External Audit Report 2015/16

Rutland County Council

—

September 2016

Contents

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This report is addressed to the Authority and has been prepared for the sole use of the Authority. We take no responsibility to any member of staff acting in their individual capacities, or to third parties. 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 Appointment's website (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). 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, 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

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 Rutland County 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 March 2016 2015, set out the four stages of our financial statements audit process.

Planning → Control Evaluation → Substantive Procedures → Completion

This report focuses on the third stage of the process: substantive procedures. Our on site work for this took place during July 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; and
- considering the results of any relevant work by the Authority and 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 our key findings from our audit work in relation to the 2015/16 financial statements of the Authority.
- Section 4 outlines our key findings from our work on the VFM conclusion.

Our recommendations are included in Appendix 1. We have also reviewed your progress in implementing prior year recommendations.

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

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.

Proposed audit opinion	We anticipate, subject to completing the closing stages of the audit and resolving any remaining queries, 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 the latest guidance issued by CIPFA/SOLACE.
Audit adjustments	Our audit has not identified any material misstatements within the financial statements. There are no uncorrected non-material differences that we need to report to you. We have summarised the audit misstatements and adjustments at Appendix 2. We understand that all of these are to be adjusted by the Authority.
Key financial statements audit risks	We did not identify and significant financial statement audit risks in our *External Audit Plan 2015/16* presented to the Audit and Risk Committee in April 2016. No significant financial statement audit risks were identified during the course or our work during the year. We have carried out the planned work in relation to the two risk areas that we are specifically required by professional standards to consider. These risk areas were Management override of controls and the Fraud risk of revenue recognition. There are no matters arising from this work that we need to bring to your attention.
Accounts production and audit process	The Authority has established processes in place for the production of the accounts. We received complete draft accounts by 30 June 2016 in accordance with the DCLG deadline. The accounting policies, accounting estimates and financial statement disclosures are in line with the requirements of the Code. We were provided with the specified working papers at the start of our audit visit. Officers dealt efficiently with audit queries as they arose and additional working papers were provided when requested. The Authority has made progress in relation to the recommendations in our *ISA 260 Report 2014/15* relating to the financial statements. As in previous years, we will debrief with the accountancy team to share views on the final accounts audit. Hopefully this will lead to further efficiencies in the 2016/17 audit process.

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.

VFM conclusion and risk areas	We identified the following area of focus in our *External Audit Plan 2015/16* issued in March 2016, and as part of our ongoing risk assessment. — Your medium term financial planning arrangements We have worked with officers throughout the year to discuss this and other issues relevant to our risk assessment and our findings are summarised in section 4 of this report. 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 VFM conclusion by 30 September 2016.
Completion	At the date of this report our audit of the financial statements is substantially complete. The remaining areas of work to complete include: — Final KPMG Director and Manager review — Clearing any residual queries with officers as part of our completion procedures — The final casting and consistency checks on the amended financial statements — Our normal audit closure and reporting procedures Management have alerted us to recent events regarding a compensation claim relating to a planning matter which may require changes to the contingent liability disclosures and provisions within the latest draft financial statements. Management is to separately brief the Committee on this issue. We will update the Committee at its meeting regarding any further matters which need to be reported by us in relation to this issue and any impact on our proposed audit opinion and VFM conclusion. 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 have provided a draft of this representation letter to the Section 151 Officer and will update the Committee if any changes to the letter are required as a result of the findings from the remaining areas of work. 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. 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.

Section three: Financial Statements

Proposed opinion and audit differences

We have not identified any material misstatement in the draft financial statements.

The adjustments to be made to the draft financial statements have no impact on the General Fund balance at 31 March 2016.

Proposed audit opinion

Subject to all outstanding queries being resolved to our satisfaction, we anticipate issuing an unqualified audit opinion on the Authority's financial statements following approval of the Statement of Accounts by the Audit and Risk Committee on 20 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 £0.7m. Audit differences below £35,000 are not considered significant.

We have not identified any material misstatements in the draft financial statements. There are no other adjusted or unadjusted audit differences which affect the primary financial statements.

The tables on the right illustrate the total impact of audit differences on the Authority's movements on the General Fund for the year and balance sheet as at 31 March 2016. The net impact on the General Fund as a result of the audit adjustments is that the balance as at 31 March 2016 is unchanged.

