READING BOROUGH COUNCIL
REPORT BY HEAD OF FINANCE

TO:	**AUDIT & GOVERNANCE COMMITTEE**		
DATE:	**24 September 2015**	**AGENDA ITEM:**	**3**
TITLE:	**APPROVAL OF 2014/15 ACCOUNTS, KPMG AUDIT MEMORANDUM & AUDIT OPINION**		
LEAD COUNCILLOR:	**CLLR STEVENS**	**AREA COVERED:**	**CHAIR OF AUDIT & GOVERNANCE**
SERVICE:	**FINANCIAL**	**WARDS:**	**BOROUGHWIDE**
AUTHOR:	**ALAN CROSS**	**TEL:**	**2058 / 9372058**
JOB TITLE:	**HEAD OF FINANCE**	**E-MAIL:**	**Alan.Cross@reading.gov.uk**

1. PURPOSE AND SUMMARY OF REPORT

1.1 In accordance with the Accounts & Audit Regulations, the Committee, on behalf of the Council is required to approve the Council's accounts by the end of September.

1.2 As part of the annual external audit of the Council's accounts, KPMG produce an Audit Memorandum to those charged with Corporate Governance prior to issuing their opinion.

1.3 KPMG have indicated that subject to; the approval of the accounts (with minor adjustments) by the Committee, the receipt by them of a Management Representation letter, the receipt by the Committee of the Report to those Charged with Governance, they will be in a position to issue an unqualified audit report on the (amended) Council's accounts, thus concluding the accounts and audit process for 2014/15. This report sets out these documents, though for reasons of size the formal accounts have not been printed as part of the agenda, although the main adjustments are identified within KPMG's report. KPMG will be present at the meeting to deal with questions relating to their audit.

2. RECOMMENDATION

2.1 Audit & Governance Committee are requested to note:

a) the Management Representations letter from the Head of Finance
b) KPMG's (ISA 260) Report to those charged with governance

2.2 Audit & Governance Committee are requested, on behalf of Council to approve the final accounts for 2014/15, noting that in doing so KPMG will be in a position to issue an unqualified opinion

2.3 Audit & Governance Committee should note that apart from the conclusion of a small number of grant claims, and the possibility of needing to resolve elector queries in relation to the accounts this will conclude KPMG's work as auditor to the Council.

3. POLICY CONTEXT

3.1 Each year as part of the annual external audit process the Council's external auditor KPMG produce a report addressed to those charged with governance prior to issuing their Audit Opinion.

3.2 The Report is submitted to the Audit & Governance Committee as part of its duties on behalf of Council. Given the democratic nature of the Council it is possibly too simplistic to suggest the Committee is solely responsible for governance, and we suggest that Council as a whole as well as the Administration have some governance responsibilities too, as of course does the Corporate Management Team. To reflect this, the Annual Governance Report is signed by the Leader of the Council and the Managing Director.

3.3 The general financial position was reported to the Committee at its end of June meeting, and the Council's draft accounts were signed off at the end of June by the Head of Finance and placed on the website shortly after that meeting. As is normal in the course of the audit we have agreed a small number of changes to the draft accounts. As part of the process, the Council's Section 151 Officer is required to submit a Management Representations letter to the External Auditor, and this is attached for the information of the Committee.

4. OPINION AND AUDIT MEMORANDUM / MANAGEMENT REPRESENTATIONS LETTER

4.1 Attached to this covering report are

- Management Representations Letter
- KPMG's Audit Memorandum to those charged with governance

4.2 **Implementing External Audit Recommendations**

KPMG's letter includes an update to a continuing recommendation relating to our property system. We have in principle committed to move capital accounting to the Atrium Property System but have not yet reached and resourced that development within the system.

4.3 Following last year's audit as part of the de-brief process we met with KPMG to review the final accounts and audit process. This has led to improvements in the process. We will have a debrief meeting and have already begun to have periodic meetings with EY to ensure a smooth transition, with the aim of continuously improving the accounts production process for future years. CIPFA are currently consulting on some suggested changes to simplify the accounts and make them more accessible; subject to the outcome of that consultation we will consider implementing those changes as soon as practical, possible next year.

4.4 KPMG Audit Differences

KPMG's Report sets out the more significant issues that have arisen in their audit and we have made three to the draft accounts as a consequence of their work. The required adjustment are largely technical or presentational ones. There have been no changes to the council's available balances and resources as a consequence of KPMG's audit.

KPMG have suggested three other adjustments (see appendix 3, numbers 4-6 in their ISA letter). The adjustments proposed and reasons for not making them (as in aggregate they are less than the materiality threshold KPMG have set) are as follows;

Adjustment 4 proposes writing down to nil the value of the land on which the former Civic Offices Stands. The building was written down to nil some years ago, and as councillors will be aware the Council has committed to its demolition to facilitate regeneration of that part of the town centre. The commitment is reflected (now) as a note to the accounts. Were we to write it down, in 12 months' time, following demolition the value would then need writing up to the 31/3/16 value (which on current information may be higher than the present £3m land value).

