cutting through complexity™

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

Fylde Borough Council

September 2013

Contents

The contacts at KPMG in connection with this report are:

Tim Cutler
Director
KPMG LLP (UK)

Tel: 0161 246 4774
tim.cutler@kpmg.co.uk

Jillian Burrows
Senior Manager
KPMG LLP (UK)

Tel: 0161 246 4705
jillian.burrows@kpmg.co.uk

Keith Illingworth
Assistant Manager
KPMG LLP (UK)

Tel: 0113 231 3521
keith.illingworth@kpmg.co.uk

Page

This report is addressed to the Authority and has been prepared for the sole use of the Authority. We take no responsibility to any member of staff acting in their individual capacities, or to third parties. The Audit Commission has issued a document entitled *Statement of Responsibilities of Auditors and Audited Bodies*. This summarises where the responsibilities of auditors begin and end and what is expected from the audited body. We draw your attention to this document which is available on the Audit Commission's website at www.auditcommission.gov.uk.

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

If you have any concerns or are dissatisfied with any part of KPMG's work, in the first instance you should contact Tim Cutler, the appointed engagement lead to the Authority, who will try to resolve your complaint. If you are dissatisfied with your response please contact Trevor Rees on 0161 246 4000, or by email to trevor.rees@kpmg.co.uk, who is the national contact partner for all of KPMG's work with the Audit Commission. After this, if you are still dissatisfied with how your complaint has been handled you can access the Audit Commission's complaints procedure. Put your complaint in writing to the Complaints Unit Manager, Audit Commission, 3rd Floor, Fry Building, 2 Marsham Street, London, SW1P 4DF or by email to complaints@audit-commission.gsi.gov.uk. Their telephone number is 03034448330.

Section one

Introduction

This report summarises:

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

Financial statements

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

Planning → Control Evaluation → Substantive Procedures → Completion

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

Control Evaluation

- Evaluate and test selected controls over key financial systems
- Review accounts production process
- Review progress on critical accounting matters

Substantive Procedures

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

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

Completion

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

VFM conclusion

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

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

Structure of this report

This report is structured as follows:

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

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

Acknowledgements

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

Headlines

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

Proposed audit opinion	We anticipate issuing an unqualified audit opinion by 30 September 2013. We will also report that the wording of your Annual Governance Statement accords with our understanding.
Audit adjustments	Our audit identified a number of minor amendments that have been corrected by officers, and a small number of presentational and disclosure adjustments. No numerically significant audit adjustments were made. One significant presentational adjustment has been made to the face of the Comprehensive Income and Expenditure Statement, relating to the treatment of the Municipal Mutual Insurance liability of £15,000. We have not raised any recommendations in relation to the matters highlighted above.
Critical accounting matters	We have worked with Officers throughout the year to discuss specific risk areas. The risk areas identified in our External Audit Plan 2012/13 were: • Achievement of the budgeted savings plan and the impact that non-achievement would have on the in year financial position; • The treatment and disclosure of any loans issued through participation in the Local Authority Mortgage Scheme (LAMS); and • The treatment of asset disposals and capital expenditure related to the Town Hall refurbishment scheme. The Authority generated a larger surplus than anticipated in year and was able to contribute further resource to reserves. No transaction in relation to LAMS took place in 2012/13. There was one asset disposal in year which has been accounted for correctly in the financial statements.
Accounts production and audit process	The Authority has continued to produce good quality accounts and supporting working papers. Officers dealt efficiently with audit queries and the audit process has been completed within the planned timescales. The Authority has implemented all of the recommendations in our *ISA 260 Report 2011/12* relating to the financial statements.

Headlines (continued)

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

Control environment	The Authority's organisation and IT control environment is effective overall, and controls over the key financial systems are sound. We did identify one minor issue in relation to the preparation and review date of bank reconciliations. Our work also identified that the IT security policy has not been updated since 2009. The Authority should consider reviewing this policy to ensure it is still relevant to operational needs.
Completion	At the date of this report our audit of the financial statements is substantially complete, subject to completion of the following areas: ■ *agreement of bank balances to independent confirmations .* Before we can issue our opinion we require a signed management representation letter. We confirm that we have complied with requirements on objectivity and independence in relation to this year's audit of the Authority's financial statements.
VFM conclusion and risk areas	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 2013.

Proposed opinion and audit differences

We have identified no issues in the course of the audit that are considered to be material.

