



LOCAL GOVERNMENT

# Bury Metropolitan Borough Council

Financial Statements Audit Plan

23rd February 2010

PUBLIC SECTOR AUDIT

# Contents

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Summary	2
Audit overview	4
Key financial statement audit risks	6
Materiality	8
Audit team	9
Independence confirmation	10
Audit fees	11
Audit timeline & deliverables	13
Appendix 1: Meeting your expectations	15
Appendix 2: Balance of internal controls and substantive testing	16
Appendix 3: Independence and objectivity requirements	17
Appendix 4: Sustainability	18

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 has issued a document entitled Statement of Responsibilities of Auditors and Audited Bodies. This summarises where the responsibilities of auditors begin and end and what is expected from the audited body. We draw your attention to this document.

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.

If you have any concerns or are dissatisfied with any part of KPMG's work, in the first instance you should contact Trevor Rees, who is the engagement partner to the Authority, telephone 0161 246 4063, email [trevor.rees@kpmg.co.uk](mailto:trevor.rees@kpmg.co.uk) who will try to resolve your complaint. Trevor is also the national contact partner for all of KPMG's work with the Audit Commission. If you are dissatisfied with how your complaint has been handled you can access the Audit Commission's complaints procedure. Put your complaint in writing to the Complaints Investigation Officer, Westward House, Lime Kiln Close, Stoke Gifford, Bristol, BS34 8SR or by e mail to: [complaints@audit-commission.gov.uk](mailto:complaints@audit-commission.gov.uk). Their telephone number is 0844 798 3131, textphone (minicom) 020 7630 0421

# Summary

## Our audit is divided into:

- use of resources; and
- financial statements.

This document describes how we will deliver our audit work for Bury Metropolitan Borough Council.

Our statutory responsibilities and powers are set out in the Audit Commission Act 1998, the Local Government Act 1999 and the Audit Commission's *Code of Audit Practice (the Code)*.

The Audit Commission's Code summarises our responsibilities into two objectives, requiring us to review and report on your:

- *financial statements (including the Annual Governance Statement)*: providing an opinion on your accounts; and
- *use of resources*: concluding on the arrangements in place for securing economy, efficiency and effectiveness in your use of resources (the value for money conclusion).

The Audit Commission's Statement of Responsibilities of Auditors and Audited Bodies sets out the respective responsibilities of the auditor and the Council. The table below summarises the work we will do this year.

Our Responsibility	Risks, Proposed work and output
<p>Financial Statements and Annual Governance Statement (page 6)</p>	<p>Key risks identified are as follows:</p> <ul style="list-style-type: none"> <li>• Provisions – the Council made significant provisions in 2008/09. These provisions will require detailed review to ensure that they are appropriately stated within the 2009/10 financial statements.</li> <li>• NNDR and Council Tax – the accounting treatment for NNDR and Council Tax has been updated to reflect changes in the Statement of Recommended Practice (SORP). The Council will need to ensure that appropriate systems are in place to capture the required income and arrears information.</li> <li>• International Financial Reporting Standards (IFRS) – IFRS will be implemented in 2010/11. The Council will need to ensure that they have the necessary systems and processes in place to capture the required information for convergence.</li> </ul> <p>Our work will encompass:</p> <ul style="list-style-type: none"> <li>• Review of the controls over the completion of the accounts. We will rely on Internal Audit wherever possible to avoid duplication.</li> <li>• A detailed audit of the financial statements, associated disclosure notes and the Annual Governance Statement.</li> <li>• Liaison with the Monitoring Officer and the Director of Finance and E-Government to ensure that the provisions in the financial statements are up to date.</li> <li>• Detailed audit of the Collection Fund, and any associated balances and disclosures, to ensure that the Council has appropriately reflected the changes in the Statement of Recommended Practice.</li> <li>• Regular liaison with the Head of Financial Management to establish the progress that has been made to ensure the necessary processes are in place for implementation of IFRS.</li> </ul> <p><b>The findings of this work support the audit opinion that we issue on your financial statements.</b></p>
<p>Use of Resources</p>	<ul style="list-style-type: none"> <li>• <b>Use of Resources Assessment</b> of managing finances, governing the business and managing resources. These judgements are combined to give an overall use of resources score. Last year the Council scored 2 from a maximum of 4.</li> <li>• We have maintained dialogue with officers and have kept up to date with developments at the Council. Our use of resources work has been adapted to respond to the changing risk environment within which the Council operates. Based upon our local risk assessment the following <b>use of resources projects</b> will also be undertaken:</li> </ul>

# Summary

Our Responsibility	Risks, Proposed work and output
Use of Resources (cont'd)	<ul style="list-style-type: none"> <li>• Medium to Long Term Financial Planning – This is a review of the Council’s medium to long term financial planning processes. It includes a review of the financial sensitivity analysis performed as part of the planning process together with reviewing the progress the Council has made on implementing changes for the future, particularly in context of the current economic conditions.</li> <li>• Commissioning – A review of the Councils commissioning arrangements for children and adult social care services will be performed. This will be scoped in full upon completion of the 2008/09 commissioning work.</li> </ul> <p><b><i>The conclusions of this work will inform our value for money conclusion and will also feed into the Audit Commission’s Comprehensive Area Assessment.</i></b></p>

The audit planning process and risk assessment is an on-going process and the assessment and fees in this plan will be kept under review and updated if necessary. The remainder of this document provides details of our risk assessment, proposed work and fees for our work on the financial statements audit. It supplements the high level audit plan presented earlier in the year.

