External Audit Plan 2016/2017

London Borough of Ealing

February 2017

Contents

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This report is addressed to London Borough of Ealing 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. 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 Thomas, the engagement lead for the Authority, who will try to resolve your complaint. If you are dissatisfied with your response please contact the national lead partner for all of KPMG's work under our contract with Public Sector Audit Appointments Limited, Andrew Sayers (on 0207 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 is one significant change 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 **£15 million** for the Authority and **£10 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 **£750,000** for the Authority and **£500,000** for the Pension Fund.

Significant risks and disclosures

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 (risk, both Authority and Pension Fund);
- Fraud in revenue recognition for section 106 income (risk. Authority only);
- LGPS Triennial Valuation (risk. both Authority and Pension Fund);
- Property, Plant and Equipment: Council dwellings and Other Land and Buildings (risk, Authority only); and
- Restatement of CIES, EFA and MIRS (disclosure, Authority 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:

- Cash (Authority and Pension Fund);
- Payroll (Authority);
- Non-Pay Expenditure (Authority);
- Housing benefit (Authority)
- Contributions receivable (Pension Fund);
- Benefits payable (Pension Fund);
- Investments (Pension Fund).

Please see **pages 5 to 10** 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.

See **page 11** for more details.

Logistics

Our team is:

- Neil Thomas – Partner
- Steve Lucas – Senior Manager
- Ridwanah Kabir – Assistant Manager

Our work will be completed in four phases from January to July and our key deliverables are this Audit Plan and a Report to those charged with Governance as outlined on **pages 13**.

Our planned fee for the audit is £166,583 (2015/16: £166,583) for the Authority, £21,000 (2015/16: £21,000) for the Pension Fund, and £22,080 (2015/16: £27,321) for the certification of grant claims and returns.

We are likely to submit an additional fee request for work relating to the restatement of the comprehensive income statement required by the change in accounting requirements.

See **page 12** 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 11** 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

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.

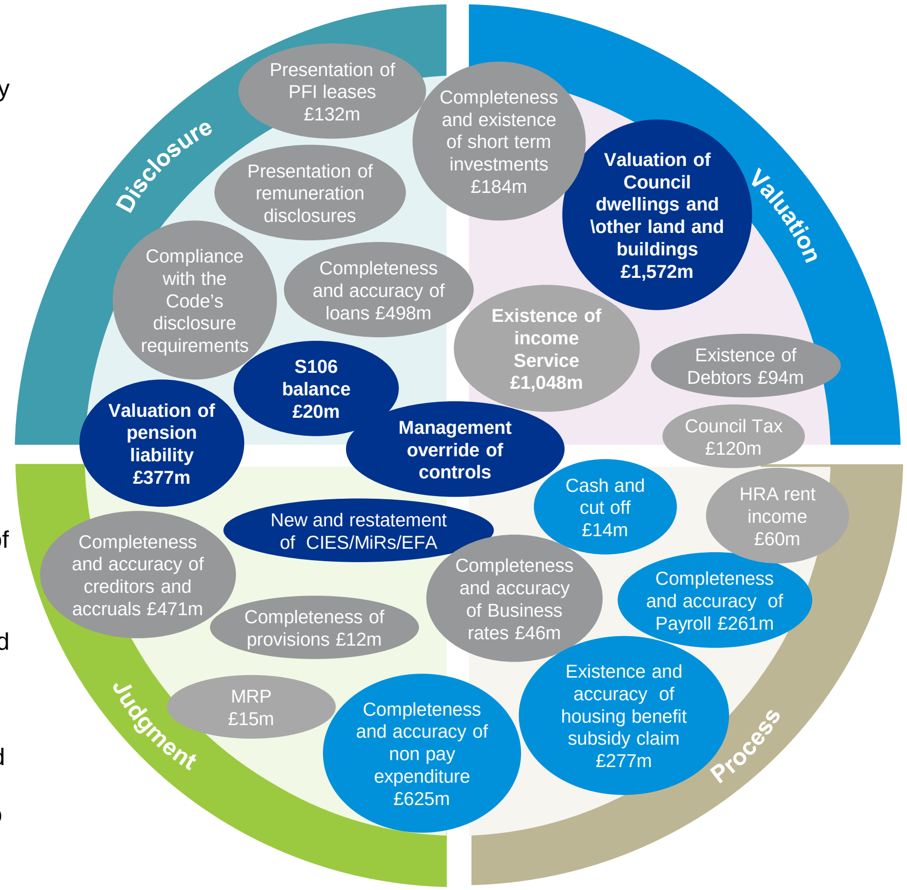
Risk assessment

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 for the Authority, which we discuss on **pages 7 to 9.** The diagram also identifies a range of other areas considered by our audit approach.



