



# External Audit Report 2015/16

**Bolsover District Council**

— September 2016



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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. Public Sector Audit Appointments issued a document entitled Statement of Responsibilities of Auditors and Audited Bodies summarising where the responsibilities of auditors begin and end and what is expected from audited bodies. We draw your attention to this document which is available on Public Sector Audit Appointments' website ([www.psa.gov.uk](http://www.psa.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.

We are committed to providing you with a high quality service. If you have any concerns or are dissatisfied with any part of KPMG's work, in the first instance you should contact Tony Crawley, the engagement lead to the Authority, who will try to resolve your complaint. If you are dissatisfied with your response please contact the national lead partner for all of KPMG's work under our contract with Public Sector Audit Appointments Limited, Andrew Sayers (on 0207 694 8981, or by email to [andrew.sayers@kpmg.co.uk](mailto:andrew.sayers@kpmg.co.uk)). After this, if you are still dissatisfied with how your complaint has been handled you can access PSAA's complaints procedure by emailing [generalenquiries@psaa.co.uk](mailto:generalenquiries@psaa.co.uk), by telephoning 020 7072 7445 or by writing to Public Sector Audit Appointments Limited, 3rd Floor, Local Government House, Smith Square, London, SW1P 3H.





# Section one: Introduction

# Section one

## Introduction



### This document summarises:

- The key issues identified during our audit of the financial statements for the year ended 31 March 2016 for the Authority; and
- Our assessment of the Authority's arrangements to secure value for money (VFM).

### Scope of this report

This report summarises the key findings arising from:

- Our audit work at Bolsover District Council ('the Authority') in relation to the Authority's 2015/16 financial statements; and
- The work to support our 2015/16 conclusion on the Authority's arrangements to secure economy, efficiency and effectiveness in its use of resources ('VFM conclusion').

### Financial statements

Our External Audit Plan 2015/16, presented to you in February 2016, set out the four stages of our financial statements audit process.



This report focuses on the third stage of the process: substantive procedures. Our on site work for this took place during June 2016.

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

### VFM Conclusion

Our External Audit Plan 2015/16 explained our risk-based approach to VFM work. We have now completed the work to support our 2015/16 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 in relation to these risk areas; and
- Carrying out additional risk-based work.

### Structure of this report

This report is structured as follows:

- Section 2 summarises the headline messages.
- Section 3 sets out our key findings from our audit work in relation to the 2015/16 financial statements of the Authority and the fund.
- Section 4 outlines our key findings from our work on the VFM conclusion.

Our recommendations are included in Appendix One.

### Acknowledgements

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



# Section two: Headlines

## Section two

# Headlines



This table summarises the headline messages for the Authority. Sections three and four of this report provide further details on each area.

This table summarises the headline messages. Sections three and four of this report provide further details on each area.

<b>Proposed audit opinion</b>	We anticipate issuing an unqualified audit opinion on the Authority's financial statements by 30 September 2016. We will also report that your Annual Governance Statement complies with guidance issued by CIPFA/SOLACE in June 2007.
<b>Audit adjustments</b>	We are pleased to report that our audit of your financial statements has not identified any material adjustments. Overall, the quality of the financial statements was good and we would like to thank the finance team for their hard work in producing the accounts and working papers.
<b>Key financial statements audit risks</b>	We review risks to the financial statements on an ongoing basis. We identified no significant risks specific to the Authority during 2015/16 with respect to the financial statements.

Section two

Headlines (cont.)



This table summarises the headline messages for the Authority. Sections three and four of this report provide further details on each area.

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

<p>Accounts production and audit process</p>	<p>We received complete draft accounts on 31 May 2016 ahead of the DCLG deadline. The accounting policies, accounting estimates and financial statement disclosures are in line with the requirements of the Code.</p> <p>As in previous years, the quality of the accounts and working papers was high. Officers dealt efficiently with audit queries and the audit process has been completed within the planned timescales.</p> <p>We will debrief with the finance team to share views on the final accounts audit. Hopefully this will lead to further efficiencies in the 2016/17 audit process. In particular we would like to thank Authority Officers who were available throughout the audit visit.</p> <p>We have carried out additional audit procedures in order to review exit package disclosures in the financial statements, and the Authority's process for dealing with such cases. At the time of writing this report we are awaiting confirmation of one element of the process that will enable us to conclude our work. Based on the information received to-date, we are not minded to challenge the decisions made. However, we note that the Authority's documentation of the process is incomplete. We recommend that in future cases the Authority formally documents the decision-making process, including full evaluation of the options and their financial cost, keeping a record of meetings where those options are discussed, including those involving consultation with Members.</p>
<p>VFM conclusion and risk areas</p>	<p>We identified financial resilience as a VFM risk in our External audit plan 2015/16 issued in February 2016.</p> <p>We have worked with officers throughout the year to discuss this VFM risk and our detailed findings are reported in section 4 of this report. There are no matters of any significance arising as result of our audit work in this VFM risk area.</p> <p>We have concluded that the Authority has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources.</p> <p>We therefore anticipate issuing an unqualified VFM conclusion by 30 September 2016.</p>