One significant presentational adjustment has been made to the face of the Comprehensive Income and Expenditure Account.

Proposed audit opinion

Subject to all outstanding queries being resolved to our satisfaction, we anticipate issuing an unqualified audit opinion by 30 September 2013.

Audit differences

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

We did not identify any material misstatements.

We identified a number of other issues that have been adjusted by management. These had no impact on the Authority's movements on the General Fund for the year and balance sheet as at 31 March 2013.

In addition, we identified a small number of presentational adjustments required to ensure that the accounts are compliant with the *Code of Practice on Local Authority Accounting the United Kingdom 2012/13 ('the Code')* that have all been addressed.

The most significant of these was the treatment of the Municipal Mutual Insurance liability. This had been treated as an exceptional item in the draft accounts, but does not meet the requirements for such a disclosure. The Authority has amended the treatment of this item so that it is included within the cost of services. A provision has been included in the balance sheet for £15,000 due to the uncertainty of the timing of the liability.

Movements on the General Fund 2012/13

£m	Pre-audit	Post-audit
Surplus on the provision of services	783	783
Adjustments between accounting basis & funding basis under Regulations	490	490
Transfers to earmarked reserves	(203)	(203)
Increase in General Fund	**1,070**	**1,070**

Balance Sheet as at 31 March 2013

£m	Pre-audit	Post-audit
Property, plant and equipment	17,867	17,867
Other long term assets	6,780	6,780
Current assets	11,233	11,233
Current liabilities	(3,560)	(3,601)
Long term liabilities	(30,709)	(30,668)
Net worth	**1,611**	**1,611**
General Fund	(4,800)	(4,800)
Other usable reserves	(2,267)	(2,267)
Unusable reserves	5,456	5,456
Total reserves	**(1,611)**	**(1,611)**

Proposed opinion and audit differences (continued)

The wording of your Annual Governance Statement accords with our understanding.

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.

Critical accounting matters

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

In our External Audit Plan 2012/13, presented to you in January, we identified the key risks affecting the Authority's 2012/13 financial statements.

We have now completed our testing of these areas and set out our evaluation following our substantive work.

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

Key audit risk	Issue	Findings
	The 2012/13 budget was set in accordance with the Medium Term Financial Strategy, which aims to achieve significant revenue savings. As at January 2013, the Authority was forecasting a budget surplus of £893k for 2012/13 compared with an original budgeted deficit of £530k. This was due to additional savings of £1,423k being identified during the financial year. £716k of the additional savings were due to payroll efficiencies and savings from right-sizing exercises beyond those originally budgeted for. The Authority is currently forecasting a deficit of £430k in 2013/14 and deficits for the three subsequent financial years. These deficits are to be funded from General Fund reserves. By March 2017, the Authority is budgeting to use £2,335k of the General Fund reserves to cover these deficits. This is 49% of the forecasted General fund balance at March 2013. Against a backdrop of continued demand pressures it will become more and more difficult to deliver these saving plans in a way that secures longer term financial and operational sustainability. Any related liabilities at year end, would need to be accounted for in the 2012/13 financial statements as appropriate.	The Authority has exceeded its revised savings target for 2012/13. This allowed it to make a £1,426k contribution to reserves, with £1,069k going into General Fund reserves, £38k to the Land Charges Reserve, and £319k to the Capital Investment Reserve. We have reviewed the budget setting and monitoring arrangements in place and we have not identified any significant issues with the processes undertaken. This is the second successive year that the original budget has predicted a significant deficit and call on reserves, but the final budget has shown a large surplus and an increase in General Fund balance. The Authority has recognised this, and undertook a budget right-sizing exercise to determine the reasons for these large variances. This exercise has fed into the revised Medium Term Financial Strategy which was presented to cabinet in March 2013. This revised MTFS indicates a call on reserves each year from 2013/14 to 2016/17 however general fund balances are still forecast to be significantly above minimum levels. We have reviewed the significant areas of variance between the original and revised budget, and determined that the explanations for them were reasonable.