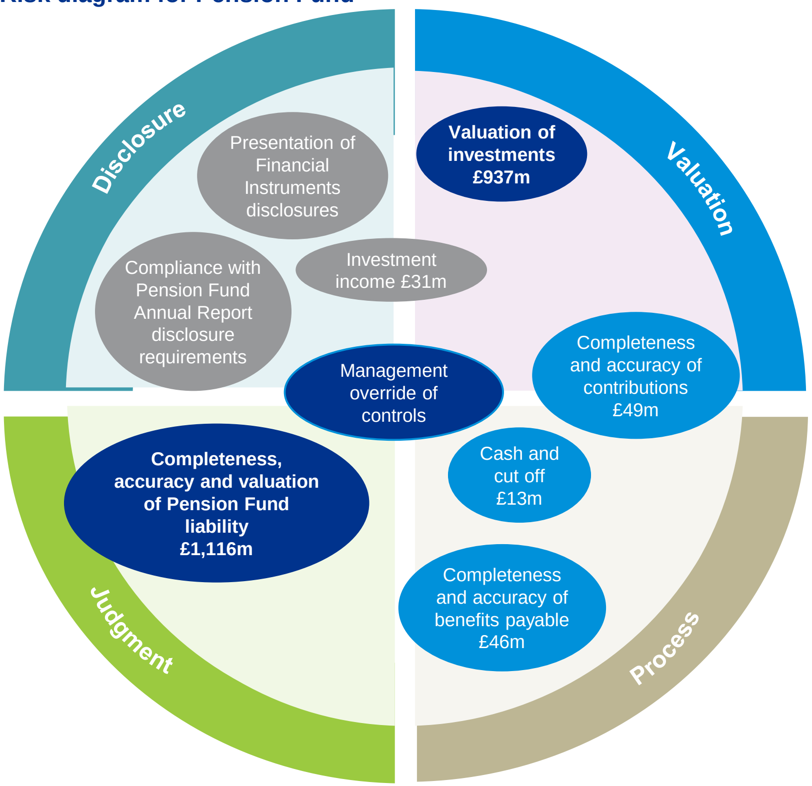
Key • Significant risk • Other area of audit focus • Other areas considered by our approach

Figures from 2015/16 audited financial statements

Financial statements audit planning: Pension Fund

The diagram below identifies significant risks and other areas of audit focus, for the Pension Fund, which we discuss on **pages 7 to 10**. The diagram also identifies a range of other areas considered by our audit approach.

Risk diagram for Pension Fund



Key: ● Significant risk ● Other area of audit focus ● Other areas considered by our approach

2015/16 audited financial statements

Document Classification: KPMG Confidential

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.

Risk : 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 Authority financial statements for 2016/17 (£377 million 2015/16) will be based on the output of the triennial valuation rolled forward to 31 March 2017. We will assess the completeness and accuracy of the information provided to the valuers per the approach below.

The risk is that data provided to the actuary for the valuation may be inaccurate and that this affects 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 Authority itself.

Approach: As part of our audit of the Authority and 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 and test the controls in place to ensure the accuracy of this data. This work will be focused on the data relating to the whole Pension Fund for the triennial valuation and the Authority itself for the roll forwards of the triennial valuation to 31 March 2017.

If we receive specific requests from the auditors of other admitted bodies, we are required to support their audits under the protocols put in place by the PSAA for this purpose. If the work they request is over and above that already planned, there will be additional costs arising from this. The Pension Fund can consider recharging these costs to the relevant admitted bodies.

Risk : Management override of controls (Authority and Pension Fund)

Auditing standards dictate a significant risk due to management typically being in a unique position to manipulate accounting records by overriding controls that are otherwise operating effectively

Approach: We will carry out appropriate controls and substantive testing over journal entries, accounting estimates and significant unusual transactions. We will also incorporate elements of unpredictability into the audit.

