KPMG

External Audit Plan 2016/2017

Sheffield City Council

April 2017


KPMG
The Local Government Landscape
DCLG
DFE
NHS
DWP
FINANCIAL
PRESSURES
LEPS
£55M
INWARD INVESTMENT
ENTERPRISE ZONE
£10.5M
£8.5M
ECONOMIC GROWTH
SCIENCE PARK
THE GENERAL PUBLIC
HEALTH CENTRES
£10.5M
SCHOOLS
£5.5M
£4M
RECYCLING CENTRE
DEMOGRAPHIC
CHANGE
DEVOLUTION
MANAGE
CARE MODEL REFORM
PLANNING REPORT
WHOLE PERSON CARE
Cloud services
ISSUE
Off shore services
OUTSOURCE
P45
ISSUE
COMPLEX DEPENDENCY
SUPPORTING INDIVIDUALS
SERVICES working together
OLD SYSTEM
NEW SYSTEM
OPERATIONAL EFFECTIVENESS
FINANCE MODELS
HOUSING
FUNDING
Council tax
Business rate
Fees & Charges
MY FUTURE
ISSUE
TRAINING
BIG DATA
s114
OVERSIGHT
MAYORAL ELECTION
We are a Living Wage Employer
PUBLIC
PRIVATE
PARTNERSHIPS
WORKING TOGETHER
OPERATING
MODELS
NHS
DWP
DCLG
APPOINTMENT
Ofsted
REPORT

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Headlines

Financial Statement Audit

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

Materiality

Materiality for planning purposes has been based on last year's expenditure and set at **£22 million.**

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 **£1 million**.

Significant risks

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

- Significant changes in the pension liability due to LGPS Triennial Valuation;
- Prepayment of the pension;
- The Valuation of PPE; and
- The new core financial system.

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:

- Disclosure around retrospective restatement of Comprehensive Income and Expenditure (CIES) , Movement in Reserves Statement (MiRS) and Expenditure and Funding Analysis (EFA) note from 1 April 2016.

See pages 3 to 7 for more details.

Value for Money Arrangements work

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

- Financial Resilience with a particular focus on the performance of the Children, Young People and Families portfolio

See pages 8 to 12 for more details.

Logistics

Our team is:

- Tim Cutler – Partner
- Alison Ormston – Senior Manager
- Matt Ackroyd – Manager
- Olivia Camm – Assistant manager

More details are on **page 15.**

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

Our planned fee for the audit is £186,998 (£186,998 2015/2016). This will be subject to review as a result of additional IT audit work required, see **page 13.**

Introduction

Background and Statutory responsibilities

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

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

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

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

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

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

Acknowledgements

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

Financial Statements Audit

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

Value for Money Arrangements Work

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

Financial statements audit planning

Financial Statements Audit Planning

Our planning work takes place during December 2016 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.

