ANNEX

KPMG

External Audit Plan 2016/17

Surrey Heath Borough Council

March 2017

Contents

The contacts at KPMG in connection with this audit plan are:

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This report is addressed to Surrey Heath Borough Council and has been prepared for the sole use of the Council. We take no responsibility to any member of staff acting in their individual capacities, or to third parties. The National Audit Office has issued a document entitled Code of Audit Practice. This summarises where the responsibilities of auditors begin and end and what is expected from the audited body. We draw your attention to this document.

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 Hewitson, the engagement lead for the Council, 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 6948981, 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, Third Floor, Local Government House, Smith Square, London, SW1P 3HZ.

Headlines

Financial Statement Audit

There has been one significant change to the Code of Practice on Local Council Accounting in 2016/17 in relation to CIES disclosures, which is included as an area of audit focus in this plan.

Materiality

Materiality for planning purposes has been based on last year's gross expenditure and set at **£900k.**

Materiality for the group accounts has been set at **£900k.**

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 **£45k** for the main accounts and **£45k** for the group accounts.

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
- Valuation of land and buildings
- Valuation and consolidation of subsidiary investments
- Significant changes in the pension liability due to LGPS Triennial Valuation

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: CIES restatement for code changes

See pages 4 to 9 for more details.

Value for Money Arrangements work

We have completed our initial VfM risk assessment and identified a significant risk for the VfM conclusion in relation to the capacity, capability and structure of the finance team.

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

See pages 10 to 13 for more details.

Logistics

Our team is:

- Neil Hewitson – Director
- Satinder Jas – Manager
- Cornelius Halladay-Garrett – Assistant Manager

Our work will be completed in four phases from January 2017 to September 2017 and our key deliverables are this Audit Plan and a Report to those charged with Governance as outlined on **page 15.**

Our fee for the audit is £41,900 (£41,900 exc. VAT in 2015/16) for the Council's accounts and £8,430 (£11,411 exc. VAT in 2015/16) for the housing benefit grant claim audit.

The PSAA is considering the additional fee associated with the creation of group accounts. We will ensure that the Audit Committee is informed once the PSAA has reached its decision.

See page 14 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 10 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 to February 2017. This involves the following key aspects:

— Risk assessment;

— Determining our materiality level; and

— Issuing this audit plan to communicate our audit strategy.

