. The second was for £2,681 for the additional work in auditing the Group Accounts for the Authority and Lafford Homes. These additional fees have been agreed with the s151 Officer and are subject to approval by PSAA.

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Certification of grants and returns

Under our terms of engagement with PSAA we undertake prescribed work in order to certify the Authority's 2017-18 housing benefit grant claim. This certification work is still ongoing, and the certification deadline is 30 November 2018. The PSAA scale fee for this work is £9,147 and the final fee will be confirmed through our reporting on the outcome of that work in January 2019.

Other services

We charged £3,500 for the independent assurance report on the 2016-17 Pooling of Housing Receipts Return. This work was not related to our responsibilities under the Code of Audit Practice and was agreed through a separate Engagement Letter.



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 John Cornett, 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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