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GA.21 16/17
Committee Governance and Audit Committee
Date 15th September 2015

Subject: Report to those charged with Governance (ISA260 Report) 2015/16

Report by:	Adrian Benselin KPMG
Contact Officer:	Tracey Bircumshaw Financial Services Manager 01427 676560 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 2015/16.

RECOMMENDATION(S):

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

IMPLICATIONS

Legal: None arising from this report.

Financial : FIN/63/17 As detailed within the Report to those charged with Governance. The corporate Audit Fees are met from an approved budget.

Staffing : None arising from this report.

Equality and Diversity including Human Rights : None arising from this report

Risk Assessment : None arising from this report.

Climate Related Risks and Opportunities : None arising from this report.

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

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 2015/16 Statement of Accounts

- That there have been no material audit differences identified

- All presentational audit differences identified have been adjusted for.

- There have been no significant risks identified within the Financial Statements

- The 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).

At the time of this report the Audit has yet to be concluded, an updated will therefore be provided at this meeting.

The ISA260 report is attached at Appendix A.

Report to those charged with governance (ISA 260) 2015/16

West Lindsey District Council

7 September 2016

Contents

The contacts at KPMG in connection with this report are:

John Cornett
Director

KPMG LLP (UK)

Tel: 0116 256 6064
john.cornett@kpmg.co.u4

Adrian Benselin
Manager

KPMG LLP (UK)

Tel: 0116 256 6089
adrian.benselin@kpmg.co.uk

Vikash Patel
Assistant Manager

KPMG LLP (UK)

Tel: 0116 256 6069
Vikash.patel@kpmg.co.uk

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.psaa.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 John Cornett, 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 (on 0207 694 8981, or by email to 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 3H.

Section one: Introduction

Section one

Introduction

This document summarises:

- **The key issues identified during our audit of the financial statements for the year ended 31 March 2016 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 Council ('the Authority') in relation to its 2015/16 financial statements; and
- The work to support our 2015/16 conclusion on the Authority's arrangements to secure economy, efficiency and effectiveness in its use of resources (the Value for Money (VFM) conclusion).

Financial statements

Our External Audit Plan 2015/16, presented to you in March 2016, set out the four stages of our financial statements audit process.

This report focuses on the third stage of the process: substantive procedures. Our on site work for this took place during June and July 2016.

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 2015/16 explained our risk-based approach to VFM work. We have now completed the work to support our 2015/16 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 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 2015/16 financial statements of the Authority.
- 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 for their continuing help and co-operation throughout our audit work.

Section two: Headlines

Headlines

This table summarises the headline messages for the Authority. 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 2016. We will also report that your Annual Governance Statement complies with guidance issued by CIPFA/SOLACE in June 2007.
Audit adjustments	Our audit identified a misclassification of receipts in the Cash Flow Statement amounting to £1.135 million. This has been adjusted. The overall balance of the Cash Flow Statement is unaffected. There were a number of minor presentational matters, which officers have agreed to amend. It is our understanding that these will be adjusted in the final version of the financial statements.
Key financial statements audit risks	We identified the following key financial statements audit risks in our 2015/16 External Audit Plan presented to you in March 2016 — Provision for business rates appeals; — Management override of controls; and — Fraudulent revenue recognition. Professional standards require us to consider the latter two risks as standard risks for all organisations. We have worked with officers throughout the year to discuss these risks and our detailed findings are reported in section 3 of this report. There are no matters of any significance arising as a result of our audit work in these key risk areas.

Headlines (cont.)

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

Accounts production and audit process	We received complete draft accounts on 17 June 2016 which was in advance of the 30 June deadline. The accounting policies, accounting estimates and financial statement disclosures are in line with the requirements of the Code. Officers have maintained the 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. We will debrief with the finance team to share views on the final accounts audit. Hopefully this will lead to further efficiencies in the 2016/17 audit process. In particular we would like to thank Authority officers who were available throughout the audit visit to answer our queries.
VFM conclusion and risk areas	We did not identify any VFM risk from our risk assessment work which we reported to you in our Audit Plan in March 2016. We have worked with officers throughout the year and we have not identified any new VFM risks during the year. Our detailed findings are reported in section 4 of this report. The MTFP includes savings targets to be achieved by 2020/21 of £1.2 million which is covered by the projected level of reserves of £8.1 million at March 2021. Based on our work to date, 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 2016.