We will outline the scope and approach of our Use of Resources work in separate reports during the year.

# Audit overview

**We undertake our work on your financial statements and Annual Governance Statement (AGS) in four key stages.**

**Our work results in our audit opinion on your financial statements.**

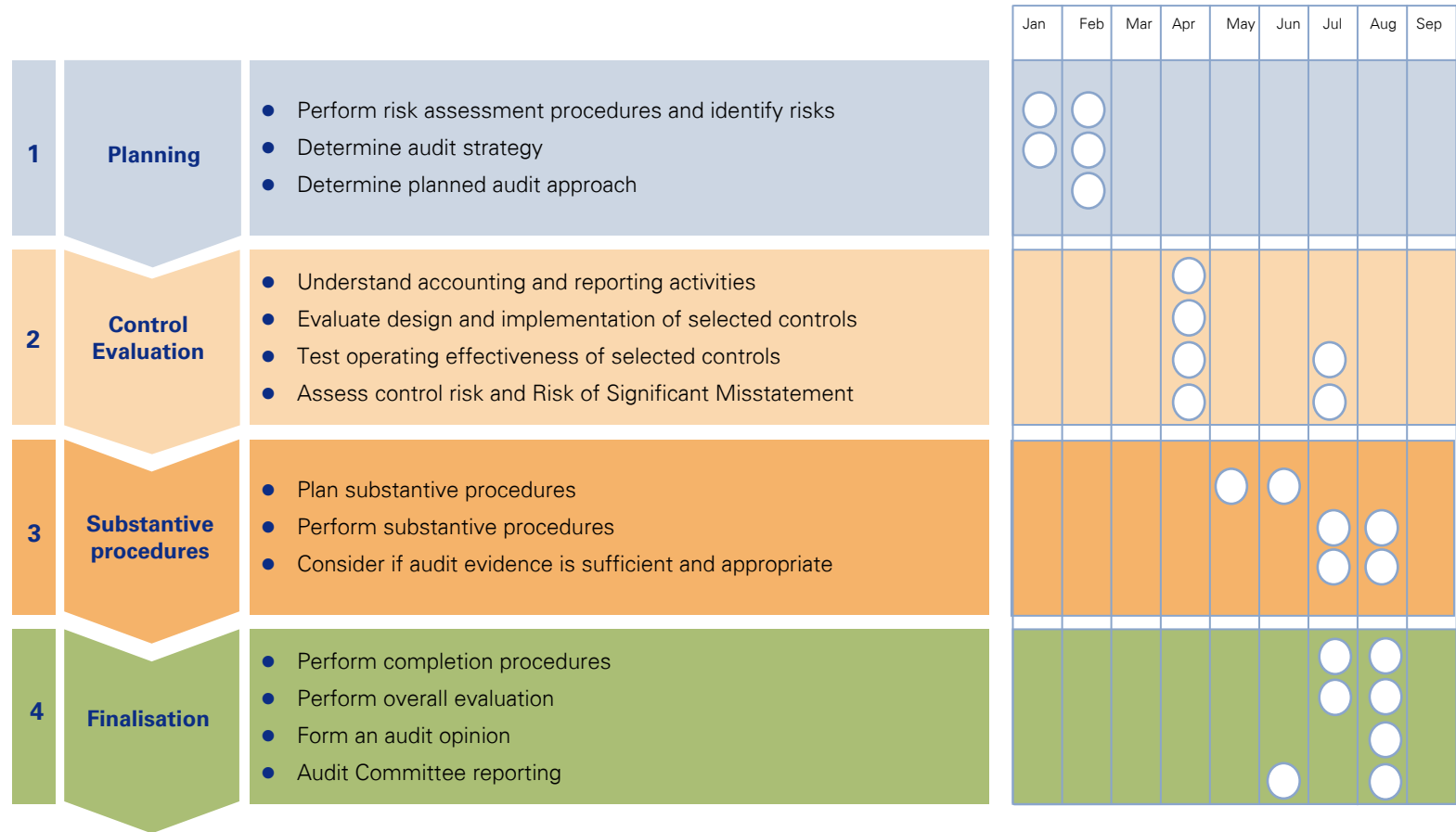
We are required to satisfy ourselves that your accounts comply with statutory requirements and that proper practices have been observed in compiling them. We are required to provide audit and regularity opinions on the accounts.

We are also required to satisfy ourselves that your AGS is consistent with our understanding of your operations. Our review of the work of internal audit and consideration of your risk management and governance arrangements are key to this opinion.

In addition to the Council's financial statements which include the consolidated group accounts, we are also required to audit and provide an opinion on the Whole of Government Accounts.

### Our Audit Process

We have summarised the four key stages of our financial statements audit process for you below:



# Audit overview

**We work with your finance team and internal audit team to enhance the efficiency of the accounts audit.**

## **Our Audit Process (continued)**

As part of our audit process, we will work closely with the finance team to understand and continually improve the accounts production process. At the planning stage of our audit we will issue the Council with a 'prepared by client' list which will include a detailed schedule of information requests to support the financial statements.

Our audit procedures also include an assessment of your arrangements to deliver your responsibilities to prevent and detect fraud. The auditing standard for fraud, ISA240 (revised), responds to the increased sensitivity to fraud and the importance given to auditors' work on fraud. Additionally, the Fraud Act 2006 and the Government Review of Fraud 2006 may impact on your responsibilities to manage fraud.

