External Audit Plan
2016/17

London Borough of Barking and Dagenham

February 2017
The contacts at KPMG in connection with this report are:

Neil Thomas  
*Partner, KPMG LLP (UK)*  
Tel: 020 7311 1379  
neil.thomas@kpmg.co.uk  
Joe Farnell  
*Manager, KPMG LLP (UK)*  
Tel: 074 6498 0628  
joe.farnell@kpmg.co.uk

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

External auditors do not act as a substitute for the audited body's own responsibility for putting in place proper arrangements to ensure that public business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively.

We are committed to providing you with a high quality service. If you have any concerns or are dissatisfied with any part of KPMG’s work, in the first instance you should contact Neil Thomas, the engagement lead for the Authority, who will try to resolve your complaint. If you are dissatisfied with your response please contact the national lead partner for all of KPMG’s work under our contract with Public Sector Audit Appointments Limited, Andrew Sayers (on 0207 694 9981, or by email to andrew.sayers@kpmg.co.uk). After this, if you are still dissatisfied with how your complaint has been handled you can access PSAA’s complaints procedure by emailing generalenquiries@psaa.co.uk, by telephoning 020 7072 7445 or by writing to Public Sector Audit Appointments Limited, Third Floor, Local Government House, Smith Square, London, SW1P 3HZ.
Financial Statement Audit

There is one significant change to the Code of Practice on Local Authority Accounting in 2016/17, requiring the restatement of the Comprehensive Income and Expenditure Statement (CIES) and Movement in Reserves Statement (MiRS) and introducing an Expenditure Funding Analysis (EFA).

Materiality

Materiality for planning purposes has been set at £16.0m (2015/16: £16.0m) for the Authority and £7.5m (2015/16: £7.5m) 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 £0.8m (2015/16: £0.8m) for the Authority and £0.375m (2015/16: £0.375m) for the Pension Fund.

Significant risks

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

- Management override of controls (Authority and Pension Fund);
- Valuation of land and buildings (Authority) and
- Pension liability due to LGPS Triennial Valuation (Authority and Pension Fund) and
- Restatement of CIES, EFA and MiRS (Authority).

See pages 6 to 8 for more details.

Other areas of audit focus

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

- Cash (Authority and Pension Fund);
- Income (Authority);
- Employee expenses (Authority);
- Non-pay expenditure (Authority);
- Housing benefits expenditure (Authority);
- Investment valuations (Pension Fund);
- Pensions payable (Pension Fund); and
- Pension contributions (Pension Fund).

See page 8 for more details.

Value for Money Arrangements work

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

- Budget overruns in the Children's Services department.

See pages 11 and 12 for more details.

Logistics

Our team is:

- Neil Thomas, Partner; and
- Joe Farnell, Manager.

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

Our fee for the audit is £165,975 (2015/16: £165,975) for the Authority and £21,000 (£21,000 2015/16) for the Pension Fund. See page 13 for further details of our fees. We are likely to submit an additional fee request for work associated with the restatement of the comprehensive income and expenditure statement required by the change in accounting standards.
**Background and Statutory responsibilities**

This document supplements our Audit Fee Letter 2016/17 which we presented to you in April 2016, which will also set 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.

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**Value for Money Arrangements Work**

Our Value for Money (VFM) Arrangements Work follows a five stage process which is identified below. Page 11 provides more detail on the activities that this includes. This report concentrates on explaining the VFM approach for the 2016/17 and the findings of our VFM risk assessment.

