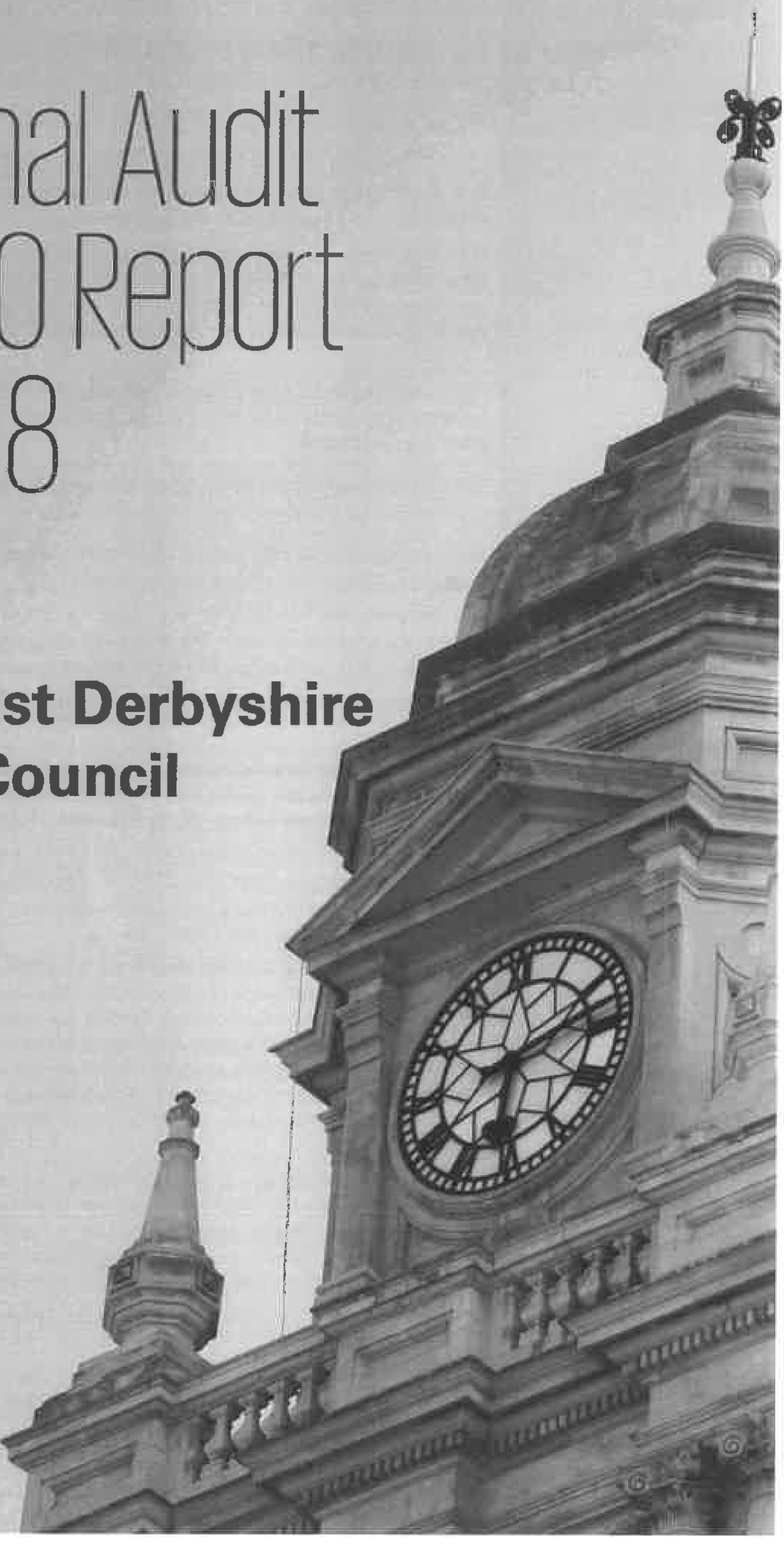
Appendix 1

KPMG

External Audit ISA260 Report 2017/18

North East Derbyshire District Council

July 2018



Summary for Audit & Corporate Governance Scrutiny Committee

This document summarises the key findings in relation to our 2017/18 external audit at North East Derbyshire District Council ('the Authority').

This report covers both our on-site work which was completed in March and June 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 identified no significant issues with the Authority's organisational environment and consider that the overall arrangements that have been put in place are reasonable.
Controls over key financial systems	The controls over the key financial systems are sound.
Accounts production	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 good.
Financial statements	**Subject to all outstanding queries being resolved to our satisfaction and final review, we anticipate issuing an unqualified audit opinion on the Authority's financial statements before the deadline of 31 July 2018.** Based upon our initial assessment of risks to the financial statements (as reported 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 –** where assets are subject to revaluation, the Code of Practice on Local Authority Accounting ("the Code") requires their year end carrying value to reflect the appropriate fair value at that date. The Authority reviews the value of assets each year end through a desktop impairment review and every fifth year performs a full revaluation. This creates a risk that the carrying value of assets not revalued in year differs materially from the year end fair value. We found the valuation of PPE to be appropriate and have no issues to note. — **Pensions Liabilities –** the pension liability is a material element of the Authority's balance sheet. The valuation relies on a number of assumptions, including the actuarial assumptions and actuarial methodology. There is a risk that the assumptions and methodology used are not reasonable. This could have a material impact in the financial statements. We found the liability to have balanced assumptions and have no issues to note. The Pension Fund audit team is currently completing its work in liaison with the actuaries and we will update verbally at the meeting.

