KPMG

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Report to those charged with governance (ISA 260) 2013/14

Fylde Borough Council

25 September 2014

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. 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 0303 4448 330.

Section one

Introduction

This document summarises:

- **the key issues identified during our audit of the financial statements for the year ended 31 March 2014 for the Authority; and**
- **our assessment of the Authority's arrangements to secure value for money.**

Scope of this report

This report summarises the key findings arising from:

- our audit work at Fylde Borough Council ('the Authority') in relation to the Authority's 2013/14 financial statements; and
- the work to support our 2013/14 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 2013/14*, presented to you in January 2014, set out the four stages of our financial statements audit process.

This report focuses on the second and third stages of the process: control evaluation and substantive procedures. Our on site work for these took place during February 2014 (interim audit) and July 2014 (year end audit).

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 2013/14* explained our risk-based approach to VFM work, which follows guidance provided by the Audit Commission. We have now completed our work to support our 2013/14 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 2013/14 financial statements.
- 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 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. Sections three and four of this report provide further details on each area.

Proposed audit opinion	We anticipate issuing an unqualified audit opinion on the Authority's financial statements by 30 September 2014. We will also report that the wording of your Annual Governance Statement accords with our understanding.
Audit adjustments	We identified one material misstatement. This was due to the NNDR tariff (the tariff being the sum that the Authority pays over to Central Government from it's share of retained business rates) being shown gross on the face of the Comprehensive Income and Expenditure Statement, when it should be shown net. The effect of this misstatement was to overstate both income and expenditure by £7.9m, so the net impact on total comprehensive income and expenditure is nil. There were no unadjusted audit differences, and only one non-material adjusted difference was identified. There were a small number of disclosure and presentational issues identified during the audit that have also been adjusted by management. These are outlined in detail on page 5.
Key financial statements audit risks	We have worked with officers throughout the year to discuss specific risk areas. The Authority addressed these issues appropriately.
Accounts production and audit process	We are pleased to note the overall good quality of the accounts and the supporting working papers. Officers dealt efficiently with audit queries and the audit process has been completed within the planned timescales. One area which required further discussions was the Authority's use of an expert to determine their NNDR appeals provision estimate. In similar situations in the future, officers should ensure that sufficient evidence is obtained from the expert to support the assumptions used and to enable us to understand the basis for the estimate. The Authority has implemented all of the recommendations in our *ISA 260 Report 2012/13* relating to the financial statements.
Control environment	The Authority's organisational control environment is effective overall, and we have not identified any significant weaknesses in controls over key financial systems.
Completion	At the date of this report our audit of the financial statements is substantially complete subject to completion of the following areas: ■ *Whole of government accounts* . 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.

Headlines (continued)

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

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 2014.

Proposed opinion and audit differences

We have identified one issue in the course of the audit that is considered to be material.

The net impact of this adjustment is nil.

Proposed audit opinion

We anticipate issuing an unqualified audit opinion on the Authority's financial statements following approval of the Statement of Accounts by the Audit Committee on 25 September.

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.

Our audit identified a total of one material audit difference, which we set out in Appendix 3. This has been adjusted in the final version of the financial statements. The difference is due to treating the NNDR tariff as gross on the face of the Comprehensive Income and Expenditure Statement, when it should be treated net of the matching NNDR income. This means that both taxation and non-specific grant income and expenditure are overstated by £7.9m, but the net effect of the adjustment is nil.

We identified a number of other issues that have been adjusted by management , including one audit difference that was adjusted by management, as although it did not exceed our materiality level, it was above our audit misstatement posting threshold.

The Authority's share of the NNDR appeals provision, £0.486m, had been incorrectly included within short term debtors rather than provisions. The effect of this adjustment is to:

- Increase short term debtors (current assets) by £0.486m*; and*
- Increase provisions (current liabilities) by £0.486m

There is no impact on the General Fund as a result of this audit adjustment

The tables on the right illustrate the impact of these audit differences on the Authority's movements on the General Fund for the year and balance sheet as at 31 March 2014.

