KPMG

External Audit Plan 2016/2017

London Borough of Hackney

29 March 2017

The contacts at KPMG in connection with this report are:

Andy Sayers
Partner
KPMG LLP (UK)

Tel: 0207 694 8981
andy.sayers@kpmg.co.uk

Jennifer Townsend
Senior Manager
KPMG LLP (UK)

Tel: 020 7311 1368
jennifer.townsend@kpmg.co.uk

Sam Naylor
Assistant *Manager*
KPMG LLP (UK)

Tel: 07769 164876
sam.naylor@kpmg.co.uk

KPMG

Contents

Headlines

Financial Statement Audit

There has been a number of updates to the 2016-17 code. To allow local authorities to report on the same basis as they are organised, the formal link between the Service Reporting Code of Practice (SeRCOP) and the Comprehensive Income and Expenditure Statement (CIES) has been broken . This introduces a new Expenditure and Funding Analysis which provides a direct reconciliation between funding & budgeting and the CIES. This analysis will be supported by a streamlined Movement in Reserves Statement (MIRS). The changes have replaced the current segmental reporting note. The impact of this on our audit is detailed on **page 7.**

Materiality (Page 9)

Materiality has been set at £15M (£15M 2015-16) for the Authority and £23M (£23M 2015-16) 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 £750k for the Authority and the Pension Fund.

Significant risks (Page 4)

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

- Valuation of Property, Plant and Equipment (Authority)
- Significant changes in the pension liability due to LGPS Triennial Valuation.
- Management override of controls; and
- Fraudulent Revenue Recognition (conditional grant income);

Other areas of audit focus (Page 7)

Those risks with less likelihood of giving rise to a material error but which are nevertheless worthy of audit understanding have been identified as:

- Disclosures associated with restatement of CIES, EFA and MiRS
- Payroll;
- Cash & cash equivalents;
- Non pay expenditure (accounts payable element);
- NNDR appeals;
- HRA Income ; and
- HRA: repairs & maintenance expenditure.

Value for Money Arrangements work (See pages 10 to 14 for more details)

We did not identify any significant risks as part of the planning process, however, we will consider the following VfM areas within our overall assessment:

- Medium Term Financial Planning
- Risk Management; and
- Hackney Homes.

Logistics

Our team, covering both the Authority and Pension Fund audit is detailed below. More details are provided on **page 18**:

- Andy Sayers – Partner
- Jenny Townsend – Senior Manager
- Sam Naylor – Assistant Manager

Our work will be completed in four phases from January to September and our key deliverables are this Audit Plan and a Report to those charged with Governance as outlined on **page 17.**

Our fee for the audit is £226,320 (£226,320 (2015-16)) for the Authority and £21,000 (£21,000 (2015-16)) for the Pension Fund see **page 16.**

Section 2

Introduction

Background and Statutory responsibilities

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

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

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

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

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

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

Acknowledgements

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

Financial Statements Audit

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

Value for Money Arrangements Work

Our Value for Money (VFM) Arrangements Work follows a five stage process which is identified below. **Page 10** provides more detail on the activities that this includes. This report concentrates on explaining the VFM approach for the 2016-17.

Financial statements audit planning

Financial Statements Audit Planning

Our planning for both the financial statements and the pension fund 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. We also consider these standard risks in relation to our work on the Pension Fund Account.

- Management override of controls – For both the Authority financial statements and the Pension Fund Account, 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 for either the financial statements or the Pension Fund Account. For both, 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. For the Authority Financial Statements, we have reflected one exception to this rebuttal – that is the recognition of conditional grant income. We have included this within our 'significant risks' included within **page 5** of this plan.

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.

Financial statements audit planning (cont.)

Significant Audit Risks

Those risks, related to both the financial statements and the pension fund, requiring specific audit attention and procedures to address the likelihood of a material financial statement error.

