KPMG

External Audit Plan 2016/2017

London Borough of Bromley and Pension Fund

March 2017

Headlines

Financial Statements Audit

There are no significant changes to the Code of Practice on Local Authority Accounting in 2016/17, which provides stability in terms of the accounting standards the Authority need to comply with.

Materiality

Materiality for planning purposes has been set at £10 million for the Authority and £7.4 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 £0.5 million for the Authority and £0.35 million 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:

- Risk of fraud in revenue recognition;
- Management override of controls;
- Valuation of Property, Plant and Equipment;
- Valuation of pension assets and liabilities (LGPS triennial valuation);
- Mears SPV treatment; and
- Pension fund investments

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:

- Restatement of prior year comparatives in the CIES.

See pages 3 to 6 for more details.

Value for Money Arrangements work

Our risk assessment regarding your arrangements to secure value for money have identified the following VFM significant risks:

- Findings from regulatory bodies;
- Overspends in children's services; and
- Financial resilience.

See pages 8 to 12 for more details

Logistics

Our team is:

- Phil Johnstone –Director;
- Hannah Andrews – Senior Manager;
- James Seegar – Senior Manager;
- Jonny Chowis – Assistant manager.

More details can be found 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 fee for the audit is £119,076 (£119,076 2015/2016) for the Authority and £21,000 (£21,000 2015/16) for the Pension Fund see **page 13.**

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

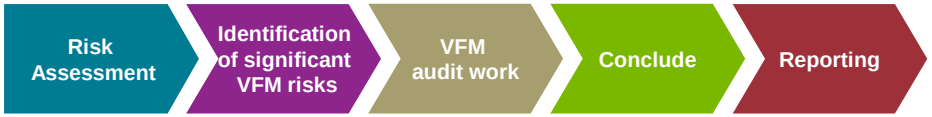
We would like to take this opportunity to thank officers and Members for their continuing help and co-operation throughout our audit work.

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

Financial Statements Audit Planning

Our planning work takes place during January 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 will obtain an understanding of revenue controls within the Council. We will evaluate and test accounting policies for income recognition to ensure that they are consistent with the requirements of the Code of Practice on Local Authority Accounting. We will perform detailed testing of revenue transactions, focusing on the areas we consider to be of greatest risk, for example, fees and charges. We fully rebut the risk of revenue recognition for council tax income, NDR income, grants, and investment income. We will complete specific testing over fees and charges income, including s106 funding.

The diagram opposite identifies both 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.

Keys: ● Significant risk ● Other area of audit focus ● Example other areas considered by our approach

Financial statements audit planning (cont.)

Significant Audit Risks - Administering Authority and Pension Fund

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

Risk: Significant changes in the pension assets and liabilities due to the LGPS Triennial Valuation

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 to 31 March 2017. For 2017/18 and 2018/19 the actuary will then roll forward the valuation for accounting purposes based on more limited data.

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

Pension valuations require a significant level of expertise, judgement and estimation and are therefore more susceptible to error. This is also a complex accounting area which increases the risk of misstatement.

Approach: As part of our audit of the 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.

We will:

- Confirm the information provided to the Actuary by the Authority;
- Review the actuarial valuation and consider the disclosure implications;
- Consider the professional competence of the actuary; and
- Consider the assumptions made by your actuaries (Mercer Ltd.) to benchmarks, including those which are collated by our KPMG actuaries, and to the assumptions used for 2015/16 for consistency.

Significant Audit Risks - Council

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

Risk: Valuation of Property, Plant and Equipment (PPE)

At 31 March 2016 the value of the Council's PPE was £459 million. In addition the Council made impairment losses on non-current assets in 2015/16 of £8.9 million. Local Authorities exercise judgement in determining the fair value of the different classes of assets held and the methods used to ensure the carrying values recorded each year reflect those fair values. Councils are responsible for ensuring that the valuation of PPE is appropriate at each financial year end and for conducting impairment reviews that confirm the condition of these assets. We have assessed that the inherent uncertainty in valuation and the high value of assets held by the Council creates a significant risk to the financial statements for 2016/17.