## Section two

# Headlines (cont.)



This table summarises the headline messages for the Authority. Sections three and four of this report provide further details on each area.

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

<b>Completion</b>	<p>At the date of this report our audit of the financial statements is substantially complete subject to our final procedures, including:</p> <ul style="list-style-type: none"><li>— A review of assurances from the Derbyshire County Council LGPS auditor;</li><li>— Conclusion of our review of exit packages; and</li><li>— Our final file reviews.</li></ul> <p>You are required to provide us with representations on specific matters such as your going concern assertion and whether the transactions in the accounts are legal and unaffected by fraud. We provided a draft of this representation letter to the Section 151 Officer on 23 August 2016. We draw your attention to the requirement in our representation letter for you to confirm to us that you have disclosed all relevant related parties to us.</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>
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# Section three: Financial Statements

## Section three – Financial statements

# Proposed opinion and audit differences



We have not identified any issues in the course of the audit that are considered to be material.

The wording of your Annual Governance Statement complies with guidance issued by CIPFA/SOLACE in June 2007.

### Proposed audit opinion

Subject to our final procedures, we anticipate issuing an unqualified audit opinion on the Authority's financial statements following approval of the Statement of Accounts by the Audit Committee on 21 September 2016.

### Audit differences

In accordance with ISA 260 we are required to report uncorrected audit differences to you. We also report any material misstatements which have been corrected and which we believe should be communicated to you to help you meet your governance responsibilities.

The final materiality (see Appendix two for more information on materiality) level for this year's audit was set at £700k. Audit differences below £35k are not considered significant.

We did not identify any material misstatements. Of the other audit adjustments we have identified, the most significant in monetary value is as follows:

- £350k of fully depreciated leased vehicles which had not been written out of the accounts.

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 in the United Kingdom 2015/16 ('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.

## Section three – Financial statements

# Significant audit risks



We have worked with the Authority throughout the year to discuss significant risks and key areas of audit focus.

This section sets out our detailed findings on those risks.

In our External Audit Plan 2015/16 we reported that we would consider two risk areas that are specifically required by professional standards and report our findings to you. These risk areas were Management override of controls and the Fraud risk of revenue recognition.

The table below sets out the outcome of our audit procedures and assessment on these risk areas.

### Fraud risk of revenue recognition

Professional standards require us to make a rebuttable presumption that the fraud risk from revenue recognition is a significant risk.

In our External Audit Plan 2015/16 we reported that we do not consider this to be a significant risk for Local Authorities as there is unlikely to be an incentive to fraudulently recognise revenue.

This is still the case. Since we have rebutted this presumed risk, there has been no impact on our audit work.

### Management override of controls

Professional standards require us to communicate the fraud risk from management override of controls as significant because management is typically in a unique position to perpetrate fraud because of its ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively.

Our audit methodology incorporates the risk of management override as a default significant risk. We have not identified any specific additional risks of management override relating to this audit.

In line with our methodology, we carried out appropriate controls testing and substantive procedures, including over journal entries, accounting estimates and significant transactions that are outside the normal course of business, or are otherwise unusual.

There are no matters arising from this work that we need to bring to your attention.

## Section three – Financial statements

# Other areas of focus



In our External Audit Plan 2015/16, presented to you in February 2016, we identified one area of audit focus. This was not considered a significant risk but an area of importance where we would carry out some substantive audit procedures to ensure there is no risk of material misstatement.

We have now completed our testing. The table sets out our detailed findings for the area of audit focus.

