Appendix A

KPMG

External Audit ISA260 Report 2017/18

West Lindsey District Council

July 2018

Summary for Governance and Audit Committee

Background

This document summarises the key findings in relation to our 2017-18 external audit at West Lindsey District Council ('the Authority').

This report covers both our on-site work which was completed in June and July 2018 on the Authority's significant risk areas, as well as other areas of your financial statements. The report is prepared for presentation at the Governance and Audit Committee meeting of 24 July 2018. We will update the Committee at its meeting on any significant matters contained in this report.

Financial statements

Subject to completion of the remaining work and 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 31 July 2018.

The remaining audit work includes the following matters:

- Final Audit Director review;
- Addressing any remaining audit queries, obtaining required information from third parties and any further 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 of the working papers and amended accounts.

Based upon our initial assessment of risks to the financial statements (as reported to you in our *External Audit Plan 2017/18* and updated during our audit) we identified the following significant risks (excluding those mandated by International Standards on Auditing):

— **Valuation of PPE** – the Authority operates a cyclical revaluation approach and we considered the way in which the Authority ensures that assets not subject to in-year revaluation are not materially misstated;

— **Pensions Liabilities** – we reviewed the processes in place to ensure accuracy of data provided to the Actuary and considered the assumptions used by the Actuary in determining the valuation;

— **Faster Close -** the timetable for the production of the financial statements has been significantly advanced and we worked with the Authority in advance of our audit to understand the steps being taken to meet these deadlines and the impact on our work.

There are no audit adjustments arising from our work that we need to report to you. There are no unadjusted audit differences that we need to report to you.

We are now in the completion stage of the audit and anticipate issuing our completion certificate alongside the audit opinion and VFM conclusion before 31 July 2018. We expect to issue our Annual Audit letter before the end of September 2018.

Summary for Governance and Audit Committee (cont.)

Control Environment	We have assessed the effectiveness of your key organisational and financial system controls, on which we rely as part of our audit. Overall we found that the controls on which we seek to place reliance are operating effectively.
Value for money arrangements	We have completed our risk-based work to consider whether in all significant respects the Authority has proper arrangements to ensure 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.** We set out our assessment of those areas requiring additional risk based work in our *External Audit Plan 2017/18* and have updated this assessment during our interim visit. We identified the following significant VFM audit risk: — **Financial resilience** – The Authority continues to face similar financial pressures and uncertainties to those experienced by others in the sector and falling levels of government grant. The total of the Revenue Support and Rural Services Grants has fallen from £1.86m in 2016-17 to £1.14m in 2017-18 (a 38% reduction), with the Revenue Support Grant expected to fall to nil by 2019/20. We considered the arrangements the Authority has in place for managing its annual budget, generating income and identifying and implementing any savings required to balance its medium term financial plan. See further details on page 18.
Whole of Government Accounts	The national audit deadline for reporting on authorities' 2017/18 Whole of Government Accounts (WGA) return is 31 August 2018. We have completed the relevant audit procedures required and expect to issue our report at the same time as we give the opinion on the financial statements. .
Exercising of audit powers	We have a duty to consider whether to issue a report in the public interest about something we believe the Authority should consider, or if the public should know about. We have not identified any matters that would require us to issue a public interest report. In addition, we have not had to exercise any other audit powers under the Local Audit & Accountability Act 2014.
Acknowledgements	We would like to thank this opportunity to thank officers and Members for their continuing help during this year's audit.

Section one

Control Environment

Organisational and IT control environment

We have identified no significant issues with the Authority's control environment and consider that the overall arrangements that have been put in place are reasonable.