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Summary for Audit & Corporate Governance Scrutiny Committee (cont.)

Financial statements

We identified three other areas of audit focus:

- Faster Close;
- Director Departure; and
- Review of Northwood Group Ltd.

Results of this work are explained on pages 11 to 12.

We undertook an initial assessment of risks to the financial statements at planning stage and identified no significant risks other than the risk of management override of controls. We have updated our assessment and still consider there to be no additional specific risks.

We have identified no significant audit adjustments. The draft statements included a restatement of Rykneld Homes prior period figures, which on review was deemed immaterial to the Group accounts, and so did not meet the requirements for adjustment. As a result he restatement was removed from the Group Financial Statements.

We will provide a verbal update on the status of our audit at the Audit & Corporate Governance Scrutiny Committee meeting but would highlight the following work is still outstanding:

- Final disclosure checks of the financial statements;
- Final Director review; and
- Receipt of Management Representations.

Based on our work, we have not raised any recommendations.

We are now in the completion stage of the audit and anticipate issuing our Annual Audit letter at the next Audit & Corporate Governance Scrutiny Committee.

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 it 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.

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 throughout the audit process.

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Section one

Control Environment

Organisational and IT control environment

We have identified no significant issues with the Authority's organisational 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. We documented the processes and our understanding of the IT systems to the extent required for our audit methodology and approach, and have no matters to raise with you.

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Controls over key financial systems

The controls over the key financial systems are sound.

Work completed

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 are sound over the financial systems that we regard as key.

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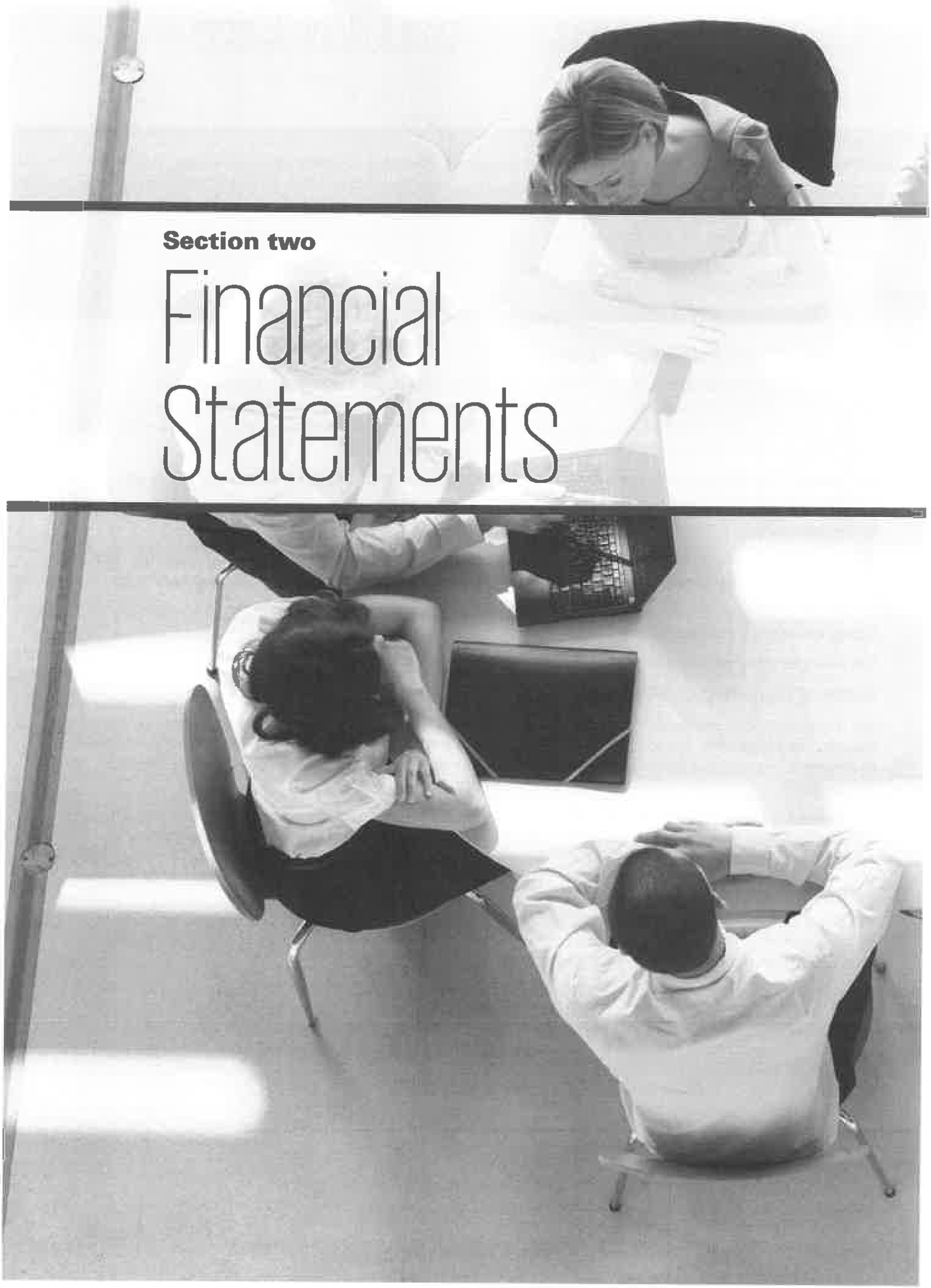
Section two

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 were good and enabled it to meet the 31 May deadline again.

Accounts practices and production process

The Authority incorporated a number of measures into its closedown plan to improve the project management of this complex process. 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 good. We also consider the Authority's accounting practices appropriate.

