KPMG

External Audit Plan 2016/2017

London Borough of Tower Hamlets

January 2017


KPMG
The Local Government Landscape
CYBER SECURITY
DCLG
DFE
NHS
DWP
FINANCIAL PRESSURES
LEPS
INWARD INVESTMENT
ENTERPRISE ZONE
£10.5M
£8.5M
£55M
THE GENERAL PUBLIC
SCHOOLS
HEALTH CENTRES
£10.5M
£5.5M
£4M
RECYCLING CENTRE
ECONOMIC GROWTH
SCIENCE PARK
DEMOGRAPHIC CHANGE
CITIZENS TAKING RESPONSIBILITY
DEVOLUTION
MANAGE
FOR SALE
CARE MODEL REFORM
PLANNING REPORT
Cloud services
ISSUE
Off shore services
OUTSOURCE
WHOLE PERSON CARE
FINANCE MODELS
HOUSING
OPERATIONAL EFFECTIVENESS
P45
COMPLEX DEPENDENCY
SUPPORTING INDIVIDUALS
SERVICES working together
NHS
DWP
DCLG
APPOINTMENT
Legislation
FUNDING
Council tax
Business rate
Fees & Charges
MY FUTURE
TRAINING
NEW SYSTEM
OLD SYSTEM
OPERATING MODELS
MAYORAL ELECTION
S114
OVERSIGHT
BIG DATA
PARTNERSHIPS
PUBLIC
PRIVATE
WORKING TOGETHER
We are a Living Wage Employer
Ofsted
REPORT

Headlines

Financial Statement Audit

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

Materiality

Materiality for planning purposes has set at **£15 million** for the Authority and **£20 million** 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 **£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;
- Valuation of Pension Fund Assets
- Pension liability including assumptions and having regard to the potential for significant changes arising from the LGPS Triennial Valuation;
- Declarations of interest;
- Section 106/Community Infrastructure Levy (CIL) agreements; 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:

- Payroll;
- Youth services; and

Other areas of audit focus (cont.)

- Calculation of benefits.

See pages 4 to 8 for more details.

Value for Money Arrangements work

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

- Implementation of Best Value action plans (incorporating our Section 11 recommendation) [significant];
- Medium Term Financial Plan; and
- Progress in completing the 'clear up' project.

See pages 9 to 13 for more details

Logistics

Our team is:

- Andrew Sayers – Partner
- Antony Smith – Manager
- Ben Menzies-Wilson – Assistant Manager

More details are on **page 16.**

Our work will be completed in four phases from January to September and our key deliverables are this Audit Plan and a Report to those charged with Governance as outlined on **page 15**.

Our fee for the audit is £209,918 (£227,523 2015/2016) for the Authority and £21,000 (£21,000 2015/16 for the Pension Fund see **page 14.**

Introduction

Background and Statutory responsibilities

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

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

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

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

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

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

Acknowledgements

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

Financial Statements Audit

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

Value for Money Arrangements Work

Our Value for Money (VFM) Arrangements Work follows a five stage process which is identified below. Page 9 provides more detail on the activities that this includes. This report concentrates on explaining the VFM approach for the 2016/17.

Financial statements audit planning

Financial Statements Audit Planning

Our planning work takes place during January 2017. This involves the following key aspects:

— Risk assessment;

— Determining our materiality level; and

— Issuing this audit plan to communicate our audit strategy.

