KPMG

External Audit ISA260 Report 2017/18

Newark and Sherwood District Council

July 2018

Summary for the Audit and Accounts Committee

This document summarises the key findings in relation to our 2017/18 external audit at Newark and Sherwood District Council ('the Authority').

This report covers both our on-site work which was completed in February/March 2018 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.

Controls over key financial systems and IT control environment

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

- Our testing of payroll reconciliations during the final year end audit found that, there were reconciling items that hadn't been followed up by the Authority as they were deemed to be immaterial. The discrepancies are due to the report that has been used as the basis of the reconciliation. Based on our work, we have raised one recommendation in respect of this.

Further detail can be found in Appendix 1.

Accounts production

We received a complete set of accounts for audit on 24 May 2018, which is before the statutory deadline of 31 May 2018.

We worked with management to ensure that working paper requirements were understood and aligned to our expectations. We are pleased to report that this has resulted in the most part, in good quality working papers with clear audit trails.

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.

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 Pages 10 to 12 for further information:

- **Valuation of PPE** – As a result of our work, we determined that the valuation of land and buildings recognised in 2017/18 is appropriate; and
- **Pensions Liabilities** – As a result of our work, we determined that the valuation of pensions liabilities recognised in 2017/18 is appropriate.
- **Faster close** – The Authority has taken the appropriate steps to bring about faster close and has submitted draft statements by the revised deadline date.

Our audit has identified one material adjustment in respect of the sale of Kelham Hall and this has been amended in the final statement of accounts. There were a small number of minor presentational matters which officers have also agreed to amend.

We have also identified two areas of audit focus around business rate appeals and prior period adjustments. Our work in these areas has not identified any issues.

Based on our work, we have reiterated one recommendation around working papers raised in 2016-17 and raised one new recommendation in respect of payroll reconciliations. Details of our recommendations can be found in Appendix 1 and 2.

We are now in the completion stage of the audit and anticipate issuing our completion certificate and Annual Audit Letter in September 2018.

Summary for Audit and Accounts Committee (cont.)

Completion	At the date of this report our audit of the financial statements is substantially complete subject to the following areas: • Audit procedures in relation to Collection Fund (Council Tax and Business Rates income); • Completion of journals testing; • Addressing any residual audit queries arising from our completion procedures; • General audit file completion and review procedures; • Final review of amended accounts; and • Final audit Director review. Before we can issue our opinion we require a signed management representation letter.
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.** 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 risk: — **Financial Resilience -** The Authority is in a strong position with a high level of reserves, but has recognised the risks around future funding beyond 2020. It has therefore articulated a strategy to manage demand and to increase its income generation, to ensure that the future fall in central government funding does not adversely impact the provision of services. The successful delivery of the Authority's Commercialisation and Investment Strategies will be crucial to secure ongoing financial resilience whilst ensuring continuity of services. See further details on page 21.
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 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, system development and computer operations.

Key findings

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

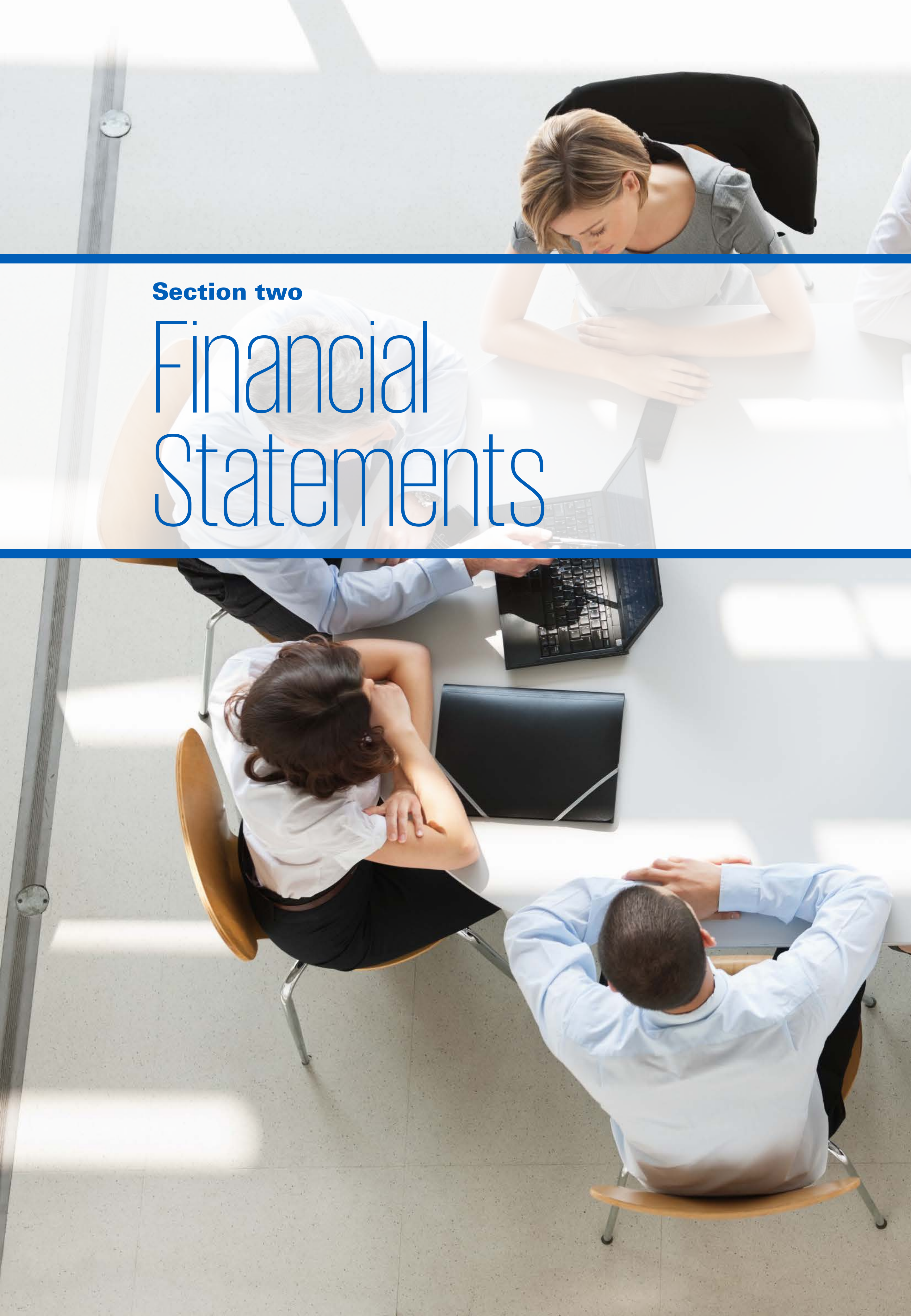
Aspect of controls	Assessment
IT controls:	
Access to systems and data	3
System changes and maintenance	3
Development of new systems and applications	3
Computer operations and end-user computing	3