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.

Completeness of draft accounts

We received a complete set of draft accounts by 31 May 2018, which is the statutory deadline.

Quality of supporting working papers

We issued our Accounts Audit Protocol to the Chief Accountant. 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 worked with management to ensure that working paper requirements are understood and aligned to our expectations. We are pleased to report that this has resulted in good quality working papers with clear management trails.

Response to audit queries

We are pleased to report that our agreed turnaround time for dealing with audit queries was achieved by officers, including those who are not part of the finance team. As a result of this, all of our audit work were completed within the timescales expected with no outstanding queries.

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Specific audit areas

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

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.

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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 reviews the value of assets each year end through a desktop impairment review and every fifth year performs a full revaluation. This creates a risk that the carrying value of those assets not revalued in year differs materially from the year end fair value. In addition, as the valuation is undertaken as at 1 April, there is a risk that the fair value is different at the year end.
Our assessment and work undertaken:	We reviewed the approach that the Authority adopted to assess the risk that assets not subject to valuation were materially misstated and considered the robustness of that approach. There is a desktop impairment review on a yearly basis with a full revaluation every five years. The next full revaluation will be in 2018/19 financial year. We have assessed the procedures in place to ensure the carrying value of those assets not revalued in year are not materiality different to the current value at year end. We have reviewed the instructions sent to the valuer to confirm the correct assets were revalued in 2017/18. We also 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). In addition, we considered movements in market indices between revaluation dates and the year end in order to determine whether these indicate that fair values had moved materially over that time. In relation to those assets which have been revalued during the year we reviewed the accounting entries made to record the results of the revaluation in order to ensure that they were appropriate. As a result of this work we determined that the valuation of PPE is balanced and presented correctly within the 2017/18 financial statements. We have set out our view of the assumptions used in relation to accounting for Property, Plant & Equipment at page 14.

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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 Derbyshire 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.
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 ensured that the figures provided to the Pension Fund agreed to the payroll costs of the Authority. We also evaluated the competency, objectivity and independence of Hymans Robertson. We reviewed the appropriateness of the key assumptions included within the valuation, 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 Hymans Robertson. 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. The Pension Fund audit team is currently completing its work in liaison with the actuaries and we will update verbally at the meeting.

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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.

During 2015/16, the Authority started to prepare for these revised deadlines and advanced its own accounts production timetable so that draft accounts were ready by June and the final signed accounts by 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) 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 Audit & Corporate Governance Scrutiny Committee meeting schedules have been updated to permit signing in July; and
- Applying a shorter paper deadline to the July meeting of the Audit & Corporate Governance Scrutiny Committee meeting in order to accommodate the production of the final version of the accounts and our ISA 260 report.

In the event that the above areas are not effectively managed there is a significant 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 and the Pension Fund Annual Report. This is not a matter of concern and is not seen as a breach of deadlines.

Our assessment and work undertaken:

We liaised with officers in preparation for our audit in order to understand the steps that the Authority was taking in order to ensure it met the revised deadlines. We also advanced audit work into the interim visit in order to streamline the year end audit work.

We received draft financial statements on the statutory deadline of 31 May 2018. The quality of this draft was consistent with prior years. In 2017/18, the Authority, as they have in previous years prepared a good quality set of accounts with a good set of clear working papers to support them.

As a result of this work we determined that the Authority has appropriate procedures in place to ensure faster close.

No delay to Whole of Government Accounts work is anticipated.

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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	**Departure of Directors** Within the 2017/18 year, both the Joint Executive Director – Operations and the Joint Executive Director – Transformation left their posts at North-East Derbyshire and North East Derbyshire Councils. Their departures included payments relating to early voluntary release. We have previously commented on the authorities' practices when senior staff depart, and so need to consider the process that was followed when reaching the agreements with the two Joint Directors. In addition, there are Code disclosure requirements in relation to senior staff, and these will need to be complied with.
Our assessment and work undertaken:	We have completed our work and have not identified during this review any significant concerns in relation to the process followed which require us to use our reporting powers under the Code. We were provided with all of the documents that we requested. We have provided feedback to the Chief Executive and to the Committee on how any future similar process could be improved. We have checked the disclosure in the accounts and have no comments to make.

Issue	**Northwood Group Ltd** NEDDC established a new joint venture company with Woodhead Regeneration Ltd ('WRL'), called Northwood Group Limited ('Northwood'). The company is owned 50:50 between North East Derbyshire District Council ('NEDDC' or 'the Council') and WRL. The company was set up to build new homes within the NEDDC area. Northwood will develop and sell housing properties exclusive for open market sale on land sold to it by the Council.
Our assessment and work undertaken:	As reported to Audit & Corporate Governance Scrutiny Committee in April 2018 in our *Progress Report and Technical Update*, we understand that legal advice was obtained by the Authority and this included high-level tax advice regarding the establishment of the structure. We are satisfied that the arrangements in place for 2017/18 are adequate as the decision to establish the JV as a limited company does not give rise to any significant immediate issues. However, we noted that detailed modelling and advice in connection with the ongoing operation of the company does not appear to have been sought (e.g. preparation of appropriate transfer pricing documentation, consideration of the transactions in land anti-avoidance rules, etc.) As there were no relevant transactions in 2017/18 this has not impacted on the Authority.

