KPMG

DRAFT External audit report 2016-17

West Lindsey District Council

August 2017

Summary for Governance and Audit Committee

Financial statements

This document summarises the key findings in relation to our 2016-17 external audit at West Lindsey District Council ('the Authority').

This report focusses on our on-site work which was completed in June and July 2017 on the Authority's significant risk areas, as well as other areas of your financial statements. Our findings are summarised in Section 1.

Subject to all outstanding queries being resolved to our satisfaction we anticipate issuing an unqualified audit opinion on the Authority's financial statements before the deadline of 30 September 2017.

There are currently the following outstanding matters:

- Final audit Director review;
- Addressing any remaining audit queries and any matters arising from our completion procedures;
- General audit file completion and review procedures;
- Post balance sheet events review up to the date of signing the audit opinion; and
- Final review the working papers and amended accounts.

There were a number of minor presentational matters which officers agreed to amend in the final statement of accounts. There are no audit adjustments that we need to report to you.

Based on our work, we have raised 1 recommendation. Details can be found in Appendix 1.

Subject to clearance of our final queries and final (including Director) review we are moving into the completion stage of the audit and currently anticipate issuing our completion certificate alongside the opinion and vfm conclusion in September 2017.

Use of resources

We have completed our risk-based work to consider whether in all significant respects the Authority has proper arrangements to ensure it has taken properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. We have concluded that the Authority has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

We therefore anticipate issuing an unqualified value for money opinion.

See further details in section two.

Public Interest Report

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 nothing to report.

Acknowledgements

We would like to take this opportunity to thank officers and Members for their continuing help and co-operation throughout our audit work.

We ask the Governance and Audit Committee to note this report.

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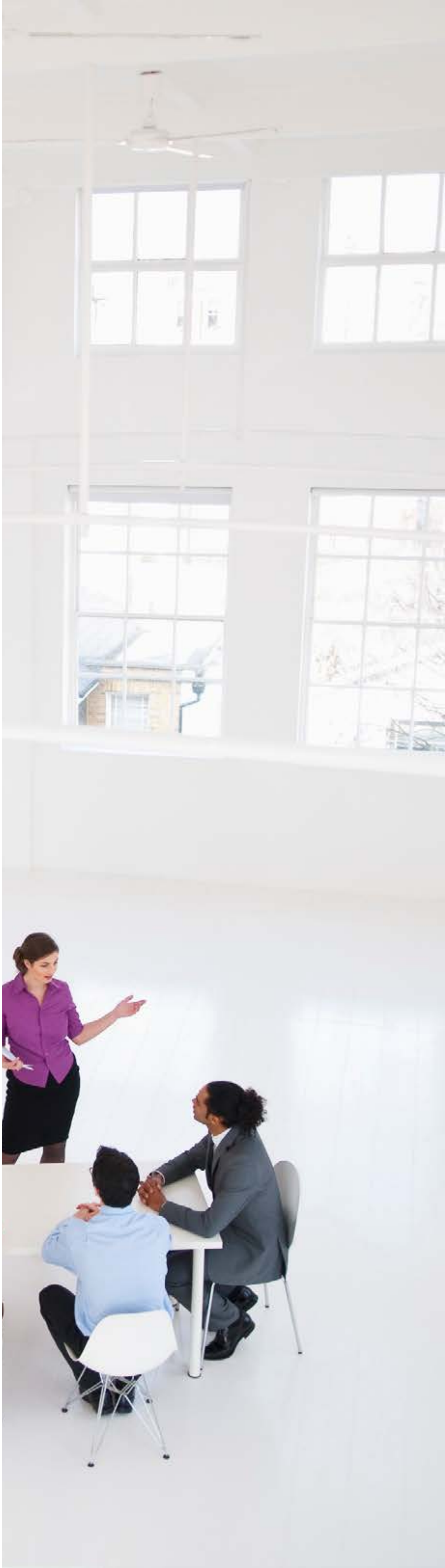
Contents

Section one

Financial Statements

We anticipate issuing an unqualified audit opinion on the Authority's 2016-17 financial statements by 30 September 2017. We will also report that your Annual Governance Statement complies with the guidance issued by CIPFA/SOLACE (*'Delivering Good Governance in Local Government'*) published in April 2016.

