

30 March 2017

## **AUDIT AND STANDARDS COMMITTEE**

A meeting of the Audit and Standards Committee will be held on **TUESDAY 11 APRIL 2017** in the Council Chamber, Ebley Mill, Ebley Wharf, Stroud at **7.00 pm.**



David Hagg  
Chief Executive

**Please Note:** This meeting will be filmed for live or subsequent broadcast via the Council's internet site ([www.stroud.gov.uk](http://www.stroud.gov.uk)). By entering the Council Chamber you are consenting to being filmed. The whole of the meeting will be filmed except where there are confidential or exempt items, which may need to be considered in the absence of the press and public.

### **AGENDA**

1. **APOLOGIES**  
To receive apologies for absence.
2. **DECLARATIONS OF INTEREST**  
To receive declarations of interest.
3. **MINUTES**  
To approve the minutes of the meeting held on 7 February 2017.
4. **PUBLIC QUESTION TIME**  
The Chair of Committee will answer questions from members of the public submitted in accordance with the Council's procedures.  
**DEADLINE FOR RECEIPT OF QUESTIONS**  
**Noon on THURSDAY 6 APRIL 2017.**  
Questions must be submitted in writing to the Chief Executive, Democratic Services, Ebley Mill, Ebley Wharf, Stroud and sent by post or by Email: [democratic.services@stroud.gov.uk](mailto:democratic.services@stroud.gov.uk).
5. **WORK PROGRAMME**  
To consider the work programme.

6. **ANTI FRAUD AND CORRUPTION POLICY STATEMENT AND STRATEGY (INCLUDING ANTI BRIBERY POLICY AND ANTI MONEY LAUNDERING POLICY) 2017-2019**  
To approve the Anti Fraud and Corruption Policy Statement and Strategy (including Anti Bribery Policy and Anti Money Laundering Policy) 2017-2019, to be effective from 1 April 2017.
7. **RISK MANAGEMENT POLICY 2017 - 2020**  
To consider the proposed revision to risk management and to approve the new policy.
8. **INTERNAL AUDIT ACTIVITY PROGRESS REPORT 2016/17**  
To inform Members of the Internal Audit activity progress in relation to the approved Internal Audit Plan 2016/17.
9. **RISK BASED INTERNAL AUDIT PLAN 2017-18**  
To approve the Annual Risk Based Internal Audit Plan 2017/18.
10. **AUDIT AND STANDARDS COMMITTEE ANNUAL REPORT 2016-17**  
To agree the Audit and Standards Committee Annual Report 2016-2017 and recommend approval to Council.
11. **EXTERNAL AUDIT PLAN 2016-17**  
To receive the External Audit Plan 2016-17 from the Council's external auditors KPMG.
12. **MEMBERS' QUESTIONS**  
See Agenda Item 4 for deadline for submission.

#### **Members of Audit and Standards Committee**

Councillor Nigel Studdert-Kennedy (Chair)  
Councillor Rachel Curley (Vice Chair)  
Councillor Martin Baxendale  
Councillor Stephen Davies  
Councillor Colin Fryer

Councillor Keith Pearson  
Councillor Mark Reeves  
Councillor Tom Williams  
Councillor Penny Wride

## AUDIT AND STANDARDS COMMITTEE

7 February 2017

7.00 pm – 8.16 pm

Council Chamber, Ebley Mill, Stroud

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### Minutes

#### Membership

Councillor Nigel Studdert-Kennedy (Chair)	P	Councillor Keith Pearson	P
Councillor Rachel Curley (Vice-Chair)	P	Councillor Mark Reeves	P
Councillor Martin Baxendale	P	Councillor Tom Williams	P
Councillor Stephen Davies	P	Councillor Penny Wride	P
Councillor Colin Fryer	P		

A = Absent P = Present

#### Officers in attendance

Accountancy Manager  
Principal Accountant  
KPMG

Head of Audit Risk Assurance  
Democratic Services Officer

#### **AC.038**

#### **APOLOGIES**

There were none.

#### **AC.039**

#### **DECLARATIONS OF INTEREST**

There were none.

#### **AC.040**

#### **MINUTES**

#### **RESOLVED**

**That the Minutes of the meeting held on 22 November 2016, are approved as a correct record.**

#### **AC.041**

#### **PUBLIC QUESTION TIME**

There were none.

#### **AC.042**

#### **WORK PROGRAMME**

Members discussed the current work programme:

- Update on the Off Street Car Park audit – work is ongoing and will be presented to the meeting on 11 April 2017.

- HRA Balances Internal Audit follow-up reviews. The Head of Audit Risk Assurance explained that ongoing independent assurance is given to Committee and;
  - A progress update will be given to Committee on 11 April 2017.
  - A further follow up review to be presented to Committee in September.
- ICT Strategy and spending - an update to be given to Committee on 11 April 2017 and progress updates to be put on the work programme for the new civic year.

**RESOLVED**                    **To note the work programme.**

**AC.043**                                    **ANNUAL SUMMARY OF CERTIFICATION OF GRANT CLAIMS AND RETURNS 2015/16**

KPMG presented the report and explained the summary of their findings, which included:

- Housing benefit returns,
- HCA compliance returns
- Pooling of Housing Capital Receipts
- Decent Homes Backlog funding

Members were questioning the qualification test for the pooling of housing capital receipts which related back to 1999 valuations. Officers will do some research with other authorities.

**RESOLVED**                    **To note the report.**

**AC.044**                                    **THIRD QUARTER TREASURY MANAGEMENT ACTIVITY REPORT 2016/17**

The Principal Accountant presented the report and gave an explanation on the tables, which give updates on treasury management activity as at 31 December 2016.

**RESOLVED**                    **To approve the treasury management activity third quarter report for 2016/17.**

**AC.045**                                    **TREASURY MANAGEMENT STRATEGY, ANNUAL INVESTMENT STRATEGY AND MINIMUM REVENUE PROVISION POLICY STATEMENT 2017/18**

The Principal Accountant presented the report which fulfils three key requirements of the LGA 2003. Amongst other things, the report sets out the prudential indicators for 2017/18-2019/20 for approval. The current and planned borrowing position of the General Fund and HRA was highlighted.

**RESOLVED**                    **To give the Accountancy Manager delegated authority to amend Table 1 and other interrelated tables should Council on 9 February approve an amended capital programme to that assumed in this report.**

**RECOMMENDED  
TO COUNCIL**

1. To adopt the prudential indicators and limits for 2017/18 to 2019/20;
2. To approve the treasury management strategy 2017/18, and the treasury prudential indicators;
3. To approve the investment strategy 2017/18, and the detailed criteria for specified and non-specified investments; and To approve the Minimum Revenue Policy Statement 2017/18.

**AC.046****ANNUAL GOVERNANCE STATEMENT 2015/16  
IMPROVEMENT PLAN – PROGRESS REPORT**

The Head of Audit Risk Assurance presented the report which identifies improvement areas and the actions put in place to addresses these issues.

**RESOLVED**

**That Committee has reviewed and considered the actions taken to address the governance improvement areas identified.**

**AC.047****INTERNAL AUDIT ACTIVITY PROGRESS REPORT 2016/17**

The Head of Audit Risk Assurance presented her report which informed members of the internal audit activity progress in relation to the approved Internal Audit Plan 2016/2017.

