KPMG

External Audit Plan 2016/2017

London Borough of Brent

February 2017

Headlines

Financial Statement Audit

There is one significant changes to the Code of Practice on Local Authority Accounting in 2016/17, which is the new format for the Comprehensive Income and Expenditure Account and Movement in Reserves Statement together with a new Expenditure and Funding Analysis statement. This will require prior years comparatives to be restated.

Materiality

Materiality for planning purposes has been set at **£12 million** for the Authority and **£6 million** for the Pension Fund.

We are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance and this has been set at **£600,000** for the Authority and **£300,000** for the Pension Fund.

Significant risks

Those risks requiring specific audit attention and procedures to address the likelihood of a material financial statement error have been identified as:

- Management override of controls (Authority and Pension Fund);
- Triennial Pensions Valuation (Authority and Pension Fund).
- Property, Plant and Equipment – valuation of land and buildings and Council dwellings (Authority only);
- Fraudulent revenue recognition for section 106 income (Authority only);
- Fund manager investments (Pension Fund only)

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 have been identified as:

- New format for Comprehensive Income and Expenditure Statement and Movement in Reserves Statement and new Expenditure and Funding Statement (Authority only)

See pages 3 to 8 for more details

Value for Money Arrangements work

We have completed our initial VfM risk assessment and have not identified any significant risks for the VfM conclusion.

We have identified financial resilience as an area for audit focus, given the financial pressures the Authority is currently facing.

See pages 9 to 12 for more details.

Logistics

Our team is:

- Andrew Sayers – Partner
- Steve Lucas – Senior Manager
- Sasja Neumann – Assistant Manager

More details are on **page 15**.

Our work will be completed in four phases from January to September and our key deliverables are this Audit Plan and a Report to those charged with Governance as outlined on **page 14**.

Our planned fee for the audit is £199,590 (2015/16: £199,590) for the Authority, £21,000 (2015/16: £21,000) for the Pension Fund, and £22,155 (2015/16 : £21,663) for the certification of grant claims and returns.

See page 13 for more details.

Introduction

Background and Statutory responsibilities

This document supplements our Audit Fee Letter 2016/17 presented to you in April 2016, which also sets out details of our appointment by Public Sector Audit Appointments Ltd (PSAA).

Our statutory responsibilities and powers are set out in the Local Audit and Accountability Act 2014 and the National Audit Office's Code of Audit Practice.

Our audit has two key objectives, requiring us to audit/review and report on your:

— *Financial statements (including the Annual Governance Statement):* Providing an opinion on your accounts; and

— *Use of resources:* Concluding on the arrangements in place for securing economy, efficiency and effectiveness in your use of resources (the value for money conclusion).

The audit planning process and risk assessment is an on-going process and the assessment and fees in this plan will be kept under review and updated if necessary.

Acknowledgements

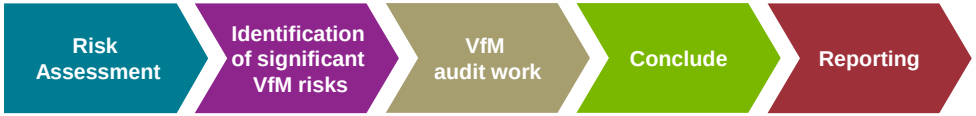
We would like to take this opportunity to thank officers and Members for their continuing help and co-operation throughout our audit work.

Financial Statements Audit

Our financial statements audit work follows a four stage audit process which is identified below. Appendix 1 provides more detail on the activities that this includes. This report concentrates on the Financial Statements Audit Planning stage of the Financial Statements Audit.

Value for Money Arrangements Work

Our Value for Money (VfM) Arrangements Work follows a five stage process which is identified below. Page 8 provides more detail on the activities that this includes. This report concentrates on explaining the VfM approach for the 2016/17 and the findings of our VfM risk assessment.



Financial statements audit planning: Authority

Financial Statements Audit Planning: Authority

Our planning work takes place during January and February 2017. This involves the following key aspects:

— Risk assessment;

— Determining our materiality level; and

— Issuing this audit plan to communicate our audit strategy.

Risk assessment

Professional standards require us to consider two standard risks for all organisations. We are not elaborating on these standard risks in this plan but consider them as a matter of course in our audit and will include any findings arising from our work in our ISA 260 Report.

— Management override of controls – Management is typically in a powerful position to perpetrate fraud owing to 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. In line with our methodology, we carry 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.

— Fraudulent revenue recognition – We do not consider this to be a significant risk for the majority of the Authority's income as there are limited incentives and opportunities to manipulate the way income is recognised. We therefore rebut this risk for Council Tax, Business Rates, Housing rents, annual central Government grants and social services income and do not incorporate specific work into our audit plan in these areas over and above our standard fraud procedures. However, we do consider it for income relating to s106 monies that span financial years and often have to be used on specific projects.

