KPMG

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

Wyre Borough Council

Final

20 September 2016

Contents

The contacts at KPMG in connection with this report are:

Andy Smith
Director

KPMG LLP (UK)

Tel: 0161 246 4056
andrew.smith2@kpmg.co.uk

Chris Paisley
Audit Manager

KPMG LLP (UK)

Tel: 0161 246 4934
christopher.paisley@kpmg.co.uk

Ali-Jarar Shah
Assistant Manager

KPMG LLP (UK)

Tel: 07342 087639
ali-jarar.shah@kpmg.co.uk

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 Andy Smith, 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 0207 6948981, 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 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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Introduction

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 Wyre Borough Council ('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 March 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;
- 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.

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

Acknowledgements

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

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Headlines

This table summarises the headline messages for the Authority. Sections three and four of this report provide further details on each area.

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Proposed audit opinion	We anticipate issuing an unqualified audit opinion on the Authority's financial statements by 30 September 2016. We will also report that your Annual Governance Statement complies with guidance issued by CIPFA/SOLACE in June 2007.
Audit adjustments	We are pleased to report that our audit has identified no audit adjustments. We have agreed a small number of presentational changes to the Statement of Accounts with Finance. In addition, we are currently considering the need for additional narrative disclosures on the future uncertainties associated with the UK's decision to leave the European Union, and the potential impact on financial matters reported in the current year and in future periods. We will continue to update the Audit Committee on these disclosure requirements, as the likely impacts of departure from the EU become clearer.
Key financial statements audit risks	We review risks to the financial statements on an ongoing basis. We identified the following key financial statements audit risk in our 15/16 External audit plan issued in March 2016. — Coast Protection Scheme We have worked with officers throughout the year to discuss this key risk and our detailed findings are reported in section 3 of this report. There are no matters of any significance arising as a result of our audit work in this key risk area.
Accounts production and audit process	We noted the continued high quality of the accounts and the supporting working papers during this year's audit. This should be considered in the context of a slightly earlier final audit visit in comparison with previous periods, as the Authority prepares for tighter audit and accounts completion deadlines in future periods. Officers dealt efficiently with audit queries and the audit process has been completed within the planned timescales. The Authority has implemented the recommendation made in our ISA 260 Report 2014/15 relating to the financial statements. The Authority has good processes in place for the production of the accounts and good quality supporting working papers.

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Headlines (cont.)

This table summarises the headline messages for the Authority. Sections three and four of this report provide further details on each area.

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

Completion	At the date of this report our audit of the financial statements is substantially complete subject to completion of the following areas: — Completion of General IT Controls audit work, covering the financial ledger and council tax/NNDR systems, to provide assurance access and other general controls in place over these systems have operated effectively during 2015/16, which in turn provides assurance over the completeness and accuracy of the outputs from these systems, upon which we rely for audit evidence. This work will be completed by one of our specialist IT auditors on 30th and 31st of August. — Consideration of additional narrative disclosures within the 2015/16 Statement of Accounts on the future uncertainties associated with the UK's decision to leave the European Union, and the potential impact on financial matters reported in the current year and in future periods. — Review of the final Statement of Accounts to confirm compliance with the 2015/16 CIPFA Code of Practice and consistency with our understanding of the Council. — Final checking of the financial statements and associated notes for consistency with the Narrative Report and arithmetic accuracy. 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.
VFM conclusion and risk areas	We did not identify any significant VFM risks in our External audit plan 2015/16 issued in March 2016. Further, our review of relevant information sources as part of our VfM risk assessment work did not identify any significant risks to our VfM conclusion. This risk assessment included review of VfM profiles produced by PSAA, papers of the Council and Audit Committee meetings during and since the 2015/16 financial year, Internal Audit reports for 2015/16, the Council's current strategic risk register and the work of external agencies and inspectorates. 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 2016.

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Proposed opinion and audit differences

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

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 Audit Committee on 20 September 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 4 for more information on materiality) level for this year's audit was set at £1.1 million. Audit differences below £55k are not considered significant.