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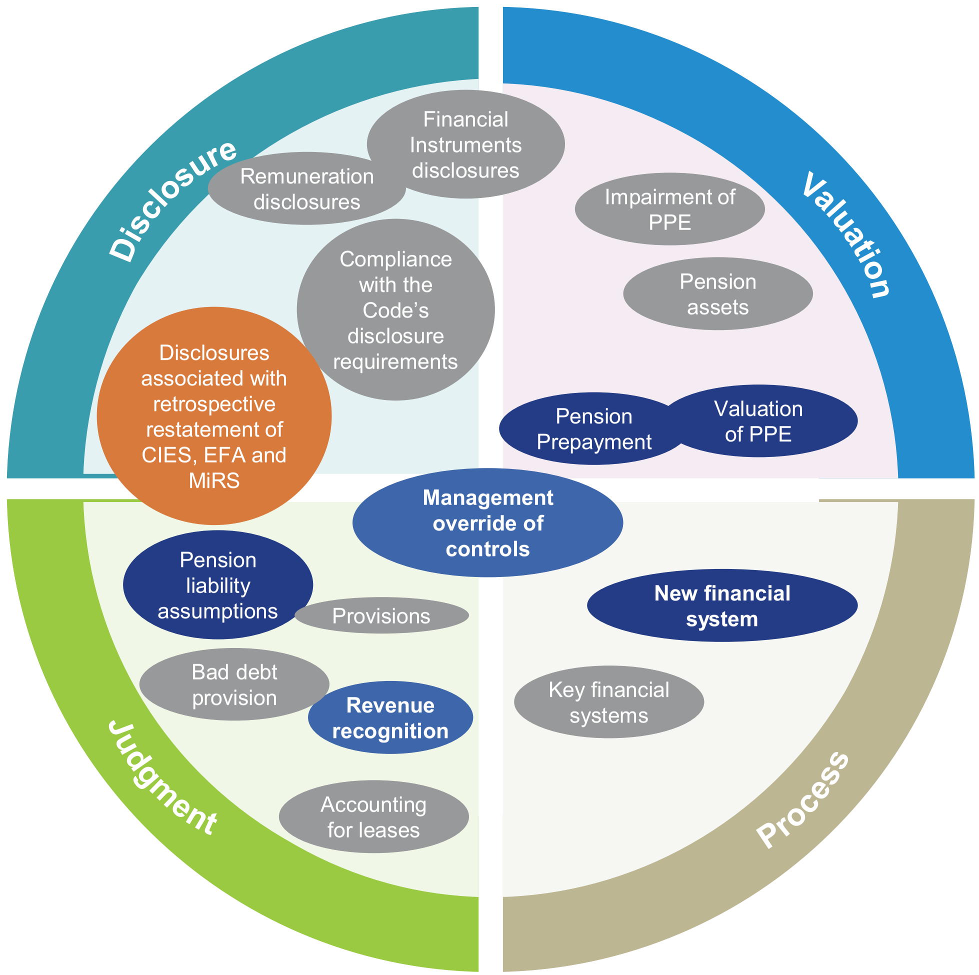


Keys: ● Significant risk ● Other area of audit focus ● Example other areas considered by our approach

Financial statements audit planning (cont.)

Significant Audit Risks

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

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

During the year, the Local Government Pension Scheme for South Yorkshire (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 pensions 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 South Yorkshire Pensions Authority, who administer the Pension Fund.

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, who are the auditors of the Pension Fund, where this data was provided by the Pension Fund on the Authority's behalf to check the completeness and accuracy such data.

Significant Audit Risks

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

Risk: Valuation of Property, Plant & Equipment

At 31 March 2016 the Authority was reporting Property, Plant and Equipment with a value of £2,484m, representing the large majority of assets held on the Balance Sheet. It is the Authority's policy to revalue assets at a minimum every 5 years on a rolling basis, ensuring that the value assets are held on the balance sheet is not materially different to the current value at year end.

There is an element of judgement exercised by the authority in determining whether assets require a valuation in year and also with regards to the assumptions made by the valuer in determining a value for the assets.

Given the materiality in value and the judgement involved in determining the carrying amount we have determined a significant risk with regards to this account.

Approach:

- We shall assess the qualifications and approach of the valuer used by the Authority;
- Test the accuracy and completeness of the Authority's asset register through review of the Authority's asset verification exercise and the physical inspection of any significant new additions;
- Review the instructions provided to the valuer;
- Consider the appropriateness of the valuation basis adopted e.g. should fair value have been used;
- Understand the basis of any impairments that might occur and whether they comply with the Code; and
- Review the capitalisation of major expenditure in the year.

Financial statements audit planning (cont.)

Significant Audit Risks

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

Risk : Prepayment of Pension

The council has made a significant pension prepayment during the year (£65m). This prepayment is intended to be made towards the revised liability for the three years from April 2017 to March 2020 as a result of the triennial valuation exercise. This transaction is unusual in nature, and involves large values and potentially complex accounting.

Approach : We will review the legal advice obtained and the accounting transactions to ensure the treatment is materially accurate.