### Area of focus

#### — Business Rate Appeals

The provision for business rate appeals is an area of audit focus since local authorities have little control over the level of appeals and their outcome. It is difficult to anticipate the financial impact of successful appeals as the potential change in rateable value cannot be predicted. Also, there is usually no indication of timescales to settle an appeal, making it a matter of judgement as to when to measure when the financial impact will fall.

#### — Findings

We reviewed the approach to estimating the provision for business rate appeals against the requirements of IAS 37 – Provisions, Contingent Liabilities and Contingent Assets, and no issues were identified.

## Section three – Financial statements

# Judgements



We always consider the level of prudence within key judgements in your financial statements. We have summarised our view below using the following range of judgement:



Assessment of subjective areas				
Asset/liability class	15/16	14/15	Balance	KPMG comment
<b>Business Rate Appeals Provision</b>	3	3	£1.3m <i>(PY: £1.4m)</i>	There has been no material movement in year. The Authority employs an independent company to assess the appeals and assist in the calculation of an appropriate provision. If further appeals come to light, the Authority will need to ensure there are sufficient reserves to fund this. We consider the provision disclosures to be proportionate.
<b>Property, Plant and Equipment (valuations / asset lives)</b>	3	3	£155.8m <i>(PY: £150.2m)</i>	Revaluation in year has increased the value of PPE in 2015/16. This is in line with our expectations.
<b>Pensions</b>	3	3	£35.2m <i>(PY: £42.8m)</i>	This balance includes a movement in Discount rate, inflation, discount rate and life expectancy. There has been a large gain in year to the Authority. Figures have been agreed to actuary reports.
<b>Revenue Accruals</b>	3	3	£824k <i>(PY: £1.4m)</i>	We consider the related disclosures to be proportionate. The main accruals are consistent with the prior year.

## Section three – Financial statements

# Accounts production and audit process



We have noted that the quality of the accounts and the supporting working papers remain at a high standard.

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

### 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
<b>Accounting practices and financial reporting</b>	<p>The Authority has continued to maintain a good financial reporting process and a high standard of quality in the production of the financial statements.</p> <p>The finance team were successful this year in achieving a faster closedown, providing us with the draft financial statements a full month ahead of the deadline.</p> <p>We consider that accounting practices are appropriate.</p>
<b>Completeness of draft accounts</b>	<p>We received a complete set of draft accounts on 31 May 2016. This is already in line with the statutory deadline of 31 May which comes into effect in 2017/18.</p>
<b>Quality of supporting working papers</b>	<p>Our <i>Accounts Audit Protocol</i>, which we issued in March 2016 set out our working paper requirements for the audit.</p> <p>The quality of working papers provided was high and met the standards specified in our <i>Accounts Audit Protocol</i>.</p>
<b>Response to audit queries</b>	<p>Officers dealt efficiently with audit queries responding in a reasonable time.</p>

### Additional findings in respect of the control environment for key financial systems

Our work to assess the effectiveness of the key controls within the housing repairs and maintenance system identified weaknesses in the following respects:

- 1) Random checks on materials invoices - whilst these checks are operating as designed we do not consider the current checks to be sufficient.
- 2) Subcontractor invoices agreed to quotes/contract rates - contract rates are not currently in place for all items, e.g. window/door/garage repairs.
- 3) Customer signatures to confirm work completed - customer signatures are not being obtained in all instances.

As a result of the above, it has been necessary to undertake additional substantive testing in order to gain sufficient assurance over the housing repairs and maintenance figure in the financial statements. A sample of repairs and maintenance expenditure was tested back to the original invoice. No issues were identified.

## Section three – Financial statements

# 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 2016, 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 Public Sector Audit Appointments Ltd requirements in relation to independence and objectivity.

We have provided a detailed declaration in Appendix four 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 Chief Finance Officer for presentation to the Audit Committee. We require a signed copy of your management representations before we issue our audit opinion.

### Other matters

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

- Significant difficulties encountered during the audit;
- Significant matters arising from the audit that were discussed, or subject to correspondence with management;
- Other matters, if arising from the audit that, in the auditor's professional judgment, are significant to the oversight of the financial reporting process; and
- Matters specifically required by other auditing standards to be communicated to those charged with governance (e.g. significant deficiencies in internal control; issues relating to fraud, compliance with laws and regulations, subsequent events, non disclosure, related party, public interest reporting, questions/objections, opening balances etc.).