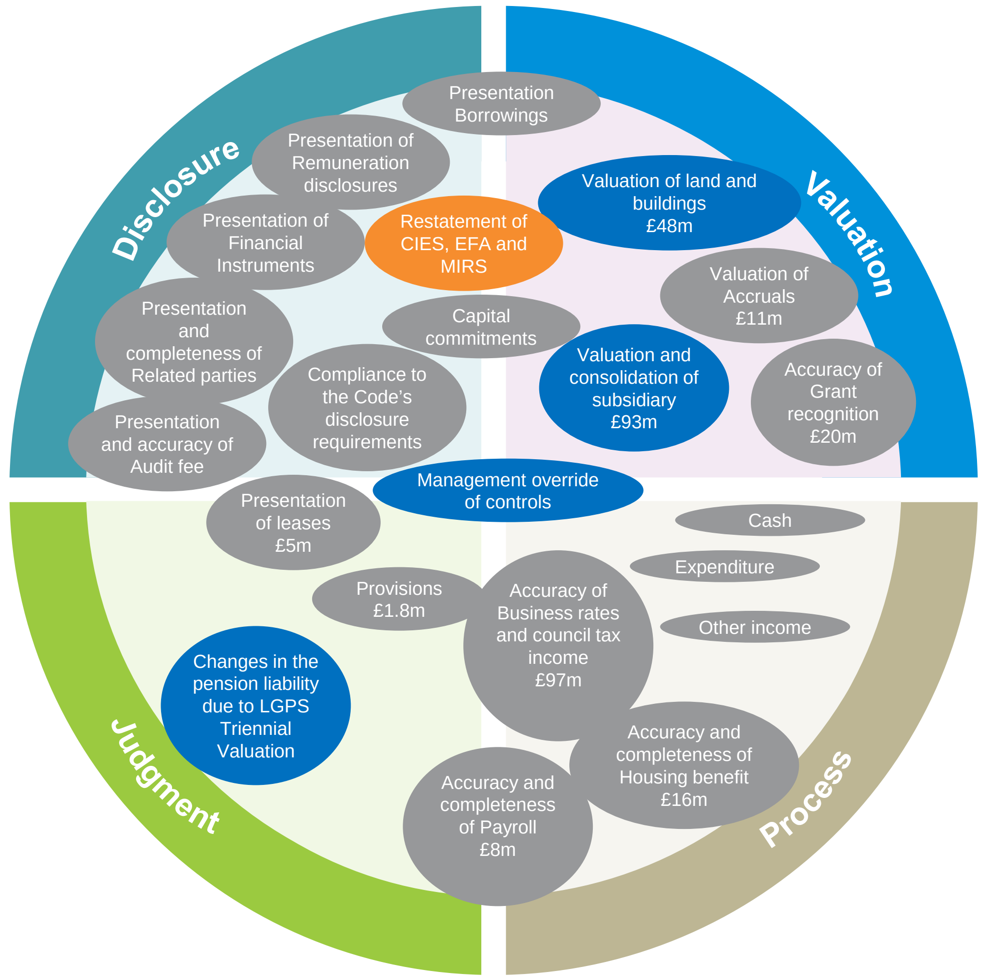
Risk assessment

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 authorities 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.



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

Financial statements audit planning

Significant Audit Risks

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

Significant audit risk: Significant changes in the pension liability due to LGPS Triennial Valuation

The Council participates in the Local Government Pension Scheme, administered by Surrey County Council. During the year, the Local Government Pension Scheme 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.

The Pension Fund only includes limited disclosures around pensions liabilities but we anticipate that this will be identified as a risk area by some of the admitted bodies, whose pension liabilities represent a significant element of their balance sheet. This includes the Council itself.

Approach: As part of our audit 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 review the data provided by the Council to the actuary that was used in roll forward exercise in estimating the pension liability at 31 March 2017. We may use our experts to review the assumptions used by the actuary in the calculation of the pension liability.

Financial statements audit planning

Significant Audit Risks

Significant audit risk: Valuation of Land and Buildings

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

In accordance with the suggested accounting policies provided by the CIPFA code of practice, the Council should revalue all its land and buildings within a rolling five year period. The Council achieves this by performing: an annual review for impairment; a full annual valuation over investment property; and a full valuation in not more than five yearly intervals over all other land and buildings.

As at 31 March 2016 the Council reported that it had a Net Book Value (NBV) of other land & buildings totalling £43.6m (79 other land and buildings) and investment properties totalling £26.8m (16 properties).

For 2016/17 the Council's valuers (Wilks Head & Eve) has revalued 22 items with a total NBV as at 31 March 2016 of £37m. Of the 22 assets selected, they consisted of the sports centre which was previously valued at £10m, a multi story car park previously valued at £5m and five other assets valued just over £4m. In addition, the Council will value all of its investment properties for 2016/17.

Approach:

We will undertake the following work over the valuation of Land and Buildings:

- review the revaluation basis and consider its appropriateness. We may engage our in-house property experts to undertake an assessment of the revaluation;
- review management's challenge to any of the valuations and to any differences between the valuation report and the financial statements;
- undertake appropriate work to understand the basis upon which any impairments to land and buildings have been calculated and test associated assumptions;
- assess the independence and objectivity of the external valuers engaged by Management;
- assess the review undertaken by the Council including the assurances they have obtained from their valuers (Wilks Head and Eve) to confirm that there are no material changes in the fixed asset values from the date of valuation to the Council's reporting year end date; and
- Test a sample of properties for existence to confirm they are in reasonable condition; and
- Test a sample of land and buildings back to deeds or other relevant documentation to confirm the Council own the asset.
- Review the fixed asset register to confirm that all assets have been valued within a five year period.

Financial statements audit planning

Significant Audit Risks

Significant audit risk: Group accounts (subsidiary consolidation)

The Council purchased the Jersey Unit Trust on 11 November 2016. The Trust consists of two properties which are the 'mall shopping centre' and the 'House of Fraser' which are both in the Camberley. The Council has purchased the subsidiary as a long term investment which provides income and to enable it to complete local regeneration in the future if it decides to do so.

This is the first year the Council will include this subsidiary as part of group accounts in its financial statements. The year end date for the subsidiary is 31 December, therefore the Council plans to use management accounts to calculate the remaining balances through to its year end of 31 March.

The subsidiary was previously in operation and is registered with Companies House. As at 31 December 2015 the subsidiary had total assets of £93m and liabilities £11m, with a net profit on investment of £3m.

