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Report to those charged with governance (ISA 260) 2010/11

Kettering Borough Council

August 2011

Contents

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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. The Audit Commission has issued a document entitled *Statement of Responsibilities of Auditors and Audited Bodies*. This summarises where the responsibilities of auditors begin and end and what is expected from the audited body. We draw your attention to this document which is available on the Audit Commission's website at www.auditcommission.gov.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.

If you have any concerns or are dissatisfied with any part of KPMG's work, in the first instance you should contact Saverio Della Rocca, the appointed engagement lead to the Authority, who will try to resolve your complaint. If you are dissatisfied with your response please contact Trevor Rees on 0161 246 4000, or by email to trevor.rees@kpmg.co.uk, who is the national contact partner for all of KPMG's work with the Audit Commission. After this, if you are still dissatisfied with how your complaint has been handled you can access the Audit Commission's complaints procedure. Put your complaint in writing to the Complaints Unit Manager, Audit Commission, Westward House, Lime Kiln Close, Stoke Gifford, Bristol, BS34 8SR or by email to complaints@audit-commission.gov.uk. Their telephone number is 0844 798 3131, textphone (minicom) 020 7630 0421.

Introduction

This report summarises:

- **the key issues identified during our audit of Kettering Borough Council's ('the Authority's) financial statements for the year ended 31 March 2011; and**
- **our assessment of the Authority's arrangements to secure value for money (VFM) in its use of resources.**

Financial statements

Our audit of the financial statements can be split into four phases:

Planning → Control Evaluation → Substantive Procedures → Completion

This report details the findings from our work for the 2010/11 financial year.

Our interim visit took place during May 2011. During this visit we completed work in relation to the first two stages of our audit, the planning phase and the control evaluation phase, including:

Control Evaluation

- Review the work of Internal Audit.
- Testing specific controls over the Authority's key financial systems.
- Reviewing the Authority's general control environment, including the Authority's IT systems.
- Undertaking work to address the specific risk areas we have identified for this year.
- Reviewing the Authority's work to restate the 2009/10 financial statements under International Financial Reporting Standards (IFRS).

Our final accounts visit on site took place between 18 July 2011 and 12 August 2011. During this period, we carried out the following work:

Substantive Procedures

- Planning and performing substantive audit procedures.
- Concluding on critical accounting matters.
- Identifying audit adjustments.
- Reviewing the Annual Governance Statement.

We are now in the final phase of the audit. Some aspects are also discharged through this report:

Completion

- Declaring our independence and objectivity.
- Obtaining management representations.
- Reporting matters of governance interest.
- Forming our audit opinion.

VFM conclusion

We have also now completed our work in respect of the 2010/11 VFM conclusion. This included:

- A review of the specific VFM risks following our initial assessment of the Authority's VFM arrangements.

Structure of this report

This report is structured as follows:

- Section 2 summarises the headline messages.
- Section 3 sets out the key findings from the planning and control evaluation phases of our audit work.
- Section 4 sets out the key findings from our audit work in relation to the 2010/11 financial statements.
- Section 5 outlines the key findings from our work on the VFM conclusion.

Our recommendations are included in Appendix 1. We have also reviewed your progress in implementing prior year recommendations and this is detailed in Appendix 2.

Acknowledgements

We would like to take this opportunity to thank officers and Members for their continuing help and co-operation throughout our audit work.

Headlines

This table summarises the headline messages. The remainder of this report provides further details on each area.

Proposed audit opinion	We anticipate issuing an unqualified audit opinion by 30 September 2011. We will also report that the wording of your Annual Governance Statement accords with our understanding.
Audit adjustments	Our audit identified one material technical audit adjustment and one material technical presentational adjustment, in addition to other minor balance sheet adjustments. The material audit adjustment has the following impact: ■ Decrease the surplus on provision of services for the year by £1,085k; ■ Decrease the net worth of the Authority as at 31 March 2011 by £1,085k; Both of the above adjustments were caused by the recognition of an impairment loss for a 'held for sale' asset at the year end. The material presentational adjustment relates to the re-categorisation of an exceptional pension gain of £8,967K. This is merely a movement on the face of the Comprehensive Income and Expenditure statement. Overall the adjustments do not impact on the general fund balance as at 31 March 2011. We have included a full list of significant audit adjustments at Appendix 3. The appendix has been split into those audit adjustments which have been adjusted by the Authority and those which remain uncorrected. We have raised a number of recommendations in relation to the matters highlighted above, which are summarised in Appendix 1.
Critical accounting matters	We have worked with officers throughout the year to discuss specific risk areas. The Authority addressed the majority of issues appropriately. In summary: ■ The Authority has successfully completed the restatement of its statement of accounts so that they are now compliant with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom; ■ Sample testing carried out to assess the Authority's response to increasing funding pressures identified one instance where inappropriate accounting treatment had been applied. The Authority had capitalised ineligible expenditure, however the monetary value involved is considered trivial; and ■ The Code of Practice on Local Authority Accounting requires that all authorities establish and apply an accounting policy for componentisation . This policy should meets the requirements set out in IAS 16 Property plant and Equipment. We have reviewed the authority's componentisation policy and confirmed its appropriateness. However, the Authority will need to continue to review the appropriateness of the policy in light of the changing local government landscape and the move to HRA self-financing.

Headlines (continued)

This table summarises the headline messages. The remainder of this report provides further details on each area.

Accounts production and audit process	We have noted an improvement in the quality of the working papers prepared by the Authority to support their accounts. We did however note a number of minor omissions as a result of the introduction of IFRS. Officers dealt efficiently with our audit queries and the audit process has been completed within the planned timescales. The Authority has implemented some of the recommendations in our *ISA 260 Report 2009/10* relating to the financial statements. For those recommendations which remain in progress, we re-iterate the importance of implementing them as soon as possible. We will continue to monitor the Authority's progress with implementing these recommendations.
Controls evaluation	Our review of the control environment confirmed that the majority of the controls over key financial and IT systems are adequate. Our testing highlighted some areas for further improvement and have detailed our recommendations in Appendix 1. The areas for improvement do no not affect our overall control evaluation but if implemented would further strengthen the control environment. Our review of the Internal Audit reports highlighted that 'adequate' assurances were given across a number of system. However five areas, previously identified by us, were given 'limited' assurance. Our follow up of these observations confirmed that Authority is making some progress to address them. Full details of our follow up is at Appendix 2.
Completion	At the date of this report our audit of the financial statements is substantially complete subject to completion of the following areas: ■ Audit of Whole of Government Accounts submission pack. Before we can issue our opinion we require a signed management representation letter. We confirm that we have complied with requirements on objectivity and independence in relation to this year's audit of the Authority's financial statements.
VFM conclusion	We have concluded that the Authority has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

The controls over the majority of the key financial systems are adequate.

