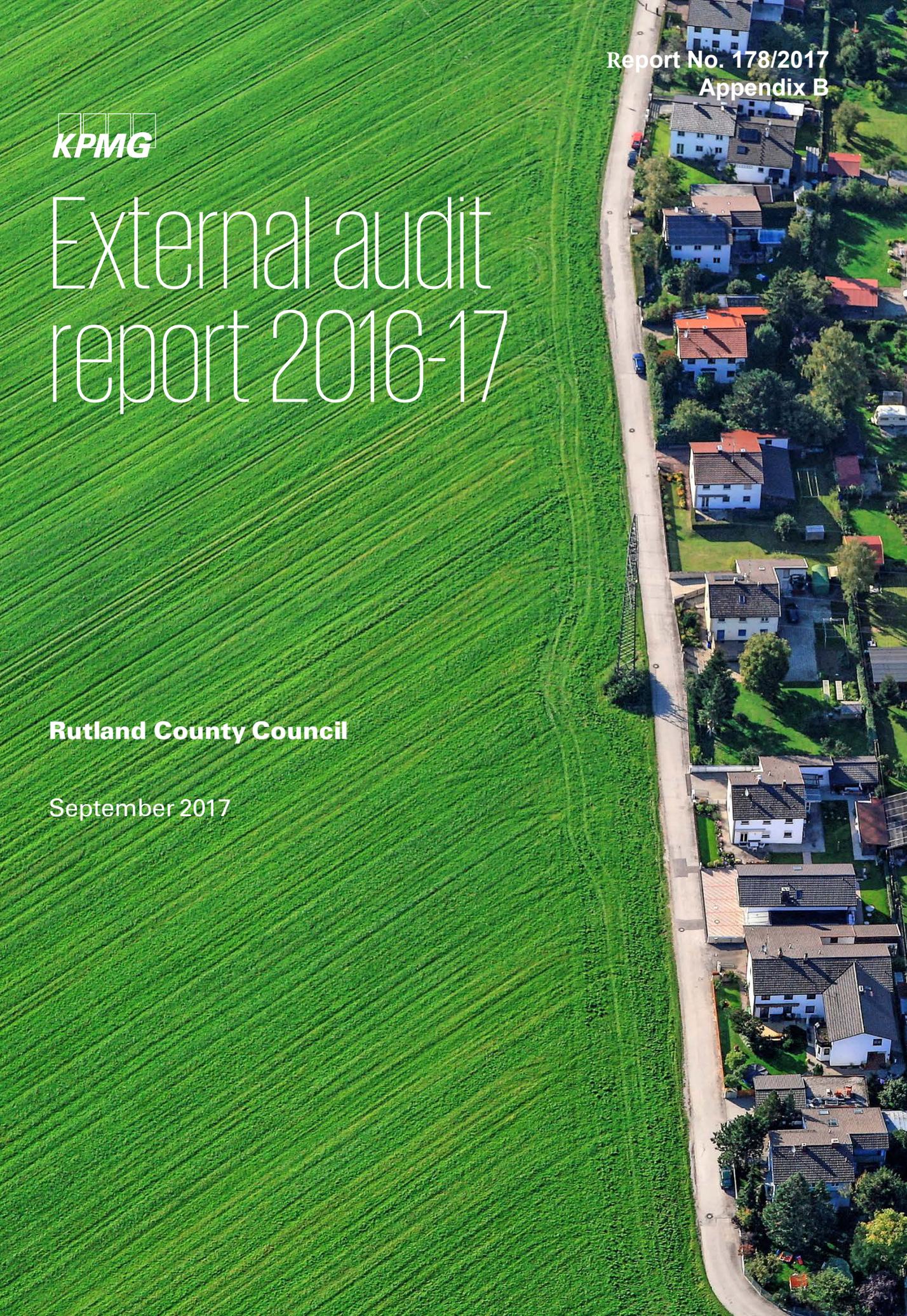




# External audit report 2016-17

**Rutland County Council**

September 2017



# Summary for Audit and Risk Committee

## Financial statements

This document summarises the key findings in relation to our 2016-17 external audit at Rutland County Council ('the Authority').

