



Report to those charged with governance (ISA 260) 2015/16

Humberside Fire Authority

—
July 2016

Agenda Item No. **9.1**

The contacts at KPMG in connection with this report are:

John Prentice
Director, Leeds

Tel: +44 (0)113 231 3396
Fax: +44 (0)161 246 4040
john.prentice@kpmg.co.uk

Jackie Rae
Manager, Leeds

Tel: +44 (0)113 231 3643
Fax: +44 (0)161 246 4040
jackie.rae@kpmg.co.uk

Jessica Dunn
Assistant Manager, Leeds

Tel: +44 (0)113 231 4743
Fax: +44 (0)113 231 3200
jessica.dunn@kpmg.co.uk

	Page
Introduction	3
Headlines	4
Financial statements	5
VFM conclusion	11
Appendices	
1. Audit differences	14
2. Declaration of independence and objectivity	15
3. Materiality and reporting of audit differences	17
4. KPMG Audit Quality Framework	18

This report is addressed to Humberside Fire Authority (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 John Prentice, 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 (on +44 (0)20 7694 8981, or by email to 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 +44 (0)20 7072 7445 or by writing to Public Sector Audit Appointments Limited, Third Floor, Local Government House, Smith Square, London, SW1P 3HZ.

This document summarises:

- the key issues identified during our audit of the financial statements for the year ended 31 March 2016 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 Humberside Fire Authority ('the Authority') in relation to the Authority's 2015/16 financial statements; and
- The work to support our 2015/16 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 2015/16, presented to you in February 2016, 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 June and July 2016.

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 2015/16 explained our risk-based approach to VFM work. We have now completed the work to support our 2015/16 VFM conclusion. This included:

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

Structure of this report

This report is structured as follows:

- Section 2 summarises the headline messages.
- Section 3 sets out our key findings from our audit work in relation to the 2015/16 financial statements of the Authority.
- Section 4 outlines our key findings from our work on the VFM conclusion.

We have made no recommendations this year and we have also reviewed your progress in implementing prior recommendations.

Acknowledgements

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

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

The table below 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 31 July 2016. We will also report that your Annual Governance Statement complies with guidance issued by CIPFA/SOLACE in June 2007.
Audit adjustments	Our audit identified some minor audit adjustments. These adjustments had no impact on the value of the general fund balance, the deficit on provision of services for the year or the net worth of the Authority as at 31 March 2016.
Key financial statements audit risks	We identified one key financial statements audit risks in our 2015/16 External audit plan issued in February 2016 and we reviewed the Authority's plans for dealing with the accounting for the consolidation of Emergency Services Fleet Management (Humberside) Ltd. There are no matters of any significance arising as a result of our audit work in this area.
Accounts production and audit process	The Authority prepared and published draft financial statements by 1 June this year which is significantly earlier than in prior years. This enabled us to carry out our audit work earlier too with the opinion being given almost two months earlier than last year. This leaves the Authority well placed for the earlier deadline in future years and allows attention to be focused on the current year and the medium term financial plan. The Authority has addressed recommendations made in previous years. The Authority has good processes in place for the production of the accounts. Officers dealt efficiently with audit queries and the audit process has been completed within the planned timescales.
Completion	At the date of this report our audit of the financial statements is substantially complete subject to a final review by the Engagement Director, receipt of letter of assurance from the auditor of the East Riding Of Yorkshire local government pension scheme and completion of testing on the whole of government accounts return which has only recently been received (there has been a delay in issuing this from central government). Before we can issue our opinion we require a signed management representation letter. We confirm that we have complied with requirements on objectivity and independence in relation to this year's audit of the Authority's financial statements, as reflected in Appendix 2.
VFM conclusion and risk areas	We did not identify any VFM risks in our External audit plan 2015/16 issued in February 2016. We have worked with officers throughout the year to discuss areas of potential VFM risk. There are no matters of any significance arising as result of our audit work. 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 31 July 2016.

Section three

Financial Statements

Proposed opinion and audit differences

Our audit has identified some minor audit adjustments.

We anticipate issuing an unqualified audit opinion in relation to the Authority's financial statements by 31 July 2016.

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

Proposed audit opinion

Subject to all outstanding queries being resolved to our satisfaction, we anticipate issuing an unqualified audit opinion on the Authority's financial statements following approval of the Statement of Accounts by the Fire Authority on 29 July 2016.

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 3 for more information on materiality) level for this year's audit was set at £1 million. Audit differences below £50k are not considered significant.

