cutting through complexity

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

Spelthorne Borough Council

24 September 2015

Contents

The contacts at KPMG in connection with this report are:

Neil Hewitson
Director,
KPMG LLP

Tel: +44 20 73111791
Neil.Hewitson@kpmg.co.uk

Grant Slessor
Manager,
KPMG LLP

Tel: +44 20 73113849
Grant.Slessor@kpmg.co.uk

Report sections	Page
■ Introduction	2
■ Headlines	3
■ Financial statements	4
■ VFM conclusion	9
Appendices	
1. Key issues and recommendations	10
2. Follow-up of prior year recommendations	12
3. Audit differences	13
4. Declaration of independence and objectivity	14
5. Materiality and reporting of audit differences	16
6. KPMG Audit Quality Framework	17

This report is addressed to the Authority and has been prepared for the sole use of the Authority. We take no responsibility to any member of staff acting in their individual capacities, or to third parties. The Audit Commission issued a document entitled Statement of Responsibilities of Auditors and Audited Bodies summarising where the responsibilities of auditors begin and end and what is expected from audited bodies. We draw your attention to this document which is available on Public Sector Audit Appointment's website (www.psaa.co.uk).

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

We are committed to providing you with a high quality service. If you have any concerns or are dissatisfied with any part of KPMG's work, in the first instance you should contact Neil Hewitson, the engagement lead to the Authority, who will try to resolve your complaint. If you are dissatisfied with your response please contact the national lead partner for all of KPMG's work under our contract with Public Sector Audit Appointments Limited, Trevor Rees (on 0161 246 4000, or by email to trevor.rees@kpmg.co.uk). After this, if you are still dissatisfied with how your complaint has been handled you can access PSAA's complaints procedure by emailing generalenquiries@psaa.co.uk, by telephoning 020 7072 7445 or by writing to Public Sector Audit Appointments Limited, 3rd Floor, Local Government House, Smith Square, London, SW1P 3HZ.

Section one

Introduction

This document summarises:

- **the key issues identified during our audit of the financial statements for the year ended 31 March 2015 for the Authority; and**
- **our assessment of the Authority’s arrangements to secure value for money.**

Scope of this report

This report summarises the key findings arising from:

- our audit work at Spelthorne Borough Council (‘the Authority’) in relation to the Authority’s 2014/15 financial statements; and
- the work to support our 2014/15 conclusion on the Authority’s arrangements to secure economy, efficiency and effectiveness in its use of resources (‘VFM conclusion’).

Financial statements

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

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

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

VFM conclusion

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

- assessing the potential VFM risks and identifying the residual audit risks for our VFM conclusion;
- considering the results of relevant work by the Authority and other review agencies in relation to these risk areas; and
- carrying out additional risk-based work as necessary.

Structure of this report

This report is structured as follows:

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

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

Acknowledgements

We thank officers and Members for their continuing help and cooperation throughout our audit work.

Headlines

This table summarises the headline messages for the Authority. The remainder of this report provides further details on each area.