## **Liaising with internal audit**

We have a strong working relationship with Internal Audit and we will continue to work closely with them to maximise the effectiveness of their work on core financial systems and governance at the Council.

## **Whole of government accounts (WGA)**

KPMG are required to review and report on your WGA consolidation pack in accordance with the approach agreed with HM Treasury and the National Audit Office. The 2009/10 WGA consolidation pack will need to be produced in accordance with the International Financial Reporting Standards (IFRS).

## **National Fraud Initiative**

The Council participates in the National Fraud Initiative, which is the Audit Commission's computerised data matching exercise designed to detect fraud perpetrated against public bodies. During our audit we will review the Council's progress and actions in following up the matches identified

## **Certification of grant claims and returns**

KPMG will continue to certify the Council's claims and returns on the following basis:

- claims below £100,000 will not be subject to certification;
- claims between £100,000 and £500,000 will be subject to a reduced, light-touch certification; and
- claims over £500,000 will be subject to a certification approach relevant to the auditor's assessment of the control environment and management preparation of claims. A robust control environment would lead to a reduced certification approach for these claims.

## **Elector Challenge**

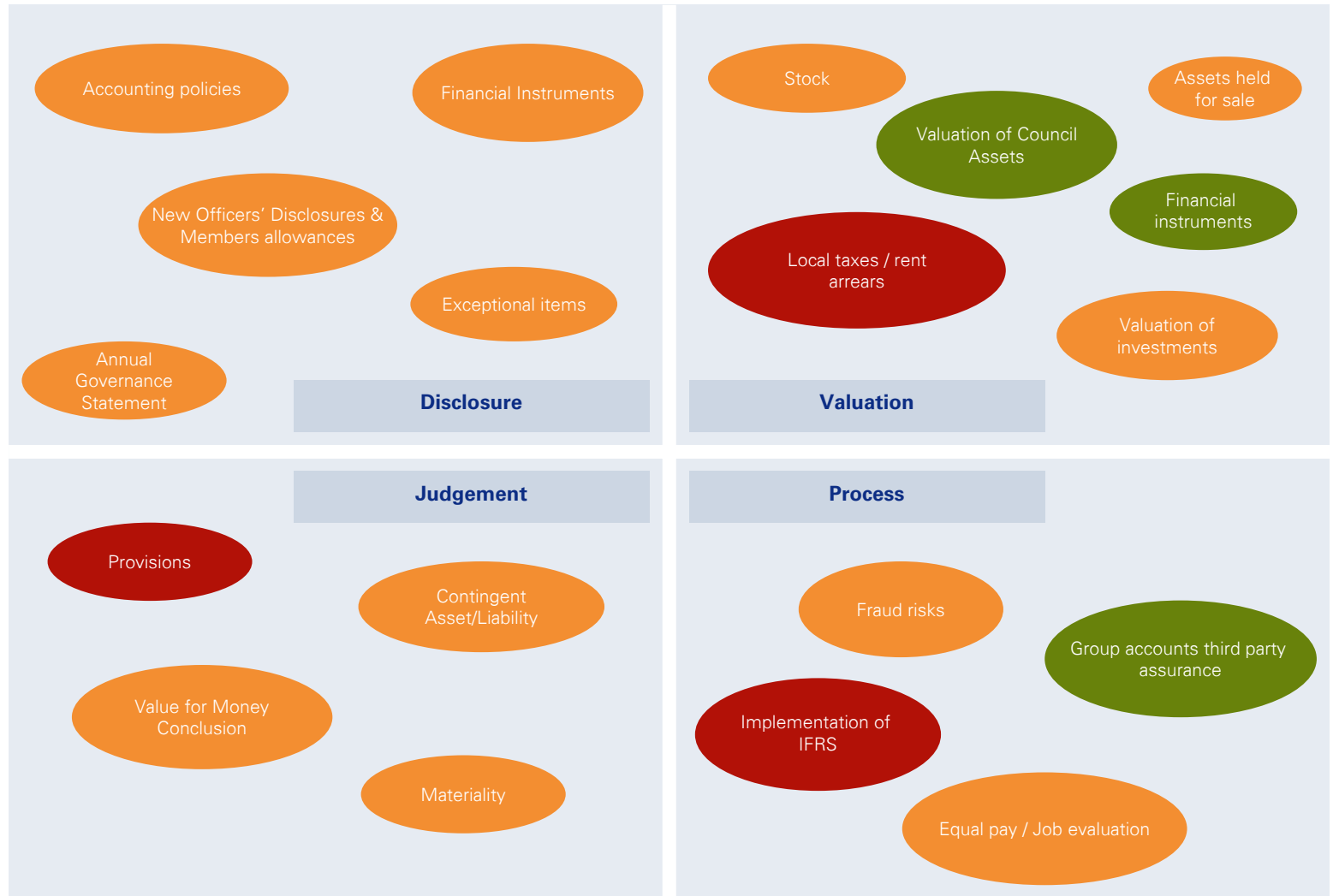
The Audit Commission Act 1998 gives electors certain rights. These are:

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

As a result of these rights, in particular the right to object to the accounts, we may need to undertake additional work to form our decision on the elector's objection. The additional work could range from a small piece of work where we interview an officer and review evidence to form our decision, to a more detailed piece of work, where we have to interview a range of officers, review significant amounts of evidence and seek legal representations on the issues raised. The costs incurred in responding to questions or objections raised by electors is not part of the fee. This work will be charged in accordance with the Audit Commission's fee scales.

# Key financial statement audit risks

These are the key financial statement risks identified for 2009/10. We seek to tailor our audit approach to reflect this.