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

Controls over key financial systems

Aspect of controls	Assessment
Property, Plant and Equipment	3
Cash and Cash Equivalents	3
Pension Assets and Liabilities	3
Non pay expenditure	3
Payroll	2
Business rates income	3
Council tax income	3

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



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 good.

The Authority has implemented the majority of the recommendations in our *ISA 260 Report 2016/17*.

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 included enhancing and developing working papers to aid the audit process. Specifically, the Authority recognised the additional pressures which the earlier closedown brought so we engaged with officers in the period leading up to the year end in order to proactively address issues as they emerged.

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.

Further commentary on the Authority's arrangements in place to secure financial resilience is included at page 21.

Implementation of recommendations

We raised nine recommendations in our ISA 260 Report 2016/17. Most recommendations have been fully implemented. Further details are included in Appendix 2.

Accounts production and audit process (cont.)

Completeness of draft accounts

We received a complete set of draft accounts on 24 May 2018 which was in advance of the statutory deadline.

Quality of supporting working papers

We issued our Accounts Audit Protocol to the Assistant Business Manager Financial Services in February 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 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 audit trails and an improvement from the previous year. However, there is still scope to improve the working papers that support the property, plant and equipment figures in the accounts.

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, our audit work was substantially completed within the timescales expected with few outstanding queries.

Specific audit areas

We anticipate issuing an unqualified audit opinion on the Authority's 2017/18 financial statements by 31 July 2018. We will also report that your Annual Governance Statement complies with the guidance issued by CIPFA/SOLACE ('Delivering Good Governance in Local Government') published in April 2016.

For the year ending 31 March 2018, the Authority has reported an underspend against budget of £761k. The impact on the General Fund and earmarked reserves has been an increase of £594k.

Auditing standards require us to consider two standard risks for all organisations. We consider these as a matter of course in our audit and 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 Authority owns Property, Plant and Equipment valued at £278.9m (2016/17 audited accounts) 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 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. The Authority revalues council dwellings and investment assets annually and revalues 20% of the remaining assets on an annual rolling programme. The Authority's valuer also performs an annual impairment review, to ensure that the assets which haven't been revalued are not significantly different compared to their fair value. 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. We reviewed the revaluation basis and considered its appropriateness. 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). There are no matters from our work which we need to draw to your attention. We have set out our view of the assumptions used in relation to accounting for Property, Plant & Equipment at page 14.

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 with the valuation of the Authority's pension liability, as calculated by the Actuary being £72m (2016/17 audited accounts) . The Authority is an admitted body of Nottinghamshire 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 on the 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 directly to the administering authority/Pension Fund. Administering authority/Pension Fund is responsible for submitting the information to the Scheme Actuary. We also liaised with the auditors of the Pension Fund in order to gain an understanding of the effectiveness of those controls operated by the Pension Fund. We also assessed the controls with respect to the management review of assumptions used in the valuation report and accounts. We also evaluated the competency, objectivity and independence of Barnett Waddingham. 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 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. We obtained assurance from the Pension Fund auditors, KPMG 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. We have no issues to report to you as a result of this work. We have set out our view of the assumptions used in valuing pension assets and liabilities at page 15.