Members discussed the following issues:

- Council tax and business rates DD payments – an internal audit review will be undertaken as part of the 2017/18 audit plan and will be completed by May 2017. The review outcomes will be provided to the Committee.
- ICT concerns and risks. Officers will be working with ICT to identify the risks.
- Business Continuity.
- Corporate procedure on Radon.

**RESOLVED**

**To accept:**

1. **The progress against the Internal Audit Plan 2016/17; and**
2. **The assurance opinions provided in relation to the effectiveness of the Council's control environment comprising risk management, control and governance arrangements as a result of the Internal Audit activity completed to date.**

**AC.048****MEMBER QUESTIONS**

There were none.

The meeting closed at 8.16 pm.

Chair

**STROUD DISTRICT COUNCIL**  
**AUDIT AND STANDARDS COMMITTEE**

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**11 APRIL 2017**

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**WORK PROGRAMME**

1. In anticipation of the next civic year, the Committee is invited to start planning its annual work programme. It can add/subtract to the programme at each meeting.
2. Although the programme needs to include matters which have to be considered as a matter of law, the content of the programme should be driven by the Committee. The items listed below in Table 1, are those which Democratic Services has been informed will need to be considered; undoubtedly there are other matters to be added (e.g. Annual Governance Statement, Treasury Management Reports and External Audit Reports).
3. For the avoidance of doubt Table 2 below records the Committee's Information Sheets which have been circulated to all Members and which are available on the Hub / Council website.

**Table 1 – Preliminary work programme for 2017/18**

<b>Proposed Meeting Date</b>	<b>Report Description</b>	<b>Responsible Officer / Member</b>
4 July 2017	Work Programme for 2017/18	Chair
	Review of Procurement	Principal Procurement Officer / Legal Services Manager
	HRA Balances – Audit Update	Head of Audit
12 Sept 2017	Annual Code of Conduct / Standards Update (this may be via an Information Sheet if no decision is required)	Legal Services Manager
28 Nov 2017	Partnership Update	Head of Audit
	Annual Audit Letter	External Audit
6 Feb 2018		
10 Apr 2018	Annual Review of the Committee	Chair

**Table 2 - Information sheets relevant to the Committee**

<b>Date sent &amp; (Ref No)</b>	<b>Topic</b>	<b>Responsible Officer</b>
22 Nov 2016 AS-2016/17-002	Internal Audit Information Sheet – <ul style="list-style-type: none"> <li>• Internal Audit Activity Progress 2016/17</li> <li>• Anti-Fraud and Corruption Policy Statement and Strategy</li> </ul>	Head of Audit
24 Jan 2017- SR2016/17-002	Review of Council Tax and Business Rates Direct Debit Payment Issues	Strategic Head (Customer Services)
Pending	Review of the Procurement Action Plan	Principal Procurement Officer / Legal Services Manager
Pending	Update on Brimscombe Port	Head of Asset Management

## AUDIT AND STANDARDS COMMITTEE

11 APRIL 2017

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<b>Report Title</b>	<b>ANTI FRAUD AND CORRUPTION POLICY STATEMENT AND STRATEGY (INCLUDING ANTI BRIBERY POLICY AND ANTI MONEY LAUNDERING POLICY) 2017-2019</b>
<b>Purpose of Report</b>	To propose a refreshed Anti Fraud and Corruption Policy Statement and Strategy (including Anti Bribery Policy and Anti Money Laundering Policy) 2017-2019, to be effective from 1st April 2017.
<b>Decision(s)</b>	That the Committee <b>RESOLVES</b> to approve the Anti Fraud and Corruption Policy Statement and Strategy (including Anti Bribery Policy and Anti Money Laundering Policy) 2017-2019.
<b>Consultation and Feedback</b>	Corporate Team, relevant professional disciplines within Stroud District Council (SDC) and Audit, Risk Assurance.
<b>Financial Implications and Risk Assessment</b>	<p>There are no financial implications arising directly from this report.</p> <p>Non compliance with legislation/mandatory professional standards/Codes of Practice.</p> <p>Failure to fight fraud and implement an effective Anti Fraud and Corruption culture means that for every pound lost through fraud cannot be spent on providing public services.</p> <p>David Stanley, S 151 Officer Tel: 01453 754100 Email: <a href="mailto:david.stanley@stroud.gov.uk">david.stanley@stroud.gov.uk</a></p>
<b>Legal Implications</b>	<p>There are no specific legal implications.</p> <p>Karen Trickey, Legal Services Manager and Monitoring Officer Tel: 01453 754369 Email: <a href="mailto:karen.trickey@stroud.gov.uk">karen.trickey@stroud.gov.uk</a></p>
<b>Report Author</b>	<p>Theresa Mortimer Head of Audit Risk Assurance (ARA) (Chief Internal Auditor) Tel: 01453 754111 Email: <a href="mailto:theresa.mortimer@stroud.gov.uk">theresa.mortimer@stroud.gov.uk</a></p>
<b>Options</b>	The adoption of the Anti Fraud and Corruption Policy Statement and Strategy (including Anti Bribery Policy and Anti Money Laundering Policy) 2017-2019 will reaffirm an effective anti fraud and corruption culture within the Council.
<b>Performance Management Follow</b>	The implementation of the Anti Fraud and Corruption Policy Statement and Strategy (including Anti Bribery

<b>Up</b>	Policy and Anti Money Laundering Policy) 2017-2019 will be monitored by Corporate Team and the Audit and Standards Committee.
<b>Background Papers/ Appendices</b>	Appendix A - Anti Fraud and Corruption Policy Statement and Strategy, Anti Bribery Policy and Anti Money Laundering Policy 2017 – 2019.

## 1.0 Background

### **Fighting Fraud and Corruption Locally – The Local Government Counter Fraud and Corruption Strategy 2016 – 2019**

Fraud has a serious impact on all parts of the economy and costs the UK in the region of £193 billion per year. The cost of fraud to the public sector is estimated at £37.5 billion a year. This is money that could be used for local services.

Radical changes continue as to how local services are to be delivered. All of these changes are happening against a backdrop of depressed economic activity in which the general fraud risk tends to increase. Harder times tend to lead to an increased motivation to defraud by some clients, suppliers and employees who are feeling the squeeze.

These factors suggest that this is the time to review the approach to tackle fraud against the Council and reaffirm the arrangements to ensure that Stroud District Council (SDC) has a resilient response to the changed conditions.

## 2.0 Fraud Governance within SDC

The Council will not tolerate fraud and corruption in the administration of its responsibilities, whether internal or external and this is published in the Council's Financial Regulations (under Financial Regulation C.5 - Preventing Fraud and Corruption). SDC's Audit and Standards Committee's specific role regarding fraud is to monitor the adequacy and effectiveness of the arrangements in place for combating fraud and corruption.

In addition, where known, the Council's Chief Internal Auditor will ensure that the Audit and Standards Committee, the Chief Executive, Chief Financial Officer and the Monitoring Officer are made aware of all irregularities and cases. External Audit also annually assesses the effectiveness of the Council's anti fraud and corruption arrangements.

## 3.0 Proposals

In order to further enhance our current arrangements, Internal Audit is proposing the attached revised Anti Fraud and Corruption Policy Statement and Strategy, Anti Bribery Policy and Anti Money Laundering Policy 2017 - 2019, which has been developed in line with revised national public sector codes of practice. Once approved, the strategy will be promoted via a communications plan, alongside the latest whistleblowing policy, within the Employee Handbook, to raise awareness and help us to further reduce the risk of fraud within SDC.



