



Annual Audit Letter 2016/17

Broxtowe Borough Council



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March 2018

Contents

Report sections

Summary of the 2016/17 audit	3
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Appendices

1. High-priority issues and recommendations	7
2. Summary of audit misstatements	10
3. Summary of reports issued	12
4. Audit fees	13

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.psa.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 Jon Gorrie, 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 (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 3HZ.

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Headlines

This Annual Audit Letter summarises the outcome from our audit work at Broxtowe Borough Council in relation to the 2016/17 audit year. Although it is addressed to Members of the Authority, it is also intended to communicate these key messages to key external stakeholders, including members of the public, and will be placed on the Authority's website.



Audit opinion

We have issued an unqualified opinion on the Authority's financial statements on 29 March 2018, significantly after the statutory deadline of 30 September 2017. This was primarily due to the quality of the draft financial statements, supporting working papers, and delays in the provision of audit evidence.

Our unqualified opinion means that we believe the financial statements give a true and fair view of the financial position of the Authority and of its expenditure and income for the year ended 31 March 2017.

We have made a number of recommendations to strengthen the Authority's financial environment. This includes three high-priority recommendations.



VFM conclusion

We have issued an unqualified conclusion on the Authority's arrangements to secure value for money (VFM conclusion) at the same time as we issued our opinion on the financial statements. Our VFM conclusion means we are satisfied that during the year ended 31 March 2017 the Authority had appropriate arrangements for securing economy, efficiency and effectiveness in the use of its resources.

We presented the detail of our report in our External Audit Report in September 2017. To arrive at our conclusion we looked at the Authority's arrangements to make informed decision making, sustainable resource deployment and working with partners and third parties.

We undertook a risk assessment as part of our VFM audit work to identify the key areas impacting on our VFM conclusion and considered the arrangements you have put in place to mitigate these risks.

The Authority faces significant ongoing challenges to achieve its savings. The Authority had achieved an underspend of £0.4 million against a net budget of £10.3 million in 2016/17.

Our testing identified that whilst achieving a balanced budget in the 2016/17 financial year, key challenges remain going forwards with the reduction in Revenue Support Grant from central government. The Authority's Medium Term Financial Strategy (MTFS) forecasts a decline in its General Fund reserves to £2.2 million in 2020/21. There are a number of plans in place to improve financial performance. We have considered these and the assumptions underpinning the MTFS. Whilst there is limited analysis and documentation to support some of the assumptions underpinning the MTFS, the Authority has continued to deliver on its financial plans. We have concluded that the Authority has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

Summary of the 2016/17 audit

Financial statements audit

We reported in our *External Audit Report 2016/17 (September 2017)* that work was still ongoing on the Authority's financial statements.

We can report that we have concluded our work and have summarised our findings below. Our work has resulted in an additional high-priority recommendation over and above those made in our report in September 2017.

Audit adjustments

Further to our *External Audit Report 2016/17* (presented in September 2017), we have identified a significant number of audit misstatements, including those that are material to the accounts. Details on a consolidated basis are presented in a table on page 6. This also contains a list of corrected and uncorrected audit misstatements.

We have also identified a number of presentational issues which have been corrected by management.

Financial statements audit process

We received an incomplete set of draft accounts on 23 June 2017. We also received an incomplete set of working papers, most of which did not meet the requirements which we have set out in our 'prepared by client' audit request.

There were significant issues with the quality of the accounts and the accompanying working papers. We encountered difficulties with the audit process, both in terms of the provision of audit evidence and response to audit queries. The impact of implementing the arms length treatment of Liberty Leisure, restating the Comprehensive Income and Expenditure Statement (CIES), as well as producing group accounts were additional challenges faced by the Finance team.

This resulted in a delay in our ability to give an audit opinion by the statutory deadline of 30 September 2017. We have raised a high-priority recommendation in relation to this.

We are able to complete the certification of the audit as the Authority has also completed its Whole of Government Accounts return.

Other information accompanying the financial statements

Whilst not explicitly covered by our audit opinion, we review other information that accompanies the financial statements to consider its material consistency with the audited accounts. We reviewed the Annual Governance Statement and Narrative Report. We concluded that they were not inconsistent with our understanding.

Whole of Government Accounts

The Authority prepares a consolidation pack to support the production of Whole of Government Accounts (WGA) by HM Treasury. We are not required to review your pack in detail as the Authority falls below the threshold where an audit is required.