For the year ending 31 March 2017, the Authority has reported a General Fund surplus of £0.6m and your useable reserves total has increased to £21.2m.



Significant audit risks

Our *External Audit Plan 2016-17* sets out our assessment of the Authority's significant audit risks. We have completed our testing in these areas and set out our evaluation following our work:

Significant audit risks	Work performed
1. Significant changes in the pension liability due to LGPS Triennial Valuation	**Why is this a risk?** During the year, the Pension Fund has undergone a triennial valuation with an effective date of 31 March 2016 in line with the *Local Government Pension Scheme (Administration) Regulations 2013*. The share of pensions assets and liabilities for each admitted body is determined in detail, and a large volume of data is provided to the actuary to support this triennial valuation. 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. **Our work to address this risk** We have reviewed the process used to submit payroll data to the Pension Fund and have found no issues to note. We have also tested the year-end submission process and other year-end controls. We have also substantively agreed the total figures submitted to the actuary to the ledger with no issues to note. We have engaged with the Lincolnshire Pension Fund auditors to gain assurance over the pension figures. There are no matters from our work which we need to draw to your attention.

Considerations required by professional standards

Fraud risk of revenue recognition

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 2016/17* 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.

Management override of controls

Professional standards require us to communicate the fraud risk from management override of controls as significant because 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.

Our audit methodology incorporates the risk of management override as a default significant risk. 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.

Other areas of audit focus

We identified three areas of audit focus. This is not considered a significant risk as it is less likely to give rise to a material error. Nonetheless this is an area of importance where we would carry out substantive audit procedures to ensure that there is no risk of material misstatement.

<table>
<tr><th>Other areas of audit focus</th><th>Our work to address the areas</th></tr>
<tr><td>1. Disclosures associated with retrospective restatement of CIES, EFA and MiRS</td><td>Background

CIPFA has introduced changes to the 2016-17 Local Government Accounting Code (Code):

— Allowing local authorities to report on the same basis as they are organised by removing the requirement for the Service Reporting Code of Practice (SeRCOP) to be applied to the Comprehensive Income and Expenditure Statement (CIES); and

— Introducing an Expenditure and Funding Analysis (EFA) which provides a direct reconciliation between the way local authorities are funded and prepare their budget and the CIES. This analysis is supported by a streamlined Movement in Reserves Statement (MiRS) and replaces the current segmental reporting note.

The Authority was required to make a retrospective restatement of its CIES (cost of services) and the MiRS. New disclosure requirements and restatement of accounts require compliance with relevant guidance and correct application of applicable accounting standards.

What we have done

For the restatement, we have obtained an understanding of the methodology used to prepare the revised statements. We have also ensured compliance with new disclosure requirements and found no issues to note.</td></tr>
<tr><td>2. Disclosure of the Authority's companies</td><td>Background

The Authority has established WLDC Trading Ltd as a holding company for its commercial operations and has already set up the first of its planned Companies Limited by Shares (Surestaff). The Authority was planning to set up its second company under this structure (for operating the Authority's Building Control commercial services). It is important that the Council ensure that the financial statements properly reflect its relationship with these companies.

What we have done

We have reviewed the assessment of the Authority's companies prepared by the finance team and agreed with the planned accounting and disclosure of these companies.</td></tr>
<tr><td>3. Provision for business rate appeals</td><td>Background

The level of unsettled business rates appeals had not significantly reduced nationally and there was the continuing risk that the amounts set aside as provisions may not be adequate. The provision at 31/3/16 (£0.77m) was close to our overall materiality level.

What we have done

We reviewed the basis of the 2016/17 provision and concluded that it was not materially misstated.</td></tr>
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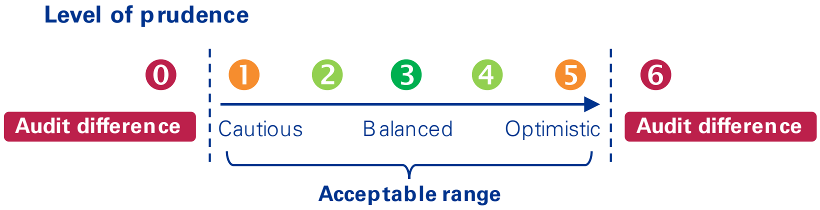
Judgements

We have considered the level of prudence within key judgements in your 2016-17 financial statements and accounting estimates. We have set out our view below across the following range of judgements.