This report focusses on our on-site work which was completed in July 2017 on the Authority's significant risk areas, as well as other areas of your financial statements. Our findings are summarised in Section 1.

**Subject to all outstanding queries being resolved to our satisfaction we anticipate issuing an unqualified audit opinion on the Authority's financial statements before the deadline of 30 September 2017.**

There are currently the following outstanding matters:

- Final audit Director review;
- Addressing any remaining audit queries and any matters arising from our completion procedures;
- General audit file completion and review procedures;
- Post balance sheet events review up to the date of signing the audit opinion; and
- Final review the working papers and amended accounts.

There were a number of minor presentational matters which officers agreed to amend in the final statement of accounts. There are no audit adjustments that we need to report to you.

Based on our work, we have raised 1 recommendation. Details on our recommendations can be found in Appendix 1.

Subject to clearance of our final queries and final (including Director) review we are moving into the completion stage of the audit and currently anticipate issuing our completion certificate alongside the opinion and vfm conclusion in September 2017.

## Use of resources

We have completed our risk-based work to consider whether in all significant respects the Authority has proper arrangements to ensure it has taken properly informed decisions, worked with partners and third parties and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. We have concluded that the Authority has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

**We therefore anticipate issuing an unqualified value for money opinion.**

See further details in section two.

## Public Interest Report

We have a duty to consider whether to issue a report in the public interest about something we believe the Authority should consider, or if the public should know about. We have nothing to report.

## Acknowledgements

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

**We ask the Audit and Risk Committee to note this report.**

# Contents

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## The key contacts in relation to our audit are:

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This report is addressed to Rutland County Council (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.psaa.co.uk](http://www.psaa.co.uk)).

External auditors do not act as a substitute for the audited body's own responsibility for putting in place proper arrangements to ensure that public business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively.

We are committed to providing you with a high quality service. If you have any concerns or are dissatisfied with any part of KPMG's work, in the first instance you should contact Tony Crawley (the engagement lead to the Authority, who will try to resolve your complaint. If you are dissatisfied with your response please contact the national lead partner for all of KPMG's work under our contract with Public Sector Audit Appointments Limited, Andrew Sayers (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**

# Financial Statements



We anticipate issuing an unqualified audit opinion on the Authority's 2016-17 financial statements by 30 September 2017. We will also report that your Annual Governance Statement complies with the guidance issued by CIPFA/SOLACE (*'Delivering Good Governance in Local Government'*) published in April 2016.



# Significant audit risks

Our *External Audit Plan 2016-17* sets out our assessment of the Authority's significant audit risks. We have completed our testing in these areas and set out our evaluation following our work:

Significant audit risks	Work performed
<b>1. Significant changes in the pension liability due to LGPS Triennial Valuation</b>	<p><b>Why is this a risk?</b></p> <p>During the year, the Pension Fund has undergone a triennial valuation with an effective date of 31 March 2016 in line with the <i>Local Government Pension Scheme (Administration) Regulations 2013</i>. The share of pensions assets and liabilities for each admitted body is determined in detail, and a large volume of data is provided to the actuary to support this triennial valuation.</p> <p>There is a risk that the data provided to the actuary for the valuation exercise is inaccurate and that these inaccuracies affect the actuarial figures in the accounts. Most of the data is provided to the actuary by Leicestershire County Council, who administer the Pension Fund.</p> <p><b>Our work to address this risk</b></p> <p>We have reviewed the process used to submit payroll data to the Pension Fund and have found no issues to note. We have also tested the year-end submission process and other year-end controls.</p> <p>We have also substantively agreed the total figures submitted to the actuary to the ledger with no issues to note. We have engaged with the Leicestershire Pension Fund auditors to gain assurance over the pension figures.</p> <p>There are no matters from our work which we need to draw to your attention.</p>
<b>2. Agresso financial systems upgrade</b>	<p><b>Why is this a risk?</b></p> <p>The Authority upgraded its Resource Management System (Agresso) during 2016/17. It is one of the Council's key IT systems and is used for the processing and recording of all financial transactions (general ledger, accounts payable, payroll, debtors and recovery, cash receipting) and key to effective financial control and reporting.</p> <p>As part of the change the Authority has entered an agreement with Herefordshire Council under which it:</p> <ul style="list-style-type: none"><li>• built the new system for the Authority;</li><li>• moved all of the Authority's data across to this new system; and</li><li>• provides ongoing support for the system.</li></ul> <p>The new system is located in Herefordshire's offices using their existing infrastructure and operated under a hosted system model.</p> <p>There was a risk that the new system and the new arrangements were not implemented and operating effectively according to the required timetable, and that the data was not transferred between the systems completely and accurately.</p> <p><b>Our work to address this risk</b></p> <p>We liaised with the Authority's finance team and Internal Audit to evaluate the steps taken to effectively manage the systems' changeover. We reviewed the work carried out to confirm the data was transferred completely and accurately.</p> <p>There are no matters from our work which we need to draw to your attention.</p>

# Significant audit risks

Our *External Audit Plan 2016-17* sets out our assessment of the Authority's significant audit risks. We have completed our testing in these areas and set out our evaluation following our work:

## Considerations required by professional standards

### 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 2016/17* 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.

# Other areas of audit focus

We identified one area of audit focus. This is not considered a significant risk as it is less likely to give rise to a material error. Nonetheless this is an area of importance where we would carry out substantive audit procedures to ensure that there is no risk of material misstatement.

Other areas of audit focus	Our work to address the areas
<b>1. Disclosures associated with retrospective restatement of CIES, EFA and MiRS</b>	<p data-bbox="446 613 582 638"><b>Background</b></p> <p data-bbox="446 658 1319 706">CIPFA has introduced changes to the 2016-17 Local Government Accounting Code (Code):</p> <ul data-bbox="446 731 1329 969" style="list-style-type: none"><li data-bbox="446 731 1329 841">— Allowing local authorities to report on the same basis as they are organised by removing the requirement for the Service Reporting Code of Practice (SeRCOP) to be applied to the Comprehensive Income and Expenditure Statement (CIES); and</li><li data-bbox="446 861 1329 969">— Introducing an Expenditure and Funding Analysis (EFA) which provides a direct reconciliation between the way local authorities are funded and prepare their budget and the CIES. This analysis is supported by a streamlined Movement in Reserves Statement (MiRS) and replaces the current segmental reporting note.</li></ul> <p data-bbox="446 990 1329 1100">The Authority was required to make a retrospective restatement of its CIES (cost of services) and the MiRS. New disclosure requirements and restatement of accounts require compliance with relevant guidance and correct application of applicable accounting standards.</p> <p data-bbox="446 1125 672 1149"><b>What we have done</b></p> <p data-bbox="446 1170 1350 1255">For the restatement, we have obtained an understanding of the methodology used to prepare the revised statements. We have also ensured compliance with new disclosure requirements and found no issues to note.</p>

# Judgements

We have considered the level of prudence within key judgements in your 2016-17 financial statements and accounting estimates. We have set out our view below across the following range of judgements.