Organisational control environment

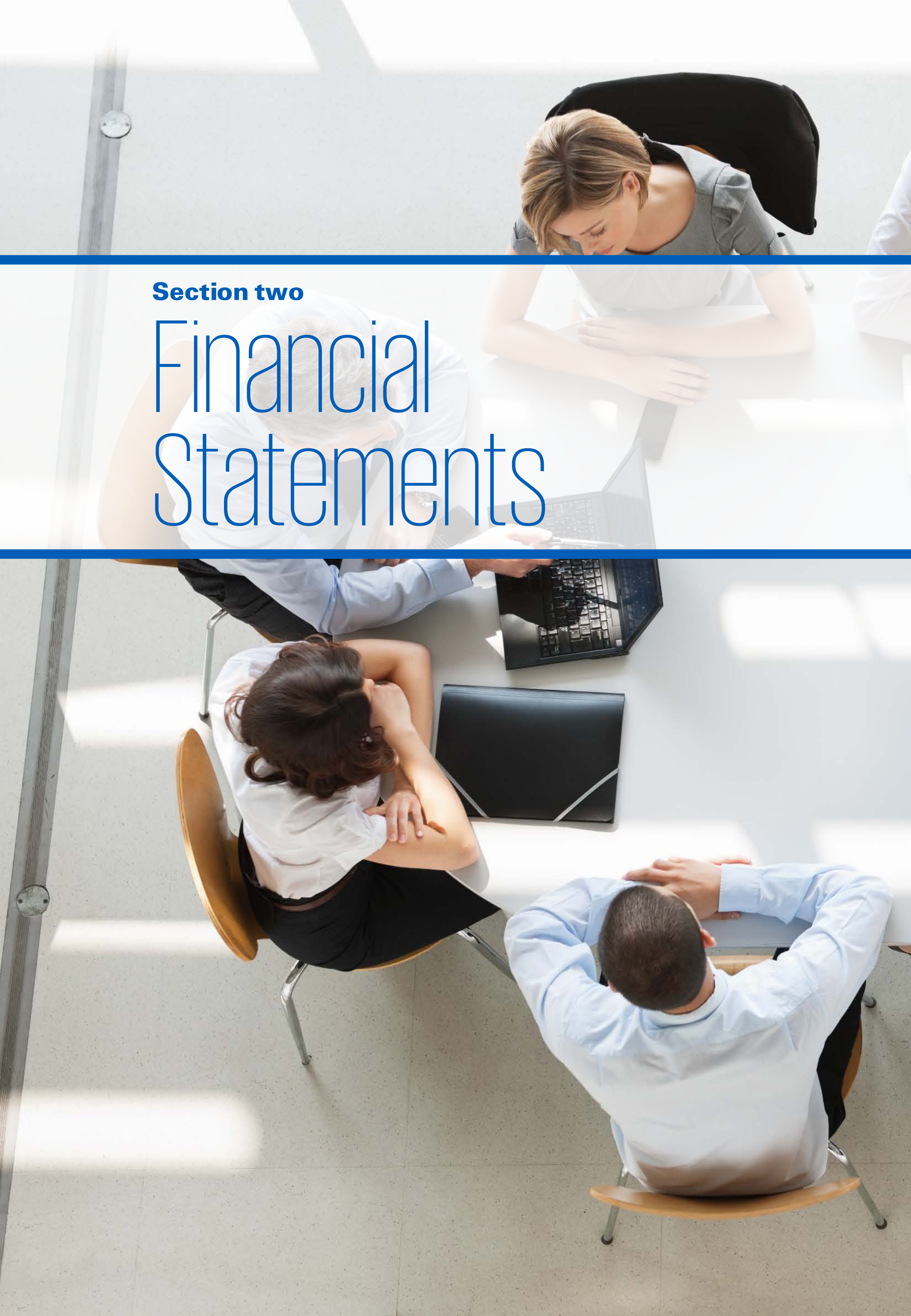
Controls operated at an organisational level often have an impact on controls at an operational level and if there were weaknesses this would have implications for our audit. We obtain an understanding of the Authority's overall control environment and determine if appropriate controls have been implemented. We do not complete detailed testing of these controls.

Controls over key financial systems

We have assessed the design and/or operation of certain key 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 financial system control framework informs the substantive testing we complete during our final accounts visit. Overall we found that the financial controls on which we seek to place reliance are operating effectively.

Section two

Financial Statements



Accounts production and audit process

Audit standards (ISA 260) require us to communicate our views on 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. The efficient production of the financial statements and good-quality working papers was critical to meeting the tighter deadlines this year.

The Authority's overall process for the preparation of the financial statements and supporting working papers was effective.

Accounts practices and production process

The Authority published a complete set of draft accounts by 31 May 2018. We consider that the overall process for the preparation of your financial statements was effective. We also consider the Authority's accounting practices appropriate.

Going concern

The financial statements of the Authority have been prepared on a going concern basis. We confirm that we have identified no significant matters which would, in our view, affect the ability of the Authority to continue as a going concern.

