cutting through complexity

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

Wiltshire & Swindon Fire Authority

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 Darren Gilbert, 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.

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**
- **our assessment of 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 Wiltshire & Swindon Fire Authority ('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').

Financial statements

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

This report focuses on the second and third stages of the process: control evaluation and substantive procedures. Our on site work for these took place during April 2015 (interim) and August 2015 (final).

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. There are no matters of any significance arising as yet as result of our audit work on this VFM risk area, although this work is currently ongoing. We anticipate concluding that the Authority has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources. This work includes:

- 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; and
- carrying out additional risk-based work, including an assessment of the impact of the combination with Dorset Fire Authority on VFM.

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.

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, although this is subject to finalisation of outstanding audit queries to our satisfaction. We will also report that your Annual Governance Statement complies with guidance issued by CIPFA/SOLACE in June 2007.
Audit adjustments	Our audit identified one uncorrected audit difference, with a value of £300,000. The impact of this uncorrected adjustment is to decrease the deficit on provision of services for the year and does affect the General Fund account. We have included full details of this audit difference in Appendix 3. We also identified a potential difference between the carrying value of property and its possible fair value, due to the elapsed time since the previous fixed asset valuation, but we did not ultimately assess this potential difference to be material given its nature and the impact it would have on the financial statements.
Key financial statements audit risks	We identified no key financial statements audit risks in our 14/15 External audit plan issued in February 2015. However, a significant risk was identified during the audit fieldwork as below: ▪ Valuation of Property. We have been working with officers throughout the audit to discuss this key risk and our detailed findings are reported in section 3 of this report and summarised above under 'Audit adjustments'.
Accounts production and audit process	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.
Completion	At the date of this report our audit of the financial statements is substantially complete subject to completion of a few areas and a final review of the financial statements. 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.
VFM conclusion and risk areas	We identified the following VFM risks in our External audit plan 2014/15 issued in February 2015. ▪ Combination with Dorset Fire Authority. We have worked with officers throughout the year to discuss the VFM risk and our detailed findings are reported in section 4 of this report. There are no matters of any significance arising as yet as result of our audit work on this VFM risk area, although this work is currently ongoing. We anticipate concluding that the Authority has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources. We therefore anticipate issuing an unqualified VFM conclusion by 30 September 2015.

Financial Statements
Proposed opinion and audit differences

Our audit has identified one uncorrected audit adjustment.

The impact of this adjustment is to:

- **decrease the deficit on the provision of services for the year by £300,000.**

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

The wording of your Annual Governance Statement complies with guidance issued by CIPFA/SOLACE in June 2007

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 Finance, Review and Audit Committee on 15 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 level for this year's audit was set at £550,000. Audit differences below £27,500 are not considered significant (see Appendix 2 for more information on materiality).

Our audit identified one uncorrected audit difference, with a value of £300,000. The impact of this uncorrected adjustment is to decrease the deficit on provision of services for the year and does affect the General Fund account. We have included full details of this audit difference in Appendix 3.

We also identified a potential difference between the carrying value of property and its possible fair value, due to the elapsed time since the previous fixed asset valuation, but we did not ultimately assess this potential difference to be material given its nature and the impact it would have on the financial statements. This is considered further on the following page.

In addition, we identified a small number of presentational adjustments required to ensure that the accounts are compliant with the *Code of Practice on Local Authority Accounting in the United Kingdom 2014/15 ('the Code')*. We understand that the Authority will be addressing these where significant.

Annual Governance Statement

We have reviewed the Annual Governance Statement and confirmed that:

- it complies with *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.

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 those risks

In our *External Audit Plan 2014/15*, presented to you in February 2015, we identified no significant risks affecting the Authority's 2014/15 financial statements. During the audit, we identified one significant risk. We have now completed our testing of this area and set out our evaluation following our substantive work.

The table below sets out our detailed findings for this risk that is specific to the Authority.