Headlines (cont.)

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

Completion	At the date of this report our audit of the financial statements is substantially complete subject to completion of the following areas: — Testing of non pay expenditure; — Testing of payroll and pensions; and — General audit file completion and review procedures. 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.

Section three: Financial Statements

Proposed opinion and audit differences

We identified a material misstatement in the Cash Flow Statement. However this did not affect the overall Statement balance.

We anticipate issuing an unqualified audit opinion in relation to the Authority's financial statements by 30 September 2016.

The wording of your Annual Governance Statement complies with guidance issued by CIPFA/SOLACE in June 2007.

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 Authority.

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.

The final materiality level (see Appendix 2 for more information on materiality) for this year's audit was set at £600k. Audit differences below £30k are not considered significant.

We agreed with officers that the presentation of information within the Cash Flow Statement be amended to transfer £1.135 million from the category 'proceeds from the sale of property, plant and equipment, investment property and intangible assets' to the category 'other receipts from investing activities' in the section 'net cash flows from investing activities'. The overall balance of the Cash Flow Statement is unaffected.

Officers have also amended the comparative disclosures in the Cash Flow Statement, mainly to reclassify NNDR income amounting to £1.1 million. The overall balance of the Cash Flow Statement is unaffected.

There were a number of minor presentational matters, which officers have agreed to amend.

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

Significant audit risks

In our *External Audit Plan 2015/16*, presented to you in March 2016, we identified the significant risks affecting the Authority's 2015/16 financial statements. We have now completed our testing of these areas and set out our evaluation following our substantive work.

The table below sets out our detailed findings for each of the risks that are specific to the Authority. The table on the next page are risk areas required by professional standards.

Areas of significant risk	Summary of findings
Provision for business rates appeals → Audit areas affected — Business rates income	**Provision for business rates appeals** — Risk The provision for business rates appeals may not be adequate. Under the new business rates regime the Authority retains a greater share of business rates collected and hence any successful appeals will directly impact on the income stream. — Findings We reviewed the basis and calculation of the provision, and we assessed the adequacy of the provision. There are no matters arising from this work to bring to your attention.

Significant audit risks (cont.)

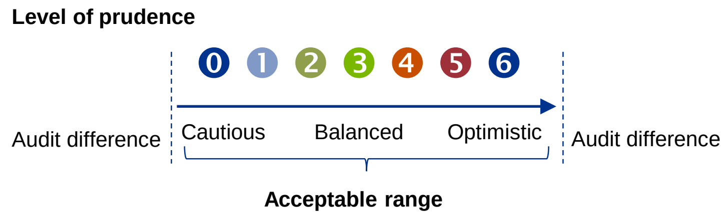
In our External Audit Plan 2015/16 we reported that we would consider two risk areas that are specifically required by professional standards and report our findings to you. These risk areas were Management override of controls and the Fraud risk of revenue recognition.

The table below sets out the outcome of our audit procedures and assessment on these risk areas.

Areas of significant risk	Summary of findings
Management override of controls Audit areas affected — All areas.	Our audit methodology incorporates the risk of management override as a default significant risk. Management is typically in a unique position to perpetrate fraud because of its ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. We have not identified any specific additional risks of management override relating to this audit. In line with our methodology, we carried out appropriate 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. There are no matters arising from this work that we need to bring to your attention.
Fraud risk of revenue recognition Audit areas affected — None.	Professional standards require us to make a rebuttable presumption that the fraud risk from revenue recognition is a significant risk. In our External Audit Plan 2015/16 we reported that we do not consider this to be a significant risk for Local Authorities as there is unlikely to be an incentive to fraudulently recognise revenue. This is still the case. Since we have rebutted this presumed risk, there has been no impact on our audit work.