Valuation of Property, Plant, and Equipment (PPE) (Authority)

- **Risk:** As at 31 March 2016 the value of the Council's PPE was £3,615 million. Local authorities exercise judgement in determining the current value of different classes of assets held and the methods used to ensure the carrying values recorded each year reflect those current values. The Council is responsible for ensuring that the valuation of PPE is appropriate at each financial year end and for conducting impairment reviews that confirm the condition of these assets. We have assessed that the inherent uncertainty in valuation and high value of assets held by the Council creates a significant risk to the financial statements for 2016-17.
- **Approach:** We will:
  - review management's assessment of property valuations and impairment calculations;
  - confirm the information provided to the valuer from the Authority;
  - compare the assumptions made by your valuer to benchmarks and to the assumptions used for 2015-16 for consistency;
  - complete testing over new capital additions in year to confirm these are appropriately capitalised and that Council ownership is evidenced; and
  - review disposals made in year and confirm appropriate removal from the PPE balance in 2016-17.

Conditional Grant Income (Authority)

- **Risk:** The Council receives grants containing certain conditions. £11M of grants were included within the balance sheet as at 31 March 2016 as unspent. Each grant is awarded on the basis that it will be drawn down at a service level once the specific conditions of the grant have been met. The grant cannot be credited to the comprehensive income & expenditure account until the conditions attached to the grant have been satisfied.
- **Approach:** We will review the controls in place to ensure that grants are recognised only when there is reasonable assurance that the Authority will comply with any conditions attached to the grant and ensure that for a sample of grants, that they have been applied over the period necessary to match them with the related costs, for which they are intended to compensate, on a systematic basis;
- We will ensure that the accounting policy adopted for grants has been disclosed within the accounts.

Financial statements audit planning (cont.)

Pension liability including assumptions and having regard to the potential for significant changes arising from the LGPS Triennial Valuation (Authority)

Risk: During the year, the Pension Fund has undergone a triennial valuation with an effective date of 31 March 2016 in line with the Local Government Pension Scheme (Administration) Regulations 2013. The share of pensions assets and liabilities for each admitted body is determined in detail, and a large volume of data is provided to the actuary to support this triennial valuation.

The pension numbers to be included in the financial statements for 2016-17 will be based on the output of the triennial valuation rolled forward to 31 March 2017. For 2017-18 and 2018-19 the actuary will then roll forward the valuation for accounting purposes based on more limited data.

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

The Pension Fund only includes limited disclosures around pensions liabilities but we anticipate that this will be identified as a risk area by the Authority itself as the pension liabilities represent a significant element of its balance sheet.

Further there are significant judgments made in relation to the assumptions to be adopted when calculating the pension liability.

Approach: As part of our audit of the Pension Fund, we will undertake work on a test basis to agree the data provided to the actuary back to the systems and reports from which it was derived and to understand the controls in place to ensure the accuracy of this data. This work will be focused on the data relating to the Authority itself as largest member of the Pension Fund.

We will also review the assumptions adopted in calculating the pension liability using the work of independent experts engaged by the NAO.

Valuation of Pension Fund Assets (Pension Fund)

Risk: At 31 March 2016 the Pension Fund had investment assets totalling £1,172 million. The investment portfolio includes contracts which can be complex to value. Given the size and potential for complexity in the investment portfolio we consider this to be a significant audit risk for 2016-17.

Approach: We will undertake detailed testing of investments as part of our final accounts audit, including assessing the design and operation of controls in place, obtaining independent confirmations from the Custodian (and Fund Managers as necessary) to verify year end balances, undertaking substantive testing over sales and purchases made in the year, reviewing year on year movements, and comparing performance to known benchmarks.

Financial statements audit planning (cont.)

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 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 the 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 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.)

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Payroll

- Issue: Payroll represents a significant proportion of the Authority's annual expenditure. Whilst not considered overly complex from a material error perspective, we consider that it is important from an audit perspective to understand the nature of the Authority's expenditure in this area.
- Approach: We will review and test reconciliations for gross pay and deductions (e.g. pensions, tax and national insurance); and complete substantive analytical review of payroll costs and test supporting system information used to compile the review.

Cash & cash equivalents

- Issue: Cash has a pervasive impact on the financial statements and provides comfort for other areas of the financial statements.
- Approach: We will review controls over bank reconciliations; and confirm balances with external third parties.