Approach: We will undertake work over the valuation, existence, ownership, completeness and accuracy of fixed asset balances.

We will:

- Consider the professional competence of the valuer;
- Consider the instructions provided to the valuer;
- Challenge the management basis of valuation, understand any professional valuation received, and consider the judgements made by the Council in applying the professional valuation received. This will include reviewing amounts posted to the revaluation reserve and checking whether accounting entries that have been made are appropriate;
- Complete testing over new capital additions in year to confirm they have been appropriately capitalised and that Council ownership is evidenced; and
- Review disposals made in year and confirm appropriate removal from the PPE balance in 2016/17.

Financial statements audit planning (cont.)

Significant Audit Risks - Council

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

Risk: Mears special purpose vehicle (SPV)

The Council has entered into an SPV with Mears which will acquire housing stock for temporary accommodation with a view to reducing temporary accommodation costs. In the long term the assets are planned to be 'gifted' to the pension fund with a view to reducing the pension fund deficit overall. There are risks around the accounting treatment of the SPV and the pension fund gifting.

Approach: We will discuss with management the advice received from Grant Thornton LLP regarding the setup of the SPV and understand the activities of the SPV. We will:

- Review the terms of establishment to agree the accounting treatment; and
- Understand whether any consolidation is required within the financial statements of the Council, and whether Group accounts are required to be produced.
- Understand the transactions which have been processed through the SPV in the year and agree these to supporting documentation.

Significant Audit Risks – Pension Fund

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

Risk: Pension fund investments

10% of the Pension Fund Investment portfolio (c. £70M) is held within diversified growth funds. These are classed as Level 3 investments and carry with them a higher degree of risk in terms of valuation. The valuation risk is increased given the increased requirement for the use of estimation techniques, and reliance on the fund manager's judgement when valuing the assets.

Approach: We will review the investment portfolio to consider the extent of the diversified growth funds held and agree the value assigned to the diversified growth funds by the fund managers. We will:

- Confirm the information provided to the fund managers by the Authority;
- Review the fund manager valuation and consider the disclosure implications;
- Consider the professional competence of the fund manager; and
- Consider the assumptions made by your fund managers to benchmarks, including those which are collated by our KPMG experts, and to the assumptions used for 2015/16 for consistency.

Financial statements audit planning (cont.)

Other areas of audit focus - Authority

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

Risk: Restatement of prior year comparatives in the CIES

During past years, 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 the 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: Review the basis for the restatement and confirm that the new presentation is in line with the Code of Practice on Local Authority Accounting. 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, correct presentation and compliance with applicable Accounting Standards and 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.

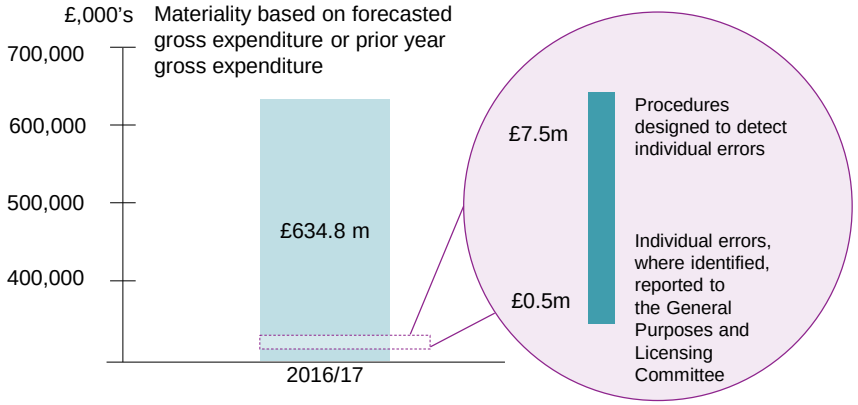
Generally, we would not consider differences in opinion in respect of areas of judgement to represent 'misstatements' unless the application of that judgement results in a financial amount falling outside of a range which we consider to be acceptable.

