



# Annual Audit Letter 2017/18

**Broxtowe  
Borough Council**

August 2018



A group of business professionals in a meeting, looking at documents. The image is a close-up, slightly blurred, showing several people in business attire. A woman with dark hair is on the left, looking down. A man with grey hair is in the center, also looking down. Another woman is on the right, partially visible. They appear to be in a meeting or conference room, looking at documents or a screen. The overall tone is professional and focused.

**Section one**

# Summary for Governance, Audit & Standards Committee

## Section one:

# Summary for Governance, Audit & Standards Committee

This Annual Audit Letter summarises the outcome from our audit work at Broxtowe Borough Council ("the Authority") in relation to the 2017-18 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.

This is KPMG's last Annual Audit Letter to the Authority. We would like to take this opportunity to thank the Authority's officers and the members of the Governance, Audit and Standards Committee for their support throughout the six years of our audit appointment.

## Audit opinion

We issued an unqualified opinion on the Authority's financial statements on 31 July 2018. This 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. The financial statements also include the consolidated financial statements for Authority's Group, which consists of the Authority itself and Liberty Leisure.

## Financial statements audit

Our audit procedures are designed to identify misstatements which are material to our opinion on the financial statements as a whole. Materiality for the Authority's accounts was set at £1 million which equates to around 1.8 percent of gross expenditure. We design our procedures to detect errors in specific accounts at a lower level of precision.

We report to the Governance, Audit and Standards Committee any misstatements of lesser amounts, other than those that are "clearly trivial", to the extent that these are identified by our audit work. In the context of the Authority, an individual difference is considered to be clearly trivial if it is less than £50,000 for the Authority.

Our audit work was designed to specifically address the following significant risks:

- **Valuation of PPE** - The Authority has adopted a rolling revaluation model which sees all land and buildings revalued over a five year cycle. As a result, assets may not be revalued for four years, creating a risk that the carrying value of those assets not revalued in year differs materially from the year end fair value. We determined that the valuation of land and buildings recognised in 2017-18 are appropriate.
- **Pensions Liabilities** - There is a risk that the assumptions and methodology used in the valuation of the Authority's pension obligation are not reasonable. As a result of our work, we determined that the valuation of pensions liabilities recognised in 2017-18 are appropriate. We identified that the Authority had taken advantage of making a lump sum payment in the year. As part of our audit an adjustment was required to the accounting treatment as the Authority had recognised a prepayment in its draft accounts which was inconsistent with the treatment adopted by the other members of the Pension scheme.
- **Faster Close** - Revised deadlines required draft accounts by 31 May and final signed accounts by 31 July. The Authority presented its accounts for audit on the required deadline and provided the supporting information to conduct an audit within the required timeframes.

## 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. This year we reviewed the Annual Governance Statement and Narrative Report. We concluded that they were consistent with our understanding and did not identify any issues.

## Section one:

# Summary for Governance, Audit & Standards Committee (cont.)

## Whole of Government Accounts

The Authority prepares a consolidation pack to support the production of Whole of Government Accounts 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. As required by the guidance we have confirmed this with the National Audit Office.

## Value for Money conclusion

We issued an unqualified conclusion on the Authority's arrangements to secure value for money (VFM conclusion) for 2017-18 on 31 July 2018. This means we are satisfied that during the year the Authority had appropriate arrangements for securing economy, efficiency and effectiveness in the use of its resources.

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.

## Value for Money risk areas

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.

Our work considered the a significant risk in respect of Financial Resilience. The Authority continues to face similar financial pressures and uncertainties to those experienced by others in the local government sector, such as the future of business rate distribution. We considered the Authority's Medium Term Financial Strategy, updated in February 2018, in which the Authority identified a potential shortfall in resources of £1.530m for the period 2018/19 to 2021/22, after including significant assumptions relating to achieving £1.0m of savings per annum and a vacancy saving of £0.3m. This requires the Authority to have significant focus on identifying and implementing its savings plans and addressing the residual shortfall over the medium term. The Authority has, however, underspent against budget in 2017-18 and is due to reflect this underspend and initial reduced pressure on its General Fund balances in its revised MTFS in October 2018.