Subjective areas	2016-17	2015-16	Commentary
Property, Plant and Equipment (PPE) valuations	3	3	PPE are valued at £20.9m. Valuations are consistent with information provided by the external valuer.
Non Domestic Rates provision	3	3	The Council has established a £0.77m provision to meet its share of the cost of any successful rateable value appeals. The provision has been estimated on a similar basis to that in previous years and we concluded that it was not materially misstated.
Pensions liability	3	3	The reported balance (£36.4m), together with assumptions and disclosures for inflation, discount rate, salary growth, life expectancy etc. are consistent with the report from the external actuary.

Proposed opinion and audit differences

Subject to all outstanding queries being resolved to our satisfaction, we anticipate issuing an unqualified audit opinion on the Authority's 2016-17 financial statements following approval of the Statement of Accounts by the Governance and Audit Committee on 14 September 2017.

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 (see Appendix 3 for more information on materiality) level for this year's audit was set at £850,000. Audit differences below £42,000 are not considered significant.

We did not identify any material misstatements. We identified a number of minor presentational issues that have been adjusted by management.

Annual governance statement

We have reviewed the Authority's 2016-17 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.

Narrative report

We have reviewed the Authority's 2016-17 narrative report and have confirmed that it is consistent with the financial statements and our understanding of the Authority.

Accounts production and audit process

Auditing standards (*ISA 260*) require us to communicate our views on the significant qualitative aspects of the Authority's accounting practices and financial reporting.

We assessed the Authority's process for preparing the accounts and its support for an efficient audit. The efficient production of the financial statements and good-quality working papers are critical to meeting the tighter deadlines.

Accounting practices and financial reporting

The Authority has recognised the additional pressures which the earlier closedown in 2017-18 will bring. We have been engaging with the Authority in the period leading up to the year end in order to proactively address issues as they emerge.

The Authority published its draft financial statements on 31 May 2017. This puts the Authority in a good position to meet the new 2017-18 deadline. We consider the Authority's accounting practices appropriate.

Completeness of draft accounts

We received a complete set of accounts for audit on 31 May 2017, which is before the 30 June 2017 statutory deadline.

Quality of supporting working papers

Our *Accounts Audit Protocol 2016/17* ("Prepared by Client" request) outlined our documentation request. This helped the Authority to provide audit evidence in line with our expectations. We followed this up with a meeting with Management to discuss specific requirements of the document request list.

We worked with management to ensure that working paper requirements are understood and aligned to our expectations. We are pleased to report that this has resulted in good-quality working papers with supporting audit trails.

Response to audit queries

The finance team responded promptly during the audit to our requests for additional information or explanation.

Controls over key financial systems

We have tested controls as part of our focus on significant audit risks and other parts of your key financial systems on which we rely as part of our audit. The strength of the control framework informs the substantive testing we complete during our final accounts visit.

We have assessed the effectiveness of your key financial system controls, on which we rely as part of our audit. We found that the financial controls on which we seek to place reliance are operating effectively and there are no exceptions that we need to include in this report.

Prior year recommendations

As part of our audit we have followed up the Authority's progress in addressing the recommendation in last year's ISA 260 report. Appendix 1 provides further details on this.

Completion

We confirm that we have complied with requirements on objectivity and independence in relation to this year's audit of the Authority's 2016/17 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 ending 31 March 2017, 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 4 in accordance with ISA 260.

Management representations

You are required to provide us with representations on specific matters such as your financial standing and whether the transactions within the accounts are legal and unaffected by fraud. We have provided a template to the Responsible Finance Office for presentation to the Governance and 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 judgement, 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.).

We have made a control observation at Appendix 1 regarding the continuing recommendation relating to the Authority's bank reconciliation arrangements. There are no others matters which we wish to draw to your attention in addition to those highlighted in this report.

Section two

Value for money

Our 2016-17 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 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.

