KPMG

Southwark Council

DISCUSSION DRAFT

Report to the Audit, Governance and Standards Committee

Audit plan and strategy for the year ending 31 March 2024

3 June 2024

Introduction

To the Audit, Governance and Standards Committee of Southwark Council

We are pleased to have the opportunity to meet with you on 3 June 2024 to discuss our audit of the financial statements of Southwark Council (the Council), as at and for the year ending 31 March 2024.

We have been appointed as your auditors by Public Sector Audit Appointments Ltd. The audit is governed by the provisions of the Local Audit and Accountability Act 2014 and in compliance with the NAO Code of Audit Practice. The NAO is consulting on a new Code of Audit Practice for 2023/24, therefore this plan will remain draft until the finalisation of that Code.

This report outlines our risk assessment and planned audit approach. Our planning activities are still ongoing and we will communicate any significant changes to the planned audit approach. We note that an audit opinion has not been expressed on the prior period, once the prior period audit opinion has been expressed we will communicate any significant changes to the planned approach.

We provide this report to you in advance of the meeting to allow you sufficient time to consider the key matters and formulate your questions.

We are also appointed as auditor to the Southwark Pension Fund. We will issue a separate audit plan in relation to the pension fund audit.

The engagement team

Fleur Nieboer, FCA, is the engagement partner on the audit and is responsible for the audit opinion. She has over 20 years of industry experience.

Philip Kent, ACA, is the engagement senior manager responsible for your audit. He has over five years experience in the Local Government sector and nine years of experience in public sector audit.

Yours sincerely,

Fleur Nieboer

7 May 2024

Contents

How we deliver audit quality

Audit quality is at the core of everything we do at KPMG and we believe that it is not just about reaching the right opinion, but how we reach that opinion. We consider risks to the quality of our audit in our engagement risk assessment and planning discussions.

We define ‘audit quality’ as being the outcome when audits are:

- Executed consistently, in line with the requirements and intent of applicable professional standards within a strong system of quality controls; and
- All of our related activities are undertaken in an environment of the utmost level of objectivity, independence, ethics and integrity.

We depend on well planned timing of our audit work to avoid compromising the quality of the audit. This is also heavily dependent on receiving information from management and those charged with governance in a timely manner.

The audit undertaken in the current year is dependent on the finalisation of the previous auditor’s work over historical financial statements.

We aim to complete all audit work no later than 2 days before audit signing. As you are aware, we will not issue our audit opinion until we have completed all relevant procedures, including audit documentation.

Overview of planned scope including materiality

Our materiality levels

We determined materiality for the Council's financial statements at a level which could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements. We used a benchmark of total expenditure which we consider to be appropriate given the sector in which the entity operates, its ownership and financing structure, and the focus of users.

We considered qualitative factors such as stability of legislation, lack of borrowing, and lack of shareholders when determining materiality for the financial statements as a whole.

To respond to aggregation risk from individually immaterial misstatements, we design our procedures to detect misstatements at a lower level of materiality £9.03m / 65% of materiality driven by our increased assessed level of risk of undetected misstatements as we learn more about the Council's financial systems and processes in this first year.

We will report misstatements to the Audit, Governance and Standards Committee including:

- Corrected and uncorrected audit misstatements above £695,000.
- Errors and omissions in disclosure (corrected and uncorrected) and the effect that they, individually and in aggregate, may have on our opinion.
- Other misstatements we include due to the nature of the item.

Control environment

The impact of the control environment on our audit is reflected in our planned audit procedures. Our planned audit procedures reflect findings raised in the previous year and management's response to those findings.

- Other than for cash, we are not anticipating placing reliance on the Council's internal controls as part of our audit work.

File review

We will undertake an appropriate prior year file review following the issuance of the final opinion by the previous auditors.

Materiality

Materiality for the financial statements as a whole	**£13.9m** 1.0% of total expenses
Procedures designed to detect individual errors at this level	**£9.03m** 65% of materiality
Misstatements reported to the Audit, Governance and Standards Committee	**£695k**

Overview of planned scope including materiality (cont.)

Timing of our audit and communications

We will maintain communication led by the engagement Partner and Senior Manager throughout the audit. We set out below the form, timing and general content of our planned communications:

- Discussions with management in October 2023 to discuss key matters about the Council;
- Audit, Governance and Standards Committee meeting on 3 June 2024 where we present our audit plan;
- Status meetings with management on a monthly basis where we communicate progress on the audit plan, any misstatements, control deficiencies and significant issues;
- Closing meeting with management in September 2024 where we discuss the auditor's report and any outstanding deliverables; and
- Audit, Governance and Standards Committee meeting in September/October 2024 where we communicate audit misstatements and significant control deficiencies.

We anticipate issuing our audit opinion prior to Christmas 2024, subject to the outcome of ongoing DLUHC and NAO consultations into local government external audit arrangements. We will agree a final timetable with you upon the completion of those consultations..

Using the work of others and areas requiring specialised skill

We outline below where, in our planned audit response to audit risks, we expect to use the work of others such as Internal Audit or require specialised skill/knowledge to perform planned audit procedures and evaluate results.

Others	Extent of planned involvement or use of work
Internal Audit	We will review the work of internal audit as part of our risk assessment procedures but will not place reliance on their work.
KPMG Real Estate Valuation Centre of Excellence (REVCoE)	We will use KPMG valuation specialists to assess the work performed by the Council's valuer over the valuation of land and buildings.
IT Audit	We will use our IT Audit team to understand how the Council uses IT in financial reporting, and the key processes and governance in place over those IT systems.
Data & Analytics	We will use our data and analytics specialists to analyse the Council's journal entries, and produce dashboards to help us identify high risk journal entries to test. The specialists will also produce a risk assessment dashboard showing key issues (if any) with the configuration of the Council's SAP system.
KPMG Pensions Centre of Excellence	We will use our actuarial specialists to review the assumptions used to calculate the Council's defined benefit obligation balances, as well as to assess the work performed by the Council's actuaries.

Significant risks and other audit risks

Our risk assessment draws upon our understanding of the applicable financial reporting framework, knowledge of the business, the sector and the wider economic environment in which the Council operates.

We also use our regular meetings with senior management to update our understanding and take input from internal audit reports.

Due to the current levels of uncertainty there is an increased likelihood of significant risks emerging throughout the audit cycle that are not identified (or in existence) at the time we planned our audit. Where such items are identified we will amend our audit approach accordingly and communicate this to the Audit, Governance and Standards Committee.