We did not identify any material misstatements. Consequently, there have been no changes made to the balance on the General Fund 'pre-audit' Statement of Accounts.

In addition, we identified a small number of presentational adjustments required to ensure that the accounts are compliant with the Code of Practice on Local Authority Accounting in the United Kingdom 2015/16 ('the Code'). We understand that the Authority will be addressing these where significant.

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.

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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 risks.

In our External Audit Plan 2015/16, presented to you in March 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 each of the risks that are specific to the Authority.

Significant audit risk	Issue	Findings
Cost Protection Scheme	The Authority is the administrating body for a significant £63.2m coast protection scheme at Rossall. The scheme is fully grant funded from the Environment Agency. The Authority's capital programme (considered by Cabinet in February 2016) shows that £14.1m has been budgeted for the scheme in 2015/16 and £24.6m in 2016/17. This is 74% and 91% of the Authority's total capital programme in each year respectively. The scheme therefore involves significant transactions for the Authority, and such schemes are often complex, time consuming and at risk of significant year on year slippage.	The revised estimate for the Rossall work was set at £14.1m. Advance spend of £854k resulted in a variance at year end. We have reviewed the accounting treatment of the grant receipts and associated capital additions to the scheme, to ensure these are in line with the CIPFA Code of Practice. We have completed sample testing of capital additions associated with the scheme to ensure that they have been accounted for correctly and that the associated expenditure does relate to the Rossall work. The spend in year is shown within assets under construction on the fixed assets note in the financial statements. This is the correct accounting treatment for the asset at this stage. Funding is received in advance for this scheme based on estimated spend. The unspent capital grant at year end is included within capital grants received in advance. There are no audit misstatements or control deficiencies to report in relation to this significant audit risk.

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

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
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. The authority processed just over 300 journal entries to the ledger during the accounts closing period, with an average value per overall journal entry of £383k. We have noted during our audit that there is a control risk regarding the lack of segregation of duties in the processing of journal entries within the ledger. 'Control risk' refers to the risk that a controls put in place by the Authority will not detect a misstatement arising from either fraud or error. Users of the ledger system are able to raise and post journals to the ledger without recourse to secondary review prior to the journal being posted. This process has been established due to the small size of the Finance team, and the presence of compensating controls in the form of retrospective senior management review of budget monitoring information. This provides assurance that controls are in place to detect material inappropriate or erroneous journal entries, and our testing did not identify any errors or issues in this regard. We have confirmed as part of our audit that budget monitoring information is consistent with the data produced from the general ledger. All control accounts are fully reconciled to the balance per the general ledger on a monthly basis, which provides a further control to identify any erroneous adjustments to the ledger during the month. We have considered the risk of material misstatement around journal entries to be high as a result of the control matters described above, which has impacted on our audit approach to journals including the materiality threshold applied for testing and the testing of journals throughout the year rather than simply those posted during the accounts closing period. 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 2015/16 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.

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

In our External Audit Plan 2015/16, presented to you in March 2016, we identified four additional areas of audit focus. These are not considered as significant risks but areas 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 each area of audit focus.

