



External Audit Plan 2016/17

Derbyshire County Council

March 2017





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This report is addressed to the Authority and has been prepared for the sole use of the Authority. We take no responsibility to any member of staff acting in their individual capacities, or to third parties. 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 John Cornett, 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.

Headlines

Financial statements audit



In 2016/17 there are noteworthy changes to the Code of Practice on Local Authority Accounting. These are primarily in relation to presentational changes affecting the Comprehensive Income and Expenditure Statement and Movement in Reserves Statement, and the introduction of a new Expenditure and Funding Analysis.

We have set out our approach to the required audit risks as per professional standards, on fraudulent income recognition and management override of controls.

Our approach will be enhanced on accounts payable and journals through the use of data analytics.

Materiality

Materiality for planning purposes has been set at £16 million for the Authority and £36 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 £800,000 for the Authority and £1.8 million for the Pension Fund.

Significant audit risks

We have identified the following risks which require specific audit attention and procedures to address the likelihood of a material financial statement error:

- Significant changes in the pension liability due to the LGPS Triennial Valuation
- Management override of controls. This is a presumed risk, required by Auditing Standards.

Other areas of audit focus

We have identified areas which are risks, but are less likely to give rise to a material error, and as such we do not consider them significant. Nonetheless we require an audit understanding of these risks and have set out our approach below.

- Subsidiary accounts (Derbyshire Developments Ltd)
- The disclosure and reporting changes required by the 2016 CIPFA Code on Local Authority Accounting for the Authority and Pension Fund statements; and
- Progress in relation to the recommendations we made as a result of our 2015/16 work in relation to related party disclosures, adjustments between accounting basis and funding basis and embedding the pension fund administration system.

See pages 4 to 8 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 risk:

- Delivery of Saving Plans

See pages 9 to 13 for more details.



Logistics

Your core audit team is:

- John Cornett, Director
- Richard Walton, Senior Manager
- John Pressley, Assistant Manager

More details are on **page 17**.

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

Our planned fee for the audit is £125,356 for the Authority and £28,672 for the Pension Fund, see **page 18**.

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 9** 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.



Overview

Financial Statements Audit Planning

Our planning work takes place during December 2016 to March 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. Due to the increased risk of the audit this year, we have specifically added this to our significant audit risks. 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.



Significant audit risks

Significant audit risks are key areas which we deem require specific audit attention due to potential for audit misstatements. Our assessment is presented below and our proposed audit approach to addressing these significant audit risks.

1. Significant changes in the pension liability due to the LGPS Triennial Valuation

During the year, the Derbyshire County Council Pension Fund (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 Authority's share of pension assets and liabilities is determined in detail, and a large volume of data is provided to the actuary in order to carry out this triennial valuation.

The pension liability 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. Most of the data is provided to the actuary by Derbyshire County Council, who administer the Pension Fund.

Our approach

As part of our audit, we will agree any data provided by the Authority to the actuary, back to the relevant systems and reports from which it was derived, in addition to checking the accuracy of this data.

We will also liaise with the Pension Fund Audit Team, where this data was provided by the Pension Fund on the Authority's behalf to check the completeness and accuracy of such data.

2. Management override of controls

Professional standards require us to communicate the fraud risk from management override of controls as significant because management is typically in a unique position to perpetrate fraud because of its ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively.

Our approach

We have set materiality for the financial statements which will drive our testing over the Authority's financial statements. We will also enhance the use of data analytics techniques over the Authority's transactional data (for example, journals and non-pay expenditure) to allow us to gain additional assurance over the balances. We also continue to use professional judgement to guide our testing throughout our audit of your financial statements.

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.

Other areas of audit focus

We have identified areas which are risks, but are less likely to give rise to a material error. Nonetheless we require an audit understanding of these risks and have set out our approach below.

1. Subsidiary Company

The Authority is moving into new models of delivering services and has established the Derbyshire Developments Limited, as a subsidiary company.

Our approach

- We will review the arrangements in place in regard to the establishment of the subsidiary company and the accounting treatment for the new entity.

2. Compliance to the Code's disclosure requirements – Authority and Pension Fund

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.