**STROUD DISTRICT COUNCIL**  
**AUDIT AND STANDARDS COMMITTEE**

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<b>Report Title</b>	<b>RISK MANAGEMENT POLICY 2017 – 2020</b>
<b>Purpose of Report</b>	To consider the proposed revision to risk management and to approve the new policy
<b>Decision</b>	<b>To RESOLVE to adopt the Risk Management Policy set out in Appendix A</b>
<b>Consultation and Feedback</b>	Corporate Team (including Acting Section 151 Officer), Principal Procurement Officer and Head of Audit Risk Assurance.
<b>Financial Implications and Risk Assessment</b>	The Acting Section 151 Officer had advised verbally that there are no significant financial implications to report beyond those addressed in the report. He will update the Committee at its meeting should he subsequently conclude otherwise.
<b>Report Author</b>	Karen Trickey, Legal Services Manager & Monitoring Officer Tel: 01453 754133 Email: <a href="mailto:karen.trickey@stroud.gov.uk">karen.trickey@stroud.gov.uk</a>
<b>Options</b>	To make alternative changes or none to the existing policy - see <a href="https://intranet.stroud.gov.uk/UMBS61/media/212063/RM%20Policy%20March%202014.pdf">https://intranet.stroud.gov.uk/UMBS61/media/212063/RM%20Policy%20March%202014.pdf</a>
<b>Background Papers / Appendices</b>	Appendix A – Risk Management Policy 2017 - 2020

**1. BACKGROUND**

- 1.1. The existing risk management policy was last updated in March 2014. The current procedures for managing risk have been in place since January 2013.
- 1.2. A thorough review of the Council's current policy and procedures has been undertaken by the Legal Services Manager, Principal Procurement Officer and Head of Audit Risk Assurance. As a consequence of their findings, it is recommended that the policy and strategy is significantly revised. This report outlines the changes proposed. The proposed policy and strategy is contained in Appendix A.

**2. RISK MANAGEMENT REVIEW FINDINGS**

- 2.1 The review has indicated that there is considerable room for the robustness of the register to be improved. For example, it is important that the register includes all key strategic or operational risks; all recorded risks are regularly reviewed and entries kept up to date; and all key risks include action plans to mitigate or remove the relevant risk. This type of approach is not apparent throughout the current register.

2.2 The approach to risk management to date has been to have a single risk appetite level for the whole Council (i.e. a risk score of eight or above). This does not recognise that the Council may need to have different levels of risk appetite for different areas of work. Given that the Council must make substantial savings over the coming three years, it would seem sensible to ensure the risk appetite for a particular service area reflects its contribution to the corporate priorities set by Council, enabling resources to be apportioned accordingly.

### **3. NEW POLICY**

3.1 The proposed new risk management policy is high level, setting out a strategic approach. It provides an overall framework for risk management which should address the weaknesses within the current system. If approved, it will be complemented with a new toolkit which will provide a far more practical working guide for officers than the existing policy document to encourage a complete review of the current risk register. The toolkit will provide clearer guidance on how to identify, describe, assess risk and determine risk appetite for the particular risk. The toolkit will also promote the development of mitigation plans in appropriate cases and encourage them to be monitored. Internal Audit and Legal Services are working to produce the toolkit over the next few weeks. The toolkit will be regularly updated with reference to changes in good practice.

3.2 It is proposed to update the Committee on the progress with the toolkit over the coming two months. Pending the committee's next review of the effectiveness of risk management, the performance monitoring Member Champions for each committee should regularly report on the effectiveness of the revised approach to risk management within their respective service areas.

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<b>Report Title</b>	<b>INTERNAL AUDIT ACTIVITY PROGRESS REPORT 2016/17</b>
<b>Purpose of Report</b>	To inform Members of the Internal Audit activity progress in relation to the approved Internal Audit Plan 2016/17.
<b>Decisions(s)</b>	The Committee <b>RESOLVES:</b> <ul style="list-style-type: none"> <li>• To accept the progress against the Internal Audit Plan 2016/17; and</li> <li>• To accept the assurance opinions provided in relation to the effectiveness of the Council's control environment comprising risk management, control and governance arrangements as a result of the Internal Audit activity completed to date.</li> </ul>
<b>Consultation and Feedback</b>	Internal Audit findings are discussed with Service Heads/Managers. Management responses to recommendations are included in each assignment report.
<b>Financial Implications and Risk Assessment</b>	There are no financial implications arising from the report.  David Stanley Accountancy Manager Tel: 01453 754100 Email: <a href="mailto:david.stanley@stroud.gov.uk">david.stanley@stroud.gov.uk</a>  Risk Assessment:  Failure to deliver an effective Internal Audit service will prevent an independent, objective assurance opinion from being provided to those charged with governance that the key risks associated with the achievement of the Council's objectives are being adequately controlled.
<b>Legal Implications</b>	This report is provided for information, as such there are no legal implications to highlight to the committee.  Karen Trickey, Legal Services Manager and Monitoring Officer Tel: 01453 754369 Email: <a href="mailto:karen.trickey@stroud.gov.uk">karen.trickey@stroud.gov.uk</a>

<b>Report Author</b>	Theresa Mortimer Head of Audit Risk Assurance (Chief Internal Auditor) Tel: 01453 754111 Email: <a href="mailto:theresa.mortimer@stroud.gov.uk">theresa.mortimer@stroud.gov.uk</a>
<b>Options</b>	There are no alternative options that are relevant to this matter.
<b>Performance Management Follow Up</b>	In accordance with the Public Sector Internal Audit Standards (PSIAS) and reflected within the Audit and Standards Committee work programme, Internal Audit reports on progress against the approved Internal Audit Plan 2016/17.
<b>Background Papers/ Appendices</b>	<b>Appendix A</b> – Internal Audit activity progress report 2016/17.  <b>Background papers:</b> <ul style="list-style-type: none"> <li>➤ Internal Audit Plan 2016/17;</li> <li>➤ PSIAS; and the</li> <li>➤ CIPFA Local Government Application Note for the UK PSIAS.</li> </ul>

## 1.0 Background

1.1 Members approved the Internal Audit Plan 2016/17 at the 5<sup>th</sup> April 2016 Audit and Standards Committee meeting. In accordance with the Public Sector Internal Audit Standards 2016 (PSIAS), this report (through **Appendix A**) details the outcomes of Internal Audit work carried out in accordance with the approved Plan.

1.2 The Internal Audit activity progress report 2016/17 at **Appendix A** summarises:

- The progress against the 2016/17 Internal Audit Plan, including the assurance opinions on the effectiveness of risk management and control processes;
- The outcomes of the Internal Audit activity during the period January to March 2017;
- Special investigations/counter fraud activity; and
- The Housing Revenue Account (HRA) balances internal audit follow up review report.

