External Audit Report 2017/18

Spelthorne Borough Council

—

DRAFT July 2018

Content

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This report is addressed to Spelthorne Borough Council (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. PSAA 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 PSAA'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 Joanne Lees, 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 (0207 694 8981, 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, by telephoning 020 7072 7445 or by writing to Public Sector Audit Appointments Limited, 3rd Floor, Local Government House, Smith Square, London, SW1P 3H.

Important notice

This report is presented in accordance with our PSAA engagement. Circulation of this report is restricted. The content of this report is based solely on the procedures necessary for our audit. This report is addressed to Spelthorne Borough Council (the Authority) and has been prepared for your use only. We accept no responsibility towards any member of staff acting on their own, or to any third parties. The National Audit Office (NAO) has issued a document entitled Code of Audit Practice (the Code). This summarises where the responsibilities of auditors begin and end and what is expected from the Authority. External auditors do not act as a substitute for the Authority'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.

Basis of preparation: We have prepared this External Audit Report (Report) in accordance with our responsibilities under the National Audit Office Code of Audit Practice (the Code) and the terms of our Public Sector Audit Appointments Ltd (PSAA) engagement.

Purpose of this report: This Report is made to the Authority's Audit Committee in order to communicate matters as required by International Audit Standards (ISAs) (UK and Ireland) and other matters coming to our attention during our audit work that we consider might be of interest and for no other purpose. To the fullest extent permitted by law we do not accept or assume responsibility to anyone (beyond that which we may have as auditors) for this Report or for the opinions we have formed in respect of this Report.

Limitations on work performed: This Report is separate from our audit opinion and does not provide an additional opinion on the Authority's financial statements nor does it add to or extend or alter our duties and responsibilities as auditors. We have not designed or performed procedures outside those required of us as auditors for the purpose of identifying or communicating any of the matters covered by this Report. The matters reported are based on the knowledge gained as a result of being your auditors. We have not verified the accuracy or completeness of any such information other than in connection with and to the extent required for the purposes of our audit.

Status of our audit: Our audit is not yet complete and matters communicated in this Report may change pending signature of our audit report. We will provide an oral update on the status of our audit at the Audit Committee meeting. The following work is ongoing:

- Financial statements audit:
  - Disclosures (including relating to the subsidiary)
  - Outstanding samples in relation to our testing of income, expenditure and other disclosures.
  - Investment property acquisitions
- Value for money conclusion:
  - Our work is ongoing in relation to our VFM conclusion for 2016/17 and 2017/18.

Summary

Financial statements audit – see section 2 for further details

Our work in relation to the audit of the financial statements is underway. We have read the Narrative Report and reviewed the Annual Governance Statement (AGS). Our key findings are:

- To date there are no unadjusted audit differences arising from our work, explained in section 2 and appendix 2.
- We agreed presentational changes to the accounts with Finance, mainly related to compliance with the CIPFA / LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18.
- In additional to our routine requests we are asking for management representations over the following, which are explained in section 2:
  - Income and expenditure have been appropriately accrued for;
  - The valuation of land and buildings which have not been revalued in year are not materially misstated given movements in values
  - The valuation of investment property is fairly stated; and
  - The completeness and accuracy of disclosures and financial information relating to Knowle Green Estates Ltd.
- We will report that your AGS complies with delivering Good Governance guidance issued by CIPFA / SOLACE in April 2016.
- We reviewed the narrative report and have no matters to raise with you.
- We did not receive any queries or objections from local electors this year.

Our work in relation to our VFM conclusion for 2016/17 is still under way, and we have therefore not yet issued our opinions in relation to the 2016/17 accounts. Until we have completed our consideration of these matters, we are unable to certify that we have completed the audit of the accounts in accordance with the requirements of the Local Audit and Accountability Act 2014.

Value for money – see section 3 for further details

Work to conclude on the value for money conclusion is ongoing, pending the conclusion of our 2016/17 VFM work.

Summary

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.).

We have a duty to consider whether to issue a report in the public interest about something we believe the Authority should consider, or if the public should know about.

We have not identified any matters to date that would require us to issue a public interest report. In addition, we have not had to exercise any other audit powers under the Local Audit & Accountability Act 2014 to date, though our work to conclude on this is not yet complete.

There are no other matters which we wish to draw to your attention in addition to those highlighted in this report or our previous reports relating to the audit of the Authority's 2017/18 financial statements.

We identified six prior year recommendations that require further action by Management, and one further recommendation that was superseded by a new recommendation in 2017/18. Three new recommendations have been raised in 2017/18. These relate to the bank and payroll reconciliations and preparation of Group/Subsidiary accounts in compliance with the CIPFA Code due to different interpretations of guidance. All recommendations are shown in appendix 1.

We undertake other grants and claims work for the Authority that does not fall under the PSAA arrangements. The status of our grants and claim work is summarised below:

- Housing benefits: fieldwork to commence in October 2018 and to be finalised in November 2018 in line with the statutory deadline.

The fees for this work is explained in section two.

Financial statements audit

We audit your financial statements by undertaking the following:

Work Performed	Accounts production stage: Before	During	After
1. Business understanding: review your operations	✓	✓	–
2. Controls: assess the control framework	✓	–	–
3. Prepared by Client Request (PBC): issue our prepared by client request	✓	–	–
4. Accounting standards: agree the impact of any new accounting standards	✓	✓	–
5. Accounts production: review the accounts production process	✓	✓	✓
6. Testing: test and confirm material or significant balances and disclosures	–	✓	✓
7. Representations and opinions: seek and provide representations before issuing our opinions	✓	✓	✓

We have completed the first six stages and report our key findings below:

1. Business understanding	In our 2017/18 audit plan we assessed your operations to identify significant issues that might have a financial statements consequence. We confirmed this risk assessment as part of our audit work. We provide an update on each of the risks identified later in this section.
2. Assessment of the control environment	We assessed the effectiveness of your key financial system controls that prevent and detect material fraud and error. We found that the financial controls on which we seek to place reliance are operating effectively. We have made three new recommendations which relate to the bank reconciliation, the payroll reconciliation and the presentation of balances relating to the subsidiary in the financial statements. We believe that these recommendations (see appendix 1) will strengthen your control environment. We reviewed work undertaken by your internal auditors, in accordance with ISA 610 and used the findings to inform our work. We have chosen not to place reliance on their work due to the approach we adopted for the financial statements audit.
3. Prepared by client request (PBC)	We produced the PBC to summarise the working papers and evidence we ask you to collate as part of the preparation of the financial statements. We tailored our request to the Authority and this was issued as a final document to the finance team. We have noted an improvement in the quality of working papers compared to the prior year. The Authority made good use of the SharePoint system for sharing working papers.