Subjective areas	2016-17	2015-16	Commentary
<b>Property, Plant and Equipment (PPE) valuations</b>	<span style="border: 1px solid black; border-radius: 50%; padding: 2px;">3</span>	<span style="border: 1px solid black; border-radius: 50%; padding: 2px;">3</span>	PPE are valued at £70.0m. Valuations are consistent with information provided by the external valuer.
<b>Non Domestic Rates provision</b>	<span style="border: 1px solid black; border-radius: 50%; padding: 2px;">3</span>	<span style="border: 1px solid black; border-radius: 50%; padding: 2px;">3</span>	The Authority has established a £0.265m provision to meet its share of the cost of any successful rateable value appeals. We concluded that it was not materially misstated.
<b>Pensions liability</b>	<span style="border: 1px solid black; border-radius: 50%; padding: 2px;">3</span>	<span style="border: 1px solid black; border-radius: 50%; padding: 2px;">3</span>	The reported balance (£37.7m), together with assumptions and disclosures for inflation, discount rate, salary growth, life expectancy etc. are consistent with the report from the external actuary.
<b>Debtors Impairment provision</b>	<span style="border: 1px solid black; border-radius: 50%; padding: 2px;">3</span>	<span style="border: 1px solid black; border-radius: 50%; padding: 2px;">3</span>	There have been no significant changes in the approaches to determining the estimate. The change in the level of the provision on the previous year is not material.

# Proposed opinion and audit differences

**Subject to all outstanding queries being resolved to our satisfaction, we anticipate issuing an unqualified audit opinion on the Authority's 2016-17 financial statements following approval of the Statement of Accounts by the Audit and Risk Committee on 26 September 2017.**

## **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 3 for more information on materiality) level for this year's audit was set at £1.3m. Audit differences below £70,000 are not considered significant.

We did not identify any material misstatements. We identified a number of minor presentational issues that have been adjusted by management.

## Section one: financial statements

### Annual governance statement

We have reviewed the Authority's final 2016-17 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.

### Narrative report

We have reviewed the Authority's final 2016-17 narrative report and have confirmed that it is consistent with the financial statements and our understanding of the Authority.

## Section one: financial statements

# Accounts production and audit process

Auditing standards (*ISA 260*) require us to communicate our views on the significant qualitative aspects of the Authority's accounting practices and financial reporting.

We assessed the Authority's process for preparing the accounts and its support for an efficient audit. The efficient production of the financial statements and good-quality working papers are critical to meeting the tighter deadlines.

## Accounting practices and financial reporting

The Authority has recognised the additional pressures which the earlier closedown in 2017-18 will bring. We have been engaging with the Authority in the period leading up to the year end in order to proactively address issues as they emerge.

The draft financial statements were prepared by 31 May 2017, although not published until the following month. The Authority is in a relatively good position to meet the new 2017-18 deadline but it needs to continue to ensure its arrangements are effective. We consider the Authority's accounting practices to be appropriate.

### Completeness of draft accounts

We received a complete set of accounts for audit on 29 June 2017.

### Quality of supporting working papers

Our *Accounts Audit Protocol 2016/17* ("Prepared by Client" request) outlined our documentation request. This helped the Authority to provide audit evidence in line with our expectations. We followed this up with a meeting with Management to discuss specific requirements of the document request list.

We worked with management to ensure that working paper requirements are understood and aligned to our expectations. We are pleased to report that this has resulted in good-quality working papers with supporting audit trails.

### Response to audit queries

The finance team responded promptly during the audit to our requests for additional information or explanation.

### Controls over key financial systems

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

We have assessed the effectiveness of your key financial system controls, on which we rely as part of our audit. We found that the financial controls on which we seek to place reliance are operating effectively and there are no exceptions that we need to include in this report.



# Completion

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

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

**Once we have finalised our opinion and conclusion 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 Rutland County Council for the year ending 31 March 2017, we confirm that there were no relationships between KPMG LLP and Rutland County 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 4 in accordance with ISA 260.

## **Management representations**

You are required to provide us with representations on specific matters such as your financial standing and whether the transactions within the accounts are legal and unaffected by fraud. We have provided a template to management for presentation to the Audit and Risk Committee. We require a signed copy of your management representations before we issue our audit opinion.