There are no others matters which we wish to draw to your attention in addition to those highlighted in this report.



# Section four: Value for Money



Section four - VFM

# VFM Conclusion



Our VFM conclusion considers whether the Authority had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. We follow a risk based approach to target audit effort on the areas of greatest audit risk.

We have concluded that the Authority has made proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.

**Background**

The Local Audit and Accountability Act 2014 requires auditors of local government bodies to be satisfied that the authority 'has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources'.

This is supported by the Code of Audit Practice, published by the NAO in April 2015, which requires auditors to 'take into account their knowledge of the relevant local sector as a whole, and the audited body specifically, to identify any risks that, in the auditor's judgement, have the potential to cause the auditor to reach an inappropriate conclusion on the audited body's arrangements.'

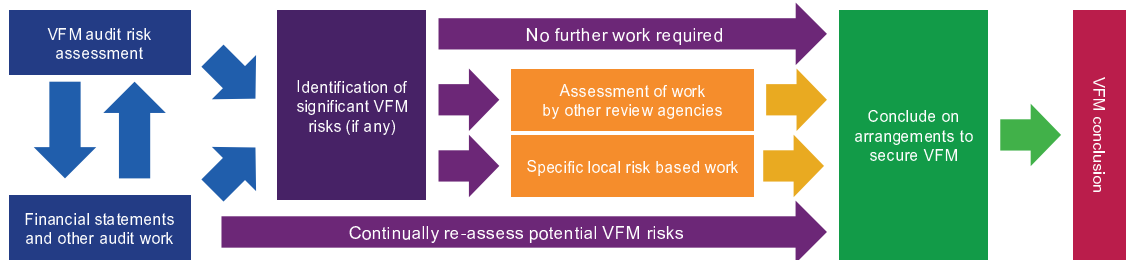
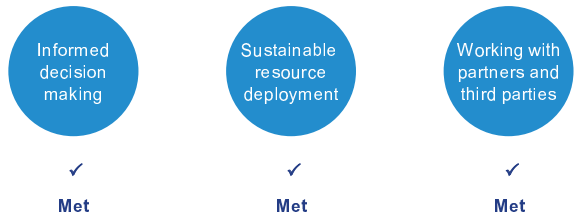
The VFM approach is fundamentally unchanged from that adopted in 2014/2015 and the process is shown in the diagram below. However, the previous two specified reporting criteria (financial resilience and economy, efficiency and effectiveness) have been replaced with a single criteria supported by three sub-criteria.

These sub-criteria provide a focus to our VFM work at the Authority.

**Conclusion**

We have concluded that the Authority has made proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.

**Overall criterion**  
In all significant respects, the audited body had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.



Section four - VFM

# Specific VFM Risks



We have identified one specific VFM risk. We are satisfied that internal scrutiny provides sufficient assurance that the Authority's current arrangements in relation to this risk area is adequate.

**Work completed**

In line with the risk-based approach set out on the previous page, and in our *External 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, inspectorates and review agencies in relation to these risk areas; and
- Completed specific local risk based work.

**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 needed to carry out additional work for this risk. This work is now complete and we also report on this below.

Key VFM risk	Risk description and link to VFM conclusion	Assessment
	<p>As at January 2016, the Authority was forecasting that it will deliver its 2015/16 budget and achieve a surplus of £1.317m. This includes a savings programme totalling £0.350m. The Medium Term Financial Plan shows that a further £0.057m and £1.100m of savings will be required for 2016/17 and 2017/18 respectively to address further reductions in local authority funding. This represents a challenging target given the level of savings already achieved in previous years, and the increasing localisation of financial risk means that there is less certainty about income levels.</p> <p>This is relevant to the informed decision making and sustainable resource deployment sub-criteria of the VFM conclusion.</p>	<p>The financial outturn position of the Authority was in line with the forecast position reported throughout the year. The Authority has secured the required savings for 2015/16 and has increased its general fund balance at the year end by £300k to £2m.</p> <p>A balanced budget has been set for 2016/17 with a savings target of £57k. The Authority is forecasting savings in excess of this target and anticipates a year end surplus in the region of £358k.</p> <p>Budget assumptions have been reviewed and are considered reasonable.</p> <p><b>Specific risk based work required: No</b></p>



**Section four - VFM**

# Addressing the VFM conclusion



In reaching our VFM conclusion we have considered the Authority's arrangements for securing financial resilience.