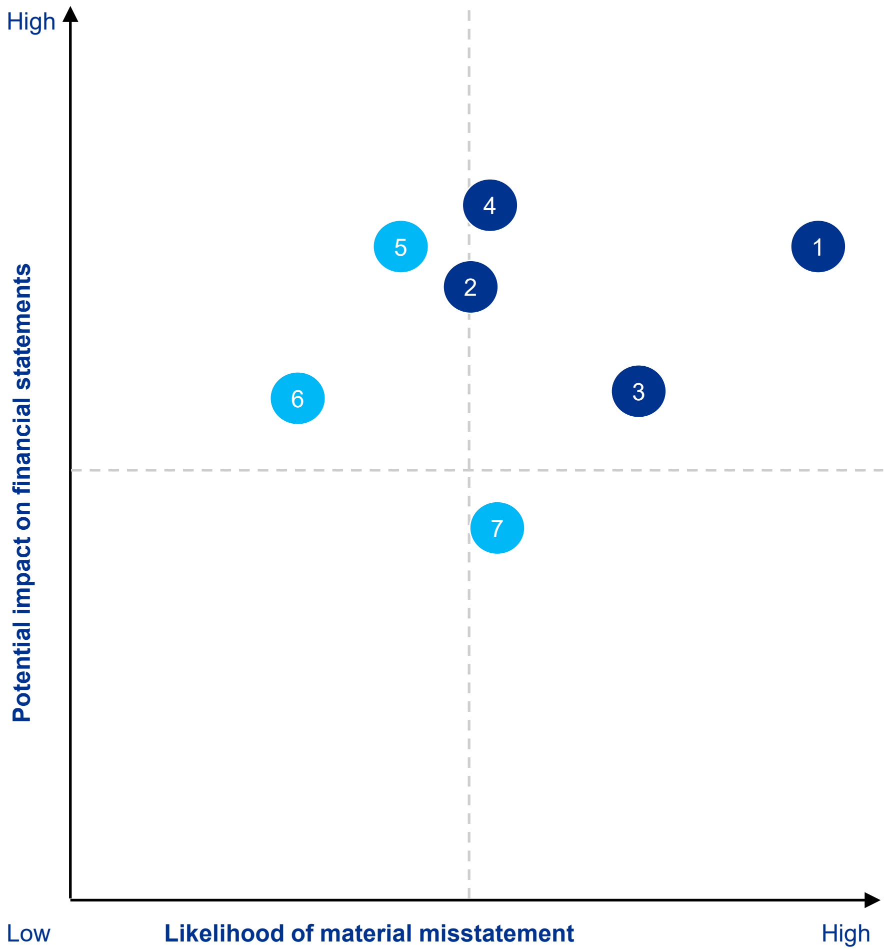
Value for money

We are required to provide commentary on the arrangements in place for ensuring Value for Money is achieved at the Council and report on this via our Auditor's Annual Report. This will be published on the Council's website and include a commentary on our view of the appropriateness of the Council's arrangements against each of the three specified domains of Value for Money: financial sustainability; governance; and improving economy, efficiency and effectiveness.

For further details, see page 17.

Significant risks	
1.	Valuation of land and buildings
2.	Management override of controls
3.	Valuation of post retirement benefit obligations
4.	Fraud risk over HRA expenditure recognition
Other audit risks	
5.	Valuation of investment property
6.	Accuracy and valuation of PFI liabilities
7.	Presentation of IFRS 16 pre-transition disclosures

Key: # Significant financial statement audit risks; # Other audit risk; Change compared to prior year



Audit risks and our audit approach (cont.)

1 Valuation of land and buildings

Risk of error related to the incorrect calculation of valuation adjustments for housing dwellings and other land & buildings

Significant audit risk

The Code requires that where assets are subject to revaluation, their year end carrying value should reflect the appropriate current value at that date. The Council is re-valuing all its estate this year on account of the appointment of a new external valuation firm. The value of the estate at 31/3/24 was £3.4bn for dwellings and £1.5bn for other land and buildings.

A risk is presented for those assets that are revalued in the year, which involves significant judgement and estimation on behalf of the engaged valuer. This is on account of the judgement involved in the selection of assumptions including, but not limited to identification of beacon dwellings; obsolescence adjustments; modern equivalent asset assumptions; and alternative site assumptions.

In assessing this risk we noted the large value of misstatements related to this area in the 2022/23 accounts, including due to issues with the quality of the listings of properties; and due to the valuation being prepared at an interim date and rolled forward.

As the Council's valuation firm is new, we have are still to understand their methodology and assumptions. Therefore we will revise this risk once we have a deeper understanding of their approach.

Planned response

We will perform some or all of the following procedures designed to specifically address the significant risk associated with the valuation:

- We will critically assess the independence, objectivity and expertise of Cluttons, the valuers used in developing the valuation of the Council's properties at 31 March 2024;
- We will inspect the instructions issued to the valuers for the valuation of land and buildings to verify they are appropriate to produce a valuation consistent with the requirements of the CIPFA Code.
- We will evaluate the design and implementation of controls in place for management to review the valuation and the appropriateness of assumptions used;
- We will assess the completeness and accuracy of the data provided to the valuers for the development of the valuation to underlying information;
- We will challenge the appropriateness of the valuation of land and buildings; including any material movements from the previous revaluations. We will challenge key assumptions(to be determined) within the valuation as part of our judgement;
- We will agree the calculations performed of the movements in value of land and buildings and verify that these have been accurately accounted for in line with the requirements of the CIPFA Code;
- We will utilise our own valuation specialists to review the valuation report prepared by the Council's valuers to confirm the appropriateness of the methodology and assumptions utilised; and
- Disclosures: We will consider the adequacy of the disclosures concerning the key judgements and degree of estimation involved in arriving at the valuation.

Audit risks and our audit approach (cont.)

2 Management override of controls

Fraud risk related to unpredictable way management override of controls may occur

Significant audit risk

Professional standards require us to communicate the fraud risk from management override of controls as significant.

Management is in a unique position to perpetrate fraud because of their ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively.

We have also identified weaknesses in the control environment for journal entries, including over-privileged user access to the Council's general ledger system.

Note: (a) Significant risk that professional standards require us to assess in all cases.

Planned response

Our audit methodology incorporates the risk of management override as a default significant risk. We will perform the following procedures:

- Assess accounting estimates for bias by evaluating whether judgements and decisions in making accounting estimates, even if individually reasonable, indicate a possible bias;
- Evaluate the selection and application of accounting policies;
- Evaluate the design and implementation of controls over journal entries and post closing adjustments;
- Evaluate the design and implementation of controls in place for the identification of related party relationships;
- Test the completeness of the related parties identified and ensure any transactions arising with those parties are appropriately disclosed within the financial statements;
- Assess the appropriateness of changes compared to the prior year to the methods and underlying assumptions used to prepare accounting estimates;
- Assess the business rationale and the appropriateness of the accounting for significant transactions that are outside the Council's normal course of business, or are otherwise unusual; and
- We will analyse all journals through the year using data and analytics and focus our testing on those with a higher risk, such as journals which reduce the amount of housing revenue account (HRA) expenditure posted during the final financial close down process.

Audit risks and our audit approach (cont.)

3 Valuation of post retirement benefit obligations

Risk of error related to the incorrect valuation of defined benefit plan liabilities

Significant audit risk

The valuation of the post retirement benefit obligations involves the selection of appropriate actuarial assumptions, most notably the discount rate applied to the scheme liabilities, inflation rates and mortality rates. The selection of these assumptions is inherently subjective and small changes in the assumptions and estimates used to value the Council's pension liability could have a significant effect on the financial position of the Council.

In addition, the Council's pension memberships are in a net surplus position, leading to judgements being required as to the quantum of any asset ceiling which should be calculated, and hence whether an asset should be recognised on the balance sheet.

