Report to those charged with governance (ISA 260) 2014/15

Rutland County Council

September 2015

Contents

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This report is addressed to the Authority and has been prepared for the sole use of the Authority. We take no responsibility to any member of staff acting in their individual capacities, or to third parties. The Audit Commission issued a document entitled Statement of Responsibilities of Auditors and Audited Bodies summarising where the responsibilities of auditors begin and end and what is expected from audited bodies. We draw your attention to this document 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 Tony Crawley 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, Trevor Rees (on 0161 246 4000, or by email to trevor.rees@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.

Section one

Introduction

This document summarises:

- **the key issues identified during our audit of the financial statements for the year ended 31 March 2015 for the Authority; and**
- **The status of the work in assessing the Authority's arrangements to secure value for money.**

Scope of this report

This report summarises the key findings arising from:

- our audit work at Rutland County Council ('the Authority') in relation to the Authority's 2014/15 financial statements; and
- the work to support our 2014/15 conclusion on the Authority's arrangements to secure economy, efficiency and effectiveness in its use of resources ('VFM conclusion').

The report is to be discussed with the Audit and Risk Committee on 22 September 2015. We will provide the Committee at its meeting with an update on the work in progress highlighted in this report and our proposed opinion on the accounts and value for money conclusion.

Financial statements

Our *External Audit Plan 2014/15*, presented to you in March 2015, set out the four stages of our financial statements audit process.

This report focuses on the third stage of the process: substantive procedures. Our on site work for this took place during July and August 2015.

We are now in the final phase of the audit, the completion stage. Some aspects of this stage are also discharged through this report.

VFM conclusion

Our *External Audit Plan 2014/15* explained our risk-based approach to VFM work. Our work to support our 2014/15 VFM conclusion has included:

- assessing the potential VFM risks and identifying the residual audit risks for our VFM conclusion;
- considering the results of any relevant work by the Authority and other inspectorates and review agencies in relation to these risk areas;
- carrying out additional risk based work.

Structure of this report

This report is structured as follows:

- Section 2 summarises the headline messages.
- Section 3 sets out our key findings from our audit work in relation to the 2014/15 financial statements of the Authority.
- Section 4 outlines our key findings from our work on the VFM conclusion.

Our recommendations are included in Appendix 1.

Acknowledgements

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

Headlines

This table summarises the headline messages for the Authority. The remainder of this report provides further details on each area.

Proposed audit opinion	We anticipate issuing an unqualified audit opinion on the Authority's financial statements by 30 September 2015. The Annual Governance Statement included with the draft financial statements is to be updated for important events in 2015/16. We will review the updated Statement and report our findings in our audit opinion.
Audit adjustments	Our audit has not identified any audit adjustments which impact on the general fund balance at 31 March 2015, the deficit on provision of services for the year or the net worth of the Authority as at 31 March 2015.
Key financial statements audit risks	We review risks to the financial statements on an ongoing basis. In our *External Audit Plan 2014/15* presented to you in March 2015 we identified no significant risks specific to the Authority during 2014/15 with respect to the financial statements. The following significant audit risk was identified after the Audit Plan was issued: ▪ Accounting for Local Authority Maintained Schools. CIPFA have issued definitive clarification of existing guidance on significant entries to be included in the financial statements. We have worked with officers during the main audit visit to discuss this key risk and our detail findings are reported in section 3 of this report.
Accounts production and audit process	We have noted an improvement in the quality of the accounts and the supporting working papers. Officers dealt efficiently with audit queries and the audit process has been completed within the planned timescales. The Authority has good processes in place for the production of the accounts and good quality supporting working papers. Officers dealt efficiently with audit queries and the audit process has been completed within the planned timescales. We have repeated a recommendation brought forward from last year's audit, at Appendix 1
Completion	At the date of this report our audit of the financial statements is substantially complete subject to completion of the following areas: ▪ Director review; ▪ Checking the agreed changes to the statements have been processed correctly; and ▪ Clearing any residual queries as part our completion procedures. We will update the Audit and Risk Committee at its meeting if any additional reporting issues are identified as part of the remaining work. We will also update the Committee on the overall status of our audit and the audit certificate. Before we can issue our opinion we require a signed management representation letter. We confirm that we have complied with requirements on objectivity and independence in relation to this year's audit of the Authority's financial statements.