Adjustment 5 proposes adding a further £1.4m to the equal pay provision so it better matches the council's estimated liability. Were we to do this we would also create the Unequal Pay Back Pay Reserve which would be a negative reserve to neutralise the General Fund impact. As the £1.4m is budgeted to be added during 2015/16 to the provision, we see no point in such a technical series of accounting entries which would all then be reversed in 2015/16, bearing in mind the equal pay liability is of uncertain value.

Adjustment 6 proposes a technical adjustment relating to the council's car park management contract with NCP. Under the contract the Council paid for initial capital and recovery of those costs is done by adjusting the contract payment. KPMG are of the view that this should be accounted for as a loan to NCP rather than contributions by NCP to the Council's capital financing costs. The adjustment proposed does not have any impact on the financial position of the Council.

4.5 KPMG

The committee will be aware that this is the last year KPMG will be the Council's auditor as the Audit Commission, prior to its abolition, decided to appoint EY as auditor for the 2015/16 & 2016/17 accounts. KPMG has been the Council's auditor since the audit of the 1986/87 accounts (having acquired the business of Armitage & Norton, the Council's former auditor around that time), though the audit partner handling the engagement has (in line with recommended practice) been rotated every 3-5 years.

5. FINANCIAL IMPLICATIONS

5.1 None, directly from this report.

5.2 As indicated above and in KPMG's report, a number of adjustments have been made to the accounts since June, but overall these have had no significant impact on the General Fund Balance.

5.3 The final accounts with the audit report will as usual be published on the Council's website.

6. LEGAL IMPLICATIONS

6.1 The process being followed is in line with the Accounts & Audit Regulations.

7. CONTRIBUTION TO STRATEGIC AIMS / COMMUNITY ENGAGEMENT /EQUALITY IMPACT ASSESSMENT

7.1 None directly from the report.

8. BACKGROUND PAPERS

8.1 None.

Ian Wardle
Managing Director

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24 September 2015

Your contact is: Alan Cross, Head of Finance

Dear Sirs

This representation letter is provided in connection with your audit of the financial statements of Reading Borough Council ("the Authority"), for the year ended 31 March 2015, for the purpose of expressing an opinion:

i. as to whether these financial statements give a true and fair view of the financial position of the Authority and the Group as at 31 March 2015 and of the Authority's and the Group's expenditure and income for the year then ended; and

ii. whether the financial statements have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2014/15.

These financial statements comprise the Authority and Group Movement in Reserves Statements, the Authority and Group Comprehensive Income and Expenditure Statements, the Authority and Group Balance Sheets, the Authority and Group Cash Flow Statements, the Housing Revenue Account Income and Expenditure Statement, the Movement on the Housing Revenue Account Statement, the Collection Fund and the related notes.

The Authority confirms that the representations it makes in this letter are in accordance with the definitions set out in the Appendix to this letter.

The Authority confirms that, to the best of its knowledge and belief, having made such inquiries as it considered necessary for the purpose of appropriately informing itself:

Financial statements

1. The Authority has fulfilled its responsibilities, as set out in regulation 8 of the Accounts and Audit (England) Regulations 2011, for the preparation of financial statements that:

    i. give a true and fair view of the financial position of the Authority and the Group as at 31 March 2015 and of the Authority's and the Group's expenditure and income for the year then ended; and

    i. have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2014/15.

    The financial statements have been prepared on a going concern basis.

2. Measurement methods and significant assumptions used by the Authority in making accounting estimates, including those measured at fair value, are reasonable.

3. All events subsequent to the date of the financial statements and for which IAS 10 *Events after the reporting period* requires adjustment or disclosure have been adjusted or disclosed.

4. The effects of uncorrected misstatements are immaterial, both individually and in aggregate, to the financial statements as a whole. A list of the uncorrected misstatements is attached to this representation letter.

Information provided

5. The Authority has provided you with:

    - access to all information of which it is aware, that is relevant to the preparation of the financial statements, such as records, documentation and other matters;
    - additional information that you have requested from the Authority for the purpose of the audit; and
    - unrestricted access to persons within the Authority and the Group from whom you determined it necessary to obtain audit evidence.

6. All transactions have been recorded in the accounting records and are reflected in the financial statements.

7. The Authority confirms the following:

    i) The Authority has disclosed to you the results of its assessment of the risk that the financial statements may be materially misstated as a result of fraud.

Included in the Appendix to this letter are the definitions of fraud, including misstatements arising from fraudulent financial reporting and from misappropriation of assets.

ii) The Authority has disclosed to you all information in relation to:

a) Fraud or suspected fraud that it is aware of and that affects the Authority and the Group and involves:
    - management;
    - employees who have significant roles in internal control; or
    - others where the fraud could have a material effect on the financial statements; and

b) allegations of fraud, or suspected fraud, affecting the Authority's and Group's financial statements communicated by employees, former employees, analysts, regulators or others.