CIPFA's Example Accounts and Disclosure Checklist includes a small number changes to the expected fair value disclosures required under the Code. Other changes include an analysis of investment management expenses in line with CIPFA's Accounting for Local Government Pension Scheme Management Expenses (2016), new investment classifications and an additional disclosure note covering remuneration of key management personnel.

Our approach

- We will review the new proposed approach to the CIES and disclosures and the restatement of the prior year.

3. Implementation of Previous Recommendations

Recommendations were made in our 2015/16 audit findings report in relation to related party disclosures, adjustments between accounting basis and funding basis and embedding the pension fund administration system.

Our approach

- We will follow up prior year recommendations with the finance team and report the progress made regarding the implementation of the recommendations.

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.

Materiality for planning purposes has been set at **£16 million** for the Authority which equates to just under 1% of prior year gross expenditure and **£36 million** for the Pension Fund, which is 1% of total assets. This is consistent with the levels of materiality used in the prior year to reflect the stability of the risk environment.

We design our procedures to detect errors in specific accounts at a lower level of precision. This is **£12 million** for the Authority and **£27 million** for the Pension Fund

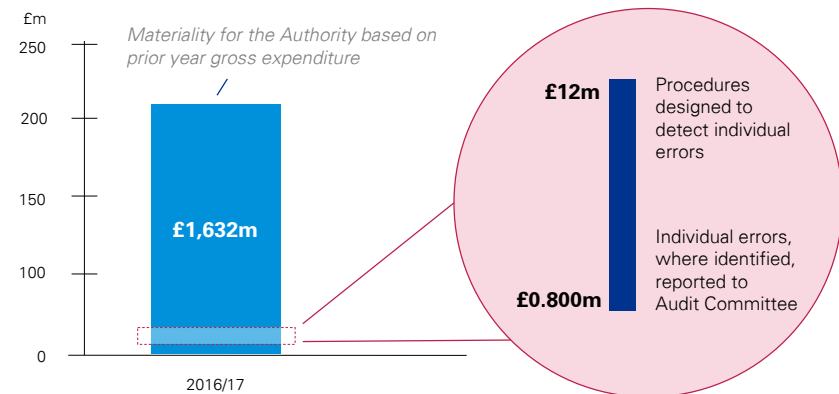
Reporting to the Audit Committee

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 & Ireland) '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 & Ireland) 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 **£800,000** for the Authority and **£1.2 million** for the Pension Fund.

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.



We propose to report all individual unadjusted differences greater than £800,000 to the Audit Committee.

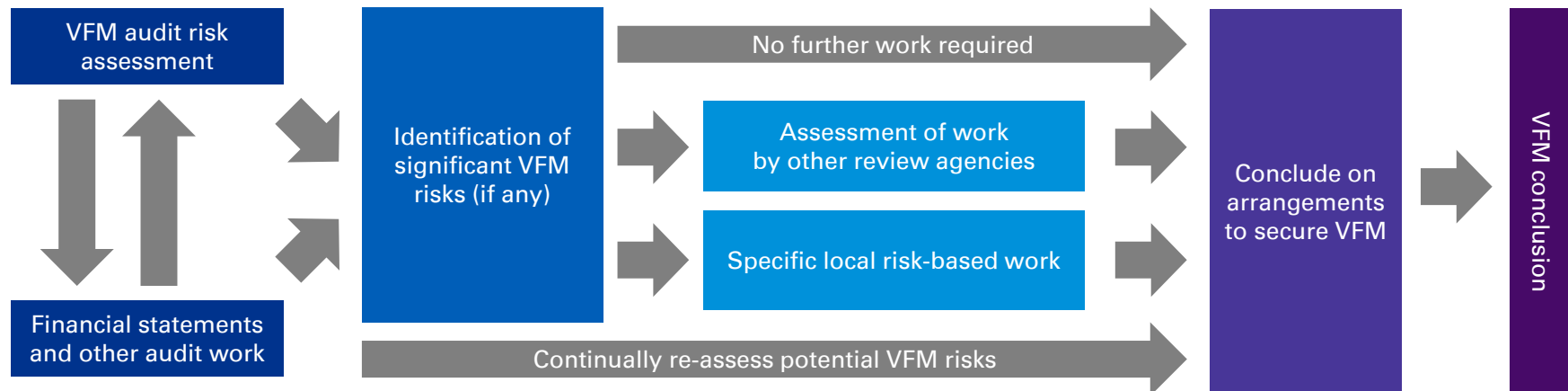
We will also have regard to other errors below this amount if evidence of systematic error or if material by nature.