Headlines

VFM conclusion and risk areas	Our work in support of our value for money conclusion is being updated to enable us to take into account of events in 2015/16 and risks identified which relate to the arrangements in place during 2014/15. We will update the Audit and Risk Committee at its 22 September 2015 meeting on the results of this work and our proposed value for money conclusion.

Proposed opinion and audit differences

We have not identified any issues in the course of the audit that are considered to be material.

We anticipate issuing an unqualified audit opinion in relation to the Authority's financial statements by 30 September 2015.

Proposed audit opinion

Subject to all outstanding queries being resolved to our satisfaction, we anticipate issuing an unqualified audit opinion on the Authority's financial statements following approval of the Statement of Accounts by the Audit and Risk Committee on 22 September 2015.

Audit differences

In accordance with ISA 260 we are required to report uncorrected audit differences to you. We also report any material misstatements which have been corrected and which we believe should be communicated to you to help you meet your governance responsibilities.

The final materiality (see Appendix 4 for more information on materiality) level for this year's audit was set at £1.1 million. Audit differences below £55,000 are not considered significant.

We did not identify any material misstatements. We identified a small number of non material misstatements and presentational errors in the notes to the accounts which have been adjusted by management. The Audit and Risk Committee is to be provided with a summary of these changes and there are no items we need to repeat in this report.

There is one unadjusted non-material error which is above our reporting threshold and this is summarised at Appendix 2.

The tables on the right demonstrate that corrected audit differences had no impact on the Authority's movements on the General Fund for the year or balance sheet as at 31 March 2015.

Movements on the General Fund 2014/15

£m	Pre-audit	Post-audit
Surplus on the provision of services	3.1	3.1
Adjustments between accounting basis & funding basis under Regulations	(1.9)	(1.9)
Transfers to earmarked Reserves	(1.4)	(1.4)
Decrease in General Fund	**(0.2)**	**(0.2)**

Balance Sheet as at 31 March 2015

£m	Pre-audit	Post-audit
Property, plant and equipment	74.6	74.6
Other long term assets	0.1	0.1
Current assets	26.9	26.9
Current liabilities	(5.9)	(5.9)
Long term liabilities	(63.9)	(63.9)
Net worth	**31.8**	**31.8**
General Fund	(9.7)	(9.7)
Other usable reserves	(11.5)	(11.5)
Unusable reserves	(10.6)	(10.6)
Total reserves	**(31.8)**	**(31.8)**

Financial Statements (continued)
Proposed opinion and audit differences

The Annual Governance Statement included with the draft financial statements is to be updated for important events in 2015/16. We will review the updated Statement and report our findings in our audit opinion.

Annual Governance Statement

We review the Annual Governance Statement and if appropriate confirm in our audit opinion that:

- it complies with the *Delivering Good Governance in Local Government: A Framework* published by CIPFA/SOLACE; and
- it is not misleading or inconsistent with other information we are aware of from our audit of the financial statements.

The Annual Governance Statement included with the draft financial statements is to be updated for important events in 2015/16. We will review the updated Statement and report our findings in our audit opinion.

Financial Statements (continued)
Significant risks and key areas of audit focus

We have worked with the Authority throughout the year to discuss significant risks and key areas of audit focus

This section sets out our detailed findings on the risk identified.

In our *External Audit Plan 2014/15*, presented to you in March 2015, we did not identify any significant audit risks affecting the Authority’s 2014/15 financial statements. We have continued to update our risk assessment since the audit plan was issued and identified one significant risk in relation to changes in 2014/15 to the relevant accounting framework for local authority maintained schools.

We have carried out the required testing of this area during the main audit visit and set out below our detailed findings.