In respect of the above, the Authority acknowledges its responsibility for such internal control as it determines necessary for the preparation of financial statements that are free from material misstatement, whether due to fraud or error. In particular, the Authority acknowledges its responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud and error.

8. The Authority has disclosed to you all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing the financial statements.

9. The Authority has disclosed to you and has appropriately accounted for and/or disclosed in the financial statements, in accordance with IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*, all known actual or possible litigation and claims whose effects should be considered when preparing the financial statements.

10. The Authority has disclosed to you the identity of the Authority's and the Group's related parties and all the related party relationships and transactions of which it is aware. All related party relationships and transactions have been appropriately accounted for and disclosed in accordance with IAS 24 *Related Party Disclosures*.

11. The Authority confirms that:

    a) The financial statements disclose all of the key risk factors, assumptions made and uncertainties surrounding the Authority's and the Group's ability to continue as a going concern as required to provide a true and fair view.

    b) Any uncertainties disclosed are not considered to be material and therefore do not cast significant doubt on the ability of the Authority [and the Group] to continue as a going concern.

12. On the basis of the process established by the Authority and having made appropriate enquiries, the Authority is satisfied that the actuarial assumptions underlying the valuation of defined benefit obligations are consistent with its knowledge of the

business and are in accordance with the requirements of IAS 19 (revised) *Employee Benefits.*

The Authority further confirms that:

a) all significant retirement benefits, including any arrangements that are:
   - statutory, contractual or implicit in the employer's actions;
   - arise in the UK and the Republic of Ireland or overseas;
   - funded or unfunded; and
   - approved or unapproved,

have been identified and properly accounted for; and

b) all plan amendments, curtailments and settlements have been identified and properly accounted for.

This letter was tabled and agreed at the meeting of the Governance and Audit Committee on 24 September 2015.

Yours faithfully,

Alan Cross
Head of Finance

KPMG
cutting through complexity

Draft 17 September

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

Reading Borough Council

24 September 2015

Contents

The contacts at KPMG in connection with this report are:

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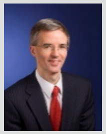

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This report is addressed to the Authority and has been prepared for the sole use of the Authority. We take no responsibility to any member of staff acting in their individual capacities, or to third parties. The Audit Commission issued a document entitled 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 Ian Pennington, 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 Reading Borough Council ('the Authority') in relation to the Authority's 2014/15 financial statements; and
- the work to support our 2014/15 conclusion on the Authority's arrangements to secure economy, efficiency and effectiveness in its use of resources ('VFM conclusion').

Financial statements

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

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

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

VFM conclusion

Our *External Audit Plan 2014/15* explained our risk-based approach to VFM work. We have now completed the work to support our 2014/15 VFM conclusion. This included:

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

Structure of this report

This report is structured as follows:

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

Our recommendations are included in Appendix 1. We have also reviewed your progress in implementing prior recommendations and this is detailed in Appendix 2.

Acknowledgements

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

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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. We will also report that your Annual Governance Statement complies with guidance issued by CIPFA/SOLACE in June 2007.
Audit adjustments	Our audit has identified a total of 6 audit adjustments with a total value of £19.1 million to date. The impact of all of these adjustments is: ▪ No impact on the balance of the general fund and HRA account as at 31 March 2015; ▪ To decrease the surplus on provision of services for the year by £4.4 million; and ▪ To decrease the net worth of the Authority as at 31 March 2015 by £4.7 million. We have included a full list of significant audit adjustments at Appendix 3. The following adjustments have not been amended for by the Authority: ▪ Overstatement of the value of the former Civic Centre site (£3.0 million); ▪ Understatement of provisions (£1.4 million); and ▪ Understatement of debtor with contractor body (£2.1 million) We have raised a number of recommendations in relation to the matters highlighted above, which are summarised in Appendix 1.
Key financial statements audit risks	We identified the following key financial statements audit risk in our 14/15 External audit plan issued in March 2015: ▪ Accounting for LA maintained schools. We have worked with officers throughout the year to discuss this key risk and our detail findings are reported in section 3. There are no matters of significance arising as a result of our audit work in this key risk area. We also identified two areas which we consider to be significant risk areas on all audits: ▪ Management override of controls ▪ Fraud risk of revenue recognition. Our detailed considerations in these areas are also reported in section 3. There are no matters of significance arising as a result of our audit work in these areas.

Headlines

Accounts production and audit process	We have completed the audit process within the planned timescales. The Authority has good processes in place for the production of the accounts and good quality supporting working papers. We have made some recommendations for improving the Authority's controls, including a need to step up bank reconciliation controls, which have fallen behind during the year. (see Appendix 1) The Authority has one outstanding recommendation from a previous ISA 260 report, which is about implementing an improved fixed asset register. This is reiterated in Appendix 2. We note that the Authority has undergone a major ledger upgrade in year and while this impacted on the finance team the Authority delivered accounts within statutory deadlines.
Completion	At the date of this report, our audit of the financial statements is substantially complete subject to completion of the following areas: ■ Bank reconciliation testing ■ Whole of Government Accounts ■ Receipt and review of revised set of financial statements ■ Final engagement lead review of audit work 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 did not identify any specific VFM risks in our *External Audit Plan 2014/15,* issued in March 2015. We have concluded 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.
Elector challenge	We have received notice from a member of the public about questions raised on the Council's accounts. Council officers have recently provided additional information. The amounts are not material to the Council's financial statements, so we expect to be able to issue our audit opinions in line with the expected timetable. We will, however, not be able to issue a certificate of closing the audit until we are satisfied that the elector's questions have been resolved.