Completeness of draft accounts

The Authority published a complete set of draft accounts on 31 May 3018, which is the statutory deadline.

Quality of supporting working papers

We issued our Accounts Audit Protocol to officers before the start of the audit. This important document sets out our audit approach and timetable. It also summarises the working papers and other evidence we require the Authority to provide to support our audit work. This helps the Authority to provide audit evidence in line with our expectations.

The working papers provided this year have been of a good standard. The requested working papers were available at the start of the audit visit and the finance team responded promptly to any requests for additional information or explanation.

Response to audit queries

Finance staff were available throughout the audit visit to answer our queries and the queries were responded to promptly. We thank the finance team for their co-operation throughout the visit which allowed the audit to progress within the allocated timeframe.

Specific audit areas

We anticipate issuing an unqualified audit opinion on the Authority's 2017-18 financial statements by 31 July 2018.

Auditing standards require us to consider two standard risks for all organisations. We consider these as a matter of course in our audit and will have set out the findings arising from our work in our ISA 260 Report below.

01

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.

02

Fraudulent 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 2017-18* 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.

Specific audit areas

Significant Audit Risks – Authority

Those risks requiring specific audit attention and procedures to address the likelihood of a material financial statement error in relation to the Authority.

Risk:

Valuation of PPE

The Code requires that where assets are subject to revaluation, their year end carrying value should reflect the appropriate fair value at that date. The net book value of the Authority's PPE at 31st March 2017 was over £20.9m. The Authority carries out a full valuation once every five years, with the last full revaluation at 31 March 2014. The Authority needs to have reliable arrangements for ensuring these assets are not materially misstated in the years between full valuations.

Our assessment and work undertaken:

We reviewed the approach that the Authority has adopted to address the risk that assets not subject to valuation are materially misstated

In relation to those assets which have been revalued during the year we reviewed the accounting entries made to record the results of the revaluation in order to ensure that they were appropriate.

We assessed the valuer's qualifications, objectivity and independence to carry out such valuations.

We are satisfied that the PPE assets reviewed were not materially misstated.

Specific audit areas (cont.)

Significant Audit Risks – Authority (cont.)

Risk:	**Pension Liabilities** The net pension liability represents a material element of the Authority's balance sheet. The Authority is an admitted body of Lincolnshire Local Government Pension Fund, which had its last triennial valuation completed as at 31 March 2016. This forms an integral basis of the valuation as at 31 March 2018. The valuation of the Local Government Pension Scheme relies on a number of assumptions, most notably around the actuarial assumptions, and actuarial methodology which results in the Authority's overall valuation. There are financial assumptions and demographic assumptions used in the calculation of the Authority's valuation, such as the discount rate, inflation rates, mortality rates etc. The assumptions should also reflect the profile of the Authority's employees, and should be based on appropriate data. The basis of the assumptions is derived on a consistent basis year to year, or updated to reflect any changes. There is a risk that the assumptions and methodology used in the valuation of the Authority's pension obligation are not reasonable. This could have a material impact on the net pension liability accounted for in the financial statements.
Our assessment and work undertaken:	As part of our work we liaised with the Authority to understand and review the controls that are in place over the information sent directly to the Scheme Actuary. We also liaised with the auditors of the Pension Fund in order to gain an understanding of the effectiveness of the arrangements operated by the Pension Fund. We reviewed the appropriateness of the key assumptions included within the valuation, compared them to expected ranges and involved a KPMG Actuary to provide a specialist assessment of those assumptions. We also evaluated the competency, objectivity and independence of Fund's actuary, Hymans Robertson, and reviewed the methodology applied in their valuation We reviewed the overall Actuarial valuation report obtained and considered the disclosure implications in the financial statements. In order to determine whether the net pension liability has been appropriately accounted for we also considered the valuation of pension assets. We obtained assurance from the Pension Fund auditors over the overall value of fund assets. We then liaised with the actuary to understand how these assets are allocated across participating bodies. Some elements of this work are still in progress at the date of this report. For example, we have not yet had a full response from the Pension Fund auditors to our enquiries. Subject to completion of the remaining work and all outstanding queries being resolved to our satisfaction As a result of this work we determined that the net pension liability had been properly accounted for and disclosed in the financial statements.