Significant audit risk	Issue	Findings
Accounting for local authority maintained schools	LAAP Bulletin 101 *Accounting for School Assets used by Local Authority Maintained Schools* issued in December 2014 was published to assist practitioners with the application of the Code in this respect. The challenges related to school assets owned by third parties such as church bodies and made available to school governing bodies under a variety of arrangements. This includes assets used by Voluntary-Aided (VA) and Voluntary-Controlled (VC) Schools as well as Foundation Schools. The Authority needed to review the agreements under which assets are used by VA/VC and Foundation schools and apply the relevant tests of control in the case of assets made available free of charge, or risks and rewards of ownership in the case of assets made available under leases. This is a key area of judgement and there was a risk that the Authority could incorrectly omit school assets from, or include school assets in, its balance sheet.	As part of our audit we discussed the latest guidance with managers and considered the judgements made. We reviewed the accounting entries resulting from these judgements. The Authority has not processed the changes as a Prior Period Adjustment as the impact is not material. We have agreed with management though that the changes and the Authority’s reasoning are to be disclosed by way of an additional note in the final financial statements. There are no other specific additional issues arising from our audit work in relation to this significant audit risk that we need to raise in this report.

Section three

Financial Statements (continued)

Significant risks and key areas of audit focus (continued)

In our *External Audit Plan 2014/15* we reported that we would consider two risk areas that are specifically required by professional standards and report our findings to you. These risk areas were Management override of controls and the Fraud risk of revenue recognition.

The table below sets out the outcome of our audit procedures and assessment on these risk areas.

Areas of significant risk		Summary of findings
Management override of controls	Audit areas affected ■ All areas	Our audit methodology incorporates the risk of management override as a default significant risk. Management is typically in a unique position to perpetrate fraud because of its ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. We have not identified any specific additional risks of management override relating to this audit. In line with our methodology, we carried 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. There are no matters arising from this work that we need to bring to your attention.
Fraud risk of revenue recognition	Audit areas affected ■ None	Professional standards require us to make a rebuttable presumption that the fraud risk from revenue recognition is a significant risk. In our *External Audit Plan 2014/15* we reported that we do not consider this to be a significant risk for Local Authorities as there is unlikely to be an incentive to fraudulently recognise revenue. This is still the case. Since we have rebutted this presumed risk, there has been no impact on our audit work.

Financial Statements (continued) Accounts production and audit process

The Authority has maintained effective financial reporting processes.

Officers responded to audit queries in a reasonable time frame.

We have made one recommendation regarding possible improvements to the Authority's process in 2015/16.

Accounts production and audit process

ISA 260 requires us to communicate to you our views about the significant qualitative aspects of the Authority's accounting practices and financial reporting. We also assessed the Authority's process for preparing the accounts and its support for an efficient audit.

We considered the following criteria:

Element	Commentary
Accounting practices and financial reporting	The Authority has maintained effective financial reporting processes. We consider that accounting practices are overall appropriate. We have though repeated a Appendix 1 a recommendation from the previous year's audit which continues to apply.
Completeness of draft accounts	We received a complete set of draft accounts on 30 June 2015, ahead of the start of our detailed work on 20 July 2015.
Quality of supporting working papers	Our *Accounts Audit Protocol*, which we issued in March 2015 and discussed with finance staff, set out our working paper requirements for the audit. The quality of working papers provided was good, improved on last year and overall met the standards specified in our *Accounts Audit Protocol*. We have provided feedback during the audit on additional working papers required for next year's and we will revisit this as part the 2015/16 audit planning.
Response to audit queries	Officers resolved audit queries in a reasonable time, taking into account staff holidays and in some cases the need to obtain information from third parties.

Additional findings in respect of the control environment for key financial systems

During March 2015 we completed our control evaluation work. We did not issue an interim report as there were no significant issues arising from this work. For completeness we reflect on key findings from this work.

Organisational and control environment

We did not identify any specific concerns in relation to your organisational and control environment that we need to report to you.

