



# External Audit Plan 2017/2018

Sandwell Metropolitan  
Borough Council

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January 2018



# Summary for Audit and Risk Assurance Committee

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## Financial Statements

There are no significant changes to the Code of Practice on Local Authority Accounting ("the Code") in 2017/18, which provides stability in terms of the accounting standards the Council need to comply with.

The deadline for the production and signing of the financial statements has been significantly advanced in comparison to year ended 31 March 2017. We recognise that the Council has successfully advanced its own accounts production timetable in prior years, further advances will be required in order to ensure that deadlines are met. It is still important that the Council manages its closedown process to meet the earlier deadline.

## Significant risks

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

- **Valuation of PPE** – Whilst the Council operates a cyclical revaluation approach, the Code requires that all land and buildings be held at fair value. We will consider the way in which the Council ensures that assets not subject to in-year revaluation are not materially misstated;
- **Pension Liabilities** – The valuation of the Council's pension liability, as calculated by the Actuary, is dependent upon both the accuracy and completeness of the data provided and the assumptions adopted. We will review the processes in place to ensure accuracy of data provided to the Actuary and consider the assumptions used in determining the valuation.
- **Faster Close** – As set out above, the timetable for the production of the financial statements has been significantly advanced with draft accounts having to be prepared by 31 May 2018 (2017: 30 June) and the final accounts signed by 31 July 2018 (2017: 30 September). We will continue to work with the Council in advance of our audit to understand the steps being taken to meet these deadlines and the impact on our work.

## Other areas of audit focus

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

- Formation of a separate entity in response to the Statutory Direction to form a Children's Services Trust.

**See pages 3 to 8 for more details**

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# Summary for Audit and Risk Assurance Committee (cont.)

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## Materiality

Materiality for planning purposes has been set at **£10 million**.

We are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance and this has been set at **£0.5 million**.

**See pages 9 to 10 for more details**

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## Value for Money Arrangements work

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

- **Delivery of Budgets** – As a result of reductions in central government funding, and other pressures, the Council is having to make additional savings beyond those from prior years. We will consider the way in which the Council identifies, approves, and monitors both savings plans and how budgets are monitored throughout the year; and
- **Children's Services** – The Council was notified of a Statutory Direction in October 2016 to set up a Children's Trust to deliver children's social care services. In the Commissioner of Children's Services final quarterly report to Department for Education in 2016/17, he reported that he was not satisfied with the pace of progress, over the preceding six months, in delivering the required improvements in children's services. As a consequence we reported that we had reached an 'except for' Value for Money conclusion for 2016/17. We will review the Commissioner and Ofsted's findings along with those of other regulatory bodies. We will also consider action taken by the Council in response to these findings, and Statutory Direction.

**See pages 11 to 16 for more details**

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## Logistics

Our team is:

- Andrew Cardoza – Director
- Robert Chidlow – Senior Manager
- Mark Breese – Manager
- Elsa Conaty – Assistant Manager

More details are on **page 20**.

Our work will be completed in four phases from January to July and our key deliverables are this Audit Plan and subsequent reporting to Those Charged With Governance as outlined on **page 19**.

Our fee for the 2017/18 audit is £198,878 (£198,878 2016/2017) see **page 18**, however this does not include additional work required in relation to additional risks or other matters brought to our attention. All changes in fees are subject to approval by PSAA.

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# Introduction

## Background and Statutory responsibilities

This document supplements our Audit Fee Letter 2017/18 presented to you in April 2017, which also sets out details of our appointment by Public Sector Audit Appointments Ltd (PSAA).

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

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

**01 | Financial statements:**  
Providing an opinion on your accounts. We also review the Annual Governance Statement and Narrative Report and report by exception on these; and

**02 | Use of resources:**  
Concluding on the arrangements in place for securing economy, efficiency and effectiveness in your use of resources (the value for money conclusion).

The audit planning process and risk assessment is an on-going process and the assessment and fees in this plan will be kept under review and updated if necessary. Any change to our identified risks will be reported to the Audit and Risk Assurance Committee.