Specific audit areas (cont.)

Significant Audit Risks – Authority (cont.)

Risk:

Faster Close

In prior years, the Authority has been required to prepare draft financial statements by 30 June and then final signed accounts by 30 September. For years ending on and after 31 March 2018 however, revised deadlines apply which require draft accounts by 31 May and final signed accounts by 31 July.

During 2016/17, the Authority started to prepare for these revised deadlines and advanced its own accounts production timetable so that draft accounts were published by 31 May 2017. The finance team responded promptly to any audit queries or requests for additional information. There were though delays in the response by third parties to our audit information requests, specifically for investment and bank balances. There are a number of additional logistical challenges that will need to be managed for 2017-18, including confirming the processes surrounding our reporting to the Governance and Audit Committee. If the arrangements are not effectively managed there is a significant risk that the audit will not be completed by the 31 July deadline.

There is also an increased likelihood that the Audit Certificate (which confirms that all audit work for the year has been completed) may be issued separately at a later date if work is still ongoing in relation to the Authority's Whole of Government Accounts return. This is not a matter of concern and is not seen as a breach of deadlines.

Our assessment and work undertaken:

We liaised with officers in preparation for our audit in order to understand the steps that the Authority was taking in order to ensure it met the revised deadlines and the accounts and supporting working papers were of the required quality. We confirmed that there was no increased reliance on estimates as part of the closedown process. We confirmed that the Authority published a complete set of draft financial statements on 31 May 2018.

As a result of this work we determined that the Authority had met the earlier financial reporting requirement. We expect to be able to issue the Audit Certificate at the same time as we issue the audit opinion on the Statement of Accounts.

Specific audit areas (cont.)

Other areas of audit focus

In our *External Audit Plan 2017-18* we identified the following as risks with less likelihood of giving rise to a material error but which are nevertheless worthy of audit understanding.

Issue -Commercial Investments

The Authority has continued to pursue opportunities for commercial property investments and other joint ventures. In 2017/18 this has so far included £2.4m acquiring an investment property, with further investments expected before the year end, as well as progressing and supporting other substantial schemes such as the Market Street joint venture proposal and the former Sun Hotel development.

Nationally there is concern regarding the level of commercial property investment activity by councils, its financing and compliance with relevant accounting and legislative requirements. DCLG has recently consulted on proposed changes to the statutory guidance applying to these investments.

Our response

We discussed the accounting and financing arrangements with managers and reviewed for compliance with relevant statutory requirements.

Issue - Companies and Joint Venture

The Authority has established WLDC Trading Ltd as a holding company for its commercial operations and its other Companies Limited by Shares. It is important that the Authority ensure that the financial statements properly reflect its relationship with these companies, as well as the joint venture referred to above.

Our response

We liaised with the Authority's finance team regarding the planned accounting and disclosure of these companies and the joint venture, and reviewed the disclosures made to ensure they complied with relevant guidance.

Issue - Officers' remuneration disclosures

Although senior manager's remuneration is not material in value there are specific disclosure requirements which have a relatively high profile in the financial statements. It is important that the Authority complies with these requirements.

Our response

We liaised with the Authority's finance team regarding the planned disclosures and reviewed the disclosures made to ensure they complied with relevant guidance.

Judgements

We have considered the level of prudence within key judgements in your 2017-18 financial statements and accounting estimates. We have set out our view below across the following range of judgements.

Level of prudence

0	1	2	3	4	5	6
Audit Difference	Cautious		Balanced		Optimistic	**Audit Difference**
			Acceptable Range			

Subjective area	2017-18	2016-17	Commentary
Property, Plant and Equipment (PPE) valuations	3	3	Valuations are consistent with information provided by the independent expert valuers. We have reviewed the arrangements and discussed the approach with managers. The Authority has not made any significant changes to its approach to asset lives or its valuation arrangements.
Pensions Liability	3	3	There have been no significant changes in the approaches to determining the estimate. The Authority has again relied on an independent expert actuarial valuation for its estimates. We did not identify any concerns regarding the Authority's approach or the assumptions used. 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.
Business Rates Provision	1	3	The Authority's share of provision for business rates appeals as at 31 March 2018 is £0.77m which includes £0.3m relating to 2017 Valuation. Currently there is no available appeals information from the Valuation Office Agency relating to the 2017 Valuation. As a result the Authority have made a cautious judgement by having a provision for appeals relating to the 2017 Valuation. Whilst this meets the International Accounting Standard 37 on provisions, the prudent approach would have been to set aside a reserve for future appeals relating to the 2017 Valuation. The level of the provision is not material.