Internal Audit

We did not need to rely this year on any specific pieces of Internal Audit work in carrying out our testing of the controls over the Authority's key financial systems. We have though taken their work into account in forming our assessment of the general control environment, and in reviewing the Authority's Annual Governance Statement, and have not identified any concerns.

Controls over key financial systems

Where we have determined that this is the most efficient audit approach to take, we test selected controls that address key risks within the financial systems. The strength of the control framework informs the substantive testing we complete during our final accounts visit. We were able to rely on the controls selected and there are no specific issues or concerns that we need to report to the Authority.

Financial Statements (continued)
Completion

We confirm that we have complied with requirements on objectivity and independence in relation to this year's audit of the Authority's financial statements.

Before we can issue our opinion we require a signed management representation letter.

Once we have finalised our opinions and conclusions we will prepare our *Annual Audit Letter* and close our audit.

Declaration of independence and objectivity

As part of the finalisation process we are required to provide you with representations concerning our independence.

In relation to the audit of the financial statements of Rutland County Council for the year ending 31 March 2015, we confirm that there were no relationships between KPMG LLP and Rutland County Council, its directors and senior management and its affiliates that we consider may reasonably be thought to bear on the objectivity and independence of the audit engagement lead and audit staff. We also confirm that we have complied with Ethical Standards and the Public Sector Audit Appointments Ltd requirements in relation to independence and objectivity.

We have provided a detailed declaration in Appendix 3 in accordance with ISA 260.

Management representations

You are required to provide us with representations on specific matters such as your financial standing and whether the transactions within the accounts are legal and unaffected by fraud. We have provided a template for presentation to the Audit and Risk Committee on 22 September 2015. We require a signed copy of your management representations before we issue our audit opinion.

Other matters

ISA 260 requires us to communicate to you by exception 'audit matters of governance interest that arise from the audit of the financial statements' which include:

- significant difficulties encountered during the audit;
- significant matters arising from the audit that were discussed, or subject to correspondence with management;
- other matters, if arising from the audit that, in the auditor's professional judgment, are significant to the oversight of the financial reporting process; and
- matters specifically required by other auditing standards to be communicated to those charged with governance (e.g. significant deficiencies in internal control; issues relating to fraud, compliance with laws and regulations, subsequent events, non disclosure, related party, public interest reporting, questions/objections, opening balances etc).

There are no others matters which we wish to draw to your attention in addition to those highlighted in this report.

VFM conclusion

Our VFM conclusion considers how the Authority secures financial resilience and challenges how it secures economy, efficiency and effectiveness.

Our work is in progress and we will update the Audit and Risk Committee at its 22 September 2015 meeting on the results of this work and our proposed value for money conclusion.

Background

Auditors are required to give their statutory VFM conclusion based on two criteria specified by the Audit Commission. These consider whether the Authority has proper arrangements in place for:

- securing financial resilience: looking at the Authority's financial governance, financial planning and financial control processes; and
- challenging how it secures economy, efficiency and effectiveness: looking at how the Authority is prioritising resources and improving efficiency and productivity.

We follow a risk based approach to target audit effort on the areas of greatest audit risk. We consider the arrangements put in place by the Authority to mitigate these risks and plan our work accordingly.

The key elements of the VFM audit approach are summarised in the diagram below.