Financial statements audit

4. Accounting standards	For 2017/18 these changes were minor disclosure changes.
5. Accounts Production	We received complete draft accounts by 31 May 2018 in accordance with the deadline. The accounting policies, accounting estimates and financial statement disclosures are in line with the requirements of the Code of Practice on Local Authority Accounting in the United Kingdom 2017/18. The Authority incorporated measures into its closedown plan to manage this complex process. The Authority recognised the additional pressures which the earlier closedown brought and we engaged with officers in the period leading up to year-end. We consider that the overall process for the preparation of your financial statements is adequate. The areas which you need to pay particular attention to are: the completion of reconciliations, and the disclosure of the subsidiary in line with the code. We thank Finance for their cooperation throughout the visit which allowed the audit to progress and complete within the allocated timeframe, in relation to the financial statements
6. Testing	We have summarised the findings from our testing of significant risks and areas of judgement in the financial statements on the following pages. We will provide an updated report to include all audit adjustments once our fieldwork is concluded.
7. Representations	You are required to provide us with representations on specific matters such as your going concern assertion and whether the transactions in the accounts are legal and unaffected by fraud. We provided a draft of this representation letter to the Chief Financial Officer on 16 July 2018. We draw attention to the requirement in our representation letter for you to confirm to us that you have disclosed all relevant related parties to us. We are asking Management to provide specific representations on: — Income and expenditure have been appropriately accrued for; — The valuation of land and buildings which have not been revalued in year are not materially misstated given movements in values — Investment property is appropriately valued; and — The completeness and accuracy of disclosures and financial information relating to Knowle Green Estates Ltd.

Financial statements audit

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, opening balances, public interest reporting, questions/objections, etc.).

There are no others matters which we wish to draw to your attention in addition to those highlighted in this report or our previous reports relating to the audit of the Authority’s 2017/18 financial statements.

To ensure that we provide a comprehensive summary of our work, we have over the next pages set out:

- The results of the procedures we performed over the valuation of land and buildings, investment properties, pension liabilities and faster close which were identified as significant risks within our audit plan and which will form a part of our audit opinion;
- The results of our procedures to review the required risks of the fraudulent risk of revenue recognition and management override of control; and
- Our view of the level of prudence applied to key balances in the financial statements.

Financial statements audit

Authority significant audit risks

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

SIGNIFICANT audit risk	Account balances effected	Summary of findings
Valuation of land and buildings	NBV £4,206K (PY £2,683K)	The Code requires that where assets are subject to revaluation, their year end carrying value should reflect the appropriate fair value at that date. The Authority has adopted a rolling revaluation model which sees land and buildings revalued over a five year cycle. As a result individual assets may not be revalued for four years. This creates a risk that the carrying value of those assets not revalued in year differs materially from the year end fair value. We reviewed the approach that the Authority adopted to assess the risk that assets not subject to valuation were materially misstated and considered the robustness of that approach. In addition, we considered movements in market indices between revaluation dates and the year end in order to determine whether these indicate that fair values had moved materially over that time. In relation to those assets which have been revalued during the year we assessed the valuer's qualifications, objectivity and independence to carry out such valuations and reviewed the methodology used (including testing the underlying data and assumptions). As a result of this work we determined that additions could be vouched to supporting information. We used a KPMG valuer to assess the valuation report provided by the Authority's valuer and provide challenge. Entries related to the valuation had been processed correctly. We have set out our view of the assumptions used in relation to accounting for Property, Plant & Equipment at page 16. Our work is ongoing in relation to the valuation of land and buildings. We have queries outstanding with management in relation to how the Authority has satisfied itself that for those assets not included in the valuation exercise in 2017/18, their value has not materially changed. Supporting evidence for some of our sample testing is also outstanding. We also require further evidence (as raised in a recommendation in 2016/17) of how the Authority has applied its judgement to the instructions given to the valuer and in respect of the valuation report received.

Financial statements audit

SIGNIFICANT audit risk	Account balances effected	Summary of findings
Pension liabilities	Pension liabilities £44,860K PY £44,129K	The net pension liability represents a material element of the Authority's balance sheet. The Authority is an admitted body of Surrey Pension Fund, which had its last triennial valuation completed as at 31 March 2016. This forms an integral basis of the valuation as at 31 March 2018. The valuation of the Local Government Pension Scheme relies on a number of assumptions, most notably around the actuarial assumptions, and actuarial methodology which results in the Authority's overall valuation. There are financial assumptions and demographic assumptions used in the calculation of the Authority's valuation, such as the discount rate, inflation rates, mortality rates etc. The assumptions should also reflect the profile of the Authority's employees, and should be based on appropriate data. The basis of the assumptions is derived on a consistent basis year to year, or updated to reflect any changes. There is a risk that the assumptions and methodology used in the valuation of the Authority's pension obligation are not reasonable. This could have a material impact to net pension liability accounted for in the financial statements. As part of our work we reviewed the controls that the Authority has in place over the information sent to the Scheme Actuary. We liaised with the auditors of the Pension Fund to gain an understanding of the effectiveness of the controls operated by the Pension Fund. This included consideration of the processes and controls with respect to the assumptions used in the valuation. We reviewed the appropriateness of the key assumptions included within the valuation and, compared them to expected ranges. We also reviewed the methodology applied in the valuation by the actuary. In addition, we reviewed the overall Actuarial valuation and considered the disclosure implications in the financial statements. We have set out our view of the assumptions used in valuing pension assets and liabilities at page 16. We have received a response from the Pension Fund auditor to the letter sent by KPMG requesting information under the PSAA regulations. This identified one misstatement relating to a £389k unadjusted error on benefits payable at a fund level (not specific to the Authority).