## **Other matters**

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

- Significant difficulties encountered during the audit;
- Significant matters arising from the audit that were discussed, or subject to correspondence with management;
- Other matters, if arising from the audit that, in the auditor's professional judgement, are significant to the

oversight of the financial reporting process; and

- Matters specifically required by other auditing standards to be communicated to those charged with governance (e.g. significant deficiencies in internal control; issues relating to fraud, compliance with laws and regulations, subsequent events, non disclosure, related party, public interest reporting, questions/objections, opening balances).

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



**Section two**

# Value for money

Our 2016/17 VFM conclusion considers whether the Authority had proper arrangements to ensure it took properly informed decisions, worked with partners and other third parties and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.

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



## Section two: value for money

# VFM conclusion

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'.

The Code of Audit Practice, published by the NAO in April 2015, 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.'

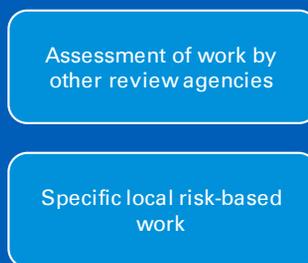
Our VFM conclusion considers whether the Authority had proper arrangements to ensure it took properly informed decisions, worked with partners and other third parties and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.

We follow a risk based approach to target audit effort on the areas of greatest audit risk.

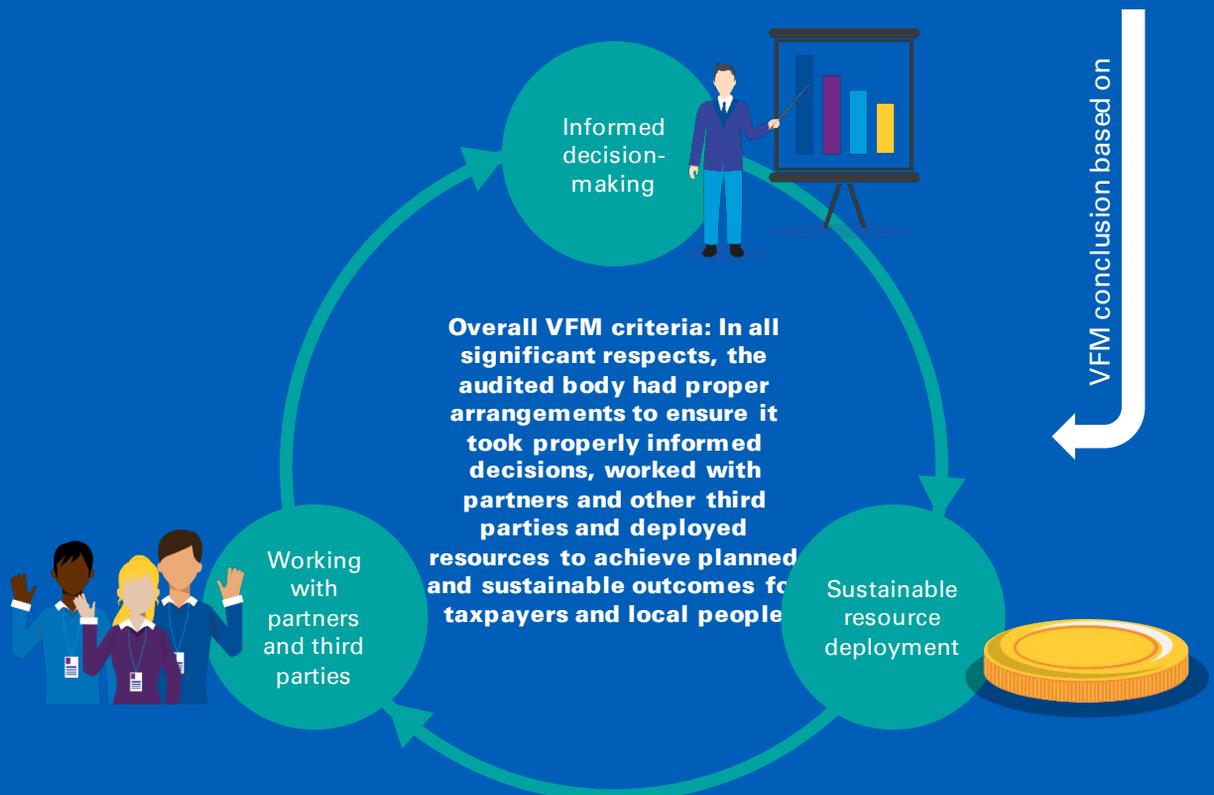
### 1 Identification of significant VFM risks (if any)