Specific audit areas (cont.)

Significant Audit Risks – Authority (cont.)

Risk:

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.

These changes represent a significant change to the timetable that the Authority has previously worked to. The time available to produce draft accounts has been reduced by one month and the overall time available for completion of both accounts production and audit is two months shorter than in prior years.

In 2016/17, the Authority was able to produce the accounts by 13th June but needed to deliver earlier in the current year, both in terms of the accounts and the supporting working papers. In the previous year, we identified scope to improve the clarity of some working papers, particularly those which support the property, plant and equipment balances and to ensure that the working papers presented are the latest version which supports the figures in the accounts. This is particularly important in meeting the revised audit deadline. 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, subsidiaries and subsidiary auditors) 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 and Accounts Committee meeting schedules have been updated to permit signing in July; and
- Applying a shorter paper deadline to the July meeting of the Audit and Accounts Committee 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 whilst work is on-going in relation to the Authority's Whole of Government Accounts return. 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 to ensure it met the revised deadlines. We also advanced audit work into the interim visit where possible, in order to streamline the year end audit work.

We received draft financial statements on 24th May in advance of the statutory deadline of 31 May 2018. We were pleased to note despite the changes in senior staff in the Finance team the quality of the working papers had improved compared to prior years.

There are no matters from our work which we need to draw to your attention.

Specific audit areas (cont.)

Area of Audit focus

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

Issue:	**Business Rates Provision** The provision for business rate appeals is an area of audit focus since local authorities have little control over the level of appeals and their outcome. It is difficult to anticipate the financial impact of successful appeals as the potential change in rateable value cannot be predicted. Also, there is usually no indication of timescales to settle an appeal, making it a matter of judgement as to when the financial impact will fall.
Our assessment and work undertaken:	We have reviewed the process and methodology used in establishing the provision for business rate appeals. The authority has not received any appeals in year so no new provision has been made. This is in line with our understanding and we have no further issues to report.
Issue:	**Prior period adjustment** The Authority has identified an asset that was transferred from another local government body in 2015 but has been omitted from the Authority's asset register. A prior period adjustment may therefore be required to properly reflect the asset in the accounts this year and in prior years.
Our assessment and work undertaken:	We have reviewed the calculation and presentation of the prior period adjustment. It is in line with our expectations and we have no issues to raise in respect of this issue.

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
Business Rates provision	3	3	Since 2013/14 the Authority has been responsible for a proportion of successful rateable value appeals. The provision of £2.8m represents the Authority's share (40%) of the total provision for appeals against the rateable values set by the Valuation Office Agency not settled as at 31 March 2018. During 2017/18 there were no new appeals and the Authority has not increased the provision. We challenged the level of provision and accepted the Authority's prudent view to maintain at this level as appeals activity varies year on year.
Valuation of pension assets and liabilities	3	3	The reported net balance (£51m), together with assumptions and disclosures for inflation, discount rate, salary growth, life expectancy etc. are consistent with the report from the external actuary.
Property Plant & Equipment:	3	3	The Authority has utilised external valuation experts to provide valuation estimates. We have reviewed the instructions provided and deem that the valuation exercise is in line with the instructions.

Judgements (cont.)

Subjective area	2017/18	2016/17	Commentary
Valuation of pension assets and liabilities	3	3	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% increase in the discount rate would decrease the net liability by £2.67 million. The actual assumptions adopted by the actuary fell within our expected ranges as set our below:

Assumption	Actuary Value	KPMG Central Rate	Assessment
Discount rate	2.55%	2.51%	3
CPI inflation	2.30%	2.15%	2
Net discount rate	0.25%	0.36%	3
Salary Growth	3.80%	3.80 %	3
Life expectancy Current male / female Future male/female	 22.6/25.6 24.8/27.9	 22.1/23.9 23.5/25.4	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 Audit and Accounts Committee on 23 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 4) for this year's audit was set at £1 million. Audit differences below £50,000 are not considered significant.

We have identified one material misstatement. This is in respect of the sale of Kelham Hall which was recorded in the draft accounts as a loss on sale of £1.942 million. The Authority should have revalued the asset when it was transferred from an operational asset to an asset held for sale and an impairment should have been recognised at this point. The Authority has agreed to adjust for this material misstatement. There was also a classification adjustment for debtors. The detail of these adjustments is given at Appendix 3.

We identified a number of minor presentational issues that management have also agreed to adjust.

Proposed opinion and audit differences (cont.)

Annual Governance Statement

We have reviewed the Authority's 2017/18 Annual Governance Statement and confirmed that:

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

— It is not misleading 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.

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 Newark and Sherwood District Council for the year ending 31 March 2018, we confirm that there were no relationships between KPMG LLP and Newark and Sherwood 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.

Management representations

We have provided a detailed declaration in Appendix 6 in accordance with ISA260.

