External Audit Plan 2013/14

Leeds City Council

January 2014

Contents

The contacts at KPMG in connection with this report are:

John Prentice
Director
KPMG LLP (UK)
Tel: 0113 231 3935
Mob: 07827 939020
john.prentice@kpmg.co.uk

Alison Ormston
Senior Manager
KPMG LLP (UK)
Tel: 0113 231 3444
alison.ormston@kpmg.co.uk

Chris Hall
Assistant Manager
KPMG LLP (UK)
Tel: 0113 231 3493
Mob: 07921 450502
chris.hall2@kpmg.co.uk

This report is addressed to the Authority and has been prepared for the sole use of the Authority. We take no responsibility to any member of staff acting in their individual capacities, or to third parties. The Audit Commission 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 which is available on the Audit Commission's website at www.audit-commission.gsi.gov.uk.

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

If you have any concerns or are dissatisfied with any part of KPMG's work, in the first instance you should contact John Prentice, the appointed engagement lead to the Authority, who will try to resolve your complaint. If you are dissatisfied with your response please contact Trevor Rees on 0161 246 4000, or by email to trevor.rees@kpmg.co.uk, who is the national contact partner for all of KPMG's work with the Audit Commission. After this, if you are still 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 Unit Manager by email to complaints@audit-commission.gsi.gov.uk.

Introduction

This document describes how we will deliver our audit work for Leeds City Council.

Scope of this report

This document supplements our *Audit Fee Letter 2013/14* and describes how we will deliver our financial statements audit work for Leeds City Council ('the Authority'). It also sets out our approach to value for money (VFM) work for 2013/14.

We are required to satisfy ourselves that your accounts comply with statutory requirements and that proper practices have been observed in compiling them. We use a risk based audit approach.

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.

Statutory responsibilities

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 of Audit Practice* 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 Authority.

Structure of this report

This report is structured as follows:

- Section 2 includes our headline messages, focusing on the key risks identified this year for the financial statements audit.
- Section 3 describes the approach we take for the audit of the financial statements.
- Section 4 explains our approach to VFM work.
- Section 5 provides further detail on the key VFM focus areas.
- Section 6 provides information on the audit team, our proposed deliverables, the timescales and fees for our work.

Acknowledgements

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

Headlines – opinion audit

In 2012/13, the Authority included a provision for £2m in relation to a legal case which is expected to be resolved in 2013/14.

A focus area of the 2013/14 financial statements audit will be the consideration of provisions and contingent liabilities held by the Authority, especially in relation to legal claims.

We will consider the accuracy and completeness of your disclosures.

At this stage, we have not identified any significant audit risks relating to the financial statements.

Area	Risk	Audit work
Provisions and contingent liabilities	The Authority had £32m of provisions as at 31 March 2013, with equal pay compensation (£15m) and insurance liabilities (£13m) the most significant of these. There was also a significant amount of contingent liabilities disclosed, with insurance claims of £17.7m being the most significant. The judgement between whether the Authority should recognise a liability as a provision, or whether it should remain as a contingent liability, which is purely a disclosure item, is an area of judgement and therefore of higher inherent audit risk. In 2012/13, there was a post-balance sheet event relating to one contingent liability that meant the Authority recognised a provision of £2m in its final audited financial statements.	We will discuss any developments on existing provisions and contingent liabilities and review the impact on the liabilities in the financial statements. We will also enquire as to whether there are any additional events that meet the characteristics of a contingent liability or provision, in particular in relation to any litigation or claims brought against the Authority. We will monitor the latest position through to when we sign our audit opinion and, where necessary, request specific management representations on these balances, where uncertainty remains.

Headlines – VFM conclusion

As in 2012/13, we have identified one key focus area of our work on VFM in 2013/14, which relates to the Authority's financial standing and savings plans.

This is described in more detail on pages 13 and 14.