Financial statements audit

SIGNIFICANT audit risk	Account balances effected	Summary of findings
Faster close		In prior years, the Authority has been required to prepare draft financial statements by 30 June and then final signed accounts by 30 September. For years ending on and after 31 March 2018 however, revised deadlines apply which require draft accounts by 31 May and final signed accounts by 31 July. These changes represent a significant change to the timetable that the Authority has previously worked to. The time available to produce draft accounts has been reduced by one month and the overall time available for completion of both accounts production and audit is two months shorter than in prior years. To meet the revised deadlines, the Authority may need to make greater use of accounting estimates. In doing so, consideration will need to be given to ensuring that these estimates remain valid at the point of finalising the financial statements. There are logistical challenges that need to be managed including: — Ensuring that any third parties involved in the production of the accounts (including valuers, actuaries, subsidiaries and subsidiary auditors) are aware of the revised deadlines and have made arrangements to provide the output of their work accordingly; — Revising the closedown and accounts production timetable to ensure that all working papers and supporting documentation are available at the start of the audit; — Ensuring that the Audit Committee meeting schedules have been updated to permit signing in July; and — Applying a shorter paper deadline to the July meeting of the Audit Committee meeting in order to accommodate the production of the final version of the accounts and our ISA 260 report. There is an increased likelihood that the Audit Certificate (which confirms that all audit work for the year has been completed) may be issued separately at a later date if work is still ongoing in relation to the Authority's Whole of Government Accounts return. This is not seen as a breach of deadlines. We liaised with officers in preparation for our audit in order to understand the steps that the Authority was taking in order to ensure it met the revised deadlines. We also advanced audit work into the interim visit in order to streamline the year end audit work. We received draft financial statements by the statutory deadline of 31 May 2018. The quality of this draft was significantly improved from the prior year. However, changes were required to the presentation, for example in the consolidated group statements.

Financial statements audit

SIGNIFICANT audit risk	Account balances effected	Summary of findings
Investment properties	Fair value £635,745K PY £392,145K	The Authority has purchased a number of investment properties during the 2017/18 financial year, in addition to the BP Campus which was purchased in 2016/17. There is a risk that such assets, which are outside the Authority's core operations are overvalued and not accounted for correctly within the financial statements. We will review the approach that the Authority has adopted to assess the risk that the valuation of investment assets are not materially misstated and consider the robustness of that approach. We will assess the valuer's qualifications, objectivity and independence to carry out such valuations and review the methodology used (including testing the underlying data and assumptions). We will review the accounting entries to understand whether the purchase of the properties has been recorded correctly in the accounts. We will understand and challenge management around whether there any indicators of impairment. We have set out our view of the assumptions used in valuing investment properties at page 16. Our work in this area is ongoing and is intrinsically linked to our work on our value for money conclusion.

Financial statements audit

Authority 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.

Other area of audit focus	Account balances effected	Summary of findings
Group accounts		The Authority has a wholly owned subsidiary, Knowle Green Estates Ltd and is required to prepare Group Accounts in 2017/18 on the basis of materiality. There is a risk that the assets within the subsidiary are not valued appropriately and that the related party entries disclosed within the Authority accounts are materially misstated. There is also a risk that the disclosures required per applicable Accounting Standards and Code Guidance are not made appropriately within the financial statements. We have reviewed the valuation of the assets held within Knowle Green Estates Ltd, including assessing the professional competence of the valuer engaged and reviewing the instructions sent to the valuer. We have reviewed and check the disclosures made within the Authority accounts for accuracy, presentation and compliance with applicable Accounting Standards and Code guidance. Financial statements had not been fully prepared for Knowle Green Estates Ltd as at 13 July 2018. The presentation of balances relating to the subsidiary within the Authority's accounts was incorrect in the first draft of the financial statements received. We have not yet received updated financial statements. We have set out our view of the assumptions used in valuing assets held within Knowle Green Estates at page 17.

Financial statements audit

Risks that ISAs require us to assess in all cases	Why	Our findings from the audit
Fraud risk from revenue recognition	Professional standards require us to make a rebuttable presumption that the fraud risk from revenue recognition is a significant risk. We do not consider this to be a significant risk for the majority of the Authority's income as there are limited incentives and opportunities to manipulate the way income is recognised. We therefore rebut this risk for Council Tax, Business Rates, Housing rents, annual central Government grants and social services income and do not incorporate specific work into our audit plan in these areas over and above our standard fraud procedures. However, we do consider it for income relating to grants which have been received with conditions attached, and rental income.	We have completed cut off testing over a sample of income items to assess whether the sampled items had been recorded in the correct accounting period. This has not identified any issues in the samples we have completed to date. We compared the Authority's accounting policy for revenue recognition to the accounting policy within the CIPFA Code of Practice in Local Authority Accounting and did not identify any issues to bring to the Authority's attention. We completed detailed sample testing over a sample of revenue items (including grants received) to assess whether these had been accounted for in line with the Authority's accounting policies. There are no matters from this work which we need to bring to your attention from the testing completed to date.
Fraud risk from 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. We have not identified any specific additional risks of management override relating to this audit.	There are no matters arising from this work that we need to bring to your attention.

Financial statements audit

Judgements in your financial statements

We consider the level of prudence in key judgements in your financial statements. We summarise our view below using the following scale:

Assessment of subjective areas				
Asset / liability class	**Current year**	**Prior year**	**Balance (£m)**	**KPMG comment**
Provisions (excluding NDR)	6	3	£0.15 (PY: £0.15)	There are no individually material provisions that do not relate to NDR, however, we consider this to be optimistic as our work has highlighted a £1.1M balance relating to Housing Benefit overpayments where no provision is made where the tenant has made a payment (even if the payment is small in relation to the debt). We consider the disclosures relating to the provisions to be balanced. Our review of minutes and supporting documentation has not identified any potential liabilities for which provisions should be included, however, we will keep this under review.
NDR provisions	2	4	£2.1 (PY: £1.5)	In 2013/14, local authority funding arrangements meant that the Authority is now responsible for a proportion of successful rateable value appeals. The Authority has provided for a fixed percentage of outstanding appeals in accounting for the potential liability, based on historical appeals success rates. The disclosures relating to the provisions are appropriate. We consider the balance to be cautious, given this includes the provision related to the appeals raised by the NHS. We are aware that the Local Government Association do not consider the NHS to have a case.
Accruals de minimis level	TBC	TBC		We are working with the Authority to obtain a breakdown of the creditors and debtors balances that separately identifies accrued (rather than invoiced) amounts. We are therefore not currently able to assess the appropriateness of judgements made in respect of accruals.

