



External Audit Report 2015/16

West Devon Borough Council

—
19 September 2016



Contents

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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. Public Sector Audit Appointments issued a document entitled Statement of Responsibilities of Auditors and Audited Bodies summarising where the responsibilities of auditors begin and end and what is expected from audited bodies. We draw your attention to this document which is available on Public Sector Audit Appointment's website (www.psaa.co.uk).

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

We are committed to providing you with a high quality service. If you have any concerns or are dissatisfied with any part of KPMG's work, in the first instance you should contact Darren Gilbert, the engagement lead to the Authority, who will try to resolve your complaint. If you are dissatisfied with your response please contact the national lead partner for all of KPMG's work under our contract with Public Sector Audit Appointments Limited, Andrew Sayers (on 0207 694 8981, or by email to andrew.sayers@kpmg.co.uk). After this, if you are still dissatisfied with how your complaint has been handled you can access PSAA's complaints procedure by emailing generalenquiries@psaa.co.uk, by telephoning 020 7072 7445 or by writing to Public Sector Audit Appointments Limited, 3rd Floor, Local Government House, Smith Square, London, SW1P 3H.



Section one: Introduction



This document summarises:

- The key issues identified during our audit of the financial statements for the year ended 31 March 2016 for the Authority; and
- Our assessment of the Authority’s arrangements to secure value for money.

Scope of this report

This report summarises the key findings arising from:

- Our audit work at West Devon Borough Council (‘the Authority’) in relation to the Authority’s 2015/16 financial statements; and
- The work to support our 2015/16 conclusion on the Authority’s arrangements to secure economy, efficiency and effectiveness in its use of resources (‘VFM conclusion’).

Financial statements

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



We previously reported on our work on the first two stages in our Interim Audit Report/Letter 2015/16 issued in June 2016.

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

We are now in the final phase of the audit, the completion stage. Some aspects of this stage are also discharged through this report.

VFM Conclusion

Our External Audit Plan 2015/16 explained our risk-based approach to VFM work and we included early findings in our Interim Audit Report 2015/16. We have now completed the work to support our 2015/16 VFM conclusion. This included:

- Considering the results of any relevant work by the Authority and other inspectorates and review agencies in relation to these risk areas; and
- Carrying out additional risk-based work.

Structure of this report

This report is structured as follows:

- Section 2 summarises the headline messages.
- Section 3 sets out our key findings from our audit work in relation to the 2015/16 financial statements of the Authority and the fund.
- Section 4 outlines our key findings from our work on the VFM conclusion.

Acknowledgements

We would like to take this opportunity to thank officers and Members for their continuing help and co-operation throughout our audit work. We would particularly like to thank officers for the assistance that they have provided in helping us to familiarise ourselves with the Authority and its processes given that this is our first year as your auditors.



Section two: Headlines



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

Proposed audit opinion	We anticipate issuing an unqualified audit opinion on the Authority's financial statements by 30 September 2016. We will also report that your Annual Governance Statement complies with guidance issued by CIPFA/SOLACE in June 2007.
Audit adjustments	We are pleased to report that we did not identify any material misstatements to the Authority's accounts. We have agreed a number of minor presentational and disclosure changes to supporting notes to the accounts to ensure that the accounts are compliant with the Code of Practice on Local Authority Accounting in the United Kingdom 2015/16 ('the Code').
Key financial statements audit risks	We identified the following key financial statements audit risk in our 15/16 External audit plan issued in March 2016: — Allocation of Shared Costs. We have worked with officers throughout the year to discuss these key risks and our detail findings are reported in section 3 of this report. No significant issues arose as a result of our work in the above areas.
Accounts production and audit process	We received complete draft accounts on 30 June 2016 in accordance with the DCLG deadline. The accounting policies, accounting estimates and financial statement disclosures are in line with the requirements of the Code. The Authority has good processes in place for the production of the accounts and good quality supporting working papers. Officers dealt efficiently with audit queries and the audit process has been completed within the planned timescales. During the accounts production process officers identified a limited number of corrections required to the prior year accounts in relation to the non-domestic (business) rates appeals provision. We are satisfied that the Authority has made appropriate adjustments in relation to this matter. We will debrief with the finance team to share views on the final accounts audit. In particular we would like to thank Authority Officers who were available throughout the audit visit to answer our queries.