We have noted some areas for improvement which will strengthen the Authority's control environment.

Controls over key financial systems

Work completed

We work with your internal auditors to update our understanding of the Authority's key financial processes.

We confirm our understanding of the systems via walkthroughs. We also 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 key system will not always be in line with the 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

<u>Our assessment of controls</u>

We confirmed our understanding of the controls over the the key financial systems and conclude that generally they are adequate. We noted some areas for improvements, these include:

- Review of open orders;
- Independent review of journals;
- Closure of inactive bank accounts and out of date cheques; and
- Write off of council tax and NNDR debtors greater than 7 years old.

Our recommendations are detailed in Appendix 1 will help to strengthen the general control environment.

<u>Review of Internal Audit</u>

Our review of the internal audit reports highlighted that the overall assurances given was adequate.

However, the following reviews were graded as 'limited' assurance:

- Creditors;
- Anti Fraud & Corruption;
- Connect Law;
- Partnership Review; and
- Property Services overtime.

Internal Audit have raised a number of recommendation to address the control deficiencies identified. A number of these control issues were previously raised by us. As part of our controls assessment, we have followed up on the previous year recommendations at Appendix 2. We are pleased to report that the Authority is making some progress in addressing them.

We understand that the Authority are planning to outsource its internal audit function from April 2012. As part of the outsource process the Authority should consult with the Monitoring and Audit Committee and also KPMG before finalising its internal audit plan. The internal audit plan should address the control environment risks highlighted through risk assessment processes and should include sufficient focus on key financial systems.

Control Evaluation (continued)

Your IT control environment is effective overall, however we re-iterate the importance of implementing several of the recommendations raised by Internal Audit in their IT Applications Controls report and raised by us in 2009/10.

IT control environment

Work completed

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.

In completing this work, we can partially rely on internal audit's reviews of IT Application Controls. This included testing of:

- The controls in place for granting access to the Authority's IT network and key IT systems; and
- The controls in place for installing patches and upgrades to the Authority's key IT systems.

The work undertaken by Internal Audit has been complemented by our own testing of:

- The strength of password parameters built into each of the Authority's key IT systems; and
- The interfaces between different IT systems to ensure that data held within one system is successfully uploaded into another system (e.g. uploading Housing Benefit payments processed within the Academy system to the Agresso financial ledger).

Key findings

We found your IT control environment is effective overall, however we reiterate the importance of implementing the recommendations raised in our *ISA 260 Report 2009/10* and raised again by Internal Audit as a result of their work, most notably:

- The need for robust, service specific business continuity plans to be in place that are linked to the over-arching Corporate Business Continuity Plan. We understand that the Business Continuity Policy, Strategy and Business Impact Analysis were formally approved by the Authority's Monitoring & Audit Committee on 23 November 2010 and that the Authority is continuing to work with its insurers to improve its Business Continuity arrangements. See Appendix 2 for further detail.

Follow up of recommendations raised previously are included in Appendix 2.

Financial statements

Our audit identified one material audit adjustment and one material presentational adjustment, in addition to other minor balance sheet adjustments.

These adjustments have no impact on the General Fund balance as at 31 March 2011.

The Annual Governance Statement is inline with our understanding.

Proposed audit opinion

Subject to all outstanding queries being resolved to our satisfaction, we anticipate issuing an unqualified audit opinion by 30 September 2011.

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.

Our audit identified to one material audit adjustment and one material presentational adjustment, in addition to other minor balance sheet adjustments.

The material presentational audit recognises:

- the Past Service Gain of £8,967k as an Exceptional item on the face of Comprehensive Income & Expenditure Statement (CI&ES). This was previously included in the Financing & Investment Income and Expenditure line in the CI&ES. As such this is merely a presentational adjustment; and

The material audit adjustment: recognises:

- an impairment loss of £1,110k required to ensure a held for sale asset was carried at its fair value less cost to sell per the requirements of IFRS 5.

The tables on the right illustrate the total impact of audit differences on the Authority's movements on the General Fund for the year and balance sheet as at 31 March 2011. The table highlights that there is no impact on the General Fund balance as at 31 March 2011 as a result of the audit adjustments identified.

Annual Governance Statement

We have reviewed the Annual Governance Statement and confirmed that:

- it complies with *Delivering Good Governance in Local Government: A Framework* published by CIPFA/SOLACE in June 2007; and
- it is not misleading or inconsistent with other information we are aware of from our audit of the financial statements.

We have made a number of comments in respect of its format and content which the Authority has agreed to amend where significant.

Movements on the General Fund 2010/11

£m	Pre-audit	Post-audit
(Surplus) or deficit on the provision of services	(9,442)	(8,357)
Adjustments between accounting basis & funding basis under regulations	8,056	6,896
Transfers to/ (from) earmarked Reserves	1,355	1,430
(Increase)/decrease in General Fund	**(31)**	**(31)**

Balance Sheet as at 31 March 2011

£m	Pre-audit	Post-audit
Property, plant and equipment	149,382	149,382
Other long term assets	7,390	7,390
Current assets	10,942	9,832
Current liabilities	(9,579)	(9,554)
Long term liabilities	(24,747)	(24,747)
Net worth	**133,388**	**132,303**
General Fund	(1,415)	(1,415)
Other reserves	(131,973)	(130,888)
Total reserves	**(133,388)**	**(132,303)**

Financial statements (continued)

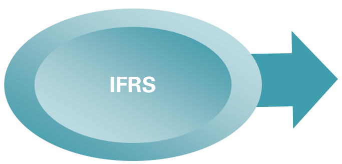
We have worked with officers throughout the year to discuss specific risk areas. The Authority addressed the majority of issues appropriately.

In our *Financial Statements Audit Plan 2010/11*, presented to you in January 2011, we identified the Critical Audit risks affecting the Authority's 2010/11 financial statements.

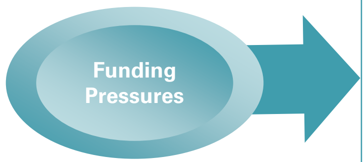
We have now completed our testing of these areas and set out our final evaluation following our substantive work. We can confirm that :

- The Authority has successfully completed its IFRS restatement work;
- We have confirmed the appropriateness of the Authority's componentisation policy against the requirement of the Code of Practice and IAS 16.
- There was only one non-material instance where the Authority had applied inappropriate accounting treatment, by capitalising ineligible expenditure;
- The Authority has sufficient funding available to complete the Town Centre development schemes that are currently in progress; and
- The Authority is planning to lease out the Market Place retail units. The Authority has started to recognise rental income on the Market Place flats. The new rental streams will supplement the General Fund budget.