We identified a small number of changes required to the supporting disclosure notes to the draft financial statements. These are summarised for completeness at Appendix two. Management has agreed to process these changes in the final version of the financial statements and there are no specific items that we need to highlight in the main body of this report.

Movements on the General Fund 2015/16

£m	Pre-audit	Post-audit
Surplus/(Deficit) on the provision of services	(4.7)	(4.7)
Adjustments between accounting basis and funding basis under Regulations	4.6	4.6
Transfers to/from earmarked reserves	0.6	0.6
Increase/(Decrease) in General Fund	**0.5**	**0.5**

Balance sheet as at 31 March 2016

£m	Pre-audit	Post-audit
Property, plant and equipment	70.0	70.0
Other long term assets	0.4	0.4
Current assets	30.6	30.6
Current liabilities	(6.6)	(6.6)
Long term liabilities	(52.8)	(52.8)
Net worth	**41.6**	**41.6**
General Fund	10.1	10.1
Other usable reserves	14.1	14.1
Unusable reserves	17.4	17.4
Total reserves	**41.6**	**41.6**

Proposed opinion and audit differences (cont.)

The wording of your Annual Governance Statement complies with the latest guidance issued by CIPFA/SOLACE.

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.

We will update our assessment based on the final signed Statement and include the appropriate disclosure in our Auditor's Report on the 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.

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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.

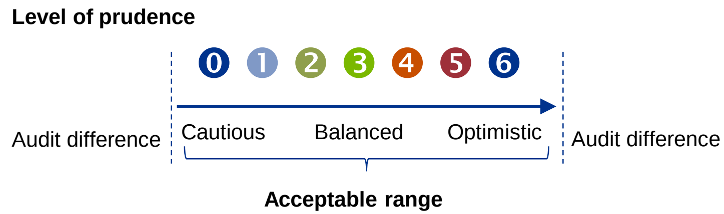
Our audit methodology incorporates the risk of management override as a default significant risk. We have not identified any specific additional risks of management override relating to this audit.

In line with our methodology, we carried out appropriate controls testing and substantive procedures, including those 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.

Judgements

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



Assessment of subjective areas				
Asset/liability class	**15/16**	**14/15**	**Balance (£m)**	**KPMG comment**
Provisions	4	3	£0.2m *(PY: £0.3m)*	The Business Rate Appeals provision of £247,000 (2014/15 £286,000m) is the only item in the balance this year. We have not identified any material misstatement of further issues of concern for the Authority's attention.
Debtors Impairment provision	3	3	£0.6m *(PY: £0.5m)*	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.
Property, Plant and Equipment	3	3	£70.0m *(PY: £74.5m)*	We have reviewed the arrangements and discussed the approach with managers. The Authority has not made any significant changes to its approach to asset lives or its valuation arrangements.
Pensions Liability/Reserve	3	3	£30.8m *(PY: £41.9m)*	There have been no significant changes in the approaches to determining the estimate. The Authority has again relied on an independent expert actuarial valuation for its estimates. We did not identify any concerns regarding the Authority's approach or the assumptions used.

Accounts production and audit process

The Authority has maintained the standard of its accounts production processes and supporting working papers.

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.

Element	Commentary
Accounting practices and financial reporting	The Authority has established financial reporting processes. We consider that accounting practices are appropriate.
Completeness of draft accounts	We received a complete set of draft accounts by 30 June 2016.
Quality of supporting working papers	Our *Accounts Audit Protocol* set out our working paper requirements for the audit. The quality of working papers provided was good and overall met the standards specified in our *Accounts Audit Protocol*. We have provided feedback during the audit on additional working papers required for next year's audit and we will revisit this as part the 2015/16 audit planning.
Response to audit queries	Officers resolved audit queries in a reasonable time, taking into account staff holidays and in some cases the need to obtain information from third parties.

Prior year recommendations

As part of our audit we have followed up the Authority's progress in addressing the recommendation in last year's ISA 260 report. We have summarised our findings at Appendix one.

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

During March 2015 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 control environment

We did not identify any specific concerns in relation to your organisational and control environment that we need to report to you.

Internal Audit

We did not need to rely this year on any specific pieces of Internal Audit work in carrying out our testing of the controls over the Authority's key financial systems. We have though taken their work into account in forming our assessment of the general control environment, and in reviewing the Authority's Annual Governance Statement, and have not identified any concerns.