VFM conclusion

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'.

The Code of Audit Practice, published by the NAO in April 2015, 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.'

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.

1 Identification of significant VFM risks (if any)

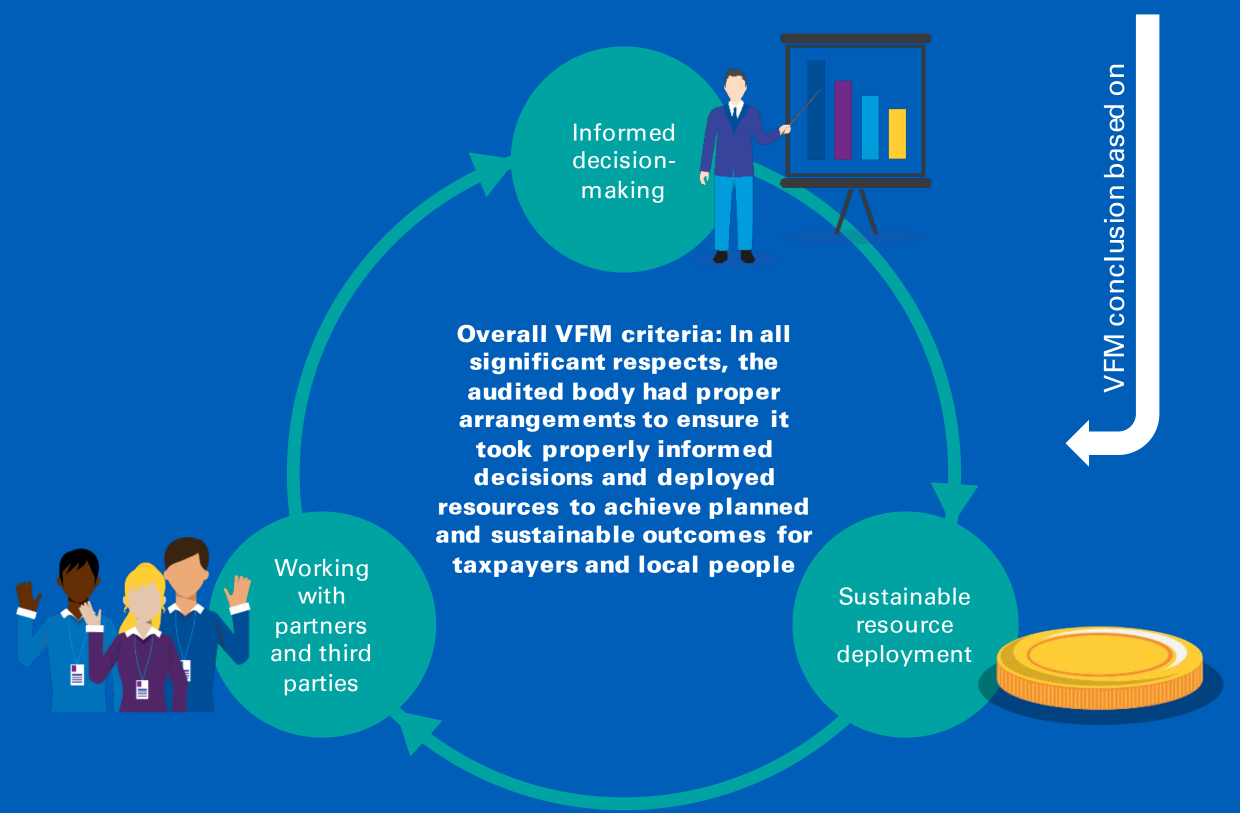
- VFM audit risk assessment
- Financial statements and other audit work

2 Continually re-assess potential VFM risks

- Assessment of work by other review agencies
- Specific local risk-based work

3 VFM conclusion

- **Conclude on arrangements to secure VFM**



The table below summarises our assessment of the individual VFM risk factor identified against the three sub-criteria. This directly feeds into the overall VFM criteria and our value for money opinion.

VFM assessment summary			
VFM risk	**Informed decision-making**	**Sustainable resource deployment**	**Working with partners and third parties**
Financial resilience	✓	✓	✓

In consideration of the above, we have concluded that in 2016-17, 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.