<p>This table summarises the headline messages for the Authority. Sections three and four of this report provide further details on each area.</p>	<p>VFM conclusion and risk areas</p>	<p>We identified the following VFM risks in our External audit plan 2015/16 issued in March 2016.</p> <ul style="list-style-type: none"> — Achievement of Savings Plans; and — Delivery of the T18 Transformation Programme. <p>We have worked with officers throughout the year to discuss these VFM risks and our detailed findings are reported in section 4 of this report. There are no matters of any significance arising as result of our audit work in these VFM risk areas.</p> <p>We have concluded that the Authority has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources.</p> <p>We therefore anticipate issuing an unqualified VFM conclusion by 30 September 2016.</p>
	<p>Completion</p>	<p>At the date of this report our audit of the financial statements is substantially complete subject to completion of the following areas:</p> <ul style="list-style-type: none"> — Final elements of work in relation to payroll reconciliations and pensions; — Final review of IT policies and procedure documents; — Final review of full schedule of shared costs; and — Agreement of bank letters (awaiting letters from the Council's banks). <p>You are required to provide us with representations on specific matters such as your going concern assertion and whether the transactions in the accounts are legal and unaffected by fraud. We provided a draft of this representation letter to the Section 151 Officer. We draw your attention to the requirement in our representation letter for you to confirm to us that you have disclosed all relevant related parties to us. We are asking management to provide specific representations on the following appropriateness of the allocation of shared costs.</p> <p>We confirm that we have complied with requirements on objectivity and independence in relation to this year's audit of the Authority's financial statements.</p>



Section three: Financial Statements

Proposed opinion and audit differences



We have not identified any issues in the course of the audit that are considered to be material.

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

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

Proposed audit opinion

Subject to all outstanding queries being resolved to our satisfaction, we anticipate issuing an unqualified audit opinion on the Authority's financial statements following approval of the Statement of Accounts by the Audit Committee on 27 September 2016.

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 two for more information on materiality) level for this year's audit was set at £0.5 million which is reduced slightly from that reported to you in our 15/16 External Audit Plan in order to reflect the actual total expenditure per the financial statements. Audit differences below £25,000 are not considered significant.

We did not identify any material misstatements.

The tables on the right illustrate the Authority's movements on the General Fund for the year and balance sheet as at 31 March 2016.

We identified a number of minor presentational and disclosure adjustments required to ensure that the accounts are compliant with the Code of Practice on Local Authority Accounting in the United Kingdom 2015/16 ('the Code'). The Authority has addressed where agreed. Any not agreed were immaterial and were presentational changes.

Annual governance statement

We have reviewed the Annual Governance Statement and confirmed that:

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

We have made a number of minor comments in respect of its content which the Authority amended.

Movements on the general fund 2015/16	
£m	£m
Deficit on the provision of services	(1,241)
Adjustments between accounting basis and funding basis under Regulations	2,645
Transfers to earmarked reserves	(1,372)
Increase in General Fund	32

Balance sheet as at 31 March 2016	
£m	£m
Property, plant and equipment	19,660
Other long term assets	234
Current assets	10,549
Current liabilities	(5,977)
Long term liabilities	(23,027)
Net worth	1,439
General Fund	(1,055)
Other usable reserves	(2,868)
Unusable reserves	2,484
Total reserves	(1,439)

Significant audit risks



We have worked with the Authority throughout the year to discuss significant risks and key areas of audit focus.

This section sets out our detailed findings on those risks.

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

The table below sets out our detailed findings for the risk that is specific to the Authority.

Significant Risk 1 – Allocation of Shared Costs

— Risk

The Authority operates shared management structures, systems and services with its neighbour, South Hams District Council. As a result of this arrangement, costs are initially borne by each council individually, and then an exercise is undertaken to ensure that these are shared on an appropriate and consistent basis. This is essential to ensuring that the Authority recognises its full costs and to prevent cross subsidy between the two councils. In order to operate effectively, the allocation of costs must be undertaken on an appropriate basis which reflects the nature of the underlying activities and the way in which the resources are consumed.