**STROUD DISTRICT COUNCIL**  
**AUDIT AND STANDARDS COMMITTEE**

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ITEM NO**

**11 APRIL 2017**

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<b>Report Title</b>	<b>RISK BASED INTERNAL AUDIT PLAN 2017/2018</b>
<b>Purpose of Report</b>	To present to Members, for their consideration and approval the Annual Risk Based Internal Audit Plan 2017/18.
<b>Decisions(s)</b>	The Committee <b>RESOLVES</b> to approve the Annual Risk Based Internal Audit Plan 2017/18 as detailed in Appendix A.
<b>Consultation and Feedback</b>	The Corporate Team and Service Managers have been consulted on the proposed Plan for 2017/18. The timing of audit work will be planned in conjunction with the appropriate managers to minimise abortive work and time.
<b>Financial Implications and Risk Assessment</b>	<p>There are no financial implications from this report. The planned audit days are in line with the budget available.</p> <p>David Stanley S151 Officer Tel: 01453 754100 Email: <a href="mailto:david.stanley@stroud.gov.uk">david.stanley@stroud.gov.uk</a></p> <p>The organisation is responsible for establishing and maintaining appropriate risk management processes, control systems, accounting records and governance arrangements. Internal Audit, through the delivery of the Risk Based Annual Audit Plan, plays a vital part in independently and objectively advising the organisation that these arrangements are in place and operating effectively.</p>
<b>Legal Implications</b>	<p>There are no legal implications arising from the approval of the audit plan recommended in this report.</p> <p>Karen Trickey, Legal Services Manager and Monitoring Officer Tel: 01453 754369 Email: <a href="mailto:karen.trickey@stroud.gov.uk">karen.trickey@stroud.gov.uk</a></p>
<b>Report Author</b>	<p>Theresa Mortimer Head of Audit Risk Assurance (Chief Internal Auditor) Tel: 01453 754111 Email: <a href="mailto:theresa.mortimer@stroud.gov.uk">theresa.mortimer@stroud.gov.uk</a></p>

<b>Options</b>	The Public Sector Internal Audit Standards (PSIAS) 2016 require the Chief Internal Auditor to produce an Annual Risk Based Internal Audit Plan to determine the priorities of the internal audit activity. The lack of such a Plan would lead to non-compliance with these Standards.
<b>Performance Management Follow Up</b>	In accordance with the PSIAS and reflected within the Audit and Standards Committee work programme, Internal Audit reports on progress against the approved Internal Audit Plan 2017/18. These are scheduled to be presented to the Audit and Standards Committee at the September 2017, November 2017, February 2018 and April 2018 meetings.
<b>Background Papers/ Appendices</b>	<b>Appendix A</b> – Annual Risk Based Internal Audit Plan 2017/18

## Background

1. The work of Internal Audit is carried out in accordance with, and is assessed against, the Public Sector Internal Audit Standards (PSIAS) 2016. These Standards require the Chief Internal Auditor to produce an Annual Risk- Based Internal Audit Plan to determine the priorities of the internal audit activity. The proposed activity should be consistent with the organisation's priorities and objectives and taking into account the organisation's risk management framework, including risk appetite levels set by management and internal audit's own judgement of risks.
2. To ensure that an effective Plan was developed, a consultation process took place with The Audit and Standards Committee, Corporate Team and Service Managers to establish priorities. The proposed activity from all sources was collated and matched against the internal audit resources available and prioritised accordingly.
3. The Audit Plan is stated in terms of estimated days input to the Council of **515** audit days, which is comparable to 2016/2017. By continuing to apply risk based internal audit planning principles; this level of input, with the ability to commission internal audit resources from current audit framework agreements as required, is considered acceptable to provide the assurance the Council needs. The Chief Internal Auditor will however, continue to reassess internal audit resources required against the Council's priorities and risks and will amend the Plan throughout the year as required, reporting any key changes to the Audit and Standards Committee. The PSIAS also require the Annual Risk Based Internal Audit Plan to be reviewed and approved by the appropriate body which in the case of Stroud District Council is the Audit and Standards Committee.

**STROUD DISTRICT COUNCIL**  
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**11 APRIL 2017**

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<b>Report Title</b>	<b>AUDIT AND STANDARDS COMMITTEE ANNUAL REPORT 2016/17</b>
<b>Purpose of Report</b>	<p>The Annual Report summarises the activities of the Audit and Standards Committee during 2016/17 and sets out its plans for the next twelve months.</p> <p>This report provides Council with an independent assurance that the Council has in place adequate and effective governance, risk management and internal control frameworks; internal and external audit functions and financial reporting arrangements that can be relied upon and which contribute to the high corporate governance standards that this Council expects and maintains.</p>
<b>Decision(s)</b>	<p>That the Audit and Standards Committee:</p> <p>a) <b>RESOLVE</b> to agree the Audit and Standards Committee Annual Report 2016/17; and</p> <p>b) <b>RECOMMEND</b> to Council the Annual report is approved.</p>
<b>Consultation and Feedback</b>	All Members of the Audit and Standards Committee have been consulted on the report content.
<b>Financial Implications and Risk Assessment</b>	<p>There are no further financial implications arising from this report.</p> <p>David Stanley S151 Officer Tel: 01453 754100 Email: <a href="mailto:david.stanley@stroud.gov.uk">david.stanley@stroud.gov.uk</a></p> <p><b>Risk Assessment:</b></p> <p>Audit committees are a key component of an authority's governance framework.</p> <p>The Audit and Standards Committee's Annual Report is part of the overall internal control arrangements and risk management process. By examining and evaluating objectively the adequacy of the control environment through the reports it receives the Committee can, in turn,</p>

<b>Risk Assessment Cont'd/...</b>	provide assurances to Council on its governance, risk management and internal control frameworks; internal and external audit functions and financial reporting arrangements that inform the Annual Governance Statement.
<b>Legal Implications</b>	The report is a review of the work of the Audit and Standards Committee principally for information and does not raise any material legal implications.  Karen Trickey, Legal Services Manager and Monitoring Officer Tel: 01453 754133 Email: <a href="mailto:karen.trickey@stroud.gov.uk">karen.trickey@stroud.gov.uk</a>
<b>Report Author</b>	Theresa Mortimer, Head of Audit Risk Assurance Tel: 01453 754111 Email: <a href="mailto:theresa.mortimer@stroud.gov.uk">theresa.mortimer@stroud.gov.uk</a>
<b>Chair of Committee</b>	Councillor Nigel Studdert-Kennedy Chair of Audit and Standards Committee Tel: 01453 821491 Email: <a href="mailto:cllr.nigel.studdert-kennedy@stroud.gov.uk">cllr.nigel.studdert-kennedy@stroud.gov.uk</a>
<b>Options</b>	Consideration has been given to not producing an Annual Report, however this has been discounted because recommended practice from both the public and private sectors indicates that an audit committee should report directly to the governing body of the organisation. In the case of a local authority, the full Council.
<b>Performance Management Follow Up</b>	In accordance with recommended practice the Audit and Standards Committee will continue to present an Annual Report to Council.
<b>Background Papers/ Appendices</b>	Appendix A – Audit and Standards Committee Annual Report 2016/2017.  Relevant public reports presented to the Audit and Standards Committee during 2016/2017 and minutes of those meetings can be found at <a href="https://www.stroud.gov.uk/council/meetings/audit-standards-committee">https://www.stroud.gov.uk/council/meetings/audit-standards-committee</a> .

## 1.0 Background

- 1.1 Stroud District Council is responsible for ensuring that its business is conducted in accordance with the law and proper standards and that public money is safeguarded, properly accounted for and used economically, efficiently and effectively. In discharging this overall responsibility, the Council is responsible for putting in place the proper arrangements for the governance of its affairs.
- 1.2 A sound corporate governance framework involves accountability to service users, stakeholders and the wider community, within which the Council takes decisions and leads and controls its functions to achieve stated objectives and



priorities. It thereby provides an opportunity to demonstrate the positive elements of the Council's business and to promote public confidence.