Non-Payroll Expenditure

- Issue: Non-payroll expenditure, specifically the accounts payable component, is an area of audit focus due to its pervasive impact on the financial statements and size.
- Approach: We will perform substantive tests of details to agree expenditure to third party documentation and cut-off testing of non-payroll expenditure to ensure costs are recorded in the correct period.

NNDR appeals provision

- Issue: NNDR is material and has complexity in the translation from Collection Fund into Council prime statements and a high degree of subjectivity underlying the NNDR appeals provision.
- Approach: We will gain an understanding over controls related to business rates income and specifically the appeals process. We will review the methodology applied in determining the appeal provision and report as to whether this reflects a balances, cautious or optimistic assessment.

HRA Rental Income

- Issue: HRA dwelling rental income is an area of audit focus due to the material size (£ 114m in 2015-16).
- Approach: We will gain an understanding over controls related to HRA rental income; test the operating effectiveness of relevant controls; and complete substantive analytical review of dwelling rent income and reconcile HRA amounts to the Authority's CIES.

HRA Repairs and Maintenance and Management Expenditure

- Issue: HRA expenditure over repairs & maintenance and supervision & management is an area of audit focus due to the material size (£44m and £43m in 2015-16, respectively).
- Approach: We will gain an understanding over controls related to HRA expenditure; test the operating effectiveness of relevant controls; and complete substantive analytical review of expenditures. We will also link to our work over payroll and non-payroll expenditure.

Financial statements audit planning (cont.)

Materiality

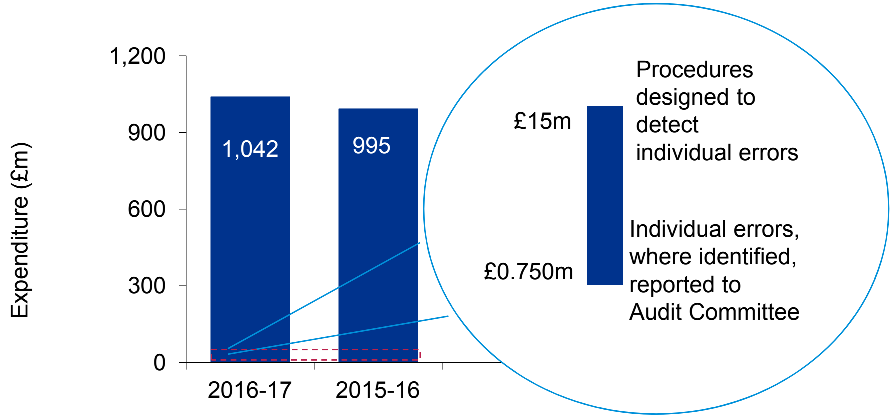
We are required to plan our audit to determine with reasonable confidence whether or not the financial statements are free from material misstatement. An omission or misstatement is regarded as material if it would reasonably influence the user of financial statements. This therefore involves an assessment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

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

For the Authority, materiality for planning purposes has been set at £15m (£15m 2015-16) . We have capped materiality at a level equal to the general fund balance. This equates to approximately 1.5% percent of gross expenditure.

For the Pension Fund, materiality for planning purposes has been set at £23m. (£23m 2015-16)

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



Benchmarks are based on the prior year outturn

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 £750k. We will also use this same trivial level for the Pension Fund to ensure that any difference, which may impact on the Authority are picked up via our reporting.

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.

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 2014-15 and the process is shown in the diagram below. However, the previous two specified reporting criteria (financial resilience and economy, efficiency and effectiveness) have been replaced with a single criteria supported by three sub-criteria. These sub-criteria provide a focus to our VFM work at the Authority. The diagram to the right shows the details of this criteria.