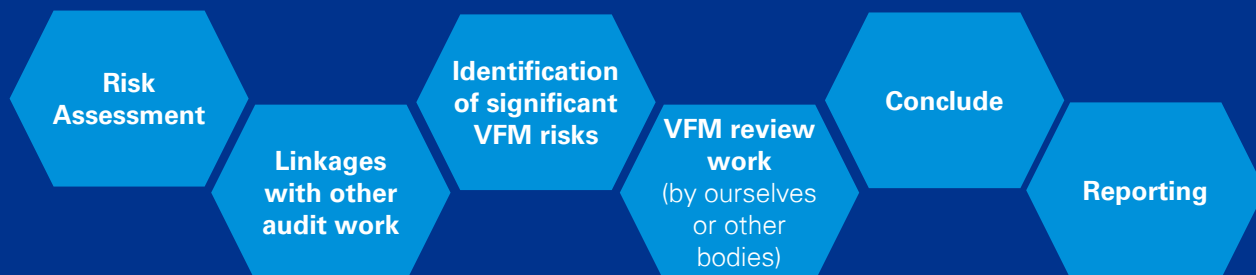
## Financial Statements Audit

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



## Value for Money Arrangements Work

Our Value for Money (VFM) Arrangements Work follows a five stage process which is identified below. Page 11 provides more detail on the activities that this includes. This report concentrates on explaining the VFM approach for 2017/18 and the findings of our VFM risk assessment.



# Financial statements audit planning

## Financial Statements Audit Planning

Our planning work takes place during October 2017 to January 2018. This involves the following key aspects:

- Determining our materiality level;
- Risk assessment;
- Identification of significant risks;
- Consideration of potential fraud risks;
- Identification of key account balances in the financial statements and related assertions, estimates and disclosures;
- Consideration of management's use of experts; and
- Issuing this audit plan to communicate our audit strategy.

## Risk assessment

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

# 01

## 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.

# 02

## Fraudulent revenue recognition

We do not consider this to be a significant risk for local authorities as there are limited incentives and opportunities to manipulate the way income is recognised. We therefore rebut this risk and do not incorporate specific work into our audit plan in this area over and above our standard fraud procedures.

# Financial statements audit planning (cont.)

## 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 Council.

<b>Risk:</b>	<b>Valuation of PPE</b> <p>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 Council has adopted a rolling revaluation model which sees all land and buildings revalued over a five year cycle. As a result of this, however, individual assets may not be revalued for four years.</p> <p>This creates a risk that the carrying value of those assets not revalued in year differs materially from the year end fair value. In addition, as the valuation is undertaken as at 1 April, there is a risk that the fair value is different at the year end.</p>
<b>Approach:</b>	<p>We will review the approach that the Council has adopted to assess the risk that assets not subject to valuation are materially misstated and consider the robustness of that approach. We will also assess the risk of the valuation changing materially during the year.</p> <p>In addition, we will consider movement in market indices between revaluation dates and the year end in order to determine whether these indicate that fair values have moved materially over that time.</p> <p>In relation to those assets which have been revalued during the year 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).</p>

# Financial statements audit planning (cont.)

## Significant Audit Risks (cont.)

<b>Risk:</b>	<p><b>Pension Liabilities</b></p> <p>The net pension liability represents a material element of the Council's balance sheet. The Council is an admitted body of West Midlands 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.</p> <p>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 Council's overall valuation.</p> <p>There are financial assumptions and demographic assumptions used in the calculation of the Council's valuation, such as the discount rate, inflation rates, mortality rates etc. The assumptions should also reflect the profile of the Council'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.</p> <p>There is a risk that the assumptions and methodology used in the valuation of the Council's pension obligation are not reasonable. This could have a material impact to net pension liability accounted for in the financial statements.</p>
<b>Approach:</b>	<p>As part of our work we will review the controls that the Council has in place over the information sent directly to Barnett Waddingham, the scheme actuary. We will also liaise with the auditors of the Pension Fund in order to gain an understanding of the effectiveness of those controls operated by the Pension Fund. This will include consideration of the process and controls with respect to the assumptions used in the valuation. We will also evaluate the competency, objectivity and independence of the scheme actuary.</p> <p>We will review the appropriateness of the key assumptions included within the valuation, compare them to expected ranges, and consider the need to make use of a KPMG Actuary. We will review the methodology applied in the valuation by the scheme actuary.</p> <p>In addition, we will review the overall Actuarial valuation and consider the disclosure implications in the financial statements.</p>