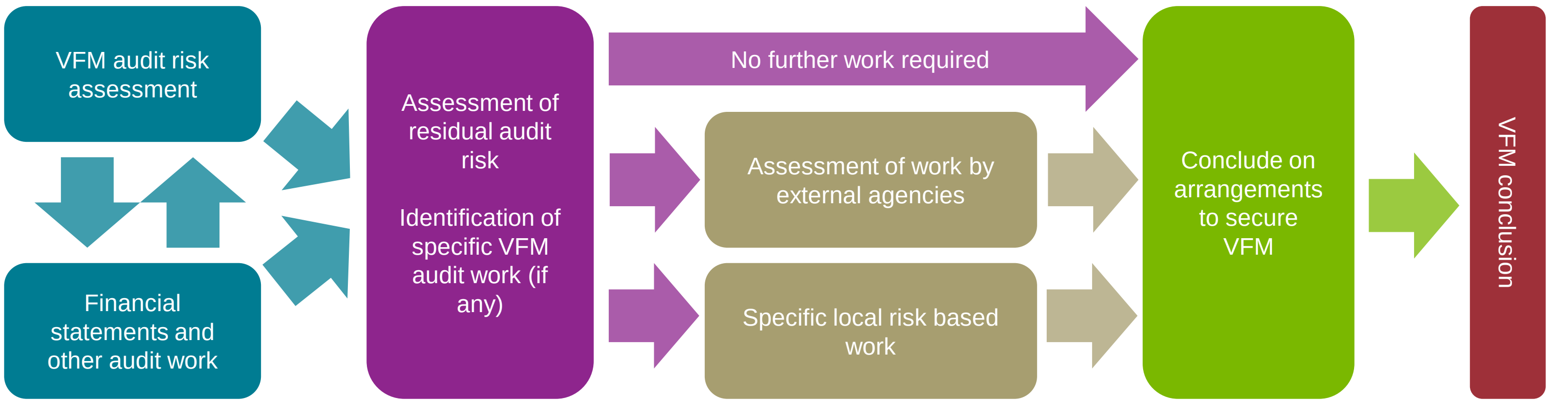
Work completed

We performed a risk assessment earlier in the year and have reviewed this throughout the year. We have carried out additional risk based audit work in relation to the issues identified.

Our work in support of our value for money conclusion is being updated to enable us to take into account of events in 2015/16 and risks identified which relate to the arrangements in place during 2014/15.

We will update the Audit and Risk Committee at its 22 September 2015 meeting on the results of this work, any recommendations in addition to those already made in Appendix 1 of this report and our proposed value for money conclusion.

VFM criterion	Met?
Securing financial resilience	**To be confirmed**
Securing economy, efficiency and effectiveness	**To be confirmed**



Appendix 1: Follow up of prior year recommendations

The Authority has made progress on one of the recommendations in our *ISA 260 Report 2013/14.*

The Authority needs to address one area for improvement highlighted in our 2013/14 report.

This appendix summarises the progress made to implement the recommendations identified in our *ISA 260 Report 2013/14* and re-iterates any recommendations which continue to apply.

No.	Risk	Issue and recommendation	Officer responsible and due date	Status as at 31 August 2015
1	2	The draft Statement of Accounts was adjusted to correct a classification misstatement between Short Term Investments and Cash and Cash Equivalents. We recommended Finance staff in future years check to confirm that only those Short Term Investments with a maturity date of less than three months are classified as Cash and Cash Equivalents in the balance sheet.	Finance Manager – Technical For 2014/15 Statement of Accounts	The balances have been correctly classified in the 2014/15 Statement of Accounts.
2	2	The disclosure of Related Party Transactions within the Statement of Accounts is supported by a process of annual declarations from members and senior managers. In our *ISA 260 Report 2013/14* we pointed out that five members did not return their declarations. We recommended the Authority monitor the process in future years and follow up any individual cases of non declaration.	**Finance Manager - Technical** The number of returns received this year is an improvement on the previous year, but the point is noted.	The completeness of the declarations for 2014/15 was worse than in the previous years with 10 returns not received. The turnover in councillors at the May 2015 election has made it difficult for officers to follow up all of the outstanding returns. The previous year's recommendation still applies and Audit and Risk Committee should monitor the process in future years and follow up any individual cases of non declaration.

Appendix 2: Audit differences

This appendix sets out the uncorrected misstatement identified during our audit for the year ended 31 March 2015.

We are required by ISA 260 to report all uncorrected misstatements, other than those that we believe are clearly trivial, to those charged with governance (which in your case is the Audit and Risk Committee). We are also required to report all material misstatements that have been corrected but that we believe should be communicated to you to assist you in fulfilling your governance responsibilities.