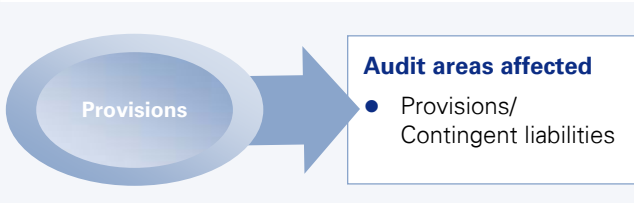


■ High ■ Medium ■ Low

The high risk issues are discussed overleaf

# Key financial statement audit risk

For each key risk audit area we have outlined the impact on our audit plan.

We will provide an update to the Audit Committee on these risk issues.

Key audit risks	Impact on audit plan
 <p><b>Audit areas affected</b></p> <ul style="list-style-type: none"> <li>• Provisions/Contingent liabilities</li> </ul>	<p>In 2008/09 the Council included significant provisions in their financial statements. At the time there was still uncertainty around the eventual outcome of the cases involved. There is a risk of under or over provision if the Council does not update its existing provisions for the latest position in relation to these cases.</p> <ul style="list-style-type: none"> <li>• We will discuss the latest position with the Monitoring Officer and the Director of Finance and E-Government to determine that the provisions reflect this information. We will assess valuation assumptions for appropriateness.</li> <li>• We will review the Council’s liability calculations and consider whether these have been accounted for correctly within the financial statements.</li> </ul>
 <p><b>Audit areas affected</b></p> <ul style="list-style-type: none"> <li>• Debtors/Creditors</li> <li>• Collection fund</li> </ul>	<p>The 2009 SORP has brought about changes to the way in which councils are required to account for NNDR and Council Tax income and arrears. This will require the Council to put in place appropriate systems to capture the required information relating income collected on behalf of precepting organisations.</p> <ul style="list-style-type: none"> <li>• During the interim phase of our audit we will review the Council’s processes and systems in place for capturing data required under the new SORP.</li> <li>• We will review the accounting entries and disclosures made in relation to NNDR and Council Tax and ensure that they comply with the SORP.</li> </ul>
 <p><b>Audit areas affected</b></p> <ul style="list-style-type: none"> <li>• Financial statement presentation</li> </ul>	<p>Councils are required to report under IFRS for the first time in 2010/11. The 2009/10 financial statements will need to be converted to IFRS to form the comparative period. Therefore, the opening IFRS balance sheet date was 1 April 2009. It is important that the Council continues to work towards delivery of its IFRS project plan in order to ensure future compliance with IFRS.</p> <ul style="list-style-type: none"> <li>• We will review the Council’s progress on implementing IFRS against its detailed convergence plan. In particular we will consider the steps taken to restate opening balances.</li> <li>• We will hold regular discussions with officers to identify areas where difficulties are being experienced. We will offer support and guidance during the convergence process.</li> </ul>



# Materiality

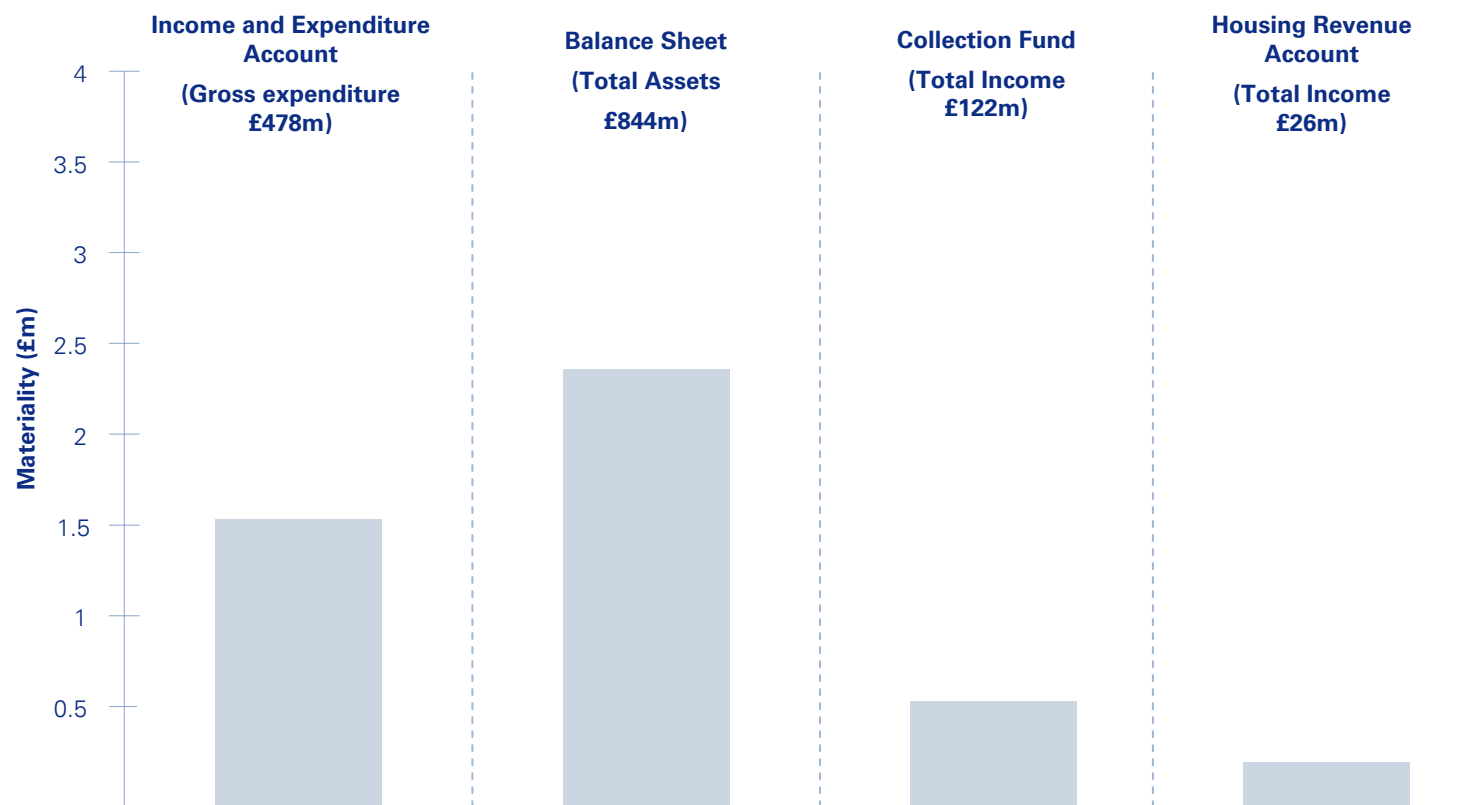
**Our audit work is planned to detect errors that are material to the accounts as a whole**