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 Assistant Business Manager Financial Services for presentation to the Audit and Accounts 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 judgement, 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

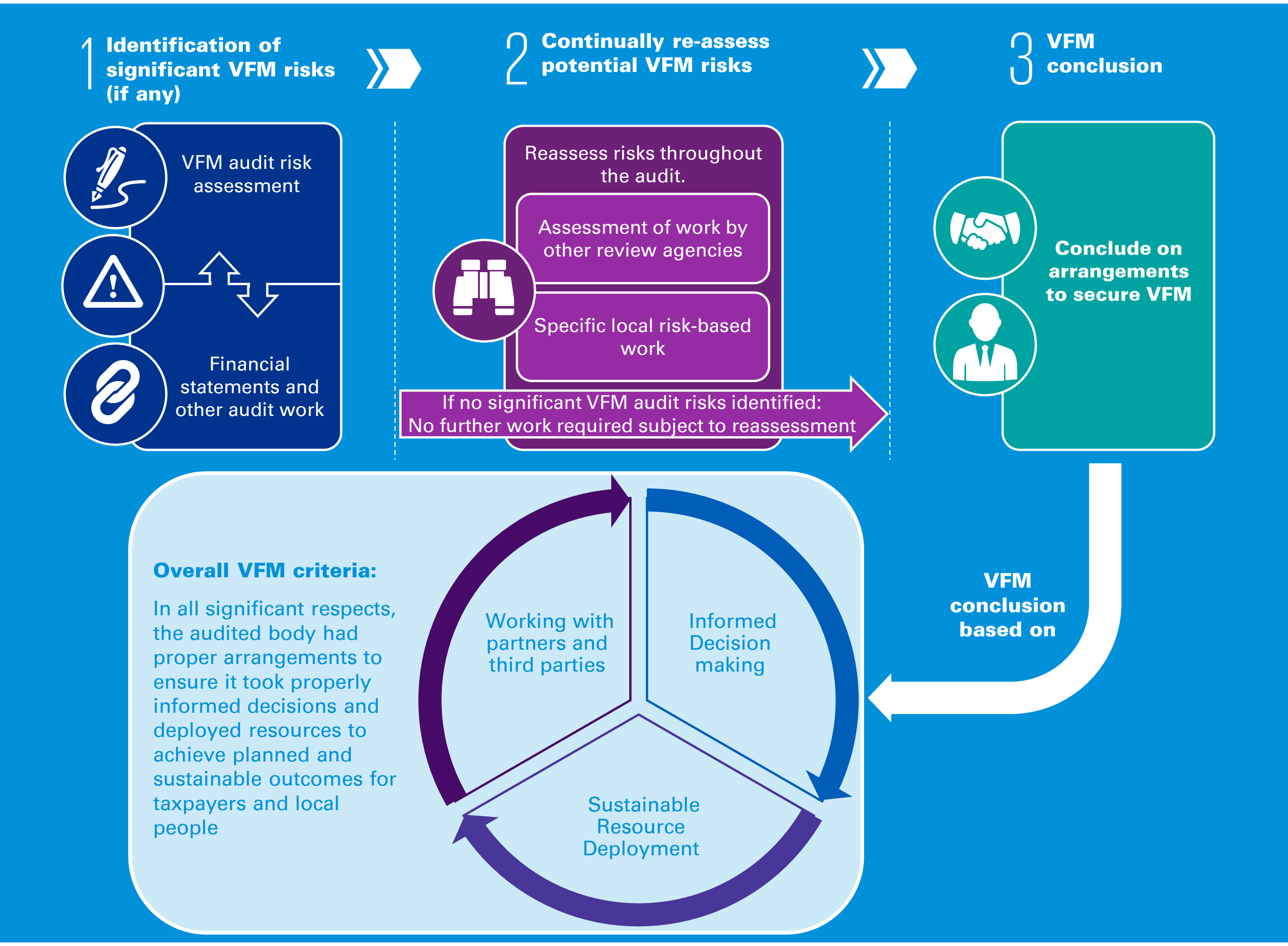
Our 2017-18 VFM conclusion considers whether the Authority had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.

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 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
Financial Resilience	✓	✓	✓

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* and as updated throughout the audit, we have identified one risk 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 area identified, our work undertaken and the conclusions reached.

Risk:

Delivery of budgets

The Authority made a surplus in the previous year, reporting an underspend of £0.9 million against profiled budgets, and set a balanced budget for 2017/18. It has been able to achieve this position due to sound financial management in recent years. The Authority has modelled the potential shortfall against budget for a range of scenarios, with a projected worst case forecasted deficit of over £1 million in 2020/21. The Medium Term Financial Plan shows that the Authority has achieved £5.67 million of savings since 2010, which equates to 33% of its service budgets. The Authority is in a strong position with a high level of reserves, but has recognised the risks around future funding beyond 2020. It has therefore articulated a strategy to manage demand and to increase its income generation, to ensure that the future fall in central government funding does not adversely impact the provision of services. The successful delivery of the Authority's Commercialisation and Investment Strategies will be crucial to secure ongoing financial resilience whilst ensuring continuity of services.