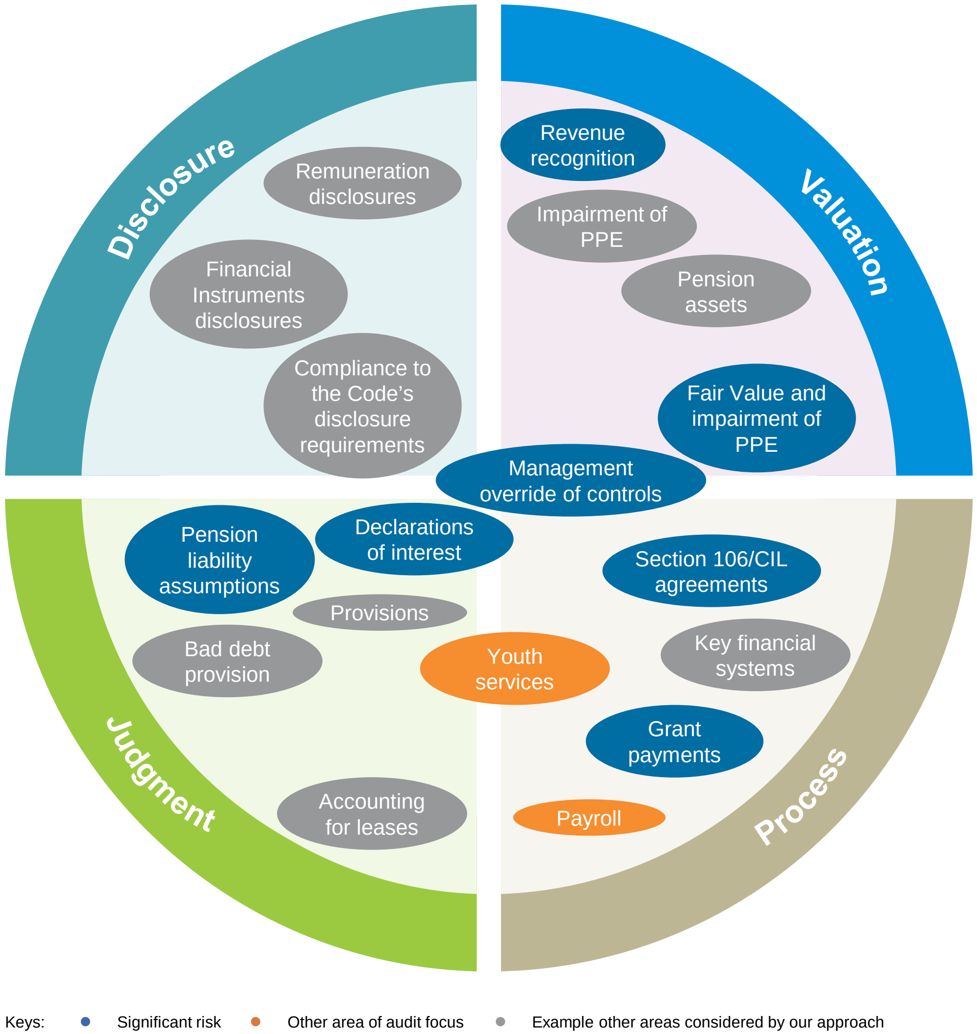
Risk assessment

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

— Management override of controls – Management is typically in a powerful position to perpetrate fraud owing to its ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. Our audit methodology incorporates the risk of management override as a default significant risk. In line with our methodology, we carry out appropriate controls testing and substantive procedures, including over journal entries, accounting estimates and significant transactions that are outside the normal course of business, or are otherwise unusual.

— Fraudulent revenue recognition – We do not consider this generally 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, except for conditional grant income (which is predominantly made up of section 106 ie developers' contributions (80% of the total of £76 million in 2015/16)). We will therefore combine this work with the significant audit risks for section 106/CIL agreements.

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



Financial statements audit planning (cont.)

Significant Audit Risks

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

Property, Plant and Equipment (Authority)

Risk : The Authority has a significant asset base primarily relating to Authority 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 Authority's external valuers and the judgements made by the Authority in response to the information received. We will compare the assumptions made by your valuer to benchmarks and to the assumptions used for 2015/16 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).

Valuation of Pension Fund Assets (Pension Fund)

Risk : At 31 March 2016 the Pension Fund had investment assets totalling £979 million. The investment portfolio includes derivative contracts which can be complex to value. Given the size and potential for complexity in the investment portfolio we consider this to be a significant audit risk for 2016/17.