The table below sets out our detailed findings for each risk.

Key audit risk	Issue & work completed	Findings
	**International Financial Reporting Standards (IFRS)** The move away from the the Local Government Statement of Recommended Practice (SORP) to the CIPFA/LASAAC Code of Practice on Local Authority Accounting has resulted in the need for a number of changes to disclosure requirements. We have continued our dialogue with the Group Accountant to monitor progress in relation to the IFRS restatement and in particular the impact of component accounting on the Authority. In addition we have carried out a detailed review of: • The corporate arrangements in place at the Authority to manage the IFRS transition; • The accounting treatment applied to the Authority's leases, by checking a sample to ensure that: o leases had been reviewed against IFRIC4 and IAS17; and o adequate disclosure had been included in the accounts.	• The Authority has managed the transition to IFRS. • The componentisation policy adopted by the authority is in line with the requirements of the Code of Practice and IAS 16 Property Plant and Equipment. The Authority's approach and considerations in developing a policy are detailed at Appendix 1. We recommend that the Authority consider a number of factors on an annual basis to ensure that the policy remains appropriate. These considerations are detailed at Appendix 1. • Our year end testing highlighted that the Authority is not fully complying with IFRS 5. The standard states that assets held for sale should be revalued at the end of the accounting period to ensure it is being carried at the lower of its fair value less costs to sell and carrying amount. Further details of this divergence are made at Appendix 1 (point 1). • Our review did not highlight any other areas of non compliance against the international accounting standards.

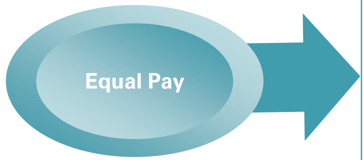
Financial statements (continued)

Key audit risk	Issue & work completed	Findings
	**Funding Pressures** Following the results of the Comprehensive Spending Review and grant funding allocation (published in December 2010), the Authority is under pressure to balance its budget. There is an increased risk that expenditure may be deferred or incorrectly capitalised, income and expenditure incorrectly stated as a means of improving the Authority's financial position. We audited: • The cut-off arrangements applied to transactions processed around the financial year-end to ensure the correct treatment has been applied; • The validity of accruals included in the year-end creditors figure; • The accuracy of any provisions included in the statement of accounts; and • The validity of the Authority's capitalisation policy for fixed asset additions to ensure that only expenditure that is directly attributable is capitalised.	Through the course of our sample testing we did not identify any instances where the accounting treatment applied by the Authority in relation to cut-off and accruals was incorrect. Our review of the statement of accounts identified that the Authority has not included any specific provisions, other than provisions for bad and doubtful debts. In relation to fixed asset additions, our sample testing identified one instance where ineligible expenditure had been capitalised, however the amount involved (£10k) is considered to be trivial and as such this has not been adjusted in the statement of accounts.

Financial statements (continued)

Key audit risk	Issue & work completed	Findings
Town Centre Regeneration	**Town Centre Regeneration** The Authority is 3 years into its Town Centre regeneration project. To date a number of schemes have been completed, namely Kettering Market Place. In light of government funding cuts, the Authority is having to revise the number of schemes it will support financially. The schemes involve complex large value financial and land transactions which have an impact on the financial statements. • We monitored whether the Authority secured sufficient grant funding to complete all the schemes that have commenced; • We monitored the Authority's process for critically appraising which schemes to support to ensure that only those schemes that are financially viable are progressed; and • The Authority is part-way through the development of the Kettering Restaurant Quarter which includes the construction of a range of retail units and flats. The Authority is in the process of deciding whether to lease or sell the units to third parties. We reviewed the decision-making process adopted by the Authority to ensure that value for money is obtained.	During the 2010/11 financial year the Authority has spent c£4.2m on the redevelopment of the market place and other public realm schemes. These schemes have been funded by £3.6m of Growth Area Funding and £0.6m of Homes & Communities Agency funding. The market place and public realm are due to complete in the Autumn of 2011. The Authority has included £1.8m in its 2011/12 capital programme to complete these projects. The Authority has sufficient resources to complete the project. Following our review of the grant conditions it was identified that the Authority would need to repay any grant if an asset generated by the grant funding was sold within a 10 year period . The Authority has decided to lease out the Market Place retail units and flats rather than sell them and therefore there will be no repayment of grant. The rental streams will be used, in part, to supplement the General Fund budget . The Authority is currently in talks with national restaurant chains to occupy the new units and is actively marketing the flats for rental. The Authority is currently reviewing the feasibility and funding of the Wadcroft development. All future Town Centre regeneration projects will continue to be appraised through the Capital Asset Management Team (CAMT).

Financial statements (continued)

Key audit risk	Issue & work completed	Findings
	**Equal Pay** The Authority needs to continue to review its compliance with equal pay legislation and assess any potential risk exposure in light of recent case law. ● During our interim review, we met with the Head of HR to assess the Authority's current position and the likelihood of any potential Equal Pay claims being lodged against the Authority; and ● Following these discussions, we reviewed the adequacy of any provisions included in the statement of accounts.	The Authority has undertaken an assessment to gauge the risks facing them from Equal Pay legislation. As a result of this assessment a contingent liability has been disclosed in the financial statements. In addition, the Authority has taken the prudent step to earmark reserves of c£250k to meet any potential claims.

Financial statements (continued)

We have noted an improvement in the quality of the accounts and the supporting working papers.

Officers dealt efficiently with audit queries and the audit process could be completed within the planned timescales.

The Authority has implemented some of the recommendations raised in our *ISA 260 Report 2009/10*, and progress has been made with the remaining recommendations.

Accounts production and audit process

ISA 260 requires us to communicate to you our views about the qualitative aspects of the Authority's accounting practices and financial reporting. We also assessed the Authority's process for preparing the accounts and its support for an efficient audit.

We considered the following criteria:

Element	Commentary
Accounting practices and financial reporting	The Authority has strengthened its financial reporting process through improving the quality of its working papers to support the debtors and creditors balances included in the accounts. We consider that accounting practices are appropriate.
Completeness of draft accounts	We received a set of draft accounts on 6 July 2011. Following a detailed review of the draft accounts against the Code of Practice on Local Authority Accounting in the United Kingdom Disclosure Checklist, we noted that additional disclosure notes as a result of the introduction of IFRS were required in the following areas: -Trading Operations; -Operating leases; -Investment property ; and -Property, plant and equipment .
Quality of supporting working papers	Our *Accounts Audit Protocol*, which we issued on 17 March 2011 and discussed with the Group Accountant, set out our working paper requirements for the audit. Good quality working papers were provided and they met the standards specified in our *Accounts Audit Protocol*.
Response to audit queries	Officers resolved the majority of audit queries in a reasonable time.