We submitted our confirmation to the NAO at the same time as we issued our opinion on the financial statements.

Summary of delayed outputs

We are required to report to the PSAA of delays to the following statutory or PSAA outputs:

Summary of delayed statutory / PSAA outputs	
Output	Deadline
Audit opinion	30 September 2017
VFM conclusion	30 September 2017
WGA assurance statement	29 September 2017
Audit Certificate	30 September 2017
Annual Audit Letter (<i>this document</i>)	31 October 2017

The PSAA intends to report on this covering the results of auditors' work on the 2016/17 accounts for local government bodies.

High priority recommendations

We have raised three high-priority recommendations as a result of our 2016/17 audit work. Below is a summary of the recommendations raised in year and outstanding recommendations from the prior years. We will formally follow up these recommendations and report as part of our 2017/18 work.

Recommendations summary				
Priority	Outstanding from prior years ¹	Previously raised in 2016/17	Raised in this AAL 2016/17	Total
High	–	3	–	3
Medium	2	5	–	7
Low	1	1	–	2
Total	3	9	–	12

¹Note: we provided an update on progress made against the prior years' recommendations in our September 2017 External Audit Report.

Summary of the 2016/17 audit

Certificate

We issued our certificate at the same time as we issue our opinion on the financial statements. The certificate confirms that we have concluded the audit for 2016/17 in accordance with the requirements of the Local Audit & Accountability Act 2014 and the Code of Audit Practice.

Audit fee

Our PSAA scale fee for the 2016/17 audit of the Authority's financial statements is £46,503. We have discussed additional fees with management due to additional costs incurred on the audit. The issues have been noted in this document and in our *External Audit Report 2016/17*, presented to the Governance, Audit and Standards Committee in September 2017. The additional fee is subject to PSAA determination and approval. See further detail in appendix three.

We have not performed any non-audit work for the Authority during the year.

Appendix one

High-priority issues and recommendations

During our 2016/17 audit work we identified four high-priority recommendations. Three of these were reported in our *External Audit Report 2016/17 (ISA 260)* and have been included below for the Governance, Audit & Standards Committee's reference. One high-priority recommendation was identified upon the completion of our final audit work and included within this appendix (recommendation four).

High priority recommendations address the 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) adequately a risk.



1. Accounting for PPE

There were a number of adjustments made in respect of capital transactions and accounting for Property Plant and Equipment. We also noted limitations in the Fixed Asset register including amounts taken to the CIES/revaluation reserve with respect to previous revaluation exercises

Recommendation

The Authority should review its approach to capital accounting and to developing the Fixed Asset Register to ensure robust records are kept and support accurate accounting entries.

Management response

Agreed. The new structure for Finance Services agreed at the Policy and Performance Committee meeting on 4 July 2017 is designed to create additional capacity to enable the Authority to strengthen its capital accounting processes and reduce the level of manual input.

Owner

Head of Finance Services

Deadline

31 March 2018

H

2. Accounts and working paper production and review

The draft accounts were provided on 23 June 2017, however they were not complete. Key omissions were:

- notes detailing the nature of expenses including depreciation, amortisation, and employee benefit expense; and
- the group accounts.

The Authority was not able to provide comprehensive working papers for the start of our audit. A substantial number of working papers were not provided on the first day of the audit, as previously agreed. This has caused significant delays to the audit process and resulted in additional work undertaken to understand incomplete working papers. Key issues include:

- The lack of audit trail, in particular, we had to undertake additional work to reconcile the trial balance to the draft accounts. We have also encountered difficulty in reconciling the accounts to the fixed asset register.
- Breakdowns did not often agree to the figures in the draft accounts submitted for audit, for example, asset disposals.

Due to the delays faced in our on-site work in June 2017, we had to return for three further weeks to undertake audit work. This was above and beyond the initial two-week on site visit as agreed, planned, and budgeted with the Authority. We note that some key Finance officers were on annual leave at various times during our on-site audit period, which contributed to the delay.

In addition, the impact of implementing the arms length treatment of Liberty Leisure as well as the restatement of the CIES and production of Group accounts were also challenges faced by the Finance team that contributed to delays.