Critical accounting matters (continued)

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

Key audit risk	Issue	Findings
LOCAL Authority Mortgage Scheme	The Authority is participating in the Local Authority Mortgage Scheme (LAMS). The scheme is designed to encourage Home Buying within the local area. The Authority will provide mortgage indemnities, which would remain in place for the first 5 years of the mortgage. These will be limited to 20% of the total property value. The Authority will make available a total of £1m for this scheme. The funding will be allocated from Section 106 funds. A maximum value of £147k for individual loans has been set.	The Authority's LAMS scheme was approved by Council in January 2013, with £1m of s106 funding to be set aside. KPMG has reviewed the s106 balance as part of our work on Long-Term Creditors and confirmed that £1m has been identified as available for capital schemes. No loans have been made to individuals by the Authority in 2012/13 under the scheme. We will therefore continue to review this scheme as part of our 2013/14 work.
Premises Schemes	The Authority is currently rationalising the premises it uses for operational purposes. This involves a refurbishment scheme for the Town Hall. The Authority budgeted for decant costs of £184k with work on the refurbishment to commence in 2013. The refurbishments are to be funded through the disposal of surplus or under used assets. The St. Davids Road North, Derby Road Wesham and Public Offices sites were identified for disposal.	We have reviewed controls over the Property, Plant and Equipment (PPE) accounts caption as part of our interim work, and substantively tested material capital receipts and additions to PPE as part of our year end audit work. The Authority has accounted for one asset sale in the 2012/13 financial statements, however the decant costs were not utilised in year. No issues have been identified with the controls tested or the way in which the Authority has accounted for capital receipts and capital expenditure in relation to these schemes.

Accounts production and audit process

The Authority has continued to produce good quality accounts and supporting working papers.

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

The Authority has implemented all of the recommendations in our *ISA 260 Report 2011/12* relating to the financial statements.

Accounts production and audit process

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

We considered the following criteria:

Element	Commentary
Accounting practices and financial reporting	The Authority has put in place a robust financial reporting process, including a full review of the accounts by the s151 officer and comparison to similar authorities. We consider that accounting practices are appropriate.
Completeness of draft accounts	We received a complete set of draft accounts on 28th June.
Quality of supporting working papers	We discussed our working paper requirements for the audit with the finance team. The quality of working papers provided met the standards agreed.
Response to audit queries	Officers made themselves available during the audit, and resolved audit queries in a reasonable time.

Prior year recommendations

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

The Authority has implemented all of the recommendations in our *ISA 260 Report 2011/12* relating to the financial statements.

Appendix 2 provides further details.

Organisational and IT control environment

Your organisational and IT control environment is effective overall.

Work completed

Controls operated at an organisational level often have an impact on controls at an operational level and if there were weaknesses this would have implications for our audit.

We obtain an understanding of the Authority's overall control environment and determine if appropriate controls have been implemented. We do not complete detailed testing of these controls.

The Authority relies on information technology (IT) to support both financial reporting and internal control processes. In order to satisfy ourselves that we can rely on the use of IT, we test controls over access to systems and data, system changes, system development and computer operations.

Key findings

We consider that your organisational and IT controls are effective overall, but noted that the IT security policy has not been updated since 2009.

A recommendation for this issue has been included in Appendix 1.

Aspect	Assessment
Organisational controls:	
Management's philosophy and operating style	3
Culture of honesty and ethical behaviour	3
Oversight by those charged with governance	3
Risk assessment process	3
Communications	3
Monitoring of controls	3
IT controls:	
Access to systems and data	3
System changes and maintenance	3
Development of new systems and applications	3
Computer operations and end-user computing	3

Key:
- 1 Significant gaps in the control environment.
- 2 Deficiencies in respect of individual controls.
- 3 Generally sound control environment.

Controls over key financial systems

The key controls over the financial systems we tested in 2012/13 are sound.

Work completed

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

Our assessment of a system will not always be in line with the internal auditors' opinion on that system, and we may not test every control within that system. This is because we are solely interested in whether our audit risks are mitigated through effective controls, i.e. whether the system is likely to produce materially reliable figures for inclusion in the financial statements.

Key findings

For our 2012/13 audit, we documented and tested the controls that we identified as mitigating our identified audit risks in the following systems;

- Cash and bank reconciliation;
- Pensions;
- Property, Plant and Equipment;
- Journal Entries; and
- Financial Reporting Processes.

Based on the work undertaken, we did not identify any significant weaknesses in the controls we tested in these systems.

Nevertheless, our work did identify that the September 2012 bank reconciliation was not prepared and authorised until late November. We would normally expect such reconciliations to be completed before the end of the following month.

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 Fylde Borough Council for the year ending 31 March 2013, we confirm that there were no relationships between KPMG LLP and Fylde Borough Council, its directors and senior management and its affiliates that we consider may reasonably be thought to bear on the objectivity and independence of the audit engagement lead and audit staff. We also confirm that we have complied with Ethical Standards and the Audit Commission's requirements in relation to independence and objectivity.

