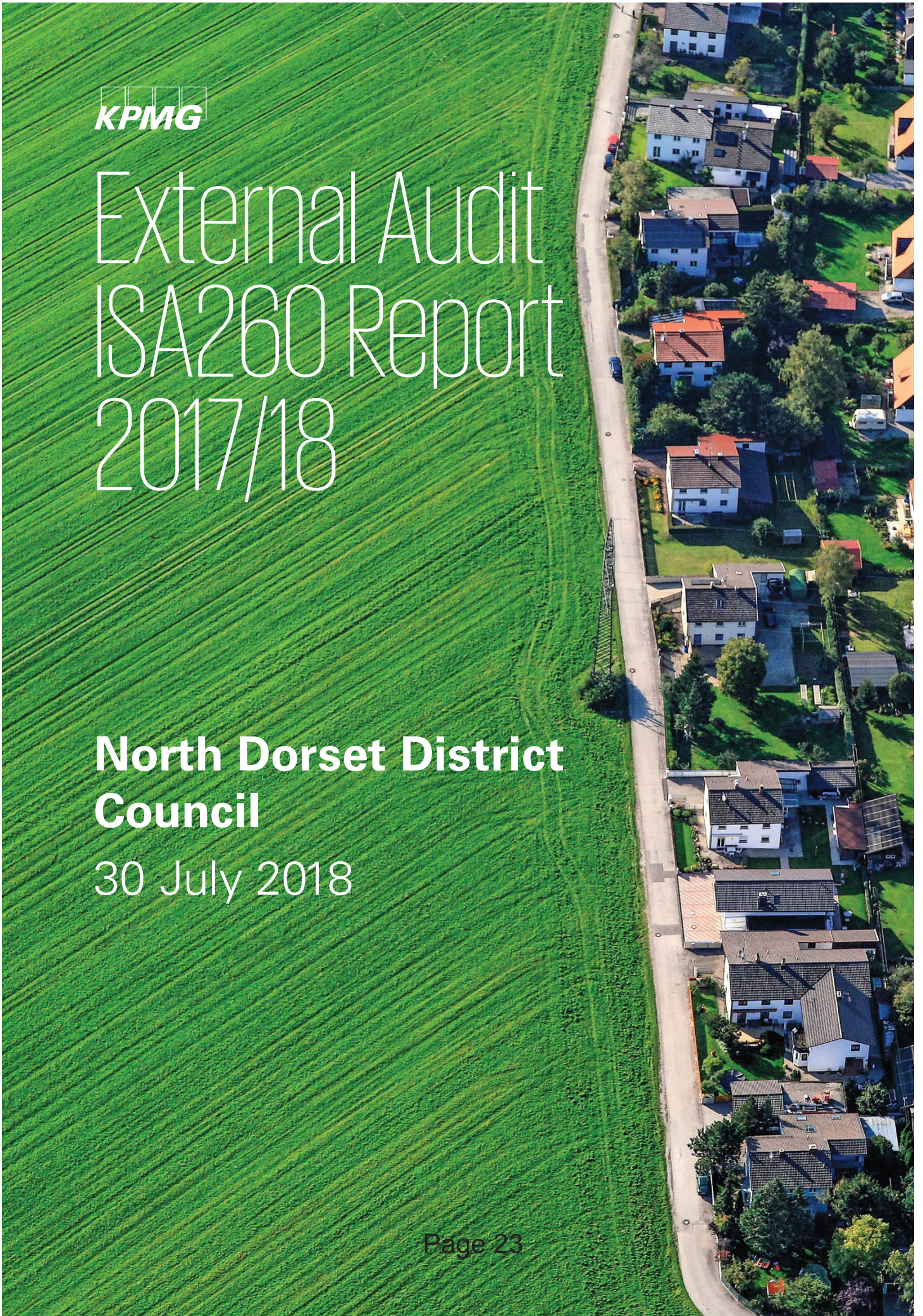




# External Audit ISA260 Report 2017/18

**North Dorset District  
Council**

30 July 2018



# Summary for Audit Committee

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

**This report covers 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, and the control environment in place to support the production of timely and accurate financial statements.**