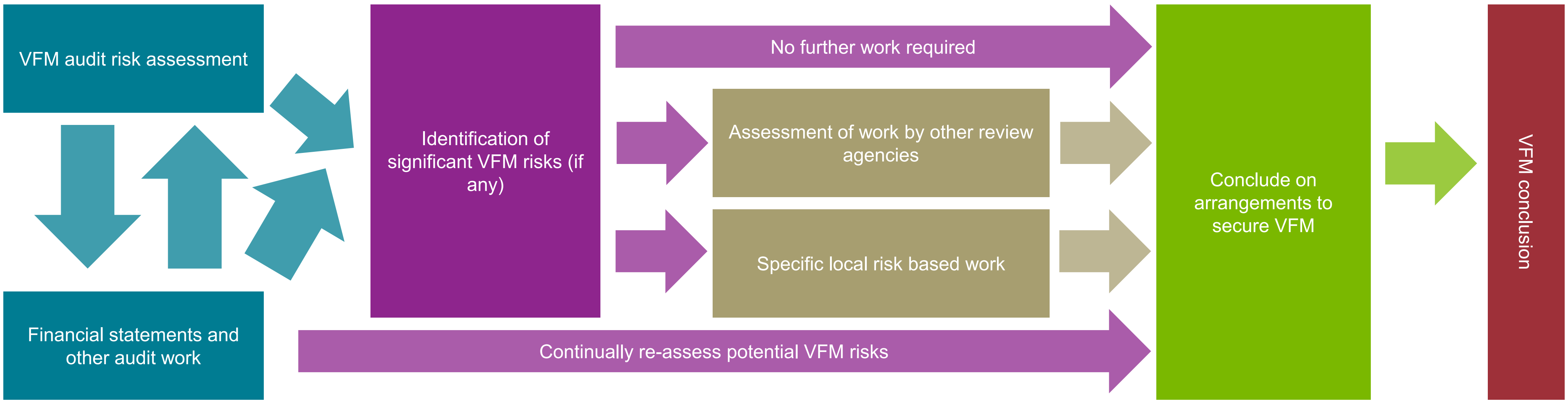
Overall criterion

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 partners and third parties



Value for money arrangements work (cont.)

Overall criterion

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

Informed decision making

Proper arrangements:

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

Sustainable resource deployment

Proper arrangements:

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

Working with partners and third parties

Proper arrangements:

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

Value for money arrangements work (cont.)

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

Value for money arrangements work (cont.)

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

VFM: Areas of audit focus

We have not identified any significant VfM risks at the planning stage. The risk assessment process is dynamic, and we are alert throughout the audit to the possibility that risks may emerge. We will report such matters should they arise. Those areas on which our VfM work will focus are detailed below. We will consider the extent to which procedures are in place to address the likelihood that proper arrangements are not in place to deliver value for money.

Sustainable resource deployment: Medium Term Financial Planning

- **Area of audit focus:** Central Government cuts mean that in 2016/17 Hackney must work with £110m less a year than in 2010, while rising costs and increased demand for services has added a further £42m of expenditure for the Council to find each year. Against this backdrop, the Council also agreed to a 2% increase in Council Tax for the first time in over a decade. In addition to this, the Council is striving to deliver c£22M of efficiency savings in year.
- **Approach**: We will review the controls and governance surrounding the budget setting and in year monitoring.

  We will formally consider management's assessment of the Council's ability to continue as a going concern. We will perform work to assess the Councils financial sustainability. This will include the identification of any significant one-off items included within the reported headline result. We will also consider the ability of the Council to maintain a sufficient level of reserves to offer the required financial resilience.

  We will look at the future financial forecasts for the Council. This will include

  - Performing an analysis of the forecast run rate position including consideration of the core assumptions in your 2017/18 budget.
  - Considering the extent to which recurrent saving schemes were achieved in 2016/17 and identified for 2017/18. We will select a sample of cost savings measures and review these to ensure that proper arrangements have been implemented to ensure that resources are deployed to achieve planned and sustainable outcomes; and
  - We will consider the granularity of the information reported throughout the governance process – specifically in relation to key metrics selected by the Council within their reporting

Informed decision making: Risk Management

- **Area of audit focus:** Effective risk management is an essential part of good governance and a key component of the overall governance framework. It provides a systematic, consistent and efficient way through which risk can be identified, reported and mitigated. It supports informed decision making thereby enabling opportunities to be exploited, or action to be taken to mitigate or manage risk to an acceptable level.
- **Approach:** We will consider in detail the risk management process and we will review how risks are captured at a Directorate level and escalated/reported throughout the Council. We will also consider how this is done for large capital projects to see if that process has been followed.