# Financial statements audit planning (cont.)

## Significant Audit Risks (cont.)

<b>Risk:</b>	<b>Faster Close</b> <p>In prior years, the Council 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.</p> <p>We have reported previously that the Council has recognised the additional pressures which the earlier closedown in 2017/18 will bring. Over the last two years we have proactively engaged with the Council in order to continue to address issues as they emerge and bring forward the reporting timetable.</p> <p>The Council has looked to strengthen its financial reporting by finalising the accounts in a shorter timescale. During 2016/17, the Council continued to prepare for these revised deadlines and advanced its own accounts production timetable so that draft accounts were ready by 5 June 2017. This puts the Council in a good position to meet the new 2017/18 deadline. Nonetheless, there is scope to improve the process further to ensure that the statutory deadlines for 2017/18 are met.</p> <p>In order to meet the revised deadlines, the Council 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. In addition, there are a number of logistical challenges that will need to be managed. These include:</p> <ul style="list-style-type: none"><li>— Ensuring that any third parties involved in the production of the accounts (e.g. valuers, actuaries) are aware of the revised deadlines and have made arrangements to provide the output of their work in accordance with this;</li><li>— Revising the closedown and accounts production timetable in order to ensure that all working papers and other supporting documentation are available at the start of the audit process;</li><li>— Ensuring that the Audit and Risk Assurance Committee meeting schedules have been updated to permit signing in July; and</li><li>— Applying a shorter paper deadline to the July meeting of the Audit and Risk Assurance Committee meeting in order to accommodate the production of the final version of the accounts and our ISA 260 report.</li></ul> <p>In the event that the above areas are not effectively managed there is a significant risk that the audit will not be completed by the 31 July deadline.</p> <p>There is also 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 Council's Whole of Government Accounts return. This is not a matter of concern and is not seen as a breach of deadlines.</p>
<b>Approach:</b>	<p>We will continue to liaise with officers in preparation for our audit in order to understand the steps that the Council is taking in order to ensure it meets the revised deadlines. We will also look to advance audit work into the interim visit in order to streamline the year end audit work.</p> <p>Where there is greater reliance upon accounting estimates we will consider the assumptions used and challenge the robustness of those estimates.</p>



# Financial statements audit planning (cont.)

## 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.

### Issue:

#### **Formation of a separate entity in response to the Statutory Direction to form a Children's Services Trust**

On 19 October 2016 Cabinet was advised of the Government's Statutory Direction to set up a Children's Trust to deliver children's social care services for a period of time. A Memorandum of Understanding was agreed by the Cabinet in December 2016. The Sandwell Children's Social Care Trust was incorporated on 15 February 2017, with activity expected to transfer from the Council effective from 1 April 2018.

The formation of a new legal entity will have implications for both accounting and tax treatment.

### Approach:

We will continue to work with the Council to understand their plans and agree the associated audit requirements. We will engage relevant technical expertise to ensure that the treatment of the new legal entity is appropriate.

# Financial statements audit planning (cont.)

## Materiality

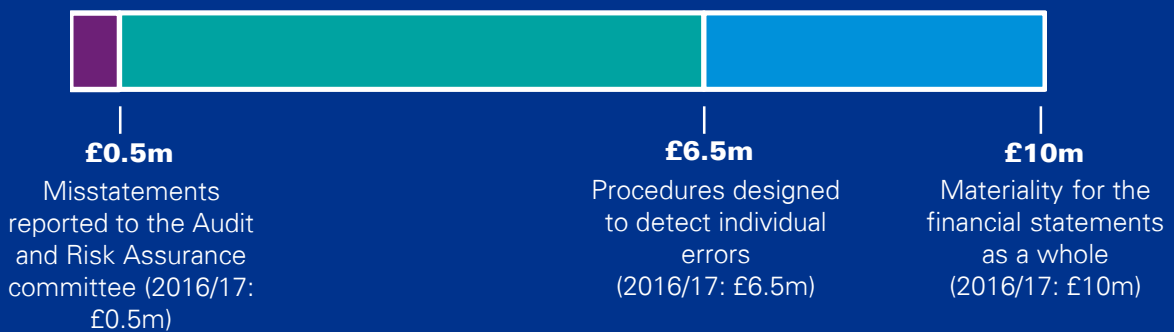
We are required to plan our audit to determine with reasonable confidence whether or not the financial statements are free from material misstatement. An omission or misstatement is regarded as material if it would reasonably influence the user of financial statements. This therefore involves an assessment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