— For the Authority, materiality for planning purposes has been set at £10 million, which equates to 1.58% of gross expenditure.

— For the Pension Fund, materiality for planning purposes has been set at £7.4 million which equates to 1% of net assets.

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

Authority:



Reporting to the General Purposes and Licensing 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 General Purposes and Licensing 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 £0.5 million.

— In the context of the Pension Fund, we propose that an individual difference could normally be considered to be clearly trivial it is less than £0.35 million.

If management have corrected material misstatements identified during the course of the audit, we will consider whether those corrections should be communicated to the General Purposes and Licensing Committee to assist it in fulfilling its governance responsibilities.

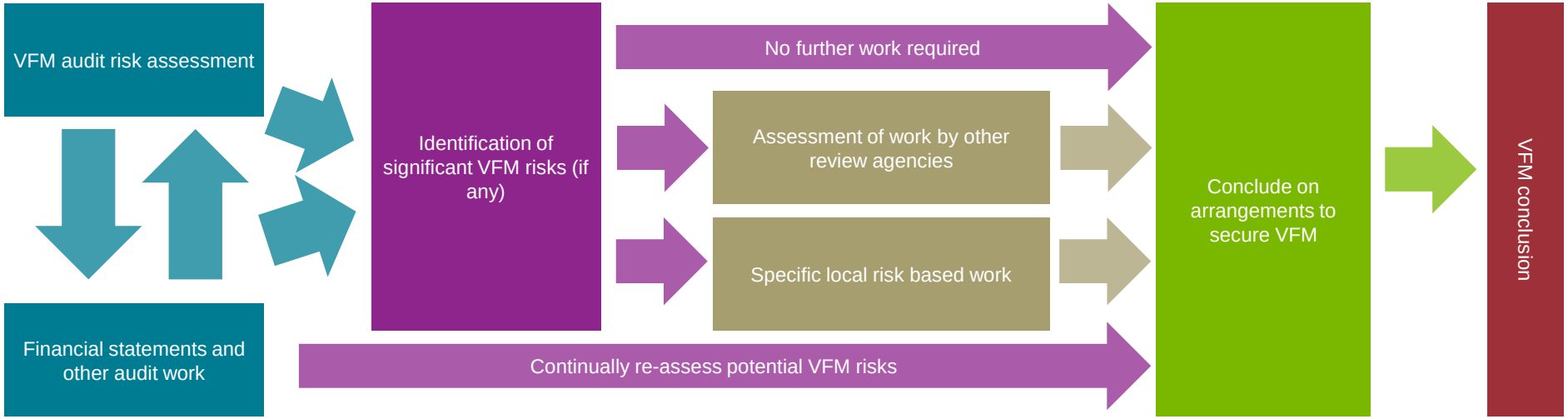
Value for money arrangements work

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.



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	On the following page, we report the results of our initial risk assessment. 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. 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. If considered appropriate, we may produce a separate report on the VFM audit, either overall or for any specific reviews that we may undertake.

Value for money arrangements work planning

Significant VFM Risks

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

Financial resilience

- Risk: Local Authorities are subject to an increasingly challenged financial regime with reduced funding from Central Government, whilst having to maintain a level of services to local residents. The Council is facing a number of ongoing funding pressures.
- Approach: We will review the robustness of the Council's financial position and financial management procedures, taking account of the position reported in the Medium Term Financial Strategy, the overall level of reserves and budget setting strategies. We will consider forecast financial data over both the immediate and long term plans and evaluate the likelihood of the Council achieving the budgeted position. We will also take into account the latest government spending policies and anticipate their effect on the Council's outturn position. Our work will include consideration of whether the Council is considering moving into non-traditional investment areas to compensate for the reducing funding.