The diagram opposite identifies significant risks and other areas of audit focus, which we expand on overleaf. The diagram also identifies a range of other areas considered by our audit approach.

Key:
- Significant risks
- Other area of audit focus
- Example other areas considered by our approach

Financial statements audit planning: Pension Fund

Financial Statements Audit Planning: Pension Fund

Our planning work takes place during January and February 2017. This involves the following key aspects:

— Risk assessment;

— Determining our materiality level; and

— Issuing this audit plan to communicate our audit strategy.

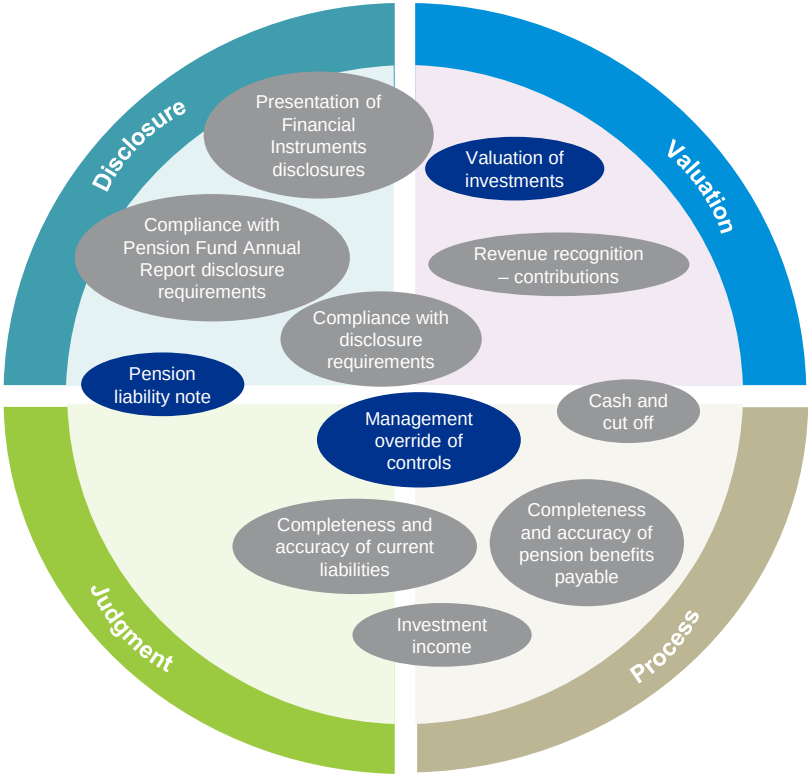
Risk assessment

Professional standards require us to consider two standard risks for all organisations. We are not elaborating on these standard risks in this plan but consider them as a matter of course in our audit and will include any findings arising from our work in our ISA 260 Report.

— Management override of controls – Management is typically in a powerful position to perpetrate fraud owing to 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. In line with our methodology, we carry 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.

— Fraudulent revenue recognition – We do not consider this to be a significant risk for local authority Pension funds as there are limited incentives and opportunities to manipulate the way income is recognised. We therefore rebut this risk and do not incorporate specific work into our audit plan in this area over and above our standard fraud procedures.

The diagram opposite identifies significant risks and other areas of audit focus, which we expand on overleaf. The diagram also identifies a range of other areas considered by our audit approach.



Key:

- Significant risk
- Other area of audit focus
- Example other areas considered by our approach

Financial statements audit planning (cont.)

Significant Audit Risks

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

Risk : Significant changes in the pension liability due to LGPS Triennial Valuation (Authority and Pension Fund)

During the year, the Pension Fund has undergone a triennial valuation with an effective date of 31 March 2016 in line with the Local Government Pension Scheme (Administration) Regulations 2013. The share of pensions assets and liabilities for each admitted body is determined in detail, and a large volume of data is provided to the actuary to support this triennial valuation.

The pension numbers to be included in the financial statements for 2016/17 will be based on the output of the triennial valuation rolled forward for the Authority to 31 March 2017. For 2017/18 and 2018/19 the actuary will continue to roll forward the valuation for accounting purposes (IAS 19) based on more limited data.

There is a risk that the data provided to the actuary for the triennial valuation exercise is inaccurate and that these inaccuracies affect the actuarial figures in the accounts.

For both the triennial valuation and the roll forwards of the valuation to 31 March 2017, the actuary will use assumptions for items such as life expectancy of members, inflation, pay rises and discount rates. Small differences in these assumptions can lead to material changes in the liability.

The Pension Fund includes limited disclosures around actuarial pensions liabilities but these are key to understanding the financial position of the Pension Fund.