- 1.3 Audit Committees are widely recognised as a core component of effective governance. Their key role is independently overseeing and assessing the internal control environment, comprising governance, risk management and control and advising the Council on the adequacy and effectiveness of these arrangements.
- 1.4 In response to the above, the Audit and Standards Committee was established in September 2009 in line with guidance issued by the Chartered Institute of Public Finance and Accountancy (CIPFA). This guidance recommends that audit committees should prepare an annual report to the full Council, which sets out the Committee's work on how they have discharged their responsibilities.
- 1.5 The Annual Report attached at **Appendix A** details the work and achievements of the Audit and Standards Committee during 2016/17 and sets out its plans for the next twelve months.



# External Audit Plan 2016/2017

**Stroud District Council**

**March 2017**

# The Local Government Landscape



## Financial Statement Audit



The main change to the Code of Practice on Local Authority Accounting in 2016/17 relates to the format of the Comprehensive Income & Expenditure Statement (see page 6) and introduction of a new primary statement (the Expenditure and Funding Analysis) which will result in a significant change to the presentation of the accounts. There are no significant changes to the underlying accounting framework that the Authority needs to comply with.

### Materiality

Materiality for planning purposes has been based on last year's expenditure and set at **£1.5m**.

We are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance and this has been set at **£75,000**.

### Significant risks

Those risks requiring specific audit attention and procedures to address the likelihood of a material financial statement error have been identified as:

- Significant changes in the pension liability due to LGPS Triennial Valuation; and
- Management override of controls

### Other areas of audit focus

Those risks with less likelihood of giving rise to a material error but which are nevertheless worthy of audit understanding have been identified as:

- Fair value of property; and
- Restatement of Comprehensive Income & Expenditure Statement.

**See pages 3 to 7 for more details.**

## Value for Money Arrangements work



Our initial risk assessment regarding your arrangements to secure value for money have identified the following VFM significant risks:

- Achievement of the savings plan; and
- Contract procurement
- **See pages 8 to 12 for more details.**

## Logistics



Our team is:

- Darren Gilbert - Director
- Matthew Arthur – Senior Manager
- Ming Hui Ng – In-charge

More details are on **page 15**.

Our work will be completed in four phases from December to September and our key deliverables are this Audit Plan and a Report to those charged with Governance as outlined on **page 14**.

Our PSAA fee for the audit is £51,975 (£53,886 2015/2016). This may be subject to variation due to specific audit issues this year - see **page 13**.

## Background and Statutory responsibilities

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

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

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

- *Financial statements (including the Annual Governance Statement)*: Providing an opinion on your accounts; and
- *Use of resources*: Concluding on the arrangements in place for securing economy, efficiency and effectiveness in your use of resources (the value for money conclusion).

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

## Acknowledgements

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

## Financial Statements Audit

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



## Value for Money Arrangements Work

Our Value for Money (VFM) Arrangements Work follows a five stage process which is identified below. Page 8 provides more detail on the activities that this includes. This report concentrates on explaining the VFM approach for the 2016/17.





## Financial Statements Audit Planning

Our planning work takes place during December 2016 to February 2017. This involves the following key aspects:

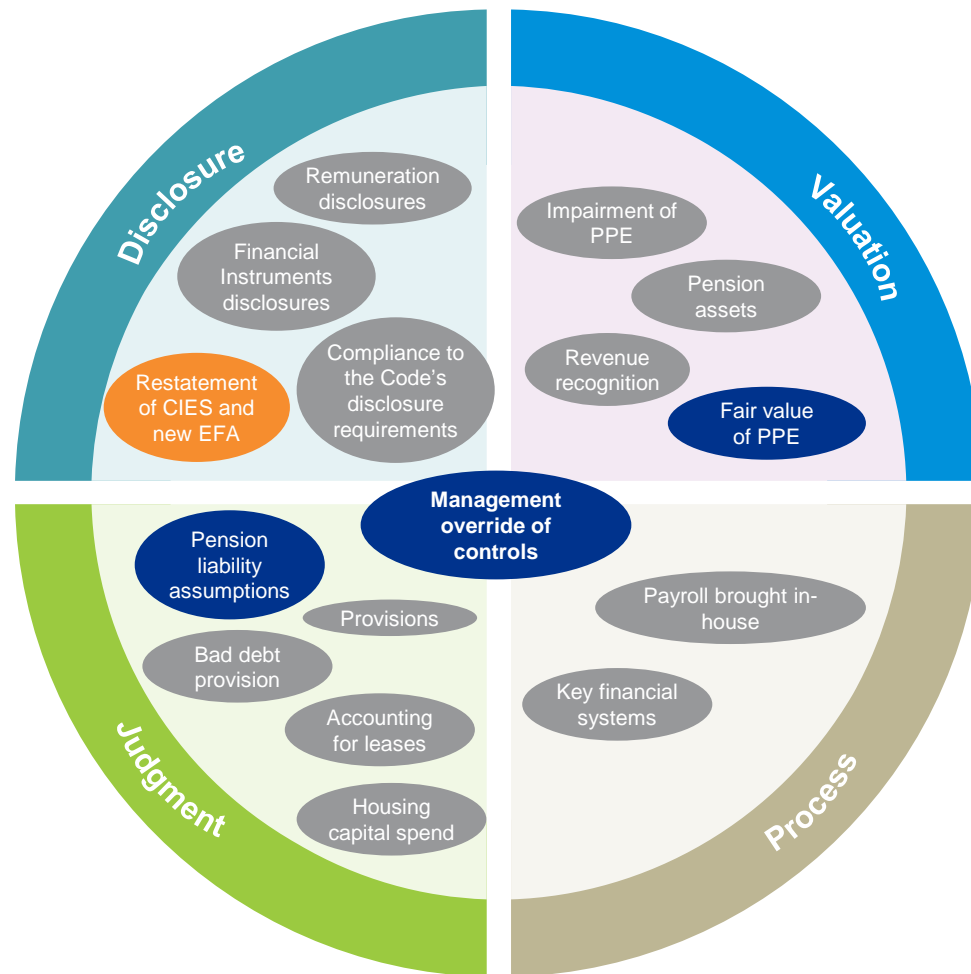
- Risk assessment;
- Determining our materiality level; and
- Issuing this audit plan to communicate our audit strategy.

### Risk assessment

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

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

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



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



## Significant Audit Risks

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

### **Risk: Significant changes in the pension liability due to LGPS Triennial Valuation**

During the year, the Local Government Pension Scheme which is administered by Gloucestershire County Council (the Pension Fund) has undergone a triennial valuation with an effective date of 31 March 2016 in line with the Local Government Pension Scheme (Administration) Regulations 2013. The Authority's share of pensions assets and liabilities is determined in detail, and a large volume of data is provided to the actuary in order to carry out this triennial valuation.

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

There is a risk that the data provided to the actuary for the valuation exercise is inaccurate and that these inaccuracies affect the actuarial figures in the accounts. Most of the data is provided to the actuary by Gloucestershire County Council, which administers the Pension Fund.

**Approach:** As part of our audit, further to our usual procedures over pension balances, we will agree any data provided by the Authority to the actuary relating to the triennial valuation, back to the relevant systems and reports from which it was derived, in addition to checking the accuracy of this data.