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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
Property Plant & Equipment: HRA Assets	3	3	The Authority continues its use of the beacon methodology in line with the DCLG's *Stock Valuation for Resource Accounting* published in November 2016. The Authority has utilised an internal valuation expert to provide valuation estimates. We have reviewed the instructions provided and deem that the valuation exercise is in line with the instructions. We note that the resulting increase of 3.9% is in line with regional indices provided by Gerald Eve, the valuation firm engaged by the NAO to provide supporting valuation information.
Property, Plant & Equipment	3	3	The Authority reviews the value of assets each year end through a desktop impairment review and every fifth year performs a full revaluation. Depreciation is applied in accordance with the Authority's accounting policies over the useful economic life of the asset, the estimated economic life of an asset are reviewed each year to ensure it is still reasonable. We consider the asset lives to be reasonable. The valuer has appropriate experience and qualifications required.
Business Rates provision	2	2	The NDR provision as at March 2018 is £1,592k (£1,030k in 2016/17). The Authority employs an independent company, Analyse Local, to inform its assessment of the appeals and assist in the calculation of an appropriate provision. The estimate is based on the latest list of outstanding rating list proposals provided by the Valuation Office Agency (VOA). There is currently no available appeals information from the VOA 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. Whilst we have as a result assessed the approach to provisions as cautious, 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.

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Judgements (cont.)

Subjective area	Commentary
Valuation of pension assets and liabilities	The Authority continues to use Hymans Robertson 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. The overall set of assumptions proposed by the Authority can be considered to be balanced. In particular the discount rate, which in isolation is at the optimistic end of our normally acceptable range, is offset by the cautious assumption for pension increases such that the net rate (which drives the liability calculation) is comfortably within our normally acceptable range. Our work in respect of the assumptions is continuing and we will update the Audit & Corporate Governance Scrutiny Committee at the meeting on 25 July 2018.

Assumption	Authority	KPMG	Assessment (See previous page for level of prudence definitions)	Commentary
Discount rate	2.60%	2.50%	5	The Authority's proposed assumption is considered to be optimistic but within our normally acceptable range.
Pension Increase Rate	2.40%	2.16%	2	The proposed assumption is considered to be cautious but within our normally acceptable range.
Salary increases	CPI plus 0.5%	CPI plus 0% to 2%	3	We would typically expect salary increases to fall in the range of CPI plus 0% to 2%. Salary increase assumptions have been derived consistently with the approach taken at the most recent LGPS valuation. We would consider this approach to be reasonable, however audit teams should ask management to substantiate the appropriateness of their short term salary increase and to confirm they are satisfied that the long term assumption used is reflective of their expectations of future salary growth for their organisation.
Life expectancy at retirement (years)			3	The life expectancies assumptions are consistent with those used in the most recent LGPS valuation and can be considered acceptable.
Males currently aged 45 / 65	23.9 / 21.9	23.5 / 22.1		
Females currently aged 45 / 65	26.5 / 24.4	25.4 / 23.9		

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Proposed opinion and audit differences

We anticipate issuing an unqualified audit opinion on the Authority's 2017/18 financial statements following approval of the Statement of Accounts by the Audit & Corporate Governance Scrutiny Committee on 19 July.

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 1) for this year's audit was set at £0.85 million. Audit differences below £42,000 are not considered significant.

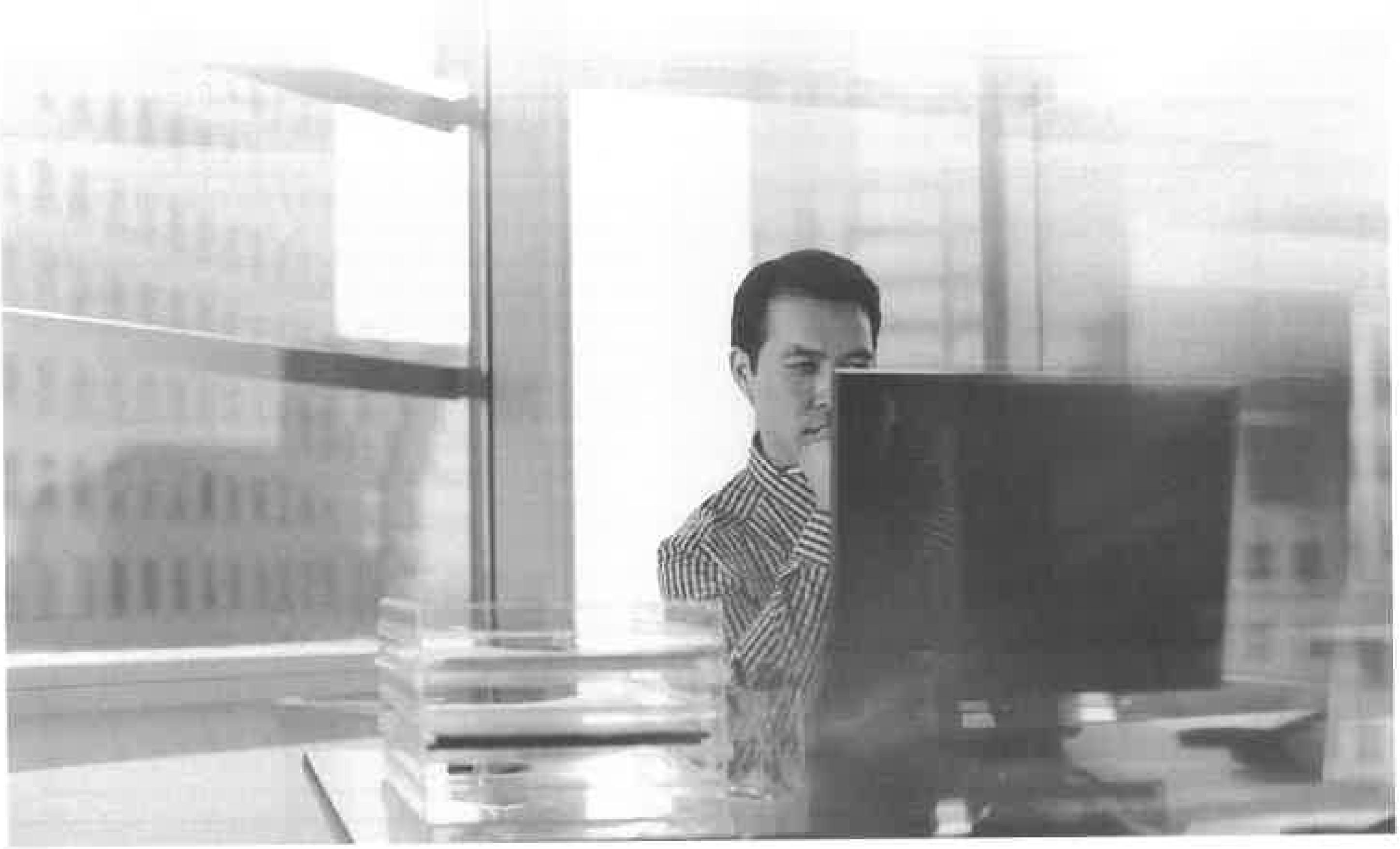
We did not identify any material misstatements.