Approach : As part of our audit of the Authority and Pension Fund, we will undertake work on a test basis to agree the data provided to the actuary back to the systems and reports from which it was derived and to understand the controls in place to ensure the accuracy of this data. This work will be focused on the data relating to the Authority but also corroborating the data used to that which is generated to request pension payments.

We will also review the data provided by the Authority to the actuary that was used in roll forward exercise in estimating the pension liability at 31 March 2017.

We will use our experts to review the assumptions used by the actuary in the calculation of the pension liability.

Risk : Property, Plant and Equipment: Valuation of Council dwellings and Other Land and Buildings (Authority only)

In 2015/16 the Authority reported Property, Plant and Equipment of £606 million related to Land and Buildings and £636 million related to Council Dwellings. Local authorities exercise judgement in determining the fair value of the assets held and the methods used to ensure the carrying values recorded each year reflect those fair values. During the 2015/16 audit we also identified a number of audit adjustments relating to Property, Plant and Equipment.

Given the materiality in value and the judgement involved in determining the carrying amounts of assets we consider this to be an area of significant audit risk.

Approach : As part of our audit of the Authority, we will understand and gain assurance over accuracy of the information supplied by the Authority to the valuer. We will also review the approach to valuation, the qualifications and reports by the Authority's valuers and the judgements made by the Authority in response to the information received. Where valuations are made other than at the year end, we will review the Authority's judgement in assessing movements from the valuation date to the year end.

Risk : Revenue Recognition for section 106 income (Authority Only)

We do not consider revenue recognition to be a significant risk for the majority of the Authority's income streams as there are limited incentives and opportunities to manipulate the way income is recognised. However, due to the increasing importance of amounts received under Section 106 of the Town and Country Planning Act 1990 and how these can be used, we have not rebutted the risk for this income stream.

Approach : As part of our audit of the Authority we will incorporate specific work in our audit plan over section 106 income and how it is accounted for and used over and above our standard audit procedures.

Financial statements audit planning (cont.)

Risk : Fund Manager Investments (Pension Fund only)

The Pension Fund held net investment assets of £675 million at 31 March 2016 and currently these have increased in value to over £800 million. These investments, some of which are unquoted (£130 million at 31 March 2016), are held by Fund Managers and will be valued at 31 March 2017.

Given the value of the investments, and that some of the investments are unquoted which means estimates may be required, we consider this to be a significant risk.

Approach : We will obtain direct confirmations from the Fund managers, London collective investment vehicle and custodians and audit the reconciliations between the them. We will also review the ISAE3402 compliance reports on each Fund Manager to confirm we are satisfied with the controls or whether there are any local additional procedures we need to complete.

We will also test a sample of valuations, focusing on the unquoted investments.

Other area of audit focus

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

Risk : New format of the core financial statements (Authority only)

CIPFA has been working with stakeholders to develop better accountability through the financial statements as part of its 'telling the whole story' project. The key objective of this project was to make Local Government accounts more understandable and transparent to the reader in terms of how Councils are funded and how they use the funding to serve the local population. Outcome of this project resulted in two main changes in respect of the 2016-17 Local Government Accounting Code (Code) as follows:

- Allowing local authorities to report on the same basis as they are organised by removing the requirement for the Service Reporting Code of Practice (SeRCOP) to be applied to the Comprehensive Income and Expenditure Statement (CIES); and
- Introducing an Expenditure and Funding Analysis (EFA) which provides a direct reconciliation between the way local authorities are funded and prepare their budget and the CIES. This analysis is supported by a streamlined Movement in Reserves Statement (MIRS) and replaces the current segmental reporting note

As a result of these changes , retrospective restatement of CIES (cost of services) , EFA and MiRS is required from 1 April 2016 in the Statement of Accounts.
New disclosure requirements and restatement of accounts require compliance with relevant guidance and correct application of applicable Accounting Standards .
Though less likely to give rise to a material error in the financial statements , this is an important material disclosure change in this year's accounts , worthy of audit understanding.

Approach : We will assess how the Authority has actioned the revised disclosure requirements for the CIES, MiRS and the new EFA statement as required by the Code and check the restated numbers and associated disclosures for accuracy, presentation and compliance with the Code guidance.

Financial statements audit planning (cont.)

Materiality

We are required to plan our audit to determine with reasonable confidence whether or not the financial statements are free from material misstatement. An omission or misstatement is regarded as material if it would reasonably influence the user of financial statements. This therefore involves an assessment of the qualitative and quantitative nature of omissions and misstatements.