The effect of these matters is that, as part of our risk assessment, we determined that post retirement benefits obligation has a high degree of estimation uncertainty. The financial statements disclose the assumptions used by the Council in completing the year end valuation of the pension deficit and the year on year movements.

We have identified this in relation to the Southwark Local Government Pension Scheme. Due to the size of the liability for the London Pension Fund Authority membership being small compared to materiality, we have not identified this risk in relation to that membership.

Planned response

We will perform the following procedures:

- Understand the processes the Council has in place to set the assumptions used in the valuation;
- Evaluate the competency, objectivity of the actuaries to confirm their qualifications and the basis for their calculations;
- Perform inquiries of the accounting actuaries to assess the methodology and key assumptions made, including actual figures where estimates have been used by the actuaries, such as the rate of return on pension fund assets;
- Agree the data provided by the audited entity to the Scheme Administrator for use within the calculation of the scheme valuation;
- Evaluate the design and implementation of controls in place for the Council to determine the appropriateness of the assumptions used by the actuaries in valuing the liability;
- Challenge, with the support of our own actuarial specialists, the key assumptions applied, being the discount rate, inflation rate and mortality/life expectancy against externally derived data;
- Confirm that the accounting treatment and entries applied by the Group are in line with IFRS and the CIPFA Code of Practice;
- Consider the adequacy of the Council's disclosures in respect of the sensitivity of the deficit or surplus to these assumptions;
- Assess the level of surplus that should be recognised by the Council; and
- Assess the impact of a new triennial valuation model and/or any special events, where applicable.

Audit risks and our audit approach (cont.)

4 Fraud risk over expenditure recognition – HRA expenditure understatement[a]

Fraud risk related to the manipulation of housing revenue account expenditure

Significant audit risk

Professional standards require us to identify a rebuttable significant risk of fraud related to expenditure recognition, reflecting the limited ability for public sector bodies to manipulate revenue (which is more common in the private sector) whilst still being subject to financial performance targets.

The Council's Housing Revenue Account (HRA) balance is experiencing financial sustainability pressure, particularly in the short to medium term. At 31 March 2023, the value of the HRA was £19.5m, which was a 27% reduction compared with the prior period. The Council has recently introduced a recovery plan to bring the HRA back into financial health.

Councils are not permitted to deplete the HRA (or general fund) balance, and therefore the sustainability issues in the HRA, alongside a need to deliver the HRA recovery plan, may create pressure to fraudulently overstate the closing HRA balance through under-recognition of expenditure incurred. This would either be through inappropriately capitalising costs that should be expensed, or incompletely recognising liabilities for costs incurred in the year.

Whilst we have not identified any actual or suspected fraud, we have identified the HRA as the area where the risk of fraudulent financial reporting is greatest so have elected not to rebut the fraud risk at this stage of our planning. We will keep this under review as our work at the Council progresses.

Planned response

We will perform the following procedures in order to respond to the significant risk identified:

- We will evaluate the design and implementation of controls for developing manual HRA expenditure accruals at the end of the year to verify that they have been completely and accurately recorded;
- We will inspect a sample of invoices of HRA expenditure, in the period just after 31 March 2024, to determine whether expenditure has been recognised in the correct accounting period;
- We will inspect journals posted as part of the year end close procedures affecting HRA expenditure that decrease the level of expenditure recorded in order to critically assess whether there was an appropriate basis for posting the journal and the value can be agreed to supporting evidence; and
- We will inspect a sample of capital additions to HRA assets to assess whether the item is eligible for capitalisation and whether the split (if any) of an invoice between revenue and capital has been correctly calculated and recorded.

Note: (a) Presumed risk that professional standards require us to assess in all cases and which can be rebutted if there is no entity-specific significant risk relating to expenditure recognition.

Audit risks and our audit approach (cont.)

5 Valuation of investment properties

Risk of error related to the incorrect valuation of investment properties

Other audit risk

The Council's investment property portfolio of £343m includes a number of commercial rent units, including a large real estate scheme near the Council's offices in London Bridge.

Under the Code these are considered 'Investment Properties' due to the intention of maximising rental values or capital appreciation. The standard requires this class of assets to be valued at each year end.

The valuation is subject to movements based on current market conditions which contain a heightened degree of uncertainty, in particular for commercial offices.

Also, dependent on the type of valuation undertaken, there are a number of assumptions used in the valuation of the assets which are subjective, and could impact the overall valuation at the year end and movement during the year.

Planned response

We will perform the following procedures:

- Review the portfolio of investment properties, focussing on the accounting treatment and disclosure of these in the financial statements;
- Use KPMG valuation specialists to review the valuation of the Council's investment properties;
- Assess the competence, experience, and independence of the Council's valuation firm;
- Consider the reasonableness of assumptions that have been made against benchmark data; and
- Verify the accuracy of underlying data, such as tenancies and property details.

Audit risks and our audit approach (cont.)

6 Accuracy and valuation of PFI liabilities

Risk of error related to the incorrect recording of liabilities arising from assets funded through the private finance initiative

Other audit risk

As at 31 March 2023 the Council has PFI liabilities totalling £76m and assets purchases through PFI totalling £79m.

PFI schemes are based on complex financial models which, aside from needing to mirror the contractual terms, contain assumptions about future events – namely inflation.

There is a risk, due to the complexity of the financial models, that the value of the PFI liabilities recognised in the financial statements are incorrect.

Planned response

We will perform the following procedures:

- For a sample of PFI schemes, agree inputs of the model to the underlying contract, reading the contract to ensure all pertinent contractual terms are included within the model;
- Re-calculate the model, testing the validity of the formulas inherent to the model and ensuring that the model correctly calculates the different types of charges and the closing liability each period; and
- Re-calculate the financial statement disclosures in reference to the tested models.

Audit risks and our audit approach (cont.)

7 Presentation of IFRS 16 pre-transition disclosures

Risk of error related to the incorrect presentation of disclosures related to the implementation of the IFRS 16 Leases standard

Other audit risk

In accordance with the CIPFA Code, the Council is required to adopt IFRS 16 Leases from the 31 March 2025 year-end.

The Code requires that the Council produces either quantitative or qualitative disclosures in the 31 March 2024 financial statements setting out the anticipated impact of the transition to IFRS 16.

Under the new standard, the Council will be required to recognise right of use assets and lease liabilities relating to operating leases which are currently held off balance sheet. There are also changes to the accounting of finance leases but there is less impact compared to the operating leases because finance leases are already held on balance sheet.

Whilst the value of the operating leases is small (at 31 March 2023, the future minimum lease payments were under £10m), the new disclosures related to the transition to the new standard are risky because:

- The Council has not previously been required to prepare this kind of disclosure before;
- There can be difficulties in establishing the completeness of the list of assets; and
- There are complexities in the identification of leases that are affected, including peppercorn leases.

Planned response

We will perform the following procedures:

- Inquire of management to understand whether the Council intends to prepare quantitative (and if so, the value) or qualitative disclosures;
- Inquire of management to understand how the Council plans to transition to IFRS 16, and assess whether the transition plan is appropriate; and
- Assess whether the disclosures made are in line with the CIPFA Code, our understanding of the Council, and the transition plan described to us by management.

If the Council decides to prepare quantitative disclosures which are material, additional procedures will be required.