Material Misstatements

No material misstatements were identified during our audit

Uncorrected audit differences

The following table sets out the uncorrected audit difference identified by our audit of the Authority's financial statements for the year ended 31 March 2015.

<table>
<tr><th rowspan="2">No.</th><th>Impact</th><th rowspan="2">Basis of audit difference</th></tr>
<tr><th>Assets</th></tr>
<tr><td>1</td><td>Cr Assets held for Sale
£563k</td><td rowspan="2">The classification of this asset (the Ashwell depot) was correct at the balance sheet date and the date the draft accounts were published. In July 2015 it was confirmed that the sale is no longer proceeding with the developer. The site is not currently being marketed and no other purchaser has been identified. The property does not currently meet the criteria required to be classified as an 'Asset Held for Sale'.

Assets Held for Sale are not required to depreciated so the costs of services are also understated. The value of that misstatement is trivial.

Management is not proposing to adjust the accounts for this item as the values of the differences are not material.</td></tr>
<tr><td>2</td><td>Dr Plant Property and Equipment
£563k</td></tr>
<tr><td></td><td>Dr/Cr £0</td><td>Total impact of uncorrected audit non-trivial differences</td></tr>
</table>

Appendix 3: Declaration of independence and objectivity

The *Code of Audit Practice* requires us to exercise our professional judgement and act independently of both Public Sector Audit Appointments Ltd and the Authority.

Requirements

Auditors appointed by Public Sector Audit Appointments Ltd must comply with the *Code of Audit Practice* (the 'Code') which states that:

"Auditors and their staff should exercise their professional judgement and act independently of both the Commission and the audited body. Auditors, or any firm with which an auditor is associated, should not carry out work for an audited body that does not relate directly to the discharge of auditors' functions, if it would impair the auditors' independence or might give rise to a reasonable perception that their independence could be impaired."

In considering issues of independence and objectivity we consider relevant professional, regulatory and legal requirements and guidance, including the provisions of the Code, the detailed provisions of the Statement of Independence included within the Public Sector Audit Appointments Ltd *Terms of Appointment* ('Public Sector Audit Appointments Ltd Guidance') and the requirements of APB Ethical Standard 1 *Integrity, Objectivity and Independence* ('Ethical Standards').

The Code states that, in carrying out their audit of the financial statements, auditors should comply with auditing standards currently in force, and as may be amended from time to time. Public Sector Audit Appointments Ltd guidance requires appointed auditors to follow the provisions of ISA (UK &I) 260 Communication of *Audit Matters with Those Charged with Governance*' that are applicable to the audit of listed companies. This means that the appointed auditor must disclose in writing:

- Details of all relationships between the auditor and the client, its directors and senior management and its affiliates, including all services provided by the audit firm and its network to the client, its directors and senior management and its affiliates, that the auditor considers may reasonably be thought to bear on the auditor's objectivity and independence.
- The related safeguards that are in place.
- The total amount of fees that the auditor and the auditor's network firms have charged to the client and its affiliates for the provision of services during the reporting period, analysed into appropriate categories, for example, statutory audit services, further audit services, tax advisory services and other non-audit services. For each category, the amounts of any future services which have been contracted or where a written proposal has been submitted are separately disclosed. We do this in our *Annual Audit Letter*.

Appointed auditors are also required to confirm in writing that they have complied with Ethical Standards and that, in the auditor's professional judgement, the auditor is independent and the auditor's objectivity is not compromised, or otherwise declare that the auditor has concerns that the auditor's objectivity and independence may be compromised and explaining the actions which necessarily follow from his. These matters should be discussed with the Audit and Risk Committee and the Council.

Ethical Standards require us to communicate to those charged with governance in writing at least annually all significant facts and matters, including those related to the provision of non-audit services and the safeguards put in place that, in our professional judgement, may reasonably be thought to bear on our independence and the objectivity of the Engagement Lead and the audit team.