Our assessment and work undertaken:

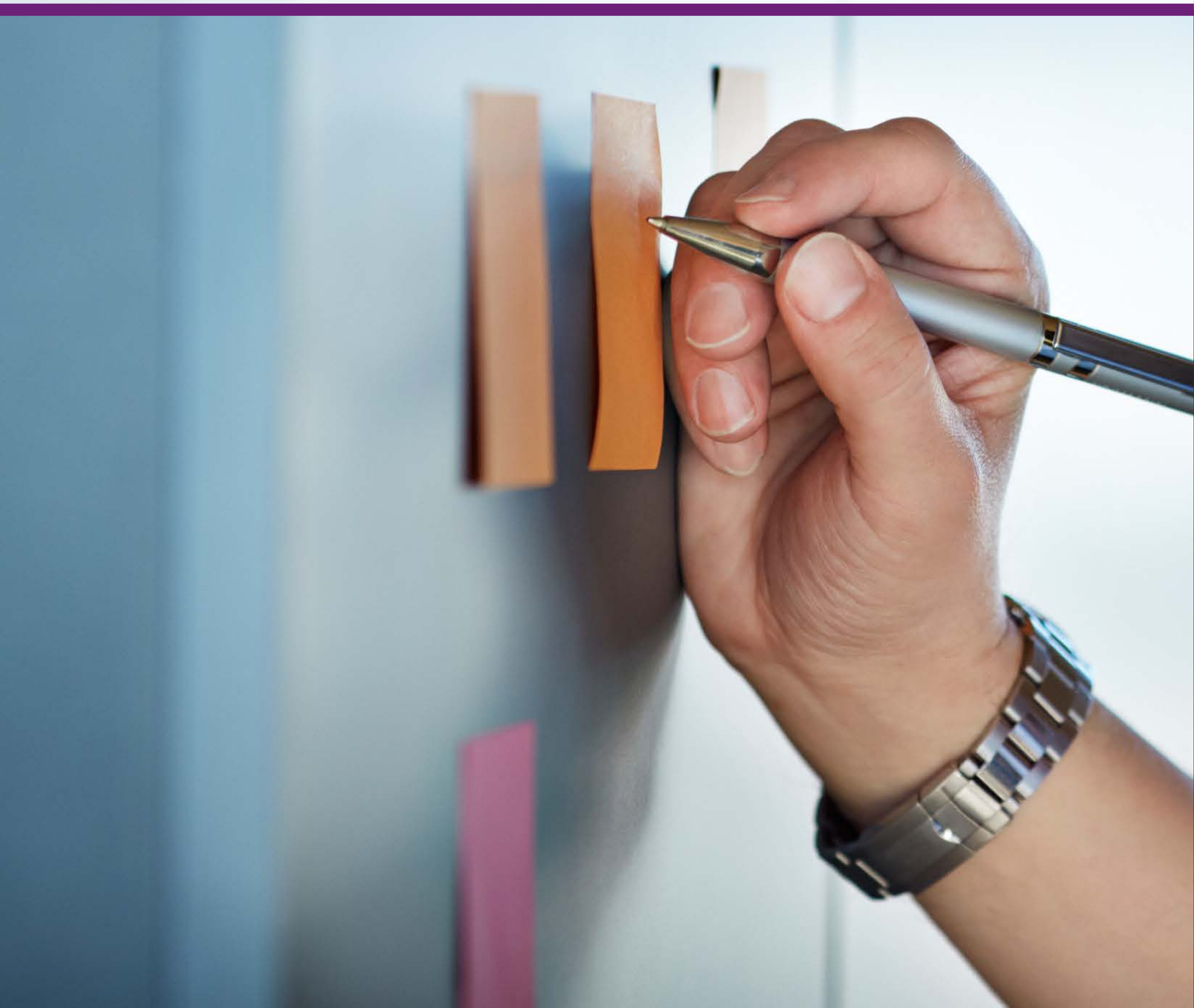
We undertook the following procedures over this significant risk:

- Reviewed the controls the Authority has in place to ensure financial resilience, specifically that the Medium Term Financial Plan has duly taken into consideration factors such as funding reductions, salary and general inflation, demand pressures, restructuring costs and sensitivity analysis given the degree of variability in the above factors
- Reviewed the development of the Authority's Commercialisation and Investment Strategies.

We noted:

- As in previous years, the Authority has reported a surplus against budget, this year this amounted to £761k. This enabled the General Fund and earmarked reserves balances to balance to increase by £594k in year.
- The Authority's MTFP projects a balanced budget for 2018/19 and the detailed assumptions within the plan appear reasonable.
- The Authority has acknowledged that the settlement funding assessment gives a reduction in funding by 28.1% over the 4-year period to 2019/20 and that it will be necessary to focus on growth and investment to bridge the gap.