Other areas of audit focus	Issue	Findings
Pension costs and liabilities	This is an historic area of audit focus. The Authority had a net pension liability of £33.2m as at 31 March 2016. The movements in this deficit are impacted by estimations made by the Authority's external actuarial specialists, Mercer.	We have reviewed and challenged the actuarial assumptions applied to the Authority's pension deficit as at 31 March 2016 using KPMG's own actuarial specialists. We have agreed all movements to the Council's pension deficit to the actuarial report provider by Mercer, and performed testing over the Payroll inputs to those actuarial calculations, provided by the Council. We have not identified any audit differences or presentational adjustments as a result of our work in this area.
Staff costs	Staff costs represent a significant proportion of the Authority's expenditure base. The disaggregated nature of pay expenditure transactions and the number of changes to Payroll data that take place during the year indicates that staff costs should be given specific audit focus.	We have tested the controls around changes to Payroll data, which impact directly on staff costs recognised in the financial statements, to confirm they have been operating effectively during 2015/16. We did not identify any control deficiencies as a result of this work. We have not identified any audit differences or presentational adjustments as a result of our work in this area
Non-pay expenditure	Non-pay expenditure is an area of audit focus because it is highly material to the users of the Accounts, and contains areas of management judgement in respect of, for example, accrued expenditure.	We have performed testing over controls in place around the approval of non-pay expenditure, to gain assurance that items of expenditure have been approved appropriately, and matched to valid purchase orders where applicable. We have also conducted a substantive analytical review of non-pay expenditure by service (net cost of service). We have not identified any audit differences or presentational adjustments as a result of our work in this area.
Valuation of tangible fixed assets	There is an inherent uncertainty regarding the valuation of tangible fixed assets due to fluctuations and movements in the market value of the Authority's non-current assets.	We have reviewed the cyclical revaluation exercise completed by the Authority as at 31 March 2016, including analysis and assessing the assumptions made and the approach taken by the Estates valuation specialist. We have confirmed that the valuation movements recognised within the Statement of Accounts are consistent with the findings of the Authority's valuation specialist and that these have been disclosed appropriately.

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Accounts production and audit process

The Authority has a well established and strong accounts production process. This operated well in 2015/16, and the standard of accounts and supporting working papers was high.

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 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 strong 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 27 June 2016. The Authority have made a small number of presentational changes to the accounts presented for audit, however there have been no changes which we consider to be fundamental.
Quality of supporting working papers	We issued our *Accounts Audit Protocol* including our required working papers for the audit in June 2016. 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 recommendation made in last year's ISA 260 report.

The Authority has implemented the recommendation in our ISA 260 Report 2014/15.

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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 Wyre Borough Council for the year ending 31 March 2016, we confirm that there were no relationships between KPMG LLP and Wyre 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 3 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 Chief Financial Officer 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 or our previous reports relating to the audit of the Authority's 2015/16 financial statements.

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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 follow a risk based approach to target audit effort on the areas of greatest audit risk.

We have concluded that the Authority has made proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.

Background

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

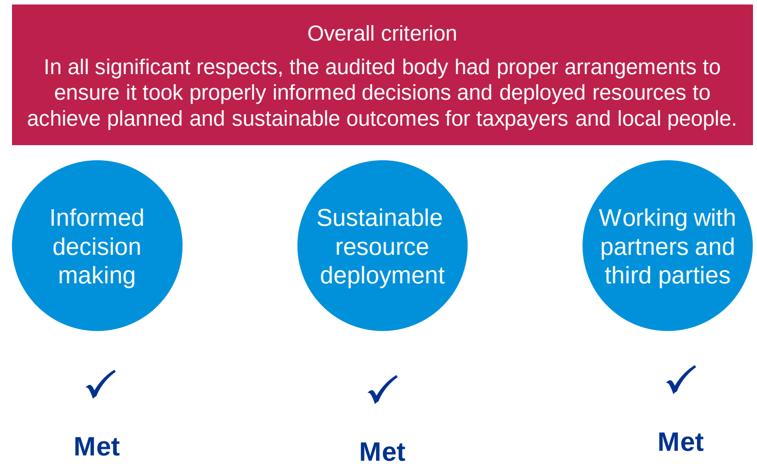
This is supported by the Code of Audit Practice, published by the NAO in April 2015, which requires auditors to 'take into account their knowledge of the relevant local sector as a whole, and the audited body specifically, to identify any risks that, in the auditor's judgement, have the potential to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

