External Audit Plan 2015/2016

London Borough of
Tower Hamlets

May 2016 - DRAFT

Headlines

Financial Statement Audit

There are no significant changes to the Code of Practice on Local Authority Accounting in 2015/16, which provides stability in terms of the accounting standards the Authority need to comply with.

Materiality

Materiality for planning purposes has set at **£15 million** for the Authority and **£20 million** for the Pension Fund. For sensitive areas including s106 agreements, declarations of interest, grants and youth services we will, as appropriate, use a lower level of precision for determining the testing required that relates to the size of the population and the audit risks identified in these areas.

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 £750,000 for the Authority and £1 million 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:

- Property Plant and Equipment;
- S106 agreements;
- Declarations of interest; and
- Grants.

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:

- Pension assets and liabilities;
- Payroll;
- Income from property leases; and
- Youth services.

See pages 3 to 6 for more details.

Value for Money Arrangements work

The National Audit Office has issued new guidance for the VFM audit which applies from the 2015/16 audit year. The approach is broadly similar in concept to the previous VFM audit regime, but there are some notable changes:

- There is a new overall criterion on which the auditor's VFM conclusion is based; and
- This overall criterion is supported by three new sub-criteria.

Our risk assessment regarding your arrangements to secure value for money have identified the following VFM significant risks and areas of audit focus:

- Implementation of Best Value action plans and Section 11 recommendation (significant);
- Medium Term Financial Plan; and
- Governance in schools.

See pages 7 to 10 for more details.

Logistics

Our team is:

- Andrew Sayers – Partner
- Antony Smith – Manager
- Ian Livingstone – Assistant Manager

More details are on **page 13.**

Our work will be completed in four phases from March to September and our key deliverables are this Audit Plan and a Report to those charged with Governance as outlined on **page 12.**

Our fee for the audit is £209,918 (£279,890 2014/2015) for the Authority and £21,000 (£21,000 2014/15) for the Pension Fund see **page 11.**

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Introduction

Background and Statutory responsibilities

This document supplements our Audit Fee Letter 2015/16 presented to you in April 2015, 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 7 provides more detail on the activities that this includes. This report concentrates on explaining the VFM approach for the 2015/16 and the findings of our VFM risk assessment.

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Financial Statements Audit Planning

Our planning work takes place during March and May 2016. This involves the following key aspects:

- Risk assessment;
- Determining our materiality level; and
- Issuing this audit plan to communicate our audit strategy.

Risk assessment

Professional standards require us to consider two standard risks for all organisations. We are not elaborating on these standard risks in this plan but consider them as a matter of course in our audit and will include any findings arising from our work in our ISA 260 Report.

- Management override of controls – Management is typically in a powerful position to perpetrate fraud owing to its ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. Our audit methodology incorporates the risk of management override as a default significant risk. In line with our methodology, we carry out appropriate controls testing and substantive procedures, including over journal entries, accounting estimates and significant transactions that are outside the normal course of business, or are otherwise unusual.
- Fraudulent revenue recognition – We do not consider this to be a significant risk for local authorities as there are limited incentives and opportunities to manipulate the way income is recognised. We therefore rebut this risk and do not incorporate specific work into our audit plan in this area over and above our standard fraud procedures.

The diagram opposite identifies, significant risks and other areas of audit focus, which we expand on overleaf. The diagram also identifies a range of other areas considered by our audit approach.

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

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Financial statements audit planning (cont.)

Significant Audit Risks

Significant risks are those risks requiring specific audit attention and require specific procedures to address the likelihood of a material financial statement error.

Property, Plant and Equipment

- Risk: The Council has a significant asset base primarily relating to Council dwellings; and operational buildings. The potential for impairment/valuation changes makes this balance inherently risky due to the high level of judgement and estimation uncertainty.
- Approach: We will understand the approach to valuation, confirm the information provided to the valuer from the Authority, consider the reports by the Council's external valuers and the judgements made by the Council in response to the information received. We will compare the assumptions made by your valuer to benchmarks and to the assumptions used for 2014/15 for consistency and ensure that your valuer explicitly considers upward trends as well as impairments in conducting the valuations; and also whether there are material changes in valuations for asset classes valued more than 12 months ago. We will consider disposals (in relation to the BV Inspection findings and consequent Direction). We will also review completeness of information held on the new fixed asset system.

Section 106 agreements

- Risk: The Commissioners highlighted this as an additional area of concern from the enquiries they have made. The Authority has also had an independent review of its arrangements in relation to s106 systems, processes, controls and monitoring arrangements.
- Approach: We will sample test a selection of schemes and the overall controls employed by the Council to ensure that section 106 agreement funds are being used in accordance with the conditions agreed as part of the planning process. We will also consider the results of the independent review and the Council's response.