Financial Statements
Proposed opinion and audit differences

Our audit has identified a total of 6 audit adjustments to date of which the Authority has corrected 3.

The impact of these 3 adjustments is to:

- **No impact on the balance on the general fund and HRA account as at 31 March 2015**
- **Nil impact on the surplus on the provision of services; and**
- **Decrease the net worth of the Authority as at 31 March 2015 by £0.3 million**

Proposed audit opinion

Subject to all outstanding queries being resolved to our satisfaction, we anticipate issuing an unqualified audit opinion on the Authority's financial statements following approval of the Statement of Accounts by the Audit and Governance Committee on 24 September 2015.

Audit differences

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

The final materiality (see Appendix 5 for more information on materiality) level for this year's audit was set at £8.7 million. Audit differences below £0.4 million are not considered significant.

We did not identify any material misstatements. We identified a number of issues that have not been adjusted by management as they do not have a material effect on the financial statements.

Our audit has identified a total of 6 significant audit differences to date, which we set out in Appendix 3. It is our understanding that 3 of these will be adjusted in the final version of the financial statements.

The tables on the right illustrate the total impact of adjusted audit differences on the Authority's movements on the General Fund and HRA for the year and balance sheet as at 31 March 2015.

The net impact on the General Fund and HRA as a result of audit adjustments which the Authority have made is nil.

Movements on the General Fund and HRA 2014/15

£m	Pre-audit	Post-audit	*Ref (App.3)*
Surplus on the provision of services	(44.2)	(44.2)	*1*
Adjustments between accounting basis & funding basis under Regulations	37.2	(37.2)	-
Transfers to earmarked Reserves	1.9	1.9	-
Increase in General Fund and HRA	**5.1**	**5.1**	

Balance Sheet as at 31 March 2015

£m	Pre-audit	Post-audit	*Ref (App.3)*
Property, plant and equipment	803.7	808.7	*2*
Other long term assets	50.8	50.5	*2. 3*
Current assets	90.1	85.1	*3*
Current liabilities	(78.3)	(78.3)	-
Long term liabilities	(697.0)	(697.0)	-
Net worth	**169.3**	**169.0**	
General Fund and HRA	(27.1)	(27.1)	-
Other usable reserves	(71.1)	(71.1)	-
Unusable reserves	(71.1)	(70.8)	*3*
Total reserves	**(169.3)**	**(169.0)**	

Financial Statements (continued)
Proposed opinion and audit differences

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

In addition to the audit differences described on the previous page, 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 audit risks

In our *External Audit Plan 2014/15*, sent to you in March 2015, we identified one specific significant risk area.

The table sets out our detailed findings on this matter.

Significant audit risk	Issue	Findings
Accounting for Local Authority Maintained Schools	**Risk** LAAP Bulletin 101 *Accounting for School Assets used by Local Authority Maintained Schools* issued in December 2014 has been published to assist practitioners with the application of the Code in this respect. The challenges relate to school assets owned by third parties such as church bodies and made available to school governing bodies under a variety of arrangements. This includes assets used by Voluntary-Aided (VA) and Voluntary-Controlled (VC) Schools as well as Foundation Schools. Authorities will need to review the agreements under which assets are used by VA/VC and Foundation schools and apply the relevant tests of control in the case of assets made available free of charge, or risks and rewards of ownership in the case of assets made available under leases. This is a key area of judgement and there is a risk that Authorities could incorrectly omit school assets from, or include school assets in, their balance sheet. It is important that the Authority looks at schools on a case-by-case basis. Particular risks surround the recognition of Foundation School assets which may or may not be held in Trust. Authorities should pay particular attention to the nature of the relationship between the Trustees and the school governing body to determine whether the school controls the Trust and the assets should therefore be consolidated into their balance sheet. **Our proposed audit work** As part of our audit, we will ensure the Authority is aware of the latest guidance and review the judgements it has made. This will include: ▪ Determining whether the Authority has identified all relevant maintained schools within its area and undertaken a review of the agreements underpinning the use of school assets by VA, VC and Foundation schools; and. ▪ Considering the Authority's application of the relevant accounting standards to account for these schools and challenging its judgements where necessary	We are satisfied that the Authority has identified the relevant schools and has consistently assessed them in line with accounting standards and applied this judgement appropriately in its accounts.

Financial Statements (continued)
Significant audit risks

In our *External Audit Plan 2014/15*, sent to you in March 2015, 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 sets out the outcome of our audit procedures and assessment on these risk areas.