The remainder of this document provides information on our:

- **approach to the audit of the financial statements;**
- **approach to VFM work; and**
- **audit team, proposed deliverables, timescales and fees for our work.**

Area	Risk	Audit work
Savings plans	The Authority set a budget for 2013/14 with a requirement to make further savings of £51 million due to reduced funding and continued cost pressures. This includes a net reduction in staffing equivalent to 388 full-time equivalent posts by the end of 2013/14. The Authority will need to establish and manage its savings plans to secure longer term financial and operational sustainability and ensure that any related liabilities are accounted for in its 2013/14 financial statements as appropriate.	As part of our approach to VFM we will critically assess the controls the Authority has in place to ensure a sound financial standing. We will consider how the Authority is managing its savings plans and will review key performance indicators to assess whether this has had an unintended adverse impact on service delivery. We will also review the latest update to the Strategic and Financial Plan 2013/14 to 2016/17 to ensure it appropriately reflects expected funding reductions and the consequences for service provision.

Our audit approach

We undertake our work on your financial statements in four key stages during 2014:

- **Planning (January to February).**
- **Control Evaluation (April).**
- **Substantive Procedures (July to August).**
- **Completion (September).**

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

	Stage	Activity	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep
1	Planning	Update our business understanding and risk assessment.	○								
		Assess the organisational control environment.		○							
		Determine our audit strategy and plan the audit approach.		○							
		Issue our *Accounts Audit Protocol*.		○							
2	Control evaluation	Evaluate and test selected controls over key financial systems.				○					
		Review the internal audit function.				○					
		Review the accounts production process.				○					
		Review progress on critical accounting matters.				○					
3	Substantive procedures	Plan and perform substantive audit procedures.						○	○	○	
		Conclude on critical accounting matters.							○	○	
		Identify audit adjustments.							○	○	
		Review the Annual Governance Statement.								○	
4	Completion	Declare our independence and objectivity.									○
		Obtain management representations.									○
		Report matters of governance interest including assurance obtained.						○			○
		Form our audit opinion.									○

Our audit approach - planning

During January and February 2014 we complete our planning work.

We assess the key risks affecting the Authority's financial statements and discuss these with officers.

We assess if there are any weaknesses in respect of central processes, including the Authority's IT systems, that would impact on our audit.

We determine our audit strategy and approach, and agree a protocol for the accounts audit, specifying what evidence we expect from the Authority to support the financial statements.

Our planning work takes place in January and February 2014. This involves the following aspects:

Planning

- Update our business understanding and risk assessment.
- Assess the organisational control environment.
- Determine our audit strategy and plan the audit approach.
- Issue our *Accounts Audit Protocol*

Business understanding and risk assessment

We update our understanding of the Authority's operations and identify any areas that will require particular attention during our audit of the Authority's financial statements.

We identify the key risks affecting the Authority's financial statements. These are based on our knowledge of the Authority, our sector experience and our ongoing dialogue with Authority staff. The risks identified to date are set out in this document. Our audit strategy and plan will, however, remain flexible as the risks and issues change throughout the year. It is the Authority's responsibility to adequately address these issues. We encourage the Authority to raise any technical issues with us as early as possible so that we can agree the accounting treatment in advance of the audit visit.

We meet with the finance team on a regular basis to consider issues and how they are addressed during the financial year end closedown and accounts preparation.

Organisational control environment

Controls operated at an organisational level often have an impact on controls at an operational level and if there were weaknesses this would impact on our audit. In particular risk management, internal control and ethics and conduct have implications for our financial statements audit. The scope of the work of your internal auditors also informs our risk assessment.

The Authority relies on information technology (IT) to support both financial reporting and internal control processes. In order to satisfy ourselves that we can rely on the use of IT, we test controls over access to systems and data, system changes, system development and computer operations. Whilst we may undertake some general IT controls work, we also focus on testing the specific applications and reports that are pivotal to the production of the financial statements.

Audit strategy and approach

The Engagement Lead sets the overall direction of the audit and decides the nature and extent of audit activities.

We design audit procedures in response to the risk that the financial statements are materially misstated. The materiality level is a matter of judgement and is set by the Engagement Lead.

Group audit

Following the decision to bring the housing ALMOs back in-house in 2013/14, we will liaise with BDO, the auditors of the ALMOs to ensure that the group accounts correctly reflect the closing balance sheet position of the companies.

Accounts audit protocol

At the end of our planning work we will issue our Accounts Audit Protocol. This important document sets out our audit approach and timetable. It also summarises the working papers and other evidence we require the Authority to provide during our interim and final accounts visits.

We have arranged to meet with the finance team to discuss mutual learning points from the 2012/13 audit. These will be incorporated into our work plan for 2013/14. We will revisit progress against areas identified for development as the audit progresses.