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Financial Statements Audit Planning

Our planning work takes place during January 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 (applicable to both pension fund and Authority) – 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 or pension funds 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 overleaf identifies, significant risks and other areas of audit focus. The diagram also identifies a range of other areas considered by our audit approach.
Financial Statements Audit planning

Risk Assessment: London Borough of Barking and Dagenham 2016-17

- Disclosure
  - Existence, accuracy, and presentation of Cash and Cash Equivalents (£21m)
  - Remuneration disclosures
  - Restatement of CIES, EFA & MIRS
- Valuation
  - Valuation of Land and Buildings (£1,543m)
  - Existence, accuracy, and presentation of Income (£876m)
- Judgment
  - Management override of controls
  - Valuation and completeness of provisions (£11m)
  - Completeness of asset impairments (£9m)
  - Restatement of CIES and MIRS and introduction of EFA
- Process
  - Existence, accuracy, and presentation of non-pay expenditure (£493m)
  - Completeness and accuracy of Employee expenses (£304m)

Risk Assessment: Pension Fund 2016-17

- Disclosure
  - Existence, accuracy, and presentation of Cash and Cash Equivalents (£12m)
  - Presentation of Financial Instruments disclosures
  - Compliance with Pension Fund Annual Report disclosure requirements
- Valuation
  - Valuation of Pension liability (£351m)
  - Existence, valuation, occurrence and presentation of Investments (£772m)
  - Valuation of Pension liability (£351m)
- Judgment
  - Management override of controls
  - Completeness of pensions payable (£35m)
  - Completeness, existence, accuracy, and presentation of pension contributions (£34m)
- Process
  - Existence, accuracy, and presentation of non-pay expenditure (£493m)
  - Completeness and accuracy of Employee expenses (£304m)
  - Existence, accuracy, and presentation of Cash and Cash Equivalents (£21m)
**Significant Audit Risks – London Borough of Barking and Dagenham**

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

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**Significant Audit Risk: Significant changes in the pension liability due to LGPS Triennial Valuation (Authority and Pension Fund)**

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

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

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

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

**Approach:** As part of our audit of the Pension Fund, we will undertake work 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.

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

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**Significant Audit Risk: Restatement of the CIES and MiRS and introduction of the EFA**

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

**Approach:** We will understand the process taken by the Authority to implement and restate these changes, using the CIPFA template. We will audit the restatement working papers and ensure the current presentation is correct as part of our normal accounts process, consulting with our technical team where appropriate. We have hosted a Local Government technical workshop, attended by Authority officers which has provided guidance in respect to this change in disclosure.
Significant Audit Risk: Valuation of Land and Buildings

The Authority reported total Land and Buildings with a value of £1,543 million as at 31 March 2016. These were comprised of £988 million of Council Dwellings and £555 million of Other Land and Buildings. The Authority commissions a revaluation of all Council Dwellings and 25 percent of Other Land and Buildings each year, as well as conducting an annual impairment exercise to ensure that all assets are held at an appropriate value.

The significant value of the Authority’s assets and the estimation involved in their valuation results in a significant risk of misstatement in the Authority’s accounts.

Approach: We will understand the approach to valuation, the expertise and independence of the valuers commissioned by the Authority. We will test the accuracy and completeness of asset information provided to the valuer by the Authority, and we will consider the reasonableness of assumptions adopted by both the valuer and the Authority in the process of preparing the valuation.

Where valuations are made at a date other than the balance sheet date, we will assess the Authority’s judgement in forming the year-end valuation.
### Other areas of audit focus

Those risks with less likelihood of giving rise to a material error but which are nevertheless worthy of audit understanding.