## Determining materiality

- We consider quantitative and qualitative factors in setting materiality and in designing our audit procedures.
- Materiality is calculated as a proportion of total revenues or total assets.
- Different materiality levels have been set for the income and expenditure account, balance sheet, housing revenue account and collection fund.

## Reporting to Audit Committee

- To comply with auditing standards, the following three types of audit differences will be presented to the Audit Committee:
  - summary of adjusted audit differences;
  - summary of unadjusted audit differences; and
  - summary of disclosure differences (adjusted and unadjusted).



*Note: Materiality may be updated on receipt on the draft financial statements*  
*Source: Financial Statements (2008/9)*

# Audit Team

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Contact details are shown on slide 1

The audit team will be assisted by other specialist KPMG as necessary.



Trevor Rees  
**Engagement Lead**

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

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Jillian Burrows  
**Audit Senior Manager**

I will support Trevor Rees in forming our audit opinion. I will offer support and guidance to Heather Garrett and Gemma Douse to ensure best practice at each stage of the audit process. I will be responsible for the management of the client relationship.

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Heather Garrett  
**Audit Manager**

I will direct and help coordinate the audit and will work closely with Trevor Rees and Jillian Burrows to ensure we add value. I will be the main contact for the Director of Finance and E-Government and other executive directors.

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Gemma Douse  
**Audit Assistant Manager**

I will be your day to day contact and will work closely with Heather Garrett to deliver a coordinated and efficient audit.

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# Independence Confirmation

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**Our independence and objectivity responsibilities under the Code are summarised in Appendix 3.**

**We confirm our audit team's independence and objectivity is not impaired.**

## **Independence and objectivity confirmation**

Professional standards require auditors to communicate to those charged with governance, at least annually, all relationships that may bear on the firm's independence and the objectivity of the audit engagement partner and audit staff. The standards also place requirements on auditors in relation to integrity, objectivity and independence.

The International Standards on Auditing (ISA) defines 'those charged with governance' as 'those persons entrusted with the supervision, control and direction of an entity'. In your case this is the Audit Committee.

KPMG LLP is committed to being and being seen to be independent. Auditing Practices Board (APB) Ethical Standard 1 *Integrity, Objectivity and Independence* requires us to communicate to you in writing all significant facts and matters, including those related to the provision of non-audit services and the safeguards put in place, in our professional judgement, may reasonably be thought to bear on KPMG LLP's independence and the objectivity of the Engagement Lead and the audit team.

## **Confirmation statement**

We confirm that as of 23<sup>rd</sup> February 2010, in our professional judgement, KPMG LLP is independent within the meaning of regulatory and professional requirements and the objectivity of the Appointed Auditor and audit team is not impaired.

# Audit Fees

**The audit fee has not changed from that agreed in the high level audit strategy earlier in the year.**

Our fee is calculated with reference to a number of factors including your turnover and our assessment of audit risk and control environment. The decrease over 2008/09 is 3.5%, in line with Audit Commission suggested fee range.

Element of the audit	2009/10	2008/09
Audit of Financial Statements		
Accounts (Systems and Final)	£147,500	£143,100
Use of Resources		
Use of Resources assessment	£146,000	£162,500
Certification of claims and returns (for 2009/10 fee is an estimate)	£36,189	£36,189
Whole of Government Accounts	£2,000	£1,900
<b>TOTAL</b>	<b>£331,689</b>	<b>£343,689</b>

To enable you to benchmark our fee proposal we provide below some comparative information. Please note that the nature of the locally determined work changes each year so that direct comparison between years may not be valid.