Our audit approach – control evaluation

During April 2014 we will complete our interim audit work.

We assess if controls over key financial systems were effective during 2013/14. We work with your Internal Audit team to avoid duplication.

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

We will present our *Interim Report* to the Corporate Governance and Audit Committee in July.

Our interim visit on site will be completed during April. During this time we will complete work in the following areas:

Control Evaluation

- Evaluate and test controls over key financial systems identified as part of our risk assessment.
- Review the work undertaken by the internal audit function on controls relevant to our risk assessment.
- Review the accounts production process.
- Review progress on critical accounting matters.

Controls over key financial systems

We update our understanding of the Authority's key financial processes where our risk assessment has identified that these are relevant to our final accounts audit and where we have determined that this is the most efficient audit approach to take. We confirm our understanding by completing walkthroughs for these systems. We then test selected controls that address key risks within these systems. The strength of the control framework informs the substantive testing we complete during our final accounts visit.

Where our audit approach is to undertake controls work on financial systems, we seek to rely on any relevant work Internal Audit have completed to minimise unnecessary duplication of work. Our audit fee is set on the assumption that we can place reliance on their work. We meet with Internal Audit regularly during the year to discuss progress against our respective audit plans. We met with Internal Audit in October 2013 to discuss the principles and timetable for the managed audit process for 2013/14.

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

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- Management override of controls – Management is in a powerful position to perpetrate fraud owing to its ability to manipulate accountings and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. Our methodology incorporates the risk of management override as a default significant risk. We carry out appropriate controls testing and substantive procedures, including over journal entries, accounting estimates and significant transactions that are outside the normal course of business, or are otherwise unusual.
- Fraudulent revenue recognition – We do not consider this to be a significant as there are limited incentives and opportunities to manipulate the way income is recognised. We therefore rebut this risk and do not incorporate specific work over and above our standard fraud procedures.

Review of internal audit

Where we intend to rely on internal audit's work in respect of the key financial systems identified as part of our risk assessment, auditing standards require us to review aspects of their work. This includes re-performing a sample of tests completed by internal audit. We will provide detailed feedback to the Head of Internal Audit at the end of our interim visit. We also use the results of internal audit's work to inform our risk assessment.

Accounts production process

As highlighted in our *Report to Those Charged with Governance (ISA 260 Report) 2012/13*, the quality of the accounts and supporting working papers has historically been strong and officers dealt efficiently with our audit queries.

We will assess the Authority's progress in preparing for the closedown and accounts preparation for 2013/14.

Critical accounting matters

We will discuss the work completed to address the specific risks we identified at the planning stage. Wherever possible, we seek to review relevant workings and evidence and agree the accounting treatment as part of our interim work.

Following our interim visit we will issue our *Interim Report* which will set out the findings of our planning and interim work. This will be discussed at the Corporate Governance and Audit Committee meeting in July.

Our audit approach – substantive procedures

During July and August 2014 we will be on site for our substantive work.

We complete detailed testing of accounts and disclosures and conclude on critical accounting matters, such as specific risk areas. We then agree any audit adjustments required to the financial statements.

We also review the Annual Governance Statement for consistency with our understanding.

We will present our *ISA 260 Report* to the Corporate Governance and Audit Committee in September 2014.

Our final accounts visit on site has been scheduled for the period July to August 2014. During this time, we will complete the following work:

Substantive Procedures

- Plan and perform substantive audit procedures.
- Conclude on critical accounting matters.
- Identify and assess any audit adjustments.
- Review the Annual Governance Statement.

Substantive audit procedures

We complete detailed testing on significant balances and disclosures. The extent of our work is determined by the Engagement Lead based on various factors such as our overall assessment of the Authority's control environment, the effectiveness of controls over individual systems and the management of specific risk factors.

Critical accounting matters

We conclude our testing of the key risk areas as identified at the planning stage and any additional issues that may have emerged since. We will discuss our early findings of the Authority's approach to address the key risk areas with the finance team in August 2014, prior to reporting to the Corporate Governance and Audit Committee in September 2014.

Audit adjustments

During our on site work, we will meet with the finance team on a weekly basis to discuss the progress of the audit, any differences found and any other issues emerging.

At the end of our on site work, we will hold a closure meeting, where we will provide a schedule of audit differences and agree a timetable for the completion stage and the accounts sign off.