Prior year recommendations

The Authority has implemented some of the recommendations raised in our *ISA 260 Report 2009/10* relating to the financial statements. A number of the recommendations raised are in progress, however one recommendation relating to the need to improve the Authority's counter-fraud arrangements remains outstanding.

Appendix 2 provides further details.

Financial statements (continued)

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

Before we can issue our opinion we require a signed management representation letter.

Once we have finalised our opinions and conclusions we will prepare our Annual Audit Letter and close our audit.

Completion

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 Kettering Borough Council for the year ending 31 March 2011, we confirm that there were no relationships between KPMG LLP and Kettering Borough Council, its directors and senior management and its affiliates that we consider may reasonably be thought to bear on the objectivity and independence of the audit engagement lead and audit staff. We also confirm that we have complied with Ethical Standards and the Audit Commission's requirements in relation to independence and objectivity.

We have provided a detailed declaration in Appendix 4 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 Head of Finance. We require a signed copy of your management representations before we issue our audit opinion.

Other matters

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

- material weaknesses in internal control identified during the audit;
- matters specifically required by other auditing standards to be communicated to those charged with governance (e.g. issues relating to fraud, compliance with laws and regulations, subsequent events etc.); and
- other audit matters of governance interest.

There are no other matters which we wish to draw to your attention.

VFM conclusion

We follow a new VFM audit approach this year.

Our VFM conclusion considers how the Authority secures financial resilience and challenges how it secures economy, efficiency and effectiveness.

We have concluded that the Authority has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

Overview of the new VFM audit approach

For 2010/11, auditors are required to give their statutory VFM conclusion based on two criteria specified by the Audit Commission. These consider whether the Authority has proper arrangements in place for:

- securing financial resilience: looking at the Authority's financial governance, financial planning and financial control processes; and
- challenging how it secures economy, efficiency and effectiveness: looking at how the Authority is prioritising resources and improving efficiency and productivity.

We follow a risk based approach to target audit effort on the areas of greatest audit risk. We consider the arrangements put in place by the Authority to mitigate these risks and plan our work accordingly.

Our VFM audit draws heavily on other audit work which is relevant to our VFM responsibilities and the results of last year's VFM audit

The key elements of the VFM audit approach are summarised in the diagram below.

Conclusion

We have concluded that the Authority has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

VFM criterion	Met
Securing financial resilience	✓
Securing economy, efficiency and effectiveness	✓

The following pages include further details on the specific risk-based work.

Value for money conclusion (continued)

We have considered the specific VFM criteria in reaching our VFM conclusion.

Whilst the Authority has met the requirements of the criteria, we note there are tough challenges ahead.

The Authority will need to review projections in light of the changing landscape.

The Authority will also need to prioritise service in order to met the challenging budget deficits

The table below details the VFM criteria we have assessed in reaching our overall conclusion. We have completed our work on the VFM criteria and summarise our findings below, together with any implications for our VFM conclusion.

Securing Financial Resilience	Assessment
We obtained audit evidence to gain assurances that the Authority has identified the budget gaps in the short to medium term. We also reviewed the arrangements that are in place to meet the shortfall. We have sought assurances that the budget for 2010/11 and 2011/12 is based on sound and prudent assumptions based on our review of supporting papers, cumulative audit knowledge and year end audit work We reviewed and considered: • The Medium Term Financial Plan • Financial Strategy • Executive Board minutes • Budget Delivery Framework • Durable budget monitoring minutes • Board minutes	The Authority has developed a MTFP which provides a financial outlook for the next five years. It outlines the budget gaps which need to be addressed to achieve a balanced budget. Our review of the MTFP confirmed that the plan is based on sound assumptions. The Authority has assumed a 3.5% increase on the council tax base from 2012/13. We understand that Members have indicated that they would like a council tax freeze for the next few years so therefore this assumption should be kept under review. The Authority has developed a Budget Delivery Framework (BDF) to deliver the savings required to achieve a balanced budget. The framework looks to drive savings through 8 workstreams. In 2010/11 the Authority achieved a balanced budget by achieving £1.25m of efficiency savings. In addition, the Authority were also able to transfer £1.39m of early efficiency savings to earmarked reserves to be used for 'future economic burdens'. The Authority has a good track record of meeting its budget without drawing on reserves. In the last 5 years it has achieved its budget within the 2.5% best practice tolerance. The MTFP identified a £2.05m budget deficit for 2011/12. Through the BDF the Authority has outlined income and expenditure savings to bridge the gap. As at the time of our audit, the Authourity were on course to deliver these savings. For 2012/13 the MTFP has identified an additional £1.04m of savings required in order to balance the budget. This will increase to £1.25m of required savings if a 0% council tax increase in implemented. The Authority has already identified £500k of savings through its BDF, one of which includes the closure of the public conveniences contract. The Authority has also outlined a £680k budget gap for 2013/14. However, it is recognised that in light of the Government's planned overhaul of the grant formula system from 2013/14 that accurate forecasting is difficult. Notwithstanding the progress made to date, the Authority has significant challenges ahead in delivering a balanced budget and needs to keep plans under review. In particular the Authority should: ■ regularly review key assumptions made in the MTFP to ensure they remain relevant and accurate and in particular the appropriateness of a 0% council tax freeze. In addition, the Authority needs to consider the implications of recent announcements such as HRA self financing and changes to the business rates; and ■ continue to monitor the progress made with achieving savings through the BDF and 8 workstreams to ensure they deliver the savings that are required. If savings are not realised the Authority will need to consider alternative cost saving initiatives and the possibility of reducing low priority services.