Risk: New core financial system

The general ledger used by the Council has changed in year. There has been a phased implementation of the new Integra system with the existing OEO system still being used for a number of feeder systems e.g. Accounts Payable and Receivable Ledgers.
There is a risk that account balances are incorrectly transferred from the old ledger to the new ledger incorrectly leading to a misstatement. There is also a risk that account balances are inaccurately coded due to an unfamiliarity with the new coding structure.

Approach: We will reconcile the closing balance on the old ledger to the opening balance on the new ledger to ensure no transactions were lost or duplicated in the transfer. Testing of activity in the year will verify that the correct codes have been used both for the transfer and subsequent activity. KPMG specialists will review the controls around the new system to ensure users are appropriately recognised. We shall also review the 'link' between the old OEO and other feeder systems to the new ledger to ensure data is transferred as required.

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.

Disclosures associated with retrospective restatement of CIES, EFA and MiRS

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 their funding to serve the local population. The outcome of this project resulted in two main changes in respect of the 2016-17 Local Government Accounting Code (Code) as follows:

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

As a result of these changes, retrospective restatement of CIES (cost of services) , EFA and MiRS is required from 1 April 2016 in the Statement of Accounts.

New disclosure requirements and restatement of accounts require compliance with relevant guidance and correct application of applicable Accounting Standards .

Though less likely to give rise to a material error in the financial statements, this is an important material disclosure change in this year's accounts, worthy of audit understanding.

Approach :

As part of our audit ;

- 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
- We will check the restated numbers and associated disclosures for accuracy ,correct presentation and compliance with applicable Accounting Standards and Code guidance.

Financial statements audit planning (cont.)

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

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

Materiality for planning purposes has been set at £22 million (£27 million in 2015/16) for the Authority's accounts, which equates to 1.53 percent of gross expenditure.

Gross expenditure is the most suitable benchmark to use for setting the materiality figure as the Council's aim is not to maximise profits as there are no shareholders. The services the Council provide to the local communities are mainly driven by a mix of government funding/grants and local income such as Council Tax/NNDR. The measure of services provided by the Council are reflected by its expenditure which is a key benchmark for the local people and the readers of Sheffield City Council's accounts to assess its performance and services to the public.

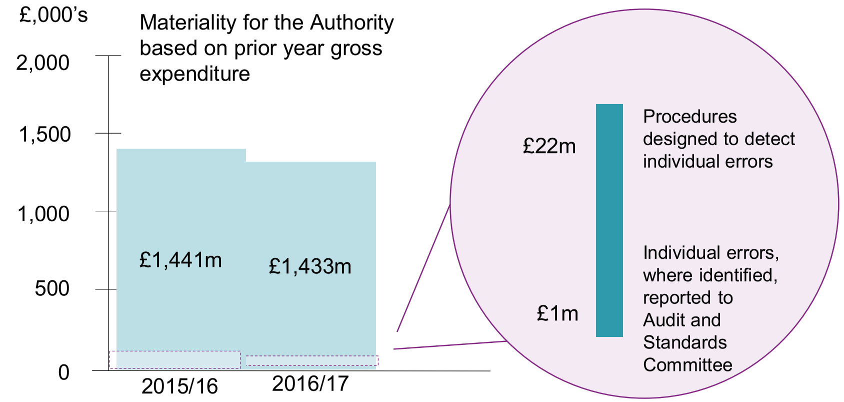
We have also considered other benchmarks, such as gross income, which is not considered relevant, as income is partly funded through central government grants, which is not as relevant to the local population and readers of the financial statements. Other metrics considered include net assets. Due to the nature of the entity, which is service delivery to the local community, the net assets benchmark is not the most reflective of the core purpose of the Authority. Therefore, the most appropriate benchmark for Sheffield City Council is judged as being gross expenditure.
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 Authority, we propose that an individual difference could normally be considered to be clearly trivial if it is less than £1 million (£1.35m).

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.