Proposed audit opinion	We anticipate issuing an unqualified audit opinion on the Authority's financial statements by 30 September 2015. We will also report that your Annual Governance Statement complies with guidance issued by CIPFA/SOLACE in June 2007.
Audit adjustments	Our audit has identified two adjustments with a total value of £0.7 million. The impact of these adjustments is to: ■ Decrease the deficit on provision of services for the year by £0.1 million; and ■ Increase the net worth of the Authority as at 31 March 2015 by £0.7 million. They have no impact on the general fund balance of the Authority. We have included a list of significant audit adjustments at Appendix 3. The Authority has not elected to make the two adjustments above as they are immaterial and one of the adjustments at £0.6m is based on extrapolation. We have raised recommendations in relation to the above matters, which are summarised in Appendices 1 and 2.
Key audit risks	We review risks to the financial statements on an ongoing basis. We identified no significant risks specific to the Authority during 2014/15 with respect to the financial statements.
Accounts production and audit process	As in the previous year the quality of the accounts and the supporting working papers is considered to be of a good standard. Officers dealt efficiently with audit queries and the audit process has been completed within the planned timescales. The Authority has implemented the majority of the recommendations from 2013/14.
Completion	At the date of this report our audit of the financial statements is substantially complete. Before we can issue our opinion we require a signed management representation letter. We have met our objectivity and independence requirements in 2014/15.
VFM conclusion and risk areas	We identified no specific VFM risks in our 2014/15 external audit plan. We have concluded that the Authority has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources. We therefore anticipate issuing an unqualified VFM conclusion by 30 September 2015. We have raised a recommendation that the importance of compliance with internal Council policy should be reinforced to ensure that they are adhered to at all times following an investigation in year.
Public Interest Reporting (not discussed further in this document)	In auditing the accounts we must consider: ■ whether, in the public interest, we should make a report on any matter coming to our notice in the course of the audit, in order for it to be considered by Authority or brought to the attention of the public; and ■ whether the public interest requires any such matter to be made the subject of an immediate report rather than at the conclusion of our audit. There are no matters in the public interest that we wish to raise at this time.

Financial Statements: proposed opinion and audit differences

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

We have not identified any issues in the course of the audit that are considered to be material.

Our audit has identified two audit adjustments. The impact of these adjustments is to:

- **Decrease the deficit on the provision of services for the year by £0.1 million; and**
- **Increase the net worth of the Authority as at 31 March 2015 by £0.7 million.**

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

Proposed audit opinion

We anticipate issuing an unqualified audit opinion on the Authority's financial statements following approval of the Statement of Accounts by the Audit Committee on 24 September 2015.

Audit differences

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

The final materiality (see Appendix 5 for more information on materiality) level for this year's audit was set at £1.1 million. Audit differences below £0.05 million are not considered significant.

We did not identify any material misstatements. We identified two issues that have not been adjusted by management as they do not have a material effect on the financial statements. All unadjusted differences are set out in Appendix 3.

The net impact of the unadjusted audit differences would have a nil impact on the general fund of the Authority but would increase its net worth by £0.7m.

Management have elected not to amend in this instance as the amounts are immaterial but as these are above the level which we would consider to be trivial we report these here for your consideration.

We identified presentational adjustments required to ensure that the accounts are compliant with the *Code of Practice on Local Authority Accounting in the United Kingdom 2014/15 ('the Code')*.

Annual Governance Statement (AGS)

We have reviewed the AGS and confirmed that:

- it complies with *Delivering Good Governance in Local Government: A Framework* published by CIPFA/SOLACE; and
- it is not misleading or inconsistent with other information we are aware of from our audit of the financial statements.

Financial Statements: significant risks and key areas of audit focus

We have worked with the Authority throughout the year to discuss significant risks and key areas of audit focus.

This section sets out our detailed findings on those areas.

In our *External Audit Plan 2014/15* presented to you in March 2015, we identify any specific significant risks affecting the Authority's 2014/15 financial statements. We have set out below key areas of focus in our audit work for 2014/15.

Area of Focus	Issue	Findings
Valuation of land and buildings	While we did not originally include this as an area of focus in our External Audit Plan 2014/15 we have noted that the Authority undertook a full valuation exercise in 2014/15 and have given this detailed consideration during the course of our audit work.	Our work in this area is complete. We note that following a recommendation raised in the prior year the Authority continues to capitalise and immediately impair non enhancing assets and we have reiterated our recommendation in Appendix 2. The value of these items in 2014/15 is £135k and has been recorded as an unadjusted audit difference in Appendix 3. The Authority has procured a full valuation of its other land and building holdings in year increasing the value of these from £37.7m to £45.1m. We have confirmed that the Authority valuer is appropriately qualified and have reviewed movements in asset values in line with independent indices available to us. While we are satisfied that the valuer is suitably qualified we note that the Authority valuation was based on 01 April 2014 values. We do not consider the movement during the course of the year to have been material. Based on available indices the in extrapolated in year movement is £0.6m. This is recorded as an unadjusted audit difference in Appendix 3. In Appendix 1 we recommend that revaluation dates should be on or close to the year end date. As the valuation was based on 01 April 2014 management should formally report its review of any impairments or potential upwards revaluations between that point and year end. While management is comfortable with the valuations used (and our inquiries and review do not indicate significant impairment) this is not formally reported and we will request a specific management representation in this regard. We would recommend a formal report annually particularly for assets where a formal valuation has not been conducted and have raised a recommendation in this regard in Appendix 1. We have no other matters that we wish to bring to your attention.