Value for money conclusion (continued)

Securing VFM	Assessment
In order to address this risk we have: • Reviewed the council's tool for delivering the savings; the Budget Delivery Framework • Understood the work streams that council will use to deliver the savings • Looked for assurances that the Authority is delivering on savings required for the future • Reviewed the Authority's benchmarking of cost vs. performance	Our testing has confirmed that the Authority has adequate arrangements in place to deliver VFM. The Authority has used the BDF to deliver saving efficiencies and VFM without reducing front line services. The BDF looks at 8 workstreams including partnerships, capital reviews, lobbying, service plans, staff suggestions, innovations group, fees and charges and prioritisation. In 2011/12 the Authority has identified c£2m of the savings needed in order to meet its budget gap. These savings have been found, in part, from re-engineering existing services to provide the same level of service using fewer resources. An example of this can be seen through the re–engineering of warden services. The Authority has also identified savings through Partnership collaborations. The Authority has let areas within the council buildings to partners such as the Citizens Advice Bureau, Registrars office and NHS bodies. This has enabled the previously occupied buildings to be reused to generate additional rental income as well as promoting closer working relationships with partners. We understand that the Authority are continuing to explore further savings through partnership arrangements such as shared services. Whilst we have seen evidence of savings generated from shared services, the Authority would need to ensure a robust business case is in place before entering into any arrangements. The Authority continues to monitor the performance of its services via quarterly reports to Members and regular performance clinic meetings with SMT. As part of the clinics the medium term efficiency savings are considered at the individual service level. In overall terms, the outturn report for 2010/11 shows value for money as a mixed picture when compared to similar local authorities and also compared to the prior year. Of the 27 Corporate Key Performance indicators 16 met or bettered the target, 3 were close to target and 8 did not meet the target. Areas of high performance include, street cleansing, recycling and NNDR collection. Areas where the Authority needs to improve include HRA voids, repair processing times, council tax collection, sickness levels and benefit processing times. In terms of costs, the Authority's costs have reduced with overall spend on services per head of population around the national average and council tax levels (Band D) are below the national average. The Authority has seen a reduction in costs in areas such as the back office and customer services. However its VFM profiling has highlighted high cost areas such as planning, housing repairs and environmental services. The Authority is taking steps to understand and address areas where appropriate. Notwithstanding the progress made to date the Authority recognises that it faces challenging times in the future. The Authority will need to continue to deliver efficiency savings and at the same time ensure performance is maintained and improved in some areas. The Authority should focus on reviewing high cost and low performance areas such as housing repairs, voids and planning. In addition, the Authority should link savings identified as part of the performance clinics to the BDF.

Appendix 1: Key issues and recommendations

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

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

We will formally follow up these recommendations next year.

Priority rating for recommendations		
● ***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.	● ***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.	● ***Priority three***: issues that would, if corrected, improve the internal control in general but are not vital to the overall system. These are generally issues of best practice that we feel would benefit you if you introduced them.

No.	Risk	Issue and recommendation	Management response / responsible officer / due date
1	● (three)	**Minor control deficiencies** Our review of the internal controls confirmed that the Authority has an adequate control environment. However, we did identify four areas where there was scope to improve the effectiveness of the controls. These included: • Review of open orders: Our testing highlighted that the ledger recorded orders as open when the goods had been received, invoiced and paid. This issue was also raised by internal audit. The Authority should review and clear down open orders on a quarterly basis. • Independent review of journals: Our review confirmed that journals are not independently reviewed for appropriateness. The Finance Team deem this to be impractical, however the Group Accountant should consider reviewing a sample of journals on a monthly basis. • Closing inactive bank accounts and cancelling out of date cheques: The Authority is holding two inactive bank accounts with a total balance of £5,277. We also identified £2,675 of unpresented cheques over 6 months old. The Authority should close the redundant bank accounts and write off the unpresented cheques. • Council tax and NNDR debtors older than 7 years: The Authority is carrying council tax arrears of £29K and NNDR arrears of £58K at the year end which are older than 7 years. These debts are provided for at 99% and 85% respectively. The Authority should write off these balances. The implementation of the above recommendations will help to further strengthen the Authority's control environment.	Agreed Head of Finance 31st October 2011

Appendix 1: Key issues and recommendations (continued)

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

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

We will formally follow up these recommendations next year.

No.	Risk	Issue and recommendation	Management response / responsible officer / due date
2	● (two)	**Valuation of assets held for sale** We identified that the Authority have not revalued the assets disclosed as Assets Held For Sale at the year end as per the requirements of IFRS 5. Furthermore our testing also highlighted that the Authority have entered into an option agreement to sell the Lawrence's site which is classified as a 'held for sale' asset. The Executive Committee passed a resolution authorising the Head of Legal and Democratic Services to negotiate and agree the disposal of the Lawrence's site. The Authority have received a conditional offer for the sale of Lawrence's site for £2.106m. The Authority will need to carry out an independent valuation prior to sale. An independent surveyor carried out in March 2010 valued the asset at £3.216m. In light of the option agreement the Authority has adjusted the accounts to account for an impairment charge of £1.11m (see corrected audit adjustments at Appendix 3) to reflect the fair value of the asset. Going forward the Authority should: • ensure all assets classified as held for sale at the year end are independently revalued as required by IFRS 5: and • revalue all assets prior to their sale to ensure assets are being sold at a fair price which ensures value for money for the Authority.	Agreed Head of Finance 31st October 2011

Appendix 1: Key issues and recommendations (continued)

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

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

We will formally follow up these recommendations next year.

No.	Risk	Issue and recommendation	Management response / responsible officer / due date
3	● (two)	**Component accounting** Following the introduction of the CIPFA/LASAAC Code of Practice on Local Authority Accounting, Local Authorities are now required to implement component accounting across their asset base (both general fund assets and HRA assets). Whilst the Code refrains from outlining prescriptive measures for implementing componentisation it does state a number guiding principles in relation to ensuring that componentisation is implemented in full if there is a material difference between the existing depreciation charge and that which would apply under component accounting. The Authority undertook an exercise, with appropriate advice from independent valuers, to calculate a depreciation charge for the entire housing stock on a component basis. The Authority found that the difference in the depreciation charges under the existing policy against a full componentised housing stock was not material. As such the Authority has opted not to implement full componentisation accounting. Instead the authority will continue to componentise assets into only two categories; land and buildings. We have reviewed the appropriateness of the Council's policy against the requirements of the Code of Practice and IAS 16. In doing so we have outlined a number of consideration**s** that the authority should keep under review to ensure the policy is appropriate. These considerations include: • Where the level of capital expenditure in a year is significant and relates to an individual component such as a Roof then the Authority would need to consider whether the policy is still appropriate or whether the amount spent over the class of asset should be separately accounted for as an individual component; and • the impending changes to the HRA. The consultation paper issued by CIPFA in Feb 2011 outlined the proposed abolition of the Housing Subsidy and the MRA. This will increase the importance of an accurate depreciation charges in the HRA to ensure that suitable provisions are in place to fund major repairs to housing stock. E.g. if the total replacement cost for an asset over the 30 year business plan is £33,000 then for business planning purposes, an annual depreciation charge of £1,100 would be expected.	Agreed an annual review will be undertaken Head of Finance 31st March 2011

Appendix 2: Follow up of prior year recommendations

The Authority has implemented some of the recommendations raised in our *ISA 260 Report 2009/10*, and progress has been made with the remaining recommendations.

We re-iterate the importance of the outstanding recommendations and recommend that these are implemented as soon as possible.