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 2017-18 financial statements following approval of the Statement of Accounts by the Governance and Audit Committee on 24 July 2018.

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 2) for this year's audit was set at £0.85 million. Audit differences below £45,000 are not considered significant.

We did not identify any material misstatements. There are no adjusted or unadjusted misstatements identified during our audit that we are required to report to you.

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 2017-18 ('the Code'). These presentational adjustments were not significant and there are none that we are required to bring to your attention in this report.

Annual governance statement

We have reviewed the Authority's final 2017-18 Annual Governance Statement and confirmed that it is not misleading and is consistent with other information we are aware of from our audit of the financial statements.

Narrative report

We have reviewed the Authority's 2017-18 narrative report and have confirmed that it is consistent with the financial statements and our understanding of the Authority.

Completion

We confirm that we have complied with requirements on objectivity and independence in relation to the audit of the Authority's 2017-18 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 2018, 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, whether the transactions within the accounts are legal and unaffected by fraud. We have provided a template to managers 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 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 2017-18 financial statements.

Section three

Value for Money Arrangements

Specific value for money risk areas

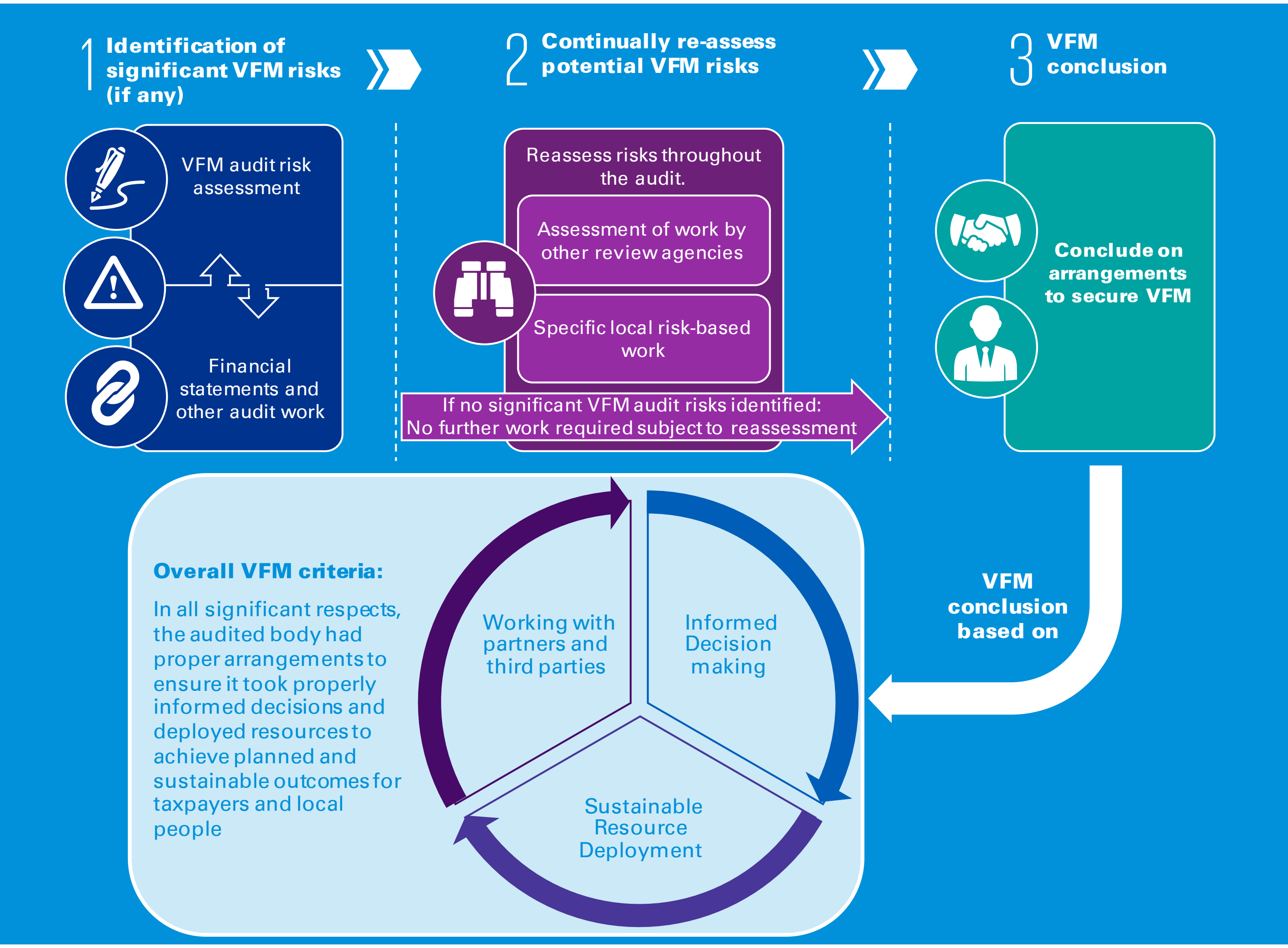
Our 2017-18 VFM conclusion considers whether the Authority had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.