Financial Statements: significant risks and key areas of audit focus

In our *External Audit Plan 2014/15* we reported that we would consider two risk areas that are specifically required by professional standards and report our findings to you. These risk areas were Management override of controls and the fraud risk of revenue recognition.

The table below sets out the outcome of our audit procedures and assessment on these risk areas.

Areas of significant risk		Summary of findings
Management override of controls	Audit areas affected ■ All areas	Our audit methodology incorporates the risk of management override as a default significant risk. Management is typically in a unique position to perpetrate fraud because of its ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. We have not identified any specific additional risks of management override relating to this audit. In line with our methodology, we carried out appropriate controls testing and substantive procedures, including over journal entries, accounting estimates and significant transactions that are outside the normal course of business, or are otherwise unusual. There are no matters arising from this work that we need to bring to your attention.
Fraud risk of revenue recognition	Audit areas affected ■ None	Professional standards require us to make a rebuttable presumption that the fraud risk from revenue recognition is a significant risk. In our External Audit Plan 2014/15 we reported that we do not consider this to be a significant risk for Local Authorities as there is unlikely to be an incentive to fraudulently recognise revenue. This is still the case. Since we have rebutted this presumed risk, there has been no impact on our audit work.

Financial Statements: accounts production and audit process

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

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

Accounts production and audit process

ISA 260 requires us to communicate to you our views about the significant qualitative aspects of the Authority's accounting practices and financial reporting. We assessed the Authority's process for preparing the accounts and its support for an efficient audit.

We considered the following criteria:

Element	Commentary
Accounting practices and financial reporting	The Authority continues to maintain a good financial reporting process and produce statements of accounts to a good standard. We consider that accounting practices are appropriate
Completeness of draft accounts	We received a complete set of draft accounts on 30 June 2015. The Authority has made presentational changes to the draft accounts however there have been no fundamental changes.
Quality of supporting working papers	We issued our Accounts Audit Protocol including our required working papers for the audit in May 2015. The quality of working papers provided was high and fully met the standards specified in our Accounts Audit Protocol.
Response to audit queries	Officers resolved all audit queries in a timely manner.

Prior year recommendations

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

The Authority has implemented the majority of the recommendations in our *ISA 260 Report 2013/14*.

Appendix 2 provides further details.

Financial Statements: completion

We confirm that we have complied with requirements on objectivity and independence in relation to this year's audit of the Authority's financial statements.

Before we can issue our opinion we require a signed management representation letter.

Once we have finalised our opinions and conclusions we will prepare our Annual Audit Letter and close our audit.

Declaration of independence and objectivity

As part of the finalisation process we are required to provide you with representations concerning our independence.

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

We have provided a detailed declaration in Appendix 4 in accordance with ISA 260.

Management representations

You are required to provide us with representations on specific matters such as your financial standing and whether the transactions within the accounts are legal and unaffected by fraud. We have provided a template to the Assistant Chief Executive for presentation to the Audit Committee. We require a signed copy of your management representations before we issue our audit opinion.

Other matters

ISA 260 requires us to communicate to you by exception 'audit matters of governance interest that arise from the audit of the financial statements' which include:

- significant difficulties encountered during the audit;
- significant matters arising from the audit that were discussed, or subject to correspondence with management;
- other matters, if arising from the audit that, in the auditor's professional judgment, are significant to the oversight of the financial reporting process; and
- matters specifically required by other auditing standards to be communicated to those charged with governance (e.g. significant deficiencies in internal control; issues relating to fraud, compliance with laws and regulations, subsequent events, non disclosure, related party, public interest reporting, questions/objections, opening balances etc).