<b>Organisational and IT control environment</b>	We have identified no significant issues with the Authority's organisational and IT control environment and consider that the overall arrangements that have been put in place are reasonable.
<b>Controls over key financial systems</b>	The controls over key financial systems are functioning appropriately apart from the absence of review of journals (see page 5).
<b>Accounts production</b>	The Authority's overall process for the preparation of the financial statements is adequate.
<b>Financial statements</b>	<p><b>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 31 July 2018.</b></p> <p>The following areas of the audit are still outstanding:</p> <ul style="list-style-type: none"><li>– Review and checking of final draft of statutory accounts</li><li>– Receipt of management representation letters</li></ul> <p><b>Significant audit risks</b></p> <p>Based upon our initial assessment of risks to the financial statements (as reported to you in our <i>External Audit Plan 2017/18</i> and updated during our audit) we identified the following significant risk (excluding those mandated by International Standards on Auditing – see Page 8):</p> <ul style="list-style-type: none"><li>• <b>Cost Sharing and Allocation</b> - The cost sharing partnership between North Dorset District Council, West Dorset District Council and Weymouth and Portland Borough Council raises the risk that costs are not allocated appropriately between the councils. We carried out the planned testing and identified no issues.</li></ul> <p><b>Overall findings</b></p> <p>We have identified no audit adjustments.</p> <p>We have raised one recommendation. Details can be found in Appendix 1.</p> <p>We are now in the completion stage of the audit and anticipate issuing our audit report and completion certificate following the audit committee meeting on 30 July 2018. We expect to issue our Annual Audit Letter during August.</p>

# Summary for Audit Committee (cont.)

## 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. As a result of this we have identified the following significant VFM audit risks:

- **Medium Term Financial Planning** The robustness of the council's medium term financial planning will be critical to achieving the savings required for ongoing financial sustainability.

We have carried out our audit work and anticipate being able to issue an unqualified opinion on the Authority's arrangements to secure economy, efficiency and effectiveness in its use of resources.

See further details on page 14.

## 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 that we believe the public should know about.

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

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

## Acknowledgements

We would like to take this opportunity to thank officers and Members for their continuing help with the audit.

**Section one**

# Control Environment



**Section one: Control environment**

# Organisational and IT control environment

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

**Work completed**

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.

**Key findings**

We consider that your organisational controls are effective overall.

Aspect of controls	Assessment
Organisational controls:	
Management's philosophy and operating style	3
Culture of honesty and ethical behaviour	3
Oversight by those charged with governance	3
Risk assessment process	3
Communications	3
Monitoring of controls	3

Key	
1	Significant gaps in the control environment.
2	Deficiencies in respect of individual controls
3	Generally sound control environment.

**Section one: Control environment**

# Controls over key financial systems

**The controls over key financial systems are functioning appropriately apart from the absence of review of journals.**

**Work completed**

We review the outcome of internal audit’s work on the financial systems to influence our assessment of the overall control environment, which is a key factor when determining the external audit strategy.

Where we have determined that this is the most efficient audit approach to take, we evaluate the design and implementation of the control and then test selected controls that address key risks within these systems. The strength of the control framework informs the substantive testing we complete during our final accounts visit.

Our assessment of a system will not always be in line with your internal auditors’ opinion on that system. This is because we are solely interested in whether our audit risks are mitigated through effective controls, i.e. whether the system is likely to produce materially reliable figures for inclusion in the financial statements.

**Key findings**

Based on our work, and the work of your internal auditors, we have determined that the controls over the majority of the key financial systems are sound.

We noted some weaknesses in respect of individual financial systems that will impact on our audit:

- Weakness 1: Journals are not required to be authorised before being input into the system. We have reported this in previous years. Management’s view is that the control would be responding to a low risk and would incur additional cost and processing delay.

We were not required to alter our audit approach as this control issues has been identified and reported in previous years.

Recommendations are included in Appendix 1.

Aspect of controls	Assessment
Property, Plant and Equipment	3
Cash and Cash Equivalents	3
Pension Assets and Liabilities	3
Non pay expenditure	3
Payroll	3
Housing benefits expenditure	3
Business rates income	3
Council tax income	3
Journals	2

Key	
1	Significant gaps in the control environment
2	Deficiencies in respect of individual controls
3	Generally sound control environment





**Section two**

# Financial Statements

## 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 are critical to meeting the tighter deadlines.**

**The Authority's overall process for the preparation of the financial statements is adequate.**

**The Authority has not implemented the recommendation in our *ISA 260 Report 2016/17*.**

### Accounts practices and production process

The Authority incorporated a number of measures into its closedown plan to further improve the project management of this complex process. Specifically, the Authority recognised the additional pressures which the earlier closedown brought and we engaged with officers in the period leading up to the year end in order to proactively address issues as they emerged.