Significant Audit Risks (continued)

Grant payments

- Risk: The Best Value Inspection completed in 2014 concluded that the Authority had not achieved its best value duty with regard to the payment of grants totalling £12.2 million and connected decisions in the period from 25 October 2010 to 4 April 2014. Consequently, the award of grants became the responsibility of independent Commissioners who were appointed by the Secretary of State for CLG from January 2015. (2015/16 represents the first full year of the new arrangements being in place.)
- Approach: We will consider the detailed approach and systems put in place by the Council and Commissioners. We will also assess whether any conditions/ delegation arrangements have been implemented effectively by Authority officers.

Declarations of interest

- Risk: We reported in our 2014/15 ISA260 report to the Authority that the Authority had taken the actions agreed in response to our 2013/14 recommendations in this area (made in October 2015). However, the Commissioners have informed us that they remain concerned as to whether declarations are being made appropriately and completely by both officers and Members.
- Approach: We will therefore consider the Authority's actions taken and consider what/whether any testing should be undertaken in 2016.

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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.

Pension assets and liabilities

- Risk: Pension valuations require a significant level of expertise, judgement and estimation and are therefore more susceptible to error. This is also a very complex accounting area increasing the risk of misstatement.
- Approach: We will:
  - Confirm the information provided to the actuary from the Authority.
  - Review the actuarial valuation and consider the disclosure implications.
  - Consider the approach adopted and assumptions made by your actuaries to benchmark and other information available to us and to the assumptions used for 2015/16 for consistency.

Payroll

- Risk: Payroll represents a significant proportion of the Authority's annual expenditure (approaching 33% of gross spend at £464m in 2014/15). 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 testing reconciliations for gross pay and deductions (eg pensions, tax and national insurance).
  - Complete substantive analytical review of payroll costs and testing supporting system information used to compile the review.

Other areas of audit focus (continued)

Income from property leases

- Risk: Commissioners have identified concerns relating to the robustness and comprehensiveness of information relating to occupation of Council property and formal support to explain/justify related decisions when determining any charges to be paid by the organisation occupying Council property. This also represents a potential VFM risk in that the amounts due/collected/written off are accurately recorded but the concern is with the process for agreeing arrangements formally and implementing them appropriately.
- Approach: We will:
  - Review the Council's approach to leasing its property and consider the information held to support its decision making.
  - Test a sample of agreements to assess whether the approach to leasing is followed in practice.

Youth Services

- Risk: There have been several investigations and audits within the Authority's youth service in the last two years each giving cause for concern. We understand a root and branch review has been commissioned into Youth Services more generally to provide a holistic view. Although not material in financial statement terms the gross budget for the service is significant at approaching £9 million in 2015/16.
- Approach: We will consider the findings from the review and actions being taken by the Authority to address any matters arising. We will consider undertaking further work if considered necessary to fulfil our audit responsibilities.

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Financial statements audit planning (cont.)

Materiality

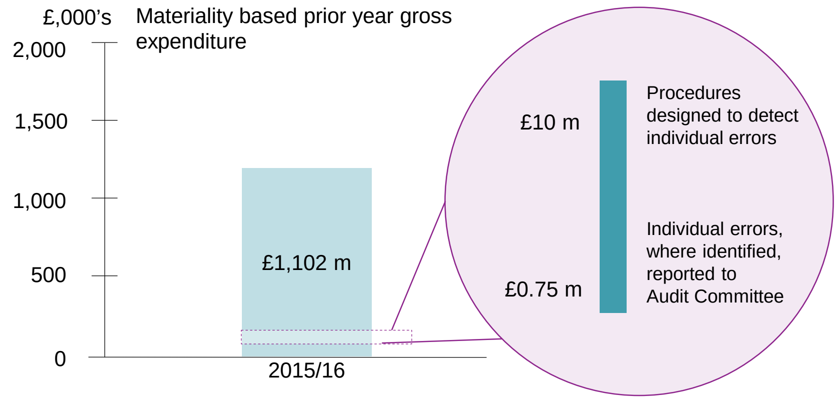
We are required to plan our audit to determine with reasonable confidence whether or not the financial statements are free from material misstatement. An omission or misstatement is regarded as material if it would reasonably influence the user of financial statements. This therefore involves an assessment 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 £15 million which equates to 1.36 percent of gross expenditure.

For the Pension Fund, materiality for planning purposes has been set at £20 million.