Audit risks and our audit approach (cont.)

Revenue – rebuttal of significant risk

Professional standards require us to make a rebuttable presumption that the fraud risk from revenue recognition is a significant risk. Due to the nature of the revenue within the Council, we have rebutted this significant risk. We have set out the rationale for the rebuttal of key types of income in the table below.

Description of income	Nature of income	Rationale for rebuttal
Council tax	This is the income received from local residents paid in accordance with an annual bill based on the banding of the property concerned.	The income is highly predictable and is broadly known at the beginning of the year, due to the number of properties in the area and the fixed price that is approved annually based on a band D property: it is highly unlikely for there to be a material error in the population.
Business rates	Revenue received from local businesses paid in accordance with an annual demand based on the rateable value of the business concerned.	The income is highly predictable and is broadly known at the beginning of the year, due to the number of businesses in the area and the fixed amount that is approved annually: it is highly unlikely for there to be a material error in the population.
Fees, charges and other service income	Revenue recognised from receipt of fixed fee services, in line with the fees and charges schedules agreed and approved annually.	The income stream represents high volume, low value sales, with simple recognition. Fees and charges values are agreed annually. We do not deem there to be any incentive or opportunity to manipulate the income.
Government grants and contributions	Predictable income receipted primarily from central government, including for housing benefits.	Grant income at a local authority typically involves a small number of high value items and an immaterial residual population. These high value items frequently have simple recognition criteria and can be traced easily to third party documentation, most often from central government source data. There is limited incentive or opportunity to manipulate these figures.

Audit risks and our audit approach (cont.)

Expenditure – rebuttal of significant risk

Practice Note 10 states that the risk of material misstatement due to fraudulent financial reporting may arise from the manipulation of expenditure recognition is required to be considered.

Having considered the risk factors relevant to the Council and the nature of expenditure within the Council, we have determined that, with the exception of the risk already identified in the HRA (see risk 3), a significant risk relating to expenditure recognition is not required.

Specifically, the financial position of the Council, (whilst under pressure) is not indicative of a position that would provide an incentive to manipulate expenditure recognition and the nature of expenditure has not identified any specific risk factors, as set out below:

Matter considered	Detail of findings	Conclusion
Medium-term financial strategy	The Council has an ample general fund reserve balance at 31 March 2023 and over the three year period of the Medium Term Financial Strategy for 2024-25 to 2026-27 presented to full Council in March 2024, the Council requires minimal use of earmarked reserves and has an immaterial (c. £11m) shortfall by the end of the three year period. There is no heightened financial pressure on the Council's general fund and no clear incentive to over or understate expenditure in order to maintain financial sustainability.	**Other than the identified significant risk in relation to the housing revenue account, we have rebutted the presumed significant risk of fraud in relation to expenditure recognition.**
Capital programme	The Council's capital programme, as presented to full Council in March 2024, is forecasting an underspend on the capital programme for 2023/24 due to a slippage of capital schemes into 2024/25, with a c. £1 underspend in the capital programme by the end of 2034. Whilst the underspend during 2024 may yield an opportunity to fraudulently capitalise costs and reduce expenditure during 2023/24, the lack of financial pressure during the financial year and the longer-term balanced position for the capital programme suggests this is unlikely.	
Minimum Revenue Provision	We have considered the Council's Minimum Revenue Provision (MRP) policy for potential indicators of manipulation to either over or understate the general fund revenue outturn. Our analysis of historic MRP charges and the 2023/24 policy found it to be in line with our understanding of the legislative requirements, and we have seen no indication of an aggressive MRP policy being in place.	

Other significant matters related to our audit approach

Impacts of climate risk and climate change disclosures

We will evaluate management's assessment of the potential financial implications of climate risk on the financial statements, including estimates and disclosures.

As part of our procedures on other information, we will obtain and read your climate change disclosures. We will consider whether there is a material inconsistency between this information included in the annual report and the financial statements, or with our knowledge obtained in the audit; or whether this information appears to be materially misstated.

Going concern

Under NAO guidance, including Practice Note 10 - A local authority's financial statements shall be prepared on a going concern basis; this is, the accounts should be prepared on the assumption that the functions of the Council will continue in operational existence for the foreseeable future.

However, financial sustainability is a core area of focus for our Value for Money opinion.

Value for money risk assessment

Value for money

Our value for money reporting requirements have been designed to follow the guidance in the Audit Code of Practice.

Our responsibility is to conclude on significant weaknesses in value for money arrangements.

The main output is a narrative on each of the three domains, summarising the work performed, any significant weaknesses and any recommendations for improvement.

We have set out the key methodology and reporting requirements on this slide and provided an overview of the process and reporting on the following page.

Risk assessment processes

Our responsibility is to assess whether there are any significant weaknesses in the Council's arrangements to secure value for money. Our risk assessment will consider whether there are any significant risks that the Council does not have appropriate arrangements in place.

In undertaking our risk assessment we will be required to obtain an understanding of the key processes the Council has in place to ensure this, including financial management, risk management and partnership working arrangements. We will complete this through review of the Council's documentation in these areas and performing inquiries of management as well as reviewing reports, such as internal audit assessments.

Reporting

Our approach to value for money reporting aligns to the NAO guidance and includes:

- A summary of our commentary on the arrangements in place against each of the three value for money criteria, setting out our view of the arrangements in place compared to industry standards;
- A summary of any further work undertaken against identified significant risks and the findings from this work; and
- Recommendations raised as a result of any significant weaknesses identified and follow up of previous recommendations.

The Council will be required to publish the commentary on its website at the same time as publishing its annual report online.

Financial sustainability	Governance	Improving economy, efficiency and effectiveness
How the body manages its resources to ensure it can continue to deliver its services.	*How the body ensures that it makes informed decisions and property manages its risks.*	*How the body uses information about its costs and performance to improve the way it manages and delivers its services.*

Progress

Our work to assess the Council's value for money arrangements are underway. At this stage we anticipate significant Value for Money risks related to the following:

- Financial sustainability and governance of the Council's Housing Revenue Account on account of the long-standing financial pressures it faces;
- Contract management and on account of adverse media and internal audit findings involving major works, including at Devon Mansions and the Canada Estate; and
- TMO management on account of adverse media, internal audit findings, and matters reported to us involving control over historic payments made to a TMO.

We will provide further detail of our proposed procedures once we complete our risk assessment procedures.

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Value for money

Approach we take to completing our work to form and report our conclusion:

Process

Understanding the Council's arrangements → **Evaluation of Council's value for money arrangements** → **Value for money conclusion and reporting**

Understanding the Council's arrangements:
- Financial statements planning
- Internal reports, e.g. IA
- Mgmt. Inquiries
- External reports, e.g. regulators
- Assessment of key processes
- Annual report

Evaluation of Council's value for money arrangements:
- Targeted follow up of identified value for money significant risks
- Continual update of risk assessment

Value for money conclusion and reporting:
- Conclusion whether significant weaknesses exist

Outputs

Risk assessment to Audit, Governance and Standards Committee

Our risk assessment will provide a summary of the procedures undertaken and our findings against each of the three value for money domains. This will conclude on whether we have identified any significant risks that the Council does not have appropriate arrangements in place to achieve VFM.