In reaching our VFM conclusion we have considered the Authority's arrangements for securing financial resilience. This has included detailed reviews of key documents including the Medium Term Financial Plan, Corporate Plan and Growth Strategy. We have taken into account the issues which the Authority has been addressing throughout the year in respect of devolution, the impact that this has on the Authority's plans going forward and the actions taken to mitigate those risks.

We have also given consideration to the robustness of the Medium Term Financial Plan and whether the assumptions around future funding and income streams are appropriate. This includes regular discussion with key officers about the Authority's plans for growth and future income generation.

We also considered whether the proposed budgets appropriately reflected the financial risks being faced by the Authority including the phasing out of Revenue Support Grant (RSG), probable changes to the New Homes Bonus scheme which are expected to be confirmed during 2016/17 and reforms to National Non Domestic Rates (NNDR).

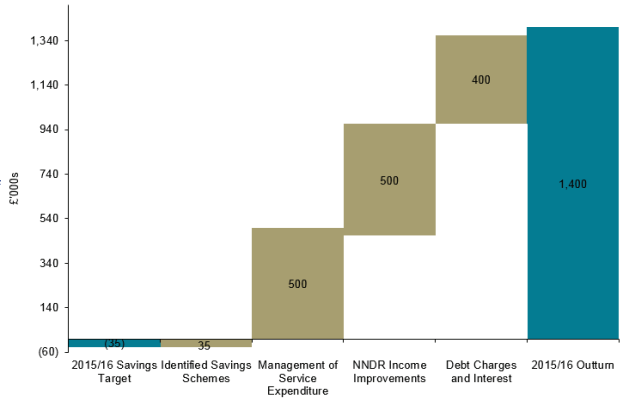
Our work concluded that the planning assumptions made by the Authority were reasonable. We recognise that there are significant uncertainties about the future of local government financing, for example the details of reform to Business Rates and New Homes Bonus. When clarity is provided by Central Government, we will discuss the implications with the S151 officer at our regular liaison meetings.

**2015/16 Outturn**

We reviewed the financial outturn position against original plans. We found that the outturn position was significantly better than anticipated allowing the Authority to increase general fund reserves by £0.3m and allocate £1.046m to the Transformation Reserve.

This outturn position has been part of a concerted effort by the Authority to secure reserves in preparation for the loss of RSG funding as well as other financial risks being faced. The outturn position is consistent with the financial reporting to members throughout the year.

The adjacent diagram shows the in year movement in more detail.



Section four - VFM

# Addressing the VFM conclusion (cont.)



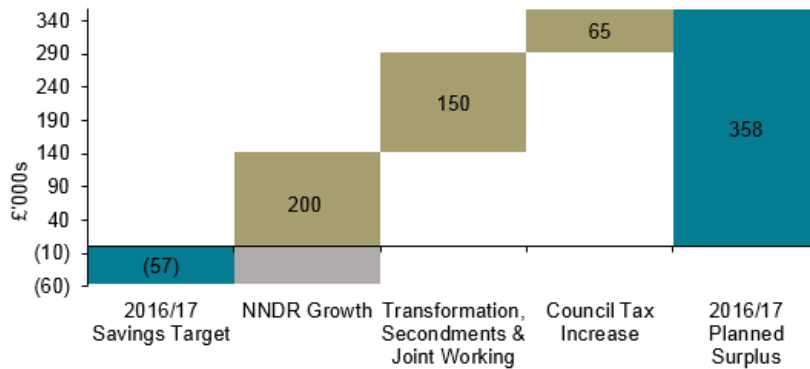
In reaching our VFM conclusion we have considered the Authority's arrangements for securing financial resilience.

**Planned 2016/17 Budget**

We have reviewed the outcome of the 2016/17 budget setting process and the progress made in respect of identifying savings schemes in order to achieve the required savings target.

The Medium Term Financial Plan sets out the savings target required for 2016/17 in order to secure a balanced budget. As of June 2016 the Authority had identified a savings target of £0.057m. A review of the 2016/17 budget has identified the savings opportunities which are shown in the diagram below.

The Authority is currently forecasting that it will exceed its savings target achieving a surplus in the region of £358k by the year end. Given the scale of the challenge that faces the Authority in future years, it is important that these savings are secured by underlying reductions in expenditure or increases in income in order to secure the projected financial savings of £1.4m which are anticipated to be required in 2018/19.