Significant audit risk	Issue
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. 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)
Other key areas of audit focus

In our *External Audit Plan 2014/15*, sent to you in March 2015, we identified five areas of audit focus. These are not considered as significant risks but areas of importance where we would carry out some substantive audit procedures to ensure there is no risk of material misstatement.

The table sets out our detailed findings for each.

Area of audit focus	Issue	Findings
	**Area of focus** The Authority has a significant asset base primarily relating to Council dwellings. The potential for impairment/valuation changes makes this balance inherently risky due to the high level of judgement and estimation uncertainty. **Our audit work** Our work includes: ■ Reviewing management's assessment of property valuations and impairment calculations. ■ Reviewing the information provided to the valuer by the Authority. ■ Comparing the assumptions made by your valuer to benchmarks and to the assumptions used for 2013/14 for consistency. We will also review progress against the asset register update programme.	We consider that the valuation methodology applied to PPE has been appropriate. We do however note that investment properties are not valued annually as required and we have raised a recommendation regarding this in Appendix 1. Our testing of investment properties has identified some instances of property, plant and equipment assets included within investment properties in error. See Appendix 3 for adjustments resulting from this. Our previous recommendation regarding the asset register update programme is still being addressed and we reiterate this recommendation in Appendix 2.

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Financial Statements (continued)
Other key areas of audit focus (continued)

In our *External Audit Plan 2014/15*, sent to you in March 2015, we identified five areas of audit focus. These are not considered as significant risks but areas of importance where we would carry out some substantive audit procedures to ensure there is no risk of material misstatement.

The table sets out our detailed findings for each.

Area of audit focus	Issue	Findings
Cash	**Area of focus** Cash has a pervasive impact on the financial statements and provides comfort for other areas of the financial statements. **Our proposed audit work** Our work includes: ■ Seeking external bank confirmations over account balances; and ■ Reviewing and testing the controls over bank reconciliations.	Our work in this area is ongoing. The Authority has fallen behind in its regular bank reconciliation procedures and we recommend that this very important control is completed in a timely manner on a regular basis. (See Appendix 1)
Pension Costs and Liabilities	**Area of focus** 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. **Our proposed audit work** Our work includes: ■ Reviewing the information provided to the actuary by the Authority; ■ Reviewing actuarial valuation and considering disclosure implications; and ■ Comparing the assumptions made by your actuaries to benchmarks and to the assumptions used for 2013/14 for consistency.	We have reviewed the information contained within actuarial reports. We are satisfied that the basis of valuation is reasonable and that it has been accurately reflected in the Authority's accounts.

Financial Statements (continued)
Other key areas of audit focus (continued)

In our *External Audit Plan 2014/15*, sent to you in March 2015, we identified five areas of audit focus. These are not considered as significant risks but areas of importance where we would carry out some substantive audit procedures to ensure there is no risk of material misstatement.

The table sets out our detailed findings for each.

Area of audit focus	Issue	Findings
Civic Centre	**Area of focus** The Authority have moved to new premises in 2014/15 and are due to incur significant demolition costs relating to the former Civic Centre premises in the near future subject to partner development plans. Where a commitment is made with a contractor for any such works this should be recognised in the accounts. **Our proposed audit work** We will review progress against this scheme and consider whether appropriate disclosure has been made in the accounts both in terms of completeness and basis of estimation. We will also review accounting matters relating to the new premises including fit out costs and associated financing matters to consider whether the basis of calculation is reasonable.	The draft accounts submitted for audit did not include a note on contractual commitments entered into during 2014/15 and the Authority has agreed to include one to reflect matters including the £7 million contract to demolish the former Civic Centre site. The former Civic Centre site is held at a value of £3 million, which reflects the estimated sales proceeds of the land after the buildings have been demolished, but does not make an allowance for the costs of demolition. We have therefore raised an audit difference in Appendix 3 to write the book value of the land down to £nil, which the Authority have elected not to amend. Although the adjustment would reduce the Authority's net assets, there would be no impact on the general fund due to the way that capital transactions are treated.
Equal Pay Provision	**Area of focus** As noted in previous years, the Authority are continuing to progress towards finalisation of this matter. **Our proposed audit work** We will review the basis of the provision at year end (including the continued appropriateness of the model used) with due consideration to changes of facts or circumstances in the year.	There have been no significant changes to facts or circumstances in the year and the Authority continues to work to close this matter down in the medium term. As part of ongoing review it was established that some job role comparators required revision in year and this resulted in an increase in estimated liability. The Council intend to manage the impact of this by building up the provision over the next year with £1.4m budgeted for this in 2015/16. In strict accounting terms this should technically be increased in the current year and we have recorded an unadjusted difference for this matter in Appendix 3.

Financial Statements (continued)
Accounts production and audit process

The Authority has a well established and sound 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
Completeness of draft accounts	We received a complete set of draft accounts on 30 June 2015. The Authority have 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	We issued our *Accounts Audit Protocol* including our required working papers for the audit in March 2015. The quality of working papers provided was high and fully met the standards specified in our *Accounts Audit Protocol*.
Response to audit queries	Officers resolved all audit queries in a timely manner.