<table>
<thead>
<tr>
<th>Cash (Authority: £21m &amp; Pension Fund: £12m)</th>
<th>Housing benefits expenditure (Authority: £142m). These low value high volume transactions are a significant component of the Authority’s expenditure.</th>
</tr>
</thead>
<tbody>
<tr>
<td>The accuracy of the year-end cash balance is fundamental to the accuracy of the primary statements. We will obtain third party confirmations and test bank reconciliations.</td>
<td>We will perform a detailed analytical review and compare this to actual outturn.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Income (Authority: £876m)</th>
<th>Investment valuations (Pension Fund: £772m). These are highly material figures that can be volatile due to changing market values.</th>
</tr>
</thead>
<tbody>
<tr>
<td>This balance is highly material and is a key balance in the Comprehensive Income and Expenditure Statement. We will sample test income transactions and confirm the receipt of cash in the bank. We will agree grants to external sources of confirmation.</td>
<td>We will obtain third party confirmations. Where these are not available we will perform direct testing of investment values at year-end.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Employee expenses (Authority: £304m)</th>
<th>Pensions payable (Pension Fund: £35m). This is a material balance in the pension fund and is one of the largest balances in the net increase/(decrease) of net assets in-year.</th>
</tr>
</thead>
<tbody>
<tr>
<td>This balance is highly material and is the single largest expenditure item in the financial statements. We will perform a detailed analytical review based on headcount and salary information to form an expectation of the Authority’s employee expenses.</td>
<td>We will perform a detailed analytical review and compare this to actual outturn.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Non-pay expenditure (Authority: £493m)</th>
<th>Pension contributions (Pension Fund: £44m). This is a material balance in the pension fund and is one of the largest balances in the net increase/(decrease) of net assets.</th>
</tr>
</thead>
<tbody>
<tr>
<td>In aggregate the non-pay expenditure balance is highly material and is a key component in overall financial outturn. We will perform sample testing of expenditure and cut-off and completeness procedures.</td>
<td>We will perform a detailed analytical review and compare this to actual outturn.</td>
</tr>
</tbody>
</table>
Financial statements audit planning

Materiality

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

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

For the Authority, materiality for planning purposes has been set at £16.0 million for the Authority’s standalone accounts, which equates to 1.9 percent of gross expenditure. For the Pension Fund, materiality for planning purposes has been set at £7.5 million, which equates to 1.0 percent of net assets.

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

Authority materiality

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.

For the Authority, we propose that an individual difference could normally be considered to be clearly trivial if it is less than £0.8m. For the Pension Fund, we propose that an individual difference could normally be considered to be clearly trivial it is less than £0.375m. If management have corrected material misstatements identified during the course of the audit, we will consider whether those corrections should be communicated to the Audit Committee to assist it in fulfilling its governance responsibilities.

Pension Fund materiality

Source: 2015-16 annual report.
Financial statements audit planning

Group audit

In addition to the Authority and Pension Fund we deem Elevate East London LLP to be significant in the context of the group audit.

To support our audit work on the Authority’s group accounts, we seek to place reliance on the work of PricewaterhouseCoopers LLP who are the auditors to this subsidiary. We will liaise with them in order to confirm that their programme of work is adequate for our purposes and they satisfy professional requirements.

We will report the following matters in our Report to those charged with Governance:

- Any deficiencies in the system of internal controls or instances of fraud which the subsidiary auditors identify;
- Any limitations on the group audit, for example, where the our access to information may have been restricted; and
- Any instances where our evaluation of the work the subsidiary auditors gives rise to concern about the quality of that auditor’s work.
**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 below shows the details of the criteria for our VFM work.

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

- Informed decision making
- Sustainable resource deployment
- Working with partner and third parties

**VFM audit risk assessment**

- Identification of significant VFM risks (if any)
- No further work required
- Assessment of work by other review agencies
- Specific local risk based work

**Financial statements and other audit work**

- Continually re-assess potential VFM risks

**VFM conclusion**

- Conclude on arrangements to secure VFM

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Value for money arrangements work

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

<table>
<thead>
<tr>
<th>Significant Risk – Budget overruns in the Children’s Services department</th>
</tr>
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<tbody>
<tr>
<td><strong>Risk</strong></td>
</tr>
<tr>
<td>In 2014/15 and 2015/16 the Children’s Services department incurred overspends against budget. The Authority has delivered its overall planned budget position by compensating for Children’s Services overspends with underspends in other departments. Recurring budget overspends is an indicator of poor financial planning. Also, the internal reallocation of resources to compensate for an overspend in one department is a sub-optimal use of resources and may result in value for money not being achieved.</td>
</tr>
<tr>
<td><strong>Approach</strong></td>
</tr>
<tr>
<td>We will review the budget setting and monitoring process in place in the Children Services department. We will review the controls the Authority has in place to mitigate overruns in 2016/17 and future periods. We will assess year-end outturn of the Children Services department in the context of the departmental level and Authority level budget to consider whether any overspend poses a risk to value for money being achieved.</td>
</tr>
</tbody>
</table>
Whole of government accounts (WGA)