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. We were able to rely on the controls selected and there are no specific issues or concerns that we need to report to the Authority.

Completion

We confirm that we have complied with requirements on objectivity and independence in relation to this year's audit of the Authority's 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 Rutland County Council for the year ending 31 March 2016, 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 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 S151 Officer for presentation to the Audit and Risk Committee and the Council. 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 is nothing that we wish to draw to your attention in relation to these other matters.

Section four: Value for Money

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.

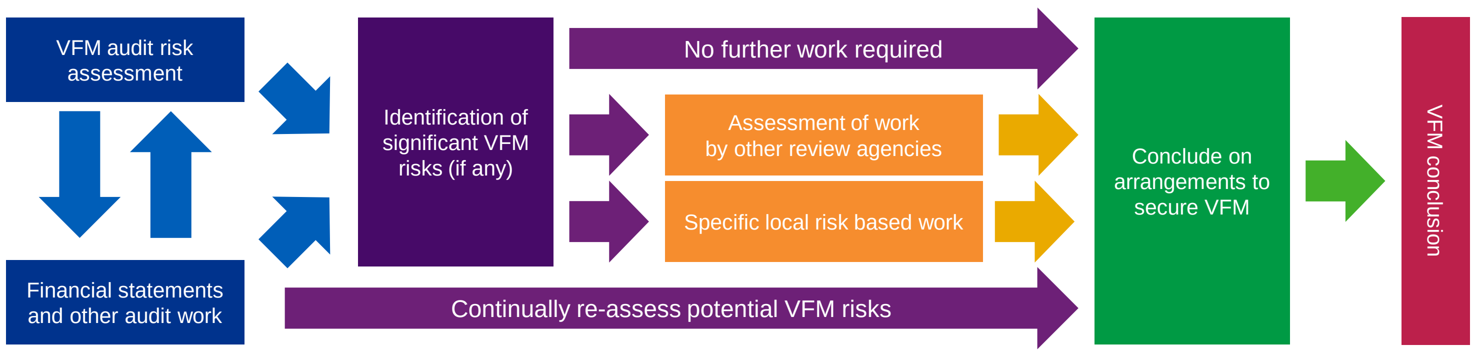
Conclusion

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.

Informed decision making	Sustainable resource deployment	Working with partners and third parties
✓ **Met**	✓ **Met**	✓ **Met**



Specific VFM Risks

We have completed our VFM risk assessment and carried out the planned work on the significant risk identified.

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; and

— Considered the results of relevant work by the Authority, inspectorates and review agencies in relation to these risk areas.

We also followed up on the matters reported in our qualified 2014/15 VFM conclusion.

Key findings

In our *External Audit Plan* issued in March 2016 we reported that our initial risk assessment was ongoing but we had identified one specific area of audit focus for our continuing audit work.

- your Medium Term Financial Planning arrangements.

We have kept our risk assessment up to date and through the course of our general audit work and liaison with managers kept a watching brief on your financial standing and your arrangements for updating your medium term plans.

We have included an update on this in the table on the next page.

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.

VFM Risks

We have carried out the planned work on the risks identified.

VFM risk	Risk description and link to VFM conclusion	Assessment
Medium term financial planning	The Authority continues to face similar financial pressures and uncertainties to those experienced by others in the local government sector. The Authority needs to have effective arrangements in place for managing its annual budget, generating income and identifying and implementing any savings required to balance its medium term financial plan. This is relevant to the sustainable resource deployment sub-criteria of the VFM conclusion.	We have considered the Authority's arrangements for managing its annual budget and the 2015/16 outturn. The outturn was largely as expected and no significant concerns have been highlighted in the current year monitoring reports. We have also specifically considered: • The Authority's arrangements for preparing and updating its medium term financial plans. The Authority has continued with its 5 year financial planning framework and the balanced 2016/17 budget, and indicative budgets to 2020/21, were approved in February 2016. The plans have been updated to reflect the financial and policy context within which the Authority operates. The Authority has continued to use independent specialist advice to inform its planning and validate its assumptions. The financial planning takes into account the outcome of the Local Government Finance Settlement 2016/17, the indicative significant reductions in government grant and increasing reliance on business rate income. • The actions being taken by the Authority to achieve savings and efficiencies. The Authority has continued to review budgets and working arrangements and seek opportunities for income generation. The 2016/17 budget incorporates around £1.2m in savings from these actions. • The draft Efficiency Plan considered by the Cabinet in August 2016. The Plan identifies an underlying 'gap' of around £2.5m which the Authority needs to address by 2020/21.The Plan sets out the overall approach including, with the Authority utilising reserves to support spending whilst the planned transformation and other investments are made to achieve the sustainable savings required. Managers have evaluated the opportunity presented by the CLG's offer of a four year settlement to 2019/20. Cabinet has recommended, following its review of the Efficiency Plan, that Full Council accept the offer ahead of the 14 October 2016 deadline. Managers are continuing to update the medium term financial plans although there is continuing uncertainty in the sector ahead of the 2016 Autumn Statement.