We have provided a detailed declaration in Appendix 3 in accordance with ISA 260.

Management representations

You are required to provide us with representations on specific matters such as your financial standing and whether the transactions within the accounts are legal and unaffected by fraud. We have provided a template to the Section 151 Officer, a draft of which is reproduced in Appendix 4. We require a signed copy of your management representations before we issue our audit opinion.

Other matters

ISA 260 requires us to communicate to you by exception 'audit matters of governance interest that arise from the audit of the financial statements' 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 or our previous reports relating to the audit of the Authority's 2012/13 financial statements.

VFM conclusion

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

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

Background

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

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

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

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

Conclusion

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

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

We reported our risk assessment in our External Audit Plan 2012/13. We concluded that we did not need to carry out additional work for these risks as there was sufficient relevant work that had been completed by the Authority, the Audit Commission, other inspectorates and review agencies in relation to these risk areas.

Appendix 1: Key issues and recommendations

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

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

We will formally follow up these recommendations next year.

Priority rating for recommendations		
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	Management response / responsible officer / due date
1	❸	The Authority's current IT security policy was introduced in 2009. The Authority should consider reviewing and updating this policy to ensure it is still relevant to operational needs.	The IT Security Policy is due for a scheduled review during 2013, along with a number of other IT related policy reviews. The IT Security Policy will be reviewed and updated as a priority within this series of reviews. Customer, ICT, and Service Improvement Manager October 2013
2	❸	The September 2012 bank reconciliation was completed in a timely manner. However, upon review by the Accountancy Services Manager, amendments were required which led to the reconciliation being re-performed and re-dated. Only the revised reconciliation was retained on file. Whilst we are satisfied that the reconciliation was undertaken in line with the procedures, the audit trail suggests that it wasn't performed in a timely manner. The Authority should consider retaining all reconciliations on file so that if such an event occurs in the future, the audit trail demonstrates that the original reconciliation was completed in line with procedures.	The Authority will retain all reconciliations on file in order to maintain a complete audit trail. Accountancy Services Manager September 2013

Appendix 2: Follow up of prior year recommendations

The Authority has implemented all of the recommendations in our *ISA 260 Report 2011/12*.

This appendix summarises the progress made to implement the recommendations identified in our *ISA 260 Report 2011/12* and re-iterates any recommendations still outstanding.

Number of recommendations that were:	
Included in original report	2
Implemented in year or superseded	2
Remain outstanding (re-iterated below)	0

No.	Risk	Issue and recommendation	Officer responsible and due date	Status as at July 2013
1	2	**Heritage Assets Valuations** The Authority last performed a revaluation of its Art Collection, Sculptures and Ivories in 2003 and of its Trophies, Civic Regalia and other items in 1994. Management have confirmed that a revaluation of Heritage Assets will be performed in 2012/13 to bring these valuations up to date. However, the Authority's current stated policy is that going forward revaluations of Heritage Assets should be performed on a 10-yearly basis. In our view, and given the current volatility of the market, this policy may not appropriate. It exposes the Authority to risk given that the amount it can claim in any insurance claims for loss of or damage to these assets is based on the most recent valuation. Management needs to reassess the proposed period between revaluations to balance the risk of financial loss in the event of damage or loss of assets against the cost of performing the revaluation to the taxpayer.	Chief Financial Officer March 2013	A full revaluation of Heritage Assets has been completed during 2012/13. The Authority's accounting policy has been updated.

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

The Authority has implemented all of the recommendations in our *ISA 260 Report 2011/12.*

No.	Risk	Issue and recommendation	Officer responsible and due date	Status as at July 2013
2	3	**Submission of Pension Data to Mercers Actuary** The Authority's Payroll function is outsourced to Blackpool Borough Council. Pension information in respect to the Lancashire County Council Pension Scheme is submitted to Lancashire County Council (LCC) on a monthly basis. In January 2012, LCC submitted the Authority's pension data to Mercers (the Actuary used by LCC to produce the scheme information to disclose in the various participants financial statements.) Prior to submission a copy of the return was provided to the Authority for review against their records. The Authority identified numerous errors in the LCC return which Management highlighted to LCC and requested them to amend. However, LCC did not amend one of the erroneous figures. This meant that an additional £83,000 of Other Employee Contributions were incorrectly included in Mercer's Pension calculations. Mercers have confirmed that this error does not have a material impact on the Pension disclosures within the 2011/12 financial statements. They will make the appropriate adjustments in their 2012/13 calculations to ensure that the error is not carried forward into future years' disclosures. However, this error represents a failure in the controls in place to ensure the accuracy of the pension data submitted to the Actuary. The Authority should liaise with LCC to review the existing controls and consider the implementation of additional controls. The Authority should consider requiring the final version of the submission to Mercers to be sent to them for review also. This would allow the Authority to identify any requested amendments that LCC had failed to implement.	Chief Financial Officer March 2013	Improved arrangements implemented. A full review of LCC 2012/13 data was completed by the Authority prior to it being sent to the Actuary. No issues arising from our work in 2012/13