We consider that the overall process for the preparation of your financial statements is adequate.

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.

Following the Secretary of State's decision on local government reorganisation in Dorset, the Authority's activities, assets and liabilities will transfer to a new unitary Authority on 1 April 2019, and North Dorset District Council will no longer exist. As there will be continuity of all activities, but being delivered through a different organisation, it is appropriate to draw up the Authority's accounts using the going concern concept. The accounts include appropriate disclosures.

We confirm that we have identified no other significant matters which would, in our view, affect the ability of the Authority to continue as a going concern.

### Implementation of recommendations

We raised one recommendation in our ISA 260 Report 2016/17, relating to the authorisation of journals. The Authority has not implemented the recommendation relating to the financial statements in line with the timescales of the action plan. Further details are included in Appendix 2.

### Completeness of draft accounts

We received a complete set of draft accounts on 31 May 2018 in line with the statutory deadline.

### Quality of supporting working papers

We issued our Accounts Audit Protocol to your Finance team on 26 March 2018. 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. There have been no issues with the quality of information provided.



## Section two: Financial Statements

# Specific audit areas

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

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.

Over the following pages we have set out our assessment of the specific significant risks and areas of audit focus we identified in relation to the audit of the Authority's financial statements.

**Section two: Financial Statements**

# 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.

<b>Risk:</b>	<p><b>Inappropriate cost sharing within the partnership</b></p> <p>Developments in the Dorset Councils Partnership have seen increasingly streamlined and harmonised services. Management has in place a process for allocating costs across the three Councils to reflect the use of joint services. There is a risk that the process is not appropriate or applied consistently, leading to a distortion in financial performance.</p>
<b>Our assessment and work undertaken:</b>	<p>As part of our review of the purchase authorisation controls, we have checked whether the costs have been split appropriately between the three Councils. When performing our substantive testing, we have ensured that costs correctly relate to the Council to which they have been charged or have been allocated based on a reasonable cost allocation calculation.</p>

**Other areas of audit focus**

Those risks with less likelihood of giving rise to a material error but which are nevertheless worthy of audit understanding.

<b>Risk:</b>	<p><b>Significant changes in the pension liability due to LGPS Triennial Valuation</b></p> <p>The pension liability represents a material element of each of the Authorities’ balance sheets. The Authorities are admitted bodies of Dorset County Council Local Government Pension Scheme, 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.</p> <p>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.</p> <p>There are financial assumptions and demographic assumptions used in the calculation of the Authority’s liability 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.</p> <p>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.</p>
<b>Our assessment and work undertaken:</b>	<p>We have reviewed the controls that the Authority has in place over the information sent directly to the Scheme Actuary, Barnett Waddingham. We also liaised with the auditors of the Pension Fund in order to gain an understanding of the effectiveness of those controls operated by the Pension Fund. This included consideration of the process and controls with respect to the assumptions used in the valuation. We evaluated the competency, objectivity and independence of the scheme actuary.</p> <p>We reviewed the appropriateness of the key assumptions included within the valuation and compared them to expected ranges, with no issues being noted. We also reviewed the methodology applied in the Mercer Valuation. We concluded that the pension obligation had been fairly calculated and disclosed.</p>

## Section two: Financial Statements

# Specific audit areas (cont.)

### Other areas of audit focus

Those risks with less likelihood of giving rise to a material error but which are nevertheless worthy of audit understanding.

#### Issue:

#### Local Government Reorganisation

The plan to create a unitary council covering rural Dorset (and incorporating West Dorset, North Dorset, and Weymouth & Portland) has a potential impact on a number of areas in the accounts.

Areas that may be affected are Property Plant & Equipment, especially where assets could be disposed of as part of the reorganisation, and provisioning. There will need to be disclosure of the reorganisation, and this may need to be updated for events after 31 March 2018 if they have a bearing on the understanding or accounting.

The accounts will also need careful disclosure about the application of the going concern concept, as the three sovereign councils will eventually cease to exist.