Approach

We will:

- Review and compare the disclosures made by the Council to their financial statements to confirm the consolidation has been included in line with the Trust's management accounts and financial statements;
- Confirm the disclosures are inline with Code requirements for group accounting and review the presentation of the consolidated Group accounts;
- Undertake work to understand the basis upon which any assumptions have been made including estimations for the periods of the Trust's audited financial statements and the period up to the Council's financial statement year end;
- Review any discrepancies for reasonableness;
- Gain assurance over the professional qualifications, experience and independence of the Trust's auditor and to inquire about any significant audit findings; and
- Review the reports produced by the subsidiary's auditors including any other findings.

Financial statements audit planning

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.

Risk: New format of the core financial statements

CIPFA has been working with stakeholders to develop better accountability through the financial statements as part of its 'telling the whole story' project. The objective is 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. The 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, it is an important material disclosure change in this year's accounts.

Approach: We will assess how the Council 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

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.

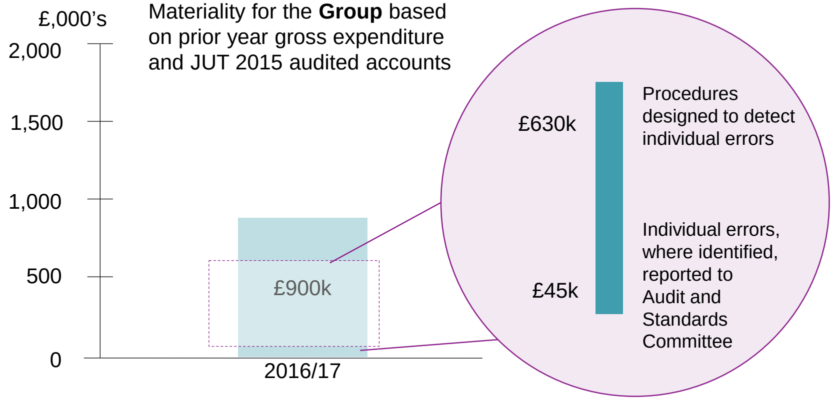
Group materiality

Group materiality is £900k (1.9% of gross expenditure). Performance materiality is £630k (70% of materiality) and AMPT at £45k (5% of materiality).

Council materiality

Council materiality is £900k (2% of gross expenditure). Performance materiality is £630k (70% of materiality) and AMPT is £45k (5% of materiality).

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



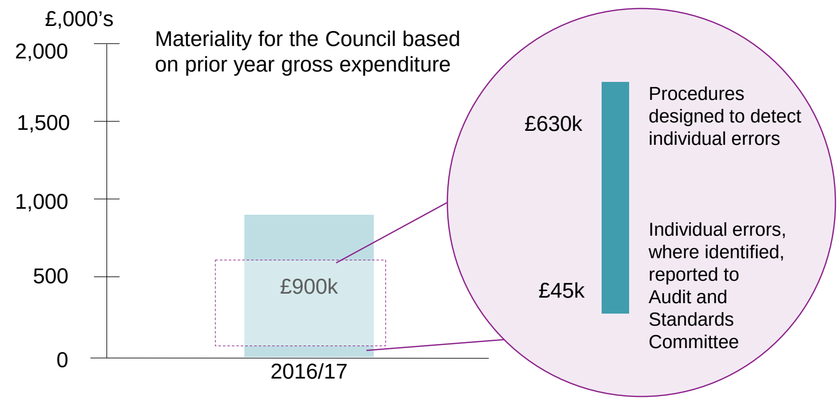
Reporting to the Audit and Standards Committee

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 and Standards 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 Council, we propose that an individual difference could normally be considered to be clearly trivial if it is less than £45k for the main accounts and £45k for the group accounts.