Further details on the work done and our assessment are provided on the following pages.

VFM risk assessment

We have identified one area of focus for our continuing VFM risk assessment, as communicated to you in our *2016-17 External Audit Plan*. We are satisfied that external or internal scrutiny provides sufficient assurance that the Authority's current arrangements in relation to this risk area is adequate and no additional significant VFM risks have been identified.

Significant VFM risks	Work performed
1. Financial resilience	There has been a significant shift in the national outlook over the last 12 months, primarily driven by the outcome of the referendum on 23 June 2016 on the UK's membership of the European Union. Consequently GDP growth forecasts have been revised downwards, which potentially reduces the level of any growth in business rates income. Inflationary pressures, service pressures, and a reduction in the local government finance settlement will impact on the Authority's finances. In March 2017 , the Council approved its Financial Strategy and Medium Term Financial Plan (MTFP) 2017/18 – 2020/21 that set out a balanced budget for 2017/18. The Authority has identified funding gaps over the life of its MTFS; however it is confident that it can identify sufficient savings and generate income to bridge the forecast gap in the MTFP and intends to closely monitor the position. **Summary of our work** Like most of local government, the Authority faces a challenging future driven by funding reductions and an increase in demand for services. We have summarised below and overleaf our key findings in relation to the three criteria for 2016/17 VFM conclusion in relation to the significant risk. **Informed decision making and working with partners and third parties** We have not identified any matters we wish to draw to the Authority's attention in relation to its arrangements for ensuring informed decision making and working with partners and third parties. **Sustainable resource deployment - 2016/17 Outturn** The MTFP 2015/16 identified a potential £0.7m funding gap for 2016/17. The Authority was able to identify sufficient savings opportunities to set a balanced 2016/17 budget and the planned savings were achieved. The Authority reported a net contribution to the General Fund Balance of a little over £1m. The Authority has maintained its earmarked reserves at over £13m, including £5.7m to support Regeneration and Growth and £1.1m as a Budget Smoothing reserve to help manage cyclical budget issues. The main budget savings were in relation to the costs of salaries (£61k) and fuel (£53k), whilst additional income was achieved from planning fees (£294k), property rents (£118k) and general government grants (£106k).

Significant VFM risks	Work performed
1. Financial resilience (continued)	**Planned Budget for 2017/18 and future years**

The Authority set a balanced budget for 2017/18. The MTFP identified an expected surplus budget in 2017/18 but sets out the financial challenges in 2019/20 and future years, with further savings of £0.4 million required by 2021/22 (see the table below for details). We have considered the Authority's arrangements in 2016/17 to identifying and achieving savings and have found that appropriate arrangements are in place.

	2018/19 £000s	2019/20 £000s	2020/21 £000s	2021/22 £000s
Savings target	(77)	125	440	434

The MTFS acknowledges there are risks attached to the proposals and that the medium term financial sustainability is dependent on the successful delivery of the Authority’s commercial and growth opportunities, and improvement and transformation of its services. These proposals are challenging and in July 2017 the Authority was forecasting a £135k shortfall against its 2016/17 target of £270k income from investment properties; the Authority has targeted £600k income from this source by 2021. The Authority needs to continue to closely monitor progress and ensure its MTFS is kept up to date.

Appendices

Key issues and recommendations

We have followed up progress made in relation to the recommendation made in 2015/16 and made a continuing recommendation on the same topic for 2016/17.

Each issue and recommendation have been given a priority rating, which is explained below.

High priority 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.

Medium priority 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.

Low priority Issues that would, if corrected, improve internal control in general but are not vital to the overall system. These are generally issues of good practice that we feel would benefit if introduced.

The following is a summary of the issues and recommendation raised in 2016/17 and the previous year.

Recommendations summary

Priority	Total raised in 2015/16	Total raised for 2016/17
High	0	0
Medium	1	1
Low	0	0
Total	1	1

Previous year's continuing recommendation

2015/16 finding - 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.

2015/16 Recommendation

Officers should seek to simplify the presentation of the monthly bank reconciliation.

2015/16 Management Response

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.