Our approach

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. Each stage is explained overleaf.



Our approach (cont.)

Overall criterion: the Local Audit and Accountability Act 2014 requires that auditors consider one overall criterion when completing work in regard to the VFM conclusion. This is whether 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.

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.



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.

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.

Our approach (cont.)

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.

Our approach (cont.)

Assessment of work by other review agencies

and

Delivery of local risk based work

Depending on the nature of the significant VFM risk identified, we may be able to draw on the work of other inspectorates, review agencies and other relevant bodies to provide us with the necessary evidence to reach our conclusion on the risk.

If such evidence is not available, we will instead need to consider what additional work we will be required to undertake to satisfy ourselves that we have reasonable evidence to support the conclusion that we will draw. Such work may include:

- Meeting with senior managers across the Authority;
- Review of minutes and internal reports;
- Examination of financial models for reasonableness, using our own experience and benchmarking data from within and without the sector.

Concluding on VFM arrangements

At the conclusion of the VFM audit we will consider the results of the work undertaken and assess the assurance obtained against each of the VFM themes regarding the adequacy of the Authority's arrangements for securing economy, efficiency and effectiveness in the use of resources.

If any issues are identified that may be significant to this assessment, and in particular if there are issues that indicate we may need to consider qualifying our VFM conclusion, we will discuss these with management as soon as possible. Such issues will also be considered more widely as part of KPMG's quality control processes, to help ensure the consistency of auditors' decisions.

Reporting

We have completed our initial VFM risk assessment and have reported the results of this assessment on **page 13**.

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.

Significant VFM risk

Significant VFM risks are key risks which require specific audit attention and procedures to address the likelihood that proper arrangements are not in place to deliver value for money. This year our risk assessment has identified one such risk.

Delivery of Saving Plans

The Authority's budgets over recent years have delivered significant planned savings, but further financial challenges lie ahead. The Authority has a challenging savings plan involving savings of £70m over 2016/17 (£36m) and 2017/18 (£34m). The Authority forecasts predict that over the forthcoming years up to 2021/22, additional savings of £46m will also need to be found as the Authority faces further expenditure pressures and a continued reduction in resources. We understand the Authority has identified saving proposals for 2017/18, but may need to revisit the phasing of these savings and may also require further savings in future years to meet the potential impact of reduced resources on the financial standing of the Authority. Therefore we consider this as a significant risk.

Our approach

We will undertake the following procedures over this significant risk:

- Review the delivery of the Authority's savings programme.
- Review the delivery of the saving plans including any actions taken by the Authority where savings are achieved in line with the plan.
- Evaluate the arrangements the Authority has in place to identify further savings for future years.

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 John Cornett, supported by Richard Walton and John Pressley to ensure consistency. Appendix 2 provides more details on specific roles and contact details of the team.