Value for money assessment

We will report by exception as to whether we have identified any significant weaknesses in arrangements.

Public commentary

Our draft public commentary will be prepared for the Audit, Governance and Standards Committee alongside our annual report on the accounts.

Public commentary

The commentary is required to be published alongside the annual report.

Appendix

Mandatory communications

Type	Statements
Management's responsibilities (and, where appropriate, those charged with governance)	Prepare financial statements in accordance with the applicable financial reporting framework that are free from material misstatement, whether due to fraud or error. Provide the auditor with access to all information relevant to the preparation of the financial statements, additional information requested and unrestricted access to persons within the entity.
Auditor's responsibilities	Our responsibilities set out through the NAO Code (communicated to you by the PSAA) and can be also found on their website, which include our responsibilities to form and express an opinion on the financial statements that have been prepared by management with the oversight of those charged with governance. The audit of the financial statements does not relieve management or those charged with governance of their responsibilities.
Auditor's responsibilities – Fraud	This report communicates how we plan to identify, assess and obtain sufficient appropriate evidence regarding the risks of material misstatement of the financial statements due to fraud and to implement appropriate responses to fraud or suspected fraud identified during the audit.
Auditor's responsibilities – Other information	Our responsibilities are communicated to you by the PSAA and can be also found on their website, which communicates our responsibilities with respect to other information in documents containing audited financial statements. We will report to you on material inconsistencies and misstatements in other information.
Independence	Our independence confirmation at page 25 discloses matters relating to our independence and objectivity including any relationships that may bear on the firm's independence and the integrity and objectivity of the audit engagement partner and audit staff.

Mandatory communications – additional reporting

Your audit is undertaken to comply with the Local Audit and Accountability Act 2014 which gives the NAO the responsibility to prepare an Audit Code (the Code), which places responsibilities in addition to those derived from audit standards on us. We also have responsibilities which come specifically from acting as a component auditor to the NAO. In considering these matters at the planning stage we indicate whether:

- OK — Work is completed throughout our audit and we can confirm the matters are progressing satisfactorily
- We have identified issues that we may need to report
- Work is completed at a later stage of our audit so we have nothing to report

We have summarised the status of all these various requirements at the time of planning our audit below and will update you as our work progresses:

Matter	Status	Response
Our declaration of independence	OK	No matters to report. The engagement team and others in the firm, as appropriate, have complied with relevant ethical requirements regarding independence.
Issue a report in the public interest		We are required to consider if we should issue a public interest report on any matters which come to our attention during the audit. We have not identified any such matters to date.
Provide a statement to the NAO on your consolidation schedule		This "Whole of Government Accounts" requirement is fulfilled when we complete any work required of us by the NAO to assist their audit of the consolidated accounts of DLUHC.
Provide a summary of risks of significant weakness in arrangements to provide value for money		We are required to report significant weaknesses in arrangements. Work to be completed at a later stage.
Certify the audit as complete		We are required to certify the audit as complete when we have fulfilled all of our responsibilities relating to the accounts and use of resources as well as those other matters highlighted above.

Audit cycle & timetable

Our schedule

Key:

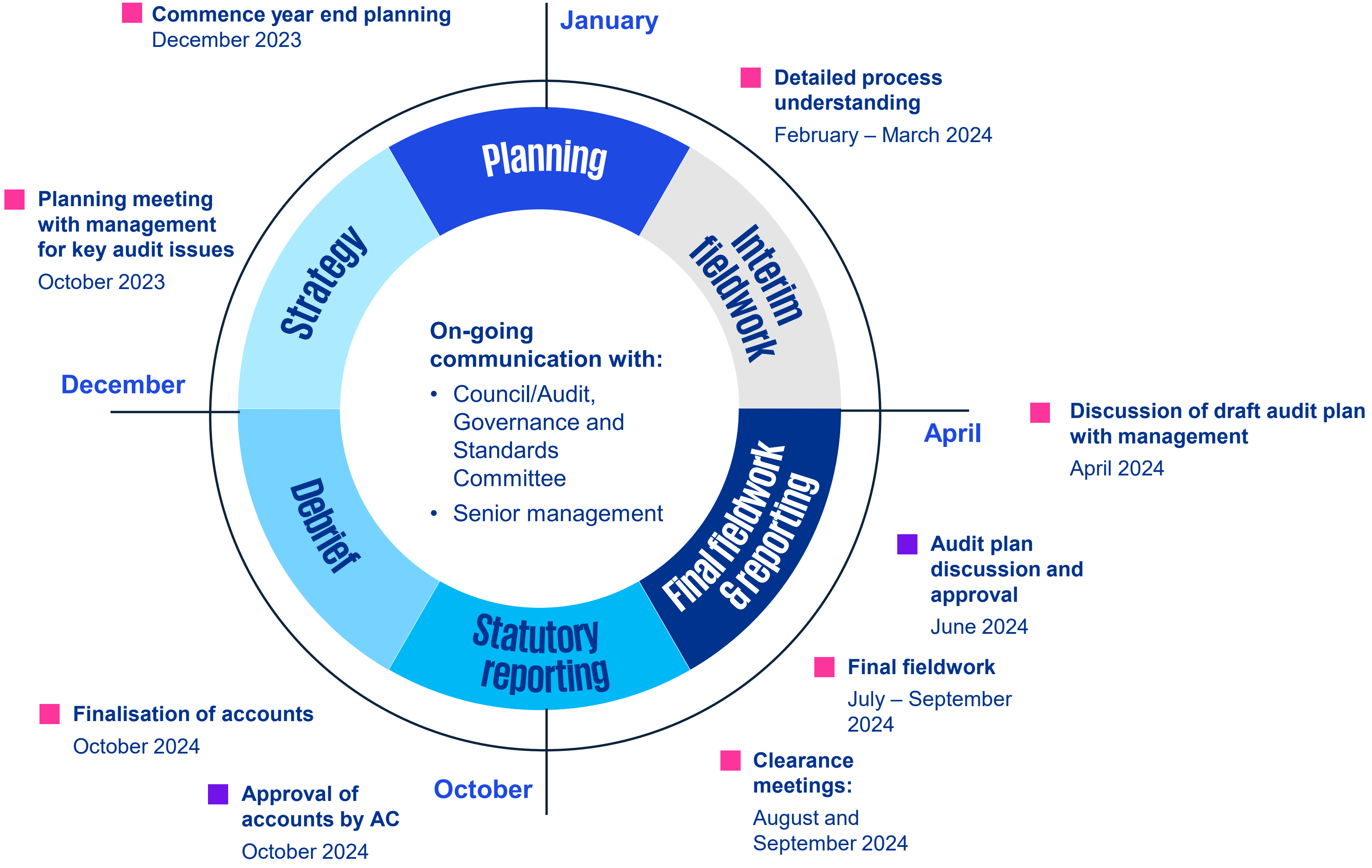
- Timing of AC communications
- Key events

We have worked with management to generate our understanding of the processes and controls in place at the Council in it's preparation of the Statement of Accounts.

We have agreed with management an audit cycle and timetable that reflects our aim to sign our audit report during October 2024.

This being the first year of KPMG as auditor we have undertaken greater activities to understand the Council at the planning stage. This level of input may not be required in future years and may change our audit timings.