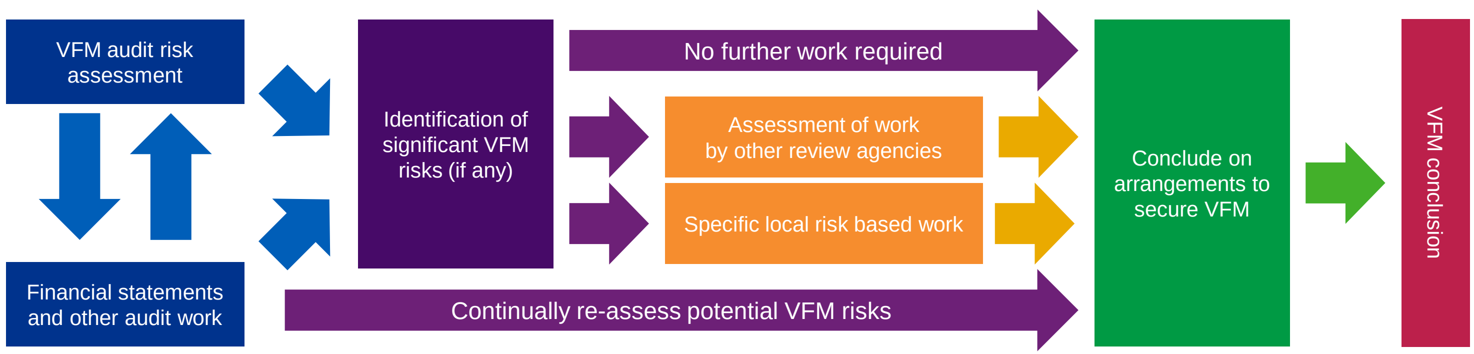
The VFM approach is fundamentally unchanged from that adopted in 2014/2015 and the process is shown in the diagram below. However, the previous two specified reporting criteria (financial resilience and economy, efficiency and effectiveness) have been replaced with a single criteria supported by three sub-criteria.

These sub-criteria provide a focus to our VFM work at the Authority.

Conclusion

We have concluded that the Authority has made proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.





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Appendices

Key issues and recommendations

This appendix sets out the recommendations arising from our 2015/16 audit work.

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.

No.	Risk	Issue and recommendation	Management response/responsible officer/due date
1	❸	**Full completion and signature of Heads of Service Declaration of Interest forms** We noted during our testing of related party transactions disclosed in 2015/16 that one Declaration of Interest form was signed but not correctly completed by the relevant Head of Service. If the Authority fails to maintain a complete and up-to-date record of officer interests, there is a risk that it will not be sighted on the identity of its related parties, and by corollary the transactions that the Authority undertakes with these related parties (if any). This impacts both on the completeness and accuracy of the Authority's related party transaction disclosure in the Statement of Accounts, but also on its ability to manage conflicts of interest effectively. **Recommendation** We recommend that all Declaration of Interest forms are updated by all key officers and members at least annually, and signed by the relevant individual to evidence that the document is a complete and accurate record of their financial and other interests.	**Management response** A completed form will be obtained from the relevant officer by the 19th September and the s.151 officer will in future sign off all Related Party Transaction forms to ensure a satisfactory record is kept. **Responsible officer and due date** Section 151 Officer 19 September 2016

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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.

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.

Uncorrected audit differences

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

Corrected audit differences

We are pleased to report that there were no audit differences which were required to be corrected by management as a result of our audit.

Other matters

A number of minor amendments focused on presentational improvements have also been made to the draft Statement of Accounts.

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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.

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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.

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 Wyre Borough Council for the financial year ending 31 March 2016, we confirm that there were no relationships between KPMG LLP and Wyre 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.

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Materiality and reporting of audit differences

For 2015/16 our materiality is £1.1 million for the Authority's accounts.

We have reported all audit differences over £55,000.

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 March 2016.

Materiality for the Authority's accounts was set at £1.1 million which equates to around 1.9% percent of gross expenditure. We design our procedures to detect errors in specific accounts at a lower level of precision.

Reporting to the Audit Committee

Whilst our audit procedures are designed to identify misstatements which are material to our opinion on the financial statements as a whole, we nevertheless report to the Audit Committee, any 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 £55,000 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.

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Appendix 5

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. Andy Smith, 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 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 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.

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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.psaa.co.uk/audit-quality/principal-audits/kpmg-audit-quality/).

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

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