#### Our assessment and work undertaken:

We have discussed the situation with management and have confirmed that no firm strategic or operational decisions had been made by 31 March 2018 that would require asset impairments or recognition of provisions in the accounts. We have reviewed the position during the audit and discussed the impact of the reorganisation on the council's accounts.

We have agreed that the reorganisation does not in itself trigger a need to assess the going concern concept in the accounts, as the activities will continue into the new Authority. We carried out our normal assessment of the going concern of each council but do not consider LGR to be a significant risk.

We have reviewed the updated accounting policy note, the disclosure of the reorganisation in the financial statements and considered any post balance sheet events.

## Section two: Financial Statements

# 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	
<b>Audit Difference</b>	Cautious		Balanced		Optimistic		<b>Audit Difference</b>
	<b>Acceptable Range</b>						

Subjective area	2017-18	2016-17	Commentary
Provisions (excluding Business Rates)	3	3	We consider the provisions and related disclosures to be proportionate.
Business Rates provision	3	3	Since 2013/14 the Authority has been responsible for a proportion of successful rateable value appeals. There has been an increase of £480k in the provision in year in excess of the refunds awarded in order to increase the provision.
Property Plant & Equipment	3	3	The Authority has utilised an external valuation expert GVA to revalue a number of properties in line with its 5 year rolling revaluation schedule. The resulting increase is in line with regional indices provided by Gerald Eve, the valuation firm engaged by the NAO to provide supporting valuation information.
Valuation of pension assets and liabilities	3	3	<p>The Authority continues to use Barnett Waddingham to provide actuarial valuations in relation to the assets and liabilities recognised as a result of participation in the Local Government Pension Scheme. Due to the overall value of the pension assets and liabilities, small movements in the assumptions can have a significant impact on the overall valuation. For example, a 0.1% change in the discount rate would change the net liability by £1.1 million.</p> <p>The actual assumptions adopted by the actuary fell within our expected ranges as set out below. The overall position is acceptable.</p>

Assumption	Actuary Value	KPMG Value	Assessment
Discount rate	2.55%	2.50%	3
Pension increase rate	2.35%	2.16%	2
Salary Growth	CPI to 31 March 2020, then CPI +1.5%	CPI + 0 - 2.0%	3
Life expectancy			
Current male/female	26.2 / 24.0	23.5 / 22.1	2
Future male/female	28.4 / 26.1	25.4 / 23.9	

## Section two: Financial Statements

# 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 Audit Committee on 30 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 £500k. Audit differences below £25k are not considered significant.

We did not identify any material misstatements.

### Annual governance statement

We have reviewed the Authority's 2017-18 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 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.

### Annual report

We have reviewed the Authority's 2017-8 Annual Report and can confirm it is not inconsistent with the financial information contained in the audited financial statements.

## Section two: Financial Statements

# Completion

**We confirm that we have complied with requirements on objectivity and independence in relation to this year's 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 North Dorset District Council for the year ending 31 March 2018, we confirm that there were no relationships between KPMG LLP and North Dorset 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 s.151 officer for presentation to the Audit Committee. We require a signed copy of your management representations before we issue our audit opinion.

### Other matters

ISA 260 requires us to communicate to you by exception 'audit matters of governance interest that arise from the audit of the financial statements' which include:

- Significant difficulties encountered during the audit;
- Significant matters arising from the audit that were discussed, or subject to correspondence with management;
- Other matters, if arising from the audit that, in the auditor's professional judgment, are significant to the oversight of the financial reporting process; and
- Matters specifically required by other auditing standards to be communicated to those charged with governance (e.g. significant deficiencies in internal control; issues relating to fraud, compliance with laws and regulations, subsequent events, non disclosure, related party, public interest reporting, questions/objections, opening balances etc.).