# Appendices

**Appendix 1: Key issues and recommendations**

**Appendix 2: Audit differences**

**Appendix 3: Data Analytics**

**Appendix 4: Independence and objectivity**

## Appendix one

# 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

<b>1</b>	<b>Priority one:</b> 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.	<b>2</b>	<b>Priority two:</b> 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.	<b>3</b>	<b>Priority three:</b> 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.
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No.	Risk	Issue and recommendation	Management response/responsible officer/due date
1	<b>2</b>	<p><b>HRA Repairs and Maintenance</b></p> <p>Our work on the effectiveness of controls in operation in respect of housing repairs and maintenance identified some control deficiencies which have been reported on page 14 and in Appendix three.</p> <p><b>Recommendation</b></p> <p>It is recommended that you review the controls currently in operation and the issues we have identified and consider whether any improvements could be made.</p>	<p>Officers within the Finance Team will work with Housing colleagues to review existing controls, agree any necessary improvements and will jointly provide a training programme. This initial piece of work will be concluded during October 2016.</p> <p>It is envisaged that the introduction of intelligent scanning will change the processes in this area of work, with new processes currently planned to be introduced before the start of the 2017/18 financial year.</p> <p>Internal Audit will be requested to review the operation of the revised processes during 2016/17 once they have been operational for an appropriate period of time.</p>
2	<b>2</b>	<p><b>Exit Packages</b></p> <p>Additional work undertaken to review exit packages in the financial statements identified that the process adopted in support of the decision taken was not fully formally documented.</p> <p><b>Recommendation</b></p> <p>It is recommend that the Authority formally documents the process adopted in all future cases including the likely cost of all options, the key facts in support of the case and any consultation with Officers and Members.</p>	<p>Should it be necessary to negotiate further exit packages at some stage in the future, Officers will work to ensure that Members are fully informed of all relevant information and that any 'in principle' decisions necessary before formal approval is sought are subject to formal documentation.</p>



## Appendix two

# Audit differences

This appendix sets out the audit differences.

The financial statements have been amended for all of the errors identified through the audit process.

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

### Uncorrected audit differences

We are pleased to report that there are no uncorrected audit differences.

### Corrected audit differences

#### Material misstatements

There were no material misstatements.

#### Non material audit differences

Our audit identified a small number of non material errors in the financial statements. These have been discussed with management and the financial statements have been amended for all of them.

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

## Appendix two

# Materiality and reporting of audit differences

For 2015/16 our materiality is £700,000 for the Authority's accounts.

We have reported all audit differences over £35,000 for the Authority's accounts.

### Materiality

The assessment of what is material is a matter of professional judgment and includes consideration of three aspects: materiality by value, nature and context.

- Material errors by value are those which are simply of significant numerical size to distort the reader's perception of the financial statements. Our assessment of the threshold for this depends upon the size of key figures in the financial statements, as well as other factors such as the level of public interest in the financial statements.
- Errors which are material by nature may not be large in value, but may concern accounting disclosures of key importance and sensitivity, for example the salaries of senior staff.
- Errors that are material by context are those that would alter key figures in the financial statements from one result to another – for example, errors that change successful performance against a target to failure.

We used the same planning materiality reported in our External Audit Plan 2015/16, presented to you in February 2016.

Materiality for the Authority's accounts was set at £700k which equates to around 1.4% of gross expenditure.

We design our procedures to detect errors in specific accounts at a lower level of precision.

### Reporting to the Audit Committee

Whilst our audit procedures are designed to identify misstatements which are material to our opinion on the financial statements as a whole, we nevertheless report to the Audit any misstatements of lesser amounts to the extent that these are identified by our audit work.

Under ISA 260, we are obliged to report omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. ISA 260 defines 'clearly trivial' as matters that are clearly inconsequential, whether taken individually or in aggregate and whether judged by any quantitative or qualitative criteria.

ISA 450 requires us to request that uncorrected misstatements are corrected.

In the context of the Authority, we propose that an individual difference could normally be considered to be clearly trivial if it is less than £35k for the Authority.

Where management have corrected material misstatements identified during the course of the audit, we will consider whether those corrections should be communicated to the Audit Committee to assist it in fulfilling its governance responsibilities.