To comply with auditing standards, we are required to report uncorrected audit differences to the Corporate Governance and Audit Committee. We also report any material misstatements which have been corrected and which we believe should be communicated to you to help you meet your governance responsibilities.

Annual Governance Statement

We are also required to satisfy ourselves that your Annual Governance Statement complies with the applicable framework and 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.

We report the findings of our final accounts work in our *ISA 260 Report*, which we will issue to the Corporate Governance and Audit Committee in September 2014.

Our audit approach - other

In addition to the financial statements, we also audit the Authority's Whole of Government Accounts pack.

We may need to undertake additional work if we receive objections to the accounts from local electors.

We will communicate with you throughout the year, both formally and informally.

Our independence and objectivity responsibilities under the Code are summarised in Appendix 1. We confirm our audit team's independence and objectivity is not impaired.

Whole of government accounts (WGA)

We are required to review and issue an opinion on your WGA consolidation to confirm that this is consistent with your financial statements. The audit approach has been agreed with HM Treasury and the National Audit Office.

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 are not covered by the set fee. Any work required will be charged in accordance with the Audit Commission's fee scales.

Reporting and communication

Reporting is a key part of the audit process, not only in communicating the audit findings for the year, but also in ensuring the audit team are accountable to you in addressing the issues identified as part of the audit strategy. Throughout the year we will communicate with you through meetings with the finance team and the Corporate Governance and Audit Committee. Our deliverables are included on page 16. At the Council's request, we will extend the feedback provided over the audit coverage and the assurance obtained from this work. We will also report matters of wider interest that appear relevant to the Council.

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 standards define 'those charged with governance' as 'those persons entrusted with the supervision, control and direction of an entity'. In your case this is the Corporate Governance and Audit Committee.

KPMG LLP is committed to being and being seen to be independent. 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 which, 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 January 2014 in our professional judgement, KPMG LLP is independent within the meaning of regulatory and professional requirements and the objectivity of the Engagement Lead and audit team is not impaired.

VFM audit approach

Our approach to VFM work follows guidance provided by the Audit Commission.

Background to approach to VFM work

In meeting their statutory responsibilities relating to economy, efficiency and effectiveness, the Commission's *Code of Audit Practice* requires auditors to:

- plan their work based on consideration of the significant risks of giving a wrong conclusion (audit risk); and
- carry out only as much work as is appropriate to enable them to give a safe VFM conclusion.

To provide stability for auditors and audited bodies, the Audit Commission has kept the VFM audit methodology unchanged from last year. There are only relatively minor amendments to reflect the key issues facing the local government sector.

The approach is structured under two themes, as summarised below.

Specified criteria for VFM conclusion	Focus of the criteria	Sub-sections
The organisation has proper arrangements in place for securing **financial resilience**.	The organisation has robust systems and processes to: ■ manage effectively financial risks and opportunities; and ■ secure a stable financial position that enables it to continue to operate for the foreseeable future.	■ Financial governance ■ Financial planning ■ Financial control
The organisation has proper arrangements for challenging how it **secures economy, efficiency and effectiveness**.	The organisation is prioritising its resources within tighter budgets, for example by: ■ achieving cost reductions; and ■ improving efficiency and productivity.	■ Prioritising resources ■ Improving efficiency and productivity

VFM audit approach (continued)

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

Overview of the VFM audit approach

The key elements of the VFM audit approach are summarised below.

Each of these stages are summarised further below.

VFM audit stage	Audit approach
VFM audit risk assessment	We consider the relevance and significance of the potential business risks faced by all local authorities, and other risks that apply specifically to the Authority. These are the significant operational and financial risks in achieving statutory functions and objectives, which are relevant to auditors' responsibilities under the *Code of Audit Practice*. In doing so we consider: ■ the Authority's own assessment of the risks it faces, and its arrangements to manage and address its risks; ■ the Authority's key financial ratios and management's analysis of these; ■ information from the Audit Commission's VFM profile tool, although we will give greater weight to the Council's processes and report for demonstrating it spends money wisely; ■ evidence gained from previous audit work, including the response to that work; and ■ the work of the Audit Commission, other inspectorates and review agencies.

VFM audit approach (continued)

Our VFM audit will draw heavily on other audit work which is relevant to our VFM responsibilities and the results of last year's VFM audit.