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

Significant Audit Risks (cont.)

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

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

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

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

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

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

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

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

Financial statements audit planning (cont.)

Significant Audit Risks (cont.)

Declarations of interest (Authority)

Risk : The Commissioners have informed us that they remain concerned as to whether declarations are being made appropriately and completely by both officers and Members. Our 2015/16 consideration of the Authority's approach noted some weaknesses in the Authority's systems and approach to the new requirement for all staff to complete an annual declaration of interest. In particular these related to completeness of records to ensure all staff have completed a return; for those staff identified to date there had not yet been a 100% return of declarations; training should be enhanced to ensure staff understand the importance of the declarations and completing them fully and accurately; obtaining further assurance about the process and consideration/ assessment of the returns received and whether any further action is needed.

Approach : We will therefore consider the Authority's actions taken and consider what/whether any testing should be undertaken in 2017.

Section 106/CIL agreements (Authority)

Risk : This has historically been highlighted as an additional area of concern by Commissioners from the enquiries they have made. The Authority has responded positively to an independent review of its arrangements in relation to s106 systems, processes, controls and monitoring arrangements. Although our 2015/16 testing did not identify any issues in terms of balances held and monies spent, we did note some issues regarding when funds where spent vis a vis the deadline set out in the final agreements.

Approach : We will sample test a selection of schemes and the overall controls employed by the Authority to ensure that section 106 agreement funds are being used in accordance with the conditions agreed as part of the planning process.

Significant Audit Risks (cont.)

Grant payments (Authority)

Risk : The Best Value Inspection concluded that the Authority had not achieved its best value duty with regard to the payment of grants and connected decisions between 2010 and 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. A small number of grant payments (seven, with a value of £32,721 across the 2015/16 and 2016/17 financial years) were identified by the Commissioners/ Authority as not having been made in accordance with the conditions the Commissioners had set ie considered to be unlawful. Whilst our testing of payments in 2015/16 did not identify any further significant issues, the lack of a central record of all grant payments made it difficult to identify the population that we needed to sample test to address the risks identified in our 2015/16 audit plan. We understand that the Authority intends to move to a unified system for recording all grant payments in 2017.

Approach : We will consider the detailed approach and systems put in place by the Authority and Commissioners and test payments as considered necessary. We will also assess whether any conditions/ delegation arrangements have been implemented effectively by Authority officers.

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.

Payroll (Authority)

Risk : Payroll represents a significant proportion of the Authority's annual expenditure (approaching 33% of gross spend at £482m in 2015/16). Whilst not considered overly complex from a material error perspective, we consider that it is important from an audit perspective to understand the nature of the Authority's expenditure in this area.

Approach : We will:

- Review and test reconciliations for gross pay and deductions (eg pensions, tax and national insurance).
- Complete substantive analytical reviews of payroll costs and test supporting system information used to compile our review.

Youth Services (Authority)

Risk : Reviews have uncovered historical shortcomings and wide spread malpractice in the Authority's youth service. The Authority has responded by putting in place an interim model to deliver services and is now moving to securing a long term strategic and operational plan for the service. There is an action plan in place to both deal with the historical matters and to move to the future service model.

Approach : We will consider the action plan specifically in relation to dealing with/ clearing the historical shortcomings and will consider undertaking further work if considered necessary to fulfil our audit responsibilities.

Other areas of audit focus (cont.)

Calculation of benefits (Pension Fund)

Risk : The calculation of benefits can be complex. In 2015/16 a total of £52 million was paid out by the Pension Fund (pensions and lump sums). Given the quantity and complexity of these calculations there is a risk of misstatement.

Approach : We will complete substantive analytical reviews of pensions in payment and test supporting system information used to compile our review; and test a sample of lump sum benefit calculations.

Financial statements audit planning (cont.)