Appendices

Follow up of prior year recommendations

This appendix summarises the progress made to implement the recommendations identified in our ISA 260 Report 2014/15 and re-iterates any recommendations still outstanding.

We have followed up progress on the recommendations made in our *ISA 260 Report 2014/15*.

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

No.	Risk	Issue and recommendation	Council response, officer responsible and due date	Status as at August 2016
1	❷	The disclosure of Related Party Transactions within the Statement of Accounts is supported by a process of annual declarations from members and senior managers. In our *ISA 260 Report 2013/14* we pointed out that five members did not return their declarations. Non-declaration of a pecuniary interest is a criminal offence. We recommended the Authority monitor the process in future years and follow up any individual cases of non declaration. The completeness of the declarations for 2014/15 was worse than in the previous years with 10 returns not received. The turnover in Councillors at the May 2015 election has made it difficult for officers to follow up all of the outstanding returns. The previous year's recommendation still applies and Audit and Risk Committee should monitor the process in future years and follow up any individual cases of non declaration.	Finance Manager Technical	The level of response by Councillors has improved on the previous year, with 5 returns outstanding. Officers are continuing to chase these and will update the Audit and Risk Committee on the final position at its 20 September 2016 meeting.

Audit differences

This appendix sets out the significant audit differences identified during the audit for the year ended 31 March 2016.

There is no net impact on the General Fund as a result of the required amendments.

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.

Significant corrected audit differences

There are no corrected audit differences that we need to report to you.

Uncorrected audit differences

There are no uncorrected audit differences that we need to report to you.

Other corrected audit differences

Our audit identified a small number of errors in the financial statements which are below our reporting threshold. These have been discussed with management and we understand the financial statements are to be amended.

A number of minor amendments focused on presentational improvements are also to be made to the draft financial statements. We understand management is to provide the Audit and Risk Committee with a summary of the amendments made to the draft financial statements. The changes agreed included:

Narrative report – to include updates to the commentary, including

- reference to the change in 2015/16 to the funding agreement for Oakham North development; and
- the likely implications for the Council and its financial outlook of the outcome of the EU referendum.

Accounting Policies – to include within the Property, Plant and Equipment policy disclosure the asset lives being used.

Note 5 – Termination Benefits – to show the correct value for liabilities incurred in the year.

Note 6 – Audit Fees – to show the correct amounts and analysis in respect of the current and previous year.

Note 8 – Pooled Budgets – to show the correct analysis of the surplus on the Better Care Fund for the year.

Materiality and reporting of audit differences

For 2015/16 our materiality is £0.7m 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 reassessed materiality for the Authority at the start of the final accounts audit to take account of the increase in the gross expenditure in the year.

Materiality for the audit of the Authority's final accounts was set at £0.7m which equates to around 1.0% 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 £35,000 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.

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 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.

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 Rutland County Council for the financial year ending 31 March 2016, 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.

Audit fees

Audit Fees

Our scale fee for the audit of the Authority's accounts is £65,481 plus VAT (£86,238 in 2014/15). Our audit is still in progress. We will discuss with managers any additional fee required in relation to our work and keep the Audit and Risk Committee informed if that is the case. In any event an agreed additional fee is subject to final determination by Public Sector Audit Appointments Limited. We will report the final agreed fee later in the year in our Annual Audit Letter.

The scale fee for certification of the Housing Benefit Subsidy claim is £4,850 plus VAT. This work is in progress and in January 2017 we will report separately the results of this work and the final fee.

Non-audit services

The fee for other audit work in the year (the auditor's report on the 2014/15 Teachers Pension Agency Return) was £2,500 plus VAT (£2,000 in 2014/15).

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