There are no other 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



**Section three: Value for Money arrangements**

# Specific value for money risk areas

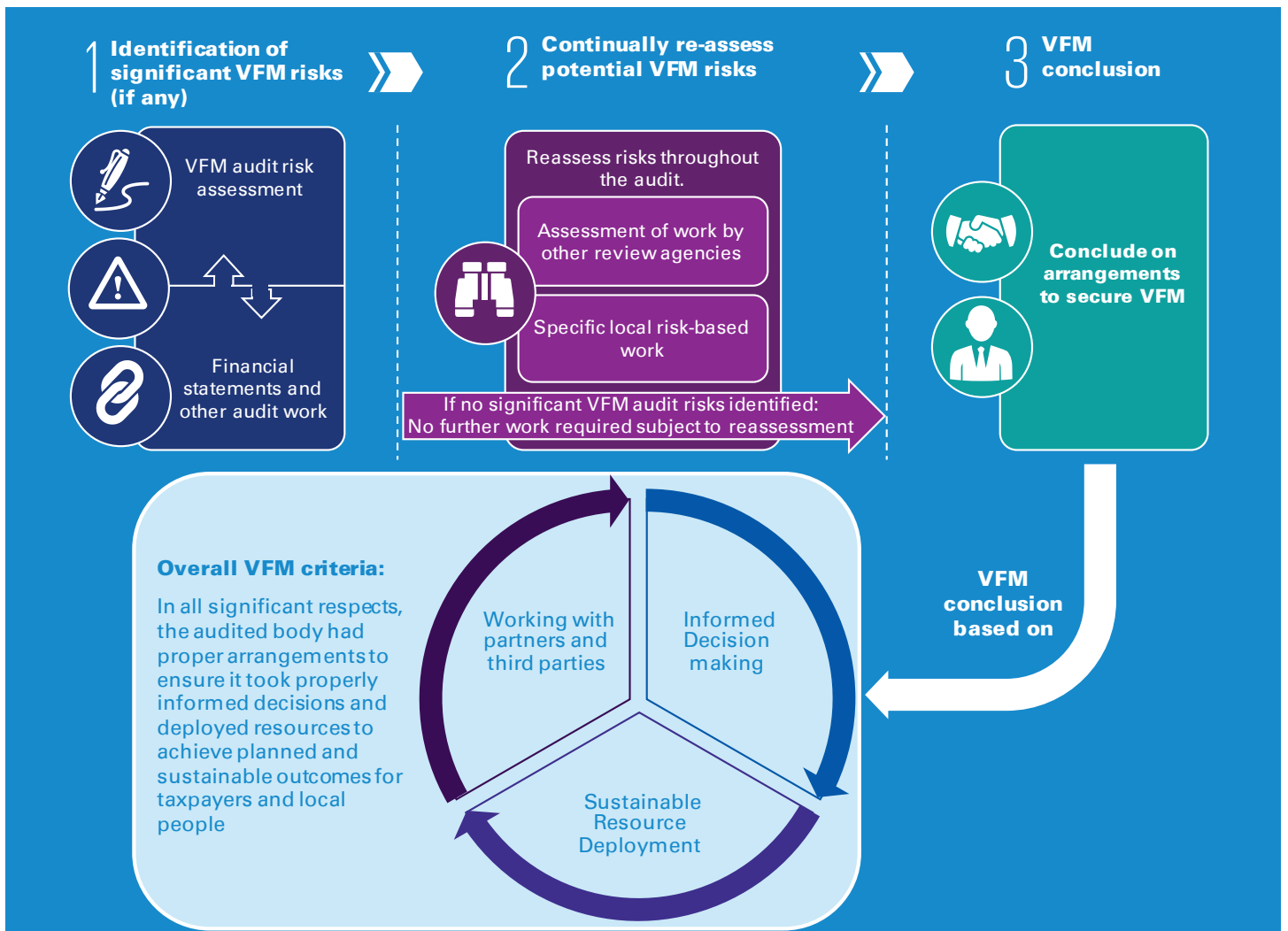
**Our 2017-18 VFM conclusion considers whether the Authority had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.**

**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.





**Section three: Value for Money arrangements**

# Specific value for money risk areas (cont.)

The table below summarises our assessment of the individual VFM risks 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		
Delivery of budgets	✓	✓	✓		

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.



## Section three: Value for Money arrangements

# Specific value for money risk areas (cont.)

We have identified two risks requiring specific audit attention and procedures to address the likelihood that proper arrangements are not in place to deliver value for money.

In both cases 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.

For the year ending 31 March 2018, the Authority has reported a surplus of £1.7m. The impact on the General Fund has been an increase of £1.7m.

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

### Risk:

### Financial Resilience and Medium Term Financial Planning

There are significant financial pressures across local government as a result of reductions in central government funding and other pressures. North Dorset have been able to set a balanced budget for 2018/19. Future years will be impacted by the local government reorganisation.