Element	Commentary
Group audit	To gain assurance over the Authority's group accounts, we placed reliance on work completed by component auditors on the financial statements of Reading Transport Limited and reviewed the Authority's consolidation work. There are no specific matters to report pertaining to the group audit.

Prior year recommendations

As part of our audit we have specifically followed up the Authority's progress in addressing the recommendations in last years ISA 260 report.

There is one recommendation outstanding.

Appendix 2 provides further details.

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

We have provided a detailed declaration in Appendix 4 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 Head of Finance for presentation to the Audit and Governance 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.

VFM conclusion

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

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

Background

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

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

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

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

Work completed

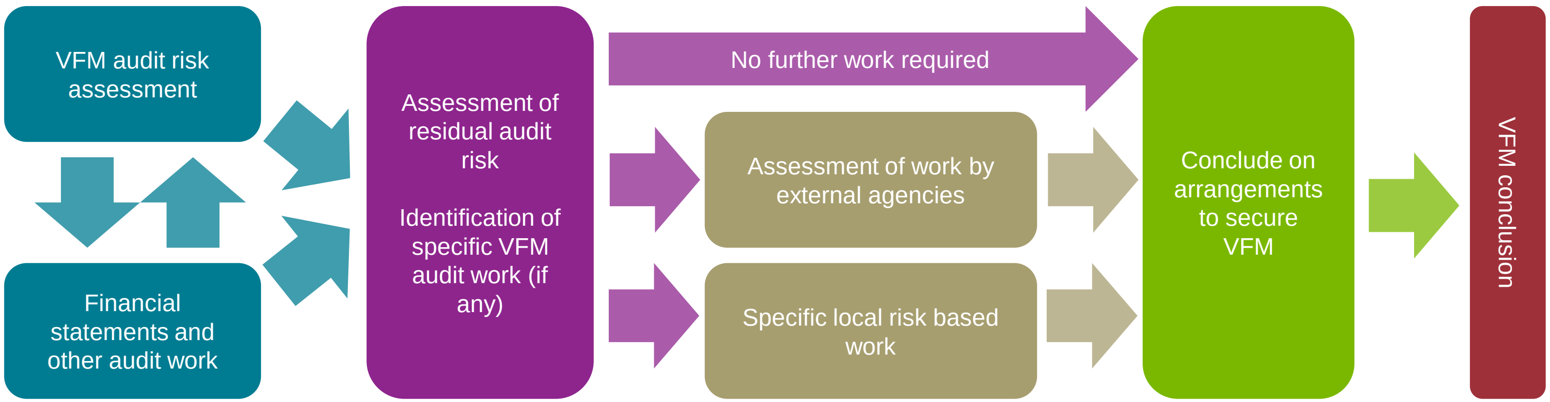
We performed a risk assessment earlier in the year and have reviewed this throughout the year.

We have not identified any significant risks to our VFM conclusion and therefore have not completed any additional work.

Conclusion

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

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



Appendix 1: Key issues and recommendations

We have given each recommendation a risk rating and agreed what action management will need to take.

The Authority should closely monitor progress in addressing specific risks and implementing our recommendations.

We will discuss these recommendations with our successor auditors to ensure that they are followed up next year.

Priority rating for recommendations		
❶ ***Priority one***: issues that are fundamental and material to your system of internal control. We believe that these issues might mean that you do not meet a system objective or reduce (mitigate) a risk.	❷ ***Priority two***: issues that have an important effect on internal controls but do not need immediate action. You may still meet a system objective in full or in part or reduce (mitigate) a risk adequately but the weakness remains in the system.	❸ ***Priority three***: issues that would, if corrected, improve the internal control in general but are not vital to the overall system. These are generally issues of best practice that we feel would benefit you if you introduced them.

No.	Risk	Issue and recommendation	Management response
1	❷	**Management of Investment Property** The Authority holds over £32m of investment properties and from these generated £1.2m of rental income in 2014/15. While this is considered low relative to their value the Authority holds some of these for future disposal and may currently be generating a rental stream. It does not however formally report on their appreciation to assess the effectiveness of these holdings. **Recommendation** We recommend that the Authority reviews its investment property portfolio to distinguish between properties held for income generation and those held for capital appreciation and that it establishes a means of regularly monitoring the position of its investment property portfolio internally.	Investment Property Management The authority is already actively reviewing its property portfolio in the context of the wider financial challenges facing local government. In undertaking such reviews we take account of present income and any opportunities to increase income, as well as the possibility that the property should be sold. Key issues are discussed with the Administration, and brought forward to committee as necessary (as well as the possibility the site may be needed in future for an operational service use).