Movements on the General Fund 2013/14

£000	Pre-audit	Adjustment	*Post - audit*
Surplus on the provision of services	800	0	*800*
Adjustments between accounting basis & funding basis under Regulations	829	0	*829*
Transfers to earmarked reserves	(1,340)	0	*(1,340)*
Increase in General Fund	**289**	**0**	**289**

Balance Sheet as at 31 March 2014

£000	Pre-audit	Adjustment	*Post - audit*
Property, plant and equipment	18,532	0	*18,532*
Other long term assets	6,848	0	*6,848*
Current assets	11,744	486	*12,230*
Current liabilities	(3,895)	(486)	*(4,381)*
Long term liabilities	(25,897)	(0)	*(25,897)*
Net worth	**7,332**	**0**	***7,332***
Usable reserves	(9,223)	(0)	*(9,223)*
Unusable reserves	1,891	(0)	*1,891*
Total reserves	**(7,332)**	**(0)**	***(7,332)***

Proposed opinion and audit differences (continued)

We anticipate issuing an unqualified audit opinion in relation to the Authority's financial statements by 30 September 2014.

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

The Authority have amended the contingent liabilities note 40 to include an additional disclosure related to NNDR appeals not yet received or assessed.

In addition, we identified a small number of other presentational adjustments required to ensure that the accounts are compliant with the *Code of Practice on Local Authority Accounting the United Kingdom 2013/14 ('the Code')*. We understand that the Authority will be addressing these where significant.

Annual Governance Statement

We have reviewed the Annual Governance Statement and confirmed that:

- it complies with *Delivering Good Governance in Local Government: A Framework* published by CIPFA/SOLACE; and
- it is not misleading or inconsistent with other information we are aware of from our audit of the financial statements.

Explanatory Foreword

We have reviewed the Authority's explanatory foreword and can confirm it is not inconsistent with the financial information contained in the audited financial statements.

Key financial statements audit risks and areas for consideration

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

In our *External Audit Plan 2013/14*, presented to you in January 2014, we identified the key risks affecting the Authority's 2013/14 financial statements, and other areas we planned to consider. 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 of the risks and areas for consideration that are specific to the Authority.

Additionally, we considered the risk of management override of controls, which is a standard risk for all organisations.

Our 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, did not identify any issues.

Key audit risk	Issue	Findings
LGPS Triennial Valuation	During the year, the Local Government Pension Scheme for Lancashire County (the Pension Fund) has undergone a triennial valuation with an effective date of 31 March 2013 in line with the Local Government Pension Scheme (Administration) Regulations 2008. The Authority's share of pensions assets and liabilities is determined in detail, and a large volume of data is provided to the actuary in order to carry out this triennial valuation. The IAS 19 numbers to be included in the financial statements for 2013/14 will be based on the output of the triennial valuation rolled forward to 31 March 2014. For 2014/15 and 2015/16 the actuary will then roll forward the valuation for accounting purposes based on more limited data. 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 Lancashire County Council who administer the Pension Fund	We have reviewed the Authority's arrangements for providing information to the Pension Fund through the financial year and did not identify any issues. We have verified that the month 10 balances that the actuary uses in it's assessment of the valuation of the fund were correct and accurately derived from the Authority's payroll system. We have used the work of experts engaged by KPMG and the Audit Commission to review the reasonableness of the assumptions used by the Pension Fund Actuary, Mercers, and concluded that these assumptions are in line with expectations. We have tested and verified that the entries specified by the Code and IAS 19 in the Authority's statement of accounts are materially accurate and in accordance with the requirements. The full effect of the triennial valuation, including the new contribution rates, is expected to impact on the Authority's accounts from 2014/15.