Materiality

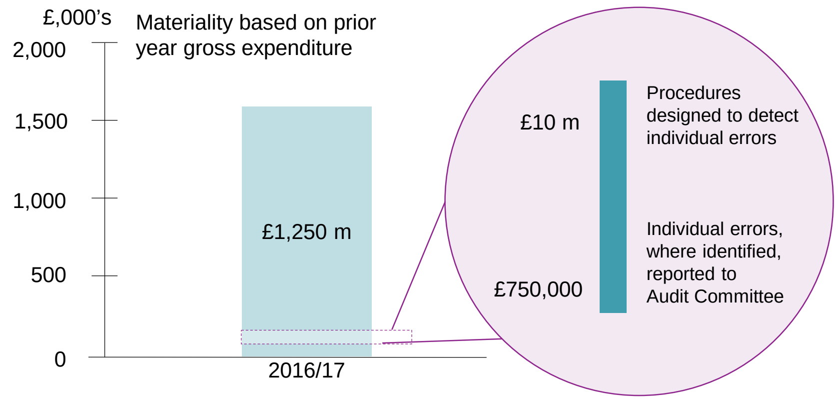
We are required to plan our audit to determine with reasonable confidence whether or not the financial statements are free from material misstatement. An omission or misstatement is regarded as material if it would reasonably influence the user of financial statements. This therefore involves an assessment 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 1.2 percent of gross expenditure.

For the Pension Fund, materiality for planning purposes has been set at £20 million, which equates to 1.8% of total net assets.

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



Reporting to the Audit Committee

Whilst our audit procedures are designed to identify misstatements which are material to our opinion on the financial statements as a whole, we nevertheless report to the Audit Committee any unadjusted misstatements of lesser amounts to the extent that these are identified by our audit work.

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

In the context of the Authority, we propose that an individual difference could normally be considered to be clearly trivial if it is less than £750,000.

In the context of the Pension Fund, we propose that an individual difference could normally be considered to be clearly trivial it is less than £1 million.

If management have corrected material misstatements identified during the course of the audit, we will consider whether those corrections should be communicated to the Audit Committee to assist it in fulfilling its governance responsibilities.

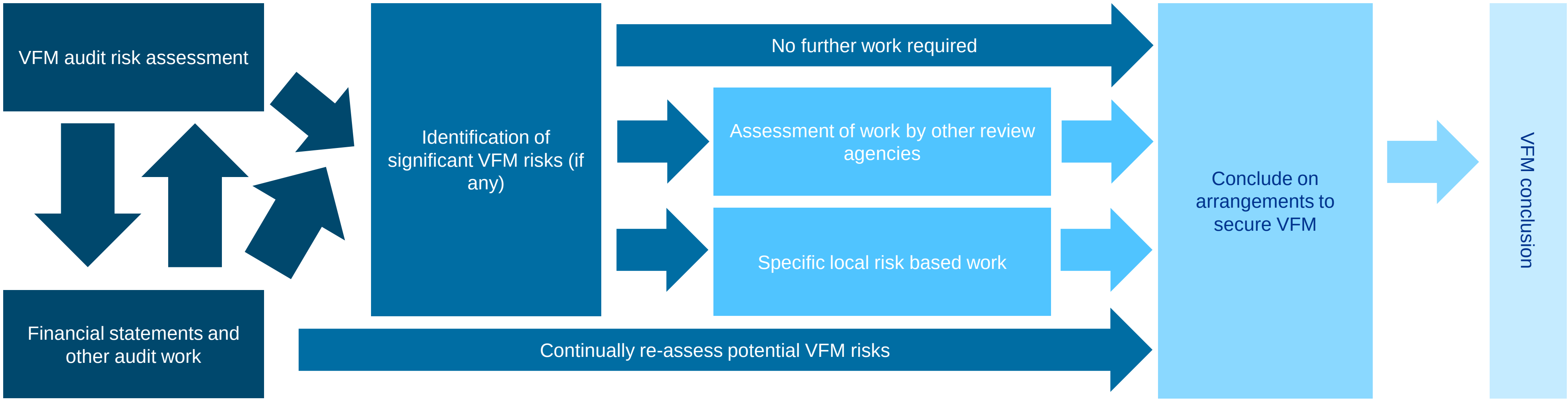
Value for money arrangements work

Background to approach to VFM work

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

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

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



Value for money arrangements work (cont.)