Appendices



Appendix 1:

Key issues and recommendations

Our audit work on the Authority's 2017/18 financial statements 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 this recommendation.

The Authority should closely monitor progress in addressing the risks, including the implementation of our recommendations.

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: 1	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: 0

No.	Risk	Issue & Recommendation	Management Response
1	2	***Payroll Reconciliation*** Our testing of payroll reconciliations during the final year end audit found that there were reconciling items that hadn't been followed up by the Authority as they were deemed to be immaterial. The discrepancies are due to the report that has been used as the basis of the reconciliation. ***Risk*** Payroll is susceptible to a high risk of fraud. ***Recommendation*** We would recommend that the Authority investigates all the reconciling items identified in the payroll reconciliation.	Accepted, we have changed our approach and methodology to reconciling the payroll each month which will identify any discrepancies throughout the year and rectify these immediately. ***Responsible Officer*** Assistant Business Manager – Financial Services ***Implementation Deadline*** August 2018

Appendix 2:

Follow-up of prior year recommendations

The Authority has implemented most 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-iterate the recommendation still outstanding.

Number of recommendations that were	
Included in the original report	9
Implemented in year or superseded	8
Outstanding	1

No.	Risk	Issue & Recommendation	Management Original Response	Status of Recommendation
1	2	**Working papers and audit process** There is scope to improve the clarity of some working papers, particularly those which support the property, plant and equipment balances and to ensure that the working papers presented are the latest version which supports the figures in the accounts. The Authority has implemented an agile working policy which has meant that some staff were not immediately available as the audit progressed. Whilst this has not unduly delayed the audit, there is scope to coordinate the audit work with staff availability for future years. **Recommendation** The Authority should strengthen the review of working papers to support the figures in the accounts and should coordinate the audit work with staff availability	Accepted ***Responsible Officer*** Financial Services Business Manager ***Implementation Deadline*** July 2018	Partially implemented There is still scope to improve the clarity of the working papers to support property, plant and equipment balances. So we have reiterated our recommendation. ***Management Response*** Accepted, we will continue to look at ways to improve working papers to ensure they are clear and concise with regards to supporting the figures within the accounts.

Appendix 2:

Follow-up of prior year recommendations (cont.)

No.	Risk	Issue & Recommendation	Management Original Response	Status of Recommendation
2	1	**Active4Today** The accounts of Active4Today were not subject to audit, on the grounds that it claimed small company exemption under Section 477 of the Companies Act 2006 ('the Act'). However, Section 479 of the Act states that a company is not entitled to the exemption conferred by section 477 in respect of a financial year during any part of which it was group company. A local authority owned company is not entitled to take advantage of the small company exemption granted by Section 477 of the Act unless it is dormant or the group qualifies as a small group. **Recommendation** We recommend that the Authority ensures that the accounts of Active4Today are subject to audit.	Accepted ***Responsible Officer*** Financial Services Business Manager ***Implementation Deadline*** May 2018	Fully implemented

Appendix 2:

Follow-up of prior year recommendations (cont.)

No.	Risk	Issue & Recommendation	Management Original Response	Status of Recommendation
3	3	**Civica – General IT Controls** During the year, we tested General IT controls over the Civica system. It was noted, that whilst the Authority has the controls regarding the authorisation of starters, leavers and amendments to the level of access to Civica, the documentation for these controls was not retained. There is therefore no evidence that the controls are operating effectively. **Recommendation** We recommend that the Authority should retain the documentation for starters, leavers and any amendments requested for the level of access.	Accepted ***Responsible Officer*** Revenues and Benefits Business Manager ***Implementation Deadline*** September 2017	Fully implemented

Appendix 2:

Follow-up of prior year recommendations (cont.)

No.	Risk	Issue & Recommendation	Management Original Response	Status of Recommendation
4	2	**Budgets Review** We noted that the Authority has amended the procedure for Member review of performance against the budget in order to improve the timeliness of review. The budgetary reports are now uploaded online for the Members to review as compared to the prior year where the reports were taken to committee quarterly. However, within the new process there is no evidence of review unless members raised a query with finance. **Recommendation** The Authority should send a periodic email to confirm if the Members have reviewed the budgets and have any queries to raise.	Accepted ***Responsible Officer*** Financial Services Business Manager ***Implementation Deadline*** March 2018	Fully implemented

Follow-up of prior year recommendations (cont.)

No.	Risk	Issue & Recommendation	Management Original Response	Status of Recommendation
5	2	**Presentation and disclosure of the accounts** We noted a number of presentational issues and have communicated these to Management. The main issue is discussed below: – ***Crematorium pension disclosure*** The Council is jointly responsible for the operation of the Mansfield and District Joint Crematorium Committee, along with Mansfield District Council and Ashfield District Council. Detailed pensions disclosures for the crematorium's employees are not incorporated within the Authority's financial statements, in line with the other two members of the joint committee. **Recommendation** The Authority should review its financial statements against Code requirements, including the suggested presentation per the Code Guidance Notes. Specifically, the Authority should consider incorporating the detailed pensions disclosure of the crematorium's employees within its financial statements.	Accepted ***Responsible Officer*** Financial Services Business Manager ***Implementation Deadline*** December 2017	Fully implemented

Appendix 2:

Follow-up of prior year recommendations (cont.)