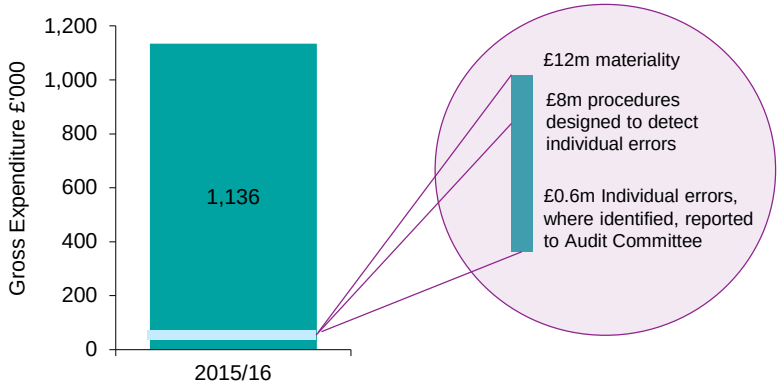
Generally, we would not consider differences in opinion in respect of areas of judgement to represent 'misstatements' unless the application of that judgement results in a financial amount falling outside of a range which we consider to be acceptable.

For the Authority, materiality for planning purposes has been set at £12 million, which equates to 1.1% of gross expenditure. This is same as last year

For the Pension Fund, materiality for planning purposes has been set at £6 million. This has increased from the prior year figures used of £5 million due to increases in the value of investments held by the Authority.

We design our procedures to detect errors in specific accounts at a lower level of precision.

Materiality for the Authority based on prior year gross expenditure



We design our procedures to detect individual errors. For the Authority this is £8 million, and for the Pensions Fund this is £4.5 million for the year ended 31 March 2017, and we have some flexibility to adjust this level downwards.

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 unadjusted misstatements of lesser amounts to the extent that these are identified by our audit work.

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

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 £600,000.

In the context of the Pension Fund, we propose that an individual difference could normally be considered to be clearly trivial if it is less than £300,000.

If management has 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.

Financial statements audit planning (cont.)

Group audit

In addition to the Authority we deem Brent Housing Partnership to be significant in the context of the group audit.

To support our audit work on the Authority's group accounts, we seek to place reliance on the work of PwC, who are the auditors to this subsidiary. We will liaise with them in order to confirm that their programme of work is adequate for our purposes and they satisfy professional requirements.

We will report the following matters in our Report to those charged with Governance:

- Any deficiencies in the system of internal controls or instances of fraud which the subsidiary auditors identify;
- Any limitations on the group audit, for example, where the our access to information may have been restricted; and
- Any instances where our evaluation of the work the subsidiary auditors gives rise to concern about the quality of that auditor's work.

Liaising with internal audit

ISA (UK & Ireland) 610 (revised June 2013) defines how we can use the work of internal audit. Our approach ensures we comply with these requirements. We will liaise with internal audit and review the findings from their programme of work for 2016-17. We will also consider any significant control deficiencies identified by internal audit and ensure that we take this into account where relevant to determine the nature of our audit work to ensure the risk is appropriately addressed.

Value for money arrangements work

Background to approach to VfM work

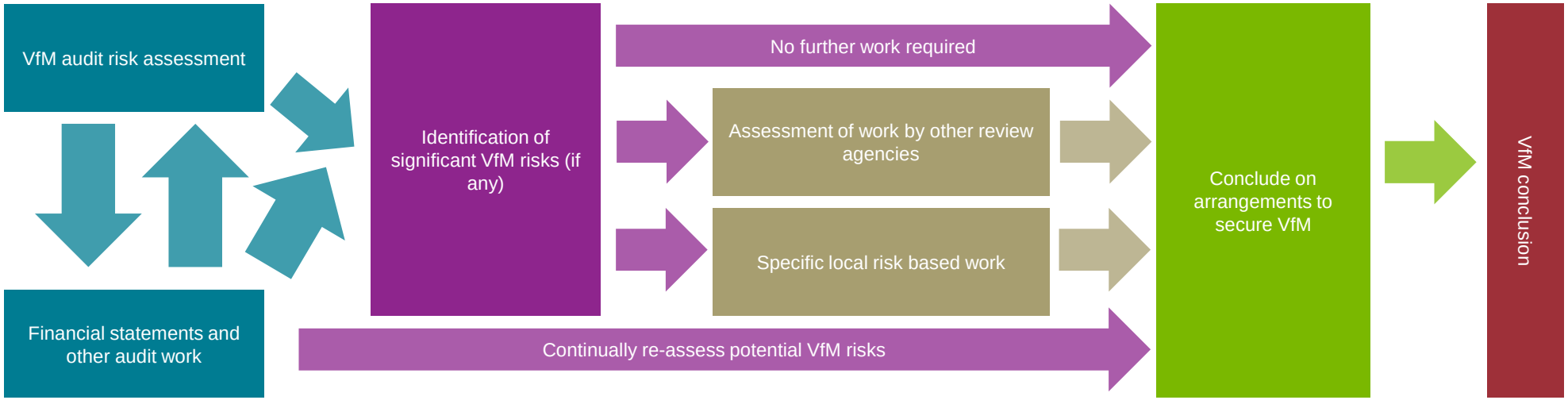
The Local Audit and Accountability Act 2014 requires auditors of local government bodies to be satisfied that the authority 'has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources'.