## High priority recommendations

We raised one high priority recommendation as a result of our 2017-18 work:

- **Embedded Procurement Arrangements** - The Authority should ensure that it has robust contract monitoring arrangements in place to retrospectively review contracts that expired in 2017-18 and for those contracts due to expire to be able to proactively fulfil obligations to initiate competitive tenders where applicable.

**This is detailed in Appendix 1 together with the action plan agreed by management.**

## Section one:

# Summary for Governance, Audit & Standards Committee (cont.)

## Certificate

We issued our certificate on 31 July 2018. The certificate confirms that we have concluded the audit for 2017-18 in accordance with the requirements of the Local Audit & Accountability Act 2014 and the Code of Audit Practice.

## Audit fee

Our fee for 2017-18 was £46,503 excluding VAT (2017: £86,269). Further detail is contained in Appendix 3.

## Exercising of audit powers

We have a duty to consider whether to issue a report in the public interest about something we believe the Authority should consider, or if the public should know about.

We have not identified any matters that would require us to issue a public interest report.

In addition, we have not had to exercise any other audit powers under the Local Audit & Accountability Act 2014.

## Acknowledgements

We would like to take this final opportunity to thank all officers and Members for their help and assistance over the many years that we have provided the external audit service to Broxtowe BC, and wish your organisation all the very best for the future.



# Appendices



## Appendix 1:

# High risk recommendations

This appendix summarises the high risk recommendations raised as a result of our audit.

High risk recommendations are defined as those 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.

Details of lower risk recommendations can be found in our *ISA260 Report 2017-18*.

No.	Risk	Issue & Recommendation	Management Response
1	1	<p><b>Embedded procurement arrangements</b></p> <p>We sought to undertake testing of the Authority's contract register during our interim audit.</p> <p>We identified that following the departure of the Authority's Procurement Officer on 30 June 2017 the post had remained vacant throughout the remainder of the year. As a result the Authority's contract register was not up to date at the point of our review. Where contracts had expired or were due to expire, the Authority had made temporary arrangements to extended existing service provision. We note that since the end of the financial year the Authority now has a substantive Procurement and Contracts officer in post.</p> <p><b>Recommendation</b></p> <p>The Authority should ensure that it has robust contract monitoring arrangements in place to retrospectively review contracts that expired in 2017-18 and for those contracts due to expire to be able to proactively initiate competitive tenders where applicable.</p>	<p>The Council has appointed an interim Procurement and Contracts Officer with significant knowledge and expertise. He has been assigned a number of responsibilities including:</p> <ul style="list-style-type: none"> <li>liaising with departments to ensure arrangements are put in place for contracts that have either expired or are due to;</li> <li>ensuring that effective contract management arrangements are embedded across the organisation; and</li> <li>refreshing the Council's Commissioning and Procurement Strategy.</li> </ul> <p>The interim appointment commenced in May 2018 for an initial six month period whereupon consideration will be given to how the Council should proceed with ensuring that its procurement arrangements are effective and robust.</p> <p><b>Responsible Officer</b></p> <p>Head of Finance Services</p> <p><b>Implementation Deadline</b></p> <p>31 December 2018</p>

## Follow up of previous recommendations

As part of our audit work we followed up on the Authority's progress against previous audit recommendations. The Authority has taken appropriate action to address the issues that we have previously highlighted through high priority recommendations, except for the three-way match control which is partially implemented. The Authority has taken steps to further remind teams of their responsibilities.

Our audit strategy in 2017-18 did not place reliance on three way match controls as the Authority seeks to strengthen compliance in these areas with the adoption of new systems.

## Appendix 2:

# Summary of reports issued

This appendix summarises the reports during the year. We issued our prior year Annual Audit Letter in March 2018. These reports can be accessed via the Governance, Audit and Standards Committee pages on the Authority's website at <https://www.broxtowe.gov.uk>.

### Certification of Grants and Returns

This report summarised the outcome of our certification work on the Authority's 2016-17 grants and returns.

### External Audit Plan

The External Audit Plan set out our approach to the audit of the Authority's financial statements, and to support the VFM conclusion.

### Report to Those Charged with Governance

The Report to Those Charged with Governance summarised the results of our audit work for 2017-18 including key issues and recommendations raised as a result of our observations.