We are required to review your WGA consolidation and undertake the work specified under the approach that is agreed with HM Treasury and the National Audit Office. Deadlines for production of the pack and the specified approach for 2016/17 have not yet been confirmed.

Elector challenge

The Local Audit and Accountability Act 2014 gives electors certain rights. These are:

— The right to inspect the accounts;
— The right to ask the auditor questions about the accounts; and
— The right to object to the accounts.

As a result of these rights, in particular the right to object to the accounts, we may need to undertake additional work to form our decision on the elector’s objection. The additional work could range from a small piece of work where we interview an officer and review evidence to form our decision, to a more detailed piece of work, where we have to interview a range of officers, review significant amounts of evidence and seek legal representations on the issues raised.

The costs incurred in responding to specific questions or objections raised by electors is not part of the fee. This work will be charged in accordance with the PSAA’s fee scales.

Our audit team

Our audit team will be led by Neil Thomas and supported by Joe Farnell, who are new to your audit in 2016-17. Both Neil and Joe are drawn from our dedicated Public Sector assurance department and have significant experience working with local government clients.

Reporting and communication

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

Independence and Objectivity

Auditors are also required to be independent and objective. Appendix 3 provides more details of our confirmation of independence and objectivity.

Audit fee

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

The planned audit fee for 2016/17 is £165,975 for the Authority. This is the same as the prior year. The planned audit fee for 2016/17 is £21,000 for the Pension Fund. (2015/16: £21,000).

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

Liaising with internal audit

ISA (UK and Ireland) 610 (revised June 2013) defines how we can use the work of internal audit. Our approach ensures we comply with these requirements. We will continue to liaise with internal audit and review the findings from their programme of work for 2016/17. We will also consider any significant control deficiencies identified by internal audit and ensure that we take this into account where relevant to determine the nature of our audit work to ensure the risk is appropriately addressed.
Appendix 1: Our financial statements approach

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.
## Appendix 2: Responsibility in relation to fraud

We are required to consider fraud and the impact that this has on our audit approach. We will update our risk assessment throughout the audit process and adapt our approach accordingly.

### Management responsibilities

- Adopt sound accounting policies.
- With oversight from those charged with governance, establish and maintain internal control, including controls to prevent, deter and detect fraud.
- Establish proper tone/culture/ethics.
- Require periodic confirmation by employees of their responsibilities.
- Take appropriate action in response to actual, suspected or alleged fraud.
- Disclose to Audit Committee and auditors:
  - Any significant deficiencies in internal controls.
  - Any fraud involving those with a significant role in internal controls.

### KPMG’s identification of fraud risk factors

- Review of accounting policies.
- Results of analytical procedures.
- Procedures to identify fraud risk factors.
- Discussion amongst engagement personnel.
- Enquiries of management, Audit Committee, and others.
- Evaluate broad programmes and controls that prevent, deter, and detect fraud.

### KPMG’s response to identified fraud risk factors

- Accounting policy assessment.
- Evaluate design of mitigating controls.
- Test effectiveness of controls.
- Address management override of controls.
- Perform substantive audit procedures.
- Evaluate all audit evidence.
- Communicate to Audit Committee and management.