Given the large amount of consultation happening in regard to the scope and timing of local government this audit schedule may be subject to change.



Fees

Audit fee

The table below summarises our agreed fees for the year ending 31 March 2024. The fees quoted are exclusive of VAT.

	2023/24
Financial statements	555,885
Total audit fees	**555,885**
Non-audit fees	-
• Teachers' Pension Scheme return	6,000
• Pooling of Housing Capital Receipts return	6,000
• Housing Benefit Subsidy return	50,000
Total KPMG fees	**617,885**

The scale fee for our audit of the pension fund audit is £75,403.

As per PSAA's Scale Fees Consultation, the fees do not include new requirements of ISA 315 revised (risk of material misstatement); or ISA 240 (auditor's responsibilities relating to fraud). The fees also exclude any additional work which may arise from our Value for Money risk assessment. Additional fees in relation to these areas will be subject to the fees variation process as outlined by the PSAA.

Billing arrangements

Fees will be billed in accordance with the milestone completion phasing that has been communicated by the PSAA.

Basis of fee information

In line with our standard terms and conditions the fee is based on the following assumptions:

- The Council's audit evidence files are completed to an appropriate standard (we will liaise with management separately on this);
- Draft statutory accounts are presented to us for audit subject to audit and tax adjustments;
- Supporting schedules to figures in the accounts are supplied; A trial balance together with reconciled control accounts are presented to us;
- All deadlines agreed with us are met;
- We find no weaknesses in controls that cause us to significantly extend procedures beyond those planned;
- Management will be available to us as necessary throughout the audit process; and
- There will be no changes in deadlines or reporting requirements.

We will provide a list of schedules to be prepared by management stating the due dates together with pro-forms as necessary. Our ability to deliver the services outlined to the agreed timetable and fee will depend on these schedules being available on the due dates in the agreed form and content.

Any variations to the above plan will be subject to the PSAA fee variation process.

Confirmation of Independence

We confirm that, in our professional judgement, KPMG LLP is independent within the meaning of regulatory and professional requirements and that the objectivity of the Partner and audit staff is not impaired.

To the Audit, Governance and Standards Committee members

Assessment of our objectivity and independence as auditor of Southwark 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.

This letter 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 and staff annually confirm their compliance with our ethics and independence policies and procedures including in particular that they have no prohibited shareholdings. 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 partner as to our compliance with the FRC Ethical Standard in relation to this audit engagement is subject to review by an engagement quality control reviewer, who is a partner not otherwise involved in your affairs.

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

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

Summary of non-audit services

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 on the table overleaf.

Confirmation of Independence

Disclosure	Description of scope of services	Principal threats to Independence	Safeguards Applied	Basis of fee	Value of Services Delivered in the year ended 31 March 2024	Value of Services Committed but not yet delivered
Other Assurance Services	Agreed upon procedures in relation to the housing benefit subsidy return.	Self review Management	• The work is performed by a separate engagement team to the audit team, and the work is not relied on within the audit file. • Our work does not involve judgement and are statements of fact based on agreed upon procedures.	Fixed	-	50,000
	Agreed upon procedures in relation to the teachers pension scheme return.	Self review Management	• The work is performed by a separate engagement team to the audit team, and the work is not relied on within the audit file. • Our work does not involve judgement and are statements of fact based on agreed upon procedures.	Fixed	-	6,000
	Agreed upon procedures in relation to the pooling of housing capital receipts return.	Self review Management	• The work is performed by a separate engagement team to the audit team, and the work is not relied on within the audit file. • Our work does not involve judgement and are statements of fact based on agreed upon procedures.	Fixed	-	6,000

Confirmation of Independence (continued)

We have considered the fees charged by us to the Council and its affiliates for professional services provided by us during the reporting period. Total fees charged by us can be analysed as follows:

	2023/24 (to date)
	£'000s
Audit of Council	556
Audit of Pension Fund	75
Total audit fees	**631**
Other assurance services	62
Total non-audit services	62
Total KPMG fees	**693**

Application of the Auditor Guidance Note 1 (AGN01)

The anticipated ratio of non-audit fees to audit fees for the year at the time of planning is 0.1 : 1, or 11% which is compliant with Auditor Guidance Note 1 (AGN01). We do not consider that the total non-audit fees create a self-interest threat since the absolute level of fees is not significant to our firm as a whole.

AGN 01 states that when the auditor provides non-audit services, the total fees for such services to the audited entity and its controlled entities in any one year should not exceed 70% of the total fee for all audit work carried out in respect of the audited entity and its controlled entities for that year.

Application of the FRC Ethical Standard 2019

That standard became effective for the first period commencing on or after 15 March 2020, except for the restrictions on non-audit and additional services that became effective immediately at that date, subject to grandfathering provisions.

We confirm that as at 15 March 2020 we were not providing any non-audit or additional services that required to be grandfathered.

Independence and objectivity considerations relating to other matters

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

Confirmation of audit independence

We confirm that as of the date of this letter, in our professional judgement, KPMG LLP is independent within the meaning of regulatory and professional requirements and the objectivity of the partner and audit staff is not impaired.

This report is intended solely for the information of the Audit, Governance and Standards 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.

Yours faithfully

KPMG LLP

Audit team and rotation

Your audit team has been drawn from our specialist local government audit department and is led by key members of staff who will be supported by auditors and specialists as necessary to complete our work. We also ensure that we consider rotation of your audit partner and firm.

Fleur Nieboer is the partner responsible for our audit. She will lead our audit work, attend the Audit, Governance and Standards Committee and be responsible for the opinions that we issue.

Philip Kent is the senior manager responsible for our audit. He will co-ordinate our audit work, attend the Audit, Governance and Standards Committee and ensure we are co-ordinated across our accounts and use of funds work.

Angus Percival is the in-charge responsible for our audit. He will be responsible for our on-site fieldwork. He will complete work on more complex section of the audit.

To comply with professional standards we need to ensure that you appropriately rotate your external audit partner. There are no other members of your team which we will need to consider this requirement for:

This will be Fleur's first year as your engagement lead. She is required to rotate every five years, extendable to seven with PSAA approval.

DISCUSSION DRAFT

ISA (UK) 315 Revised: Overview

Summary

In the prior period, ISA (UK) 315 Revised "Identifying and assessing the risks of material misstatement" was introduced and incorporated significant changes from the previous version of the ISA.

These were introduced to achieve a more rigorous risk identification and assessment process and thereby promote more specificity in the response to the identified risks. The revised ISA was effective for periods commencing on or after **15 December 2021**.

The revised standard expanded on concepts in the existing standards but also introduced new risk assessment process requirements – the changes had a significant impact on our audit methodology and therefore audit approach.

What impact did the revision have on audited entities?

With the changes in the environment, including financial reporting frameworks becoming more complex, technology being used to a greater extent and entities (and their governance structures) becoming more complicated, standard setters recognised that audits need to have a more robust and comprehensive risk identification and assessment mechanism.

The changes result in additional audit awareness and therefore clear and impactful communication to those charged with governance in relation to (i) promoting consistency in effective risk identification and assessment, (ii) modernising the standard by increasing the focus on IT, (iii) enhancing the standard's scalability through a principle based approach, and (iv) focusing auditor attention on exercising professional scepticism throughout risk assessment procedures.