There are no others matters which we wish to draw to your attention in addition to those highlighted in this report.

VFM conclusion

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

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

Background

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

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

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

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

Work completed

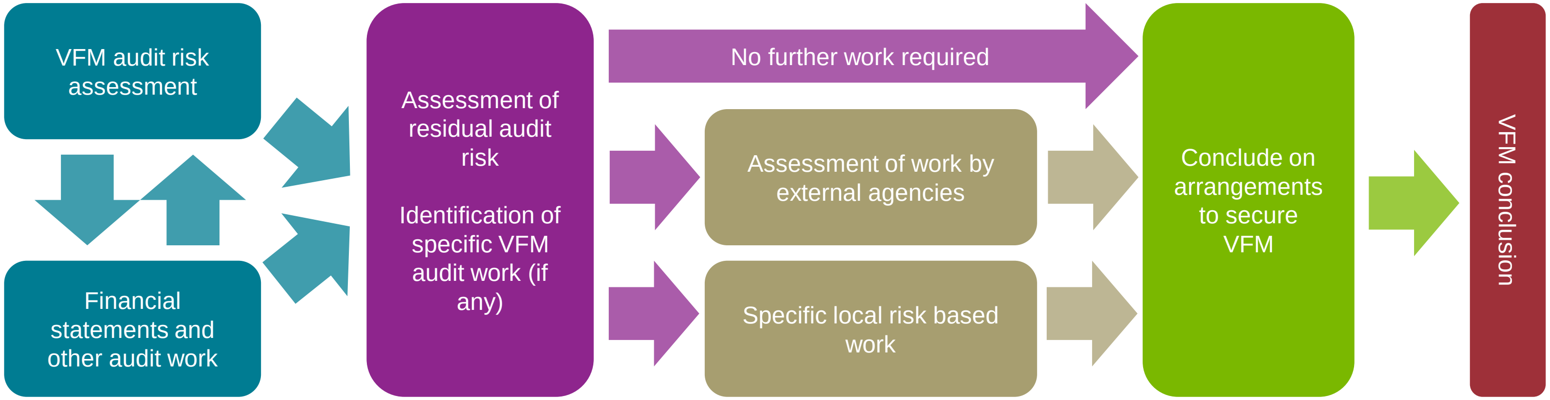
We performed a risk assessment earlier in the year and have reviewed this throughout the year.

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

Conclusion

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

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



Appendix 1: Key issues and recommendations

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

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

We will formally follow up these recommendations next year.

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

#	Priority	Issue and recommendation	Management response / responsible officer / due date
1	**Priority one**	**Compliance with Council Policy** Following a recent investigation, concerns were raised about potential non-compliance with Council policy following negotiations over a proposed asset disposal. Whilst the investigation concluded no further legal action was required, the Council should reiterate the importance of compliance with its internal processes and code of conduct to ensure that they are adhered to at all times.	Agreed. The Council will reiterate to officers and councillors the importance of compliance with internal processes and codes of Conduct. Responsible Officers: Management Team and Head of Corporate Governance. Due Date: 31 March 2016.

Appendix 1: Key issues and recommendations

#	Priority	Issue and recommendation	Management response / responsible officer / due date
2	Priority two	**Valuation Frequency and Timing** 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.	Agreed. We will change the valuation dates to the 31st 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. Responsible Officers: Principal Accountant and Head of Asset Management. Due Date: June 2016.

Appendix 2: Follow up of prior year recommendations

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

We re-iterate the importance of the outstanding recommendations and recommend that these are implemented as a matter of urgency.