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 2015/2016 and the process is shown in the diagram below. The diagram overleaf shows the details of the criteria for our VfM work.

We have completed our initial VfM risk assessment and have not identified any significant risks for the VfM conclusion. On financial sustainability the Authority has a good track record of responding to producing a balanced budget which is subsequently delivered. Nevertheless we have identified financial resilience as an area for audit focus where we will keep a watching brief. The Authority continues to face ongoing financial pressures while needing to maintain a statutory and quality level of services to local residents. We will review overall management arrangements that the Authority has for managing its financial position. This will include the processes to maintain a robust Medium Term Financial Strategy, ongoing monitoring of the annual budget, responsiveness to increasing costs of demand led services and changes in funding allocations and the governance arrangements of how the figures are reported through to Cabinet.

We conclude on whether, in all significant respects, 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.



Value for money arrangements work (cont.)

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.

Informed decision making

Proper arrangements:

- Acting in the public interest, through demonstrating and applying the principles and values of sound governance.
- Understanding and using appropriate and reliable financial and performance information to support informed decision making and performance management.
- Reliable and timely financial reporting that supports the delivery of strategic priorities.
- Managing risks effectively and maintaining a sound system of internal control.

Sustainable resource deployment

Proper arrangements:

- Planning finances effectively to support the sustainable delivery of strategic priorities and maintain statutory functions.
- Managing and utilising assets to support the delivery of strategic priorities.
- Planning, organising and developing the workforce effectively to deliver strategic priorities.

Working with partners and third parties

Proper arrangements:

- Working with third parties effectively to deliver strategic priorities.
- Commissioning services effectively to support the delivery of strategic priorities.
- Procuring supplies and services effectively to support the delivery of strategic priorities.

Value for money arrangements work (cont.)

VfM audit stage	Audit approach
VfM audit risk assessment	We consider the relevance and significance of the potential business risks faced by all local authorities, and other risks that apply specifically to the Authority. These are the significant operational and financial risks in achieving statutory functions and objectives, which are relevant to auditors' responsibilities under the *Code of Audit Practice.* In doing so we consider: ■ The Authority's own assessment of the risks it faces, and its arrangements to manage and address its risks; ■ Information from the Public Sector Auditor Appointments Limited VfM profile tool; ■ Evidence gained from previous audit work, including the response to that work; and ■ The work of other inspectorates and review agencies.
Linkages with financial statements and other audit work	There is a degree of overlap between the work we do as part of the VfM audit and our financial statements audit. For example, our financial statements audit includes an assessment and testing of the Authority's organisational control environment, including the Authority's financial management and governance arrangements, many aspects of which are relevant to our VfM audit responsibilities. We have always sought to avoid duplication of audit effort by integrating our financial statements and VfM work, and this will continue. We will therefore draw upon relevant aspects of our financial statements audit work to inform the VfM audit.
Identification of significant risks	The Code identifies a matter as significant *'if, in the auditor's professional view, it is reasonable to conclude that the matter would be of interest to the audited body or the wider public. Significance has both qualitative and quantitative aspects.'* If we identify significant VfM risks, then we will highlight the risk to the Authority and consider the most appropriate audit response in each case, including: ■ Considering the results of work by the Authority, inspectorates and other review agencies; and ■ Carrying out local risk-based work to form a view on the adequacy of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources.

Value for money arrangements work (cont.)

VfM audit stage	Audit approach
Assessment of work by other review agencies **and** **Delivery of local risk based work**	Depending on the nature of the significant VfM risk identified, we may be able to draw on the work of other inspectorates, review agencies and other relevant bodies to provide us with the necessary evidence to reach our conclusion on the risk. If such evidence is not available, we will instead need to consider what additional work we will be required to undertake to satisfy ourselves that we have reasonable evidence to support the conclusion that we will draw. Such work may include: ■ Meeting with senior managers across the Authority; ■ Review of minutes and internal reports; ■ Examination of financial models for reasonableness, using our own experience and benchmarking data from within and without the sector.
Concluding on VfM arrangements	At the conclusion of the VfM audit we will consider the results of the work undertaken and assess the assurance obtained against each of the VfM themes regarding the adequacy of the Authority's arrangements for securing economy, efficiency and effectiveness in the use of resources. If any issues are identified that may be significant to this assessment, and in particular if there are issues that indicate we may need to consider qualifying our VfM conclusion, we will discuss these with management as soon as possible. Such issues will also be considered more widely as part of KPMG's quality control processes, to help ensure the consistency of auditors' decisions.
Reporting	We will report on the results of the VfM audit through our ISA 260 Report. This will summarise any specific matters arising, and the basis for our overall conclusion. If considered appropriate, we may produce a separate report on the VfM audit, either overall or for any specific reviews that we may undertake. The key output from the work will be the VfM conclusion (i.e. our opinion on the Authority's arrangements for securing VfM), which forms part of our audit report.