Overall criterion

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

Informed decision making

Proper arrangements:

- Acting in the public interest, through demonstrating and applying the principles and values of sound governance.

- Understanding and using appropriate and reliable financial and performance information to support informed decision making and performance management.

- Reliable and timely financial reporting that supports the delivery of strategic priorities.

- Managing risks effectively and maintaining a sound system of internal control.

Sustainable resource deployment

Proper arrangements:

- Planning finances effectively to support the sustainable delivery of strategic priorities and maintain statutory functions.

- Managing and utilising assets to support the delivery of strategic priorities.

- Planning, organising and developing the workforce effectively to deliver strategic priorities.

Working with partners and third parties

Proper arrangements:

- Working with third parties effectively to deliver strategic priorities.

- Commissioning services effectively to support the delivery of strategic priorities.

- Procuring supplies and services effectively to support the delivery of strategic priorities.

Value for money arrangements work (cont.)

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

Value for money arrangements work (cont.)

VFM audit stage	Audit approach
Assessment of work by other review agencies **and** **Delivery of local risk based work**	Depending on the nature of the significant VFM risk identified, we may be able to draw on the work of other inspectorates, review agencies and other relevant bodies to provide us with the necessary evidence to reach our conclusion on the risk. If such evidence is not available, we will instead need to consider what additional work we will be required to undertake to satisfy ourselves that we have reasonable evidence to support the conclusion that we will draw. Such work may include: ■ Meeting with senior managers across the Authority; ■ Review of minutes and internal reports; ■ Examination of financial models for reasonableness, using our own experience and benchmarking data from within and without the sector.
Concluding on VFM arrangements	At the conclusion of the VFM audit we will consider the results of the work undertaken and assess the assurance obtained against each of the VFM themes regarding the adequacy of the Authority's arrangements for securing economy, efficiency and effectiveness in the use of resources. If any issues are identified that may be significant to this assessment, and in particular if there are issues that indicate we may need to consider qualifying our VFM conclusion, we will discuss these with management as soon as possible. Such issues will also be considered more widely as part of KPMG's quality control processes, to help ensure the consistency of auditors' decisions.
Reporting	We have completed our initial VFM risk assessment. On the following page, we report the results of our initial risk assessment. We will update our assessment throughout the year should any issues present themselves and report against these in our ISA260. We will report on the results of the VFM audit through our ISA 260 Report. This will summarise any specific matters arising, and the basis for our overall conclusion. The key output from the work will be the VFM conclusion (i.e. our opinion on the Authority's arrangements for securing VFM), which forms part of our audit report.

Value for money arrangements work (cont.)

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.

Implementation of BV Action Plans (incorporating our Section 11 recommendation)

- **Risk:** The Authority monitors progress towards implementation regularly and reports on a monthly basis to the Best Value Programme Board with a summary report produced every 6 months for reporting to the SoS CLG. The latest report to the SoS CLG (September 2016) reported 95% completion of these Plans. In light of the Authority's report and the accompanying commentary from the Commissioners, the SoS CLG is proposing to reduce/end two of the Directions (procurement and grants) with the elections Direction potentially being ended pending consideration of the conduct of the December 2016 Whitechapel bi-election. On the remaining Directions the Commissioners have reported that the Authority has further work to do to either complete the identified actions; that the actions have had the planned impact; have addressed the weaknesses in the Authority's arrangements; and are embedded into the Authority's culture.
- **Approach :** We will look to work undertaken by the Authority to consider the progress in implementing the BV Action Plans and the extent of embeddedness within the Authority to the extent that this can be assessed during 2016/17.