— Findings

In our *Interim Report 2015/16* we confirmed that we had reviewed the proposed methodology for the allocation of shared costs.

As part of our final audit visit we reviewed the way in which significant elements of shared costs had been allocated to the Authority and confirmed that this had been undertaken in a manner consistent with both prior year and the proposed methodology. No issues were identified as a result of this.

At the time of issuing this report we are still completing our final review of the full shared cost allocation.

Significant audit risks



We have worked with the Authority throughout the year to discuss significant risks and key areas of audit focus.

This section sets out our detailed findings on those risks.

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

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

Fraud risk of revenue recognition

Professional standards require us to make a rebuttable presumption that the fraud risk from revenue recognition is a significant risk.

In our *External Audit Plan 2015/16* we reported that we do not consider this to be a significant risk for Local Authorities as there is unlikely to be an incentive to fraudulently recognise revenue.

This is still the case. Since we have rebutted this presumed risk, there has been no impact on our audit work.

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. In addition, we gave particular consideration to the allocation of shared costs as set out on Page 10 of this report.

There are no matters arising from this work that we need to bring to your attention.

Other areas of focus



In our External Audit Plan 2015/16, presented to you in March 2016, we identified one area of audit focus. This is not considered as a significant risk but an area of importance where we would carry out some substantive audit procedures to ensure there is no risk of material misstatement.

We have now completed our testing. The table sets out our detailed findings for this area of audit focus.

Area of focus 1 – Change in revenue accruals de-minimis policy

— Issue

During 2015/16 the Authority has amended its policy in relation to the recognition of revenue accruals. Whereas in prior years a de-minimis of £1,000 was applied, this will be set at £2,500 for 2015/16 onwards.

— Findings

We considered the impact that such a change would have had had it been applied to the 2014/15 financial statements and are satisfied that the new threshold should not result in the accounts being unfairly stated. The analysis undertaken to support this assessment indicated that the changed threshold would have reduced debit accruals by £30,251 and credit accruals by £9,119. These amounts are below our triviality reporting thresholds (see Appendix 2)

As part of our final audit work we further considered the change in accruals levels between 2014/15 and 2015/16 and confirmed that the policy change has been accounted for appropriately. As a result of the change in accounting policy, and general movement in balances, the 2015/16 accruals balance was a net debtor of £3.0m compared to a net creditor of £3.3m. Further details are provided on Page 13.



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



Assessment of subjective areas				
Asset/liability class	15/16	14/15	Balance (£m)	KPMG comment
Provisions	3	3	£0.7 million <i>(PY: £0.2 million)</i>	The Authority's provisions have increased significantly as a result of the changes to the non-domestic rates appeals provision. We identified no issues in relation to the appropriateness of this provision.
Revenue Accruals	3	2	Revenue Debtors: £2.4 million <i>(PY: £2.8 million)</i> Revenue Creditors: £5.3 million <i>(PY: £6.1 million)</i>	The Authority has revised its approach to calculating revenue accruals during the year and has increased its de-minimis threshold. We have compared the new threshold to that applied at other authorities and have confirmed that it is in line with the general approach adopted.
Property, Plant and Equipment (valuations / asset lives)	3	3	£19.7 million <i>(PY: £21.1 million)</i>	We identified no issues in relation to the way in which the Authority calculates the carrying value of its Property, Plant and Equipment assets. The useful lives are in line with expectation and appropriately qualified experts are used in order to provide valuations.
Pensions	3	3	£20.1 million <i>(PY: £22.1 million)</i>	We identified no issues in relation to the way in which the Authority calculates its pensions liability. The Authority has engaged an appropriately qualified actuarial expert in order to perform the pensions calculations and provide required assumptions. We have reviewed the assumptions and found them to be within our expected ranges.

Accounts production and audit process



We note that the quality of the accounts and the supporting working papers was of a high standard.

Officers dealt efficiently with audit queries and the audit process could be completed within the planned timescales.