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.

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.'

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



Specific value for money risk areas (cont.)

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

Applicability of VFM Risks to VFM sub-criteria

VFM Risk	Informed decision making	Sustainable resource deployment	Working with partner and third parties
Financial resilience	✓	✓	✓

In consideration of the above, we have concluded that in 2017-18, 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.

Specific value for money risk areas (cont.)

As communicated to you in our *External Audit Plan 2017-18*, and as updated throughout the audit, we have identified one risk requiring specific audit attention and procedures to address the likelihood that proper arrangements are not in place to deliver value for money.

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

We have provided below a summary of the risk area identified, our work undertaken and the conclusions reached.

Financial Resilience

Risk: The Authority continues to face similar financial pressures and uncertainties to those experienced by others in the sector and falling levels of government grant. The total of the Revenue Support and Rural Services Grants has fallen from £1.86m in 2016-17 to £1.14m in 2017-18 (a 38% reduction), with the Revenue Support Grant expected to fall to nil by 2019/20. The Authority needs to have effective arrangements in place for managing its annual budget, generating income and identifying and implementing any savings required to balance its medium term financial plan.

Our work undertaken and assessment

As part of our additional risk based work, we reviewed the arrangements the Authority has in place in these areas and for ensuring its continuing financial resilience. We have considered the Authority's arrangements for managing its annual revenue and capital budgets, the 2017-18 outturn and the medium term financial plan.

The 2017-18 outturn resulted in a £150k surplus taken to reserves. The budget outturn was a £707k underspend against Service Cluster budgets, which was largely consistent with the forecast position during the year. The main variances were in relation to underspends on salaries (£119k), net interest paid (£67k) and additional grant from Department for Work and Pensions (£79k). At the same time the income from investment properties was £193k lower than the opening budget, reflecting the slower than expected initial progress made in relation to investment opportunities taken up in the year. The profiling of the capital programme is inherently difficult, given the uncertainty of the investment opportunities in the year and the agreement of planned works. The 2017-18 capital budget outturn report to the Corporate Policy and Resources Committee did not though flag any significant concerns relating to the progress of the planned work or the forecast level of expenditure against the approved budget.

In February 2018, the Council approved the 2018-19 Budget and Medium Term Financial Plan (MTFP) to 2022-23. The Authority has set a balanced budget for 2018-19. The budget included the required S.151 Officer assurances relating to the robustness of the budget and the adequacy of the level of reserves, but acknowledged the continuing risks around the delivery and timing of savings and income generation initiatives and the need to address any budget shortfall in future years.

The MTFP provides the framework for financial planning and resource allocation and supports the existing Business Plan and other strategic documents. The full MTFS covers the remaining period covered by the current four year funding settlement (up to 2019-20) and other assumed resources and budget pressures up to 2022-23. The Authority's medium term financial sustainability continues to be dependent on the successful delivery of the Authority's commercial and growth opportunities, and improvement and transformation of its services. The medium outlook remains challenging. We are satisfied though that there were adequate arrangements in place at 31 March 2018 and there are no significant matters relating to this risk area which prevent us from giving an unqualified VFM conclusion.

Appendices

Appendix 1:

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.

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.