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

Number of recommendations that were:	
Included in original reports	3
Implemented in year or superseded	2
Overdue (re-iterated below)	1

#	Priority	Issue and recommendation	Officer responsible and due date	Status as at August 2015
1	Priority two	**Capital Enhancements** Our work on PPE notes that the Council capitalise certain building works and then immediately impair these on the basis that they are considered not to add to the value of the asset. Where expenditure is not considered to be enhancing or otherwise does not meet Code criteria it may not be appropriate for this to be funded from capital sources. Sufficient capital financing was provided from revenue in year that this would not have resulted in inappropriate use of capital funds but this could result in this in future years if this issue recurs. As we note in Appendix 3 the Council consider that this expenditure was capital in nature. It should therefore be depreciated. We recommend that the Council review its capital expenditure in year to ensure that it is compliant with the Code definition of capital expenditure. Where expenditure is considered to be enhancing this should not be immediately impaired and should be depreciated over an appropriate useful economic life.	**Recommendation accepted** Capital expenditure will be monitored throughout the year. **Responsible Officers**: Adrian Flynn and Ryan Maslen **Due date**: 31 March 2015	**Overdue** While the value of such items has fallen by 51% (from £262k to £135k) in year we note that this treatment continues to be adopted. Specific consideration should be given to addressing this in 2015/16.

Appendix 3: Audit differences

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

We are reporting all audit differences over £0.05m.

The cumulative impact of uncorrected audit differences is £0.7m.

This is below our materiality level of £1.1m.

We are required by ISA 260 to report all uncorrected misstatements, other than those that we believe are clearly trivial, to those charged with governance (which in your case is the Audit Committee). We are also required to report all material misstatements that have been corrected but that we believe should be communicated to you to assist you in fulfilling your governance responsibilities. There are no corrected material misstatements.

Uncorrected audit differences

The following table sets out the significant audit differences identified by our audit that remain uncorrected.

	Impact £'000					
No.	Income and Expenditure Statement	Movement in Reserves Statement	Assets	Liabilities	Reserves	Basis of audit difference
1	Cr Impairments £135	Dr Adjustments between accounting and funding basis £135	Dr PPE £135	-	Cr Capital Adjustment Account £135	As noted in Appendix 2 the Authority capitalises specific expenditure and then immediately impairs it. The Authority will review its treatment of such matters in future years but has not adjusted the 2014/15 accounts on the basis that this matter is not material.
2	-	-	Dr PPE £604	-	Cr Revaluation Reserve £604	As noted in Appendix 1 the Authority's revaluation was dated 1 April 2014. The adjustment here reflects extrapolation of the impact of potential movements from 1 April 2014 through to 31 March 2015 based on available indices.
	Cr £135	**Dr £135**	**Dr £739**	**-**	**Cr £739**	**Total impact of adjustments**

Appendix 4: Declaration of independence and objectivity

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

Requirements

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

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

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

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

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

Appointed auditors are also required to confirm in writing that they have complied with Ethical Standards and that, in the auditor's professional judgement, the auditor is independent and the auditor's objectivity is not compromised, or otherwise declare that the auditor has concerns that the auditor's objectivity and independence may be compromised and explaining the actions which necessarily follow from his. These matters should be discussed with the Audit Committee.

Ethical Standards require us to communicate to those charged with governance in writing at least annually all significant facts and matters, including those related to the provision of non-audit services and the safeguards put in place that, in our professional judgement, may reasonably be thought to bear on our independence and the objectivity of the Engagement Lead and the audit team.

General procedures to safeguard independence and objectivity

KPMG's reputation is built, in great part, upon the conduct of our professionals and their ability to deliver objective and independent advice and opinions. That integrity and objectivity underpins the work that KPMG performs and is important to the regulatory environments in which we operate. All partners and staff have an obligation to maintain the relevant level of required independence and to identify and evaluate circumstances and relationships that may impair that independence.

Appendix 4: Declaration of independence and objectivity

We confirm that we have complied with requirements on objectivity and independence in relation to this year's audit of the Authority's financial statements.