Accounts production and audit process

ISA 260 requires us to communicate to you our views about the significant qualitative aspects of the Authority's accounting practices and financial reporting. We also assessed the Authority's process for preparing the accounts and its support for an efficient audit.

We considered the following criteria:

Element	Commentary
Accounting practices and financial reporting	The Authority has a strong financial reporting process. We consider that accounting practices are appropriate.
Completeness of draft accounts	We received a complete set of draft accounts on 30 June 2016.
Quality of supporting working papers	Our <i>Accounts Audit Protocol</i> , which we issued in May 2016 and discussed with the finance team, set out our working paper requirements for the audit. The quality of working papers provided met the standards specified in our <i>Accounts Audit Protocol</i> .
Response to audit queries	Officers resolved audit queries in a reasonable time.

Narrative statement

The production of a narrative statement was a new requirement for 2015/16 (as opposed to the explanatory foreword produced in prior years). Whilst the content of the narrative foreword is not covered by our opinion, we review it for consistency with the financial statements and consider it in the context of the new Audit & Accountability Regulation requirements.

The Authority provided a draft narrative statement on 30 June 2016 and we note that it was a good draft which included a range of non-financial information in line with the applicable content requirements.

Prior period adjustments

In preparing the draft financial statements, the Authority identified a number of areas where corrections were required to the figures reported in the 2014/15 financial statements. These related to non-domestic rates appeal provision being held in creditors.

We reviewed the accounting adjustments being made in relation to each of the above errors and are satisfied that they are appropriate.



We confirm that we have complied with requirements on objectivity and independence in relation to this year's audit of the Authority's financial statements.

Before we can issue our opinion we require a signed management representation letter.

Once we have finalised our opinions and conclusions we will prepare our Annual Audit Letter and close our audit.

Declaration of independence and objectivity

As part of the finalisation process we are required to provide you with representations concerning our independence.

In relation to the audit of the financial statements of West Devon Borough Council for the year ending 31 March 2016, we confirm that there were no relationships between KPMG LLP and West Devon Borough 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 three 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 Finance Community of Practice Lead for presentation to the Audit Committee. We require a signed copy of your management representations before we issue our audit opinion.

We have requested specific representations in relation to:

- The appropriateness of the allocation of shared costs; and
- The appropriateness of the non-domestic rates provision.

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 2015/16 financial statements.



Section four: Value for Money



Our VFM conclusion considers whether the Authority had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. We follow a risk based approach to target audit effort on the areas of greatest audit risk.