Other matters

Whole of government accounts (WGA)

We are required to review your WGA consolidation and undertake the work specified under the approach that is agreed with HM Treasury and the National Audit Office. Deadlines for production of the pack and the specified approach for 2016/17 have not yet been confirmed.

Elector challenge

The Local Audit and Accountability Act 2014 gives electors certain rights. These are:

— The right to inspect the accounts;

— The right to ask the auditor questions about the accounts; and

— The right to object to the accounts.

As a result of these rights, in particular the right to object to the accounts, we may need to undertake additional work to form our decision on the elector's objection. The additional work could range from a small piece of work where we interview an officer and review evidence to form our decision, to a more detailed piece of work, where we have to interview a range of officers, review significant amounts of evidence and seek legal representations on the issues raised.

The costs incurred in responding to specific questions or objections raised by electors is not part of the fee. This work will be charged in accordance with the PSAA's fee scales.

Our audit team

Our audit team will be led by Andrew Sayers, Partner, Steve Lucas, Senior Manager, and Sasja Neumann, Assistant Manager. Appendix 2 provides more details on specific roles and contact details of the team.

Reporting and communication

Reporting is a key part of the audit process, not only in communicating the audit findings for the year, but also in ensuring the audit team are accountable to you in addressing the issues identified as part of the audit strategy. Throughout the year we will communicate with you through meetings with the Finance team and the Audit Committee. Our communication outputs are included in Appendix 1.

Independence and Objectivity

Auditors are also required to be independent and objective. Appendix 4 provides more details of our confirmation of independence and objectivity.

Audit fee

Our Audit Fee Letter 2016/2017 presented to you in April 2016 first set out our fees for the 2016/2017 audit. This letter also sets out our assumptions. We have not considered it necessary to make any changes to the agreed fees at this stage.

- The planned audit fee for the 2016/17 Code of Practice audit is £199,590 (2015/16: £199,590)
- The planned audit fee for the Pension fund is £21,000 (2015/16 £21,000)
- The planned audit fee for the certification of grant claims and returns is £22,155 (2015/16 £21,633:).

Note our audit fee may be varied, subject to agreement with PSAA, for changes in the Code, specifically this year for the changes in relation to the disclosure associated with retrospective restatement of the Comprehensive Income and Expenditure Account and the Movement in Reserves Statement and the new Expenditure and Funding Analysis.

Appendix 1: Key elements of our financial statements audit approach

Communication

Continuous communication involving regular meetings between Audit Committee, Senior Management and audit team

Audit strategy and plan | Interim report (if required) | ISA 260 (UK&I) Report | Annual Audit Letter

Jan | Feb | Mar | Apr | May | Jun | Jul | Aug | Sep | Oct | Nov | Dec

Audit workflow

Initial planning meetings and risk assessment | Interim audit | Year end audit of financial statements | Sign audit opinion

Planning

- Perform risk assessment procedures and identify risks
- Determine audit strategy
- Determine planned audit approach

Control evaluation

- Understand accounting and reporting activities
- Evaluate design and implementation of selected controls
- Test operating effectiveness of selected controls
- Assess control risk and risk of the accounts being misstated

Substantive testing

- Plan substantive procedures
- Perform substantive procedures
- Consider if audit evidence is sufficient and appropriate

Completion

- Perform completion procedures
- Perform overall evaluation
- Form an audit opinion
- Audit Committee reporting

Driving more value from the audit through data and analytics

Technology is embedded throughout our audit approach to deliver a high quality audit opinion. Use of Data and Analytics (D&A) to analyse large populations of transactions in order to identify key areas for our audit focus is just one element. We strive to deliver new quality insight into your operations that enhances our and your preparedness and improves your collective 'business intelligence.' Data and Analytics allows us to:

— Obtain greater understanding of your processes, to automatically extract control configurations and to obtain higher levels assurance.

— Focus manual procedures on key areas of risk and on transactional exceptions.

— Identify data patterns and the root cause of issues to increase forward-looking insight.

We anticipate using data and analytics in our work around key areas such as accounts payable and journals. We also expect to provide insights from our analysis of these tranches of data in our reporting to add further value from our audit.