The Authority's budget for 2018/19 was approved at the Council meeting on 20 February 2018 and recognised a need for £968k in savings. The approved budget includes individual proposals to support the delivery of the overall savings requirement. Future years will be impacted by the local government reorganisation.

### Our assessment and work undertaken:

Like most of local government, the Authority faces a challenging future driven by funding reductions and an increase in demand for services.

The Authority reported an overall surplus position on its net expenditure budget for 2017/18 of £1.7 million. This enabled the General Fund balance to increase to £7.8 million as of 31 March 2018.

We have reviewed the processes in place to arrive at the Medium Term Financial Plan for 2017/18, including the reasonableness of assumptions included within, and comparison against, the statutory accounts. We have considered the measures being taken by the Authority, along with other councils within the Dorset Councils Partnership, in order to make further savings. These measures appear to be reasonable.

Membership of the Dorset Councils Partnership, the plans to dispose of surplus assets, and the move to LGR is strong evidence of the Authority's commitment to working with partners.

We have considered how the Authority has ensured informed decision making through reporting of financial information to Cabinet and Council. Through review of papers and discussions with officers we have also obtained an understanding of the key assumptions made within the 2018/19 budget, as well as considering the appropriateness of those assumptions.

We have obtained an understanding of the processes and controls in place around the Dorset Council's Partnership that support the overall cost-saving exercise and reviewed the shared costs to assess whether cost savings had been achieved as well as the processes around delivering the future cost savings identified as part of the local government reorganisation.

### Section three: Value for Money arrangements

# Specific value for money risk areas (cont.)

#### **Our assessment and work undertaken (Cont):**

The plan is regularly monitored for progress and continuing relevance in light of changes to central government funding.

The Partnership identified the significant risks to delivering this plan as the cumulative impact of change initiatives on staff and key skills and knowledge leaving the organisation.

We have reviewed progress against the plan for joined up services and actual savings against budgeted savings and consider that they are on track.

Our financial statements audit work over the shared costs did not identify any issues warranting further investigation.

#### **Conclusion:**

While there will clearly be challenges to delivering a balanced budget in 2018/19, the arrangements that management have put in place are reasonable and have a number of contingency options dependent on political decisions. We therefore consider this supports an unqualified VFM conclusion.

A hand holding a silver pen is writing on an orange sticky note on a whiteboard. The whiteboard is covered with several other colorful sticky notes in shades of pink, purple, green, and blue. The background is a soft, out-of-focus light blue.

# Appendices

## Appendix 1:

# Follow-up of prior year recommendations

The Authority has not implemented the recommendation raised through our previous audit work. We re-iterate the importance of the outstanding recommendations and recommend that these are implemented as a matter of urgency.

We have given each recommendation a risk rating and agreed what action management will need to take.

### Number of recommendations that were

Included in the original report	1
Implemented in year or superseded	
Outstanding at the time of our interim audit	1

No.	Risk	Issue & Recommendation	Management Response	Status as at 30 July 2018
1	2	<p>Journals are not authorised</p> <p><b>Risk</b></p> <p>Journals can be raised but do not require authorisation by more senior finance staff prior to posting within the ledger.</p> <p><b>Recommendation</b></p> <p>All journals should be prepared and reviewed by separate finance personnel to ensure that these are appropriate and have been authorised. This will reduce the risk that journals are posted to incorrect accounts and ultimately prevent misstatements in the financial statements.</p>	<p>The recommendation is not accepted. Journals are restricted to appropriately qualified staff and are not available to people outside of the finance team. There is a comprehensive budget monitoring process in place which would identify the budget holder or relevant accountancy officer if an incorrect journal had been posted. As journals only move existing expenditure it is felt these compensating controls are sufficient. Additional authorisations would be a waste of resources.</p> <p><b>Responsible Officer</b></p> <p>Jason Vaughan</p> <p><b>Implementation Deadline</b></p> <p>N/A</p>	<p>No action is to be taken in response to this recommendation, which is as reported by management to the audit committee in September 2017.</p>

## Appendix 2:

# Materiality and reporting of audit differences

**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 2017-18*, presented to you in March 2018.

Materiality for the Authority's accounts was set at £500k which equates to around 1.60 percent of gross expenditure. We design our procedures to detect errors in specific accounts at a lower level of precision.