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 quality level of services to local residents. The Authority is estimating a small over

VFM – Areas of audit focus (continued)

Medium Term Financial Plan (continued)

spend (of around £1.5 million) for 2016/17. 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's latest MTFP includes a further £51.5 million in savings schemes/projects that will need to be delivered during the three years 2017/18 to 2019/20, after using £15 million of reserves (mainly from Earmarked Reserves – Mayoral priority). General Fund reserves are estimated to be £28 million at 31 March 2020. The Authority is in the process of finalising its proposals with Members for these future estimated savings. The delivery of the planned savings is critical to ensure the Authority's financial resilience is maintained. 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 Authority 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.

Progress on 'clear up' project

- **Risk**: In September 2016 the Authority set up an independent 'Clear Up' team to deal with any remaining allegations of impropriety or serious concerns that were brought to the team's attention (up to 8 December 2016).
- **Approach**: We will consider the Authority's general approach to the allegations made and how they are being dealt with. We will consider undertaking further work if considered necessary to fulfil our audit responsibilities.

Other matters

Whole of government accounts (WGA)

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

Elector challenge

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

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

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

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

Our audit team

Our audit team will be led by Andrew Sayers (Partner); Antony Smith (Manager); and Ben Menzies-Wilson (Assistant Manager). Andrew and Antony provide continuity on the audit team. 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 2016/2017 issued to you in April 2016 first set out our fees for the 2016/2017 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.

The planned audit fee for 2016/17 is £209,918 for the Authority. This is a reduction in audit fee, compared to 2015/16, of £17,605 (7.7%). The planned audit fee for 2016/17 is £21,000 for the Pension Fund (2015/16 £21,000).

Appendix 1: Key elements of our financial statements audit approach

Communication

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

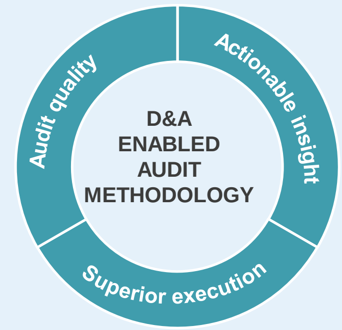
- Audit strategy and plan (Jan)
- ISA 260 (UK&I) Report (Sep)
- Annual Audit Letter (Oct)

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

Audit workflow

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

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 payroll 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.

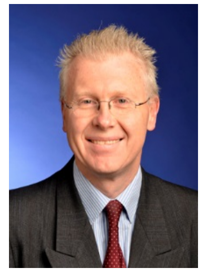
Appendix 2: Audit team

Your audit team has been drawn from our specialist public sector assurance department. Our senior 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, senior members of the finance team and the Head of Audit and Risk Management.’

T: 0207 311 2355

E: antony.smith@kpmg.co.uk

Name	Ben Menzies-Wilson
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: 0755 422 5624

E: ben.menzies-wilson@kpmg.co.uk

Appendix 3: Independence and objectivity requirements

Independence and objectivity

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

The standards define 'those charged with governance' as 'those persons entrusted with the supervision, control and direction of an entity'. In your case this is the Audit 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 13 January 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.

This report is addressed to the Authority and has been prepared for the sole use of the Authority. We take no responsibility to any member of staff acting in their individual capacities, or to third parties. We draw your attention to the Statement of Responsibilities of auditors and audited bodies, which is available on Public Sector Audit Appointment's website (www.psaa.co.uk).

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

We are committed to providing you with a high quality service. If you have any concerns or are dissatisfied with any part of KPMG's work, in the first instance you should contact Andrew Sayers, the engagement lead to the Authority (and national lead partner for all of KPMG's work under our contract with Public Sector Audit Appointments Limited), who will try to resolve your complaint. 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.