## Appendix three

# Accounts Payable – Data Analytics

Driving more value from the audit through data and analytics.

Technology is embedded throughout our audit approach to deliver a high quality audit opinion.

We strive to deliver new quality insight into your operations that enhances our and your preparedness and improves your collective 'business intelligence.'

### Key Findings

To support our audit approach and to provide insight into the Authority's Non-Pay Expenditure, we have conducted data & analytics on the Accounts Payable system.

We conducted 4 tests, and followed up on particular exceptions with management. Key observations are set out below. We have also made a recommendation that the Authority focuses on departments which are not obtaining appropriate internal approval prior to committing to purchases.

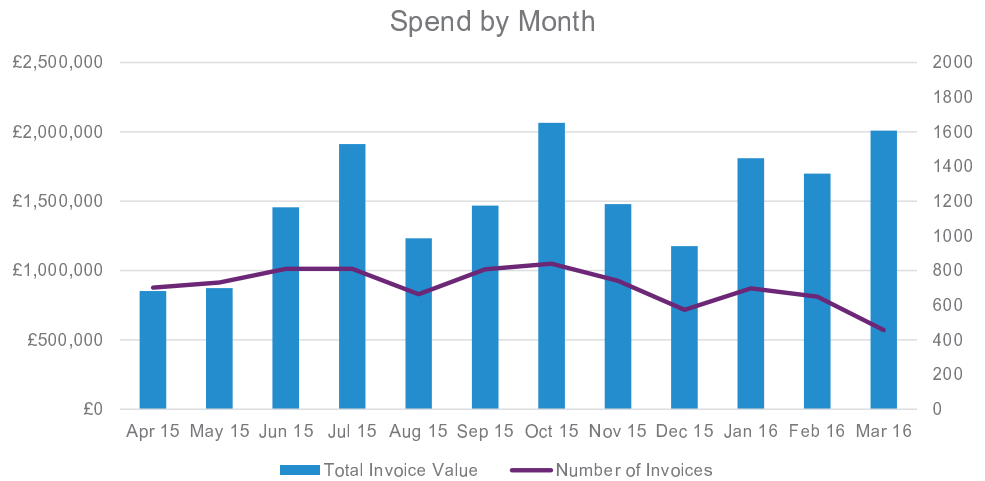


Appendix three

# Accounts Payable – Data Analytics (cont.)

The fluctuations by month are in line with our expectations and understanding of the entity.

1. Analysis by month



Analysis of results

Significant fluctuations in the number and value of Accounts Payable invoices are in line with our expectation of peaks where balances are transferred to other authorities, such as North East Derbyshire District Council.

March appears to be an outlier in terms of the number of invoices when compared to their value. A review on a description basis has identified this is largely attributable to Clowne Leisure Facility due to the capital works at that site.



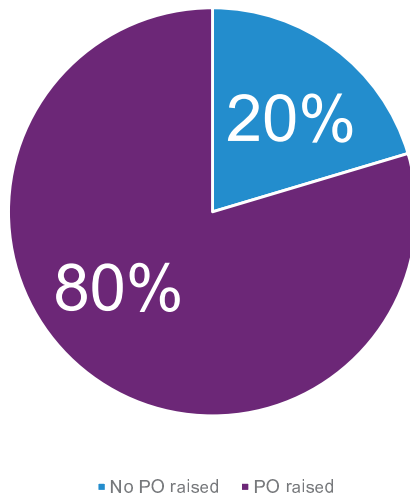
Appendix three

# Accounts Payable – Data Analytics (cont.)

The data highlighted that 36% of invoices raised in 2015/16 were paid with no matching Purchase Order.

2. Analysis by purchase order status

% of Paid Invoices in 2015/16 with Purchase Orders Raised by Value



Analysis of results

We noted that 3,276 invoices were not matched to a purchase order. This is common practice for some areas such as utilities, however would be inappropriate for the majority of expenditure types.

These invoices represent 36% of the total number, and 20% of the total value of invoices recorded in the period.

As part of our audit, we reviewed the controls surrounding housing repairs and maintenance which made up a large number of those without purchase orders. A recommendation regarding these controls has been raised in Appendix One.