Acting as an auditor places specific obligations on the firm, partners and staff in order to demonstrate the firm's required independence. KPMG's policies and procedures regarding independence matters are detailed in the *Ethics and Independence Manual* ('the Manual'). The Manual sets out the overriding principles and summarises the policies and regulations which all partners and staff must adhere to in the area of professional conduct and in dealings with clients and others.

KPMG is committed to ensuring that all partners and staff are aware of these principles. To facilitate this, a hard copy of the Manual is provided to everyone annually. The Manual is divided into two parts. Part 1 sets out KPMG's ethics and independence policies which partners and staff must observe both in relation to their personal dealings and in relation to the professional services they provide. Part 2 of the Manual summarises the key risk management policies which partners and staff are required to follow when providing such services.

All partners and staff must understand the personal responsibilities they have towards complying with the policies outlined in the Manual and follow them at all times. To acknowledge understanding of and adherence to the policies set out in the Manual, all partners and staff are required to submit an annual ethics and independence confirmation. Failure to follow these policies can result in disciplinary action.

Auditor declaration

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

Appendix 5: Materiality and reporting of audit differences

For 2014/15 our materiality was £1.1 million for the Authority's accounts.

We have reported all audit differences over £0.05 million for the Authority's accounts to the Audit Committee.

Materiality

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

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

We used the same planning materiality reported in our External Audit Plan 2014/15.

Materiality for the Authority's accounts was set at £1.1 million which equates to around two 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 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 £0.05 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 6: KPMG Audit Quality Framework

We continually focus on delivering a high quality audit.

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

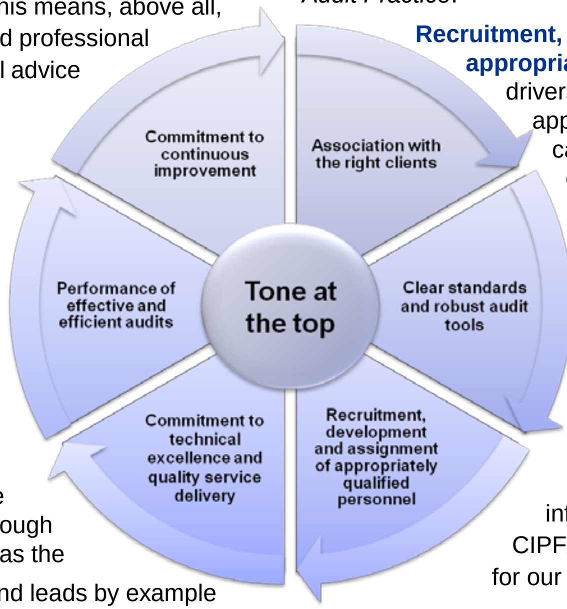
KPMG's Audit Quality Framework consists of seven key drivers combined with the commitment of each individual in KPMG.

The diagram summarises our approach and each level is expanded upon.

At KPMG we consider audit quality is not just about reaching the right opinion, but how we reach that opinion. KPMG views the outcome of a quality audit as the delivery of an appropriate and independent opinion in compliance with the auditing standards. It is about the processes, thought and integrity behind the audit report. This means, above all, being independent, compliant with our legal and professional requirements, and offering insight and impartial advice to you, our client.

KPMG's Audit Quality Framework consists of seven key drivers combined with the commitment of each individual in KPMG. We use our seven drivers of audit quality to articulate what audit quality means to KPMG.

We believe it is important to be transparent about the processes that sit behind a KPMG audit report, so you can have absolute confidence in us and in the quality of our audit.



Tone at the top: We make it clear that audit quality is part of our culture and values and therefore non-negotiable. Tone at the top is the umbrella that covers all the drives of quality through a focused and consistent voice. Neil Hewitson as the Engagement Lead sets the tone on the audit and leads by example with a clearly articulated audit strategy and commits a significant proportion of his time directing and supporting the team.

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

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

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

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

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

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

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

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

Appendix 6: KPMG Audit Quality Framework

We continually focus on delivering a high quality audit.

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

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

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

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

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

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

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

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

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

cutting through complexity™