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| **GA.20 14/15** |
| **Committee** Governance and Audit Committee |
| **Date 25th September 2014** |

**Subject: Report to those charged with Governance (ISA260 Report) 2013/14**

| | |
|---|---|
| Report by: | Ian Knowles<br>Director of Resources (S151) |
| Contact Officer: | Tracey Bircumshaw<br>Group Accountant<br>01427 676560<br>Tracey.Bircumshaw@west-lindsey.gov.uk |
| Purpose / Summary: | The purpose of the report is for our Auditor, KPMG, to present their Report to those charged with Governance (ISA 260 Report) in relation to the Statement of Accounts and Annual Governance Statement 2013/14. |

**RECOMMENDATION(S):**

**That Members note and receive the information contained within this report.**

## IMPLICATIONS

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| **Legal:**<br><br>None arising from this report. |

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| **Financial : FIN/62/15**<br><br>As detailed within the Report to those charged with Governance.<br><br>The corporate Audit Fees are met from an approved budget. |

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| **Staffing :**<br><br>None arising from this report. |

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| **Equality and Diversity including Human Rights :**<br>None arising from this report |

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| **Risk Assessment :**<br><br>None arising from this report. |

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| **Climate Related Risks and Opportunities :**<br>None arising from this report. |

| **Title and Location of any Background Papers used in the preparation of this report:** |
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| |

**Call in and Urgency:**

**Is the decision one which Rule 14.7 of the Scrutiny Procedure Rules apply?**

| | | | | |
|---|---|---|---|---|
| i.e. is the report exempt from being called in due to urgency (in consultation with C&I chairman) | **Yes** | | **No** | **x** |

**Key Decision:**

| | | | | |
|---|---|---|---|---|
| A matter which affects two or more wards, or has significant financial implications | **Yes** | | **No** | **x** |

## Executive Summary

The Report to those charged with Governance is attached at Appendix A, the headlines of which include:

- A proposed unqualified audit opinion on the 2013/14 Statement of Accounts

- That one material misclassification was identified which had no difference to the key elements of the Balance Sheet nor the General Fund Balance.

- That there are no unchanged audit differences

- Annual Governance Statement complies with recommended practice (Delivering Good Governance in Local Government; A Framework) and is consistent with understanding of the Authority.

The report will be presented by Adrian Benselin, Audit Manager, KPMG LLP (UK).

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

**West Lindsey District Council**

16 September 2014

# Contents

**The contacts at KPMG in connection with this report are:**

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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 Tony Crawley, 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.**

# 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 West Lindsey District 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 April 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 and March 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;
- considering the results of any relevant work by the Authority and other inspectorates and review agencies in relation to these risk areas; and
- carrying out additional risk-based work.

## 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.

## 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 of arrangements in place. |
| **Audit adjustments** | Our audit has identified one material audit adjustment with a total value of £5.004 million. There is no impact on the general fund balance as at 31 March 2014 in respect of this mis-statement..<br>We have provided details in Appendix 2. The error was adjusted by the Authority.<br>There are no uncorrected differences identified by our audit of the Authority's financial statements that we need to report to you. |
| **Key financial statements audit risks** | We have worked with officers throughout the year to discuss risk areas. Subject to the completion of our outstanding work, the Council has addressed the accounting of these issues appropriately. |
| **Accounts production and audit process** | Generally the quality of the accounts and the supporting working papers has been good and officers have responded to audit queries in a timely manner.<br>Delays were experienced in the receipt of some working papers and final versions of working papers were not always clearly marked from earlier iterations. Journal reports provided as part of the year end working papers were found to be incomplete. The reason for this is being investigated by officers.<br>We have included recommendations at Appendix 1. |

# Headlines (continued)

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

| | |
|---|---|
| **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 completing the remaining audit work as shown below and final checks, including Director review, as part our completion procedures.<br>Before we can issue our opinion we require a signed management representation letter.<br>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.<br>We therefore anticipate issuing an unqualified VFM conclusion by 30 September 2014. |

# Proposed opinion and audit differences

**Our audit has identified one material audit difference.**

**There is no impact on the general fund balance as at 31 March 2014.**

**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 of arrangements in place.**

## Proposed audit opinion

Subject to all outstanding queries being resolved to our satisfaction, we anticipate issuing an unqualified audit opinion on the Authority's financial statements following approval of the Statement of Accounts by the Governance and Audit Committee on 25 September 2014.

## 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 one material audit difference, which we set out in Appendix 2. There is no impact on the general fund balance carried forward in respect of this mis-statement.

It is our understanding that this will be adjusted in the final version of the financial statements.

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 in the United Kingdom 2013/14 ('the Code')*. We understand that the Authority will be addressing these where significant.

There are no uncorrected audit differences.

## Annual Governance Statement

We have reviewed the Annual Governance Statement and confirmed that:

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

We have made a small number of comments in respect of its format and content which the Authority has agreed to amend where significant.

# Key financial statements audit risks

**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 April, we identified the key risks affecting the Authority's 2013/14 financial statements. Since then we also added an additional risk around accounting for the business rates retention scheme, which we have detailed below. Our testing of these areas is substantially complete.