Risk : Fraudulent revenue recognition (Authority and Pension Fund)

Professional standards require us to make a rebuttable assumption that there is a significant risk of fraudulent revenue recognition.

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. We do though rebut this risk in relation to the Pension Fund due to the nature of the 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 fraud procedures.

Financial statements audit planning

Risk : Property, Plant and Equipment: Valuation of Council dwellings and Other Land and Buildings

In 2015/16 the Authority reported Property, Plant and Equipment of £1,786 million of which £777 million related to Council Dwellings and £795 million related to Other Land and Buildings. Local authorities exercise judgement in determining the fair value of the these assets 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 these assets we consider this to be a 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.

Disclosure: Restatement of CIES, EFA and MIRS (Authority only)

CIPFA's 2016/17 Local Government Accounting Code (Code) has announced there will be changes to the face of the Comprehensive Income and Expenditure Statement (CIES), removing the Service Reporting Code of Practice, removing the segmental reporting note, introducing an Expenditure and Funding Analysis (EFA) and streamlining the Movement in Reserves Statement (MIRS). This will result in the retrospective restatement of the CIES, EFA and MIRS, and as such we consider this to be a significant disclosure risk.

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., consulting with our technical team where appropriate. We have hosted a Local Government technical workshop, attended by Authority officers which has provided guidance in respect to this change in disclosure.

Other areas of audit focus (main and pension fund): Those risks with less likelihood of giving rise to a material error but which are nevertheless worthy of audit understanding

Cash (Authority and Pension Fund)

The Authority had approximately £14 million of cash at 31 March 2016. This balance has a pervasive impact on the financial statements. Furthermore, in 2015/16, we found that bank reconciliations were not completed promptly during the first eight months of the year.

Approach: We will agree bank balances to external confirmations requested from the banks; review controls over bank reconciliations; and examine the classification of cash equivalents.

Payroll (Authority only)

The Authority's payroll costs are over £250 million a year (2015/16). The quantum of this balance makes it an area of audit focus.

Approach: We will document the controls in place and substantively test the records to ensure that amounts paid out are materially correct. We will also review year end payroll reconciliations to ensure amounts due to HMCE are not materially misstated.

Non-pay expenditure (Authority only)

The Authority spends approximately £600 million of revenue expenditure on non pay each year and the quantum and different types of expenditure makes it an area of audit focus.

Approach: We will substantively test expenditure and complete data analytics on non pay expenditure to give us assurance that the amounts being paid out are reasonable and have followed the Authority's procedures.

Financial statements audit planning

Housing Benefit (Authority only)

The Authority awards housing benefits to claimants in the borough each year and in 2015/16 the total expensed was approximately £283 million. The Authority claimed £277 million from Department of Works and Pensions in housing benefit subsidy based on the expenditure incurred.

Approach: We will document and assess the process for making benefit payments, test system parameters and reconciliations to ensure amounts paid out are accurate and correctly accounted for. We will also review the compilation of the housing benefit claim to ensure amounts claimed are supported by appropriate evidence.

Contributions receivable (Pension Fund only)

Contributions receivable at 31 March 2016 were £49 million, and this is also an area of audit focus due to its pervasive impact on the Fund Account of the Pension Fund accounts.

Approach: We will test a sample of members' contribution rates and compare the balance to 2015/16, making assumptions for movements within the year.

Investments (Pension Fund only)

The Pension Fund held over £950 million of investments at 31 March 2016 which will be revalued by both the Fund Managers and the Custodian at 31 March 2017.

Approach: We will obtain direct confirmations from the Fund managers, London collective investment vehicle and custodians and audit the reconciliations between 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 test a sample of valuations to gain assurance that the values used by the Fund Managers are appropriate.

Benefits payable (Pension Fund only)

Benefits payable at 31 March 2016 were £46 million. This is an area of audit focus due to its pervasive impact on the Fund Account of the Pension Fund accounts. .

Approach: We will substantively test a sample of death and commutation benefits to supporting documentation. We will also compare pensions payable to 2015/16, making assumptions for movements within the year.