Significant audit risk	Issue	Findings
Valuation of Property	The Code of Accounting Practice requires that property is re-valued with sufficient frequency to ensure that there is not a material difference between fair value and carrying value, and in any case at frequency of at least every five years. The Authority's policy is that property is revalued in full every five years as a single exercise covering all land and buildings. The last valuation performed, and used in preparing the financial statements, is from 31 March 2014. There is therefore a risk that significant changes in property prices during the year may not be reflected in the value of assets held on the balance sheet.	We have considered the potential impact of changes in property values during the year, by looking at relevant market indices. This highlighted a potentially significant increase in property values in the year. We have further discussed the valuation with the Authority's qualified valuers, who have performed an exercise to calculate the potential increase in value based on market indices. We have comfort over the competence and expertise of these individuals and deem that their explanations for the scale of any possible increase in value to be reasonable. Based on our findings and discussions, a potential increase in value of £630,000 has been identified. This is just above the quantitative materiality threshold we use for planning our audit work. Although we typically use this quantified level when considering materiality, by its very nature materiality is a qualitative concept. This indicative audit difference represents only a 3.5% fluctuation on the property portfolio balance of £18.2m, and would only impact the PPE and revaluation reserve balances, with no impact on the general fund. It is also not based on a 'full' valuation, rather a desktop exercise to extrapolate previous values using indices. In this context, we do not consider this to be an adjustable audit difference or material to the users of the financial statements. As such, we have concluded that the value of property is not materially misstated. However, under the current policy of re-valuing all properties once every five years, the Authority must be mindful of the potential for a material difference between fair value and carrying value to occur in the future, especially in light of the scale of the indicative difference highlighted in just one year since the last revaluation. We note that a full re-valuation is planned as part of the combination process and that this will be timed to inform the 2015/16 financial statements. We therefore recommend that as part of the combination with Dorset Fire Authority, management considers the accounting policy and in particular the frequency of valuation of the property portfolio under the new combined Authority. **Management Response:** The Service, in preparation for the combination with Dorset Fire and Rescue Service is undertaking a full property review and has commissioned a full valuation of all of its properties as a basis for the new Property Asset Management Strategy (PAMS). The Service will include in the PAMS, and as part of the year end closedown procedures for 2015/16, a review of its accounting policy in particular the valuation strategy of its property portfolio. The responsible officer for this action is Phil Chow, and action target date is 30 June 2016.

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 a well established and good accounts production process. This operated well in 2014/15, and the standard of accounts and supporting working papers was good.

Officers dealt promptly and efficiently with audit queries and the audit process was completed within the planned timescales.

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 continues to maintain a good financial reporting process and produce statements of accounts to a good standard. We consider that accounting practices are appropriate, although as noted above we have commented on the need to review the accounting policy for, and approach to, the valuation of property.
Completeness of draft accounts	We received a complete set of draft accounts on 10 August 2015. The Authority has made a small number of presentational changes to the accounts presented for audit however there have been no changes which we consider to be fundamental.
Quality of supporting working papers	The quality of working papers provided was good and met the standards required for the purposes of our audit.
Response to audit queries	Officers resolved all audit queries in a timely manner.

Prior year recommendations

There were no recommendations raised in our 2013/14 ISA 260 report.

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 Wiltshire & Swindon Fire Authority for the year ending 31 March 2015, we confirm that there were no relationships between KPMG LLP and Wiltshire & Swindon Fire Authority, 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 1 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 to the Brigade Manager for presentation to the Finance, Review & Audit Committee. 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 or our previous reports relating to the audit of the Authority's 2014/15 financial statements.

Control Environment

Your organisational and IT control environment is effective overall.

During April 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 the key findings from this work below.

Organisational and IT Environment

Controls operated at an organisational level often have an impact on controls at an operational level and if there were weaknesses this would have implications for our audit.

The Authority also relies on information technology (IT) to support both financial reporting and internal control processes. Whilst we do not seek to place reliance on IT and therefore do not test the IT system, we note that the system has been reviewed by Internal Audit with only minor improvement points noted.

Review of Internal Audit

The scope of the work of your internal auditors and their findings informs our audit risk assessment. We work with your internal auditors to assess the control framework for certain key financial systems and seek to rely on any relevant work they have completed to minimise unnecessary duplication of work. Our audit fee is set on the assumption that we can place full reliance on their work.

We reviewed internal audit's work on the key financial systems and re-performed a sample of tests completed by them. We also reviewed internal audit's self assessment against the United Kingdom Public Sector Internal Audit Standards (PSIAS), which have applied to local authorities since April 2013. The PSIAS require public sector organisations to commission an external review of internal audit at least every five years; our work does not constitute an external review with respect to this requirement.

Based on the self-assessment performed by internal audit, our assessment of their files, attendance at Audit Committee and regular meetings during the course of the year, we have not identified any significant matters which would indicate internal audit are not compliant with the PSIAS.

We are again able to place full reliance on internal audit's work on the key financial systems where this was relevant to our audit.