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.



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Completion

We confirm that we have complied with requirements on objectivity and independence in relation to this year's audit of the Authority's 2016/17 financial statements.

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 North East Derbyshire District Council for the year ending 31 March 2018, we confirm that there were no relationships between KPMG LLP and North East Derbyshire District Council, its directors and senior management and its affiliates that we consider may reasonably be thought to bear on the objectivity and independence of the audit engagement lead and audit staff. We also confirm that we have complied with Ethical Standards and the Public Sector Audit Appointments Ltd requirements in relation to independence and objectivity.

We have provided a detailed declaration in Appendix 2 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 S151 Officer for presentation to the Audit & Corporate Governance Scrutiny 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 or our previous reports relating to the audit of the Authority's 2017/18 financial statements.

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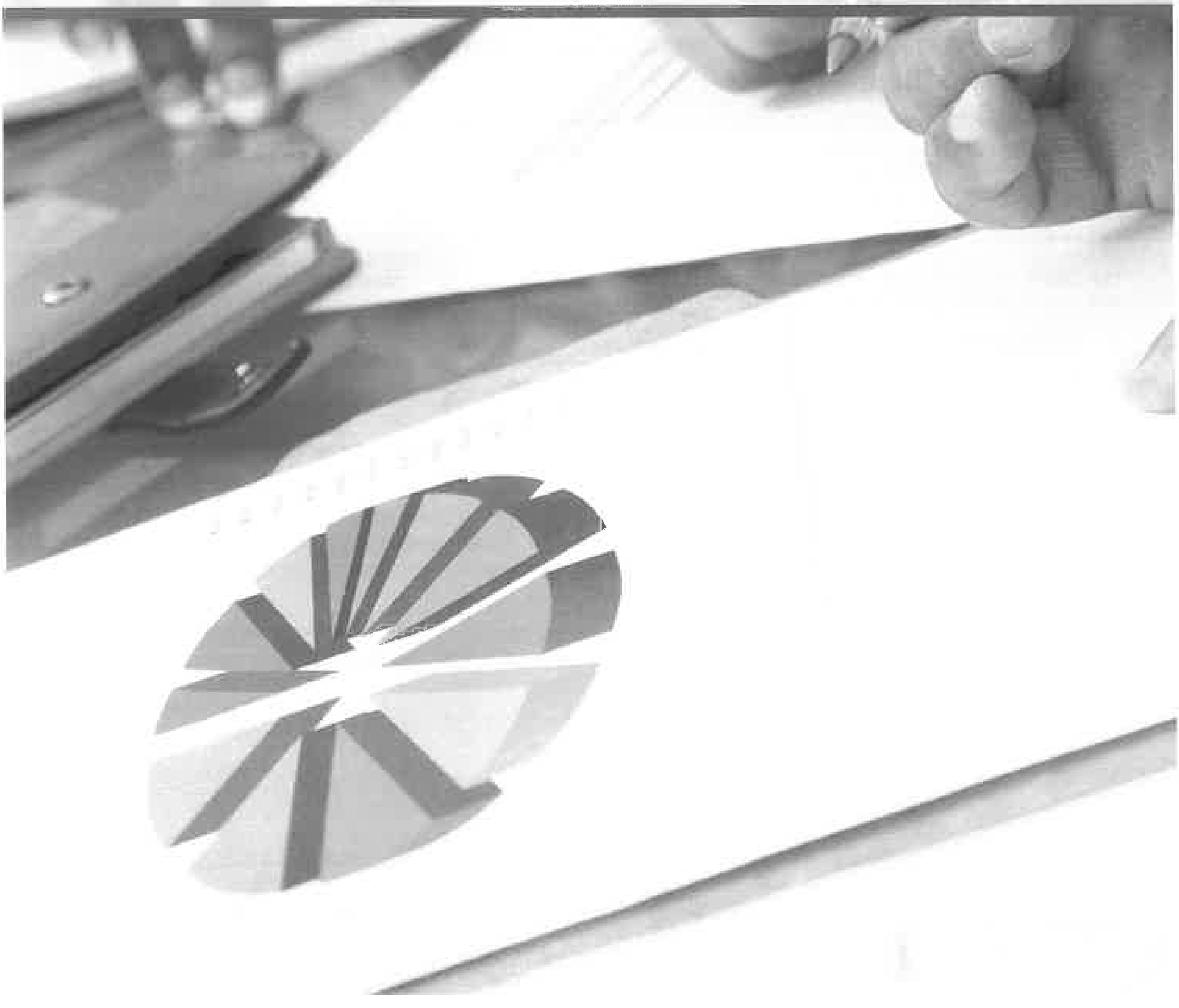
Section three