Summarised below are the changes which have been agreed to the accounts. The most significant change is a correction to 2014/15 balance sheet on the Fire Fighters Pension Fund where there had been an error in the categorisation of debtors and creditors only (£950,000).

Other changes agreed have been:

- Correction to some cross referencing and additions – including to the cashflow statement; and
- Updating to the financial instrument note with correct figures.

Annual Governance Statement

We have reviewed the Annual Governance Statement and confirmed that:

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

We have made a number of minor comments in respect of its format and content which the Authority has reflected in the revised Statement.

Section three

Financial Statements

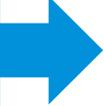
Significant risks and key areas of audit focus

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.

In our External Audit Plan 2015/16, presented to you in February 2016, we identified the significant risks affecting the Authority's 2015/16 financial statements. We have now completed our testing of these areas and set out our evaluation following our substantive work.

The table below sets out our detailed findings for the risk that are specific to the Authority.

Areas of significant risk	Issue	Findings
<div data-bbox="549 568 845 782"> <p>Accounting for the consolidation of ESFM (Humberside) Ltd</p>  </div>	<p>The Authority has entered into a joint arrangement with Humberside Police to provide a combined vehicle workshop.</p> <p>The Authority will need to review the agreements in place and ensure that it is correctly recorded within the financial statements.</p> <p>We held early discussions with the Finance Manager to agree the appropriate accounting treatment in advance of the year end. We will liaise with the auditors of the company as necessary and examine the entries in the draft financial statements.</p>	<p>The combined workshop has been operational from 1 April 2015 and we have agreed the accounting treatment with officers who have also worked closely with colleagues at Humberside Police and taken appropriate external advice.</p> <p>Additional notes have been included in the accounts to reflect the Authority's joint ownership of this company.</p>

Section three

Financial Statements

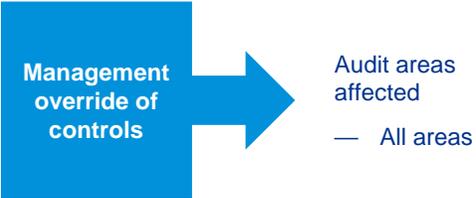
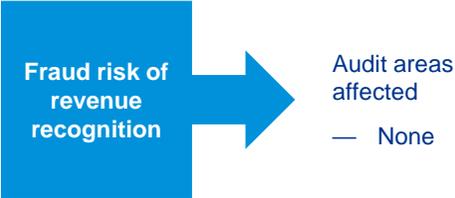
Significant risks and key areas of audit focus (cont.)

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.

In our *External Audit Plan 2015/16* 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
 <p>Management override of controls</p> <p>Audit areas affected</p> <ul style="list-style-type: none"> — All areas 	<p>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.</p> <p>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.</p> <p>There are no matters arising from this work that we need to bring to your attention.</p>
 <p>Fraud risk of revenue recognition</p> <p>Audit areas affected</p> <ul style="list-style-type: none"> — None 	<p>Professional standards require us to make a rebuttable presumption that the fraud risk from revenue recognition is a significant risk.</p> <p>In our <i>External Audit Plan 2015/16</i> 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.</p> <p>This is still the case. Since we have rebutted this presumed risk, there has been no impact on our audit work.</p>

Section three

Financial Statements

Key areas of audit focus

In our External Audit Plan 2015/16, presented to you in February 2016, we identified an area of audit focus. This is not considered as significant risk but an area of importance where we would carry out some substantive audit procedures to ensure there is no risk of material misstatement.

We have now completed our testing. The table sets out our detailed findings for this area of audit focus.

Areas of audit focus	Issue	Findings
	<p>The Authority has been the host for the East Coast and Hertfordshire Control Room Consortium since creation and has managed the income and expenditure on behalf of the three other organisations. The project is nearing completion.</p> <p>We will discuss, with the Finance Manager, the on going accounting treatment of the project and review relevant documentation and agreements.</p> <p>The Authority will need to review the agreements in place and ensure that it is correctly recorded within the financial statements.</p>	<p>During 2015/16 this project was still in the developmental phase it is due for completion in 2016/17 when the future treatment will be agreed by the Joint Project Board.</p> <p>We will continue to discuss future arrangements with officers in the current year.</p> <p>No changes were required to the treatment in 2015/16 accounts which was consistent with what we have agreed in previous years.</p>

Section three

Financial Statements

Accounts production and audit process

The Authority has a well established accounts production process. This operated well in 2015/16, and the standard of accounts and supporting working papers was good and the Finance team addressed the prior year recommendation.