We will also liaise with Grant Thornton, who are the auditors of the Pension Fund, where this data was provided by the Pension Fund on the Authority's behalf to check the completeness and accuracy such data.



## Other areas of audit focus

Those risks with less likelihood of giving rise to a material error but which are nevertheless worthy of audit understanding.

### Fair value of property

- **Issue:** The Council holds a significant property portfolio and needs to consider whether the carrying value of property assets are materially stated as at the balance sheet date. In doing so, it should pay particular consideration to complex development schemes or property earmarked for a change in usage or as surplus to ensure the valuation of these as per the most recent valuation is still appropriate.
- **Approach:** We will review the appropriateness of the valuation methodology and consider the expertise of the valuers performing the exercise, and in addition review the Council's consideration of the accuracy of the year-end carrying value of properties not revalued at the balance sheet date. We will perform testing of a sample of property revaluations and discuss with management and changes in use / surplus properties and how this has been considered in the valuations.

### Restatement of CIES & new EFA

- **Issue:** CIPFA has been working with stakeholders to develop better accountability through the financial statements as part of its 'telling the whole story' project. The key objective of this project was to make Local Government accounts more understandable and transparent to the reader in terms of how councils are funded and how they use the funding to serve the local population. The outcome of this project has resulted in two main changes in respect of the 2016-17 Local Government Accounting Code (the Code) as follows:
  - Allowing local authorities to report on the same basis as they are organised by removing the requirement for the Service Reporting Code of Practice (SeRCOP) to be applied to the Comprehensive Income and Expenditure Statement (CIES); and
  - Introducing an Expenditure and Funding Analysis (EFA) which provides a direct reconciliation between the way local authorities are funded and prepare their budget and the CIES. This analysis is supported by a streamlined Movement in Reserves Statement (MIRS) and replaces the current segmental reporting note.
  - As a result of these changes, retrospective restatement of the CIES (cost of services), EFA and MIRS is required from 1 April 2016 in the Statement of Accounts. The new disclosure requirements and the restatement of the accounts require compliance with relevant guidance and the correct application of applicable Accounting Standards. This is therefore an important material disclosure change in this year's accounts, worthy of audit understanding.
- **Approach:** We will liaise with the Authority's finance team regarding the new requirements and agree the new disclosures, including the restatement of the prior year comparators.





## Materiality

We are required to plan our audit to determine with reasonable confidence whether or not the financial statements are free from material misstatement. An omission or misstatement is regarded as material if it would reasonably influence the user of financial statements. This therefore involves an assessment of the qualitative and quantitative nature of omissions and misstatements.

Generally, we would not consider differences in opinion in respect of areas of judgement to represent 'misstatements' unless the application of that judgement results in a financial amount falling outside of a range which we consider to be acceptable.

Materiality for planning purposes has been set at £1.5 million for the Authority's standalone accounts, which equates to 1.9% percent of gross expenditure. We design our procedures to detect errors in specific accounts at a lower level of precision.

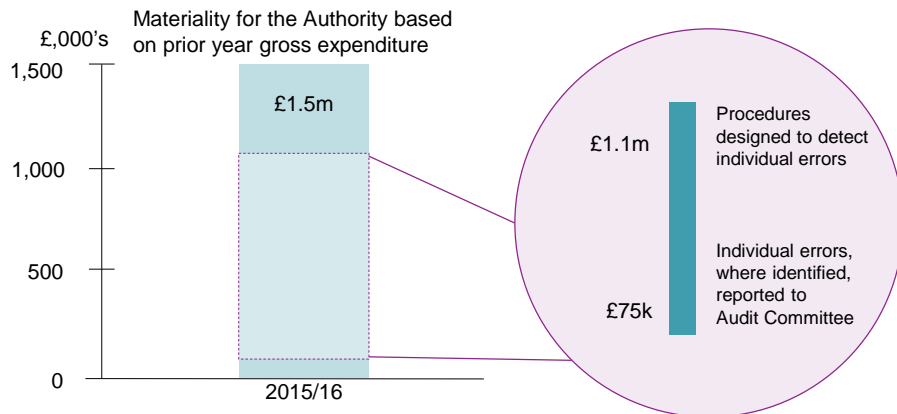
## Reporting to the Audit Committee

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

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

In the context of the Authority, we propose that an individual difference could normally be considered to be clearly trivial if it is less than £75,000.

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



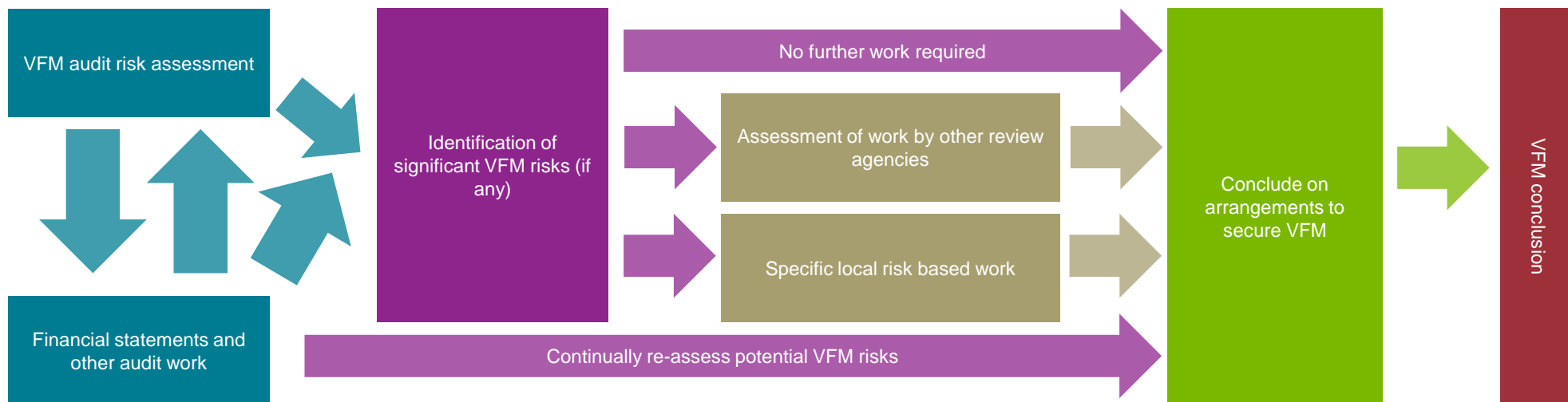


## Background to approach to VFM work

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

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

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





## Overall criterion

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

### Informed decision making

#### Proper arrangements:

- Acting in the public interest, through demonstrating and applying the principles and values of sound governance.
- Understanding and using appropriate and reliable financial and performance information to support informed decision making and performance management.
- Reliable and timely financial reporting that supports the delivery of strategic priorities.
- Managing risks effectively and maintaining a sound system of internal control.

### Sustainable resource deployment

#### Proper arrangements:

- Planning finances effectively to support the sustainable delivery of strategic priorities and maintain statutory functions.
- Managing and utilising assets to support the delivery of strategic priorities.
- Planning, organising and developing the workforce effectively to deliver strategic priorities.

### Working with partners and third parties

#### Proper arrangements:

- Working with third parties effectively to deliver strategic priorities.
- Commissioning services effectively to support the delivery of strategic priorities.
- Procuring supplies and services effectively to support the delivery of strategic priorities.