Value for Money Arrangements



Specific value for money risk areas

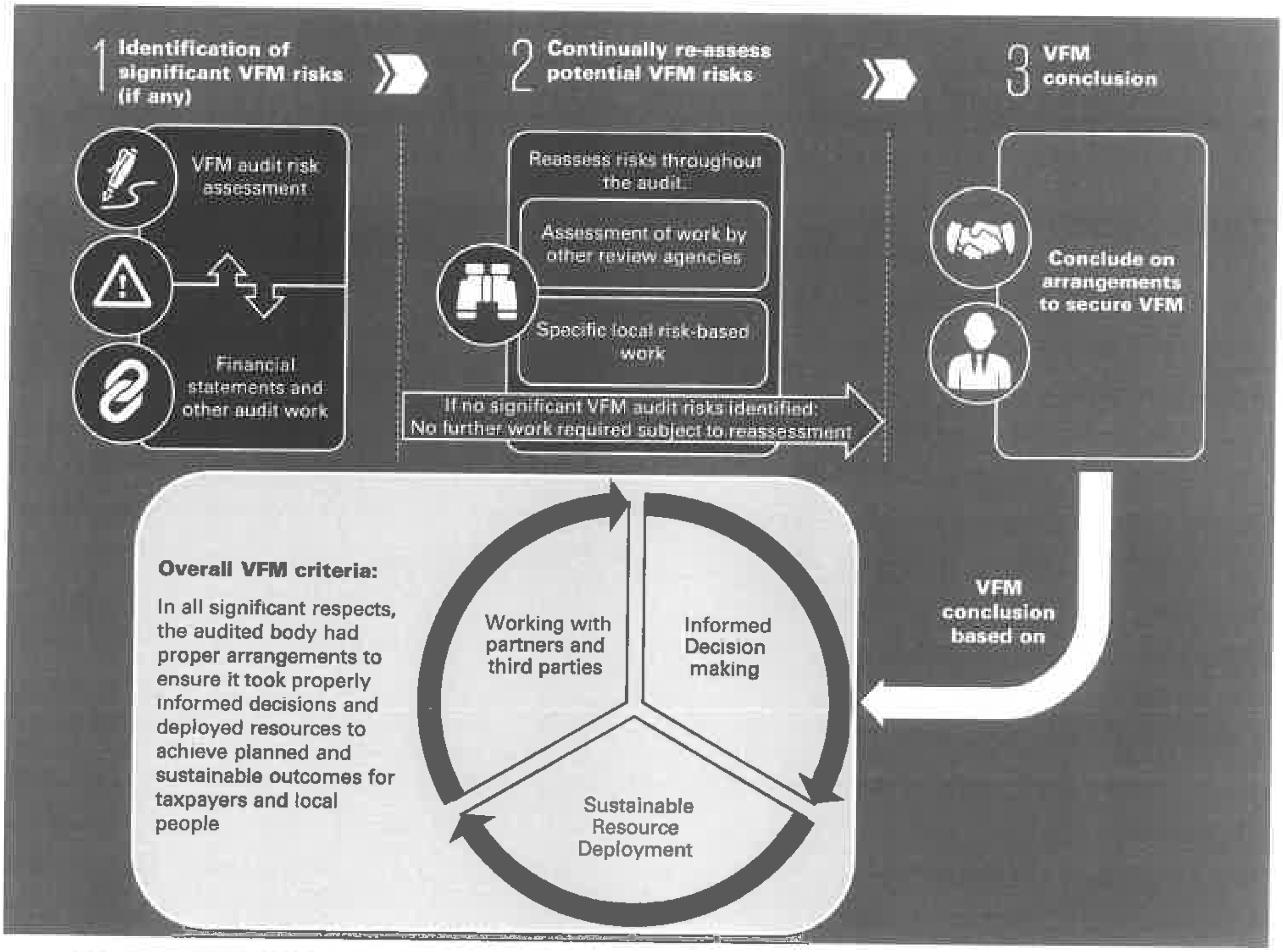
Our 2017/18 VFM conclusion considers whether the Authority had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.

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.



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Specific value for money risk areas (cont.)

The table below summarises our assessment of the individual VFM risk 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 budgets	✓	✓	✓

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.

Other points to note within our VFM risk assessment

We noted that the Secretary of State expressed concern about the Authority's Local Plan, and set a deadline of 31 January 2018 for the Authority to outline any exceptional circumstances which justify the failure to produce the Local Plan and any steps they are taking to accelerate its publication.

Discussions with Officers identified that the Secretary of State has acknowledged progress made by the Authority and it is no longer considered to be a concern.

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Specific value for money risk areas (cont.)

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

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 budgets

The Authority identified the need to make savings of £0.363 million in 2017/18. By the end of the second quarter, savings of £0.315 million had been achieved against the target, leaving £0.048 million. The Authority's budget for 2018/19 was approved at the Council meeting in February 2018 and recognised a need for £4.2 million in savings by 2020/21. The approved budget includes individual proposals to support the delivery of the overall savings requirement addresses future reductions to local authority funding alongside service cost and demand pressures. As a result, the need for savings will continue to have a significant impact on the Authority's financial resilience. We note that the Authority is continuing to work on the Transformation Programme.