### 2 Continually re-assess potential VFM risks



### 3 VFM conclusion



## Section two: value for money

The table below summarises our assessment of the individual VFM risk factor identified against the three sub-criteria. This directly feeds into the overall VFM criteria and our value for money opinion.

VFM assessment summary			
VFM risk	Informed decision-making	Sustainable resource deployment	Working with partners and third parties
Financial resilience	✓	✓	✓

In consideration of the above, we have concluded that in 2016-17, the Authority has made proper arrangements to ensure it took properly-informed decisions, worked with partners and other third parties and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.

Further details on the work done and our assessment are provided on the following pages.

# VFM risk assessment

We have identified two areas of focus for our continuing VFM risk assessment, as communicated to you in our *2016-17 External Audit Plan*. We are satisfied that external or internal scrutiny provides sufficient assurance that the Authority's current arrangements in relation to these risk areas is adequate and no additional significant VFM risks have been identified.

Areas of focus	Work performed
<b>Agresso upgrade and financial resilience</b>	<p>There has been a significant shift in the national outlook over the last 12 months, primarily driven by the outcome of the referendum on 23 June 2016 on the UK's membership of the European Union. Consequently GDP growth forecasts have been revised downwards, which potentially reduces the level of any growth in business rates income. Inflationary pressures, service pressures, and a reduction in the local government finance settlement will impact on the Authority's finances and it needs adequate arrangements for managing its current and medium term financial standing. Alongside these national risks the Authority needs to properly manage the changes to its financial systems to ensure financial monitoring and reporting arrangements continue to operate effectively.</p> <p><b>Summary of our work</b></p> <p>Like most of local government, the Authority faces a challenging future driven by funding reductions and an increase in demand for services. We have summarised below and overleaf our key findings in relation to the three criteria for 2016/17 VFM conclusion in relation to the risks identified.</p> <p><b>Informed decision making and working with partners and third parties</b></p> <p>We have considered the Authority's arrangements in the context of this requirement (for example, the Better Care Fund, the LEP, its shared services with Peterborough City Council and the newly established IT partnership working with Herefordshire Council). We have not identified any matters we wish to draw to the Authority's attention in relation to its arrangements for ensuring informed decision making and working with partners and third parties.</p> <p><b>Agresso upgrade</b></p> <p>The new arrangements are in place and no significant concerns have been reported regarding their operation and there were arrangements in place for ensuring the data was transferred between the systems completely and accurately</p> <p><b>Sustainable resource deployment - 2016/17 Outturn</b></p> <p>We have considered the Authority's arrangements for managing its annual revenue and capital budgets and the 2016/17 outturn. The Authority reported a surplus of £326k, which was £449k lower than the £775k budgeted surplus. The outturn report to Cabinet sets out the reasons for this variance, and includes explanations for any significant differences between the original budget, in-year forecasts and the outturn position. The main in-year cost pressures where budgets were overspent were in relation to the Childrens (Early Intervention – targeted (£0.2m variance) and Fostering/Adoption (£0.4m variance) and Places (Waste Management (£0.2m) Directorates. These emerging and continuing cost pressures are similar to those experienced at other authorities and the base budgets and Medium Term Financial Strategy (MTFS) have been updated.</p> <p>The Authority set a £12.1m capital expenditure budget for 2016/17 and spent £5.3m in the year. Around £4.3m to support ongoing schemes has been carried forward to the 2017/18 capital programme and the Authority is continuing to keep progress closely under review and ensure there are sufficient resources to deliver the programme.</p>

# VFM risk assessment

We have identified two areas of focus for our continuing VFM risk assessment, as communicated to you in our *2016-17 External Audit Plan*. We are satisfied that external or internal scrutiny provides sufficient assurance that the Authority's current arrangements in relation to these risk areas is adequate and no additional significant VFM risks have been identified.