Appendix 2: Audit team

Your audit team has been drawn from our specialist public sector assurance department. Andrew Sayers, a partner within our Public Sector Department, is replacing Philip Johnstone and will bring a fresh insight to the audit. The other key members of the audit team were all part of the London Borough of Brent audit last year.

Name	Andrew Sayers
Position	Partner
	‘My role is to lead our team and ensure the delivery of a high quality, valued added external audit opinion. I will be the main point of contact for the Audit Committee, Chief Executive, Strategic Directors and Chief Finance Officer.’

Andrew Sayers

Partner

+44 7802 975171

andrew.sayers@kpmg.co.uk

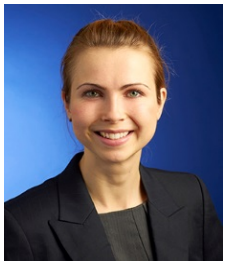
Name	Steve Lucas
Position	Senior Manager
	‘I provide quality assurance for the audit work and specifically any technical accounting and risk areas. I will work closely with director to ensure we add value. I will liaise with the Chief Finance Officer and the Finance Team throughout the audit.’

Steve Lucas

Senior Manager

+44 7825 008 824

stephen.lucas@kpmg.co.uk



Name	Sasja Neumann
Position	Assistant Manager
	‘I will be responsible for the on-site delivery of our work and will supervise the work of our audit assistants.’

Sasja Neumann

Assistant Manager

+44 7554 227 932

sasja.neumann@kpmg.co.uk

Appendix 3: Responsibility in relation to fraud

We are required to consider fraud and the impact that this has on our audit approach.

We will update our risk assessment throughout the audit process and adapt our approach accordingly.

Management responsibilities

Adopt sound accounting policies.

With oversight from those charged with governance, establish and maintain internal control, including controls to prevent, deter and detect fraud.

Establish proper tone/culture/ethics.

Require periodic confirmation by employees of their responsibilities.

Take appropriate action in response to actual, suspected or alleged fraud.

Disclose to Audit Committee and auditors:

- Any significant deficiencies in internal controls.
- Any fraud involving those with a significant role in internal controls.

KPMG's identification of fraud risk factors

Review of accounting policies.

Results of analytical procedures.

Procedures to identify fraud risk factors.

Discussion amongst engagement personnel.

Enquiries of management, Audit Committee, and others.

Evaluate broad programmes and controls that prevent, deter, and detect fraud.

KPMG's response to identified fraud risk factors

Accounting policy assessment.

Evaluate design of mitigating controls.

Test effectiveness of controls.

Address management override of controls.

Perform substantive audit procedures.

Evaluate all audit evidence.

Communicate to Audit Committee and management.

KPMG's identified fraud risk factors

Whilst we consider the risk of fraud to be low around the Authority, we will monitor the following areas throughout the year and adapt our audit approach accordingly.

- Revenue recognition
- Purchasing
- Management control override
- Manipulation of results to achieve targets and expectations of stakeholders

Appendix 4: Independence and objectivity requirements

Independence and objectivity

Professional standards require auditors to communicate to those charged with governance, at least annually, all relationships that may bear on the firm's independence and the objectivity of the audit engagement partner and audit staff. The standards also place requirements on auditors in relation to integrity, objectivity and independence.

The standards define 'those charged with governance' as 'those persons entrusted with the supervision, control and direction of an entity'. In your case this is the Corporate Committee.

KPMG LLP is committed to being and being seen to be independent. APB Ethical Standards require us to communicate to you in writing all significant facts and matters, including those related to the provision of non-audit services and the safeguards put in place, in our professional judgement, may reasonably be thought to bear on KPMG LLP's independence and the objectivity of the Engagement Lead and the audit team.

Further to this auditors are required by the National Audit Office's Code of Audit Practice to:

- Carry out their work with integrity, independence and objectivity;
- Be transparent and report publicly as required;
- Be professional and proportional in conducting work;
- Be mindful of the activities of inspectorates to prevent duplication;
- Take a constructive and positive approach to their work;
- Comply with data statutory and other relevant requirements relating to the security, transfer, holding, disclosure and disposal of information.

PSAA's Terms of Appointment includes several references to arrangements designed to support and reinforce the requirements relating to independence, which auditors must comply with. These are as follows:

- Auditors and senior members of their staff who are directly involved in the management, supervision or delivery of PSAA audit work should not take part in political activity.
- No member or employee of the firm should accept or hold an appointment as a member of an audited body whose auditor is, or is proposed to be, from the same firm. In addition, no member or employee of the firm should accept or hold such appointments at related bodies, such as those linked to the audited body through a strategic partnership.
- Audit staff are expected not to accept appointments as Governors at certain types of schools within the local authority.
- Auditors and their staff should not be employed in any capacity (whether paid or unpaid) by an audited body or other organisation providing services to an audited body whilst being employed by the firm.
- Auditors appointed by the PSAA should not accept engagements which involve commenting on the performance of other PSAA auditors on PSAA work without first consulting PSAA.
- Auditors are expected to comply with the Terms of Appointment policy for the Engagement Lead to be changed on a periodic basis.
- Audit suppliers are required to obtain the PSAA's written approval prior to changing any Engagement Lead in respect of each audited body.
- Certain other staff changes or appointments require positive action to be taken by Firms as set out in the Terms of Appointment.