Adjusted Audit Differences

There are no adjusted audit differences that we are required to report to you. During our audit a small number of amendments were identified as required to the supporting notes to the 2017-18 draft financial statements, to correct errors or to comply with the Code requirements. We understand the Finance team is to amend the statements for this matters and to update the Governance and Audit Committee on the changes made. We will review these amendments as part of our closing procedures and checks on the final set of the financial statements.

Unadjusted audit differences

There are no uncorrected audit differences above our reporting threshold (£42k) identified by our audit of the Authority's financial statements that we are required to report to you.

Appendix 2:

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 updated materiality, reflecting the final reported position for the year, from the planning materiality reported in our *External Audit Plan 2017-18*.

Materiality for the Authority's accounts was set at £0.85 million (unchanged from our *External Audit Plan 2017-18)* which equates to around 2% 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, an individual difference is considered to be clearly trivial if it is less than £42,000 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.

Appendix 3:

Required communications with the Governance and Audit Committee

We have provided below at-a-glance summary of the information we are required to report to you in writing by International Auditing Standards.

Required Communication	Commentary
Our draft management representation letter	We have not requested any specific representations in addition to those areas normally covered by our standard representation letter for the year ended 31 March 2018.
Adjusted audit differences	There are no adjusted audit differences that we are required to report.
Unadjusted audit differences	There is are no unadjusted audit difference reported.
Related parties	There were no significant matters that arose during the audit in connection with the entity's related parties.
Other matters warranting attention by the Governance and Audit Committee	There were no matters to report arising from the audit that, in our professional judgment, are significant to the oversight of the financial reporting process.
Control deficiencies	We have set out our assessment of the Authority's internal control environment, including any control deficiencies in Section one of this report.
Actual or suspected fraud, noncompliance with laws or regulations or illegal acts	We identified no actual or suspected fraud involving the Authority's Member or officers with significant roles in internal control, or where the fraud resulted in a material misstatement in the financial statements.
Significant difficulties	No significant difficulties were encountered during the audit.
Modifications to auditor's report	There are no modifications to our audit report.
Disagreements with management or scope limitations	The engagement team had no disagreements with management and no scope limitations were imposed by management during the audit.
Other information	No material inconsistencies were identified related to other information in the Narrative Report or Annual Governance Statement. These reports were found to be fair, balanced and comprehensive, and compliant with applicable requirements.
Our declaration of independence and any breaches of independence	No matters to report. The engagement team and others in the firm have complied with relevant ethical requirements regarding independence. See Appendix 4 for further details.
Accounting practices	Over the course of our audit, we have evaluated the appropriateness of the Authority's accounting policies, accounting estimates and financial statement disclosures. In general, we believe these are appropriate. We have set out our view of the assumptions used in valuing pension assets and liabilities and other accounting assumptions at page 12..
Significant matters discussed or subject to correspondence with management	There were no significant matters arising from the audit which were discussed, or subject to correspondence, with management

Appendix 4:

Declaration of independence

ASSESSMENT OF OUR OBJECTIVITY AND INDEPENDENCE AS AUDITOR OF West Lindsey District Council

Professional ethical standards require us to provide to you at the conclusion of the audit a written disclosure of relationships (including the provision of non-audit services) that bear on KPMG LLP's objectivity and independence, the threats to KPMG LLP's independence that these create, any safeguards that have been put in place and why they address such threats, together with any other information necessary to enable KPMG LLP's objectivity and independence to be assessed.

In considering issues of independence and objectivity we consider relevant professional, regulatory and legal requirements and guidance, including the provisions of the Code of Audit Practice, the provisions of Public Sector Audit Appointments Limited's ('PSAA's') Terms of Appointment relating to independence, the requirements of the FRC Ethical Standard and the requirements of Auditor Guidance Note 1 - General Guidance Supporting Local Audit (AGN01) issued by the National Audit Office ('NAO') on behalf of the Comptroller and Auditor General.

This Statement is intended to comply with this requirement and facilitate a subsequent discussion with you on audit independence and addresses:

— General procedures to safeguard independence and objectivity;

— Independence and objectivity considerations relating to the provision of non-audit services; and

— Independence and objectivity considerations relating to other matters.