Financial statements audit

Assessment of subjective areas				
Asset / liability class	**Current year**	**Prior year**	**Balance (£m)**	**KPMG comment**
Property, plant and equipment	4	4	£55.8 (PY: £44.9)	A full valuation took place in 2014/15 before the adoption of a five year rolling valuation programme in 2015/16. 20% of land and buildings were revalued in the current year with no material movements noted. We considered the revaluation basis to be appropriate. The Authority continues its use of the beacon methodology in line with the DCLG's Stock Valuation for Resource Accounting published in November 2016. The Authority has utilised an external valuation expert, Kempton Carr Croft to provide valuation estimates. We reviewed instructions provided and have assessed that the valuation exercise is generally in line with the instructions. The disclosures relating to PPE are proportionate. The Authority has not yet provided us with evidence as to how it has satisfied itself that the value of those assets not included in the 2017/18 exercise has not materially changed.
Debtors provisioning	2	2	£1.9 (PY: £3.7)	The provision has increased substantially since the prior year. This is a result of an increase in the outstanding business rates. We consider the provision disclosures to be acceptable, though this remains cautious.
Pension liability	3	3	£44.8 (PY: £44.1)	The Authority continues to use Hymans Robertson to provide actuarial valuations in relation to the assets and liabilities recognised as a result of participation in the Local Government Pension Scheme. Due to the overall value of the pension assets and liabilities, small movements in the assumptions can have a significant impact on the overall valuation. We are reviewing the actual assumptions adopted by the actuary to assess whether they fall within our expected ranges, and our work in this area is ongoing, however, our work to date does not indicate a change in the judgements from the prior year.
Investment properties	3	3	£635.7 (PY: £392.1)	We have engaged a valuation specialist to review the valuation reports related to the investment properties purchased by the Authority. The Authority has engaged professional valuers to value the investment properties. This includes the property held by the subsidiary, Knowle Green Estates Ltd. Our assessment of the assumptions in relation to the valuation is ongoing, however, our work to date in this area indicates the judgements that underpin it to be balanced.

Financial statements audit

Group audit

To gain assurance over the Authority's group accounts, we sought to place reliance on the work completed by the auditor of the financial statements of the Authority's subsidiary, **Knowle Green Estates Ltd.**

At the date of issuing this report, we had been provided with draft schedules to support the consolidation, and work was ongoing to audit these. We will provide an updated report to reflect our findings in relation to the group audit.

Narrative report of the Authority

We have reviewed the Authority's narrative report and have confirmed that it is consistent with the financial statements and our understanding of the Authority.

Queries from local electors

We did not receive any questions or objections from members of the public this year.

Financial statements audit

Audit certificate

In order for us to issue an audit certificate, we are required to have completed all our responsibilities relating to the financial year. We are not in a position to issue our audit certificate with the audit opinion as:

— HM Treasury has recently issued its guidance for completing the WGA and issued the consolidation packs that authorities need to complete. The deadline for the Authority to prepare the consolidation pack is 31 July 2018 with an audit deadline of 31 October 2018. We aim to complete the work in September 2018.

— Work to conclude on our value for money opinion is ongoing for both 2016/17 and 2017/18.

Whole of Government Accounts (WGA)

We have not yet reviewed your WGA consolidation pack.

Other grants and claims work

We undertake other grants and claims work for the Authority that does not fall under the PSAA arrangements. The status of our grants and claim work is presented below:

- Housing benefits: work is due to take place in September and October 2018 with a view to reporting in November 2018 ahead of the statutory deadline.

Audit fees

Our planned fee for the audit £48,128 excluding VAT (as reported in our plan approved in June 2018). We will report our final fee position upon completion of the audit. Our prior year was also set at £48,128, excluding VAT. Our overruns in respect of the prior year fee are yet to be agreed.

Our work on the certification of Housing Benefits (BEN01) is not yet complete and is planned for September and October 2018. The planned scale fee for this is £7,102 excluding VAT (£7,102 excluding VAT in 2016/17).

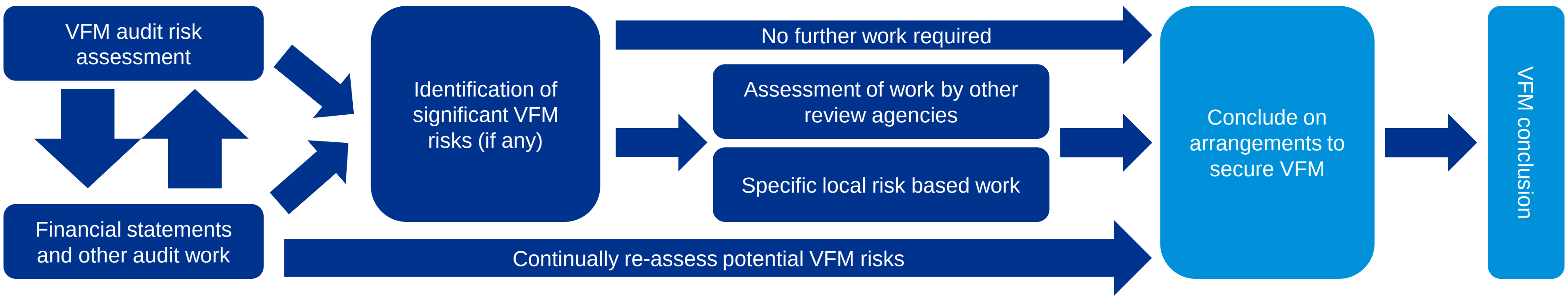
We have not completed any non-audit work at the Authority in year.

Value for money

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.'

We follow a risk based approach to target audit effort on the areas of greatest audit risk as summarised below:



We identified two significant VFM risks which are reported overleaf. We have not yet finalised work relating to the value for money conclusion.

Value for money

Significant risk based VFM audit work

Below we set out the detailed findings of our significant risk based VFM work. This work was completed to address the residual risks remaining after our assessment of the higher level controls in place to address the VFM risks identified in our planning and financial statements audit work.