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.

Based on the work of your internal auditors, and our own work on controls over the year end process, the controls over the financial systems are sound.

VFM conclusion

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

There are no matters of any significance arising as yet as result of our audit work on this VFM risk area, although this work is currently ongoing.

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.

The following pages includes further details of our VFM risk assessment and our specific risk-based work.

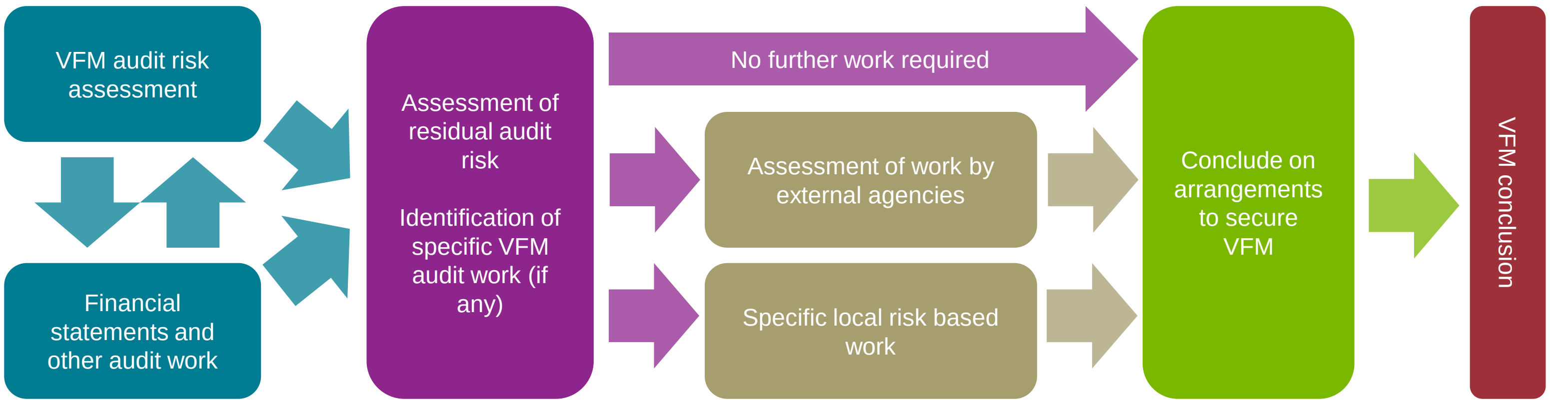
Conclusion

We have worked with officers throughout the year to discuss the VFM risk and our detailed findings are reported in section 4 of this report. There are no matters of any significance arising as yet as result of our audit work on this VFM risk area, although this work is currently ongoing.

We anticipate concluding that the Authority has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

We therefore anticipate issuing an unqualified VFM conclusion by 30 September 2015.

VFM criterion	Met
Securing financial resilience	✓
Securing economy, efficiency and effectiveness	✓



Specific VFM risks

We have identified one specific VFM risk.

We are satisfied that external or internal scrutiny provides sufficient assurance that the Authority's current arrangements in relation to these risk areas are adequate.

Work completed

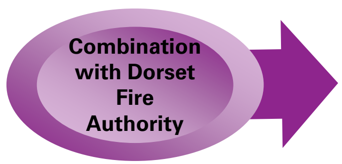
In line with the risk-based approach set out on the previous page, and in our *External Audit Plan* we have:

- assessed the Authority's key business risks which are relevant to our VFM conclusion;
- identified the residual audit risks for our VFM conclusion, taking account of work undertaken in previous years or as part of our financial statements audit;
- considered the results of relevant work by the Authority, inspectorates and review agencies in relation to these risk areas.

Key findings

Below we set out the findings in respect of those areas where we have identified a residual audit risk for our VFM conclusion.

We concluded that we needed to carry out additional work for some of these risks. This work is ongoing and a verbal update given in the Finance, Review & Audit Committee.