Appendix 1: Key issues and recommendations

No.	Risk	Issue and recommendation	Management response
2	2	**Revaluation of Investment Property** The Council's accounts are prepared in line with the CIPFA Code of Practice. There is an expectation that the valuation of investment properties remains current, which would typically involve annual revaluation except in the year of purchase or addition. The Authority currently does not revalue these assets every year in line with this requirement. **Recommendation** We recommend that investment properties are valued annually by a qualified valuer.	Frequency of Valuation of Investment Properties We accept that ideally all investment properties should be valued annually. However, pragmatically there are a number (such as shops on housing estates) where valuation changes are de minimis and therefore would propose that all investment properties with a value over £1m should be valued annually. Properties of a lower value may be valued less frequently, with an annual review to consider if there has been a change that in aggregate could cause material mis-statement of the accounts.
3	1	**Bank Reconciliation** Following a significant ledger upgrade in year and a change in bank, the Authority had fallen well behind in the timeliness of collating its summary bank reconciliations by the date of our audit. While the year end reconciliation has now been prepared and individual elements of the reconciliation were maintained in year, it is important that full reconciliations should be completed in a timely manner, in order to identify errors quickly and improve the prospect of putting things right. **Recommendation** We recommend that the Authority returns as soon as possible to completing its bank reconciliations in a timely manner.	Bank Rec As indicated by KPMG, due to both changing banks and making major changes to financial systems, it is accepted that bank reconciliation processes were not up to date at the year end. The team have been working to bring them back up to date, and agree the recommendation, but need to deliver this in the context of available resources.

Appendix 2: Follow up of prior year recommendations

The Authority has not yet implemented all of the recommendations in our *ISA 260 Report 2013/14.*

We re-iterate the importance of the outstanding recommendation and recommend that it is implemented as a matter of urgency.

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

Number of recommendations that were:	
Included in original report	1
Implemented in year or superseded	0
Remain outstanding (re-iterated below)	1

No.	Risk	Issue and recommendation	Officer responsible and due date	Status as at September 2015
1	2	**Maintenance and operation of the fixed asset register** The fixed asset register used by the council is a complex excel spreadsheet that is difficult to understand and requires extensive knowledge of excel and the spreadsheet itself to maintain and operate. Using a spreadsheet for this raises the risk that the correct accounting entries are not produced, and that fixed asset balances can be overwritten or amended incorrectly. Part of the corporate knowledge required to maintain the spreadsheet is retained by a consultant and there are no guidance or process notes in existence, which raises the risk of this knowledge being lost to the council as insufficient information is available for an officer of the council to operate the spreadsheet if the contractor leaves. The IFRS work plan needs to consider whether the asset register will be capable of producing IAS-compliant data. The Authority has been considering investing in specialist asset management software and we would encourage it to do so, to reduce staff time spent managing the spreadsheet, reduce the risk of loss of knowledge and ensure greater transparency in financial reporting with a reduced risk of errors arising.	An asset management system has been procured which the Authority is in the process of implementing. This will have the effect of consolidating a number of existing systems including the excel spreadsheets used for IFRS accounting. Responsible: Chief Technical Accountant Due date: Summer 2016	**Ongoing** Work on this project is underway and the Authority intend to implement this. The due date has been revised accordingly.

Appendix 3: Audit differences

This appendix sets out the significant audit differences identified during the audit for the year ended 31 March 2015.

We are reporting all audit differences over £0.4 million.

It is our understanding that all of these will be adjusted.

We are required by ISA 260 to report all uncorrected misstatements, other than those that we believe are clearly trivial, to those charged with governance (which in your case is the Audit and Governance 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.

Corrected audit differences

The following table sets out the significant audit differences identified by our audit of Reading Borough Council's financial statements for the year ended 31 March 2015. It is our understanding that these will be adjusted. However, we have not yet received a revised set of financial statements to confirm this.

	Impact £'000					
No.	**Income and Expenditure Statement**	**Movement in Reserves Statement**	**Assets**	**Liabilities**	**Reserves**	**Basis of audit difference**
1	Dr Non Specific Grant Income £2,610 Cr Service Income £2,610	-	-	-	-	To reflect the receipt of grant money relating to a specific service which was initially coded to non specific grant income.
2	**-**	**-**	Dr Surplus Assets £5,000 Cr Investment Property £5,000	**-**	**-**	To correct assets misclassified as investment properties.
3	**-**	**-**	Dr Available for Sale Financial Assets £4,728 Cr Cash and Cash Equivalents £5,000		Dr Available for Sale Financial Instruments Reserve £272	To recognise that an item previously held as a cash equivalent meets the definition of an available for sale financial instrument.
	-	**-**	**Cr £272**	**-**	**Dr £272**	**Total impact of adjustments**

Appendix 3: Audit differences (continued)

The cumulative impact of uncorrected audit differences is £4.4 million.

This is below our materiality level of £8.7 million.

Uncorrected audit differences

The following table sets out the uncorrected audit differences identified by our audit of Reading Borough Council's financial statements for the year ended 31 March 2015.