Officers dealt promptly and efficiently with audit queries and the audit process was completed within the planned timescales, which was significantly earlier than in previous years.

Accounts production and audit process

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

We considered the following criteria:

Element	Commentary
Accounting practices and financial reporting	The Authority continues to maintain a good financial reporting process and produce statements of accounts to a good standard. We consider that accounting practices are appropriate.
Completeness of draft accounts	We received a complete set of draft accounts on 1 June when the accounts were also published on the Authority's website, this is a month earlier than last year. The finance team should be congratulated on preparing the accounts to this earlier timescale. This enabled us to complete the majority of our audit work in June and complete the audit by the end of July, two months earlier than required. This shows that earlier deadlines required by 2017/18 can be achieved. The Authority completed a quality assurance review of the draft accounts, but this did not identify some minor errors in additions (rounding differences) and a few incorrect prior year figures. These have all been corrected as part of the audit process.

Element	Commentary
Quality of supporting working papers	We discussed our working paper requirements with officers in early March 2016 based on the prior year Accounts Audit Protocol. The quality of working papers provided was good and met the standards specified in our Accounts Audit Protocol. Some improvements were also identified to ensure that the working papers reflect any final amendments made while the accounts are being prepared.
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 recommendation in last year's ISA 260 report.

The Authority has implemented the recommendation in our ISA 260 Report (2014/15) which related to the declaration from officers and members in respect of related party transactions. All declarations had been obtained.

Section three

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 representations 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 Humberside Fire Authority for the year ending 31 March 2016, we confirm that there were no relationships between KPMG LLP and Humberside Fire Authority, 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 2 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 Executive Director Service Support and S.151 Officer for presentation to the Fire Authority. 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 whether the Authority had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.

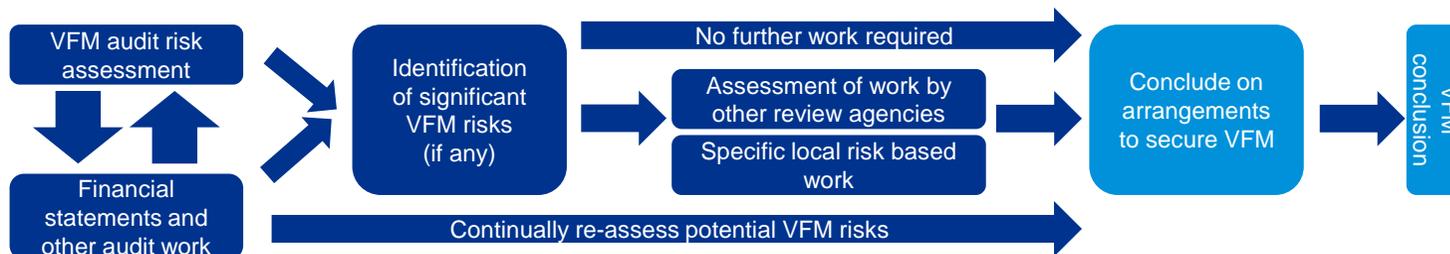
We have concluded that in all significant respects the Authority has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

The Local Audit and Accountability Act 2014 requires auditors to give their statutory VFM conclusion based on three sub-criteria specified by the National Audit Office. These consider whether the Authority has proper arrangements in place for:

- Informed decision making;
- Sustainable resource deployment: looking at how the PCC and CC is prioritising resources and improving efficiency and productivity; and
- Working with partners and third parties:.

Our methodology is summarised below.

We did not identify any significant VFM risks and provide a summary below of the routine work required to issue our VFM conclusion, which is that we are satisfied that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2016.



AGS review	Regulatory review	Other matters considered in risk assessment
<p>We reviewed the 2015/16 AGS and took into consideration the work of internal audit.</p> <p>We confirm that the AGS reflects our understanding of the Authority's operations and risk management arrangements.</p>	<p>There has been no specific regulatory reviews which informed our work.</p>	<p>As part of our risk assessment we reviewed various matters, including:</p> <ul style="list-style-type: none"> — Forecast financial position. — Core assumptions in the 2016/17 financial planning. — Identified and delivered savings plans — Planned versus actual outturn. — Management's assessment of the Authority's ability to continue as a going concern. — Partnership arrangements/relationships with key third parties.