Key VFM risk	Risk description and link to VFM conclusion	Assessment
	The Authority has unanimously voted in favour of the proposed combination with Dorset Fire Authority. This combination is part of a long-term strategy to reduce costs through efficiencies gained. It is noted that such a significant project could place a strain on the organisation where resources and management time are limited. Management must focus not only on the proposed new, combined, Authority, but also focus on ensuring that the current governance and policy procedures are not adversely impacted. The combination is arguably the biggest change that either Authority has undergone. The MTFP shows that under current projections the Authority will fully deplete its reserves within 18 months. This does not account for savings planned as part of the combination. This is relevant to both the financial resilience and economy, efficiency and effectiveness criteria of the VFM conclusion.	**Specific risk based work required: Yes** We have reviewed the basis for the combination and the financial implications of the combination, considering the impact on economy, efficiency, and effectiveness. This has included reviewing combination plans and documents and discussion with key management personnel. So far we have observed that that the plans for the combination appear thorough and robust, and that the governance arrangements for the combined authority appear fit for purpose. This audit work is substantially complete, but has not yet been reported in detail – we plan to issue a specific report summarising our findings. We anticipate concluding that the Authority has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources. We therefore anticipate issuing an unqualified VFM conclusion by 30 September 2015.

Appendix 1: 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 Finance, Review & Audit Committee.

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 1: 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 Wiltshire & Swindon Fire Authority for the financial year ending 31 March 2015, we confirm that there were no relationships between KPMG LLP and Wiltshire & Swindon Fire Authority, 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 2: Materiality and reporting of audit differences

For 2014/15 our materiality is £550,000 for the Authority's accounts.

We have reported all audit differences over £27,500 for the Authority's accounts to the Finance, Review & Audit 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.

Materiality for the Authority's accounts was set at £550,000 which equates to around 2 percent of gross expenditure. We design our procedures to detect errors in specific accounts at a lower level of precision.

Reporting to the Finance, Review & 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 & Scrutiny 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 £27,500 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 Finance, Review & Audit Committee to assist it in fulfilling its governance responsibilities.

Appendix 3: Audit differences

This appendix sets out the audit differences.

The financial statements included one uncorrected non material audit difference.

The impact is to increase the General Fund account by £300,000.

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 Finance, Review and Audit 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.

Uncorrected audit differences

Non material audit difference

Dr Provisions	£300,000
Cr Pension Liability	£300,000
Dr Opening Pension Reserve	£300,000
Cr CIES Cost	£300,000
Dr Grant Debtor	£300,000
Cr Opening General Fund	£300,000

This misstatement relates to the provision for the miscalculation of historic commutation payments, in respect of members of the Firefighters Pension Scheme who retired between 1 December 2001 and 21 August 2006. This should be accounted for as an adjusting post balance sheet event as per IAS 10, with the movement in pension liability recognised through a prior period actuarial loss under IAS 19, as well as a matching income and debtor representing the anticipated grant funding for this, and the post balance sheet event disclosed in 2014/15.

Management has currently accounted for this as a cost to the Authority and corresponding provision in the 2014/15 year, giving rise to the above audit difference.

Corrected audit differences

We are pleased to report that there are no corrected audit differences.

A number of minor amendments focused on presentational improvements have also been made to the draft financial statements. This included changing some accounting policies to disclosure notes such as “Key sources of estimation uncertainty”, and adding a new note for “amounts reported for resource allocation decisions”. The Finance Department are committed to continuous improvement in the quality of the financial statements submitted for audit in future years.

Appendix 4: KPMG Audit Quality Framework

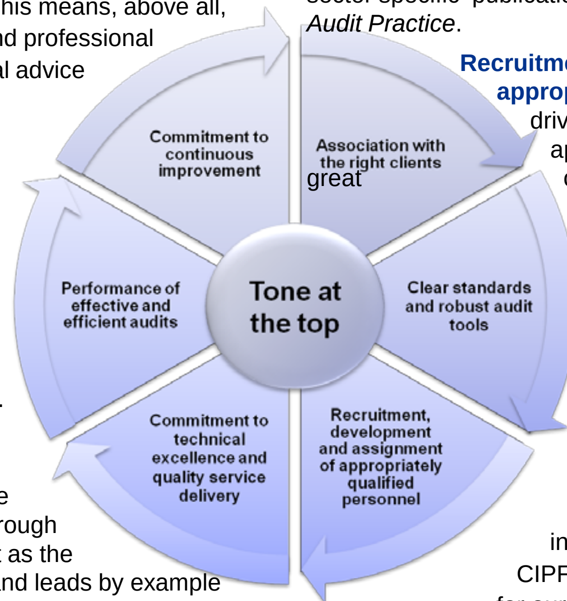
We continually focus on delivering a high quality audit.

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. Darren Gilbert 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.

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 4: 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 2015) showed that we are meeting the overall audit quality and regulatory compliance requirements.

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