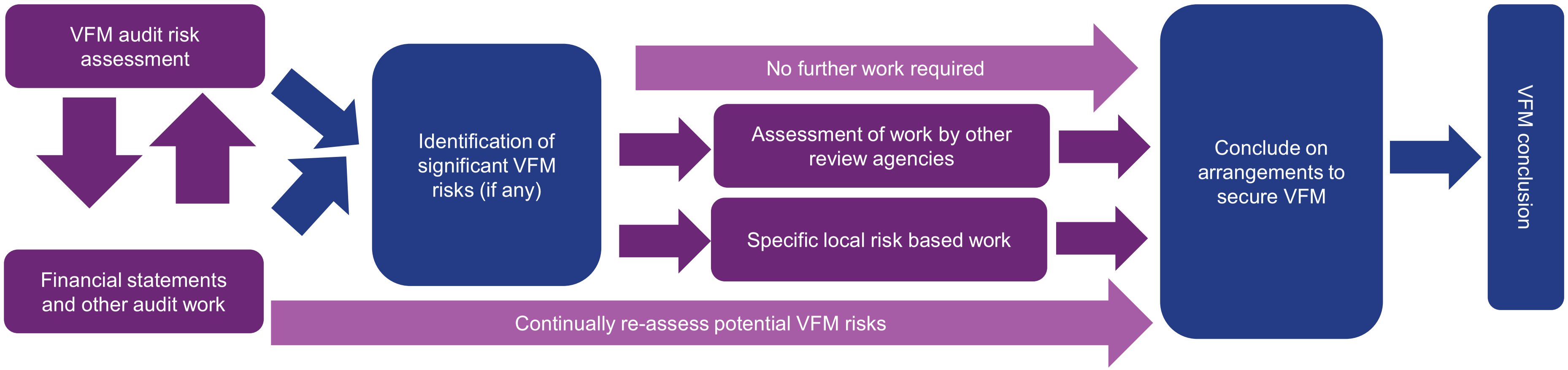
Value for money arrangements work

Background to approach to VFM work

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

This is supported by the Code of Audit Practice, published by the NAO in April 2015, which requires auditors to 'take into account their knowledge of the relevant local sector as a whole, and the audited body specifically, to identify any risks that, in the auditor's judgement, have the potential to cause the auditor to reach an inappropriate conclusion on the audited body's arrangements.'

The VFM approach is fundamentally unchanged from that adopted in 2015/2016 and the process is shown in the diagram below. The diagram overleaf shows the details of the criteria for our VFM work.



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Value for money arrangements work (cont.)

Overall criterion

In all significant respects, the audited body had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.

Informed decision making

Proper arrangements:

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

Sustainable resource deployment

Proper arrangements:

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

Working with partners and third parties

Proper arrangements:

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

Value for money arrangements work (cont.)

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

Value for money arrangements work (cont.)

VFM audit stage	Audit approach
Assessment of work by other review agencies and **Delivery of local risk based work**	Depending on the nature of the significant VFM risk identified, we may be able to draw on the work of other inspectorates, review agencies and other relevant bodies to provide us with the necessary evidence to reach our conclusion on the risk. If such evidence is not available, we will instead need to consider what additional work we will be required to undertake to satisfy ourselves that we have reasonable evidence to support the conclusion that we will draw. Such work may include: ■ Meeting with senior managers across the Authority; ■ Review of minutes and internal reports; and ■ Examination of financial models for reasonableness, using our own experience and benchmarking data from within and without the sector.
Concluding on VFM arrangements	At the conclusion of the VFM audit we will consider the results of the work undertaken and assess the assurance obtained against each of the VFM themes regarding the adequacy of the Authority's arrangements for securing economy, efficiency and effectiveness in the use of resources. If any issues are identified that may be significant to this assessment, and in particular if there are issues that indicate we may need to consider qualifying our VFM conclusion, we will discuss these with management as soon as possible. Such issues will also be considered more widely as part of KPMG's quality control processes, to help ensure the consistency of auditors' decisions.
Reporting	On the following page, we report the results of our initial risk assessment. We will update our assessment throughout the year should any further issues present themselves and report against these in our ISA260. 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.

Value for money arrangements work Planning

Significant VFM Risks

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

Financial Resilience with a particular focus on the performance of Social Care.