VFM audit stage	Audit approach
<b>VFM audit risk assessment</b>	<p>We consider the relevance and significance of the potential business risks faced by all local authorities, and other risks that apply specifically to the Authority. These are the significant operational and financial risks in achieving statutory functions and objectives, which are relevant to auditors' responsibilities under the <i>Code of Audit Practice</i>.</p> <p>In doing so we consider:</p> <ul style="list-style-type: none"> <li>■ The Authority's own assessment of the risks it faces, and its arrangements to manage and address its risks;</li> <li>■ Information from the Public Sector Auditor Appointments Limited VFM profile tool;</li> <li>■ Evidence gained from previous audit work, including the response to that work; and</li> <li>■ The work of other inspectorates and review agencies.</li> </ul>
<b>Linkages with financial statements and other audit work</b>	<p>There is a degree of overlap between the work we do as part of the VFM audit and our financial statements audit. For example, our financial statements audit includes an assessment and testing of the Authority's organisational control environment, including the Authority's financial management and governance arrangements, many aspects of which are relevant to our VFM audit responsibilities.</p> <p>We have always sought to avoid duplication of audit effort by integrating our financial statements and VFM work, and this will continue. We will therefore draw upon relevant aspects of our financial statements audit work to inform the VFM audit.</p>
<b>Identification of significant risks</b>	<p>The Code identifies a matter as significant '<i>if, in the auditor's professional view, it is reasonable to conclude that the matter would be of interest to the audited body or the wider public. Significance has both qualitative and quantitative aspects.</i>'</p> <p>If we identify significant VFM risks, then we will highlight the risk to the Authority and consider the most appropriate audit response in each case, including:</p> <ul style="list-style-type: none"> <li>■ Considering the results of work by the Authority, inspectorates and other review agencies; and</li> <li>■ Carrying out local risk-based work to form a view on the adequacy of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources.</li> </ul>



VFM audit stage	Audit approach
<p>Assessment of work by other review agencies</p> <p>and</p> <p>Delivery of local risk based work</p>	<p>Depending on the nature of the significant VFM risk identified, we may be able to draw on the work of other inspectorates, review agencies and other relevant bodies to provide us with the necessary evidence to reach our conclusion on the risk.</p> <p>If such evidence is not available, we will instead need to consider what additional work we will be required to undertake to satisfy ourselves that we have reasonable evidence to support the conclusion that we will draw. Such work may include:</p> <ul style="list-style-type: none"> <li>■ Meeting with senior managers across the Authority;</li> <li>■ Review of minutes and internal reports;</li> <li>■ Examination of financial models for reasonableness, using our own experience and benchmarking data from within and without the sector.</li> </ul>
<p>Concluding on VFM arrangements</p>	<p>At the conclusion of the VFM audit we will consider the results of the work undertaken and assess the assurance obtained against each of the VFM themes regarding the adequacy of the Authority's arrangements for securing economy, efficiency and effectiveness in the use of resources.</p> <p>If any issues are identified that may be significant to this assessment, and in particular if there are issues that indicate we may need to consider qualifying our VFM conclusion, we will discuss these with management as soon as possible. Such issues will also be considered more widely as part of KPMG's quality control processes, to help ensure the consistency of auditors' decisions.</p>
<p>Reporting</p>	<p>We will report on the results of the VFM audit through our ISA 260 Report. This will summarise any specific matters arising, and the basis for our overall conclusion.</p> <p>The key output from the work will be the VFM conclusion (i.e. our opinion on the Authority's arrangements for securing VFM), which forms part of our audit report.</p>



## Significant VFM Risks

Those risks requiring specific audit attention and procedures to address the likelihood that proper arrangements are not in place to deliver value for money.

### Achievement of the savings plan

#### ■ Risk

In line with all authorities, Stroud needs to seek continuing savings in the forthcoming years as its central government funding continues to fall. This is likely to become increasingly difficult in future years as small incremental savings become harder to identify, and more transformative solutions may be needed. We are also aware that the Authority is likely to need to utilise more of its balances than originally budgeted during 2016/17 mainly as a result of an overspend on the multi-service contract; this contract may result in further budget pressures in future years.

#### ■ Approach

This relates to the informed decision making and sustainable resource deployment sub-criteria.

As part of our additional risk based work, we will consider the Medium Term Financial Plan (MTFP) as a model to ensure financial resilience and also consider any savings programme that is developed and linked to the savings needs coming from the MTFP. In our review of the MTFP, we will look to understand whether it has duly taken into consideration:

- funding reductions;
- salary inflation;
- general inflation;
- demand pressures;
- restructuring costs; and
- sensitivity analysis given the degree of variability in the above factors.

### Procurement

#### ■ Risk

In 2014/15 we issued a qualified VFM opinion as a result of instances identified in our and in internal audit's work where the Council had not followed its own procurement policies by failing to operate an appropriate procurement exercise and by making inappropriate variations to existing contracts.

In 2015/16, our work found that while it was clear that there remained some discrepancies in procurement procedures, the issues were much reduced from last year and less significant in nature. In addition, we did not identify any issues in the most significant new arrangements established during the year. Based on this, we considered that sufficient improvements had been made for us to issue an unqualified VFM conclusion this year.

However, it remains important that the Council continues to focus on making improvements to its procurement arrangements, both through the processes in place and the extent to which they are applied in practice.

#### ■ Approach

In 2016/17, we will address this risk by continuing to monitor the implementation of this action plan, and well as again considering any work of internal audit in this area. We will use this to inform whether any further work is required in this area.