Findings from regulatory bodies

- Risk: In June 2016 Ofsted published a report grading the Authority's children's services as 'inadequate'. The Authority has made a number of personnel changes following the inspection and has put in place an improvement plan which is being monitored by Senior Management. The Authority is working with the appointed Commissioner to improve services. This resulted in an 'except for' qualified VFM conclusion in 2015/16.
- Approach: We will review the Council's response to the Ofsted report including how the Council is working with the Commissioner to improve services. We will consider how the approach to improving services is being managed across the Authority, for example, whether there is an appropriate amount of Senior Manager and Councillor oversight of issues. We will also consider the results of any recent relevant reports from Ofsted or similar bodies.

Overspends in Children's Services

- Risk: Following the June 2016 Ofsted report, there have been a number of overspends within Children's Services. This could indicate that resources within this area are not being deployed in a sustainable manner.
- Approach: We will review the financial position of the Children's Services Directorate, including savings plans which have been put in place in response to the budget overspends (whilst still considering the requirement to sustainably improve services in light of the Ofsted report). We will consider whether the current spending is sustainable in the future, and model effects on the Medium Term Financial Strategy of further overspends within the Children's Services Directorate.

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 Phil Johnstone, supported by Hannah Andrews and James Seegar. Jonny Chowis will be the Assistant Manager. The team is consistent with the prior year, however, James is new, covering Hannah's maternity leave. 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, the Audit Sub-Committee, and the General Purposes and Licensing Committee. Our communication outputs are included in Appendix 1.

Independence and Objectivity

Auditors are also required to be independent and objective. Appendix 3 provides more details of our confirmation of independence and objectivity.

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 continue to 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.