- Risk

  There is a general risk around the financial resilience of the Council. In particular focusing around social care and arrangements of financial management.

  During the financial year Internal audit have done various reviews on Social Care and opinions have stated that the risk of the activity not achieving its objectives is medium – high. We will consider whether these recommendations relate to front line services or financial resilience.

  We note also that as at month 10, the Children, Young People and Families portfolio was forecast to overspend on budget by circa £6.5m and the Communities portfolio by circa £6m. This is due to a number of service pressures, including an increase in the number of looked after children, Special Education Needs referrals and Learning Disability Services.

  The combination of a pressured service, a forecast overspend and control issues highlighted by internal audit has meant we have assessed an increased risk that value for money is not achieved.

  This is relevant to the informed decision making and sustainable resource deployment sub-criteria of the VFM conclusion.

- Approach

  We shall review reports and monitoring of budgets and cost controls. In particular we shall review the financial performance and contract management in relation to Social Care. We shall assess the Council's processes for reviewing the performance of these services and whether there were appropriate methods for managing and monitoring performance in year, including the relevant reporting of this to management and members.

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 Tim Cutler whom will add a fresh perspective to the council. 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 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 verbally agreed with officers an additional fee that will fall due in the year due to additional IT controls work required around the implementation of the new Integra finance system. The total fee agreed is £10,000, with the amount charged in 2016/17 dependant upon the timing of the implementation of the final stage of Integra. As in the previous period, due to the absence of service auditor reports from some outsourced providers a small additional fee for IT work around individual feeder systems (e.g. Housing Benefits) will also be incurred. An indicative fee for this work is £1,000 per system.

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

The planned audit fee for 2016/17 is £186,998. This is the same fee as 2015/2016.

Our audit fee includes our work on the VFM conclusion and our audit of the Authority's financial statements.

Appendix 1: Key elements of our financial statements audit approach

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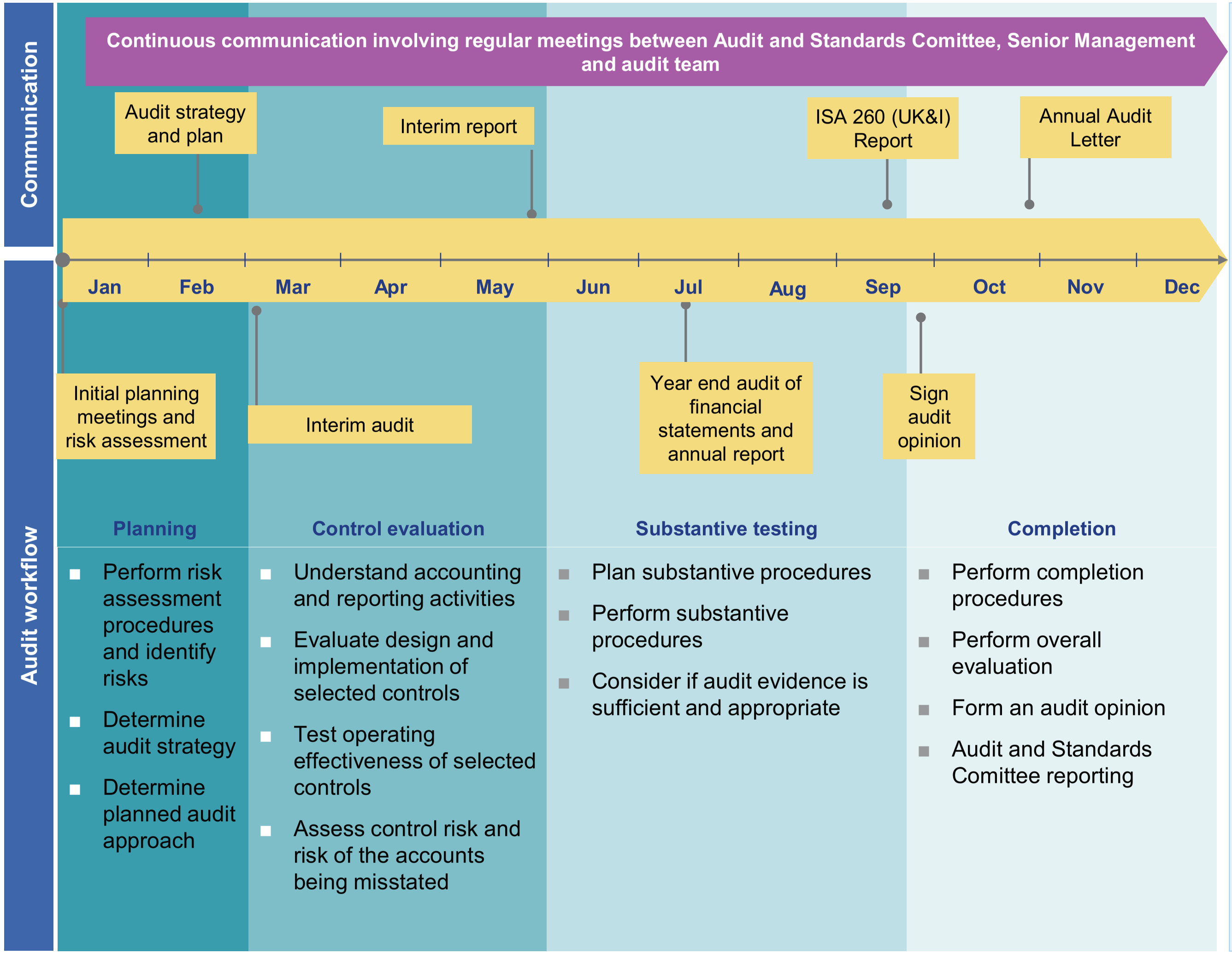