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

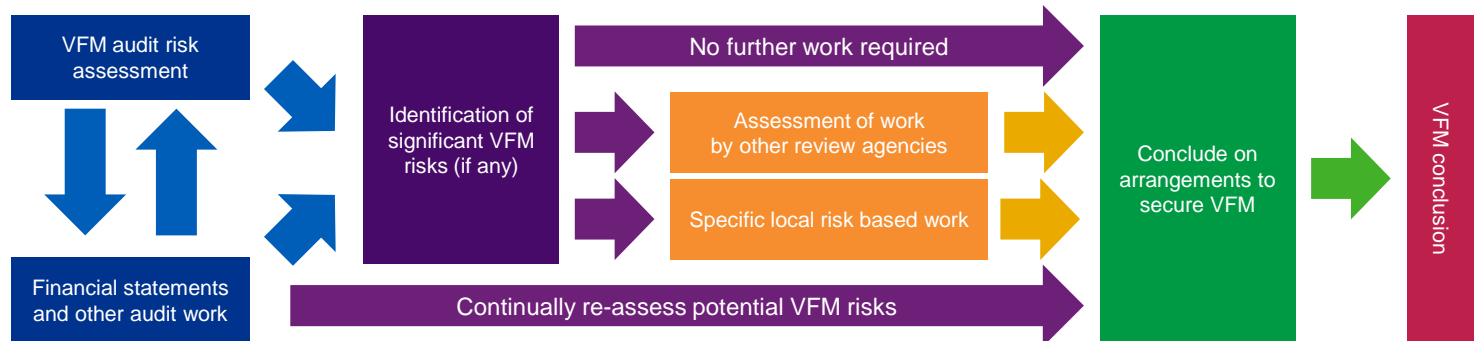
Background

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

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

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

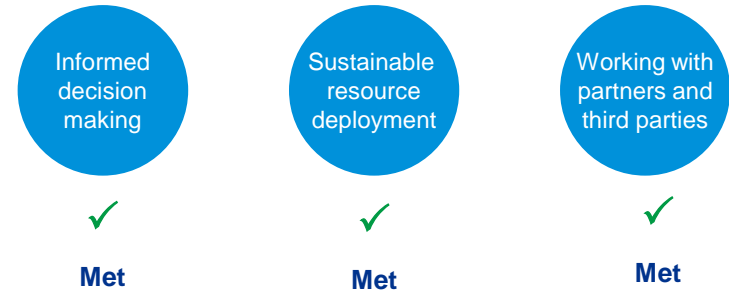
These sub-criteria provide a focus to our VFM work at the Authority.



Conclusion

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

Overall criterion
In all significant respects, the audited body had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.



Specific VFM Risks



We have identified a number of specific VFM risks.

In all 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.

Work completed

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

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

Key findings

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


We concluded that we needed to carry out additional work for some of these risks. This work is now complete and we also report on this on the following pages.

Specific VFM Risks (cont.)



We have identified a number of specific VFM risks.

In all 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.


Key VFM risk	Risk description and link to VFM conclusion	Assessment
<p style="text-align: center;">Achievement of Savings Plans </p>	<p>The Authority identified the need to make savings of £1m in 2015/16. When we undertook our planning work the forecast (as contained in the December 2015 Budget Monitoring Report) showed that the Authority would deliver an underspend of approximately £70,000. The March 2016 budget monitoring report updated this to an underspend of £60,000.</p> <p>The Authority's budget for 2016/17 forecast a budget surplus of £669,292 as a result of the full savings being realised in relation to the ongoing transformation plan and due to the additional Rural Services Delivery Grant that the Council has been allocated in 2016-17 by Central Government. Subsequent years show further funding gaps however, resulting in a total net budget gap of £1,068,674 for the period to 2020/21 being identified in the February 2016 Budget Report. Further significant savings will be required in 2017/18 onwards to address future reductions to local authority funding alongside service cost and demand pressures. The need for savings will continue to have a significant impact on the Authority's financial resilience.</p> <p>This is relevant to the informed decision making and sustainable resource deployment sub-criteria of the VFM conclusion.</p>	<p>Specific risk based work required: Yes</p> <p>The Authority has delivered an outturn of £32k underspend against the approved budget for 2015/16 as a result of:</p> <ul style="list-style-type: none"> — Additional net savings and additional income in relation to delivery of services (£18k); and — Additional interest and investment income generated during the year (£14k). <p>The Authority identified savings throughout its operations and monitored the delivery of these through its regular financial monitoring processes. Whilst overspends were identified in relation to a number of specific services, these were offset by additional savings identified during the year.</p>

Specific VFM Risks (cont.)



We have identified a number of specific VFM risks.

In all 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.

Key VFM risk	Risk description and link to VFM conclusion	Assessment
	<p>As part of its response to the central government funding reductions, and in order to improve the efficiency of its operations, the Authority has initiated a major transformation programme ("T18"). This programme results in significant changes to the way in which services are delivered and back office functions undertaken. As part of the transformation programme, all staff roles and responsibilities have been redefined and a more unified model has been developed whereby staff act as key points of contact for service users and work across services rather than operating as separate teams.</p> <p>The establishment of this new working model has resulted in significant one-off investment costs, both in terms of redundancy costs and those relating to the establishment of new processes and delivery structures. The Authority expects that such costs will be exceeded by the ongoing recurrent annual savings that will be achieved by way of the programme. The predicted payback period of the programme is 2.75 years.</p> <p>This is relevant to the informed decision making, sustainable resource deployment and working with partners and third parties sub-criteria of the VFM conclusion.</p>	<p>The Authority's internal audit service undertook a review of the processes relating to the management of the T18 Transformation Programme. Whilst this identified a number of recommendations for improvement, no significant issues were reported.</p> <p>Specific risk based work required: Yes</p> <p>We reviewed the various committee reports relating to the T18 Transformation and confirmed that Members had been appropriately informed of the progress of the programme throughout the year.</p> <p>The implementation of the T18 programme has not been without challenges, particularly in relation to the implementation of appropriate IT solutions to support the new working arrangements. The Authority is continuing to make progress in relation to this.</p> <p>We note, that there has been a need to make additional investments in relation to the programme above those initially set out in the business plan. This was in the form of additional fixed term temporary transitional staffing resources of £216,000. As a result of this, the benefits of the programme have not been realised as early as hoped and this additional cost has slightly increased the payback period of 2.75 years. This investment was subject to appropriate approval within the Authority.</p>