We also provided the mandatory declarations required under auditing standards as part of this report.

### Auditor's Report

The Auditor's Report included our audit opinion on the financial statements along with our VFM conclusion and our certificate.

### Annual Audit Letter

This Annual Audit Letter provides a summary of the results of our audit for 2017-18.

2018

January

February

March

April

May

June

July

August

September

October



## Appendix 3:

# Audit fees

This appendix provides information on our final fees for the 2017-18 audit.

### External audit

Our final fee for the 2017-18 audit of the Authority was £46,503. This is in line with the Public Sector Audit Appointments Limited (PSAA) scale fee for 2017-18.

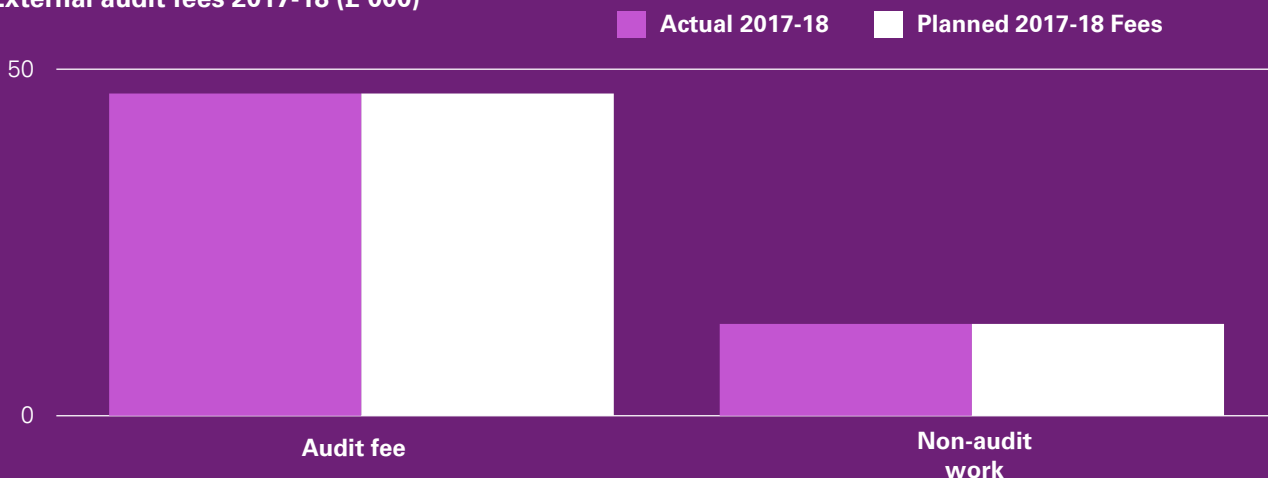
The PSAA scale fee for 2016-17 was £46,503. We raised an additional fee of £39,766 in 2016-17. This related to additional work we had to undertake in respect of the purchase of leasehold interest in Beeston Square and the production of Group accounts and other delays incurred in resolving issues during the course of the 2016/17 audit.

### Other services

Under our terms of engagement with PSAA we undertake prescribed work in order to certify the Authority's 2017-18 housing benefit grant claim. This certification work is still ongoing, and the certification deadline is 30 November 2018. The PSAA scale fee for this work is £9,670 and the final fee will be confirmed through our reporting on the outcome of that work in January 2019.

We also charged £3,600 for Pooling of Housing Capital Receipts (work planned for September). This work was not related to our responsibilities under the Code of Audit Practice and was agreed through a separate Engagement Letter.

### External audit fees 2017-18 (£'000)





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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. We draw your attention to the Statement of Responsibilities of auditors and audited bodies, which is available on Public Sector Audit Appointment's website ([www.psa.co.uk](http://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 Andrew Cardoza 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, by email to [Andrew.Sayers@kpmg.co.uk](mailto:Andrew.Sayers@kpmg.co.uk). After this, if you are still dissatisfied with how your complaint has been handled you can access PSAA's complaints procedure by emailing [generalenquiries@psaa.co.uk](mailto:generalenquiries@psaa.co.uk) by telephoning 020 7072 7445 or by writing to Public Sector Audit Appointments Limited, 3rd Floor, Local Government House, Smith Square, London, SW1P 3HZ.

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