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

For the Council, materiality for planning purposes has been set at £10 million, which equates to 1.2% percent of gross expenditure.

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

**Prior Year Gross Expenditure: £811.7m (2016/17: £900.2m)**



# Financial statements audit planning (cont.)

## Reporting to the Audit and Risk Assurance Committee

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

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

In the context of the Council, we propose that an individual difference could normally be considered to be clearly trivial if it is less than £0.5 million.

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

### We will report:



Non-Trivial corrected audit misstatements



Non-trivial uncorrected audit misstatements



Errors and omissions in disclosure  
(Corrected and uncorrected)

## Group audit

Management have considered the requirement to prepare Group accounts. On the basis of the current Group structure, and size of the entities that would potentially form the Group, management have determined that Group accounts are not required.

We note that next year, following the transfer of delivery of Children's Services to the Trust, Group accounts will be required.

# Value for money arrangements work

## VFM audit approach

The Local Audit and Accountability Act 2014 requires auditors of local government bodies to be satisfied that the Council '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.'

## Overall criterion

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

The VFM approach is fundamentally unchanged from that adopted in 2016/17 and the process is shown in the diagram below. The diagram overleaf shows the details of the sub-criteria for our VFM work.



# Value for money arrangements work (cont.)

## Value for Money sub-criterion

### Informed decision making

Proper arrangements:

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

### Sustainable resource deployment

Proper arrangements:

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

### Working with partners and third parties

Proper arrangements:

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

# Value for money arrangements work (cont.)

## VFM audit stage



### VFM audit risk assessment

#### Audit approach

We consider the relevance and significance of the potential business risks faced by all local authorities, and other risks that apply specifically to the Council. These are the significant operational and financial risks in achieving statutory functions and objectives, which are relevant to auditors' responsibilities under the *Code of Audit Practice*.

In doing so we consider:

- The Council's own assessment of the risks it faces, and its arrangements to manage and address its risks;
- Information from the Public Sector Auditor Appointments Limited VFM profile tool;
- Evidence gained from previous audit work, including the response to that work; and
- The work of other inspectorates and review agencies.



### Linkages with financial statements and other audit work

#### Audit approach

There is a degree of overlap between the work we do as part of the VFM audit and our financial statements audit. For example, our financial statements audit includes an assessment and testing of the Council's organisational control environment, including the Council's financial management and governance arrangements, many aspects of which are relevant to our VFM audit responsibilities.

We have always sought to avoid duplication of audit effort by integrating our financial statements and VFM work, and this will continue. We will therefore draw upon relevant aspects of our financial statements audit work to inform the VFM audit.



### Identification of significant risks

#### Audit approach

The Code identifies a matter as significant '*if, in the auditor's professional view, it is reasonable to conclude that the matter would be of interest to the audited body or the wider public. Significance has both qualitative and quantitative aspects.*'

If we identify significant VFM risks, then we will highlight the risk to the Council and consider the most appropriate audit response in each case, including:

- Considering the results of work by the Council, inspectorates and other review agencies; and
- Carrying out local risk-based work to form a view on the adequacy of the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources.

# Value for money arrangements work (cont.)

## VFM audit stage



### Assessment of work by other review agencies, and Delivery of local risk based work

#### Audit approach

Depending on the nature of the significant VFM risk identified, we may be able to draw on the work of other inspectorates, review agencies and other relevant bodies to provide us with the necessary evidence to reach our conclusion on the risk.