Judgements

We always consider the level of prudence within key judgements in your financial statements. We have summarised our view below using the following range of judgement:



Assessment of subjective areas				
Asset/liability class	**15/16**	**14/15**	**Balance (£m)**	**KPMG comment**
Provisions for business rates appeals	2	3	£0.8 million (PY: £0.2 million)	We have reviewed the calculation of the appeals provision which uses the best information available. Overall, the provision has increased, to recognise the likely appeals in respect of doctors' surgeries following a court ruling, and the increase in appeals made in order to meet the deadline of 31 March 2015. We also consider the provision disclosures to be proportionate.
Property, Plant and Equipment (valuations and asset lives)	3	3	£19.8 million (PY: £16.7 million)	Valuations are consistent with information provided by the external valuers. The asset lives used in the calculation of depreciation are not unreasonable.
Pensions liability	3	3	£28.8 million (PY: £34.7 million)	The balance represents the deficit on the pension scheme. The reported balance, together with assumptions and disclosures for inflation, discount rate, salary growth, life expectancy etc are consistent with the report from the external actuary.

Accounts production and audit process

The Authority has good processes in place for the production of the accounts. Officers dealt efficiently with audit queries and the audit process has been completed within the planned timescales.

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 processes for preparing the accounts and their support for an efficient audit.

We considered the following criteria:

Element	Commentary
Accounting practices and financial reporting	The Authority continues to maintain a good financial reporting process and produce statements of accounts to a good standard. We consider that other accounting practices are appropriate.
Completeness of draft accounts	We received a complete set of draft accounts on 17 June 2016. This was well in advance of the deadline of 30 June. We have worked with officers throughout the year to identify and discuss potential issues that could affect the closedown process, and the Authority's response to these issues. The Authority has made a number of minor amendments to the accounts presented for audit, however there have been no changes which affect the financial position.
Quality of supporting working papers	Our Accounts Audit Protocol, which we issued in two sections, in January and February 2016, and discussed with the Financial Services Manager set out our working paper requirements for the audit. The quality of working papers provided met the standard specified in our Accounts Audit Protocol.
Response to audit queries	Officers resolved all audit queries in a timely manner.

Findings in respect of the control environment for key financial systems

There are no significant findings to report to you in respect of the control environment.

Our review of the March 2016 bank reconciliation did not identify any issues to bring to your attention. However officers should seek to simplify the presentation of the bank reconciliation as it is complicated to follow. We have made a recommendation to this effect in Appendix 1.

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 opinion and conclusion 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 2016, 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 Public Sector Audit Appointments Ltd 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 Authority. We require a signed copy of the 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 matters which we wish to draw to your attention in addition to those highlighted in this report.

Section four: Value for Money

VFM Conclusion

Our VFM conclusion considers whether the Authority had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.

We follow a risk based approach to target audit effort on the areas of greatest audit risk.

We have concluded that the Authority has made proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.

Background

The Local Audit and Accountability Act 2014 requires auditors of local government bodies to be satisfied that the authority 'has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources'.

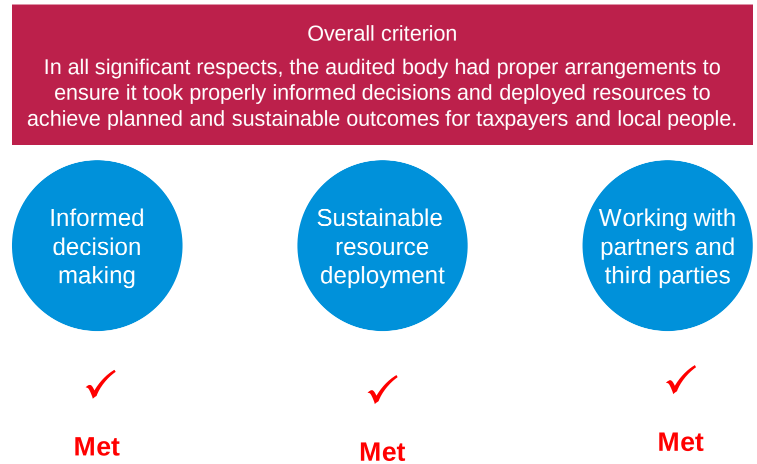
This is supported by the Code of Audit Practice, published by the NAO in April 2015, which requires auditors to 'take into account their knowledge of the relevant local sector as a whole, and the audited body specifically, to identify any risks that, in the auditor's judgement, have the potential to cause the auditor to reach an inappropriate conclusion on the audited body's arrangements.'