Implementing year 1 findings into the subsequent audit plan

Entering the second year of the standard, the auditors will have demonstrated, and communicated their enhanced insight into their understanding of your wider control environment, notably within the area of IT.

In year 2 the audit team will apply their enhanced learning and insight into providing a targeted audit approach reflective of the specific scenarios of each entity's audit.

A key area of focus for the auditor will be understanding how the entity responded to the observations communicated to those charged with governance in the prior period.

Where an entity has responded to those observations a re-evaluation of the control environment will establish if the responses by entity management have been proportionate and successful in their implementation.

Where no response to the observations has been applied by entity, or the auditor deems the remediation has not been effective, the audit team will understand the context and respond with proportionate application of professional scepticism in planning and performance of the subsequent audit procedures.

What will this mean for our on-going audits?

To meet the on-going requirements of the standard, auditors will each year continue to focus on risk assessment process, including the detailed consideration of the IT environment.

Subsequent year auditor observations on whether entity actions to address any control observations are proportionate and have been successfully implemented will represent an on-going audit deliverable.

Each year the impact of the on-going standard on your audit will be dependent on a combination of prior period observations, changes in the entity control environment and developments during the period. This on-going focus is likely to result in the continuation of enhanced risk assessment procedures and appropriate involvement of technical specialists (particularly IT Audit professionals) in our audits which will, in turn, influence auditor remuneration.

ISA (UK) 240 Revised: changes embedded in our practices

Ongoing impact of the revisions to ISA (UK) 240

ISA (UK) 240 (revised May 2021, effective for periods commencing on or after 15 December 2021) The auditor's responsibilities relating to fraud in an audit of financial statements included revisions introduced to clarify the auditor's obligations with respect to fraud and enhance the quality of audit work performed in this area. These changes are embedded into our practices and we will continue to maintain an increased focus on applying professional scepticism in our audit approach and to plan and perform the audit in a manner that is not biased towards obtaining evidence that may be corroborative, or towards excluding evidence that may be contradictory.

We will communicate, unless prohibited by law or regulation, with those charged with governance any matters related to fraud that are, in our judgment, relevant to their responsibilities. In doing so, we will consider the matters, if any, to communicate regarding management's process for identifying and responding to the risks of fraud in the entity and our assessment of the risks of material misstatement due to fraud.

Area	Our approach following the revisions
Risk assessment procedures and related activities	1. Increased focus on applying professional scepticism – the key areas affected are: • the need for auditors not to bias their approach towards obtaining evidence that is corroborative in nature or excluding contradictory evidence, • remaining alert for indications of inauthenticity in documents and records, and • investigating inconsistent or implausible responses to inquiries performed. 2. Requirements to perform inquiries with individuals at the entity are expanded to include, amongst others, those who deal with allegations of fraud. 3. We will determine whether to involve technical specialists (including forensics) to aid in identifying and responding to risks of material misstatement due to fraud.
Internal discussions and challenge	We will have internal discussions among the audit team to identify and assess the risk of fraud in the audit, including determining the need for additional meetings to consider the findings from earlier stages of the audit and their impact on our assessment of the risk of fraud.

FRC's areas of focus

The FRC released their [Annual Review of Corporate Reporting 2022/23] in October 2023. In addition, they have released three thematic reviews during the year should be considered when preparing reporting for the current financial period.

The reports identify where the FRC believes companies should be improving their reporting. Below is a high level summary of the key topics. We encourage management and those charged with governance to read further on those areas which are significant to the Council.

Reporting on the effects of inflation and other uncertainties

This year's Annual Review of Corporate Reporting identifies that companies continue to face significant economic and geopolitical uncertainty and annual report and accounts should therefore tell a coherent story about the impacts on the business and the assumptions the company has made in preparing the financial statements.

The FRC notes that interest rate rises in response to persistent inflation, the related impact on consumer behaviour, and limited growth present a particularly challenging environment for companies. Financial reporting needs to set out the impact of these issues on their business, and the assumptions which underpin the values of assets and liabilities in financial statements. Significant changes in discount rates and future cash flows are expected as a result and they should be highlighted.

The impacts of uncertainty on companies' narrative reporting and financial statements are numerous, but the FRC sets out its clear disclosure expectations for 2023/2024:

- Disclosures about uncertainty should be sufficient to meet relevant requirements *and* for users to understand the positions taken in the financial statements.
- The strategic report should give a clear description of the risks facing the business, the impact of these risks on strategy, business model, going concern and viability, and disclosures should be cross-referenced to relevant detail in the report and accounts.
- Transparent disclosure should be provided of the nature and extent of material risks arising from financial instruments.

Preparers should take a step back to consider whether the annual report, as a whole, is clear, concise and understandable and whether additional information, beyond the requirements of the standards, is necessary to understand particular transactions, events or circumstances.

Climate-related reporting

Climate-related reporting continues to progress with the new Companies Act requirements, effective for periods commencing 6 April 2022, requiring more entities to include climate-related financial disclosures within the annual report. These are largely aligned with the Taskforce on Climate-Related Disclosures (TCFD) recommendations, but do not include the 'comply or explain' provision for items that would have a material impact on the entity.

Climate-related risks remains an area of ongoing focus for the FRC as they embed the review of these disclosures into their routine annual reviews. The FRC has highlighted that it expects companies to provide improved disclosure explaining the linkage between narrative reporting on uncertainties such as climate change, and the assumptions made in the financial statements.

In respect of TCFD disclosures, the FRC notes that sustainability reporting requirements continue to evolve and companies are still at very different stages in their reporting in this area. The FRC expect in scope entities to provide a clear statement of consistency with TCFD which explains, unambiguously, whether management considers they have given sufficient information to comply with the framework in the current year. Companies must, in any case, comply with the new mandatory requirements for disclosure of certain TCFD-aligned information.

In relation to the specific thematic on metrics and targets they highlighted five areas of improvement:

- the definition and reporting of company-specific metrics and targets, beyond headline 'net zero' statements;
- better linkage between companies' climate-related metrics and targets and the risks and opportunities to which they relate;
- the explanation of year-on-year movements in metrics and performance against targets;
- transparency about internal carbon prices, where used by companies to incentivise emission reduction; and
- better linkage between climate-related targets reported in TCFD disclosures and ESG targets disclosed in the Directors' Remuneration Report.

FRC's areas of focus (cont.)

Impairment of assets

Heightened economic uncertainty, high inflation and higher interest rates have resulted in more instances of impairment or reductions in headroom, prompting the need for more detailed disclosures under IAS 36. The FRC notes that many of the queries it has raised with companies in the past year would have been avoided by clearer, more complete disclosures.

Disclosures should provide key inputs and assumptions applied, along with relevant values and sensitivity information where impairments could arise from reasonably possible changes in assumptions.

Assumptions should be consistent with information provided elsewhere in the annual report and with the wider economic environment; where there are inconsistencies, these should be explained.

Discount rates should be consistent with the assumptions in the cash flow projections, particularly in respect of risk and the effects of inflation.