### Reporting to the 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 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 £25k 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 Audit Committee to assist it in fulfilling its governance responsibilities.

### Appendix 3:

# Required communications with the Audit Committee

We have provided below at-a-glance summary of the information we are required to report to you in writing by International Accounting 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	We have identified no adjusted differences as a result of our audit of the Authority's financial statements.
Unadjusted audit differences	We have identified no unadjusted differences as a result of our audit of the Authority's financial statements
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 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 confirmation of the deficiency identified, in Section one of this report (see pages 4 to 6). We have not identified any deficiencies in internal control over financial reporting of a lesser magnitude than those deficiencies identified in 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 Members 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.

### Appendix 3:

# Required communications with the Audit Committee (cont.)

Required Communication	Commentary
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 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. We believe these are appropriate. We have set out our view of the assumptions used in valuing pension obligations at page 11.
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 NORTH DORSET 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.

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 and its controlled entities for professional services provided by us during the reporting period. We have detailed the fees charged by us to the authority and its controlled entities for significant professional services provided by us during the reporting period below, 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 for our external audit can be analysed as follows:

	2017-18 £	2016-17 £
Audit of the Authority	40,146	40,146
<b>Total audit services</b>	<b>40,146</b>	<b>40,146</b>
Mandatory assurance services – Housing Benefit Subsidy return	8,525	7,163
<b>Total Services</b>	<b>48,671</b>	<b>47,309</b>

The audit fee for the year is the same as the planned audit fee as reported as part of our audit planning memo.

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 ratio of non-audit fees to audit fees for the year was 0.2:1. 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 table on the following page.

**Appendix 4:**

# Declaration of independence (cont.)

Appropriate approvals have been obtained from PSAA for all non-audit services above the relevant thresholds provided by us during the reporting period.

**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 Audit Committee.

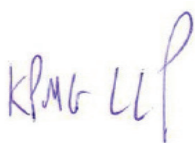
Description of scope of services	Principal threats to independence and Safeguards applied	Basis of fee	Value of services delivered in the year ended 31 March 2018 £	Value of services committed but not yet delivered £
<b>Audit-related assurance services</b>				
Grant Certification – Housing Benefit Subsidy Return	<p>The nature of this mandatory assurance service is to provide independent assurance on the return. As such we do not consider it to create any independence threats.</p> <p>Self-interest: This engagement is performed under externally specified work programmes. The work has no perceived or actual impact on the audit team and the audit team resources that will be deployed to perform a robust and thorough audit.</p> <p>Self-review: The financial information included in the grant claim submissions is not extracted from the financial statements, but is compiled separately. The work is undertaken at various points throughout the year and is not linked to the financial statements reporting process. Therefore, it does not impact on our opinion and we do not consider that the outcome of this work will be a threat to our role as external auditors.</p> <p>Management threat: All decisions are made by the Council.</p>	Fixed Fee	-	8,525

**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 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.



**KPMG LLP**





The key contacts in relation to our audit are:

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This report is addressed to the Authority and has been prepared for the sole use of the Authority. We take no responsibility to any member of staff acting in their individual capacities, or to third parties. We draw your attention to the Statement of Responsibilities of auditors and audited bodies, which is available on Public Sector Audit Appointment's website ([www.psa.co.uk](http://www.psa.co.uk)).

External auditors do not act as a substitute for the audited body's own responsibility for putting in place proper arrangements to ensure that public business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively.

We are committed to providing you with a high quality service. If you have any concerns or are dissatisfied with any part of KPMG's work, in the first instance you should contact Ian Pennington, the engagement lead to the Authority, who will try to resolve your complaint. If you are dissatisfied with your response please contact the national lead partner for all of KPMG's work under our contract with Public Sector Audit Appointments Limited, Andrew Sayers, by email to [Andrew.Sayers@kpmg.co.uk](mailto:Andrew.Sayers@kpmg.co.uk). After this, if you are still dissatisfied with how your complaint has been handled you can access PSAA's complaints procedure by emailing [generalenquiries@psaa.co.uk](mailto:generalenquiries@psaa.co.uk) by telephoning 020 7072 7445 or by writing to Public Sector Audit Appointments Limited, 3rd Floor, Local Government House, Smith Square, London, SW1P 3HZ.

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