Our assessment and work undertaken:

We have undertaken the following procedures over this VFM risk:

- Reviewed the arrangements the Authority has in place to ensure financial resilience;
- Reviewed the Authority's arrangements in place to deliver services through partnerships.

We have completed our assessment by:

- Regular liaison with the Head of Finance and Resources, and key personnel;
- Review of the Medium Term Financial Strategy 2018/19 to 2021/22;
- Review of 2017/18 outturn vs budget and 2018/19 budget We have reviewed the arrangements the Authority has in place to ensure financial resilience.

The Authority reported an overall breakeven position on its net expenditure budget for 2017/18 after the net contribution of £0.808m from the General Fund and earmarked reserve. This enabled the General Fund balance to remain at £2 million as of 31 March 2018.

The Authority's MTFP for 2018/19 to 2021/22 sets out a proposed budget which currently shows a shortfall of £0.545m. However, the MTFP details the increasingly difficult financial challenges faced each year, resulting in the need for ever rising savings which have yet to be identified, up to £5.495 million by 2021/22.

Like most of local government, the Authority faces a challenging future driven by funding reductions and an increase in demand for services. This is further complicated by the uncertainty relating to the future of financing of local government, particularly business rate reform and fair funding review, as well as the more general uncertainties in relation to Brexit.

The Authority needs make tough decisions ahead to deliver balanced budgets over the coming years, but also maintain strict budgetary control to minimise overspends and continue to monitor delivery of savings targets tightly.

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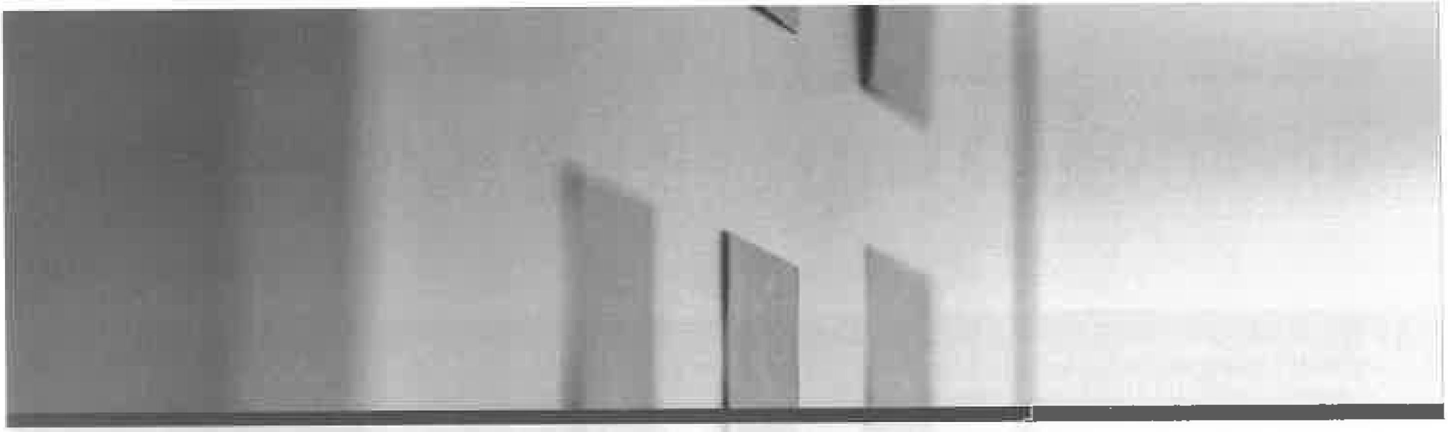
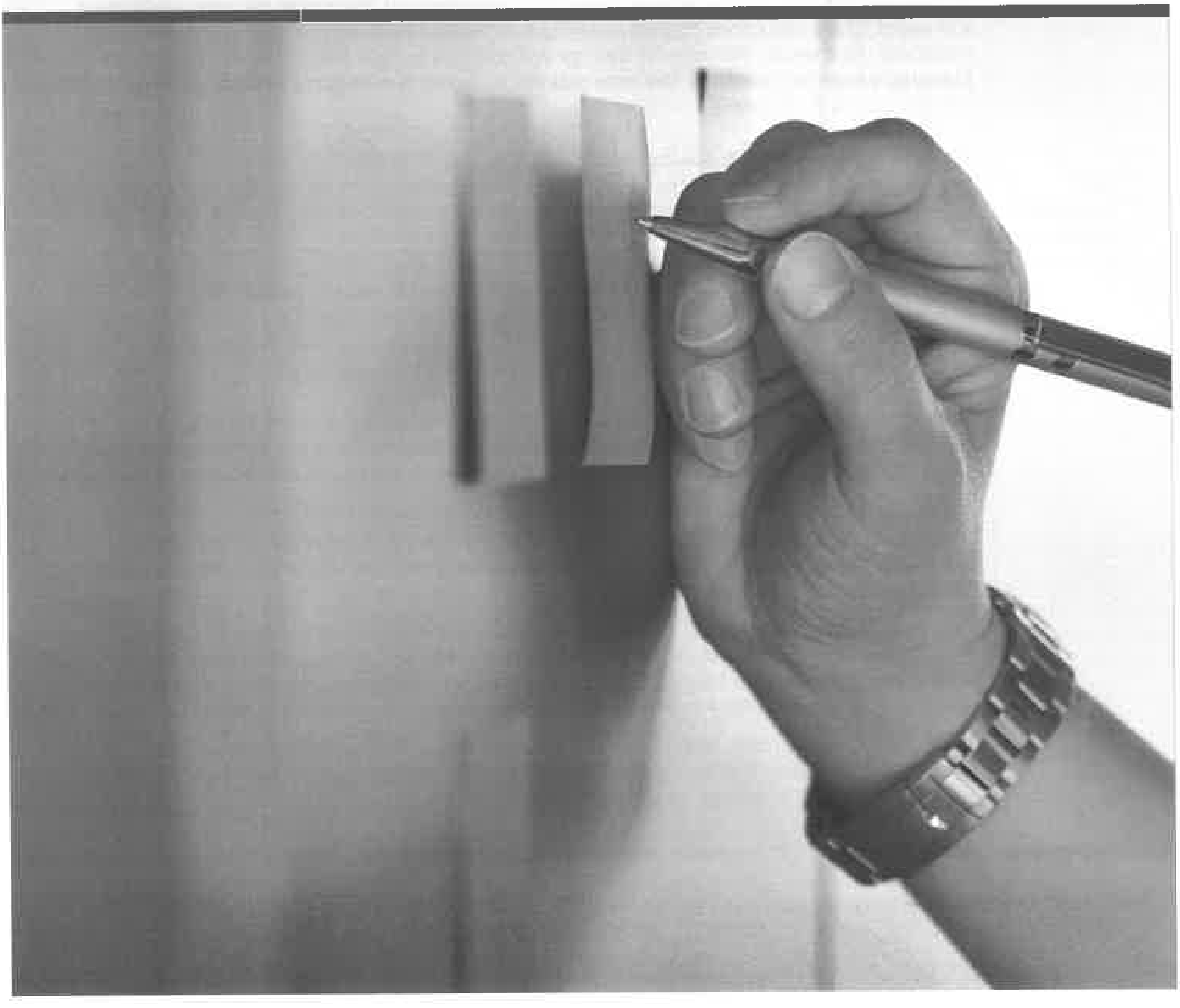