We design our procedures to detect errors in specific accounts at a lower level of precision. For the Authority this is £10 million for the year ended 31 March 2016 (£15 million for the Pension Fund), and we have some flexibility to adjust this level downwards. In addition, for sensitive areas including s106 agreements, declarations of interest, grants and youth services we will, as appropriate, use a lower level of precision that relates to the size of the population and the audit risks identified.



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 to report all individual unadjusted differences greater than £750,000 to the Audit Committee.
- In the context of the Pension Fund we propose to report all individual unadjusted differences greater than £1 million to the Audit Committee.
- We will also have regard to other errors below these amounts if there is evidence of systematic error or if material by nature.

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.

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Value for money arrangements work

Background to approach to VFM work

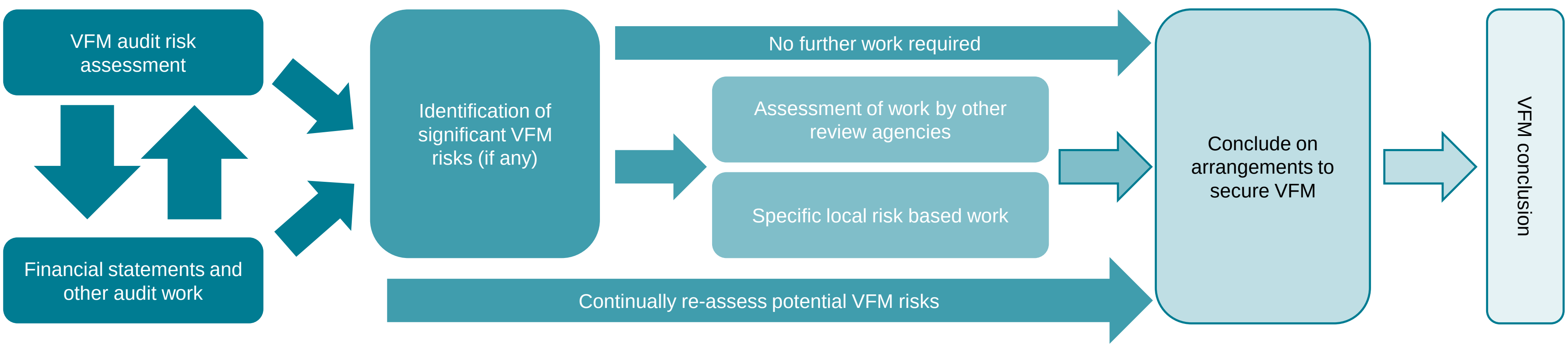
The Local Audit and Accountability Act 2014 requires auditors of local government bodies to be satisfied that the authority 'has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources'.

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 2014/2015 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 full guidance is available from the NAO website at: https://www.nao.org.uk/code-audit-practice/guidance-and-information-for-auditors/. Our approach to the value for money is recorded below:

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



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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.

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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. On the following page, we report the results of our initial risk assessment. We have identified one significant VFM risk, and two areas of audit focus. We will update our assessment throughout the year should any further issues present themselves and report against these in our ISA260. We will report on the results of the VFM audit through our ISA 260 Report. This will summarise any specific matters arising, and the basis for our overall conclusion. The key output from the work will be the VFM conclusion (i.e. our opinion on the Authority's arrangements for securing VFM), which forms part of our audit report.

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Value for money arrangements work (cont.)

Significant Audit Risks

Significant risks are those risks requiring specific audit attention and require specific procedures to address the likelihood of proper arrangements not being in place to deliver value for money.

Implementation of BV Action Plans and Section 11 recommendation

- Risk: The Authority monitors progress towards implementation regularly and reports on a monthly basis to the Best Value Programme Board. Internal Audit have an agreed programme to review the accuracy of each of the seven action plans as regards the implementation of the individual milestones. The next stage will be for the Authority to be able to demonstrate that the actions have had the planned impact; have addressed the weaknesses in the Authority's arrangements that were highlighted by the BV Inspection report; Electoral Court judgement; and SoS CLG's Directions; and are embedded into the Authority's culture.
- Our section 11 recommendation centred around the Authority undertaking a detailed review of its governance processes across the Authority to satisfy itself that they are appropriate and operating effectively. We identified that this should include consideration of the roles and responsibilities of officers, Members and Committees; delegation and escalation processes; and the sufficiency of analysis and support in relation to decisions by members, officers and relevant committees. We also commented that the governance review should be co-ordinated with the other actions being undertaken and proposed including the programme of cultural change.
- Approach: We will look to work undertaken by the Authority to consider the progress in implementing the BV Action Plans and section 11 recommendation and the extent of embeddedness within the Authority to the extent that this can be assessed during 2015/2016.