Follow up 2016/17

Managers implemented a new automated bank reconciliation system that went live in May 2016. However, this process did not operate as intended and resulted in several posting errors. At our interim audit there were several unresolved items in the Month 10 reconciliation which managers were, in liaison with the software supplier, working to clear. In the meantime managers had reverted to the manual reconciliation procedures. These matters had been resolved by the date of our final accounts audit.

Continuing recommendation 2016/17

Managers need to continue to review these arrangements to ensure there are effective, efficient and reliable bank reconciliation procedures in place.

Management Response

Agreed. We are now satisfied that the bank reconciliation system issues have been fully resolved and we will continue to review our reconciliation procedures for cash and other systems to ensure they are operating effectively.

Audit differences

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.

Our audit did not identify any material misstatements. There were a number of presentational matters which officers agreed to amend. We will check these expected amendments have been made to the final statement of accounts before giving our audit opinion. There are no agreed changes that we need to highlight in this report.

Materiality and reporting of audit differences

The assessment of what is material is a matter of professional judgement 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 2016-17, presented to you in February 2017.

Materiality for the Authority's accounts was set at £850,000 which equates to around 1.9% 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 £35,000 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 (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.

General procedures to safeguard independence and objectivity

KPMG LLP is committed to being and being seen to be independent. As part of our ethics and independence policies, all KPMG LLP Audit Partners and staff annually confirm their compliance with our Ethics and Independence Manual including in particular that they have no prohibited shareholdings.

Our Ethics and Independence Manual is fully consistent with the requirements of the Ethical Standards issued by the UK Auditing Practices Board. As a result we have underlying safeguards in place to maintain independence through: Instilling professional values, Communications, Internal accountability, Risk management and Independent reviews.

We would be happy to discuss any of these aspects of our procedures in more detail.

Auditor declaration

In relation to the audit of the financial statements of West Lindsey District Council for the financial year ending 31 March 2017, 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.

Non-audit work and independence

Below we have listed the non-audit work performed and set out how we have considered and mitigated (where necessary) potential threats to our independence.

Summary of non-audit work		
Description of non-audit service	**Estimated fee**	**Potential threat to auditor independence and associated safeguards in place**
Tax advice regarding group structure considerations	£5,200	**Self-interest**: This engagement is entirely separate from the audit through a separate contract. Therefore, the engagement had no perceived or actual impact on the audit team and the audit team resources that were deployed to perform a robust and thorough audit. **Self-review:** The nature of this work was to provide tax advice. It does not impact on our opinion and we did not consider that the outcome of this work would be a threat to our role as external auditors. The existence of a separate team for this work is a further safeguard. Consequently, we consider we have appropriately managed this threat. **Management threat:** This work was for advice and support only and all decisions were made by the Council's managers. **Familiarity**: This threat was limited given the scale, nature and timing of the work. The existence of the separate team for this work is the key safeguard. **Advocacy**: We did not act as advocates for the Authority in any aspect of this work. . **Intimidation**: not applicable
Total estimated fees	**£5,200**	
Total estimated fees as a percentage of the external audit fees	**12%**	

Audit fees

Audit fees

As communicated to you in our External Audit Plan 2016-17, our scale fee for the audit is £43,403 plus VAT *(£43,403 in 2015-16)*. However, we propose an additional fee due to further work required in relation to the CIES restatement.

Our work on the certification of Housing Benefits (BEN01) is planned for October 2017. The planned scale fee for this is £6,176 plus VAT, see further details below.

PSAA fee table		
Component of audit	**2016/17** *(planned fee)* £	**2015/16** *(actual fee)* £
Accounts opinion and use of resources work		
PSAA scale fee set in 2014-2015	43,403	43,403
Additional work to conclude our opinions (note 1)	TBC	0
Subtotal	**43,403***	**43,403**
Housing benefits (BEN01) certification work		
PSAA scale fee set in 2014/15 – planned for October 2017	6,176	3,696
Total fee for the Authority set by the PSAA	**49,579**	**47,099**

All fees are quoted exclusive of VAT.

Note 1: Accounts opinion and use of resources work

For 2016/17, we have discussed additional fee in relation to the work undertaken in respect of the CIES restatement. This is still subject to final agreement and PSAA approval.

*** Does not include the additional fee re Note 1**