General procedures to safeguard independence and objectivity

KPMG's reputation is built, in great part, upon the conduct of our professionals and their ability to deliver objective and independent advice and opinions. That integrity and objectivity underpins the work that KPMG performs and is important to the regulatory environments in which we operate. All partners and staff have an obligation to maintain the relevant level of required independence and to identify and evaluate circumstances and relationships that may impair that independence.

Appendix 3: Declaration of independence and objectivity (continued)

We confirm that we have complied with requirements on objectivity and independence in relation to this year's audit of the Authority's financial statements.

Acting as an auditor places specific obligations on the firm, partners and staff in order to demonstrate the firm's required independence. KPMG's policies and procedures regarding independence matters are detailed in the *Ethics and Independence Manual* ('the Manual'). The Manual sets out the overriding principles and summarises the policies and regulations which all partners and staff must adhere to in the area of professional conduct and in dealings with clients and others.

KPMG is committed to ensuring that all partners and staff are aware of these principles. To facilitate this, a hard copy of the Manual is provided to everyone annually. The Manual is divided into two parts. Part 1 sets out KPMG's ethics and independence policies which partners and staff must observe both in relation to their personal dealings and in relation to the professional services they provide. Part 2 of the Manual summarises the key risk management policies which partners and staff are required to follow when providing such services.

All partners and staff must understand the personal responsibilities they have towards complying with the policies outlined in the Manual and follow them at all times. To acknowledge understanding of and adherence to the policies set out in the Manual, all partners and staff are required to submit an annual ethics and independence confirmation. Failure to follow these policies can result in disciplinary action.

Auditor declaration

In relation to the audit of the financial statements of Rutland County Council Council for the financial year ending 31 March 2015, we confirm that there were no relationships between KPMG LLP and Rutland County Council, its directors and senior management and its affiliates that we consider may reasonably be thought to bear on the objectivity and independence of the audit engagement lead and audit staff. We also confirm that we have complied with Ethical Standards and the Public Sector Audit Appointments Ltd requirements in relation to independence and objectivity.

Appendix 4: Materiality and reporting of audit differences

For 2014/15 our materiality is £1.1 million for the audit of the Authority's accounts.

We have reported all audit differences over £55,000 to the Audit and Risk Committee.

Materiality

The assessment of what is material is a matter of professional judgment and includes consideration of three aspects: materiality by value, nature and context.

- Material errors by value are those which are simply of significant numerical size to distort the reader's perception of the financial statements. Our assessment of the threshold for this depends upon the size of key figures in the financial statements, as well as other factors such as the level of public interest in the financial statements.
- Errors which are material by nature may not be large in value, but may concern accounting disclosures of key importance and sensitivity, for example the salaries of senior staff.
- Errors that are material by context are those that would alter key figures in the financial statements from one result to another – for example, errors that change successful performance against a target to failure.

We used the same planning materiality reported in our External Audit Plan 2014/15, presented to you in March 2015.

Materiality for the Authority's accounts was set at £1.1m which equates to just under two percent of gross expenditure on costs of services. We design our procedures to detect errors in specific accounts at a lower level of precision.

Reporting to the Audit and Risk 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 Risk Committee any misstatements of lesser amounts to the extent that these are identified by our audit work.

Under ISA 260, we are obliged to report omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. ISA 260 defines 'clearly trivial' as matters that are clearly inconsequential, whether taken individually or in aggregate and whether judged by any quantitative or qualitative criteria.

ISA 450 requires us to request that uncorrected misstatements are corrected.

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 £55,000 for the Authority.

Where 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 Risk Committee to assist it in fulfilling its governance responsibilities.

Appendix 5: KPMG Audit Quality Framework

We continually focus on delivering a high quality audit.