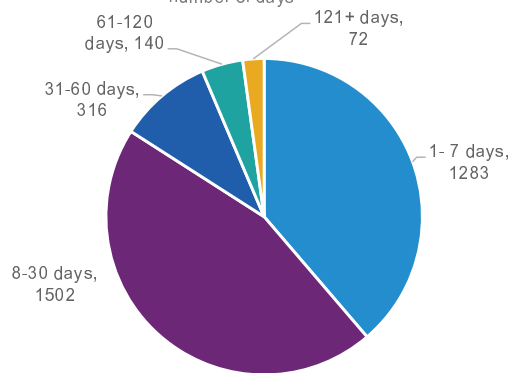
Appendix three

# Accounts Payable – Data Analytics (cont.)

A number of purchase orders were dated more than 60 days after the date of the invoice.

### 3. Analysis of purchase orders dated after the invoice date

Number of purchase orders dated after the invoice, by number of days



#### Analysis of results

The graph shows an analysis of the number of days after the invoice that each purchase order is dated.

The longest period after the date of an invoice that a purchase order was raised is 447 days. Those in the 60+ days bands relate mostly to expenditure with one supplier.

### 4. Analysis of purchase orders dated after the goods delivery date

Number of purchase orders dated after the goods delivery date	12
Number of purchase orders dated the same day as the goods delivery date	3,406

#### Analysis of results

We noted that there were 12 purchase orders which were raised after the date of the goods received note and there were 3,406 were raised on the same day as the goods were received.

Alongside the results of the previous test over purchase orders dated after the invoice, there is a risk that the Authority is committing itself to costs without obtaining the appropriate approval.

It is recommended that the Authority ensures a continued focus on departments with consistent issues in this area, such as housing repairs and maintenance, so that such commitments are not made inappropriately.



## Appendix four

# Declaration of independence and objectivity

Auditors appointed by Public Sector Audit Appointments Ltd must comply with the Code of Audit Practice.

### Requirements

Auditors appointed by Public Sector Audit Appointments Ltd must comply with the Code of Audit Practice (the 'Code') which states that:

*"The auditor should carry out their work with integrity, objectivity and independence, and in accordance with the ethical framework applicable to auditors, including the ethical standards for auditors set by the Financial Reporting Council, and any additional requirements set out by the auditor's recognised supervisory body, or any other body charged with oversight of the auditor's independence. The auditor should be, and should be seen to be, impartial and independent. Accordingly, the auditor should not carry out any other work for an audited body if that work would impair their independence in carrying out any of their statutory duties, or might reasonably be perceived as doing so."*

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 Public Sector Audit Appointments Ltd *Terms of Appointment* ('Public Sector Audit Appointments Ltd 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. Public Sector Audit Appointments Ltd 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 Engagement Lead and the audit team.



## Appendix four

# Declaration of independence and objectivity (cont.)

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.

### 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.

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 2016, 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 Public Sector Audit Appointments Ltd requirements in relation to independence and objectivity.



## Appendix four

# Audit Independence

### Audit Fees

Our scale fee for the audit was £49,410 plus VAT (£64,980 in 2014/15). This fee was in line with that highlighted within our audit plan agreed by the Audit Committee in February 2016. Our scale fee for certification for the HBCOUNT was £7,670 plus VAT.

### Non-audit services

We have summarised below the non-audit services that we have been engaged to provide, the estimated fee, the potential threats to auditor independence and the associated safeguards we have put in place to manage these.

Description of non-audit service	Estimated fee	Potential threat to auditor independence and associated safeguards in place
Certification of the Pooling of Housing Receipts	£3,000	<p><b>Self interest</b> – This engagement is entirely separate from the audit and there is a separate engagement letter in place.</p> <p><b>Self review</b> – The nature of this work is to certify the Pooling of Housing Receipts in accordance with the specific assurance instructions set out by DCLG in CFB06. It does not impact on our opinion and we do not consider that the outcome of this work will be a threat to our role as external auditors.</p> <p><b>Management threat</b> – This work will be undertaken in accordance with the Assurance Instruction CFB06 provided by DCLG.</p> <p><b>Familiarity</b> – This threat is limited given the scale, nature and timing of the work.</p> <p><b>Advocacy</b> – We will not act as advocates for the Authority in any aspect of this work. We report our findings directly to DCLG.</p> <p><b>Intimidation</b> – Not applicable.</p>
<b>Total estimated fees</b>	<b>£3,000</b>	
<b>Total estimated fees as a percentage of the external audit fees</b>	<b>6.1%</b>	





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