The table below sets out our detailed findings for each of the risks 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 (subject to completion of our outstanding work), 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 Lincolnshire (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.<br><br>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.<br><br>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 Lincolnshire County Council, who administer the Pension Fund. | We have reviewed the data provided to the actuary to ensure:<br>▪ The process was undertaken in a suitable control environment;<br>▪ the accuracy of the information provided by agreeing a sample of data to source documentation;<br>▪ the reasonableness of the completeness of the data by conducting an analysis of movements during the period, and reviewing the overall amount of records provided.<br><br>Our work did not identify any significant issues relating to the accounting or reporting requirements. |

Section three

# 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.**

| Key audit risk | Issue | Findings |
|---|---|---|
| Business rate retention scheme | With the introduction of Business Rate Localisation, which took effect from 1 April 2013, there were significant changes in the requirements for the disclosure of business rates balances and transactions, as per the CIPFA Code. This meant there were significant variances in the Collection Fund, balance sheet and the CIES as from last year a result of the change of accounting treatment.<br><br>In addition, the requirement ceased for an audited National Non Domestic Rates return where auditors had completed certification work in this area in line with directions issued by the Audit Commission.<br><br>These factors meant that we reassessed business rates as a significant audit risk.<br><br>We are currently in discussion with the Audit Commission about how this additional work is to be funded, and this may result in an additional audit fee, but there will be no NNDR certification fee. | Income from business ratepayers is fairly stated in the collection fund.<br><br>We reviewed the accounting treatment for business rates retained/distributed and found it to be in line with the CIPFA guidance. |

# Accounts production and audit process

**The quality of working papers provided was generally good and met the standards specified in our Accounts Audit Protocol.**

**Officers resolved the majority of audit queries in a reasonable time.**

## 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 good financial reporting arrangements in place.<br>One material misclassification in the Balance Sheet was identified during the audit. Presentational amendments were made to the accounts.<br>We consider that accounting practices are appropriate. |
| **Completeness of draft accounts** | We received a complete set of draft accounts on 30 June 2014. |
| **Quality of supporting working papers** | Our Accounts Audit Protocol, which we issued on 30 April 2014, set out our working paper requirements for the audit.<br>The quality of working papers provided was generally good and met the standards specified in our *Accounts Audit Protocol*. However, in some cases there were several iterations of working papers provided, with a lack of clarity as to which was the final version. Additionally a small number of working papers specified in our *Accounts Audit* |

| Element | Commentary |
|---|---|
| | *Protocol* were not provided at the start of the audit, specifically the payroll control reconciliation and full-time equivalent data.<br>Journal reports provided as part of the year end working papers were found to be incomplete. The reason for this is being investigated by officers. As a result we have had to undertake additional testing of the missing material journals |
| **Response to audit queries** | Officers resolved the majority of audit queries in a reasonable time. In a small number of cases we experienced delays, specifically where working papers were required from the business rates shared service provider. |

As a result of the above we have raised a recommendation in respect of the Authority's working papers which is included in Appendix 1.

# Control environment

**Your organisational control environment is effective overall.**

**The controls over the key financial systems are sound.**

During February and March 2014 we completed our control evaluation work. We did not issue an interim report as there were no significant issues arising from this work. For completeness we reflect on key findings from this work.

## Organisational Control Environment

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.

We consider that your organisational control environment is effective overall.

## Key Financial Systems

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.

We consider that the controls over the key financial systems are sound.

# 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 West Lindsey District Council for the year ended 31 March 2014, we confirm that there were no relationships between KPMG LLP and West Lindsey District 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 Director of Resources 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 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 2013/14 financial statements.

**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

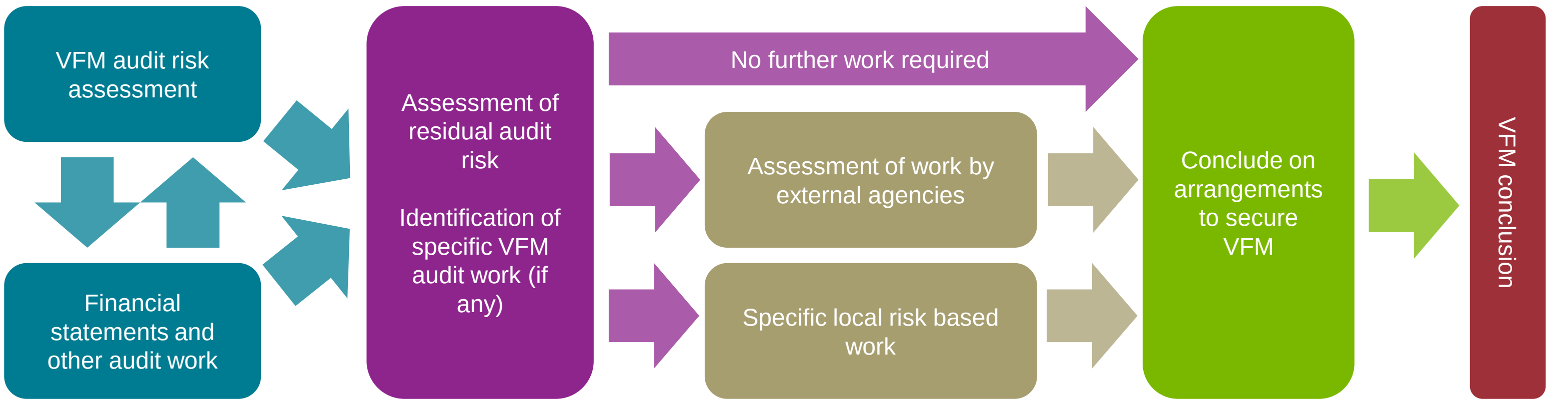
We performed a risk assessment earlier in the year and have reviewed this throughout the year.