The Authority is aware of the additional pressures which the earlier closedown in 2017/18 will bring. However the challenges mentioned above mean that additional work will be needed to prepare complete accounts and working papers to the tight timescales required for next year.

Recommendation

The Authority should develop a clear, resourced plan for the production of accounts and comprehensive working papers for the 2017/18 accounts. The working papers should be provided ahead of the on-site audit visits. Issues with the production of working papers or the understanding of our audit requirements should be notified early to ensure compliance.

The overarching principle is that working papers should provide a clear and concise audit trail from the financial statements through to sufficient and appropriate evidence within supporting working papers. Working papers need to:

- be clear, with explanations if needed. The working papers need to be written from the view point of someone external to the organisation;
- be supported by strong evidence, for example, third party documentation; and
- agree to the financial statements provided for audit.

The Authority should ensure that key finance staff are available during the audit period.

2. Accounts and working paper production and review *(continued)*

Management response

Agreed. The demands of producing the draft accounts whilst two Senior Accountant posts were vacant placed significant pressure upon the Finance Services team. Having to implement appropriate financial systems for Liberty Leisure placed further requirements upon the team that had to be met within a defined timeframe. In addition, the timing of the interim external audit in the first two weeks of April (as opposed to mid February previously) diverted resources away from final accounts work. These factors resulted in compromises in certain areas and detailed review and checking of working papers did not receive the attention that they should. Furthermore, a final accounts protocol from the external auditors that was provided in previous years and assisted greatly was not made available for 2016/17.

The KPMG Central facility used for transferring documents between the Authority and the external auditors at interim audit and operated effectively was not available for the final audit. Again, this would have been useful and reduced the amount of delays,

The point about staff being on leave during the final audit work is noted. However, the pressures outlined above meant that it was imperative that staff were able to take leave that they had built up.

Prior notification of the areas that external audit staff will be examining when they arrive at the Authority (eg. Payroll, creditors, fixed assets, banking arrangements etc.) would assist with planning and ensure better utilisation of both external audit and Authority resource.

Owner

Head of Finance Services

Deadline

31 March 2018

Agreed. Work has already commenced to reconfigure the final accounts production timetable in anticipation of earlier closedown from 2017/18. Working papers are being reviewed to ensure that a clear and concise audit trail is maintained. Other process improvements have been identified (e.g.. Incorporating Bramcote Crematorium figures) and these should assist meeting these pressures.

The Accounts team have been informed that no leave is to be granted in April and May (unless in exceptional circumstances)

Owner

Chief Accountant

Deadline

31 March 2018

H

3. Three-way match control

In our testing of the creditor payments systems we noted a number of exceptions in the 3 way match control. These included instances where the PO and GRN was not present, the wrong PO and GRN was attributed to the invoice, and where the invoice value did not agree to the PO or GRN. We deem the Authority's control ineffective and we were unable to place reliance on this control.

Recommendation

The Authority should review the exceptions to establish what improvements should be made to the operation of controls.

Management response

Partly agreed.

The evidence collated by the external auditors will be requested and examined to determine the circumstances that resulted in these omissions and how these exceptions relate in percentage terms to the total number of transactions.

The Authority maintains a devolved financial management system (including creditors) that places responsibility upon departments for the correct processing of ordering and creditor payments.

The internal audit team have identified on previous occasions that the operation of these processes has not fulfilled requirements and reminders have been issued to departments. Further action (e.g.. Additional reminders, extra training etc.) will be taken if considered necessary.

Owner

Head of Finance Services

Deadline

31 December 2017

Appendix two

Summarised audit misstatements

We have summarised below the adjustments identified during our audit of the Authority's Statement of Accounts:

Comprehensive Income and Expenditure Statement as at 31 March 2017			
Net Expenditure (£'000)	Pre-audit	Post-audit	Ref¹
Housing	286	286	-
Environment	4,702	4,167	1
B business Growth	647	1,113	1,2
Community Safety	1,968	1,968	-
Health	2,257	2,926	3
Revenues, Benefits & customer services	1,071	1,071	-
Resources	8,879	1,940	4,5,6
ICT & B business Transformation	-	-	
Local Authority Housing (HRA) Exceptional Item	-	(32,436)	7
Local Authority Housing (HRA)	(5,760)	(16,110)	7
Cost of services	14,050	(35,075)	As above
Other operating Expenditure	7,328	7,328	-
Financing and Investment Income and Expenditure	4,203	4,203	-
Taxation and Non Specific Grant Income	(10,623)	(10,623)	-
(Surplus) or Deficit on Provision of services	14,958	(34,167)	-
(Surplus or Deficit on Revaluation of PPE	(49,082)	(49)	As above
Remeasurement of Net Defined Benefit Liability / (Asset)	9,534	9,534	-
Surplus or deficit on revaluation of available for sale financial assets	-	143	-
Any other (gains)/losses	(2)	(2)	-
Other comprehensive Income and Expenditure	(39,550)	9,626	As above
Total Comprehensive Income and Expenditure	(24,592)	(24,541)	As above