Value for money arrangements work planning

Informed decision making, sustainable resource deployment, and working with partners and third parties - Hackney Homes

- **Area of audit focus:** Hackney Homes Ltd, an Arms Length Management Organisation (ALMO) was set up by the Authority in April 2006 to manage and maintain the Council's housing properties and improve the quality of service provided to council tenants. The Council continued to exercise statutory and strategic housing responsibilities and retained a key housing role as owner and landlord.
- In 2006, consent from the then Office of the Deputy Prime Minister to set up Hackney Homes for a maximum period of ten years was provided. The initial contract period of 5 years expired in 2011. In July 2010 and April 2013, Cabinet agreed an extension of the contract for a further 3 and 2 years respectively. Following a statutory consultation exercise in August to October 2014, it was agreed that the service should be brought back in house when the Hackney Homes Ltd contract expired in March 2016. This timeline coincided with the completion of the Decent Homes programme.
- **Approach:** We will consider the governance arrangements in place, both in terms of the winding up and dissolution of Hackney Homes Ltd and the integration within the Authority;
- We will consider the controls surrounding the management of counterparty risk following the service transfer – including, how data protection requirements have been applied following any contractual movements and consideration of the management of financial risks; and
- For contracts more widely, we will consider the process for managing contracts entered into by the Authority to ensure that performance objectives are being achieved and any delivery issues are being managed in accordance with agreed governance requirements. We will select two contracts and review these in detail.

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 Andy Sayers. The Senior Manager will be Jennifer Townsend, in line with the prior year. The Assistant Manager this year will be Sam Naylor. 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.

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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 2016-17 presented to you in April 2016 first set out our fees for the 2016-17 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 .

The planned audit fee for 2016-17 is £226,320 for the Authority. This is the same audit fee as in the prior year. The planned audit fee for 2016-17 is £21,000 for the Pension Fund. (2015-16 £21,000).

Appendix 1: Key elements of our financial statements audit approach

Communication

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

- Audit strategy and plan (Mar)
- ISA 260 (UK&I) Report (Jul)
- Annual Audit Letter (Oct)

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

- Initial planning meetings and risk assessment (Jan)
- Interim audit (Mar)
- Year end audit of financial statements and annual report (Jun)
- Sign audit opinion (Jul)
- Sign WGA opinion (Sep)

Audit workflow

Planning

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

Control evaluation

- Understand accounting and reporting activities
- Evaluate design and implementation of selected controls
- Test operating effectiveness of selected controls
- Assess control risk and risk of the accounts being misstated

Substantive testing

- Plan substantive procedures
- Perform substantive procedures
- Consider if audit evidence is sufficient and appropriate

Completion

- Perform completion procedures
- Perform overall evaluation
- Form an audit opinion
- Audit Committee

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 an accounts payable

Appendix 2: Audit team

Your audit team has been drawn from our specialist public sector assurance department. Our audit team is detailed below.

Andy Sayers

Partner

+ 44 (0)207 694 8981

andrew.sayers@kpmg.co.uk

Name	Andrew Sayers
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 Committee and Executive Directors.’

Jennifer Townsend

Senior Manager

+ 44 (0)207 311 1368

jennifer.townsend@kpmg.co.uk

Name	Jennifer Townsend
Position	Senior Manager
	‘I provide quality assurance for the audit work and specifically any technical accounting and risk areas. I will work closely with Andrew to ensure we add value. I will work across the main Authority and Pension Fund audit. I will liaise with the Finance team and other Executive Directors.’

Sam Naylor

Assistant Manager

+ 44 (0) 07769 164876

sam.naylor@kpmg.co.uk

Name	Sam Naylor
Position	Assistant Manager
	‘I will be responsible for the on-site delivery of our work and will supervise the work of our audit assistants.’

Appendix 3: Independence and objectivity requirements

Independence and objectivity

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

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

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, should contact Andrew.Sayers@kpmg.co.uk , the engagement lead to the Authority and the national lead partner for all of KPMG's work under our contract with Public Sector Audit Appointments Limited. 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.