Appendix 3: Declaration of independence and objectivity

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

Requirements

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

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

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

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

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

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

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

General procedures to safeguard independence and objectivity

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

Appendix 3: Declaration of independence and objectivity (continued)

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

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

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

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

Auditor declaration

In relation to the audit of the financial statements of Fylde Borough Council for the financial year ending 31 March 2013, we confirm that there were no relationships between KPMG LLP and Fylde Borough Council, its directors and senior management and its affiliates that we consider may reasonably be thought to bear on the objectivity and independence of the audit engagement lead and audit staff. We also confirm that we have complied with Ethical Standards and the Audit Commission's requirements in relation to independence and objectivity.

Appendix 4: Draft management representation letter

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

The wording for these representations is prescribed by auditing standards.

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

Dear Sirs

This representation letter is provided in connection with your audit of the financial statements of Fylde Borough Council (“the Authority”), for the year ended 31 March 2013, for the purpose of expressing an opinion as to whether these:

i. give a true and fair view of the financial position of Fylde Borough Council as at 31 March 2013 and of its expenditure and income for the year then ended; and

ii. have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2012/13.

These financial statements comprise the Authority’s Movement in Reserves Statement, the Authority’s Comprehensive Income and Expenditure Statement, the Authority’s Balance Sheet, the Authority’s Cash Flow Statement, the Collection Fund and the related notes.

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

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

Financial statements

1. The Authority has fulfilled its responsibilities, as set out in regulation 8 of the Accounts and Audit (England) Regulations 2011, for the preparation of financial statements that:
   - give a true and fair view of the financial position of the Authority as at 31 March 2013 and of the Authority’s expenditure and income for the year then ended; and
   - have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2012/13.

   The financial statements have been prepared on a going concern basis.

2. Measurement methods and significant assumptions used by the Authority in making accounting estimates, including those measured at fair value, are reasonable.

3. All events subsequent to the date of the financial statements and for which the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2012/13 require adjustment or disclosure have been adjusted or disclosed.

Information provided

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

Appendix 4: Draft management representation letter

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

The wording for these representations is prescribed by auditing standards.

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

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

6. The Authority acknowledges its responsibility for such internal control as it determines necessary for the preparation of financial statements that are free from material misstatement, whether due to fraud or error. In particular, the Authority acknowledges its responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud and error.

   The Authority has disclosed to you the results of its assessment of the risk that the financial statements may be materially misstated as a result of fraud.

7. The Authority has disclosed to you all information in relation to:

   a) Fraud or suspected fraud that it is aware of and that affects the Authority and involves:
      - management;
      - employees who have significant roles in internal control; or
      - others where the fraud could have a material effect on the financial statements; and

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

8. The Authority has disclosed to you all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing the financial statements.

9. The Authority has disclosed to you and has appropriately accounted for and/or disclosed in the financial statements in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2012/13 all known actual or possible litigation and claims whose effects should be considered when preparing the financial statements.

10. The Authority has disclosed to you the identity of the Authority's related parties and all the related party relationships and transactions of which it is aware and all related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2012/13.

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

11. On the basis of the process established by the Authority and having made appropriate enquiries, the Authority is satisfied that the actuarial assumptions underlying the valuation of pension scheme liabilities are consistent with its knowledge of the business.

    The Authority further confirms that:

    a) all significant retirement benefits, including any arrangements that:
       - are statutory, contractual or implicit in the employer's actions;
       - arise in the UK and the Republic of Ireland or overseas;
       - are funded or unfunded; and
       - are approved or unapproved,

    have been identified and properly accounted for; and

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

This letter was tabled and agreed at the meeting of the Audit Committee on *26 September 2013*.

Yours faithfully,

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