This appendix summarises the progress made to implement the recommendations identified in our *ISA 260 Report 2009/10* and re-iterates any recommendations still outstanding.

Number of recommendations that were:	
Included in original report	9
Implemented in year or superseded	2
Remain outstanding or ongoing (re-iterated below)	7

No.	Risk	Issue and recommendation	Officer responsible and due date	Status as at August 2011
1	(two)	**Disposal of Lawrences Site** As part of the Town Centre regeneration project, the Authority is in the process of disposing of Lawrences site. The original acquisition of this site was funded from external grants. The Authority needs to ensure that they notify the external grant funders of the disposal as required by the grant conditions. In addition, on completion of the disposal the Authority will need to ensure the correct accounting treatment is applied to the £1m of deferred government grants that are linked to this asset which will need to be written-off.	Responsible Officer: Head of Finance Due date: Ongoing	**In Progress** At the time of our audit, the Authority still owned Lawrences Site. This asset has been recognised in Assets Held for Sale line on the Balance Sheet. When this asset is disposed, the Authority will need to ensure the points in our recommendation are addressed.
2	(three)	**Audit working papers** The Authority has strengthened its financial reporting process by developing its working papers. However, there is scope to improve this further, in particular: • ensuring the Statement of Recommended Practice (SORP) Disclosure Checklist is completed and fully referenced to the draft financial statements. Any deviations from recommended practice should be dealt with appropriately prior to finalising the financial statements; and • developing working papers for debtors and creditors that clearly map the balances per the general ledger to the balances disclosed in the notes to the accounts.	Responsible Officer: Group Accountant Due date: June 2011	**Implemented** Through the course of our work we confirmed that: - the Code of Practice on Local Authority Accounting in the United Kingdom Disclosure Checklist was completed; and - the working papers for debtors and creditors have been developed and there is now a clear link to the balances included in the accounts.

Appendix 2: Follow up of prior year recommendations (continued)

No.	Risk	Issue and recommendation	Officer responsible and due date	Status as at July 2011
3	(two)	**Benchmarking** Whilst the Authority has increased the amount of benchmarking it has undertaken and has used this to drive performance improvements, e.g. housing benefits, housing and IT, we believe the Authority can take this further. For example through: • extending current bench-marking across all parts of the organisation, i.e. Internal Audit, Payroll etc; • using the information gathered consistently to feed into Next Steps and other exercises to improve performance; • using comparable data from other Authorities as a means of identifying areas for improvement; and • routinely reporting results to Members to ensure they have a more transparent view of the Authority's Value for Money position. Benchmarking information can be used to contribute to the Authority's decision-making as part of its prioritisation work stream.	Responsible Officer: Head of Finance Due date: Ongoing	**In Progress** The Council continues to develop its approach to benchmarking identifying new opportunities where it believes that value can be added. Benchmarking information is reported to the Senior Management Team (SMT) through performance clinics and used by service heads when preparing service plans and developing Next Steps reports. Some benchmarking information is presented to members through the Key Performance Information Booklet although this could be developed further.
4	(two)	**Future funding gap** The Authority has done scenario planning and has identified a potential funding gap going forwards. It has put in a place a framework for managing the shortfall which includes 8 work streams focused on driving efficiency savings. The Authority is now reporting to Members and officers monthly so that they can keep up to date with progress. Whilst the Authority's approach is sound, it will need to review the adequacy of its approach in light of the results of the CSR.	Responsible Officer: Head of Finance Due date: Ongoing	**In Progress** The Authority has identified savings of £345k for 2012/13. The work undertaken by the Authority to identify these savings provides assurance that the Authority's approach continues to be successful. However, this area remains under constant review. As part of our Value for Money work, we will review supporting documentation prepared by the Authority to assess whether the savings identified are feasible.

Appendix 2: Follow up of prior year recommendations (continued)

No.	Risk	Issue and recommendation	Officer responsible and due date	Status as at July 2011
5	● (two)	**Business Continuity Plan** During the year the Authority has prepared a draft Business Continuity Plan with the assistance of Zurich, their insurers. The document was prepared after Zurich facilitated a number of workshops with the Authority's SMT and CMT. However, at the date of this report the business continuity plan was still in draft form. The Authority needs to formally approve the Business Continuity Plan and put in place a number of supporting service specific business continuity plans. Once approved, the plans should be regularly reviewed and tested.	Responsible Officer: Head of Finance Due date: November 2010	**In Progress** The Business Continuity Policy, Strategy and Business Impact Analysis were formally approved by the Authority's Monitoring & Audit Committee on 23 November 2010. The Authority continues to work with its insurers, Zurich, on Business Continuity planning and is also considering a shared service with two neighbouring authorities. If this goes ahead, this will provide some much needed additional resource and focus around Business Continuity.
6	● (two)	**Formalisation of Service Level Agreements** The Authority has a significant number of partnerships in place which are governed by Service Level Agreements (SLAs) or Memorandums of Understanding (MoU), for example Connect Law and Consortium Audit. The Authority should ensure that all SLAs/MoU that are in draft are reviewed and approved by all parties concerned as soon as possible.	Responsible Officer: Head of Finance Due date: October 2010	**Implemented** Following discussions with the Authority's Monitoring Officer it was confirmed that the SLA for Connect Law was signed on 5 May 2011. It is our understanding that as the Authority's internal audit provision is to be out-sourced with effect from April 2012, hence the SLA for Consortium Audit will now not be signed.
7	● (two)	**Improvements to service delivery** The Authority has a good track record of looking at individual service areas at the operational level, identifying how things can be done differently and driving through performance improvements. However, potential future funding gaps will require difficult decisions about service provision to be made across all service areas. As part of its decision-making process, we would encourage the Authority to explore different delivery options. This issue should be addressed through the Authority's Budget Delivery work streams. Members will need to ensure that the budget delivery framework is implemented robustly.	Responsible Officer: Head of Finance Due date: December 2010	**In Progress** The Authority has set up a Member Task and Finish Group to consider areas where there is scope for additional efficiency savings to be made and also areas for re-prioritising service delivery.

