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Report to those charged with governance (ISA 260) 2012/13

Bolsover District Council

September 2013



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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 Sue Sunderland, 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, 3rd Floor, Fry Building, 2 Marsham Street, London, SW1P 4DF or by email to complaints@audit-commission.gsi.gov.uk. Their telephone number is 03034448330.

This report summarises:

- the key issues identified during our audit of Bolsover District Council's (the Authority's) financial statements for the year ended 31 March 2013; and
- our assessment of the Authority's arrangements to secure value for money (VFM) in its use of resources.

Financial statements

Our *External Audit Plan 2012/13* presented to you in March 2013 set out the four stages of our financial statements audit process.



This report focuses on the second and third stages of the process: control evaluation and substantive procedures. Our on site work for these took place in two tranches during April 2013 (interim audit) and August 2013 (year end audit). We carried out the following work:

Control Evaluation	<ul style="list-style-type: none"> ■ Evaluate and test selected controls over key financial systems ■ Review internal audit function ■ Review accounts production process ■ Review progress on critical accounting matters
Substantive Procedures	<ul style="list-style-type: none"> ■ Planning and performing substantive audit procedures. ■ Concluding on critical accounting matters. ■ Identifying audit adjustments. ■ Reviewing the Annual Governance Statement.
Completion	<ul style="list-style-type: none"> ■ Declaring our independence and objectivity. ■ Obtaining management representations. ■ Reporting matters of governance interest. ■ Forming our audit opinion.

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

VFM conclusion

Our *External Audit Plan 2012/13* explained our risk-based approach to VFM work, which follows guidance provided by the Audit Commission. We have completed our work to support our 2012/13 VFM conclusion. This included:

- assessing the potential VFM risks and identifying the residual audit risks for our VFM conclusion;
- considering the results of any relevant work by the Authority, the Audit Commission, other inspectorates and review agencies in relation to these risk areas.

Structure of this report

This report is structured as follows:

- Section 2 summarises the headline messages.
- Section 3 sets out the key findings from our audit work in relation to the 2012/13 financial statements.
- Section 4 outlines the key findings from our work on the VFM conclusion.

Our recommendations are included in Appendix 1.

Acknowledgements

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

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 2013. We will also report that the wording of your Annual Governance Statement accords with our understanding.
Audit adjustments	<p>Our audit of your financial statements noted two related material misclassifications within the Cost of Services income and expenditure in the Comprehensive Income and Expenditure Statement. These classification errors were brought to our attention by management at the start of our year end audit. The Authority made a small number of non-trivial adjustments, most of which were of a presentational nature. There was no impact on the General Fund.</p> <p>For completeness, we have included a list of all significant and non-trivial audit differences in Appendix 2. The Council have agreed that all of these will be adjusted.</p> <p>We have raised one recommendations arising from our year end work, which is summarised in Appendix 1.</p>
Accounts production and audit process	<p>The Authority has continued to improve its processes for the production of the accounts and good quality supporting working papers were provided. Officers dealt efficiently with audit queries and the audit process has been completed within the planned timescales.</p> <p>We have worked with Officers throughout the year to discuss the specific risk areas for this year's audit. The Authority addressed the issues appropriately.</p>
Control environment	<p>The Authority's organisation and IT control environment is effective, and controls over the key financial systems are sound.</p> <p>We are satisfied that internal audit are aware of and working towards being fully compliant with the new United Kingdom Public Sector Internal Audit Standards which are effective from April 2013. We have used their work to inform our assessment of the Authority's control environment and risks relevant to our work.</p> <p>Looking ahead to 2013/14, capacity is a key issue for internal audit following the retirement of the Consortium's Head of Internal Audit. Acting up arrangements are in place to provide cover but a longer term solution is needed.</p>
Completion	<p>At the date of this report our audit of the financial statements is substantially complete. Before we can issue our opinion we require a signed management representation letter.</p> <p>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.</p>
VFM conclusion	We have concluded that the Authority has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources. It has addressed a number of significant weaknesses that led to a qualified VFM conclusion last year but further work is needed to address contract management weaknesses. We therefore anticipate issuing an unqualified VFM conclusion by 30 September 2013.