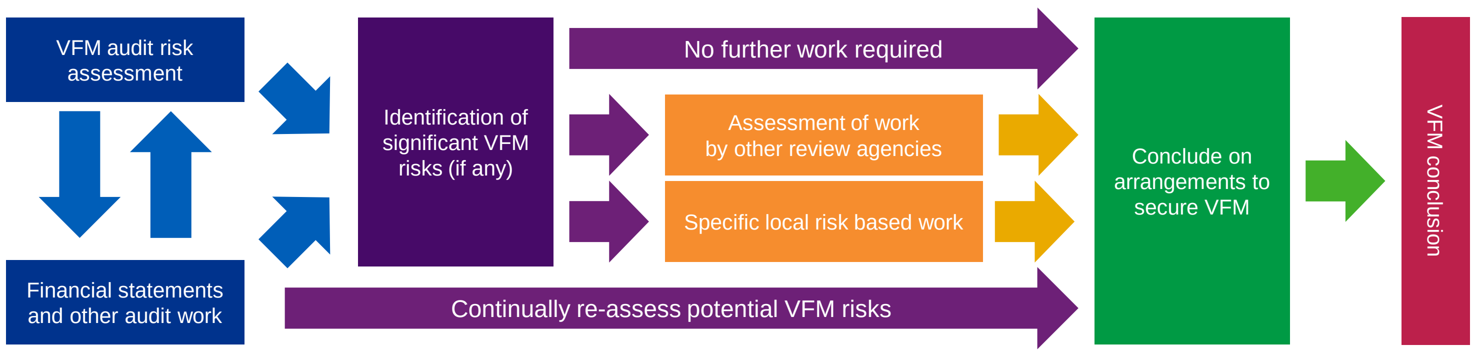
The VFM approach is fundamentally unchanged from that adopted in 2014/2015 and the process is shown in the diagram below. However, the previous two specified reporting criteria (financial resilience and economy, efficiency and effectiveness) have been replaced with a single criteria supported by three sub-criteria.

These sub-criteria provide a focus to our VFM work at the Authority.

Conclusion

We have concluded that the Authority has made proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.





Specific VFM Risks

We have not identified any specific VFM risk.

We are satisfied that external or internal scrutiny provides sufficient assurance that the Authority's current arrangements 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; and
- Considered the results of relevant work by the Authority, inspectorates and review agencies in relation to these risk areas.

Key findings

At the planning stage we reviewed the Medium Term Financial Plan (MTFP) reported to and approved by members in February 2016.

The MTFP takes into account the risks and uncertainties from the national and local context.

Fees and charges were separately reviewed/approved in December 2015.

We considered the assumptions used in producing the MTFP, including:

- Pay and non pay inflation.
- Council tax annual rises;
- Returns from commercial property investments
- Nil growth in NNDR income; and
- Changes in the council tax base / projections of property numbers;
- Level of funding settlements and new homes bonus.

In our view these assumptions are not unreasonable.

General Fund and earmarked reserves are expected to fall to £8.1 million by March 2021 (the draft accounts show reserves of £17.6 million at March 2016). However we note that the Authority plans to utilise New Homes Bonus to support regeneration and housing growth schemes rather than to support the revenue budget. This is not the case for many other authorities.

The MTFP includes savings targets to be achieved by 2020/21 of £1.2 million which is covered by the projected level of reserves.

Although we did not identify any significant VFM risks at the planning stage of the audit, we have reviewed the information subsequently reported to members, in July 2016.

The latest revenue budget monitoring report shows a net underspend of £177k for the first two months of 2016/17. There are no other indications that the MTFP is not sustainable.

No account can yet be taken of the impact, if any, that the Greater Lincolnshire Combined Authority will have on the Authority's spending plans. The new authority will have powers covering transport, planning and skills.

We expect the MTFP to be kept up-to-date to reflect the changes in assumptions and financial framework. As officers update us in our regular meetings on the changes in their MTFP projections and the reasons for those changes, we have not made a recommendation to this effect.

Appendices

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
1	❷	**Bank reconciliation** The monthly bank reconciliation is complicated to follow. There is a risk that errors are undetected because of its complexity. Our review of the March 2016 bank reconciliation did not identify any issues to bring to your attention. **Recommendation** Officers should seek to simplify the presentation of the monthly bank reconciliation.	**Financial Services Manager** We have been aware of the issues relating to the bank reconciliation for a number of months, and we have therefore recently procured, and are in the final stages of implementing, an automated bank reconciliation system, which will make the reconciliation simpler and will generate efficiencies within Financial Services.