Confirmation statement

We confirm that as of 6 February 2017 in our professional judgement, KPMG LLP is independent within the meaning of regulatory and professional requirements and the objectivity of the Engagement Lead and audit team is not impaired.

Appendix 5: KPMG Audit Quality Framework

We continually focus on delivering a high quality audit.

This means building robust quality control procedures into the core audit process rather than bolting them on at the end, and embedding the right attitude and approaches into management and staff.

KPMG's Audit Quality Framework consists of seven key drivers combined with the commitment of each individual in KPMG.

The diagram summarises our approach and each level is expanded upon.

At KPMG we consider audit quality is not just about reaching the right opinion, but how we reach that opinion. KPMG views the outcome of a quality audit as the delivery of an appropriate and independent opinion in compliance with the auditing standards. It is about the processes, thought and integrity behind the audit report. This means, above all, being independent, compliant with our legal and professional requirements, and offering insight and impartial advice to you, our client.

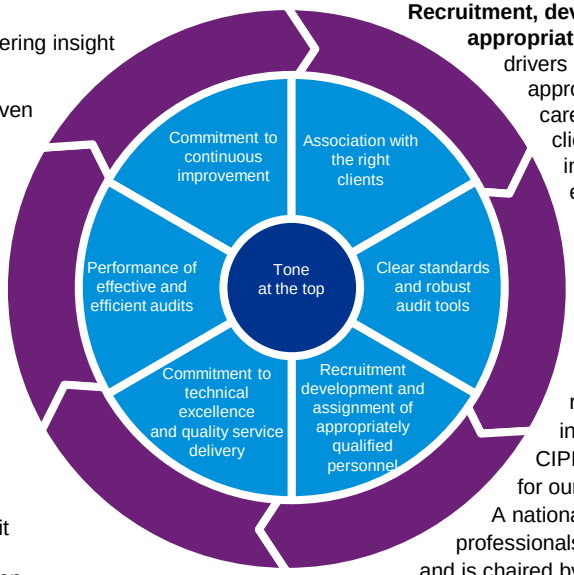
KPMG's Audit Quality Framework consists of seven key drivers combined with the commitment of each individual in KPMG. We use our seven drivers of audit quality to articulate what audit quality means to KPMG.

We believe it is important to be transparent about the processes that sit behind a KPMG audit report, so you can have absolute confidence in us and in the quality of our audit.

Tone at the top: We make it clear that audit quality is part of our culture and values and therefore non-negotiable. Tone at the top is the umbrella that covers all the drives of quality through a focused and consistent voice. Your engagement lead sets the tone on the audit and leads by example with a clearly articulated audit strategy and commits a significant proportion of his time throughout the audit directing and supporting the team.

Association with right clients: We undertake rigorous client and engagement acceptance and continuance procedures which are vital to the ability of KPMG to provide high-quality professional services to our clients.

Clear standards and robust audit tools: We expect our audit professionals to adhere to the clear standards we set and we provide a range of tools to support them in meeting these expectations. The global rollout of KPMG's eAudIT application has significantly enhanced existing audit functionality. eAudIT enables KPMG to deliver a highly technically enabled audit. All of our staff have a searchable data base, Accounting Research Online, that includes all published accounting standards, the KPMG Audit Manual Guidance as well as other relevant sector specific publications, such as the NAO's *Code of Audit Practice*.



Recruitment, development and assignment of appropriately qualified personnel: One of the key drivers of audit quality is assigning professionals appropriate to the Authority's risks. We take great care to assign the right people to the right clients based on a number of factors including their skill set, capacity and relevant experience.

We have a well developed technical infrastructure across the firm that puts us in a strong position to deal with any emerging issues. This includes:

A national public sector technical director who has responsibility for co-ordinating our response to emerging accounting issues, influencing accounting bodies (such as CIPFA) as well as acting as a sounding board for our auditors.

A national technical network of public sector audit professionals is established that meets on a monthly basis and is chaired by our national technical director.

All of our staff have a searchable data base, Accounting Research Online, that includes all published accounting standards, the KPMG Audit Manual Guidance as well as other relevant sector specific publications.

A dedicated Department of Professional Practice comprised of over 100 staff that provide support to our audit teams and deliver our web-based quarterly technical training.

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.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 Neil Thomas, 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 .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 3HZ.