Two issues were identified in the course of the audit that are considered to be material.

The wording of your Annual Governance Statement accords 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 2013.

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.

At the start of the audit management brought two material misclassifications within the Comprehensive Income and Expenditure Statement to our attention. We have raised a recommendation in Appendix 1 which should prevent similar avoidable errors in the future.

We agreed that these errors needed to be corrected along with a further error identified during the audit. These adjustments are set out in Appendix 2. It is our understanding that these will be adjusted in the final version of the financial statements.

There is no net impact on the General Fund as a result of audit adjustments.

In addition, we identified a small number of presentational adjustments required to ensure that the accounts are compliant with the Code of Practice on Local Authority Accounting the United Kingdom 2012/13 ('the Code'). We understand that the Authority will be addressing these where significant.

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; and
- it is not misleading or inconsistent with other information we are aware of from our audit of the financial statements.

The Authority has continued to improve the processes in place for the production of the accounts and good quality supporting working papers were provided.

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

The Authority has implemented the recommendations in your previous auditor's *ISA 260 Report 2011/12*.

Accounts production and audit process

ISA 260 requires us to communicate to you our views about 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.

We considered the following criteria:

Element	Commentary
Accounting practices and financial reporting	<p>The Authority has good financial reporting arrangements in place.</p> <p>Two material classification misstatements within the Cost of Services in the Comprehensive Income and Expenditure Statement were brought to our attention at the start of the audit.</p> <p>We consider that accounting practices are appropriate.</p>
Completeness of draft accounts	We received a complete set of draft accounts on 28 June 2013.
Quality of supporting working papers	<p>Our <i>Accounts Audit Protocol</i>, which we issued on 27 February 2013 and discussed with Theresa Fletcher (Chief Accountant), set out our working paper requirements for the audit.</p> <p>The quality of working papers provided met the standards specified in our <i>Accounts Audit Protocol</i>.</p>
Response to audit queries	Officers resolved the majority of audit queries in a reasonable time.

Element	Commentary
Critical accounting matters (key audit risks)	We have discussed with officers throughout the year the areas of specific audit risk and undertaken specific audit procedures. There are no matters to draw to your attention.

Prior year recommendations

As part of our audit we have specifically followed up the Authority's progress in addressing the recommendations made by your previous auditor in last years *ISA 260* report.

The Authority has fully implemented the recommendations made by your previous auditor in their *ISA 260 Report 2011/12*.

Control environment

The Authority's organisation and IT control environment is effective, and controls over the key financial systems are generally sound. However, some weaknesses remain around the governance and management of contracts.

We are satisfied that internal audit are aware of and working towards being fully compliant with the new United Kingdom Public Sector Internal Audit Standards which are effective from April 2013.

During April 2013 we completed our control evaluation work. We did not issue an interim report as there were no significant issues arising from this work. For completeness we reflect on key findings from this work.

Organisational and IT control environment

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 therefore obtain an understanding of the Authority's overall control environment and determine if appropriate controls have been implemented.

The Authority also 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.

We found that your organisational and IT control environment is effective overall.

Review of Internal Audit

We work with your internal auditors to assess the control framework for certain key financial systems and seek to rely on any relevant work they have completed to minimise unnecessary duplication of work.

Where we intend to rely on internal audit's work in respect of the Authority's key financial systems, auditing standards require us to complete an overall assessment of the internal audit function and to evaluate and test aspects of their work.

We have reviewed internal audit's reports throughout the year to inform ourselves of any significant risks in relation to our opinion work. However, there have been no specific instances during the course of the year where we have sought to rely on the work of internal audit.

Since April 2013, the United Kingdom Public Sector Internal Audit Standards (PSIAS) apply across the whole of the public sector, including local government. These standards are intended to promote

further improvement in the professionalism, quality, consistency and effectiveness of internal audit across the public sector.

In June 2013 internal audit informed members of the Authority's Audit Committee about the new PSIAS and actions being taken to ensure that these are considered and adopted. This includes an assessment of compliance using a self-assessment checklist.