Significant VFM risk	Why this risk is significant	Our audit response and findings
Delivery of budgets	— Informed decision making; — Sustainable resource deployment; and — Working with partners and third parties.	The Authority initially identified a budget gap of £1.5M in 2017/18 which was subsequently balanced through income generation schemes such as the purchase of investment assets to generate rental revenue and operational savings. The current forecast shows that the Authority will deliver an underspend of approximately £0.58M but is anticipating that further savings will need to be identified in order to meet the approved balanced budget over the term of the Medium Term Financial Plan. The Authority’s budget for 2018/19 has been approved by Council, and a balanced draft budget has been set without the use of reserves, although the Medium Term Financial Plan recognises a need for £3.3M savings cumulatively by 2021/22. The approved budget includes individual proposals to support the delivery of the overall savings requirement. Further savings will be required over the period to 2021/22 to principally address future reductions to local authority funding alongside service cost and demand pressures. As such the need for savings or increased revenue will continue to have a significant impact on the Authority’s financial resilience. We reviewed controls the Authority has in place to ensure financial resilience, specifically that the Medium Term Financial Plan has duly taken into consideration factors such as funding reductions, salary and general inflation, demand pressures, restructuring costs and sensitivity analysis given the degree of variability in the above factors. Our work in relation to this risk is ongoing and we will provide an updated report to the Audit Committee upon conclusion of our work.

Value for money

Significant VFM risk	Why this risk is significant	Our audit response and findings
Investment property decision making	— Informed decision making; and — Sustainable resource deployment.	Over the past two years, starting with the purchase of the BP Campus in 2016/17, the Authority has purchased a number of investment properties with the objective of diversifying income in the face of reducing grant funding. The aim of the investment purchases is to generate annual revenue surplus to support the provision of services to residents. The Authority has to date focused investment in or around the borough. Purchases of investment properties have been funded via borrowing. It is critical that the decisions around the decisions to purchase the investment properties, including the risk assessment, exposure limits, borrowing strategy, and sensitivity analysis (in terms of individual purchases and the investment property portfolio as a whole) are quantified and discussed at appropriate levels within the Authority prior to decisions being made and in line with statutory and constitutional powers. Our work in relation to this risk is ongoing and we will provide an updated report to the Audit Committee upon conclusion of our work.

Appendix 1

Recommendations raised and followed up

Recommendations raised as a result of our work in the current year are as follows:

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.

#	Risk	Recommendation	Management Response / Officer / Due Date
Financial statements			
1	❶	**Bank Reconciliation** Bank reconciliations were not completed on a consistent basis from July 2017. Although the year end bank reconciliation was completed we did identify some issues: • There is no system in place for the preparation of the bank reconciliation on a periodic basis - the year end bank reconciliation had a number of adjustments which could have been avoided if reconciliations were prepared on a monthly basis throughout the year; • The bank reconciliation is not completed on an individual bank account basis – the bank reconciliation at year end was completed for all four bank accounts in aggregate, resulting in differences arsing on each bank account which could not be fully reconciled; • The year end bank reconciliation had an unexplained difference of £12,653. Given the bank reconciliation is a core control, we recommend that a formal process is put in place for the completion of the bank reconciliation on a monthly basis. This should include back up procedures for when key members of staff are out of the office, for example, on annual leave or sick leave. We also recommend that the reconciliation is reviewed by the Chief Accountant each month, and evidence of the review retained. We recommend that bank accounts are reconciled on an individual basis, and not in aggregate.	**Accepted** **Management response** This issue has been progressed during the year and some additional resource was brought in to help with the backlog. Moving forward, this has been built into the team's work plan and a new post has been created which will help ease the burden on the team and progress this issue **Due date:** 31 October 2018 **Responsible officer:** Deputy Chief Accountant

Appendix 1

Recommendations raised and followed up

#	Risk	Recommendation	Management Response / Officer / Due Date
Financial statements			
2	1	**Accounting for the subsidiary** At the start of our audit, financial statements were not yet prepared for the subsidiary. In addition to this, the Authority had not disclosed the transactions relating to the subsidiary in line with the CIPFA Code of Practice on Local Authority Accounting in the United Kingdom. We recommend that in future accounting periods, the Authority prepares financial statements for Knowle Green Estates Ltd concurrently with the financial statements for the Authority. We also recommend that the Authority review the CIPFA Code of Practice to ensure that all relevant disclosures have been made relating to the subsidiary.	**Accepted** **Management response:** Approach for 17/18 was miscommunicated, once clarity was reached the process was undertaken as requested. This suggested approach will be incorporated into the plan for the 18/19 closedown process. **Due date:** 31 March 2019 **Responsible officer:** Chief Accountant
3	2	**Payroll Reconciliation** Our audit noted that the payroll reconciliation had not been adequately prepared and reviewed throughout the year. It is critical that the Authority has strong controls in this area. We recommend that a formal process is put in place in order to ensure that the payroll reconciliation is completed and reviewed each month. This should include back up procedures for when the member of staff with responsibility for completing the reconciliation is on annual leave or sick leave. We recommend that the reconciliation is reviewed by the Chief Accountant each month with evidence of the review retained.	**Accepted** **Management response:** Controls will be put in place to ensure that this reconciliation is reviewed monthly. **Due date:** 31 October 2018 **Responsible officer:** Deputy Chief Accountant

Appendix 1

Recommendations raised and followed up

We have followed up the recommendations from the prior year's audit, in summary:

Total number of recommendations	Number of recommendations implemented	Number outstanding (repeated below):
7	1	6