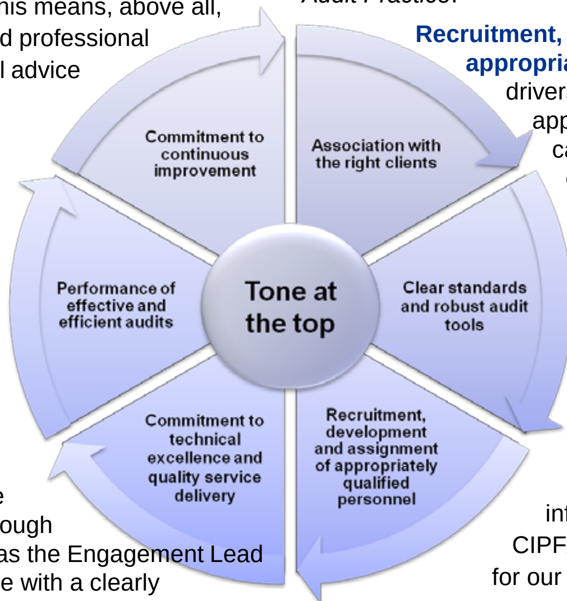
This means building robust quality control procedures into the core audit process rather than bolting them on at the end, and embedding the right attitude and approaches into management and staff.

KPMG's Audit Quality Framework consists of seven key drivers combined with the commitment of each individual in KPMG.

The diagram summarises our approach and each level is expanded upon.

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

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



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

Tone at the top: We make it clear that audit quality is part of our culture and values and therefore non-negotiable. Tone at the top is the umbrella that covers all the drives of quality through a focused and consistent voice. Andrew Bush as the 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 Audit Commission's *Code of Audit Practice*.

Recruitment, development and assignment of appropriately qualified personnel: One of the key drivers of audit quality is assigning professionals appropriate to the Authority's risks. We take great care to assign the right people to the right clients based on a number of factors including their skill set, capacity and relevant experience.

We have a well developed technical infrastructure across the firm that puts us in a strong position to deal with any emerging issues. This includes:

- A national public sector technical director who has responsibility for co-ordinating our response to emerging accounting issues, influencing accounting bodies (such as CIPFA) as well as acting as a sounding board for our auditors.

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

- 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 Audit Commission's *Code of Audit Practice*.

- 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.

Appendix 5: KPMG Audit Quality Framework

We continually focus on delivering a high quality audit.

This means building robust quality control procedures into the core audit process rather than bolting them on at the end, and embedding the right attitude and approaches into management and staff.

Quality must build on the foundations of well trained staff and a robust methodology.

Commitment to technical excellence and quality service delivery: Our professionals bring you up- the-minute and accurate technical solutions and together with our specialists are capable of solving complex audit issues and delivering valued insights.

Our audit team draws upon specialist resources including Forensic, Corporate Finance, Transaction Services, Advisory, Taxation, Actuarial and IT. We promote technical excellence and quality service delivery through training and accreditation, developing business understanding and sector knowledge, investment in technical support, development of specialist networks and effective consultation processes.

Performance of effective and efficient audits: We understand that how an audit is conducted is as important as the final result. Our drivers of audit quality maximise the performance of the engagement team during the conduct of every audit. We expect our people to demonstrate certain key behaviors in the performance of effective and efficient audits. The key behaviors that our auditors apply throughout the audit process to deliver effective and efficient audits are outlined below:

- timely Engagement Lead and manager involvement;
- critical assessment of audit evidence;
- exercise of professional judgment and professional scepticism;
- ongoing mentoring and on the job coaching, supervision and review;
- appropriately supported and documented conclusions;
- if relevant, appropriate involvement of the Engagement Quality Control reviewer (EQC review);
- clear reporting of significant findings;
- insightful, open and honest two-way communication with those charged with governance; and
- client confidentiality, information security and data privacy.

Commitment to continuous improvement: We employ a broad range of mechanisms to monitor our performance, respond to feedback and understand our opportunities for improvement.

Our quality review results

Public Sector Audit Appointments Ltd publishes information on the quality of work provided by us (and all other firms) for audits undertaken on behalf of them (http://www.psaa.co.uk/audit-quality/principal-audits/kpmg-audit-quality/).

The latest Annual Regulatory Compliance and Quality Report (*issued June 2014/2015) showed that we are meeting the overall audit quality and regulatory compliance requirements.

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