We will also consider the evidence obtained by way of our financial statements audit work and other work already undertaken.

If evidence from other inspectorates, agencies and bodies is not available and our other audit work is not sufficient, we will need to consider what additional work we will be required to undertake to satisfy ourselves that we have reasonable evidence to support the conclusion that we will draw. Such work may include:

- Additional meetings with senior managers across the Council;
- Review of specific related minutes and internal reports;
- Examination of financial models for reasonableness, using our own experience and benchmarking data from within and without the sector.



### Concluding on VFM arrangements

#### Audit approach

At the conclusion of the VFM audit we will consider the results of the work undertaken and assess the assurance obtained against each of the VFM themes regarding the adequacy of the Council's arrangements for securing economy, efficiency and effectiveness in the use of resources.

If any issues are identified that may be significant to this assessment, and in particular if there are issues that indicate we may need to consider qualifying our VFM conclusion, we will discuss these with management as soon as possible. Such issues will also be considered more widely as part of KPMG's quality control processes, to help ensure the consistency of auditors' decisions.



### Reporting

#### Audit approach

On the following page, we report the results of our initial risk assessment. We will update our assessment throughout the year should any issues present themselves and report against these in our ISA260.

We will report on the results of the VFM audit through our ISA 260 Report. This will summarise any specific matters arising, and the basis for our overall conclusion.

The key output from the work will be the VFM conclusion (i.e. our opinion on the Council's arrangements for securing VFM), which forms part of our audit report.



# Value for money arrangements work (cont.)

## Significant VFM Risks

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

<b>Risk:</b>	<b>Delivery of budgets</b> <p>The Council operates a multi-year rolling budget planning process. Services delivered reported savings of £20.8m in 2016/17 and are expected to deliver a further £16.7m of savings in 2017/18. It is expected that a further £16.6m of savings will be required by 2019/20. A balanced budget for this period will be delivered through the Council's Facing the Future programme. The Facing the Future programme is collectively managed and consists of cross cutting savings and change management projects. The savings targets are held as a central item and then allocated to relevant directorates once projects are sufficiently developed.</p> <p>The need for savings will continue to have a significant impact on the Council's financial resilience.</p>
<b>Approach:</b>	As part of our additional risk based work, we will review the controls the Council 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.
<b>VFM Sub-criterion:</b>	This risk is related to the following Value For Money sub-criterion <ul style="list-style-type: none"><li>— Informed decision making;</li><li>— Sustainable resource deployment; and</li><li>— Working with partners and third parties.</li></ul>

# Value for money arrangements work (cont.)

## Significant VFM Risks (cont.)

<b>Risk:</b>	<p><b>Children’s Services</b></p> <p>On 6 October 2016 the Council was formally notified of the Government’s Statutory Direction to set up a Children’s Trust to deliver children’s social care services. The Statutory Direction on 6 October 2016 coincided with the appointment of a new Commissioner for Children’s Services reporting to the Department for Education (DfE), the arrangement in place to support the improvement in children’s social care.</p> <p>On 14 March 2017 as part of his quarterly reporting to DfE, the Commissioner for Children’s Services reported that whilst the Council had made excellent progress with setting up the Trust itself, he was not satisfied with the pace of progress, over the preceding six months, in delivering the required improvements in children’s services.</p> <p>Children’s services are a strategic priority but in the 2016/17 period, despite the considerable mobilisation of resources, the Council had yet to demonstrate the delivery of required service improvements. Having considered the findings and conclusions of the above inspections, together with the results of our audit work, we concluded that the Council did not have proper arrangements in place to meet the requirements of the sub-criteria relating to ‘informed decision making’ and ‘sustainable resource deployment’. As a consequence we reported that we had reached an ‘except for’ Value for Money conclusion.</p>
<b>Approach:</b>	<p>We will review the Commissioner and Ofsted’s findings along with those of other regulatory bodies. We will also consider action taken by the Council in response to these findings, and Statutory Direction.</p>
<b>VFM Sub-criterion:</b>	<p>This risk is related to the following Value For Money sub-criterion</p> <ul style="list-style-type: none"><li>— Informed decision making;</li><li>— Sustainable resource deployment.</li></ul>

# Other matters

## Whole of government accounts (WGA)

We are required to review your WGA consolidation and undertake the work specified under the approach that is agreed with HM Treasury and the National Audit Office. Deadlines for production of the pack and the specified approach for 2017/18 have not yet been confirmed.