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



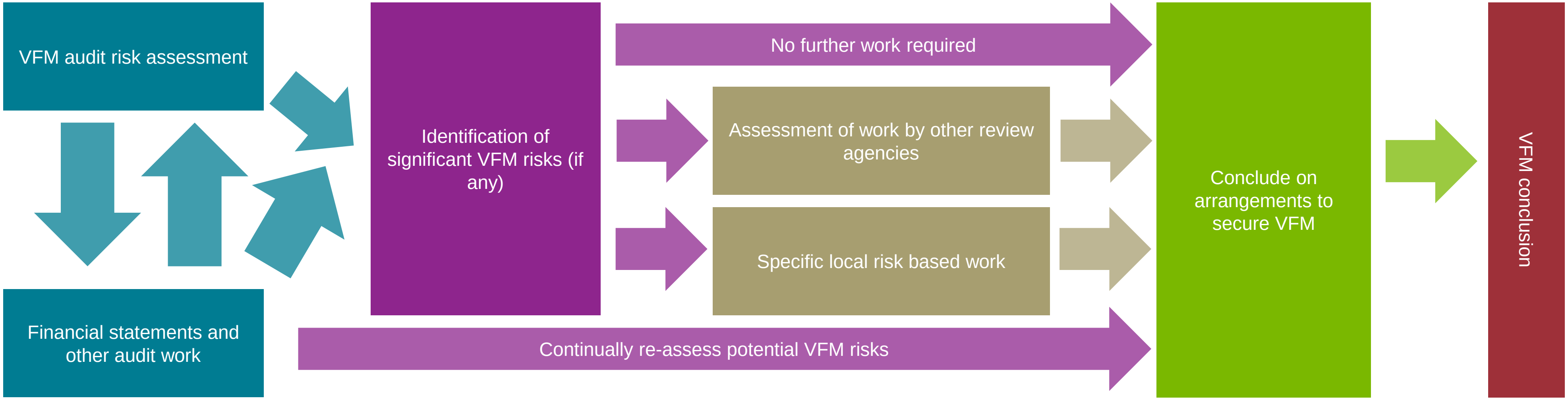
Value for money arrangements work

Background to approach to VFM work

The Local Audit and Accountability Act 2014 requires auditors of local government bodies to be satisfied that the Council '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

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

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.

Significant Risk 1

- Capacity, capability and structure of the finance team.

  The 2014/15 VFM conclusion was qualified in light of capacity and capability challenges within the finance function which were compounded by pressures in the resource model of the team. These challenges resulted in late submission of the draft accounts and the Whole of Government Accounts pack as well as the Council missing the filling deadline for its 2014/15 annual report and accounts, this resulted in us raising 10 recommendations.

  For 2015/16 the Council appointed an Interim Accountant to manage the draft accounts production process in a timely fashion, enhance the preparation of supporting working papers, undertake quality assurance reviews and facilitate the accounts and audit process as part of a finance team-wide effort. This individual was temporary and is no longer working at the Council. The 2015/16 draft accounts and associated working papers were considerably better. The draft accounts and Whole of Government return were submitted on time. This step change in the control and quality of the accounts process contributed significantly to the unqualified VFM conclusion in 2015/16. In doing so 8 out of our 10 recommendations from 2014/15 were addressed.

  Management planned to restructure the finance function during summer 2016, in particular hiring a permeant chief accountant to maintain the new systems and processes introduced in 2015/16. A consultation paper was submitted to the Corporate Management Team and staff in August 2016, outlining the business case and proposed restructure which included the provision of a chief accountant. It was anticipated that this would be completed by the end of October 2016. The Council has not yet filled the post and interviews are ongoing to hire a permanent chief accountant.

- Approach

  Due to the current vacant position we will continue to hold discussions with management over their approach to producing the financial statements throughout our interim work for 2016/17. We will review early working papers for 2016/17 to confirm their quality and ensure that the procedures implemented in 2015/16 continue to be in place and effective for 2016/17. We will follow up on the 2 remaining recommendations from 2014/15 to confirm if they have been implemented.

Value for money arrangements work

Other areas of audit focus

Those risks with a lower likelihood of not delivering value for money due to our previous understanding of the Council's environment.

Financial resilience

Issue:

- Local Authorities are subject to an increasingly challenged financial regime, with reduced funding from Central Government, whilst having to maintain a statutory and quality level of services to local residents.
- At the end of January 2017 the Council projected a potential underspend of £100k, against a budget for 2016/17 of £13.6m. However, the Council does have an ongoing savings target of £200k, excluding interest savings and pension costs. The main significant favourable variances during January 2017 came from wages, legal and property, and treasury activity. Collectively these contributed a £415k favourable variance. This was due to better than expected performances in the stock market, and a reduction in spend on property maintenance. The main adverse variance was for £250k, due to theatre and parking income shortfall.
- Due to the significant financial challenge faced by local authorities we will undertake review the financial resilience of the Council.

Approach:

- We will consider Management's assessment of the Council's ability to continue as a going concern;
- We will review the progress of the Council against the Medium Term Financial Strategy;
- We will review ongoing monitoring of the annual budget, including how the Council recovers any areas which are in deficit;
- The responsiveness to increasing costs of demand led services; and
- Any changes in funding allocations and the governance around how these figures are reported through to Full Council.

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 Neil Hewitson, supported by Satinder Jas and Cornelius Halladay-Garrett.

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 and Standards 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.

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 noted due to your increased requirements in relation to the group accounts a fee increase in order to complete our audit may be required.