Source of fee comparative / benchmark	£
Audit Commission suggested fee range	£188,718 - £350,477
Audit Commission suggested mid-point fee	£269,598
2009/10 audit fee	£295,500

## Audit Fees (continued)

**Our audit fee is indicative and based on you meeting our expectations of your support as outlined in Appendix 1.**

**Meeting these expectations will help to the delivery of our audit within the proposed audit fee.**

### **Audit fee assumptions**

The audit fee indicative and is based on you meeting our agreed expectations as outlined in Appendix 2. In setting the fee, we have assumed:

- the level of risk in relation to the audit of the financial statements is not significantly different from that identified for 2008/09;
- you will inform us of any significant developments impacting on our audit;
- you will identify and implement any changes required under the CIPFA SORP within your 2009/10 financial statements;
- your financial statements are made available for audit in line with the agreed timescales;
- good quality working papers and records will be provided at the start of the final accounts audit;
- requested information will be provided within the agreed timescales;
- prompt responses will be provided to queries and draft reports;
- internal audit meets appropriate professional standards;
- internal audit completes appropriate work on all systems that provide material figures for the financial statements and we can place reliance on them for our audit; and
- additional work will not be required to address questions or objections raised by local government electors.

Meeting these expectations will help ensure the delivery of our audit within the agreed audit fee.

### **Changes to the audit plan**

Changes to this plan and the audit fee may be necessary if:

- new significant audit risks emerge;
- additional work is required of us by the Audit Commission or other regulators; and
- additional work is required as a result of changes in legislation, professional standards or financial reporting requirements.

If changes to this plan and the audit fee are required, we will discuss and agree these initially with the Director of Finance.

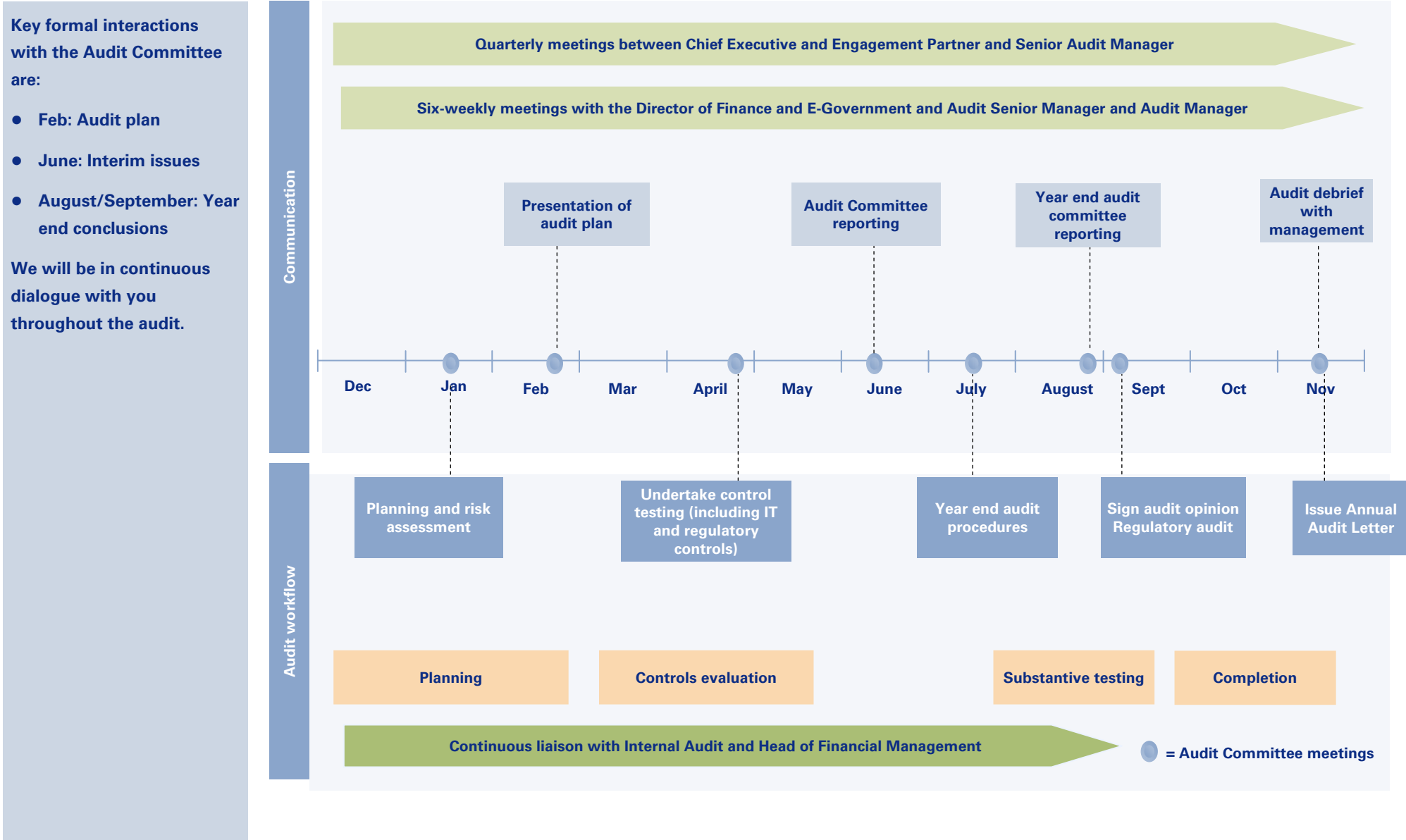
## Audit Timeline & Deliverables

Our key deliverables will be delivered to a high standard and on time.

We will discuss and agreed each report with the Council's officers prior to publication.