Appendix 2: Follow up of prior year recommendations (continued)

No.	Risk	Issue and recommendation	Officer responsible and due date	Status as at July 2011
8	(two)	**Counter-fraud arrangements** The Authority does have whistle-blowing and anti-fraud policies in place, however they have not been reviewed or updated for a number of years. The Authority should review and update these policies, where necessary, as soon as possible. In addition, to further improve its counter-fraud arrangements, the Authority needs to introduce a pro-active programme of counter-fraud and corruption work which is adequately resourced, risk-based and proportionate, and which aims to create a zero-tolerance culture.	Responsible Officer: Head of Finance Due date: January 2011	**Outstanding** During the year Consortium Audit reviewed the Anti-Fraud and Corruption arrangements in place at the Authority (report issued May 2011). This review confirmed that the Whistle blowing Policy has not been updated and the revised Anti-Fraud Policy is still in draft form. Internal Audit raised a recommendation highlighting the need for these policies to be reviewed and formally approved. We re-iterate the importance of this recommendation. In addition, our review of the Authority's response to the Audit Commission's Annual Fraud & Corruption Survey identified that a pro-active programme of counter-fraud and corruption work has not yet been introduced. However, it is our understanding that the Authority's Corporate Governance Group is looking at options for raising the profile of the Authority's counter-fraud arrangements. In addition, the Authority will pick this up as part of their review of the internal audit arrangements.

Appendix 2: Follow up of prior year recommendations (continued)

No.	Risk	Issue and recommendation	Officer responsible and due date	Status as at July 2011
9	● (two)	**Use of natural resources in service delivery** As part of this year's use of resources, we were required to assess whether the Authority is making effective use of natural resources and more specifically assess whether it: • understands and can quantify its use of natural resources; • manages performance to reduce its impact on the environment; and • manages the environmental risks it faces by working effectively with partners. During our use of resources work we established that the Authority does not have a strategy in place that details its objectives in relation to reducing the amount of natural resources it uses to deliver services and how these objectives will be achieved. The Authority should develop a strategy, that is supported by individual delivery plans, which shows how it will reduce its own use of natural resources and its impact on the environment. The strategy should be based on a clear understanding of the Authority's own: • energy use and the resulting carbon, and other greenhouse gas, emissions; • water use; and • consumption of other resources. In addition, the Authority should develop systems to monitor progress in achieving the targets it has set itself and assess the progress made in achieving the objectives set out in its strategy.	Responsible Officer: Head of Corporate Development Due date: December 2010	**Ongoing** In conjunction with the Carbon Trust, the Authority has compiled a Carbon Management Plan, which includes a Carbon Management Strategy (dated February 2011). The Plan has been presented to and approved by the Corporate Management Team and outlines the Authority's target to reduce its carbon dioxide (CO^2) emissions by 30% by 2014. Review of the Plan confirmed that the Authority has identified 10 carbon management projects which will help it to meet its target. Each project has been assigned a project owner who is responsible for taking the project forward to deliver CO^2 reductions.

Appendix 3: Audit differences

The accounting treatment applied to the past service gain was different to that prescribed by KPMG, although this had nil impact.

The valuation of Lawrences site was overstated as the Authority had not revalued the asset at the point of re-classifying the asset as Held for Sale.

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 the Authority's case is the Monitoring & Audit Committee). We are also required to report all material misstatements that have been corrected but that we believe should be communicated to you to assist you in fulfilling your governance responsibilities.

Corrected audit differences

The following table sets out the audit differences identified by our audit of Kettering Borough Council's financial statements for the year ended 31 March 2011.

Impact					Basis of audit difference
Income and expenditure statement	Adjustments btw. accounting basis & statute	Assets	Liabilities	Reserves	
Dr Financing & Investment Income £8,967k Cr Exceptional item £8,967k					The Past Service Gain arising on the LGPS as a result of the change from RPI to CPI should be recognised as "Exceptional item" on the face of the Comprehensive Income & Expenditure Statement (CI&ES).
Dr Actuarial gains or losses on pension assets and liabilities £1,430k Cr Exceptional item £1,430k					The Past Service Gain arising on the LGPS as a result of the change from RPI to CPI should be recognised as an "Exceptional item" on the face of the HRA I&E.
Dr Other Operating Expenditure £1,110k	Cr General Fund (MiRS) £1,110k	Cr Assets Held For Sale £1,110k		Dr Capital Adjustment Account £1,110k	Per IFRS 5 assets held for sale should be revalued at the year end to confirm that the assets are still be being carried at the lower of their carrying amount or fair value less cost to sell. This exercise had not been undertaken by the Authority. However, it was identified as part of the audit that the Authority has agreed the sale of the asset which has resulted in an impairment loss of £1,110k at the year end. To rectify this, an impairment charge of £1,110k should be recognised.
					Continued

Appendix 3: Audit differences (continued)

The allocation of debtors within the disclosure note was incorrect.

Impact					Basis of audit difference
Income and expenditure statement	**Adjustments btw. accounting basis & statute**	**Assets**	**Liabilities**	**Reserves**	
		Dr Other local authority debtors £241k Cr Prepayments and accrued income £241k			GAF funding due from Northamptonshire County Council was incorrectly included in prepayments and accrued income within Debtors note.
Dr Other Operating Expenditure £50k	Cr General Fund MiRS £50k		Cr Receipts in advance £50k	Dr Useable capital receipts reserve £50k	A deposit received from a developer to secure the purchase of Lawrences site was incorrectly recognised as a gain on disposal. As the risks and rewards of ownership have not transferred to the purchaser , the deposit should not be recognised as a gain on disposal.
Dr £1,160k	**Cr £1,160k**	**Cr £1,110k**	**Cr £50k**	**Dr £50k**	**Total impact of adjustments**

Appendix 3: Audit differences (continued)

The Authority has not followed best practice in accounting for the cost of providing employee benefits, however the treatment applied is considered not to have a material effect on the accounts.

The bad debt provision relating to General Fund housing tenants was understated by £20k.

Uncorrected audit differences

The following table sets out the uncorrected audit differences identified by our audit of Kettering Borough Council's financial statements for the year ended 31 March 2011.

Impact					Basis of audit difference
Income and expenditure statement	Adjustments btw. accounting basis & statute	Assets	Liabilities	Reserves	
Dr Cost of services £116k			Cr Sundry creditors £116k		Per IAS 19 the Authority is required to recognise the cost of providing employee benefits in the period in which the benefit is earned by the employee, rather than when it is paid or payable. As such, an accrual for this cost should be recognised in the accounts. The Authority has calculated the accrual to be £116k. This balance is not considered to be material to the accounts and as such has not been accounted for.
Dr Other Operating Expenditure £20k			Cr Bad debt provision £20k		The Authority's Bad Debt Provision for General Fund housing tenants was found to be understated by £20k. The error arose as a result of the in-year movement on the provision being calculated incorrectly.
Dr £136k	**-**	**-**	**Cr £136k**	**-**	**Total impact of adjustments**

Appendix 4: Declaration of independence and objectivity

The Code of Audit Practice requires us to exercise our professional judgement and act independently of both the Commission and the Authority.