The planned audit fee for 2016/17 is £41,900 (£41,900 in 2015/16). This preserves the 25% reduction applied by the PSAA in 2015/16. The PSAA is considering an additional fee to be charged for the creation of group accounts and consolidation of the commercial subsidiary for the first time in 2016/17. We will report on the PSAA's decision to the Audit Committee once we are informed.

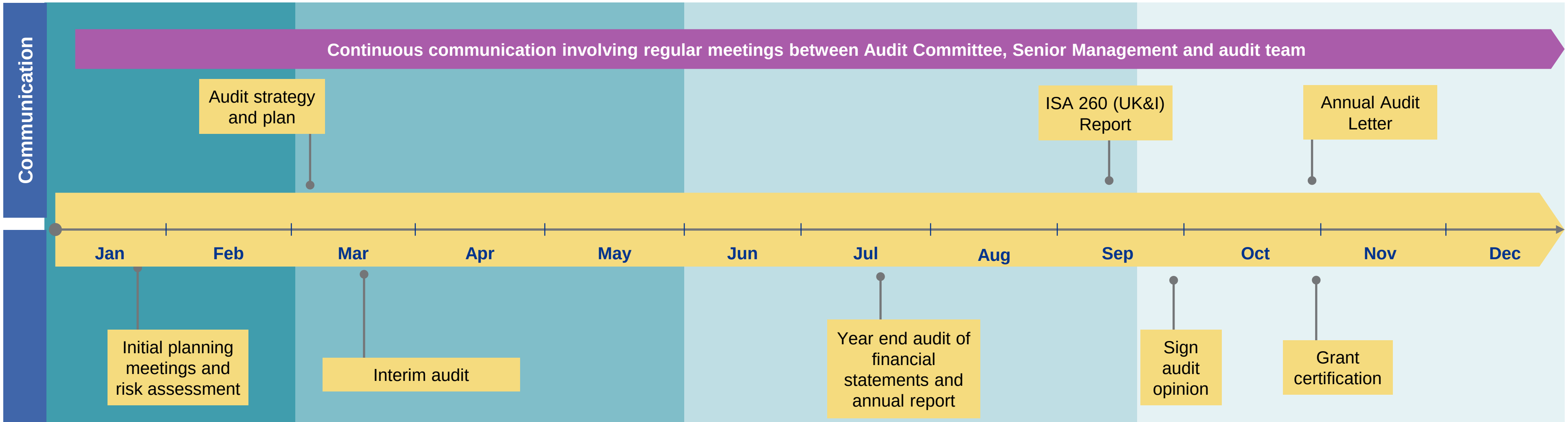
The planned audit fee for the certification of Housing Benefit grant claim is is £8,430 (£11,411 in 2015/16)

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.

Liaising with internal audit

ISA (UK and 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.

Appendix 1: Our financial statements audit approach



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 and Standards Committee reporting

Appendix 2: 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 Council, 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 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 Audit and Standards 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 Council.
- 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 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 4: 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.

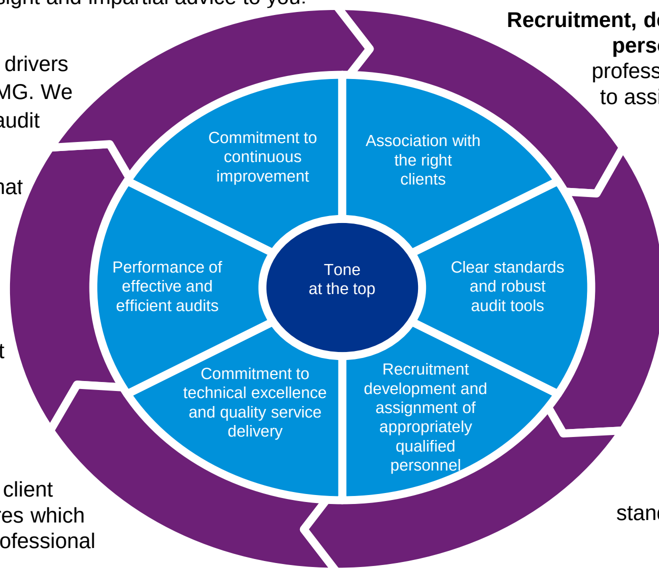
KPMG's Audit Quality Framework consists of seven key drivers combined with the commitment of each individual in KPMG. We use our seven drivers of audit quality to articulate what audit quality means to KPMG.

We believe it is important to be transparent 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 Trust'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 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 Council and has been prepared for the sole use of the Council. 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 Hewitson, the engagement lead to the Council, 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.