#	Risk	Recommendation	Management Response / Officer / Due Date	Status at July 2018
Financial statements				
1	❶	**Financial statements production** The draft accounts published by the Authority on 17 July 2017 had not been adequately prepared or reviewed by an appropriate member of the Authority's finance team. Due to staff turnover, both of the subsequent accounts preparers were new joiners and did not have historical knowledge of the Authority's systems or operations to prepare the accounts. There was limited evidence of independent review of the draft accounts. As a result, the accounts did not appropriately reflect significant transactions that took place during the year, such as the acquisition of the BP campus or the drawdown of over £400m in loans. In addition, we identified a significant volume of presentational/disclosure errors, material inconsistencies within the accounts, and departures from the CIPFA guidance notes. This caused significant delays in the audit timetable, and we were required to postpone our work mid-audit and reschedule the remaining fieldwork until the accounts had been corrected. We recommend that the financial statements are prepared by individuals with sufficient knowledge and experience of the organisation. Following preparation, the accounts should be independently reviewed by a senior officer and any errors or discrepancies identified should be recorded in advance of the onsite audit period. The Authority must strengthen its financial reporting in order to put it in a good position to meet the new 2017/18 deadline of 31 July. Additional reviews of working papers, particularly those that involve key areas of judgement, should be made a matter of routine.	As the report highlights several key members of the Accountancy team left during the accounts process and there were issues with an interim individual. The Council now has in place a permanent Chief Accountant with many years experience of closing of accounts (and indeed has been involved recently in piloting CIPFA's "Big Red Button" process for speeding up accounts closure. We also now have in place a permanent Deputy Chief Accountant with a broad range of technical accounting experience. The Chief Accountant and Chief Finance Officer are undertaking a fundamental review of the close down process and will ensure that it is speeded up and additional review is built into the process to be completed before Christmas 2017. Other members of the team are being provided with additional training. The Accountancy team will also draw on its Treasury Management advisers to review relevant technical (financial instruments etc.) notes and treatment during the closure process. Action by: Chief Finance Officer / Chief Accountant Due date: 23 December 2017	**In progress** The quality of the first draft of the accounts received by KPMG was much improved compared to the prior year. We did, however, identify that key elements of the accounts (the disclosures relating to subsidiaries) were not completed to an appropriate standard, and have raised a recommendation relating to this. The Finance Team were responsive to queries from KPMG.

Recommendations raised and followed up

#	Risk	Recommendation	Management Response / Officer / Due Date	Status at July 2018
Financial statements				
2	❶	**Resilience of Authority Finance Team** Significant personnel changes have occurred across the Authority's financial team with further changes anticipated. As a result, there is increased risk around succession planning, retaining corporate memory and maintaining business as usual at the Authority. We recommended that the Authority develops a succession and stability plan to ensure that the finance team is resilient to personnel and structural changes and that stability is maintained when individuals leave. The Authority should also consider creating practical strategies that Management can use to engage and retain talent within its finance team.	As per response to Recommendation 1, we are undertaking a training plan to develop the skills and experience of the team and to build in more experience. We are examining options to help retain talent within the team. The Chief Accountant will be reviewing succession planning and looking to ensure that there is greater resilience in the accountancy team. Action by: Chief Finance Officer / Chief Accountant Due date: 23 December 2017	**In progress** Whilst the Finance Team has been relatively stable since September 2017, in order to produce a good draft of the financial statements the Authority has been reliant on a contractor. This is not sustainable in the longer term. In addition to this, we noted some key control failures in year (relating to the completion of bank and payroll reconciliations) which had occurred due to staff sickness. There is therefore more work for the Authority to do to develop the resilience of the finance team.

Recommendations raised and followed up

#	Risk	Recommendation	Management Response / Officer / Due Date	Status at July 2018
Financial statements				
3	❶	**Journal approvals and segregation of duties** During our testing of journals we identified issues relating to the way some transactions were processed and evidenced during the financial year 2016/17. The Authority has concluded that it is not possible to recreate the evidence for why these journals were processed. The individuals who processed and/or approved the journals have now left the Authority and have left no written record of why they were processed and the line descriptions are often inadequate. We recommend that for all journal entries, the Authority ensures: • All journal entries are approved by an individual separate from the person who uploads them; • Either the Deputy Chief Accountant or the Chief Accountant approves all journals over £20,000 in value; • A meaningful description is provided for each journal entry stating the reason why the journal was necessary and what the journal represents in accounting terms; • Adequate supporting evidence is kept on file for each journal raised; and • Accountancy team Management regularly review the files to monitor compliance and raise with individuals through one to ones or the annual appraisal system if there are recurring issues.	Chief Accountant will provide a quarterly review to Chief Finance Officer to confirm compliance. Action by Chief Accountant. Action by: Chief Finance Officer / Chief Accountant Due date: Now implemented	**Implemented** Management have confirmed that all journals over £20k are signed and a quarterly review is undertaken.

Recommendations raised and followed up

#	Risk	Recommendation	Management Response / Officer / Due Date	Status at July 2018
Financial statements				
4	2	**Valuation of land and buildings** As part of our procedures to provide assurance over the valuation of land and buildings within the financial statements, a review of the year end Valuation Report produced by the external valuer and commissioned by the Authority was undertaken as well as a review of the Authority processes and controls in relation to the valuation exercise. From this review, we have identified a number of detailed recommendations to strengthen the approach that the Authority takes to the valuation of its land and buildings and have shared these with the Finance Team. This includes demonstration of the consideration and challenge of the assumptions applied by the external valuer and ensuring a robust data trail underpins the valuations applied to the accounts. We recommend that the Finance implement our action plan ahead of the next valuation exercise.	Agreed. Action by: Chief Accountant Due date: 1 February 2018	**In progress** We have not been provided with evidence relating to the challenge the Authority has made to the external valuer. Whilst we have been able to trace the valuation movements through to the financial statements from the valuation report, we have not been provided with evidence from management to demonstrate that assets not revalued within 2017/18 have not changed in value materially since the last valuation date.
5	2	**Fixed asset registers** During our testing of fixed assets we were unable to obtain Fixed Asset Registers in relation to IT equipment, intangible assets and heritage assets. Without a complete listing, the Authority is unable to effectively manage and report on the assets it holds. We recommend the Authority conducts an exercise to produce a full listing of assets held within the IT equipment, intangible and heritage asset categories. All assets should be assessed for impairment to ensure that the valuations held within the financial statements are materially correct.	We will conduct an exercise to produce a full listing of IT equipment. Whilst we have in recent years reviewed heritage assets we will conduct further review. Action by: Chief Accountant Due date: 31 March 2018	**In progress** A detailed fixed asset register was not available for IT equipment at the time of our audit.