Judgements and estimates

Most of the FRC's queries related to estimation uncertainty, and often involved disclosures which either did not contain sufficient information to be useful, or which appeared inconsistent with disclosures given elsewhere.

Disclosures should explain the significant judgement and provide quantified sensitivities where there is a significant source of estimation uncertainty. This includes judgements relating to the going concern assessment and accounting for inflationary features, including the use of discount rates. Sensitivity disclosures should be meaningful for readers, remain appropriate in current circumstances, explaining significant changes in assumptions and the range of possible outcomes since the previous year.

The FRC highlights the need for disclosures to clearly distinguish between estimates with a significant risk of a material adjustment to carrying amounts within the next year, and other sources of estimation uncertainty.

Cash flow statements

Cash flow statements have again been an area where the FRC have raised many queries and it remains one of the most common causes of prior year adjustments. Most queries raised by the FRC relate to unusual or complex transactions which have not been appropriately reflected in the cash flow statement.

Companies should ensure that descriptions of cash flows are consistent with those reported elsewhere in the report and accounts, with non-cash investing and financing transactions being excluded, but disclosed elsewhere if material.

In addition, companies should ensure that cash flows are appropriately classified between operating, financing and investing, and cash flows should not be inappropriately netted. Cash and cash equivalents should comply with the relevant definitions and criteria in the standard.

Strategic report and other Companies Act 2006 matters

Strategic reports should focus not only on financial performance but should also explain significant movements in the balance sheet and cash flow statement. They should articulate the effect of principal risks and uncertainties facing the business, including economic and other risks such as inflation, rising interest rates, supply chain issues, climate-related risks and labour relations.

In addition, the FRC reminds companies that they should comply with the legal requirements for making distributions and repurchasing shares including, where relevant, the requirement to file interim accounts to support the transaction.

Financial instruments

Companies should ensure that the nature and extent of material risks arising from financial instruments (including inflation and rising interest rates), and related risk management, are adequately disclosed.

This includes disclosures being sufficient to explain the approach and significant assumptions applied in the measurement of expected credit losses, including concentrations of risk, and assessments should be reviewed and adjusted for forecast future economic conditions.

The effect of refinancing and changes to covenant arrangements should be explained, with information about covenants being provided unless the likelihood of a breach is remote.

Lastly, the FRC reminds companies that cash and overdraft balances should be offset only when the qualifying criteria have been met.

FRC's areas of focus (cont.)

Income taxes

Following their thematic review last year, the FRC reminds companies that the nature of evidence supporting the recognition of deferred tax assets should be disclosed, and should factor in any difficult economic environment.

Additionally, companies should ensure tax-related disclosures are consistent throughout the annual report, uncertain tax positions are adequately disclosed, and material reconciling items in the tax rate reconciliation are presented separately and appropriately described.

Provisions and contingencies

Clear descriptions of the nature and uncertainties for material provisions or contingent liabilities, the expected timeframe and the basis for estimating the probable or possible outflow should be provided.

Inputs used in measuring provisions should be consistent in the approach to incorporating inflation, and details of related assumptions should be provided.

Revenue

Where variable consideration exists, companies should provide sufficient disclosure to explain how it is estimate and constrained.

Accounting policies and relevant judgement disclosures should be provided for all significant performance obligations. Those disclosures should address in sufficient detail the timing of revenue recognition, the basis for recognising revenue over time and the methodology applied.

Lastly, the FRC reminds companies that inflationary features in contracts with customers, and the accounting for such clauses, should be adequately disclosed and clearly explained.

Presentation of financial statements and related disclosures

The FRC expects companies to disclose company-specific information to meet the overall disclosure objectives of relevant accounting standards, and not just the narrow specific disclosure requirements of individual standards. They set out a clear expectation that additional information (beyond the minimum requirements of the standards) should be included where needed.

Fair value measurement

Fair value measurement has returned this year as one of the FRC's top ten issues raised in their correspondence with companies, and this has been the topic of a thematic review. Common queries raised include the omission of sensitivity disclosures and the quantification of unobservable inputs into fair value measurements.

The FRC reminds companies that they should use market participants' assumptions, rather than their own, in measuring fair value.

Thematic reviews

During the year FRC has issued Thematic reviews on the following topics:

- Climate-related metrics and targets
- IFRS 13 Fair value measurement
- IFRS 17 Insurance contracts – Interim disclosures in the first year of application

2023/24 review priorities

The FRC has indicated that its 2023/24 reviews will focus on the following sectors which are considered by the FRC to be higher risk by virtue of economic or other pressures:

- Travel, hospitality and leisure
- Construction materials
- Retail and personal goods
- Gas, water and multi-utilities

KPMG's Audit quality framework

Audit quality is at the core of everything we do at KPMG and we believe that it is not just about reaching the right opinion, but how we reach that opinion.

To ensure that every partner and employee concentrates on the fundamental skills and behaviours required to deliver an appropriate and independent opinion, we have developed our global Audit Quality Framework.

Responsibility for quality starts at the top through our governance structures as the UK Board is supported by the Audit Oversight Committee, and accountability is reinforced through the complete chain of command in all our teams.

Commitment to continuous improvement

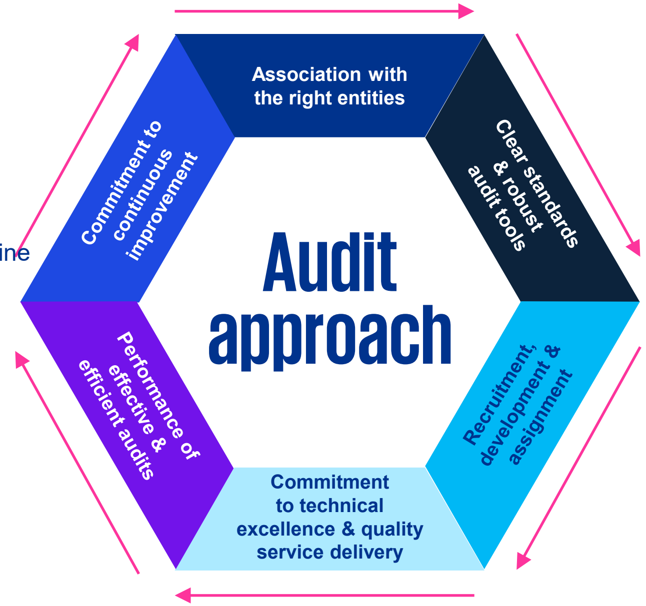
- Comprehensive effective monitoring processes
- Significant investment in technology to achieve consistency and enhance audits
- Obtain feedback from key stakeholders
- Evaluate and appropriately respond to feedback and findings

Performance of effective & efficient audits

- Professional judgement and scepticism
- Direction, supervision and review
- Ongoing mentoring and on the job coaching, including the second line of defence model
- Critical assessment of audit evidence
- Appropriately supported and documented conclusions
- Insightful, open and honest two way communications

Commitment to technical excellence & quality service delivery

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



Association with the right entities

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

Clear standards & robust audit tools

- KPMG Audit and Risk Management Manuals
- Audit technology tools, templates and guidance
- KPMG Clara incorporating monitoring capabilities at engagement level
- Independence policies

Recruitment, development & assignment of appropriately qualified personnel

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

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