Reporting and communication

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

Independence and Objectivity

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

Audit fee

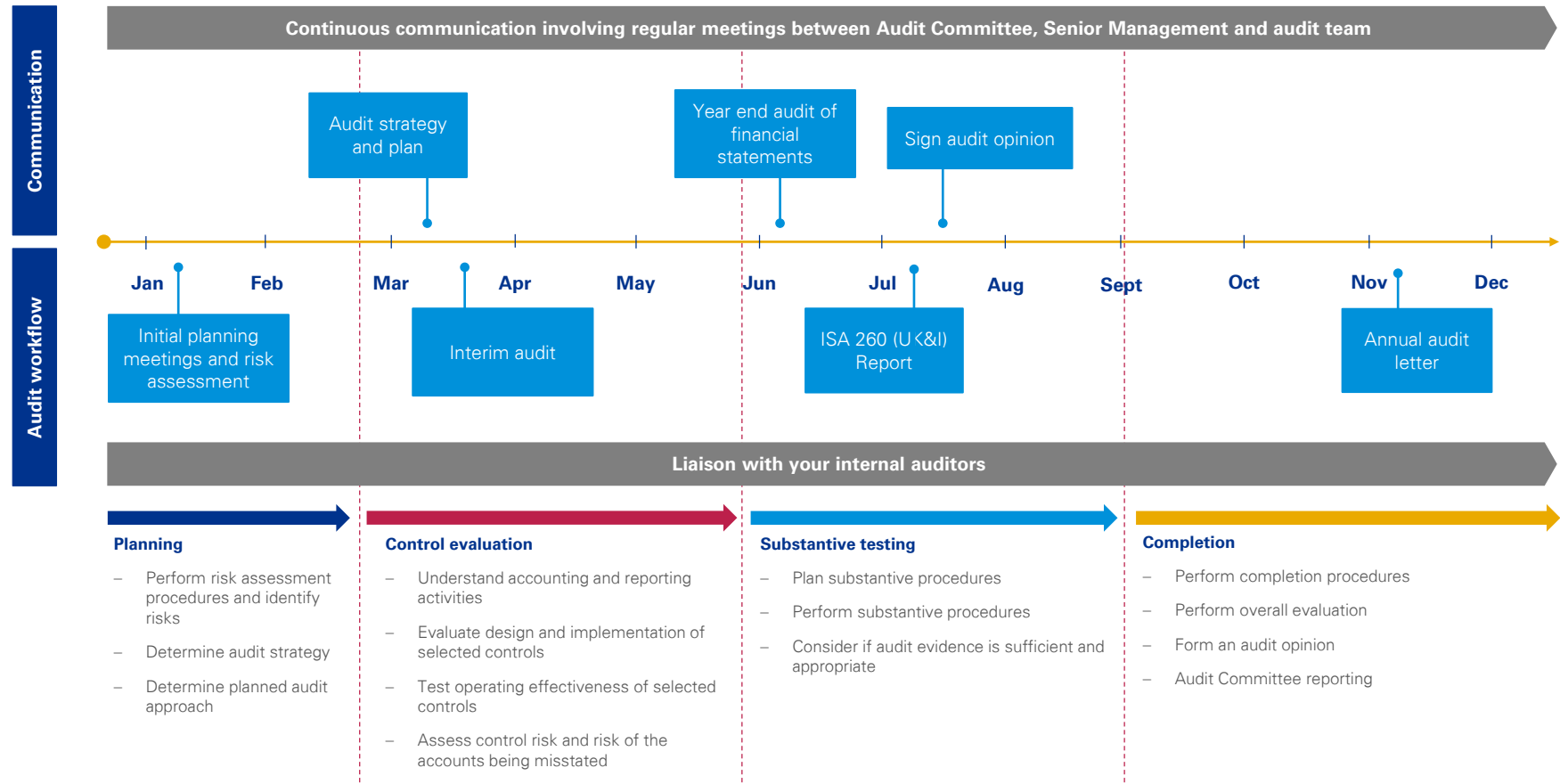
Our Audit Fee Letter 2016/2017 presented to you in April 2016 first set out our fees for the 2016/2017 audit. This letter also sets out our assumptions.

We have not considered it necessary to make any changes to the agreed fees at this stage. 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.

Our audit fee includes our work on the VFM conclusion and our audit of the Authority's financial statements. See appendix 3 for further details.

1. Key elements of our approach

We adopt a continuous audit approach throughout the year including regular meetings with Senior Management, Finance team and internal audit.



1. Key elements of our approach (cont.)

Driving more value from the audit through data and analytics

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

- Obtain greater understanding of your processes, to automatically extract control configurations and to obtain higher levels assurance.
- Focus manual procedures on key areas of risk and on transactional exceptions.
- Identify data patterns and the root cause of issues to increase forward-looking insight.

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



2. Your audit team

Your audit team has been drawn from our specialist Public Sector Assurance department.



John Cornett
Director

+44 7468 749927
John.Cornett@kpmg.co.uk

'My role is to lead our team and ensure the delivery of a high quality, valued added external audit opinion. I will be the main point of contact for the Audit Committee and Chief Executive.'