Appendices

Appendix 1: Audit differences

Appendix 2: Materiality

Appendix 3: Independence and objectivity

Audit differences

This appendix sets out the audit differences.

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

We are required by ISA 260 to report all uncorrected misstatements, other than those that we believe are clearly trivial, to those charged with governance (which in your case is the Audit Committee). We are also required to report all material misstatements that have been corrected but that we believe should be communicated to you to assist you in fulfilling your governance responsibilities.

Uncorrected audit differences

We are pleased to report that there are no uncorrected audit differences.

Corrected audit differences

We are pleased to report that there are no corrected audit differences.

A number of minor amendments focused on presentational improvements have been made to the draft financial statements of the Authority.

Materiality and reporting of audit differences

For 2015/16 our materiality is £1.2 million for the Authority's accounts.

We have reported all audit differences over £60,000 for the Authority's accounts.

Materiality

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

- Material errors by value are those which are simply of significant numerical size to distort the reader's perception of the financial statements. Our assessment of the threshold for this depends upon the size of key figures in the financial statements, as well as other factors such as the level of public interest in the financial statements.
- Errors which are material by nature may not be large in value, but may concern accounting disclosures of key importance and sensitivity, for example the salaries of senior staff.
- Errors that are material by context are those that would alter key figures in the financial statements from one result to another – for example, errors that change successful performance against a target to failure.

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

Materiality for the Authority's accounts was set at £0.5 million which equates to around 1.5 percent of gross expenditure. We design our procedures to detect errors in specific accounts at a lower level of precision.

Reporting to the 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, we propose that an individual difference could normally be considered to be clearly trivial if it is less than £25,000 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 Audit Committee to assist it in fulfilling its governance responsibilities.

Declaration of independence and objectivity

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

Requirements

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

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

In considering issues of independence and objectivity we consider relevant professional, regulatory and legal requirements and guidance, including the provisions of the Code, the detailed provisions of the Statement of Independence included within the Public Sector Audit Appointments Ltd *Terms of Appointment* ('Public Sector Audit Appointments Ltd Guidance') and the requirements of APB Ethical Standard 1 *Integrity, Objectivity and Independence* ('Ethical Standards').

The Code states that, in carrying out their audit of the financial statements, auditors should comply with auditing standards currently in force, and as may be amended from time to time. Public Sector Audit Appointments Ltd guidance requires appointed auditors to follow the provisions of ISA (UK&I) 260 *Communication of Audit Matters with Those Charged with Governance* that are applicable to the audit of listed companies. This means that the appointed auditor must disclose in writing:

- Details of all relationships between the auditor and the client, its directors and senior management and its affiliates, including all services provided by the audit firm and its network to the client, its directors and senior management and its affiliates, that the auditor considers may reasonably be thought to bear on the auditor's objectivity and independence.
- The related safeguards that are in place.
- The total amount of fees that the auditor and the auditor's network firms have charged to the client and its affiliates for the provision of services during the reporting period, analysed into appropriate categories, for example, statutory audit services, further audit services, tax advisory services and other non-audit services. For each category, the amounts of any future services which have been contracted or where a written proposal has been submitted are separately disclosed. We do this in our *Annual Audit Letter*.