Key financial statements audit risks (continued)

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

Are Area for Consideration	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's LAMS scheme was approved by Council in December 2012, and £1m of s106 funding was set aside .	The Council formally made the decision not to proceed with the LAMS as part of the budget setting process in March 2014. This was due to the introduction of the similar Help to Buy scheme by Government . The £1m allocated to the LAMS has been released back into the s106 funding for use on future affordable housing schemes.
Premises Schemes	The Authority's project to rationalise the premises it uses for operational purposes started in 2012/13 and has continued into 2013/14. The project includes improvement and refurbishment work for continuing premises such as the Town Hall. The refurbishments are to be funded through the disposal of surplus or under-used assets. St David's Road Depot was sold in 2013, the sale of Derby Road Wesham is expected to be completed in January 2014, and the Authority is actively marketing it's Public Offices sites for disposal.	We have reviewed the treatment of the disposal to ensure the treatment in the accounts is consistent with the requirements of the SORP. We have sample tested additions to ensure that these are consistent with accounting requirements and are correctly disclosed. We did not identify any issues from this work. The Authority has continued to struggle to find a buyer for the Public Offices, despite a number of expressions of interest being received. This may therefore put at risk the completion of the accommodation project within planned timescales. The latest medium term plan shows that a further £2.5m is expected to be spent on this project in 2014/15, funded from capital receipts that are expected the be received during the year.

Accounts production and audit process

We are pleased that the Authority has maintained the good quality of the accounts and the 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 2012/13.

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 maintained the good quality of its financial reporting process. We consider that accounting practices are appropriate. We have also reviewed key areas of judgement applied by management in preparing the financial statements and have identified one issue as follows; **NNDR Appeals Provision** Under the new arrangements for NNDR collection and distribution through the collection fund, the Authority has had to include a provision for appeals against NNDR valuations for the first time in 2013/14. The Authority has chosen to use an expert, Inform-CPI, to assist them in calculating this estimate. Inform-CPI provided a report to the Authority which included their estimate of the appeals provision value, but this report did not set out any of the details of the assumptions or methodology that Inform-CPI had used to produce their estimate. When asked, Authority officers could not fully explain how Inform-CPI's estimate was calculated, and were not able to obtain sufficient evidence from the expert to support the assumptions used and understand the basis for the estimate. The value of the provision in the collection fund is £1,216k, with the Authority's share of this in the balance sheet being £486k (40%). Our testing of the provision, based on a sample of 26 assessed cases to the end of June 2014, has provided assurance that there will not be a material error in the financial statements, with the maximum potential difference identified between the provision in the collection fund and actual costs of appeals in 2014/15 estimated to be an understatement of £246k. The Authority share of this would be an understatement of the provision in the balance sheet of £98k. We are satisfied that management have used a reasonable estimate within their financial statements, however it is important that management assure themselves that all balances within the financial statements are materially accurate, and can be supported by a clear audit trail, particularly where third parties are involved.

Accounts production and audit process (continued)

We are pleased that the Authority has maintained the good quality of the accounts and the 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 2012/13.

Element	Commentary
Completeness of draft accounts	We received a complete set of draft accounts on 30 June, in line with the required deadline. Prior to this however, the accounts were not placed on deposit in accordance with the advertised timetable agreed with Authority officers, under the Accounts and Audit Regulations 2011. This meant that the audit had to be re-advertised by the Authority. We are satisfied however that the re-issued advert met the requirements of the regulations.
Quality of supporting working papers	Our *Prepared by Client* (PBC) schedule, which we issued on 9 May to the Finance Team, set out our working paper requirements for the audit. The quality of working papers provided was of a good standard.
Response to audit queries	Officers were responsive to requests for additional information 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 2012/13*.
Appendix 2 provides further details.

Organisational control environment

Your organisational 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.

Key findings

We consider that your organisational controls are effective overall.

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

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 controls over all of the key financial systems are sound.

Work completed

We review the outcome of internal audit's work on the financial systems to influence our assessment of the overall control environment, which is a key factor when determining the external audit strategy.

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

Our assessment of a system will not always be in line with your internal auditors' opinion on 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

Based on the work of your internal auditors and our own testing, the controls over all of the key financial systems are sound.

We noted some minor weaknesses in respect of individual financial systems, as follows:

- Journal authorisation: due to the small finance team, there is a lack of segregation of duties between journal input and journal authorisation. Authority officers have agreed to introduce new processes to mitigate this weakness in 14/15. Appendix 1 provides further details.