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 partners, Audit Directors and staff annually confirm their compliance with our ethics and independence policies and procedures. Our ethics and independence policies and procedures are fully consistent with the requirements of the FRC Ethical Standard. As a result we have underlying safeguards in place to maintain independence through:

— Instilling professional values

— Communications

— Internal accountability

— Risk management

— Independent reviews.

The conclusion of the audit engagement leader as to our compliance with the FRC Ethical Standard in relation to this audit engagement and that the safeguards we have applied are appropriate and adequate is subject to review by an engagement quality control reviewer, who is a partner not otherwise involved in your affairs.

We are satisfied that our general procedures support our independence and objectivity.

Appendix 4:

Declaration of independence (cont.)

Independence and objectivity considerations relating to the provision of non-audit services

Summary of fees

We have considered the fees charged by us to the authority for professional services provided by us during the reporting period. We have detailed the fees charged by us to the authority for significant professional services provided by us during the reporting period in Appendix 7, as well as the amounts of any future services which have been contracted or where a written proposal has been submitted. Total fees charged by us for the period ended 31 March 2018 can be analysed as follows:

	2017-18 £	2016-17 £
Audit of the Authority	43,403	43,403
Total audit services	**43,403**	**43,403**
Allowable non-audit services	3,000	Nil
Audit related assurance services	Nil	Nil
Mandatory assurance services	6,533	3,696
Total Non Audit Services	**9,533**	**3,696**

We are required by AGN 01 to limit the proportion of fees charged for non-audit services (excluding mandatory assurance services) to 70% of the total fee for all audit work carried out in respect of the Authority under the Code of Audit Practice for the year. The relevant non-audit fees were 6.9% of the total fee for all audit work. We do not consider that the total of non-audit fees creates a self-interest threat since the absolute level of fees is not significant to our firm as a whole.

Facts and matters related to the provision of non-audit services and the safeguards put in place that bear upon our independence and objectivity, are set out in the table below..

Description of scope of services	Principal threats to independence and Safeguards applied	Basis of fee	Value of services delivered in the year ended 31 March 2018 £	Value of services committed but not yet delivered £
Allowable non-audit services				
Challenge and Improvement Committee Workshop	The purpose of this workshop was to support the Council in improving the quality and efficacy of challenge offered by elected Members. The work did not require us to take on any of management's responsibilities and we have determined that no actual independence threat arises.	Fixed Fee	3,000	nil
Mandatory assurance services				
Grant Certification – Housing Benefit Subsidy Return 2016/17	The nature of this mandatory assurance service is to provide independent assurance on this returns. As such we do not consider it to create any independence threats.	Fixed Fee	6,533	Nil

Appendix 4:

Declaration of independence (cont.)

Independence and objectivity considerations relating to other matters

There are no other matters that, in our professional judgment, bear on our independence which need to be disclosed to the Governance and Audit Committee.

Confirmation of audit independence

We confirm that as of the date of this report, in our professional judgment, KPMG LLP is independent within the meaning of regulatory and professional requirements and the objectivity of the Audit Director and audit staff is not impaired.

This report is intended solely for the information of the Governance and Audit Committee of the authority and should not be used for any other purposes.

We would be very happy to discuss the matters identified above (or any other matters relating to our objectivity and independence) should you wish to do so.

John Cornett, Director

KPMG LLP

Appendix 5:

Audit fees

As communicated to you in our *Audit Fee Letter 2017-18*, our scale fee for the audit is £43,403 plus VAT. The PSAA scale fee for 2016/17 was £43,403.

Our work on the certification of the Authority's 2017/18 Housing Benefit Subsidy return is in progress and is expected to be completed by the 30 November 2018 deadline..

Component of the audit	2017-18 Planned Fee £	2016-17 Actual Fee £
Accounts opinion and value for money work		
PSAA Scale fee ([West Lindsey District Council)	43,403	43,403
Total audit services	**43,403**	**43,403**
Mandatory assurance services		
Housing Benefits Certification	6,533	3,696
Total mandatory assurance services	**6,533**	**3,696**
Allowable non-audit services		
Challenge and Improvement Committee Workshop	3,000	Nil
Total allowable non-audit services	**3,000**	**Nil**
Total non-audit services	**9,533**	**3,696**
Grand total fees for the Authority	**52,936**	**47,099**

All fees quoted are exclusive of VAT.

The key contacts in relation to our audit are:

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