No.	Risk	Issue & Recommendation	Management Original Response	Status of Recommendation
6	1	**Related Parties** During our audit, we discussed the control environment in relation to the completeness and accuracy of related party disclosures in the financial statements. Although the Authority circulates an annual form to the members to disclose any transactions that they have had in the year with the related parties, there is no process in place to confirm if there have been any changes in the interest declared. The Authority places reliance on the Members voluntarily disclosing all the interests for the completeness and accuracy of related party disclosures, and there is therefore a risk that the list of the related parties and the interests declared are not up-to-date, resulting in incomplete disclosures in the financial statements. **Recommendation** The Authority should circulate an annual form to the Members to confirm if there have been any changes in the list of the interests declared. The Authority should ensure that it receives a response from all the Members.	Accepted ***Responsible Officer*** Financial Services Business Manager and Democratic Services Business Manager ***Implementation Deadline*** March 2018	Fully implemented

Appendix 2:

Follow-up of prior year recommendations (cont.)

No.	Risk	Issue & Recommendation	Management Original Response	Status of Recommendation
7	3	**Review of PPE Valuation Assumptions** The Authority carries out a rolling programme that ensures that all Property, Plant and Equipment required to be measured at fair value is revalued at least every five years. All 2016/2017 valuations were carried out by David Bingham of Herbert Button and Partners. As part of the valuation in 2016/17 process, the Authority is required to submit information about its assets to the valuer along with the instructions, as well as review and challenge of the valuation assumptions. These are both financial and non-financial assumptions. We note that whilst the Authority has submitted the details of the assets to the valuer with appropriate instructions, there was no documented review or challenge of the assumptions. **Recommendation** The Authority should review all assumptions used by the valuer to ensure relevance to its Members. Where appropriate, the Authority should challenge these assumptions. These assumptions should also be presented to the Council for the consideration and approval	Accepted ***Responsible Officer*** Financial Services Business Manager ***Implementation Deadline*** April 2018	Fully implemented

Appendix 2:

Follow-up of prior year recommendations (cont.)

No.	Risk	Issue & Recommendation	Management Original Response	Status of Recommendation
8	2	**Asset Verification Exercises** We understand that the Authority does not conduct regular verification exercises, thus there is an increased risk that the conditions indicating the requirement for an impairment of an asset are not identified. **Recommendation** We recommend that the Authority reviews its asset verification procedures, to ensure that any circumstances leading to impairment of an asset are identified.	Accepted ***Responsible Officer*** Financial Services Business Manager ***Implementation Deadline*** April 2018	Fully implemented

Appendix 2:

Follow-up of prior year recommendations (cont.)

No.	Risk	Issue & Recommendation	Management Original Response	Status of Recommendation
9	2	**PPE - Component Accounting** Whilst the Authority uses component accounting for its Council Dwellings, there is no value allocated to each component of the property in the assets register. During our testing, we noted that the Authority uses the cost of the new assets as the proxy cost of the existing asset to be reversed, due to lack of information about the cost of each component and the associated depreciation. This could result in the total assets being under/overstated depending on how many years the asset being replaced, has been in use. **Recommendation** The Authority should value each component separately and depreciate using the component specific useful lives. This will make accounting for the replacement costs much easier and reduce the risk of the total assets being over/understated.	Accepted ***Responsible Officer*** Financial Services Business Manager ***Implementation Deadline*** April 2018	Fully implemented

Audit differences

We are required by ISA 260 to report all uncorrected misstatements, other than those that we believe are clearly trivial, to those charged with governance (which in your case is the Audit and Accounts Committee.

We are also required to report all material misstatements that have been corrected but that we believe should be communicated to you to assist you in fulfilling your governance responsibilities.

A number of minor amendments focused on presentational improvements have also been made to the 2017-18 draft financial statements. The Finance team is committed to continuous improvement in the quality of the financial statements submitted for audit in future years.

Adjusted audit differences

The following table sets out the significant audit differences identified by our audit of Newark and Sherwood District Council's financial statements for the year ended 31 March 2018. It is our understanding that this will be adjusted. However, we have not yet received a revised set of financial statements to confirm this.