	Impact £'000					
No.	**Income and Expenditure Statement**	**Movement in Reserves Statement**	**Assets**	**Liabilities**	**Reserves**	**Basis of audit difference**
4	Dr Losses on fair value of investment property £3,000	Cr Adjustments between accounting and funding basis £3,000	Cr Investment Properties £3,000	-	Dr Capital Adjustment Account £3,000	The former Civic Centre site is not considered to have a saleable value in its current condition until such time as it is cleared for future development works.
5	Dr Net Cost of Services Expenditure £1,400	Cr Adjustments between accounting and funding basis £1,400	-	Cr Provisions £1,400	Dr Equal pay reserve £1,400	One provision is not held at its anticipated final liability level and should be topped up to this based on the latest Authority estimates. The Authority do not currently operate an equal pay reserve but could do so to mitigate the general fund impact of this adjustment.
6	Cr Net Cost of Services Expenditure £345 Dr Net Cost of Services Income £345	-	Dr Long Term Debtors £1,813 Dr Short Term Debtors £241 Cr Property, Plant & Equipment £2,054	-	-	An immaterial long standing arrangement entered into by the Authority includes an element of borrowing entered into by the Council to enable a car park contractor to carry out capital works and then repay this capital input through a reduction in fees payable to them. The amount repayable should be recognised as a long term debtor rather than through immediate capitalisation.
	Dr £4,400	**Cr £4,400**	**Cr £3,000**	**Cr £1,400**	**Dr £4,400**	**Total impact of uncorrected differences**

Appendix 4: Declaration of independence and objectivity

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

Requirements

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

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

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

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

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

Appointed auditors are also required to confirm in writing that they have complied with Ethical Standards and that, in the auditor's professional judgement, the auditor is independent and the auditor's objectivity is not compromised, or otherwise declare that the auditor has concerns that the auditor's objectivity and independence may be compromised and explaining the actions which necessarily follow from his. These matters should be discussed with the Audit and Governance 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 4: 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 Reading Borough Council for the financial year ending 31 March 2015, we confirm that there were no relationships between KPMG LLP and Reading Borough Council, its directors and senior management and its affiliates that we consider may reasonably be thought to bear on the objectivity and independence of the audit engagement lead and audit staff. We also confirm that we have complied with Ethical Standards and the Public Sector Audit Appointments Ltd requirements in relation to independence and objectivity.

Appendix 5: Materiality and reporting of audit differences

For 2014/15 our materiality is £8.7 million for the Authority's accounts.

We have reported all audit differences over £0.4 million for the Authority's accounts to the Audit and Governance Committee.

Materiality

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

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

We reassessed materiality for the Authority at the start of the final accounts audit based on the draft accounts received.

Materiality for the Authority's accounts was set at £8.7 million 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 Audit and Governance Committee

Whilst our audit procedures are designed to identify misstatements which are material to our opinion on the financial statements as a whole, we nevertheless report to the Audit and Governance 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 £0.4 million for the Authority.

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

Appendix 6: 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.

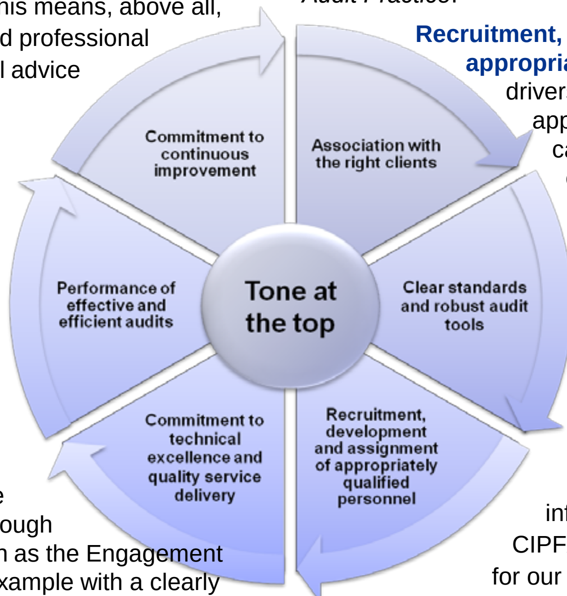
KPMG's Audit Quality Framework consists of seven key drivers combined with the commitment of each individual in KPMG.

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. Ian Pennington as the Engagement Lead sets the tone on the audit and leads by example with a clearly articulated audit strategy and commits a significant proportion of his time throughout the audit directing and supporting the team.

Association with right clients: We undertake rigorous client and engagement acceptance and continuance procedures which are vital to the ability of KPMG to provide high-quality professional services to our clients.

Clear standards and robust audit tools: We expect our audit professionals to adhere to the clear standards we set and we provide a range of tools to support them in meeting these expectations. The global rollout of KPMG's eAudIT application has significantly enhanced existing audit functionality. eAudIT enables KPMG to deliver a highly technically enabled audit. All of our staff have a searchable data base, Accounting Research Online, that includes all published accounting standards, the KPMG Audit Manual Guidance as well as other relevant sector specific publications, such as the Audit Commission's *Code of Audit Practice*.

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

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

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

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

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

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

Appendix 6: KPMG Audit Quality Framework

We continually focus on delivering a high quality audit.

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

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

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

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

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

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

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

Our quality review results

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

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

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