Deliverable	Purpose	Timing
<b>Planning</b>		
<b>Audit plan</b>	<ul style="list-style-type: none"> <li>● Outline audit approach</li> <li>● Identify areas of audit focus and planned procedures</li> <li>● Confirm plan with Audit Committee</li> </ul>	June 2009
<b>Interim</b>		
<b>Interim report (if required)</b>	<ul style="list-style-type: none"> <li>● Details and resolution of control and process issues</li> </ul>	June 2010
<b>Year end audit</b>		
<b>Report to those charged with governance (ISA 260)</b>	<ul style="list-style-type: none"> <li>● Auditor's report on Council's financial statements</li> <li>● Auditor's report on Council's value for money</li> <li>● Auditor's report on Council's use of resources</li> <li>● Detail the resolution of key audit issues</li> <li>● Communication of adjusted and unadjusted audit differences</li> <li>● Performance improvement recommendations identified during our audit</li> </ul>	August 2010
<b>Opinion on financial statements</b>	<ul style="list-style-type: none"> <li>● To provide an opinion on the financial statements.</li> </ul>	September 2010
<b>Annual audit letter</b>	<ul style="list-style-type: none"> <li>● Summarises all of our audit work for 2009/10</li> </ul>	December 2010
<b>Use of Resources</b>		
<b>Medium to Long Term Financial Planning Report</b>	<ul style="list-style-type: none"> <li>● A review of the Council's medium to long term financial plan, considering the financial analysis performed of the future financial position, the progress the Council has made on implementing changes, the management of major capital projects and changes to the strategy to reflect the current economic climate.</li> </ul>	September 2010
<b>Commissioning report</b>	<ul style="list-style-type: none"> <li>● We will review the Councils commissioning arrangements for children and adult social care services.</li> </ul>	September 2010

# Audit Timeline & Deliverables (continued)



# Appendix 1: Meeting your expectations

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## How we will conduct ourselves

### *Communications*

- We will be proactive in developing relationships with your staff where our audit work requires their input.
- We will ensure that all letters and emails are answered within five working days of receipt. All telephone messages received will receive a response within 24 hours, either by the individual concerned or by the Audit Manager.
- We will ensure that all recommendations, and in particular those relating to our performance management work, are included within our Annual Audit Letter only after having been agreed with relevant Directors.
- Trevor Rees, Engagement Partner, Jillian Burrows, Audit Senior Manager or Heather Garrett, Audit Manager, will attend all Audit Committee meetings and ensure that other relevant KPMG staff are invited as appropriate.

### *Working together*

- We will ensure that the Director of Finance and E-Government, Head of Financial Management and other key members of staff are kept informed of the progress of our audit work throughout the year.
- We will liaise with staff at all levels of the Council to ensure that our work is appropriately planned and completed and where recommendations are made these are agreed with the likely responsible officer.

### *Cooperating with the Council*

- We will continue to coordinate our work with that of internal audit and ensure that we provide appropriate proactive commentary to the finance function on issues that affect the Council's accounts.
- We will respond promptly to requests for comment on aspects of the Council's operations, where appropriate.

## Our expectations of your support

### *Audit Plan*

- Brief our staff on key issues affecting the Council.
- Review and agree the draft plan.

### *Interim Audit*

- Facilitate the completion of internal audit's work (particularly on core financial systems) to timetable.
- Ensure that key officers are available for the duration of our audit.
- Respond to and agree our draft reports in good time.

### *Accounts Audit*

- Ensure that a full draft of the accounts is available at least one week prior to the agreed start date of our audit, and that only agreed adjustments are put into the accounts following receipt of this draft.
- Produce the documents listed within our prepared by client request by the agreed start date of our audit.
- Ensure that the mandatory content of the Annual Report is available at the agreed time of our final account audit.

### *Annual Audit Letter*

- Discuss and agree our draft Annual Audit Letter in good time for the Audit Committee.
- Ensure that all action plans are agreed and followed up in due course.