Table 1: Adjusted audit differences (£'000)

No.	Income and expenditure statement	Movement in reserves statement	Assets	Liabilities	Reserves	Basis of audit difference
1. The Authority transferred Kelham Hall to Assets Held for Sale, during the year 2017-18. However, the asset was not revalued to fair value before the transfer as is required by the standard. Thus there was an error of £1.942m in the financial statements.						
1a.					**Dr Account** Revaluation Reserve £717k	Correction of the disposal of Kelham Hall's Revaluation Reserve
					Cr Account Capital Adjustment Account £717k	Correction of the disposal of Kelham Hall's Revaluation Reserve
1b.			**Cr Account** Other Land and Buildings £1,942k			Correction of the transfer of Kelham Hall to Other Land and Buildings
			Cr Account Assets Held for Sale £1,942k			Correction of the transfer of Kelham Hall to Other Land and Buildings
1c.			**Cr Account** Assets Held for Sale £1,942k		**Dr Account** Capital Adjustment Account £1,942k	Corrections related to disposal of Kelham Hall
1c.	**Dr Account** I&E Gains and Losses £1,942k	**Cr Account** Movement in Reserves Gain and Loss £1,942k				Corrections related to disposal of Kelham Hall

Audit differences (cont.)

Table 1: Adjusted audit differences (£'000) (Cont.)

No.	Income and expenditure statement	Movement in reserves statement	Assets	Liabilities	Reserves	Basis of audit difference
1d.			**Dr Account** Other Land and Building £717k		**Cr Account** Revaluation Reserve £717k	Downward Revaluation written off for Kelham Hall
1d.			**Dr Account** Other Land and Building £1,225k			Movement fur to Revaluation in September 2017
1d.	**Cr Account** I&E Kelham Hall Loss £1,225k					
1d.		**Dr Account** Movement in Reserves Revaluation £1,225k				
1d.					**Cr Account** Capital Adjustment Account £1,225k	
	Dr £717k	**Cr £717k**	**Nil**	**Nil**	**Nil**	**Total impact of adjustments**

2. The classification of the debtors in the notes to the financial statements was incorrect.

			Dr Account Central Government Debtors **£20k**			Transfer of debtors to Central Government Debtors category
			Dr Account Other Entities and Individuals **£488k**			Transfer of debtors to Other Entities and Individuals category
			Dr Account Other Local Authority Debtors **£508k**			Transfer of debtors from Other Local Authority category

There is no net impact on the total value of debtors.

Appendix 4:

Materiality and reporting of audit differences

The assessment of what is material is a matter of professional judgement 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 February 2018.

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

Reporting to the Audit and Accounts 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 and Accounts 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 £50,000 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 and Accounts Committee to assist it in fulfilling its governance responsibilities.

Appendix 5:

Required communications with the Audit and Accounts 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 one material and a number of presentational and classification adjusted differences as a result of the 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 and Accounts Committee	There were no matters to report arising from the audit that, in our professional judgement, 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 details of significant deficiencies identified, in Section one of this report (see page 1). We have identified no 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 Members 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.

Appendix 5:

Required communications with the Audit and Accounts 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 (and others in the firm, as appropriate), have complied with relevant ethical requirements regarding independence. See Appendix 6 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.

Appendix 6:

Declaration of independence

ASSESSMENT OF OUR OBJECTIVITY AND INDEPENDENCE AS AUDITOR OF NEWARK AND SHERWOOD 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.

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	**48,329**	**49,966**
Total audit services	**48,329**	**49,966**
Mandatory assurance services	**8,022**	**5,525**
Other assurance services	**3,000**	**3,000**
Total assurance services	**11,022**	**8,525**

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. 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.

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 £
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	8,022	5,525
Certification of the Pooling of Housing Capital Receipts Return	This engagement is entirely separate from the audit through a separate engagement letter. The nature of this work is to review the return in line with guidance. Therefore, it does not impact on our opinion and we do not consider that the outcome of this work will be a threat to our role as external auditors.	Fixed Fee	3,000	3,000

Declaration of independence (cont.)

Independence and objectivity considerations relating to other matters

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

Confirmation of audit independence

We confirm that as of the date of this report, in our professional judgement, 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 and Accounts 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.

KPMG LLP

Appendix 7:

Audit fees

As communicated to you in our *External Audit Plan 2017-18*, our scale fee for the audit is £48,329 plus VAT (£49,966 in 2016/17), which is consistent with the prior year.

Our work on the certification of the Authority's Housing Benefit Subsidy return is planned for August 2018. The planned scale fee for this is £5,525 plus VAT (£8,022 in 2016/17). See further details below.

Component of the audit	2017/18 Planned Fee £	2016/17 Actual Fee £
Accounts opinion and value for money work		
PSAA Scale fee Newark and Sherwood District Council	48,329	49,966
Total audit services	**48,329**	**49,966**
Mandatory assurance services		
Housing Benefits Certification (work planned for August 2018)	5,525	8,022
Total mandatory assurance services	**5,525**	**8,022**
Grand total fees for the Authority	**53,854**	**57,988**

All fees quoted are exclusive of VAT.

The key contacts in relation to our audit are:

John Cornett
Director

0116 256 6064
john.cornett@kpmg.co.uk

Helen Brookes

Manager

0115 954 4476
helen.brookes@kpmg.co.uk
r

Rachit Babbar
Assistant Manager

0121 232 3188

rachit.babbar2@kpmg.co.uk

kpmg.com/uk