Controls over key financial systems

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

Based on the work of your internal auditors, and our own work on controls over the year end process, the controls over the financial systems are mostly sound. The Authority has made good progress in addressing the significant control weaknesses around the governance and management of contracts. However, recent follow up by internal audit has found that some weaknesses remain, particularly in relation to framework contract agreements. As a result we have raised a recommendation which is included in Appendix 1.

Internal audit included recommendations in their reports as appropriate.

Completion

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.

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 Bolsover District Council for the year ending 31 March 2013, we confirm that there were no relationships between KPMG LLP and Bolsover 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 Audit Commission's requirements in relation to independence and objectivity.

We have provided a detailed declaration in Appendix 3 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 Director of Corporate Resources, a draft of which is reproduced in Appendix 4. 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'.

There are no others matters which we wish to draw to your attention in addition to those highlighted in this report relating to the audit of the Authority's 2012/13 financial statements.

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.

Background

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.

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 of our VFM risk assessment.

We have identified a number of specific VFM risks.

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.

Work completed

In line with the risk-based approach set out on the previous page, and in our Audit Plan we have

- assessed the Authority's key business risks which are relevant to our VFM conclusion;
- identified the residual audit risks for our VFM conclusion, taking account of work undertaken in previous years or as part of our financial statements audit;
- considered the results of relevant work by the Authority, the Audit Commission, other inspectorates and review agencies in relation to these risk areas.

Key findings

Below we set out the findings in respect of those areas where we have identified a residual audit risk for our VFM conclusion.



We concluded that we did not need to carry out additional work for these risks as there was sufficient relevant work that had completed by the Authority, in relation to these risk areas.

Key VFM risk	Risk description and link to VFM conclusion	Assessment
	<p>Our External Audit Plan 2012/13 noted significant weaknesses in budgetary control arrangements and a lack of ownership of responsibility within service departments.</p> <p>Risk that action taken by Authority in response to these weaknesses is insufficient and not timely.</p> <p>This is relevant to the financial resilience criterion of the VFM conclusion.</p>	<p>The Authority has improved its budgetary control arrangements this year.</p> <p>Key changes included a strengthened budget virement process, new budget preparation approach with cost centre managers and quarterly performance, risk and finance meetings with senior managers for individual directorates.</p> <p>The Authority also gained assurance over budget control from Internal Audit work in this area during 2012/13. This concluded that the reliability of internal controls and procedures in operation at the Authority was satisfactory.</p> <p>Specific risk based work required: No</p>

Specific VFM risks

We have identified a number of specific VFM risks.

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.

Key VFM risk	Risk description and link to VFM conclusion	Assessment
	<p>Our External Audit Plan 2012/13 noted significant financial control weaknesses around the governance and management of contracts.</p> <p>Risk that action taken by Authority in response to these weaknesses is insufficient and not timely.</p> <p>This is relevant to both the financial resilience and economy, efficiency and effectiveness criteria of the VFM conclusion.</p>	<p>In September 2012, the Authority produced a management response to concerns of non-compliance with contract procedures. This was informed by a detailed review of contracts by internal audit.</p> <p>A further review by internal audit is in progress (September 2013) to assess whether the planned management response has been implemented and the extent to which contract arrangements have improved.</p> <p>We understand that this review demonstrates significant improvement in arrangements although further work is required particularly with framework contract arrangements to address fully previous weaknesses.</p> <p>We have made a recommendation for improvement in this area (Appendix 1).</p> <p>Specific risk based work required: No</p>
	<p>Our External Audit Plan 2012/13 noted weaknesses in initial option appraisal and risk management arrangements that significantly affect the ability of the Authority to demonstrate value for money.</p> <p>Risk that action taken by Authority in response to these weaknesses is insufficient and not timely.</p> <p>This is relevant to the economy, efficiency and effectiveness criterion of the VFM conclusion.</p>	<p>Our review found that the Authority has a service led approach to value for money. During 2012/13, it had participated in various joint Strategic Alliance service reviews. The scope of these reviews include considering and appraising alternative options for the delivery of services.</p> <p>Specific risk based work required: No</p>

We have identified a number of specific VFM risks.

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.