## Elector challenge

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

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

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

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

We have received an objection from an elector in July 2017 on the 2016/17 Statement of Accounts primarily in relation to the Council's PFI Schemes. We are continuing to liaise with management to enable us to conclude and respond to the matters raised, and to enable us to issue our opinion on the 2016/17 Statement of Accounts.



# Other matters

## Reporting and communication

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

## Independence and Objectivity

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

## Audit fee

Our Audit Fee Letter 2017/2018 presented to you in April 2017 first set out our fees for the 2017/2018 audit. This letter also set out our assumptions. We have not considered it necessary to seek approval for any changes to the 2017/18 agreed fees at this stage.

Should there be a need to charge additional audit fees then this will be agreed with the s.151 Officer and PSAA. If such a variation is agreed, we will report that to you in due course.

The planned audit fee for 2017/18 is £198,878, compared to 2016/2017 of £198,878.

## Appendix 1:

# Key elements of our financial statements audit approach

### Audit workflow

#### Planning

- Determining our materiality level;
- Risk assessment;
- Identification of significant risks;
- Consideration of potential fraud risks;
- Identification of key account balances in the financial statements and related assertions, estimates and disclosures;
- Consideration of managements use of experts; and
- Issuing this audit plan to communicate our audit strategy.

#### Control evaluation

- Understand accounting and reporting activities;
- Evaluate design and implementation of selected controls;
- Test operating effectiveness of selected controls; and
- Assess control risk and risk of the accounts being misstated.

#### Substantive testing

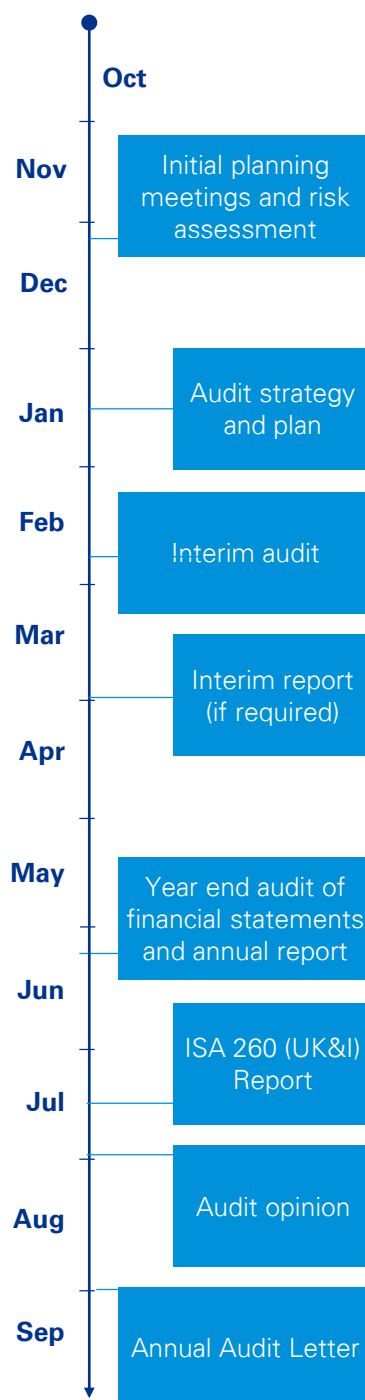
- Plan substantive procedures;
- Perform substantive procedures; and
- Consider if audit evidence is sufficient and appropriate.

#### Completion

- Perform completion procedures;
- Perform overall evaluation;
- Form an audit opinion; and
- Audit and Risk Assurance Committee reporting.

### Communication

Continuous communication involving regular meetings between Audit and Risk Assurance Committee, Senior Management and audit team.