29

Specific VFM risks

We did not identify any specific VFM risks.

We are satisfied that external or internal scrutiny provides sufficient assurance that the Authority's current arrangements are adequate.

Work completed

In line with the risk-based approach set out on the previous page, and in our External Audit Plan we have:

- Assessed the Authority's key business risks which are relevant to our VFM conclusion;
- Identified the residual audit risks for our VFM conclusion, taking account of work undertaken in previous years or as part of our financial statements audit; and
- Considered the results of relevant work by the Authority, inspectorates and review agencies in relation to these risk areas.

Key findings

We concluded that we did not need to carry out additional work for these risks as there was sufficient relevant work that had completed by the Authority in relation to these risk areas.



Appendices

Audit differences

This appendix sets out the audit differences.

The financial statements have been amended for all of the errors identified through the audit process.

There is no net impact on the General Fund as a result of the amendments.

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 Fire Authority). 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.

Uncorrected audit differences

We are pleased to report that there are no uncorrected audit differences.

Corrected audit differences

Material misstatements

We are pleased to report that there are no corrected material misstatements.

Non material audit differences

The Authority have amended the accounts to correct an error in the 2014/15 balance sheet of the Fire Fighters Pension Fund, there was no error in the main authority accounts. Debtors and Creditors, due to a posting error were understated by £950k.

Our audit identified a small number of non material errors in the financial statements. These have been discussed with management and the financial statements have been amended for all of them.

These amendments included:

- Correction of minor rounding and casting errors throughout the statements;
- Correction of the cashflow statement;
- Correction of financial instrument note;
- Correcting some prior year figures which had been incorrectly shown in the draft accounts; and
- Minor changes to the Annual Governance Statement.

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 Fire Authority.

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.

Declaration of independence and objectivity (cont.)

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.

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.

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 Humberside Fire Authority for the financial year ending 31 March 2016, we confirm that there were no relationships between KPMG LLP and Humberside Fire Authority, 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.

Materiality and reporting of audit differences

For 2015/16 our materiality is £1 million for the Authority's accounts.

We have reported all audit differences over £50k for the Authority's accounts to the Fire Authority

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 2015/16, presented to you in February 2016.

Materiality for the Authority's accounts was set at £1m which equates to around 2 percent of gross expenditure. We design our procedures to detect errors in specific accounts at a lower level of precision.

Reporting to the Fire Authority

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 Fire Authority 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 £50k 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 Fire Authority to assist it in fulfilling its governance responsibilities.

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

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

Clear standards and robust audit tools: We expect our audit professionals to adhere to the clear standards we set and we provide a range of tools to support them in meeting these expectations. The global rollout of KPMG's eAudit application has significantly enhanced existing audit functionality. eAudit enables KPMG to deliver a highly technically enabled audit. All of our staff have a searchable data base, Accounting

Research Online, that includes all published accounting standards, the KPMG Audit Manual Guidance as well as other relevant sector specific publications, such as the Audit Commission's *Code of Audit Practice*.

Recruitment, development and assignment of appropriately qualified personnel: One of the key drivers of audit quality is assigning

professionals appropriate to the Authority's risks. We take care to assign the right people to the right clients based on a number of factors including their skill set, capacity and 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 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.



KPMG Audit Quality Framework (cont.)

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 behaviours in the performance of effective and efficient audits. The key behaviours 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.psa.co.uk/audit-quality/principal-audits/kpmg-audit-quality/>).

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

[* The PSAA website indicates the 2015/16 annual report will be available in the summer of 2016. Most ISA 260s will be issued in September 2016. Therefore the teams need to check the website (link above) and update for the correct month/year].



Thank you



kpmg.com/uk



The information contained herein is of a general nature and is not intended to address the circumstances of any particular individual or entity. Although we endeavour to provide accurate and timely information, there can be no guarantee that such information is accurate as of the date it is received or that it will continue to be accurate in the future. No one should act on such information without appropriate professional advice after a thorough examination of the particular situation.

© 2016 KPMG LLP, a UK limited liability partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative (“KPMG International”), a Swiss entity. All rights reserved.

KPMG LLP is multi-disciplinary practice authorised and regulated by the Solicitors Regulation Authority. For full details of our professional regulation please refer to ‘Regulatory Information’ at www.kpmg.com/uk

The KPMG name and logo are registered trademarks or trademarks of KPMG International. | Create KGS: CRT065718A.