Balance sheet as at 31 March 2017			
£'000	Pre-audit	Post-audit	Ref¹
Property, plant & equipment	213,692	213,784	5,8
Other long term assets	2,734	2,568	9
Current assets	12,568	12,591	9
Current liabilities	(19,795)	(19,795)	-
Long term liabilities	(146,323)	(146,323)	-
Net worth	62,876	62,825	As above
General Fund	5,549	5,549	-
Other usable reserves	3,456	3,456	-
Unusable reserves	53,871	53,820	1,3,5,6
Total reserves	62,876	62,825	

1. See overleaf for adjustment detail

Appendix two

1. There were adjustments to the recognition of income and expenditure in respect of the Authority's 50% share of Bramcote crematorium which required disclosure against Environment as opposed to Business Growth.
2. Adjustment in respect of Eastwood Cemetery Chapel (£69k).
3. Incorrect treatment of valuation totaling £669k, where the Revaluation Reserve balance for three assets were taken into a debit position.
4. Correction of revaluation entries made in relation to Beeston Square (£6,655k). This was previously reported in our ISA260 report.
5. Correction of revaluation entries made in relation to introduction of car park onto former multistorey and fire station site (£184k).
6. Correct of revaluation entries made in relation to 11 other assets that should have not been recognized through the revaluation reserve. (£100k).
7. Recognition of the change in social housing discount factor (EUV-SH) from 34% to 42% as an exceptional item on the face of the CIES. This was previously reported in our ISA260 report.
8. Reduction in Council House valuation at 31 March 2017, net impact £52k based on a transposition error and an incorrect beacon being applied to 3 properties.
9. Recognition of Pooled Funds measured at Fair Value (31 March Bid Price) & accrued interest (£23k) moved to short-term term investments.

There are also a significant number of presentational adjustments which do not impact the totals of the primary statements. The most significant of these are:

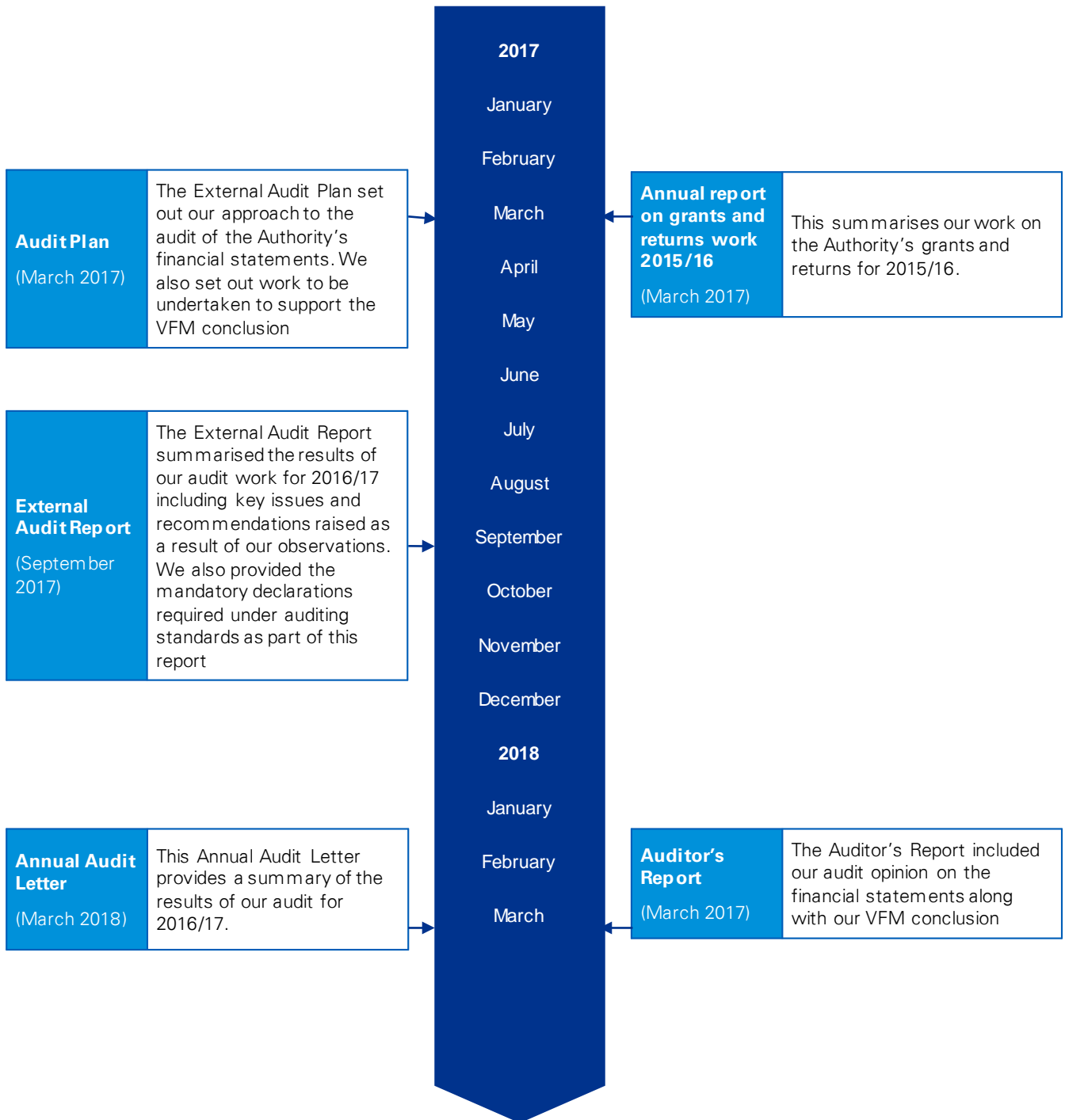
- Disclosure of the impact of the change in the social housing discount factor (EUV-SH). This was for £32.4 million.
- Transacting the change of council dwelling valuations within the HRA Income and Expenditure Statement, which is also reflected in the Authority's Cost of Services.
- The pensions note was not consistent with the actuary's report. The adjustment is presentational and did not have a financial impact.
- Disclosure issues with the officers' remuneration note, redundancy costs, external audit costs, and related parties note. Although not material, these notes often generate substantial external interest.

Appendix three

Summary of reports issued

This appendix summarises the reports we have issued since our Annual Audit Letter summarising our 2015/16 work.

These reports can be accessed via the Governance, Audit & Standards Committee pages on the Authority's website at www.broxtowe.gov.uk.



Appendix four

Audit fees

To ensure transparency about the extent of our fee relationship with the Authority, we have summarised below our 2016/17 audit fee.

External audit

Our scale fee for the Authority was £46,503. We had previously agreed with the S151 Officer a fee of £2,319 for additional work carried out in relation to the Authority's acquisition of the leasehold interest in Beeston Square.

Due to the significant delays encountered during the completion of the audit as reported in our ISA260, we have incurred additional costs of £37,447 for the 2016/17 audit. We have submitted a breakdown which has been agreed with the S151 and is subject to final approval by the Public Sector Audit Appointments Ltd.

We have worked proactively with the Authority to advance preparations for the 2017/18 audit and can report good progress from our work to date. The Authority has responded to recommendations and undertaken early work to progress risk areas identified in our External Audit plan presented to the Audit Committee in March 2018 and brought work forward to meet the challenge of an earlier deadline.

Certification of grants and returns

Under our terms of engagement with Public Sector Audit Appointments we undertake prescribed work in order to certify the Authority's housing benefit grant claim. This certification work has a PSAA scale fee of £10,125 and this was confirmed as the final fee through our reporting on the outcome of that work in early 2018.

Other services (non-PSAA services)

We have agreed a fee of £3,500 for additional audit-related services for the certification of the Pooling of Housing Capital Receipts (CFB06) return, which is outside of the PSAA's certification regime.

We did not perform other non-audit related services.

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