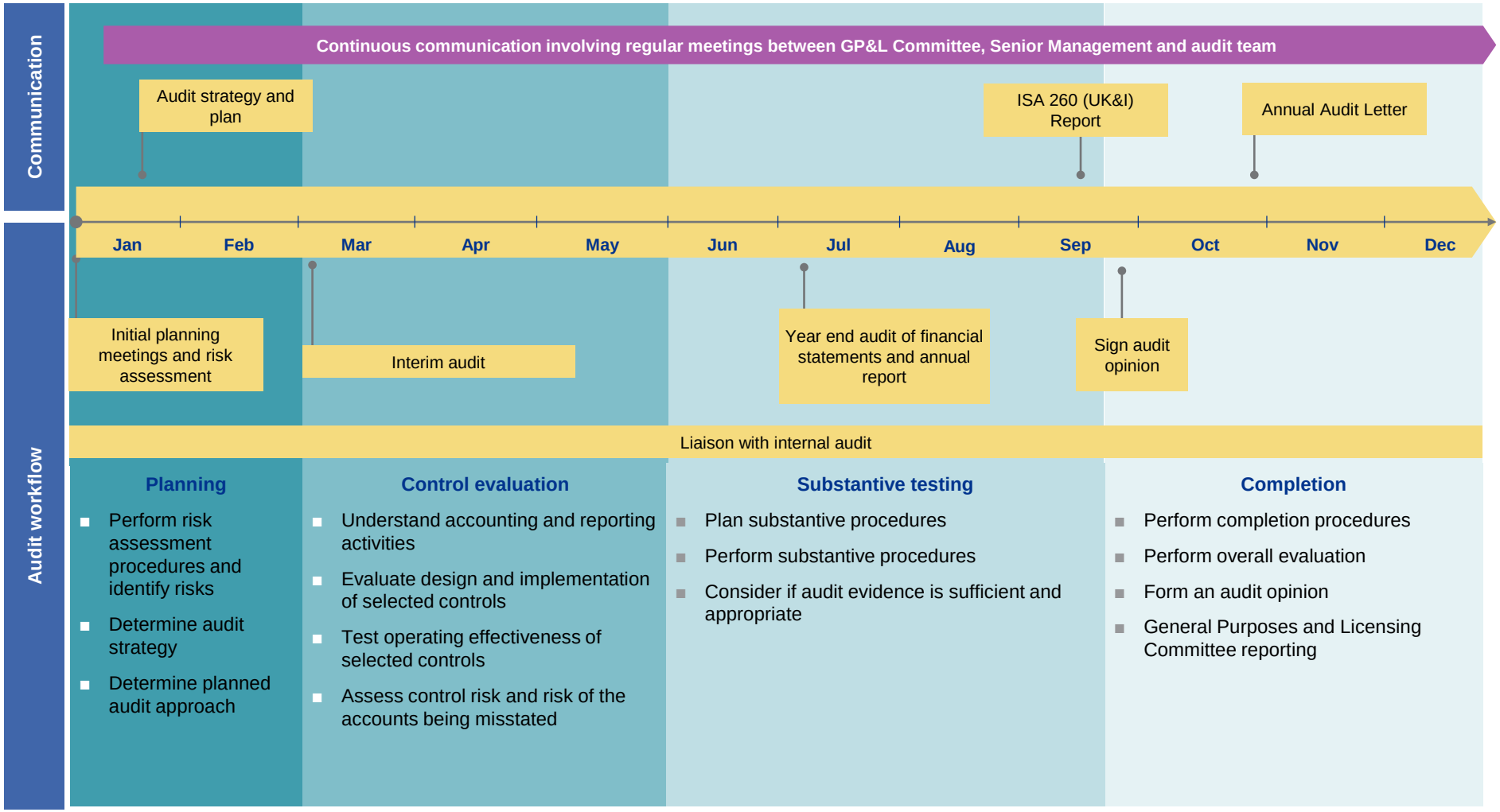
Audit fee

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 2016/17 is £119,076 for the Authority. The planned audit fee for 2016/17 is £21,000 for the Pension Fund. These fees are set by the PSAA and are consistent with the prior year. The fee set by the PSAA for the Housing Benefit certification is £17,476 (2015/16 £10,890).

Our audit fee may be varied later, subject to agreement with PSAA, for changes in the Code, specifically this year the changes in relation to the disclosure associated with retrospective restatement of CIES, EFA and MiRS. If such a variation is agreed with PSAA, we will report that to you in the due course

Appendix 1: Key elements of our financial statements audit approach



Appendix 2: Audit team

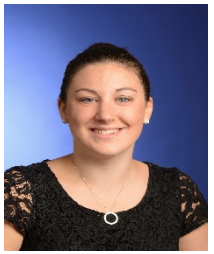
Your audit team has been drawn from our specialist public sector assurance department. Our audit team were all part of the London Borough of Bromley audit last year, with the exception of James Seegar who is a new Senior Manager to the Team.

Phil Johnstone

Director

020 7311 2091

Name	Phil Johnstone
Position	Director
	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 General Purposes and Licensing Committee, Audit Sub-Committee and Chief Executive.

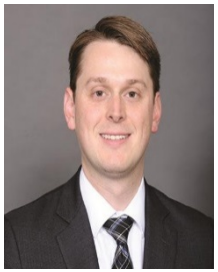


Hannah Andrews

Senior Manager

020 7694 8868

Name	Hannah Andrews
Position	Senior Manager
	I provide quality assurance for the audit work and specifically any technical accounting and risk areas. I will work closely with James and Phil to ensure we add value. I will liaise with the Director of Finance and other Executive Directors.



James Seegar

Senior Manager

020 7311 4163

Name	James Seegar
Position	Senior Manager
	I provide quality assurance for the audit work and specifically any technical accounting and risk areas. I will work closely with Phil and Hannah to ensure we add value. I will liaise with the Director of Finance and other Executive Directors.

Jonny Chowis

Assistant Manager

020 7311 4059

Name	Jonny Chowis
Position	Assistant Manager
	I will be responsible for the on-site delivery of our work and will supervise the work of our audit assistants.

Appendix 3: 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 General Purposes and Licensing 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 1 January 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 4: 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 Sub-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 Sub-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 Sub-Committee and management.

KPMG's identified fraud risk factors

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

— Revenue recognition;

— Purchasing;

— Management override of controls; and

— Manipulation of results to achieve targets and expectations of stakeholders.

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 the 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 Council's risks. We take great care to assign the right people to the right clients based on a number of factors including their skill 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 Phil Johnstone, 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.