The following page includes further details of our VFM risk assessment and our specific risk-based 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** | ✓ |



# Specific VFM risks

**We have identified a specific VFM risk.**

**We are satisfied that external or internal scrutiny provides sufficient assurance that the Authority's revised arrangements in relation to these risk areas are adequate.**

## Work completed

In line with the risk-based approach set out on the previous page, and in our *External Audit Plan* we have:

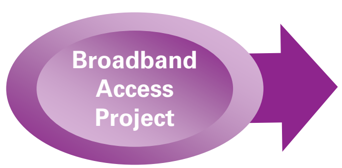
- assessed the Authority's key business risks which are relevant to our VFM conclusion;
- identified the residual audit risks for our VFM conclusion, taking account of work undertaken in previous years or as part of our financial statements audit;
- considered the results of relevant work by the Authority, inspectorates and review agencies in relation to these risk areas; and
- completed specific local risk based work.

As set out in our plan, we needed to carry out specific risk-based work in 2013/14 in response to the significant weaknesses in the Authority's governance arrangements, specifically in relation to its investment decisions and the need to balance good governance with its commercial strategy.

## Key findings

Below we set out the findings in respect of those areas where we have identified a residual audit risk for our VFM conclusion.

This work is now complete and we also report on this below.

| Key VFM risk | Issue as set out in the Audit Plan | Assessment |
|---|---|---|
|  | In 2012/13 we reported significant weaknesses in the Authority's governance arrangements, specifically in relation to its investment decisions and the need to balance good governance with its commercial strategy.<br><br>The Authority is exploring opportunities to widen residents' access to broadband. The project remains under review by officers in 2013/14 and we will use this project to test the Authority's governance process and project management arrangements.<br><br>This issue falls outside the scope of the Audit Commission's specified value for money criteria, but is covered by the Code of Audit Practice's requirement that Councils should promote and demonstrate the principles and values of good governance. | The process adopted by the Authority demonstrates that there are appropriate arrangements in place in respect of:<br>• Decision making being based on appropriate or adequate information;<br>• Adequate cost-benefit analysis, options appraisal, and that cost information evaluates or supports cost reduction plans; and<br>• consideration of alternative, lower cost options for service delivery.<br><br>There has been improved consultation with members, and appropriate due diligence has taken place. The risks and rewards have been explained to members.<br><br>This is supplemented by a revised management structure, with two Directors reporting to the Chief Executive, and improved guidance to staff on commercial ventures.<br><br>The Authority now needs to ensure that the revised framework is embedded in an appropriate way for future project appraisal and management. |

# 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 | **Journals**<br>The journal report provided as part of the year end working papers was incomplete.<br>**Recommendation**<br>Investigate the reason for the incomplete systems generated journal report and ensure resolution in time for the 2014/15 audit. | The incomplete journal report has been investigated with our financial management system provider; the issue has now been resolved.<br>We will ensure that the appropriate information is provided at the start of the 2014/15 audit.<br>Group Accountant<br>Date: June 2015 |
| 2 | ❸ | **Working Papers**<br>Delays were experienced in the receipt of some working papers. In some cases several iterations of working papers were provided with a lack of clarity as to the final version.<br>**Recommendation**<br>Undertake a quality control review of working papers prior to the on site final accounts visit. | The need for revised working papers was identified through the Authority's own quality assurance framework. The quality assurance process will be further enhanced to include version control for the coming year to ensure that only the latest iteration of working papers are provided.<br>Group Accountant<br>Date: June 2015 |

# Appendix 2: Audit differences

**This appendix sets out one material audit difference.**

**It is our understanding that this will be adjusted.**

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 Governance and Audit Committee).

There were no uncorrected misstatements.

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

Our audit of West Lindsey District Council's financial statements for the year ended 31 March 2014 identified one material mis-statement. A short term investment, with a book value of £5.004 million, was incorrectly classified as cash and cash equivalents. This was contrary to the Authority's accounting policies.

It is our understanding that this mis-statement will be adjusted. However, we have not yet received a revised set of financial statements to confirm this.

# 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 this. These matters should be discussed with the Governance and 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 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 West Lindsey District Council for the financial year ending 31 March 2014, we confirm that there were no relationships between KPMG LLP and West Lindsey District 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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