## Appendix 2:

# Audit team

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

### Andrew Cardoza

Director

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E: andrew.cardoza@kpmg.co.uk

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'My role is to lead our team and ensure the delivery of a high quality, value added external audit opinion. I will be the main point of contact for the Audit and Risk Assurance Committee and Chief Executive.'

### Robert Chidlow

Senior Manager

T: +44 (0) 121 232 3074

E: robert.chidlow@kpmg.co.uk

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'I provide quality assurance for the audit work. I will liaise with the Section 151 officer, the Audit Services & Risk Management manager, and other Executive Directors.'

### Mark Breese

Manager

T: +44 (0) 121 232 3250

E: mark.breese@kpmg.co.uk

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'I provide quality assurance for the audit work and lead the delivery of our work on any technical accounting and risk areas. I will work closely with Andrew and Rob to ensure we add value.'

### Elsa Conaty

Assistant Manager

T: +44 (0) 121 609 6095

E: elsa.conaty@kpmg.co.uk

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'I will be responsible for the on-site delivery of our work and will supervise the work of our audit assistants. I will liaise with the Principal Accountants and Internal Audit.'

## Appendix 3:

# Independence and objectivity requirements

### **ASSESSMENT OF OUR OBJECTIVITY AND INDEPENDENCE AS AUDITOR OF SANDWELL METROPOLITAN BOROUGH COUNCIL**

Professional ethical standards require us to provide to you at the planning stage 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 Ltd's ('PSAA's') Terms of Appointment relating to independence and the requirements of the FRC Ethical Standard and General Guidance Supporting Local Audit (Auditor General Guidance 1 – AGN01) issued by the National Audit Office ('NAO').

This Appendix 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;
- 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
- Independent reviews.

The conclusion of the audit engagement leader as to our compliance with the FRC Ethical Standard in relation to this audit engagement and that the safeguards we have applied are appropriate and adequate is subject to review by an engagement quality control reviewer, who is an Audit Partner not otherwise involved in your affairs.

We are satisfied that our general procedures support our independence and objectivity except for those detailed below where additional safeguards are in place.



## Appendix 3:

# Independence and objectivity requirements (cont.)

### 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 Council and its affiliates for professional services provided by us during the reporting period. We confirm that all non-audit services were approved by the audit committee or equivalent.

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 following table

#### Analysis of Non-audit services for the year ended 31 March 2018

Description of scope of services	Principal threats to independence, and safeguards applied	Services Delivered in the year ended 31 March 2018
		£000
Grant Certification - Teachers Pension, and Pooling of Housing Capital Receipts returns	<p>Self-interest: This engagement is performed under a separate engagement letter and following an externally specified work program. The proposed engagement will have no perceived or actual impact on the audit team and the audit team resources that will be deployed to perform a robust and thorough audit.</p> <p>Self-review: The financial information included in the grant claim submissions is not extracted from the financial statements, but is compiled separately. The work is undertaken at various points throughout the year and is not linked to the financial statements reporting process. Therefore, it does not impact on our opinion and we do not consider that the outcome of this work will be a threat to our role as external auditors.</p> <p>Management threat: This work will be advice and support only. All decisions will be made Council.</p> <p>Familiarity: This threat is limited given the scale, nature and timing of the work.</p> <p>Advocacy: We will not act as advocates for the Council in any aspect of this work.</p> <p>Intimidation: Not applicable</p>	9,000  (fixed cost basis, all delivered)

Appropriate approvals have been obtained from PSAA for all non-audit services above the relevant thresholds provided by us during the reporting period. In addition, we monitor our fees to ensure that we comply with the 70% non-audit fee cap set by the NAO.

### Independence and objectivity considerations relating to other matters

There are no other matters that, in our professional judgement, 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 judgement, 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 and Risk Assurance Committee of the Council 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.



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This report is addressed to the Council and has been prepared for the sole use of the Council. We take no responsibility to any member of staff acting in their individual capacities, or to third parties. We draw your attention to the Statement of Responsibilities of auditors and audited bodies, which is available on Public Sector Audit Appointment's website ([www.psaa.co.uk](http://www.psaa.co.uk)).

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

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

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