Audit differences

This appendix sets out the audit differences.

The financial statements have been amended for all of the errors identified through the audit process.

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). 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.

Uncorrected audit differences

We confirm that there are no uncorrected misstatements, other than those that we believe are clearly trivial.

Corrected audit differences

Material misstatements

Our audit identified a material misstatement in the Cash Flow Statement which resulted in a transfer of £1.135 million from the category 'proceeds from the sale of property, plant and equipment, investment property and intangible assets' to the category 'other receipts from investing activities' in the section 'net cash flows from investing activities'. The overall balance of the Cash Flow Statement is unaffected.

Non-material misstatements

Our audit identified a number of minor presentational misstatements in the financial statements. These have been discussed with management and the financial statements have been amended.

Materiality and reporting of audit differences

For 2015/16 our materiality is £600k for the Authority's accounts.

We have reported all audit differences over £30k for the Authority's accounts to the Governance and Audit Committee.

Materiality

The assessment of what is material is a matter of professional judgment and includes consideration of three aspects: materiality by value, nature and context.

— Material errors by value are those which are simply of significant numerical size to distort the reader's perception of the financial statements. Our assessment of the threshold for this depends upon the size of key figures in the financial statements, as well as other factors such as the level of public interest in the financial statements.

— Errors which are material by nature may not be large in value, but may concern accounting disclosures of key importance and sensitivity, for example the salaries of senior staff.

— Errors that are material by context are those that would alter key figures in the financial statements from one result to another – for example, errors that change successful performance against a target to failure.

We used the same planning materiality reported in our External Audit Plan 2015/16, presented to you in April 2016.

Materiality for the Authority's accounts was set at £600k which equates to around 1.5 percent of gross expenditure. We design our procedures to detect errors in specific accounts at a lower level of precision.

Reporting to the Governance and Audit Committee

Whilst our audit procedures are designed to identify misstatements which are material to our opinion on the financial statements as a whole, we nevertheless report to the Governance and Audit Committee any misstatements of lesser amounts to the extent that these are identified by our audit work.

Under ISA 260, we are obliged to report omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. ISA 260 defines 'clearly trivial' as matters that are clearly inconsequential, whether taken individually or in aggregate and whether judged by any quantitative or qualitative criteria.

ISA 450 requires us to request that uncorrected misstatements are corrected.

In the context of the Authority, we propose that an individual difference could normally be considered to be clearly trivial if it is less than £30k for the Authority.

Where management have corrected material misstatements identified during the course of the audit, we will consider whether those corrections should be communicated to the Governance and Audit Committee to assist it in fulfilling its governance responsibilities.

Declaration of independence and objectivity

Auditors appointed by Public Sector Audit Appointments Ltd must comply with the Code of Audit Practice.

Requirements

Auditors appointed by Public Sector Audit Appointments Ltd must comply with the Code of Audit Practice (the 'Code') which states that:

"The auditor should carry out their work with integrity, objectivity and independence, and in accordance with the ethical framework applicable to auditors, including the ethical standards for auditors set by the Financial Reporting Council, and any additional requirements set out by the auditor's recognised supervisory body, or any other body charged with oversight of the auditor's independence. The auditor should be, and should be seen to be, impartial and independent. Accordingly, the auditor should not carry out any other work for an audited body if that work would impair their independence in carrying out any of their statutory duties, or might reasonably be perceived as doing so."

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 Public Sector Audit Appointments Ltd *Terms of Appointment* ('Public Sector Audit Appointments Ltd 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. Public Sector Audit Appointments Ltd 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.

Declaration of independence and objectivity (cont.)

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.

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.

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 ended 31 March 2016, 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 Public Sector Audit Appointments Ltd requirements in relation to independence and objectivity.

Audit Independence

Audit Fees

Our scale fee for the audit is £43,403 excluding VAT (£57,871 in 2014/15). This fee is in line with that highlighted within our audit plan agreed by the Governance and Audit Committee in March 2016. Our scale fee for certification of housing benefits subsidy is £3,696 excluding VAT (£7,340 in 2014/15).

Non-audit services

During 2015/16 we provided tax services in relation to the establishment of a Local Authority Trading entity ('LATC') and potential entity acquisition. The fee for this work was £14,000 excluding VAT.