Financial statements audit planning

Materiality

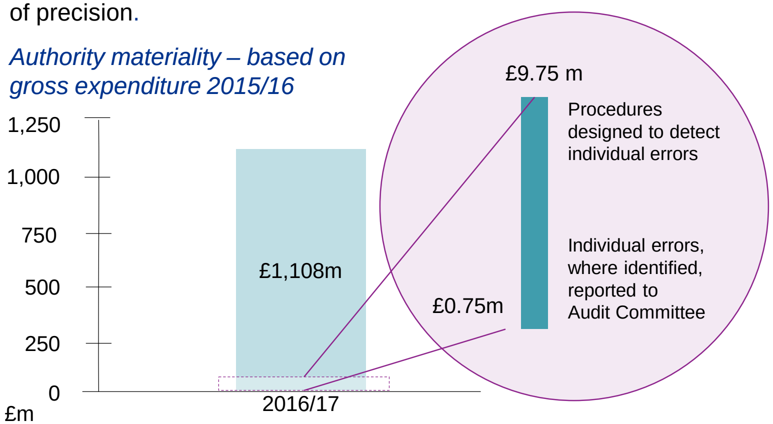
We are required to plan our audit to determine with reasonable confidence whether or not the financial statements are free from material misstatement. An omission or misstatement is regarded as material if it would reasonably influence the user of financial statements. This therefore involves an assessment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

For the Authority, materiality for planning purposes has been set at £15 million (PY £15 million) for the Authority's accounts, which equates to 1.4% of gross expenditure. For the Pension Fund, materiality for planning purposes has been set at £10 million (PY £8 million), which equates to 0.9% of total assets at 30 September 2016.

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

Authority materiality – based on gross expenditure 2015/16



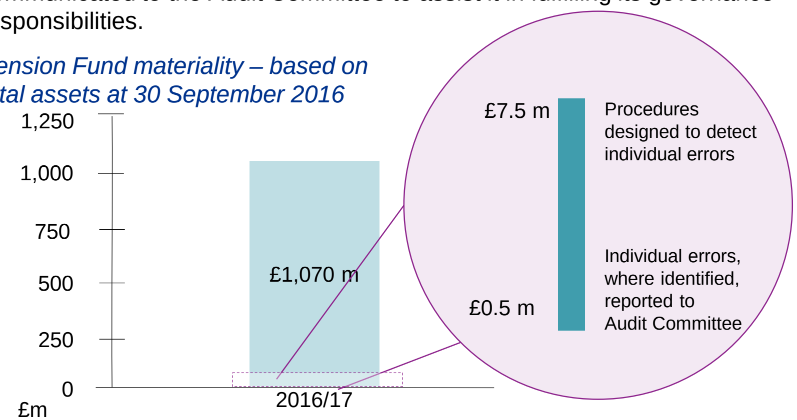
Reporting to the Audit Committee

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 £0.75m (PY £0.75m). 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 £0.5m (PY £0.4m).

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 Committee to assist it in fulfilling its governance responsibilities.

Pension Fund materiality – based on total assets at 30 September 2016



Value for money arrangements work planning

Background to approach to VFM work

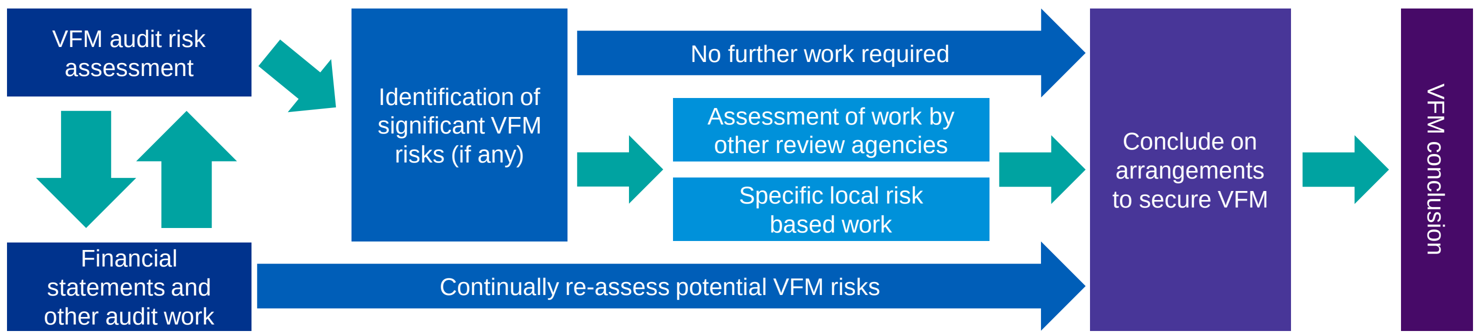
The Local Audit and Accountability Act 2014 requires auditors of local government bodies to be satisfied that the authority ‘has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources’.