### KPMG’s identified fraud risk factors

While we consider the risk of fraud to be low around the Authority, we will monitor the following areas throughout the year and adapt our audit approach accordingly:

- Revenue recognition.
- Purchasing.
- Management control override.
- Manipulation of results to achieve targets and expectations of stakeholders.
Appendix 3: Auditor Independence

Independence and objectivity

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

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

KPMG LLP is committed to being and being seen to be independent. APB Ethical Standards require us to communicate to you in writing all significant facts and matters, including those related to the provision of non-audit services and the safeguards put in place, in our professional judgement, may reasonably be thought to bear on KPMG LLP’s independence and the objectivity of the Engagement Lead and the audit team.

Further to this auditors are required by the National Audit Office’s Code of Audit Practice to:

— Carry out their work with integrity, independence and objectivity;
— Be transparent and report publicly as required;
— Be professional and proportional in conducting work;
— Be mindful of the activities of inspectorates to prevent duplication;
— Take a constructive and positive approach to their work;
— Comply with data statutory and other relevant requirements relating to the security, transfer, holding, disclosure and disposal of information.

PSAA’s Terms of Appointment includes several references to arrangements designed to support and reinforce the requirements relating to independence, which auditors must comply with. These are as follows:

— Auditors and senior members of their staff who are directly involved in the management, supervision or delivery of PSAA audit work should not take part in political activity.
— No member or employee of the firm should accept or hold an appointment as a member of an audited body whose auditor is, or is proposed to be, from the same firm. In addition, no member or employee of the firm should accept or hold such appointments at related bodies, such as those linked to the audited body through a strategic partnership.
— Audit staff are expected not to accept appointments as Governors at certain types of schools within the local authority.
— Auditors and their staff should not be employed in any capacity (whether paid or unpaid) by an audited body or other organisation providing services to an audited body whilst being employed by the firm.
— Auditors appointed by the PSAA should not accept engagements which involve commenting on the performance of other PSAA auditors on PSAA work without first consulting PSAA.
— Auditors are expected to comply with the Terms of Appointment policy for the Engagement Lead to be changed on a periodic basis.
— Audit suppliers are required to obtain the PSAA’s written approval prior to changing any Engagement Lead in respect of each audited body.
— Certain other staff changes or appointments require positive action to be taken by Firms as set out in the Terms of Appointment.

Confirmation statement

We confirm that as of February 2017 in our professional judgement, KPMG LLP is independent within the meaning of regulatory and professional requirements and the objectivity of the Engagement Lead and audit team is not impaired.
We continually focus on delivering a high quality audit. This means building robust quality control procedures into the core audit process rather than bolting them on at the end, and embedding the right attitude and approaches into management and staff. KPMG’s Audit Quality Framework consists of seven key drivers combined with the commitment of each individual in KPMG. The diagram summarises our approach and each level is expanded upon.

At KPMG we consider audit quality is not just about reaching the right opinion, but how we reach that opinion. KPMG views the outcome of a quality audit as the delivery of an appropriate and independent opinion in compliance with the auditing standards. It is about the processes, thought and integrity behind the audit report. This means, above all, being independent, compliant with our legal and professional requirements, and offering insight and impartial advice to you, our client.

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

We believe it is important to be transparent processes that sit behind a KPMG audit report, so you can have absolute confidence in us and in the quality of our audit.

**Tone at the top:** We make it clear that audit quality is part of our culture and values and therefore non-negotiable. Tone at the top is the umbrella that covers all the 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 Trust’s risks. We take great care to assign the right people to the right clients based on a number of factors including their skill set, capacity and relevant experience.

We have a strong position to deal with any emerging issues. This includes: A national public sector technical director who has responsibility for co-ordinating our response to emerging accounting issues, influencing accounting bodies (such as CIPFA) as well as acting as a sounding board for our auditors.

A national technical network of public sector audit professionals is established that meets on a monthly basis and is chaired by our national technical director.

All of our staff have a searchable data base, Accounting Research Online, that includes all published accounting standards, the KPMG Audit Manual Guidance as well as other relevant sector specific publications.

A dedicated Department of Professional Practice comprised of over 100 staff that provide support to our audit teams and deliver our web-based quarterly technical training.