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Areas of focus	Work performed
<b>Agresso upgrade and financial resilience</b>  (continued)	<b>Financial outlook</b>  In February 2017, the Council approved the 2017/18 Budget and Medium Term Financial Plan (MTFP) to 2020/21. The Authority has set a balanced budget for 2017/18. The budget includes £817k of new savings and none of the savings were assessed by management to have a significant impact on front line services.  The MTFP provides the framework for financial planning and resource allocation and supports the existing Corporate Plan and other strategic documents. The MTFS reflects the Government's four year funding settlement with the Council and other assumed resources and budget pressures. The MTFS identifies a budget gap of up to £1.8m by 2020/21. The Authority has acknowledged the importance of it identifying sufficient savings and opportunities to generate income to bridge the forecast gap in the MTFP and intends to closely monitor the position.

A close-up photograph of a stack of books on a wooden desk. The books are stacked vertically, with the top one having a red cover. A silver pen is lying horizontally in the foreground, its tip pointing towards the left. The background is softly blurred, showing more books and a white surface. The overall lighting is warm and natural.

# Appendices

# Key issues and recommendations

Our audit work on the Authority's 2016-17 financial statements has identified a number of issues. We have listed these issues in this appendix together with our recommendation.

The Authority should closely monitor progress in addressing the risks, including the implementation of our recommendation. We will formally follow up this recommendations next year.

Each issue and recommendation have been given a priority rating, which is explained below.

-  **High priority**  
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.
-  **Medium priority**  
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.
-  **Low priority**  
Issues that would, if corrected, improve internal control in general but are not vital to the overall system. These are generally issues of good practice that we feel would benefit if introduced.

The following is a summary of the issues and recommendations raised in 2016/17.

Recommendations summary	
Priority	Total raised for 2016/17
High	0
Medium	1
Low	0
<b>Total</b>	<b>1</b>

Recommendation



**Production of 2017/18 draft accounts and external audit**

The draft financial statements were prepared by 31 May 2017, although not published until the following month. The Authority is in a relatively good position to meet the 31 May 2018 deadline for the publication of the 2017-18 draft financial statements. Nevertheless it needs to continue to ensure its arrangements are effective. The audit opinion deadline has also been brought forward to 31 July 2018 meaning that there will be much less time for the accountancy team to respond to and process any audit queries or changes to the draft financial statements. There was a relatively small number of audit queries this year and presentational errors in the 2016-17 draft financial statements identified during our audit, and these are to be corrected by management.

**Recommendation**

The accountancy team should critically review its closedown arrangements and the format and likely content of the Statement of Accounts before the 2017/18 year-end and discuss its proposals with KPMG before the statements are produced.

**Management Response**

The Council has already started developing its closure timetable for 2017/18 and will incorporate the recommendations into the timetable. The Finance Team have scheduled a lessons learnt exercise to develop the accounts and review which statements can be prepared in advance of the year end. Any proposals that materially change the presentation or content of the accounts will be discussed with KPMG as they arise.

# Audit differences

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

Our audit did not identify any material misstatements. There were a number of presentational matters which officers agreed to amend. We will check these expected amendments have been made to the final statement of accounts before giving our audit opinion. There are no agreed changes that we need to highlight in this report.