### Whole of government accounts (WGA)

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

### Elector challenge

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

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

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

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

### Reporting and communication

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

### Independence and Objectivity

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

### Audit fee

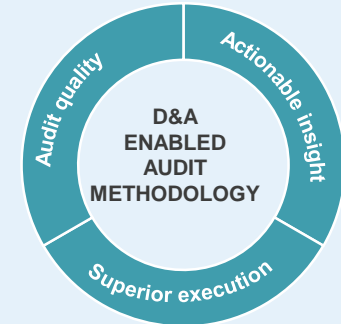
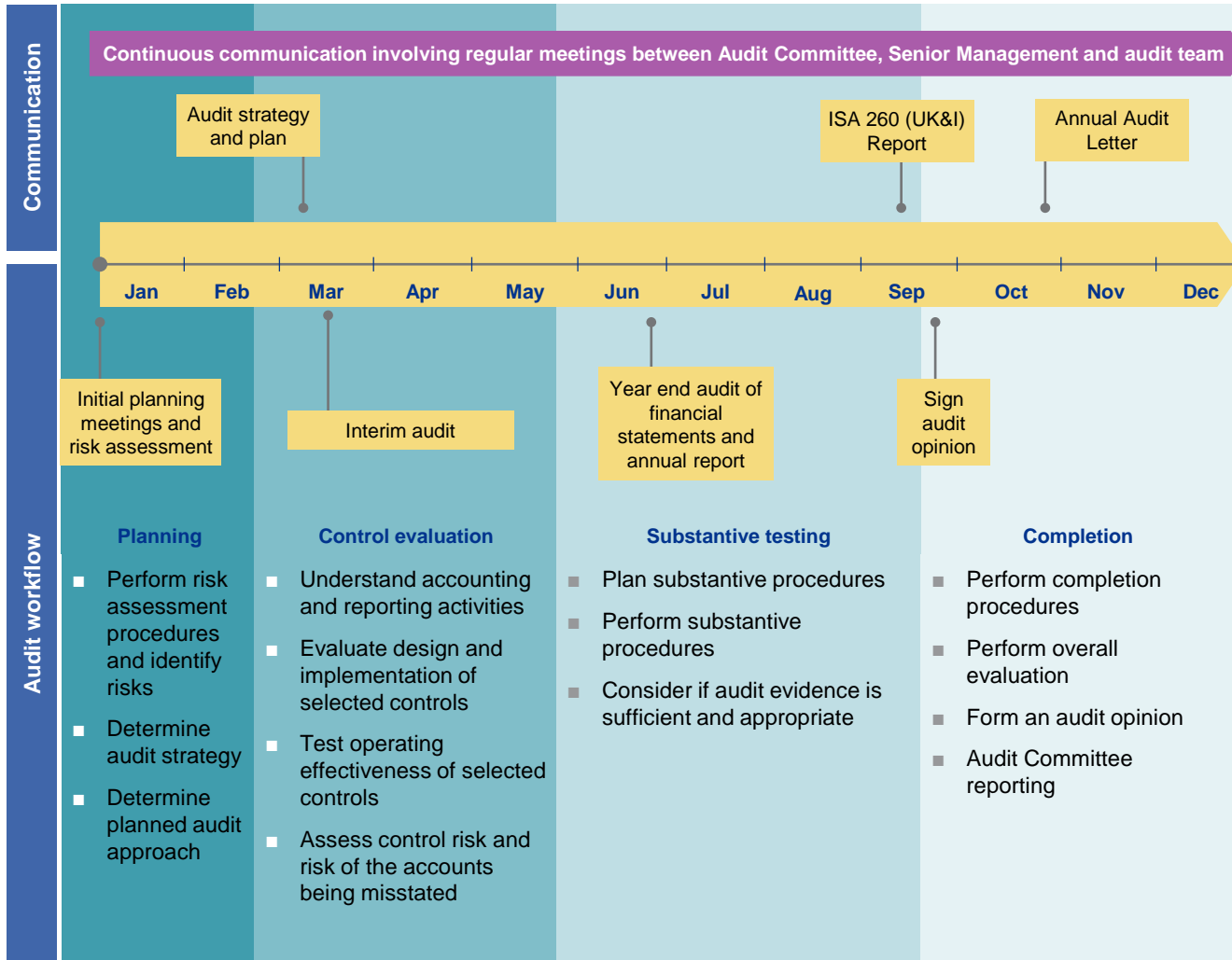
*Our Audit Fee Letter 2016/2017* presented to you in April 2016 first set out our fees for the 2016/17 audit along with the assumptions on which that fee is based. The scale fee set by PSAA for 2016/17 is £51,975, which is a consistent fee with the planned fee in 2015/16 prior to a fee variation in relation to additional work around procurement.

As noted on page 6, extra audit work is likely to be required in response to accounting changes in the Code, specifically this year the changes in relation to the disclosures associated with retrospective restatement of the CIES, the introduction of the EFA and changes to the MIRS.

Furthermore, as noted on page 12, contract procurement remains a significant VFM risk this year and may require additional detailed work dependent on the results of our initial review of the procurement action plan and internal audit work.

We will discuss the testing requirements relating to these areas with the Council closer to the timing of our work and agree an indicative additional fee for this work in due course.

All additional fees will be subject to PSAA's fee variation process.



## Driving more value from the audit through data and analytics

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

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

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





Your audit team has been drawn from our specialist public sector assurance department. Our audit team were all part of the Stroud District Council audit last year.



<b>Name</b>	Darren Gilbert
<b>Position</b>	Director
	<p>'My role is to lead our team and ensure the delivery of a high quality, valued added external audit opinion.</p> <p>I will be the main point of contact for the Audit &amp; Standards Committee and Chief Executive.'</p>

**Darren Gilbert**

Director

[Darren.gilbert@kpmg.co.uk](mailto:Darren.gilbert@kpmg.co.uk)



<b>Name</b>	Matthew Arthur
<b>Position</b>	Senior Manager
	<p>'I provide quality assurance for the audit work and specifically any technical accounting and risk areas.</p> <p>I will work closely with Darren to ensure we add value.</p> <p>I will liaise with the Head of Finance and other Executive Directors.'</p>

**Matthew Arthur**

Senior Manager

[Matthew.Arthur@kpmg.co.uk](mailto:Matthew.Arthur@kpmg.co.uk)



<b>Name</b>	Ming Hui Ng
<b>Position</b>	Audit In-charge
	<p>'I will be responsible for the on-site delivery of our work and will supervise the work of our audit assistants.'</p>

**Ming Hui Ng**

Audit in-charge

[MingHui.Ng@KPMG.co.uk](mailto:MingHui.Ng@KPMG.co.uk)

## Independence and objectivity

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

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

KPMG LLP is committed to being and being seen to be independent. APB Ethical Standards require us to communicate to you in writing all significant facts and matters, including those related to the provision of non-audit services and the safeguards put in place, in our professional judgement, may reasonably be thought to bear on KPMG LLP's independence and the objectivity of the Engagement Lead and the audit team.

Further to this auditors are required by the National Audit Office's Code of Audit Practice to:

- Carry out their work with integrity, independence and objectivity;
- Be transparent and report publicly as required;
- Be professional and proportional in conducting work;
- Be mindful of the activities of inspectorates to prevent duplication;
- Take a constructive and positive approach to their work;
- Comply with data statutory and other relevant requirements relating to the security, transfer, holding, disclosure and disposal of information.

PSAA's Terms of Appointment includes several references to arrangements designed to support and reinforce the requirements relating to independence, which auditors must comply with. These are as follows:

- Auditors and senior members of their staff who are directly involved in the management, supervision or delivery of PSAA audit work should not take part in political activity.

- No member or employee of the firm should accept or hold an appointment as a member of an audited body whose auditor is, or is proposed to be, from the same firm. In addition, no member or employee of the firm should accept or hold such appointments at related bodies, such as those linked to the audited body through a strategic partnership.
- Audit staff are expected not to accept appointments as Governors at certain types of schools within the local authority.
- Auditors and their staff should not be employed in any capacity (whether paid or unpaid) by an audited body or other organisation providing services to an audited body whilst being employed by the firm.
- Auditors appointed by the PSAA should not accept engagements which involve commenting on the performance of other PSAA auditors on PSAA work without first consulting PSAA.
- Auditors are expected to comply with the Terms of Appointment policy for the Engagement Lead to be changed on a periodic basis.
- Audit suppliers are required to obtain the PSAA's written approval prior to changing any Engagement Lead in respect of each audited body.
- Certain other staff changes or appointments require positive action to be taken by Firms as set out in the Terms of Appointment.

## Confirmation statement

We confirm that as of February 2017 in our professional judgement, KPMG LLP is independent within the meaning of regulatory and professional requirements and the objectivity of the Engagement Lead and audit team is not impaired.



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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. We draw your attention to the Statement of Responsibilities of auditors and audited bodies, which is available on Public Sector Audit Appointment’s website ([www.psaa.co.uk](http://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, Andrew Sayers, by email to [Andrew.Sayers@kpmg.co.uk](mailto:Andrew.Sayers@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](mailto: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.