Key VFM risk	Risk description and link to VFM conclusion	Assessment
	<p>Our External Audit Plan 2012/13 noted that the Authority had made limited progress to improve the quality and timeliness of data and information used to monitor corporate performance.</p> <p>Risk that insufficient progress made to improve the quality of performance data and information particularly that related to RO forms and RA returns.</p> <p>This is relevant to both the financial resilience and economy, efficiency and effectiveness criteria of the VFM conclusion.</p>	<p>We found that the Authority has reviewed data provided within the 2011/12 RO forms and the 2012/13 RA returns. The forms are reviewed and approved by the Assistant Director of Corporate Resources before submission.</p> <p>These checks are designed to improve the quality of data.</p> <p>Specific risk based work required: No</p>
	<p>Delivery of future savings in such a way that secures longer term financial and operational sustainability.</p> <p>Our External Audit Plan 2012/13 noted that the Authority will need to deliver £1.33m in additional savings during 2013/14 and 2014/15 to address further reductions to local authority funding and meet continued cost pressures.</p> <p>Risk that action taken by Authority in response to these weaknesses is insufficient and not timely.</p> <p>This is relevant to both the financial resilience and economy, efficiency and effectiveness criteria of the VFM conclusion.</p>	<p>We reviewed the Authority's Medium Term Financial Plan (MTFP) 2013/14 – 2015/16 and associated savings plans.</p> <p>The Authority has a balanced budget for 2013/14 that assumes £0.884m of savings. The Council has a strategy for identifying and securing savings with £0.737m achieved by September 2013. Further savings plans for 2013/14 are to be put in place to meet the residual savings target of £0.147m in respect of 2013/14.</p> <p>Significant budget shortfalls remain in the latest MTFP with both 2014/15 and 2015/16 requiring savings of £0.8m a year (£1.6m in total). The Authority is aware of these shortfalls and intends to develop savings plans to address these.</p> <p>Looking ahead, the financial outlook remains challenging and the Authority must continue to develop, implement and monitor savings plans.</p> <p>Specific risk based work required: No</p>

Appendix 1: Key issues and recommendations

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

We will formally follow up these recommendations next year.

Priority rating for recommendations		
<p>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.</p>	<p>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.</p>	<p>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.</p>

No.	Risk	Issue and recommendation	Management response / responsible officer / due date
1	1	<p>Review of draft accounts</p> <p>Issue</p> <p>Management brought to our attention at the start of the year end audit material classification errors (both income and expenditure) within the Cost of Services in the Comprehensive Income and Expenditure Statement.</p> <p>Although the Authority's financial reporting process includes management review of the draft accounts, the above misclassifications were not detected.</p> <p>Recommendation</p> <p>Improve the timeliness and operation of existing management review procedures over the draft accounts.</p>	<p>Response</p> <p>The final accounts timetable allocated sufficient time to review and check the Statement of Accounts (SOA) for 2012/13. Detailed reviews and checks were carried out by the Chief Accountant, the Assistant Director of Corporate Resources (Finance and ICT) and the Director. Unfortunately, this error, reported by management to the External Auditor, was not spotted until the SOA had been passed to KPMG (28 June 2013).</p> <p>In order to try to prevent this type of error happening in the future we shall draft a set of validation checks to compare the gross income and gross expenditure columns for each line of the Comprehensive Income and Expenditure statement to the same lines for the previous financial year. Any lines showing a significant percentage difference will trigger a validation check alert within our SOA documents.</p> <p>Officer Responsible:</p> <p>The Chief Accountant will set up and test these validation checks ready for the 2013/14 final accounts. This will be during February 2014 when the 2013/14 SOA template is prepared.</p>

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

We will formally follow up these recommendations next year.