Recommendations raised and followed up

#	Risk	Recommendation	Management Response / Officer / Due Date	Status at July 2018
Financial statements				
6	2	**Valuation Frequency and Timing (relates to 2015/16)** While the Authority is moving to a programme of rolling valuation from 2015/16, up until this point the Authority obtained a full valuation of its land and buildings portfolio once every 5 years on 1 April for the financial year in which the valuation was accounted for. We recommend that the Authority should seek to obtain valuations as at 31 March to minimise the risk of potentially significant changes in valuation during the course of the financial year, either impairments or upwards movements. Due to the new policy of revaluing some assets each year this creates a risk that significant asset changes for those assets not valued in that year are not recorded in the intervening period, potentially leading to material movements at the end of the revaluation cycle. As a matter of course we would recommend that as part of its annual reporting that management formally communicate to members their in-year assessment of any impairment or potential upward valuation of assets where those assets have not been subject to valuation at year end. This is particularly important where the Authority elects to continue to obtain valuations dated 1 April.	We will change the valuation dates to 31 March. As part of the formal annual reporting management will report to councillors their in-year assessment of any impairment or upward revaluation of assets where those assets have not been subject to valuation at year end. Action by: Principal Accountant and Head of Asset Management **Deadline: 30 June 2016** As part of the revaluation rolling programme, the valuers were instructed to value the properties which were due on the rolling programme valuation list for 2015/16 to be valued at 31 March 2016. Management has not reported to councillors on the in-year assessment of impairment and upward revaluation where those assets have not been subject to valuation at year end. Specific consideration should be given to management reporting to councillors in 2016/17. Action by: Principal Accountant and Head of Asset Management **Revised deadline: 30 June 2017** Action agreed outstanding. Action by: Chief Accountant in partnership with Commercial Property Manager **Revised deadline: 1 March 2018**	**In progress** This has been discussed with our municipal valuers (Kempton Carr Croft) and will be in place for 18/19.

Appendix 1

Recommendations raised and followed up

#	Risk	Recommendation	Management Response / Officer / Due Date	Status at July 2018
Financial statements				
7	3	**Timeliness of reconciliations (relates to 2015/16)** During our testing of payroll controls it was noted that reconciliations are not being prepared and reviewed in a timely manner. During our testing of cash, it was noted that reconciliations were not performed for nine months. The main cause is due to the Council not having a contingency plan in place when staff are on sick leave or unavailable. We recommend that the Council implement a robust plan to ensure that there is sufficient resilience within the finance team to cope with short term absences.	We will review our procedures around preparing and reviewing the reconciliations that are preformed and will look at the resilience issues within the team to cover short term absences. The problems around the testing of cash were not as a result of staff being unavailable or on sick leave. **Date: 31st December 2016** We reviewed two payroll reconciliations from the 2016/17 year and noted that neither had been reviewed within a month of the reconciliation being produced. We have therefore re-raised this recommendation to Management. Management Response: Action agreed outstanding. Sickness absences have impacted. Action by: Deputy Chief Accountant **Revised deadline: 30 November 2017**	**Superseded** We noted during our audit work that payroll reconciliations are still not being prepared and reviewed in a timely manner. Similar issues were found with the bank reconciliation. We have therefore raised a high priority recommendation to management as part of our work in 2017/18.

Materiality and reporting of audit differences

The assessment of what is material is a matter of professional judgment and includes consideration of three aspects:

- 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; and
- 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 used the same planning materiality reported in our External Audit Plan 2017/18, presented to you in June 2018.

Materiality for the Authority's accounts was set at £1 million which equates to around 1.45% of gross expenditure.

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

Reporting to 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 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 £0.65 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 Committee to assist it in fulfilling its governance responsibilities.

Appendix 3

Audit differences

Unadjusted audit differences

Under UK auditing standards (ISA (UK&I) 260) we are required to provide the Audit Committee with a summary of unadjusted audit differences (including disclosure misstatements) identified during the course of our audit, other than those which are 'clearly trivial', which are not reflected in the financial statements. In line with ISA (UK&I) 450 we request that you correct uncorrected misstatements. However, they will have no effect on the opinion in our auditor's report, individually or in aggregate. As communicated previously with the Audit Committee, details of all adjustments greater than £50K are shown below.

To date our work has not identified any unadjusted audit differences

Adjusted audit differences

To assist the Audit Committee in fulfilling its governance responsibilities we present a summary of adjusted audit differences (including disclosures) identified during the course of our audit. As our work is ongoing, we have not yet agreed a full list of adjustments with the Authority. We will provided an updated report upon concluding our work.

Appendix 3

Audit differences

Presentational adjustments – Authority

We identified presentational adjustments required to ensure that the Authority's financial statements for the year ending 31 March 2018 are fully compliant with the Code of Practice on Local Authority Accounting in the United Kingdom 2017-18 ('the Code'). Whilst the majority of these adjustments were not significant, we identified a number of adjustments of a more significant nature and details of these are provided in the following table. It is our understanding that these will be adjusted. However, we have not yet received a revised set of financial statements to confirm this.

Presentational adjustments – Authority	
#	**Basis of audit difference**
1	**Knowle Green Estates Limited** Completion of disclosures related to the subsidiary company in line with the CIPFA Code of Practice on Local Authority Accounting in the United Kingdom. This includes the provision of more detailed balances related to the subsidiary.

Audit independence

ASSESSMENT OF OUR OBJECTIVITY AND INDEPENDENCE AS AUDITOR OF SPELTHORNE BOROUGH COUNCIL

Professional ethical standards require us to provide to you at the conclusion of the audit a written disclosure of relationships (including the provision of non-audit services) that bear on KPMG LLP's objectivity and independence, the threats to KPMG LLP's independence that these create, any safeguards that have been put in place and why they address such threats, together with any other information necessary to enable KPMG LLP's objectivity and independence to be assessed.

In considering issues of independence and objectivity we consider relevant professional, regulatory and legal requirements and guidance, including the provisions of the Code of Audit Practice, the provisions of Public Sector Audit Appointments Limited's ('PSAA's') Terms of Appointment relating to independence, the requirements of the FRC Ethical Standard and the requirements of Auditor Guidance Note 1 - General Guidance Supporting Local Audit (AGN01) issued by the National Audit Office ('NAO') on behalf of the Comptroller and Auditor General.

This Statement is intended to comply with this requirement and facilitate a subsequent discussion with you on audit independence and addresses: general procedures to safeguard independence and objectivity; breaches of applicable ethical standards; independence and objectivity considerations relating to the provision of non-audit services; and independence and objectivity considerations relating to other matters.