Requirements

Auditors appointed by the Audit Commission must comply with the *Code of Audit Practice* (the Code) which states that:

"Auditors and their staff should exercise their professional judgement and act independently of both the Commission and the audited body. Auditors, or any firm with which an auditor is associated, should not carry out work for an audited body that does not relate directly to the discharge of auditors' functions, if it would impair the auditors' independence or might give rise to a reasonable perception that their independence could be impaired."

In considering issues of independence and objectivity we consider relevant professional, regulatory and legal requirements and guidance, including the provisions of the Code, the detailed provisions of the Statement of Independence included within the Audit Commission's Standing guidance for local government auditors (Audit Commission Guidance) and the requirements of APB Ethical Standard 1 *Integrity, Objectivity and Independence* (Ethical Standards).

The Code states that, in carrying out their audit of the financial statements, auditors should comply with auditing standards currently in force, and as may be amended from time to time. Audit Commission Guidance requires appointed auditors to follow the provisions of ISA (UK &I) 260 Communication of *Audit Matters with Those Charged with Governance*' that are applicable to the audit of listed companies. This means that the appointed auditor must disclose in writing:

- Details of all relationships between the auditor and the client, its directors and senior management and its affiliates, including all services provided by the audit firm and its network to the client, its directors and senior management and its affiliates, that the auditor considers may reasonably be thought to bear on the auditor's objectivity and independence.
- The related safeguards that are in place.
- The total amount of fees that the auditor and the auditor's network firms have charged to the client and its affiliates for the provision of services during the reporting period, analysed into appropriate categories, for example, statutory audit services, further audit services, tax advisory services and other non-audit services. For each category, the amounts of any future services which have been contracted or where a written proposal has been submitted are separately disclosed.

Appointed auditors are also required to confirm in writing that they have complied with Ethical Standards and that, in the auditor's professional judgement, the auditor is independent and the auditor's objectivity is not compromised, or otherwise declare that the auditor has concerns that the auditor's objectivity and independence may be compromised and explaining the actions which necessarily follow from his. These matters should be discussed with the Monitoring & Audit Committee.

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

General procedures to safeguard independence and objectivity

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

Appendix 4: Declaration of independence and objectivity (continued)

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

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

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

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

Auditor declaration

In relation to the audit of the financial statements of Kettering Borough Council for the financial year ending 31 March 2011, we confirm that there were no relationships between KPMG LLP and the Kettering Borough Council, its directors and senior management and its affiliates that we consider may reasonably be thought to bear on the objectivity and independence of the audit engagement lead and audit staff. We also confirm that we have complied with Ethical Standards and the Audit Commission's requirements in relation to independence and objectivity.

Appendix 5: Draft management representation letter

We ask you to provide us with representations on specific matters such as whether the transactions within the accounts are legal and unaffected by fraud.

The wording for these representations is prescribed by auditing standards.

We require a signed copy of your management representations before we issue our audit opinion.

Dear Sirs

This representation letter is provided in connection with your audit of the financial statements of Kettering Borough Council ("the Authority"), for the year ended 31 March 2011, for the purpose of expressing an opinion as to whether these:

- give a true and fair view of the financial position of the Authority as at 31 March 2011 and of the Authority's expenditure and income for the year then ended; and
- have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom.

These financial statements comprise the Movement in Reserves Statement, the Comprehensive Income and Expenditure Statement, the Balance Sheet, the Cash Flow Statement, the Housing Revenue Account Income and Expenditure Statement, the Movement on the Housing Revenue Account Statement and the Collection Fund and the related notes.

The Authority confirms that the representations it makes in this letter are in accordance with the definitions set out in the Appendix to this letter.

The Authority confirms that, to the best of its knowledge and belief, having made such inquiries as it considered necessary for the purpose of appropriately informing itself:

Financial statements

1. The Authority has fulfilled its responsibilities, as set out in regulation 8 of the Accounts and Audit (England) Regulations 2011, for the preparation of financial statements that:
   - give a true and fair view of the financial position of Kettering Borough Council as at 31 March 2011 and of its income and expenditure for the year then ended; and
   - have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom.

   The financial statements have been prepared on a going concern basis.
2. Measurement methods and significant assumptions used by the Authority in making accounting estimates, including those measured at fair value, are reasonable.
3. All events subsequent to the date of the financial statements and for which the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom require adjustment or disclosure have been adjusted or disclosed.
4. The effects of uncorrected misstatements are immaterial, both individually and in the aggregate, to the financial statements as a whole. A list of the uncorrected misstatements is attached to this representation letter.

Information provided

5. The Authority has provided you with:
   - access to all information of which it is aware, that is relevant to the preparation of the financial statements, such as records, documentation and other matters;
   - additional information that you have requested from the Authority for the purpose of the audit; and
   - unrestricted access to persons within the Authority from whom you determined it necessary to obtain audit evidence.

Appendix 5: Draft management representation letter

We ask you to provide us with representations on specific matters such as whether the transactions within the accounts are legal and unaffected by fraud.

The wording for these representations is prescribed by auditing standards.

We require a signed copy of your management representations before we issue our audit opinion.

6. All transactions have been recorded in the accounting records and are reflected in the financial statements.
7. The Authority acknowledges its responsibility for such internal control as it determines necessary for the preparation of financial statements that are free from material misstatement, whether due to fraud or error. In particular, the Authority acknowledges its responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud and error. The Authority has disclosed to you the results of its assessment of the risk that the financial statements may be materially misstated as a result of fraud.
8. The Authority has disclosed to you all information in relation to:

a) Fraud or suspected fraud that it is aware of and that affects the Authority and involves:

- management;
- employees who have significant roles in internal control; or
- others where the fraud could have a material effect on the financial statements; and

b) allegations of fraud, or suspected fraud, affecting the Authority financial statements communicated by employees, former employees, analysts, regulators or others.

9. The Authority has disclosed to you all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing the financial statements. Further, the Authority has disclosed to you and has appropriately accounted for and/or disclosed in the financial statements in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom all known actual or possible litigation and claims whose effects should be considered when preparing the financial statements.
10. On the basis of the process established by the Authority and having made appropriate enquiries, the Authority is satisfied that the actuarial assumptions underlying the valuation of pension scheme liabilities are consistent with its knowledge of the business.
11. The Authority further confirms that:

a) all significant retirement benefits, including any arrangements that:

- are statutory, contractual or implicit in the employer's actions;
- arise in the UK and the Republic of Ireland or overseas;
- are funded or unfunded; and
- are approved or unapproved,

have been identified and properly accounted for; and

b) all settlements and curtailments have been identified and properly accounted for.

This letter was tabled and agreed at the meeting of the Monitoring & Audit Committee on 27 September 2011.

Yours faithfully,

[Chair of the Monitoring & Audit Committee] , [Chief Financial Officer] *cutting through complexity* ™