Richard Walton
Senior Manager

+44 7917 232307
Richard.Walton@kpmg.co.uk

'I provide quality assurance for the audit work and specifically any technical accounting and risk areas. I will work closely with the Director to ensure we add value.'

I will liaise with the Director of Finance and other Executive Directors.'



John Pressley
Assistant Manager

+44 7919 697377
John.Pressley@kpmg.co.uk

'I will be responsible for the on-site delivery of our work and will supervise the work of our audit assistants.'

I will also liaise with the closedown team to support the Authority in achieving early sign off.'

3. Audit fees

Our fee for 2016/17 is set out below. Our audit fee remains indicative and based on you meeting our expectations of your support. The Authority has a number of additional areas of focus as part of the production of the financial statements, including the revaluation of the Local Government Pension Fund and the restatement of the financial statements to meet new Code requirements.

Audit fee

Our proposed fees continue to be set by Public Sector Audit Appointments Ltd (PSAA) for 2016/17. Our proposed fees for 2016/17 are set out below:

Fee table			
Component of audit £	2016/17 (planned fee)	2015/16 (actual fee)	2014/15 (actual fee)
Accounts opinion and use of resources work			
PSAA scale fee set in 2014/15	125,356	125,356	167,141
Additional work to conclude our opinions (note 1)	TBC	–	3,720
Subtotal	TBC	125,356	170,861
Pension Fund			
PSAA scale fee set in 2014/15	28,672	28,672	28,672
Additional work to conclude our opinions (note 1)	TBC	–	3,306
Subtotal	TBC	28,672	31,978

All fees are quoted exclusive of VAT.

Note 1: Accounts opinion and use of resources work

- For 2016/17, we will confirm our final fees with the S151 Officer upon conclusion of our risk assessment.

Audit fee letter

Our 2016/17 fee letter was issued in April 2016 prior to the completion of our 2015/16 audit to meet required PSAA timetables.

Our fee letter set out the assumptions including the general level of risk in relation to the audit of the 2016/17 financial statements. However, additional risks have been identified since, including an revaluation of the Local Government Pension Fund (see **page 6**) and a restatement of the financial statements to meet new Code requirements (see **page 7**). We will continue to liaise with management on this matter.

Audit fee assumptions

The fee is based on a number of assumptions, including that you will provide us with complete and materially accurate financial statements, with good-quality supporting working papers, within agreed timeframes.

4. Independence and objectivity requirements

Independence and objectivity

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

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

5. Responsibilities 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	KPMG's identification of fraud risk factors	KPMG's response to identified fraud risk factors	KPMG's identified fraud risk factors
<ul style="list-style-type: none"> – 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: <ul style="list-style-type: none"> - Any significant deficiencies in internal controls. - Any fraud involving those with a significant role in internal controls. 	<ul style="list-style-type: none"> – 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. 	<ul style="list-style-type: none"> – 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. 	<p>We will monitor the following areas throughout the year and adapt our audit approach accordingly.</p> <ul style="list-style-type: none"> – Revenue recognition. – Purchasing. – Management control override. – Manipulation of results to achieve targets and expectations of stakeholders.

6. 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 drivers of quality through a focused and consistent voice. Your engagement lead sets the tone on the audit and leads by example with a clearly articulated audit strategy and commits a significant proportion of his time throughout the audit directing and supporting the team.

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

Clear standards and robust audit tools: We expect our audit professionals to

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



Recruitment, development and assignment of appropriately qualified personnel: One of the key drivers of audit quality is assigning professionals appropriate to the Authority's risks. We take great care to assign the right people to the right clients based on a number of factors including their skill set, capacity and relevant experience. We have a well-developed technical infrastructure across the firm that puts us in a strong position to deal with any emerging issues. This includes:

- A national public sector technical director who has responsibility for co-ordinating our response to emerging accounting issues, influencing accounting bodies (such as CIPFA) as well as acting as a sounding board for our auditors.
- A national technical network of public sector audit professionals is established that meets on a monthly basis and is chaired by our national technical director.
- 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.



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