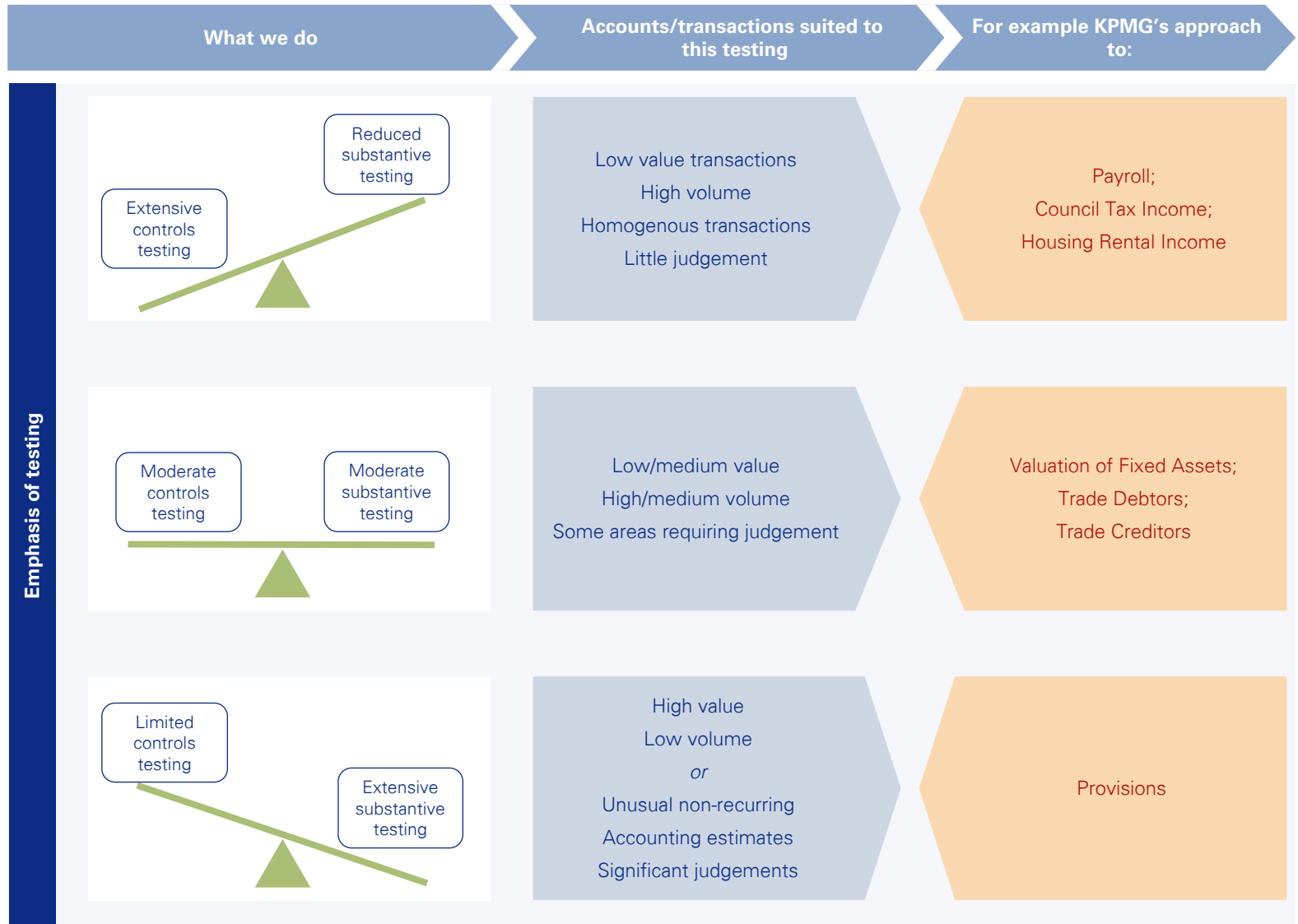
### *Other work*

- Agree a key Council contact as a focal point for the study or work.
- Discuss and review our findings so that action plans can be fully completed and implemented.



# Appendix 2: Balance of internal controls and substantive testing

This appendix illustrates how we determine the most effective balance of internal controls and substantive audit testing



Note: Assuming controls are found to operate as designed

## Appendix 3: Independence and objectivity requirements

This appendix summarises the auditor's responsibilities regarding independence and objectivity.

### Independence and objectivity

Auditors are required by the Code to:

- carry out their work with independence and objectivity;
- exercise their professional judgement and act independently of both the Commission and the audited body;
- maintain an objective attitude at all times and not act in any way that might give rise to, or be perceived to give rise to, a conflict of interest; and
- resist any improper attempt to influence their judgement in the conduct of the audit.

In addition, the Code specifies that auditors should not carry out work for an audited body that does not relate directly to the discharge of the auditors' functions under the Code. If the Council invites us to carry out risk-based work in a particular area, which cannot otherwise be justified to support our audit conclusions, it will be clearly differentiated as work carried out under section 35 of the Audit Commission Act 1998.

The Code also states that the Commission issues guidance under its powers to appoint auditors and to determine their terms of appointment. The Standing Guidance for Auditors includes several references to arrangements designed to support and reinforce the requirements relating to independence, which auditors must comply with. These are as follows:

- Any staff involved on Commission work who wish to engage in political activity should obtain prior approval from the Partner.
- Audit staff are expected not to accept appointments as lay school inspectors.
- Firms are expected not to risk damaging working relationships by bidding for work within an audited body's area in direct competition with the body's own staff without having discussed and agreed a local protocol with the body concerned.
- Auditors are expected to comply with the Commission's statements on firms not providing personal financial or tax advice to certain senior individuals at their audited bodies, auditors' conflicts of interest in relation to PFI procurement at audited bodies, and disposal of consultancy practices and auditors' independence.
- Auditors appointed by the Commission should not accept engagements which involve commenting on the performance of other Commission auditors on Commission work without first consulting the Commission.
- Auditors are expected to comply with the Commission's policy for the Engagement Lead to be changed on each audit at least once every five years (subject to agreed transitional arrangements). Audit suppliers are required to obtain the Commission's written approval prior to changing any Engagement Lead in respect of each audited body.
- Audit suppliers are required to obtain the Commission's written approval prior to changing any Engagement Lead in respect of each audited body.
- The Commission must be notified of any change of second in command within one month of making the change. Where a new Engagement Lead or second in command has not previously undertaken audits under the Audit Commission Act 1998 or has not previously worked for the audit supplier, the audit supplier is required to provide brief details of the individual's relevant qualifications, skills and experience.

## Appendix 4: Sustainability

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**This appendix summarises the auditor's commitment to sustainability.**

### **Sustainability**

The Audit Commission is committed to promoting sustainability in working practices and we will actively consider opportunities to reduce our impact on the environment. This will include:

- reducing paper flow by encouraging you to submit documentation and working papers electronically;
- use of video and telephone conferencing for meetings as appropriate;
- reducing travel; and
- other initiatives.

KPMG are also taking steps to improve our environmental performance. Achievements to date include:

- all offices certified ISO14001, the leading international standard for environmental management systems;
- our Responsible Consumption programme enables our people to actively contribute to the firm being environmentally responsible;
- more than 40 percent of paper purchased is recycled paper;
- over 90 percent of the electricity used in buildings is now from renewable sources; and
- some 1.8 million travel miles have been saved through car sharing schemes and 1.5 million miles have been saved through audio and video conferencing.