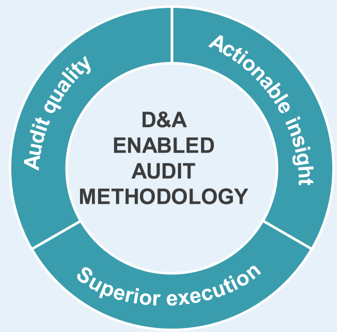

Driving more value from the audit through data and analytics

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 journals**.** We also expect to provide insights from our analysis of these tranches of data in our reporting to add further value from our audit.

Appendix 2: Audit team

Your audit team has been drawn from our specialist public sector assurance department. Tim, Alison and Matt were both part of the Sheffield City Council audit last year and will provide continuity. Olivia Camm will add a fresh perspective to the audit.

Name	Tim Cutler
Position	Partner
	'My role is to lead our team and ensure the delivery of a high quality, valued added external audit opinion. I will be the main point of contact for the Audit and Standards Committee and S151 Officer.'

Tim Cutler
Partner
Tel: 0116 246 4281
Email: tim.cutler@kpmg.co.uk

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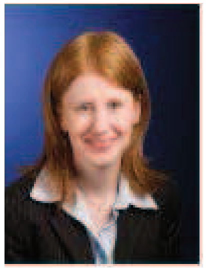

Name	Alison Ormston
Position	Senior Manager
	'I provide quality assurance for the audit work and specifically any technical accounting and risk areas. I will work closely with Tim to ensure we add value. I will liaise with the Head of Strategic Finance and other Executive Directors.'

Alison Ormston
Senior Manager
Tel: 0113 231 3444
Email: alison.ormston@kpmg.co.uk

Name	Matt Ackroyd
Position	Manager
	'I provide quality assurance for the audit work and specifically any technical accounting and risk areas. I will work closely with the Tim and Alison to ensure we add value. I will liaise with the Head of Strategic Finance and other Executive Directors.'

Matt Ackroyd
Manager
Tel: 0113 231 3625
Email: matthew.ackroyd@kpmg.co.uk

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

Olivia Camm
Assistant Manager
Tel: 0113 231 3017
Email: olivia.camm@kpmg.co.uk

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; and
- 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 27 April 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.

KPMG

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 Tim Cutler, 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.