# Materiality and reporting of audit differences

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

Material errors by value are those which are simply of significant numerical size to distort the reader's perception of the financial statements. Our assessment of the threshold for this depends upon the size of key figures in the financial statements, as well as other factors such as the level of public interest in the financial statements.

Errors which are material by nature may not be large in value, but may concern accounting disclosures of key importance and sensitivity, for example the salaries of senior staff.

Errors that are material by context are those that would alter key figures in the financial statements from one result to another – for example, errors that change successful performance against a target to failure.

The planning materiality reported in our External Audit Plan 2016-17 was £1.4m. When we received the Authority's financial statements we amended our materiality to £1.3m which equates to around 1.9% percent of gross expenditure. We design our procedures to detect errors in specific accounts at a lower level of precision.

### Reporting to the Audit and Risk Committee

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

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

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

In the context of the Authority, we propose that an individual difference could normally be considered to be clearly trivial if it is less than £70,000 for the Authority.

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

# Declaration of independence and objectivity

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 this. These matters should be discussed with the Audit and Risk 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.

### General procedures to safeguard independence and objectivity

KPMG LLP is committed to being and being seen to be independent. As part of our ethics and independence policies, all KPMG LLP Audit Partners and staff annually confirm their compliance with our Ethics and Independence Manual including in particular that they have no prohibited shareholdings.

Our Ethics and Independence Manual is fully consistent with the requirements of the Ethical Standards issued by the UK Auditing Practices Board. As a result we have underlying safeguards in place to maintain independence through: Instilling professional values, Communications, Internal accountability, Risk management and Independent reviews.

We would be happy to discuss any of these aspects of our procedures in more detail.

### Auditor declaration

In relation to the audit of the financial statements of Rutland County Council for the financial year ending 31 March 2017, we confirm that there were no relationships between KPMG LLP and Rutland County 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 4

### Non-audit work and independence

Below we have listed the non-audit work performed and set out how we have considered and mitigated (where necessary) potential threats to our independence.

Summary of non-audit work		
Description of non-audit service	Estimated fee	Potential threat to auditor independence and associated safeguards in place
Teachers' Pension Agency (TPA) Annual Return 2015/16	£2,500	<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 issue the Accountant's Independent Assurance Report in accordance with the specific assurance instructions set out by the TPA. It does not impact on our opinion and we do not consider that the outcome of this work is a threat to our role as external auditors.</p> <p><b>Management threat:</b> This work was undertaken in accordance with the Assurance Instruction provided by the TPA.</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.</p> <p><b>Intimidation:</b> Not applicable</p>
<b>Total estimated fees</b>	<b>£2,500</b>	
<b>Total estimated fees as a percentage of the external audit fees</b>	<b>3.5 %</b>	

## Appendix 5

# Audit fees

### Audit fees

As communicated to you in our External Audit Plan 2016-17, our scale fee for the audit is £65,481 plus VAT (£65,481 in 2015-16). However, we propose an additional fee due to further work required in relation to the CIES restatement.

Our work on the certification of Housing Benefits (BEN01) is planned for October 2017. The planned scale fee for this is £5,385 plus VAT, see further details below.

PSAA fee table		
Component of audit	2016/17 (planned fee) £	2015/16 (actual fee) £
<b>Accounts opinion and use of resources work</b>		
PSAA scale fee	65,481	65,481
Additional work to conclude our opinions (note 1)	TBC	0
<b>Subtotal</b>	<b>65,481*</b>	<b>65,481</b>
<b>Housing benefits (BEN01) certification work</b>		
PSAA scale fee – planned for October 2017	5,385	4,850
<b>Total fee for the Authority set by the PSAA</b>	<b>70,866*</b>	<b>70,331</b>

All fees are quoted exclusive of VAT.

#### Note 1: Accounts opinion and use of resources work

For 2016/17, we have discussed additional fee in relation to the work undertaken in respect of the CIES restatement. This is still subject to final agreement and PSAA approval.

**\* Does not include the additional fee re Note 1**



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