General procedures to safeguard independence and objectivity

KPMG LLP is committed to being and being seen to be independent. As part of our ethics and independence policies, all KPMG LLP partners, Audit Directors and staff annually confirm their compliance with our ethics and independence policies and procedures. Our ethics and independence policies and procedures are fully consistent with the requirements of the FRC Ethical Standard. As a result we have underlying safeguards in place to maintain independence through: instilling professional values; communications; internal accountability; risk management; and independent reviews.

We are satisfied that our general procedures support our independence and objectivity.

Appendix 4

Audit independence

Independence and objectivity considerations relating to the provision of non-audit services

Summary of fees

We have considered the fees charged by us to the authority and its controlled entities for professional services provided by us during the reporting period. We have detailed the fees charged by us to the authority and its controlled entities for significant professional services provided by us during the reporting period, as well as the amounts of any future services which have been contracted or where a written proposal has been submitted. Total fees charged by us for the period ended 31 March 2018 can be analysed as follows:

	2017-18 £	2016-17 £
Audit of the Authority	48,128	48,128
Total audit services	**48,128**	**48,128***
Allowable non-audit services	-	-
Audit related assurance services	-	-
Mandatory assurance services	7,102	7,102
Total Non Audit Services	**7,102**	**7,102**

* Please note, overruns in respect of the 2016/17 are yet to be agreed with the Authority

We are required by AGN 01 to limit the proportion of fees charged for non-audit services (excluding mandatory assurance services) to 70% of the total fee for all audit work carried out in respect of the Authority under the Code of Audit Practice for the year. The ratio of non-audit fees to audit fees for the year was 0.15:1. We do not consider that the total of non-audit fees creates a self-interest threat since the absolute level of fees is not significant to our firm as a whole.

Audit independence

Facts and matters related to the provision of non-audit services and the safeguards put in place that bear upon our independence and objectivity, are set out in the table below:

Description of scope of services	Principal threats to independence and Safeguards applied	Basis of fee	Value of services delivered in the year ended 31 March 2018 £	Value of services committed but not yet delivered £
Mandatory assurance services				
Grant Certification – Housing Benefit Subsidy Return	The nature of this mandatory assurance service is to provide independent assurance on each the return. This work is required by the PSAA. As such we do not consider it to create any independence threats.	Fixed Fee	7,102	7,102
Certification of the housing benefit subsidy return as required by PSAA	The fee is set by PSAA.			

Contingent fees

We have not agreed any contingent fees with the Authority.

Audit independence

Independence and objectivity considerations relating to other matters

There are no other matters that, in our professional judgment, bear on our independence which need to be disclosed to the Audit Committee.

Confirmation of audit independence

We confirm that as of the date of this report, in our professional judgment, KPMG LLP is independent within the meaning of regulatory and professional requirements and the objectivity of the Audit Director and audit staff is not impaired.

This report is intended solely for the information of the Audit Committee of the authority and should not be used for any other purposes.

We would be very happy to discuss the matters identified above (or any other matters relating to our objectivity and independence) should you wish to do so.

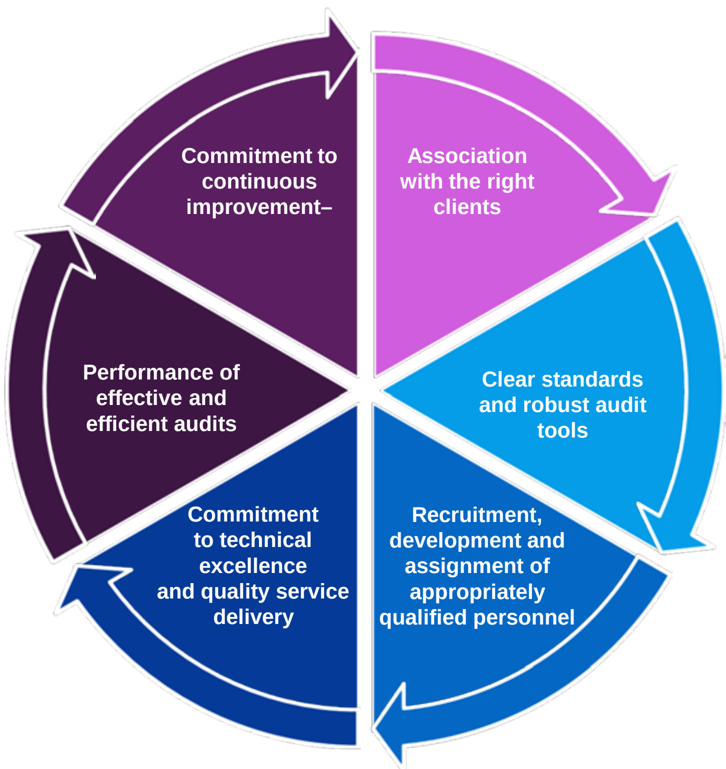
KPMG LLP

Audit quality framework

Audit quality is at the core of everything we do at KPMG and we believe that it is not just about reaching the right opinion, but how we reach that opinion. To ensure that every partner and employee concentrates on the fundamental skills and behaviours required to deliver an appropriate and independent opinion, we have developed our global Audit Quality Framework

- Comprehensive effective monitoring processes
- Proactive identification of emerging risks and opportunities to improve quality and provide insights
- Obtain feedback from key stakeholders
- Evaluate and appropriately respond to feedback and findings

- Select clients within risk tolerance
- Manage audit responses to risk
- Robust client and engagement acceptance and continuance processes
- Client portfolio management



- Professional judgement and scepticism
- Direction, supervision and review
- Ongoing mentoring and on the job coaching
- Critical assessment of audit evidence
- Appropriately supported and documented conclusions
- Relationships built on mutual respect
- Insightful, open and honest two way communications

- KPMG Audit and Risk Management Manuals
- Audit technology tools, templates and guidance
- Independence policies

- Technical training and support
- Accreditation and licensing
- Access to specialist networks
- Consultation processes
- Business understanding and industry knowledge
- Capacity to deliver valued insights

- Recruitment, promotion, retention
- Development of core competencies, skills and personal qualities
- Recognition and reward for quality work
- Capacity and resource management
- Assignment of team members and specialists

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