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 2015/16 and the process is shown in the diagram below along with the criteria we are required to apply.

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	Sustainable resource deployment	Working with partner and third parties



We have completed our initial VFM risk assessment and while we have not identified any significant risks, 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, especially in adult social care, 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.

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 Thomas, Partner, and Steve Lucas, Senior Manager, which preserves continuity for the audit. Ridwanah Kabir will take over from Robert Paduraru as your Assistant Manager.

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 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 not considered it necessary to make any changes to the agreed fees at this stage. The planned audit fees are: £166,583 (2015/16: £166,583) for the Authority, £21,000 (2015/16: £21,000) for the Pension Fund, and £22,080 (2015/16 : £27,321) for the certification of grant claims and returns.

We are likely to submit an additional fee request for work associated with the retrospective restatement of Comprehensive Income and Expenditure Statement, Expenditure and Funding Analysis and Movement in Reserves Statement following the change in the Code.

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 approach

Communication

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

- Audit strategy and plan (Jan)
- Interim report (if required) (Apr)
- ISA 260 (UK&I) Report (Jul)
- Annual Audit Letter (Oct/Nov)

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

Audit workflow

- Initial planning meetings and risk assessment
- Interim audit and general IT controls (GITCs) testing
- Year end audit of financial statements and annual report
- Sign audit opinion
- Sign Whole of Government accounts consistency statement
- Perform and sign grants work

Planning

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

Control evaluation

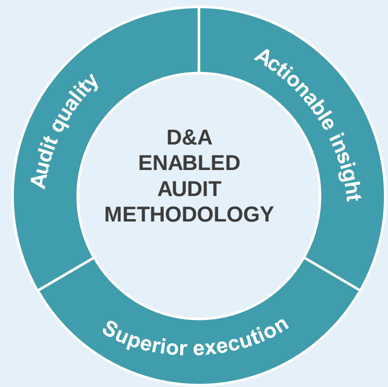
- Understand accounting and reporting activities
- Evaluate and test design and implementation of selected controls, including GITC testing
- Assess control risk and risk of the accounts being misstated
- Review skeleton accounts

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. 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 non pay expenditure and journals.

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 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 3: Auditor Independence

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 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 10 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.

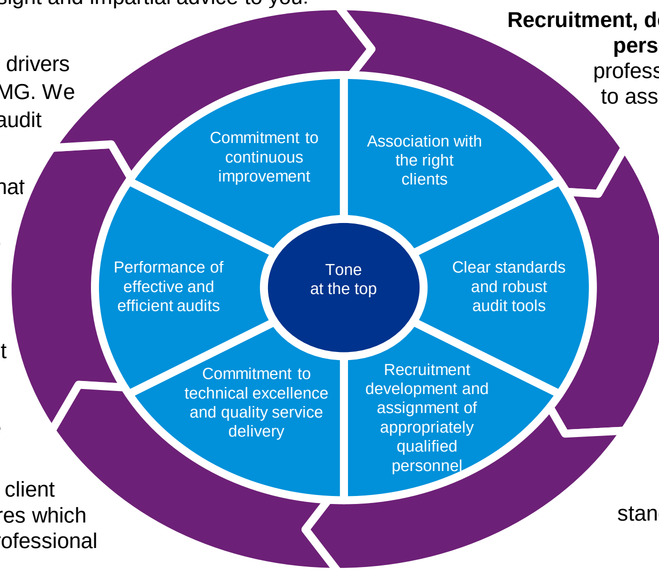
KPMG's Audit Quality Framework consists of seven key drivers combined with the commitment of each individual in KPMG. We use our seven drivers of audit quality to articulate what audit quality means to KPMG.

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.