Appendices



Appendix 1:

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 January 2018.

Materiality for the Authority's accounts was set at £0.85 million which equates to around 1.35 percent of gross expenditure. We design our procedures to detect errors in specific accounts at a lower level of precision.

Reporting to the Audit & Corporate Governance Scrutiny Committee

Whilst our audit procedures are designed to identify misstatements which are material to our opinion on the financial statements as a whole, we nevertheless report to the Audit & Corporate Governance Scrutiny 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, an individual difference is considered to be clearly trivial if it is less than £42,000 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 & Corporate Governance Scrutiny Committee to assist it in fulfilling its governance responsibilities.

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Appendix 2:

Required communications with the Audit & Corporate Governance Scrutiny Committee

We have provided below at-a-glance summary of the information we are required to report to you in writing by International Auditing 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 & Corporate Governance Scrutiny 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 (see pages 4 to 5). We have not identified any deficiencies in internal control of a lesser magnitude than significant deficiencies.
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.

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Appendix 2:

Required communications with the Audit & Corporate Governance Scrutiny Committee (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 3 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 15.
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.

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Appendix 3:

Declaration of independence

ASSESSMENT OF OUR OBJECTIVITY AND INDEPENDENCE AS AUDITOR OF North East Derbyshire DISTRICT 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.

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Appendix 3:

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 4, 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*	56,507	56,507
Total audit services	**56,507**	**56,507**
Allowable non-audit services	-	-
Audit related assurance services	3,000	3,000
Total Non Audit Services	**3,000**	**3,000**

* We carried out additional work in respect of our review of the Directors' departure and the set up of Northwood. We will discuss the additional fee with the S151 officer, and the fee will be subject to approval by the PSAA.

In addition we carry out housing benefit certification, which is a mandatory assurance service and a requirement of our contract with the PSAA.

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. Non-audit fees as a percentage of audit fees for the year were 5% (the mandatory assurance services do not count towards the threshold as per AGN01). 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 reported to the Audit & Corporate Governance Scrutiny Committee. 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.

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 & Corporate Governance Scrutiny Committee.

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Appendix 3:

Declaration of independence (cont.)

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 & Corporate Governance Scrutiny 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.

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Appendix 6:

Declaration of independence (cont.)

Analysis of 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 £
Audit-related assurance services				
Return and Pooling of Housing Capital Receipts Return	The nature of these audit-related services is to provide independent assurance on each of these returns. As such we do not consider them to create any independence threats.	Fixed Fee	3,000	-
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	9,427	8,500

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Appendix 4:

Audit fees

As communicated to you in our *External Audit Plan 2017/18*, our scale fee for the audit is £49,410 plus VAT (£49,410 in 2016/17), which is consistent with the prior year.

Component of the audit	2017/18 Planned Fee £	2016/17 Actual Fee £
Accounts opinion and value for money work		
PSAA Scale fee	56,507	56,507
Additional code work – review of Directors' Departures*	tbc	n/a
Additional code work – review of Northwood Group set-up*	tbc	n/a
Total audit services	**56,507**	**56,507**
Mandatory assurance services		
Housing Benefits Certification (work planned for September 2018)	9,427	6,720
Total mandatory assurance services	**9,427**	**6,720**
Audit-related assurance services		
Pooling of Housing Capital Receipts (work planned for September 2018)	3,000	3,000
Total audit-related assurance services	**3,000**	**3,000**
Allowable non-audit services – n/a		
Total allowable non-audit services	-	-
Grand total fees for the Authority	**68,934**	**66,227**

** Subject to agreement with the S151 Officer and the PSAA*

All fees quoted are exclusive of VAT.

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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 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, 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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