Appointed auditors are also required to confirm in writing that they have complied with Ethical Standards and that, in the auditor's professional judgement, the auditor is independent and the auditor's objectivity is not compromised, or otherwise declare that the auditor has concerns that the auditor's objectivity and independence may be compromised and explaining the actions which necessarily follow from his. These matters should be discussed with the Audit Committee.

Ethical Standards require us to communicate to those charged with governance in writing at least annually all significant facts and matters, including those related to the provision of non-audit services and the safeguards put in place that, in our professional judgement, may reasonably be thought to bear on our independence and the objectivity of the Engagement Lead and the audit team.

Declaration of independence and objectivity (cont.)

We confirm that we have complied with requirements on objectivity and independence in relation to this year's audit of the Authority's financial statements.

General procedures to safeguard independence and objectivity

KPMG's reputation is built, in great part, upon the conduct of our professionals and their ability to deliver objective and independent advice and opinions. That integrity and objectivity underpins the work that KPMG performs and is important to the regulatory environments in which we operate. All partners and staff have an obligation to maintain the relevant level of required independence and to identify and evaluate circumstances and relationships that may impair that independence.

Acting as an auditor places specific obligations on the firm, partners and staff in order to demonstrate the firm's required independence. KPMG's policies and procedures regarding independence matters are detailed in the *Ethics and Independence Manual* ('the Manual'). The Manual sets out the overriding principles and summarises the policies and regulations which all partners and staff must adhere to in the area of professional conduct and in dealings with clients and others.

KPMG is committed to ensuring that all partners and staff are aware of these principles. To facilitate this, a hard copy of the Manual is provided to everyone annually. The Manual is divided into two parts. Part 1 sets out KPMG's ethics and independence policies which partners and staff must observe both in relation to their personal dealings and in relation to the professional services they provide. Part 2 of the Manual summarises the key risk management policies which partners and staff are required to follow when providing such services.

All partners and staff must understand the personal responsibilities they have towards complying with the policies outlined in the Manual and follow them at all times. To acknowledge understanding of and adherence to the policies set out in the Manual, all partners and staff are required to submit an annual ethics and independence confirmation. Failure to follow these policies can result in disciplinary action.

Auditor declaration

In relation to the audit of the financial statements of West Devon Borough Council for the financial year ending 31 March 2016, we confirm that there were no relationships between KPMG LLP and West Devon Borough 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.

Appendix four

Audit Independence

Audit Fees

Our scale fee for the audit was £39,396 plus VAT (£52,528 charged in 2014/15 by Grant Thornton). This fee was in line with that highlighted within our audit plan agreed by the Audit Committee in March 2016. Our planned scale fee for certification for the HBCOUNT is £5,630 plus VAT and will be confirmed in our *Grant Certification Report*.

Non-audit services

We have summarised below the non-audit services that we have been engaged to provide, the estimated fee, the potential threats to auditor independence and the associated safeguards we have put in place to manage these.

Description of non-audit service	Estimated fee	Potential threat to auditor independence and associated safeguards in place
Provision of Audit Committee training seminar in relating to budget monitoring and financial planning. (to be delivered in October 2016)	£1,500	<p>Self interest – This engagement is separate from the audit through a separate contract. In addition, the audit fee scale rates were set independently to KPMG by the PSAA (previously Audit Commission). Therefore, the proposed engagement will have no perceived or actual impact on the audit team and the audit team resources that have been deployed to perform a robust and thorough audit.</p> <p>Self review – The nature of this work is to provide training to Members in order to enable them to make decisions in a fully informed manner. 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 – This work will be training only, all decisions will continue to be made by the Authority.</p> <p>Familiarity – This threat is limited given the scale, nature and timing of the work.</p> <p>Advocacy – not applicable</p> <p>Intimidation – not applicable</p>
Total estimated fees	£1,500	
Total estimated fees as a percentage of the external audit fees	3%	



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The information contained herein is of a general nature and is not intended to address the circumstances of any particular individual or entity. Although we endeavour to provide accurate and timely information, there can be no guarantee that such information is accurate as of the date it is received or that it will continue to be accurate in the future. No one should act on such information without appropriate professional advice after a thorough examination of the particular situation.

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