Financial system	Controls Assessment
Property, Plant & Equipment	3
Cash	3
Pensions Liabilities	3
Journals	3

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

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 2014, 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 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 the Chief Financial Officer for presentation to the Audit Committee. We require a signed copy of your management representations before we issue our audit opinion.

Other matters

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

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

There are no other 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 2013/14 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.

Work completed

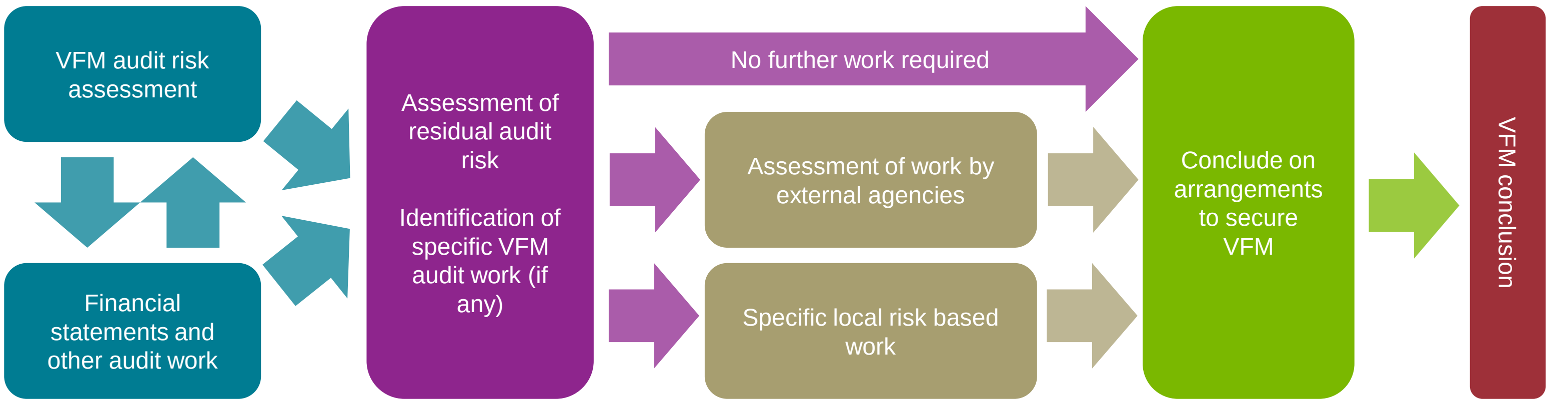
We performed a risk assessment earlier in the year and have reviewed this throughout the year.

We have not identified any significant risks to our VFM conclusion and therefore have not completed any additional work.

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	✓



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	❷	**NNDR Appeals Provision** Under the new arrangements for NNDR collection and distribution through the collection fund, the Authority has had to include a provision for appeals against NNDR valuations. The Authority has chosen to use an expert to assist them in calculating this estimate, Inform-CPI. Inform-CPI provided a report to the Authority which included their estimate of the appeals provision value, but this report did not set out any of the details of the assumptions or methodology that Inform-CPI had used to produce their estimate. The value of the provision in the collection fund is £1,216k, with the Authority's share of this in the balance sheet being £486k. When asked, Authority officers could not fully explain the basis for Inform-CPI's estimate. **Recommendation** Where the Authority engages a third party to provide information to be included within the financial statements, it should ensure that the methodology is fully understood and that it can obtain sufficient evidence to support the balance.	The calculation of a forecast of future NNDR appeal settlements is a specialist area of work and the Council has therefore (along with a number of other local authorities) engaged and worked with a specialist company, Inform-CPI Ltd, in order to provide as accurate an estimate of appeals as possible. Inform-CPI has been developing NNDR software systems alongside the Institute of Rating, Revenues and Valuation (IRRV) since 1999, and utilises the complete rating history of every heriditament that has existed in rating since 1990. Based on this extensive background information, officers were happy that the estimates provided by Inform-CPI would be more accurate than those calculated in-house. Inform-CPI are able to draw on a greater volume and more specific historical data associated with individual appeals nationally, thus enabling a more accurate estimate to be calculated. Whilst officers understand and were able to explain the basis of the estimates, it was not possible to provide the precise methodology used to calculate them. This was because the estimates were produced from Inform-CPI's own software programme and due to

Appendix 1: Key issues and recommendations (continued)

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.