VFM – Areas of audit focus

Those risks with less likelihood of giving rise to proper arrangements not being in place to deliver value for money but which are nevertheless worthy of audit understanding.

Medium Term Financial Plan

- Risk: Local Authorities are subject to an increasingly challenged financial regime with reduced funding from Central Government whilst having to maintain a statutory and

VFM – Areas of audit focus (continued)

Medium Term Financial Plan (continued)

quality level of services to local residents. The Authority is estimating a small over spend (of around £1.2 million) for 2015/16. The Authority's balanced budget for 2016/17, includes the delivery of £21 million of approved savings plans, and the use of £23 million from General Fund reserves. The Authority currently estimates that a further £58 million in savings will need to be achieved during the three years 2017/18 to 2019/20, after using £4 million of reserves (General Fund reserves are estimated to be £36 million at 31 March 2020). We are aware the Authority is in the process of developing and agreeing proposals with Members for these future estimated savings. The need for savings could have a significant impact on the Authority's financial resilience. Consequently, the Authority will need to continue to manage its savings plans to secure longer term financial and operational sustainability.

- Approach: We will review overall management arrangements that the Council has for managing its financial position. This will include the processes to develop a robust Medium Term Financial Plan, ongoing monitoring of the annual budget, review of how savings plans have been developed and how their delivery is monitored, responsiveness to increasing costs of demand led services and changes in funding allocations and the governance arrangements of how the figures are reported through to Full Council.

Governance in Schools

- Risk: In 2013/14 Internal Audit reviews found that over half of the schools audited (14 out of 27) fell below the minimum standard of financial control, and management. Internal Audit have also investigated other schools where external referrals alleging irregularity at some schools have been received. Whilst these investigations have not been finalised, it is clear that there are also weaknesses in the governance arrangements of these schools. The Authority has taken action to reinforce the importance of governance and the role of Governors in managing schools. As part of our 2014/15 audit we commented that it would take time for the full impact of the actions to take effect.
- Approach: We will consider the impact of the Authority's actions by liaising with Internal Audit on results of recent audits and review the 2015/16 Annual Schools Internal Audit report.

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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 2015/16 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 continue to be led by Andrew Sayers (Partner); Antony Smith (Manager); and Ian Livingstone (Assistant Manager). Appendix 2 provides more details on specific roles and contact details of the team.

Reporting and communication

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

Independence and Objectivity

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

Audit fee

Our Audit Fee Letter 2015/2016 presented to you in April 2015 first set out our fees for the 2015/2016 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, although we do anticipate additional work will be needed to address the risks referred to in this Plan, but have not yet assessed how long this will take.

The planned audit fee for 2015/16 is £209,918 for the Authority. This is a reduction in audit fee, compared to 2014/2015, of £69,972 (25%). The planned audit fee for 2015/16 is £21,000 for the Pension Fund. (2014/15 £21,000).

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Appendix 1: Key elements of our financial statements audit approach

Communication

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

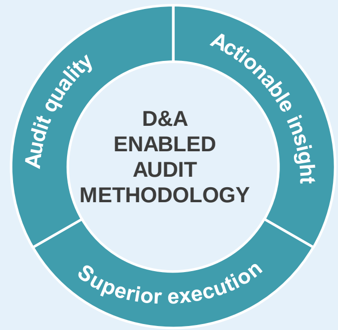
- Audit strategy and plan
- ISA 260 (UK&I) Report
- Annual Audit Letter

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

Audit workflow

- Initial planning meetings and risk assessment
- Interim audit
- Year end audit of financial statements and annual report
- Sign audit opinion

Planning	Control evaluation	Substantive testing	Completion
■ Perform risk assessment procedures and identify risks ■ Determine audit strategy ■ Determine planned audit approach	■ 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	■ Plan substantive procedures ■ Perform substantive procedures ■ Consider if audit evidence is sufficient and appropriate	■ Perform completion procedures ■ Perform overall evaluation ■ Form an audit opinion ■ Audit Committee reporting



Driving more value from the audit through data and analytics

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

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

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

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Appendix 2: Audit team

Your audit team has been drawn from our specialist public sector assurance department. Our audit team were all part of the London Borough of Tower Hamlets audit last year.

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, Chief Executive and Corporate Directors.'

T: 0207 694 8981

E: andrew.sayers@kpmg.co.uk

Name	Antony Smith
Position	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 liaise with the Corporate Director, Resources, the Chief Accountant and the Head of Audit and Risk Management.'

T: 0207 311 2355

E: antony.smith@kpmg.co.uk

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

T: 0207 694 8570

E: ian.livingstone@kpmg.co.uk

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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 Standard 1 Integrity, Objectivity and Independence requires 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 29 April 2016 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.

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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.

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