No.	Risk	Issue and recommendation	Management response / responsible officer / due date
2	①	<p>Contract arrangements</p> <p>Issue</p> <p>The Authority has made good progress in addressing the significant control weaknesses around the governance and management of contracts.</p> <p>However, we understand that internal audit has found that weaknesses remain particularly in relation to framework contract agreements.</p> <p>Recommendation</p> <p>Address all remaining control weaknesses around the governance and management of contracts. Carry out a further internal audit follow up review to provide assurance that these have been addressed in full.</p>	<p>Response</p> <p>All issues identified within the Internal Audit report will be addressed at the earliest possible opportunity, with progress reported back to the December 2013 meeting of the Audit Committee to confirm compliance. Further training will be provided in the Autumn of 2013 as part of a planned training programme for all managers during October / November 2013.</p> <p>The move to a new Procurement Service will be used as an opportunity to review and challenge our current procurement arrangements. A set of “procurement clinics” attended by a procurement expert from the Nottingham and Derby Procurement Unit have already commenced where officers may “drop in” to seek advice and guidance on all procurement issues and plans are being developed to deliver further training.</p> <p>Officer Responsible:</p> <p>The Director of Corporate Resources will ensure that the recommendations made within the Audit Report are fully addressed and reported back to the December 2013 Audit Committee.</p>

This appendix sets out the significant/ non-trivial audit differences.

It is our understanding that both of these will be adjusted.

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 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 significant audit differences identified by our audit of Bolsover District Council's financial statements for the year ended 31 March 2013.

No.	Income and Expenditure Statement	Movement in Reserves Statement	Impact			Basis of audit difference
			Assets	Liabilities	Reserves	
1	Dr CSP (gross income) £22,611k Cr OHS (gross income) £22,611k					Misclassification of income within Cost of Services (CIES). Rent allowances and rent rebates figures were incorrectly classified within the Central Services to the Public (CSP) line when they should have been within the Other Housing Services (OHS) line.
2	Dr OHP (gross expenditure) £22,811k Cr OHS (gross expenditure) £22,811k					Misclassification of expenditure within Cost of Services (CIES). Rent allowances and rent rebates figures were incorrectly classified within the Central Services to the Public (CSP) line when they should have been within the Other Housing Services (OHS) line.

Appendix 2: Audit differences (continued)

This appendix sets out the significant/ non-trivial audit differences.

It is our understanding that both of these will be adjusted.

No.	Income and Expenditure Statement	Movement in Reserves Statement	Impact			Basis of audit difference
			Assets	Liabilities	Reserves	
3				Dr Long Term Borrowing £2,000k Cr Short Term Borrowing £2,000k		Public Sector Works Board loan payable September 2013 was incorrectly classified as a long term liability. As the loan falls due within 12 months of 31 March 2013, the loan is a short term liability.
	£0	£0	£0	£0	£0	Total impact of adjustments

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. We do this in our Annual Audit Letter.

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 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.

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 Bolsover District Council for the financial year ending 31 March 2013, we confirm that there were no relationships between KPMG LLP and Bolsover 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 Audit Commission's requirements in relation to independence and objectivity.

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 Bolsover District Council (“the Authority”) for the year ended 31 March 2013, for the purpose of expressing an opinion:

- i. as to whether these financial statements give a true and fair view of the financial position of Bolsover District Council as at 31 March 2013 and of the Authority’s expenditure and income for the year then ended; and
- ii. whether the financial statements have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2012/13.

These financial statements comprise the Authority Movement in Reserves Statement, Comprehensive Income and Expenditure Statement, Balance Sheet, Cash Flow Statement, 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 the Authority as at 31 March 2013 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 2012/13.

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 2012/13 requires adjustment or disclosure have been adjusted or disclosed.

Information provided

4. 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.
5. All transactions have been recorded in the accounting records and are reflected in the financial statements.
6. 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.

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.

7. 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 financial statements communicated by employees, former employees, analysts, regulators or others.
8. 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.
9. 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 2012/13 all known actual or possible litigation and claims whose effects should be considered when preparing the financial statements.
10. The Authority has disclosed to you the identity of the Authority's related parties and all the related party relationships and transactions of which it is aware and all related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2012/13.

Included in the Appendix to this letter are the definitions of both a related party and a related party transaction as the Authority understands them and as defined in IAS 24, except where interpretations or adaptations to fit the public sector are detailed in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2012/13.

8. 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.

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

This letter was tabled and agreed at the meeting of the Audit Committee on 24 September 2013.

Yours faithfully,

Chair of the Audit Committee

Chief Financial Officer



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