No.	Risk	Issue and recommendation	Management response / responsible officer / due date
1	2	**NNDR Appeals Provision (Continued)**	commercial sensitivity Inform-CPI were initially only prepared to provide a statement on the methodology used. Inform-CPI assured officers that they would work with the Council's auditors to provide the necessary assurance to support the appeals provision, and indeed they have now done so. It is acknowledged, however, that where the Authority engages a third party to provide information to be included within the financial statements it should ensure that the methodology is fully understood and that it is possible to easily obtain evidence to support the balance, thus providing a strong audit trail. **Officer Responsible**: Deputy s151 Officer **Status**: Implemented
2	3	**Journals – segregation of duties** There is no segregation of duties in the raising of journals and the journals are not formally reviewed and authorised by another member of staff. This is due to the relatively small size of the finance team. KPMG are aware that there are compensating high level controls in place that serve to mitigate the risks posed by this weakness in the design of the controls around journal postings, such as regular budget monitoring controls. **Recommendation** The Authority should introduce a process by which journals are reviewed at regular intervals by a more senior member of the finance team than the person who raised them, and keep a record of these reviews. For example, a monthly report of all journals raised within the general ledger could be reviewed and signed by the Chief Finance Officer to demonstrate he is satisfied that they are appropriate.	We have introduced a procedure whereby both a weekly and monthly report of all manual journals raised within the general ledger will be reviewed and signed by the Financial Accounting Manager (weekly report) and the Deputy s151 Officer (monthly report) to demonstrate that both officers are satisfied that the journals are appropriate. The procedure has been provided to the Council's internal audit section who have commented that from their perspective adoption of the new procedures provides the necessary controls in respect of journal processing. The procedure has also been provided to KPMG who have confirmed that it responds appropriately to the recommendation. **Officer Responsible**: Deputy s151 Officer **Status**: Implemented

Appendix 2: Follow up of prior year recommendations

The Authority has implemented all of the recommendations in our *ISA 260 Report 2012/13.*

This appendix summarises the progress made to implement the recommendations identified in our *ISA 260 Report 2012/13* 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

We raised recommendations in relation to two areas in our 12/13 report as follows;

- The authority should review and update it's IT Security Policy; and
- The authority should ensure it retains an audit trail of all Bank Reconciliations.

Our work during 2013/14 has shown that both of these recommendations have been fully implemented, and no prior year recommendations remain outstanding.

Appendix 3: Audit differences

This appendix sets out the significant audit differences.

These have been adjusted in the final version of the financial statements.

We are required by ISA 260 to report all uncorrected misstatements, other than those that we believe are clearly trivial, to those charged with governance (which in your case is the Audit Committee). We are also required to report all material misstatements that have been corrected but that we believe should be communicated to you to assist you in fulfilling your governance responsibilities.

Corrected audit differences

The following table sets out the material audit differences identified by our audit of Fylde Borough Council's financial statements for the year ended 31 March 2014. These have been adjusted in the final version of the financial statements.

	Impact		Basis of audit difference
No.	Income and Expenditure Statement	Income and Expenditure Statement	
1	Dr Taxation and Non-specific Grant Income £7,971k	Cr Taxation and Non-specific Grant Expenditure £7,971k	The NNDR tariff payment has been treated gross on the face of the Comprehensive Income and Expenditure statement, whereby the Authority has accounted for it's full share of the NNDR income and treated the tariff as expenditure. Under the requirements of the Code of Accounting Practice (the SORP), this should be treated net as the Authority is merely acting as an agent for Central Government in the collection and distribution of NNDR income collected through the Collection Fund.
			Total impact of adjustments is nil

Appendix 4: 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 Engagement Lead 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 4: 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 2014, 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.

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