We will then form an assessment of residual audit risk to identify if there are any areas where more detailed VFM audit work is required.

VFM audit stage	Audit approach
Links with financial statements and other audit work	There is a degree of overlap between the work we do as part of the VFM audit and our financial statements audit. For example, our financial statements audit includes an assessment and testing of the Authority's organisational control environment, including the Authority's financial management and governance arrangements, many aspects of which are relevant to our VFM audit responsibilities. We have always sought to avoid duplication of audit effort by integrating our financial statements and VFM work, and this will continue. We will therefore draw upon relevant aspects of our financial statements audit work to inform the VFM audit.
Assessment of residual audit risk	It is possible that further audit work may be necessary in some areas to ensure sufficient coverage of the two VFM criteria. Such work may involve interviews with relevant officers and / or the review of documents such as policies, plans and minutes. We may also refer to any self assessment the Authority may prepare against the characteristics. To inform any further work we must draw together an assessment of residual audit risk, taking account of the work undertaken already. This will identify those areas requiring further specific audit work to inform the VFM conclusion. At this stage it is not possible to indicate the number or type of residual audit risks that might require additional audit work, and therefore the overall scale of work cannot be easily predicted. If a significant amount of work is necessary then we will need to review the adequacy of our agreed audit fee.
Identification of specific VFM audit work	If we identify residual audit risks, then we will highlight the risk to the Authority and consider the most appropriate audit response in each case, including: ■ considering the results of work by the Authority, the Audit Commission, other inspectorates and review agencies; and ■ carrying out local risk-based work to form a view on the adequacy of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources. Where a potential risk exists in new areas, we need to obtain sufficient understanding to assess whether any significant risk exists. We will complete a brief risk assessment of public health and in particular the exercise of new powers for health and well being.

VFM audit approach (continued)

Where relevant, we may draw upon the range of audit tools and review guides developed by the Audit Commission.

We will report on the results of the VFM audit through our *Interim Audit Report* and our *Report to those charged with governance*.

VFM audit stage	Audit approach
Delivery of local risk based work	Depending on the nature of the residual audit risk identified, we may be able to draw on audit tools and sources of guidance when undertaking specific local risk-based audit work, such as: ■ local savings review guides based on selected previous Audit Commission national studies; and ■ update briefings for previous Audit Commission studies. The tools and guides will support our work where we have identified a local risk that is relevant to them. For any residual audit risks that relate to issues not covered by one of these tools, we will develop an appropriate audit approach drawing on the detailed VFM guidance and other sources of information.
Concluding on VFM arrangements	At the conclusion of the VFM audit we will consider the results of the work undertaken and assess the assurance obtained against each of the VFM themes regarding the adequacy of the Authority's arrangements for securing economy, efficiency and effectiveness in the use of resources. If any issues are identified that may be significant to this assessment, and in particular if there are issues that indicate we may need to consider qualifying our VFM conclusion, we will discuss these with management as soon as possible. Such issues will also be considered more widely as part of KPMG's quality control processes, to help ensure the consistency of auditors' decisions.
Reporting	We will report on the results of the VFM audit through our *Interim Audit Report* and our *Report to those charged with governance*. These reports will summarise our progress in delivering the VFM audit, the results of the risk assessment and any specific matters arising, and the basis for our overall conclusion. The key output from the work will be the VFM conclusion (i.e. our opinion on the Authority's arrangements for securing VFM), which forms part of our audit report.

Key VFM focus areas

For each key focus area we have outlined the impact on our VFM approach.

We will provide an update on how the Authority is managing this area in our *Interim Audit Report*.

Focus area	Impact on audit
Savings plans **Audit areas affected** ■ Reserves and balances ■ Provisions	The 2013/14 budget includes a savings programme totalling £51 million. Although the majority of the planned savings are on track to be delivered at this stage, there is still some risk that these will not be achieved in full. All directorates are continuing to monitor their financial performance closely and are aware of the need to deliver a balanced budget. As at September 2013, an overall overspend of £3.2m was forecast, which means the Authority still has further savings to achieve in order to meet its 2013/14 budget. The main areas of overspend are within Childrens' Services (£2.1m), City Development (£1.1m) and Adult Social Care (£1m). This is offset by forecast underspends on debt costs of £1.2m. Childrens' Services main area of overspend is on transport costs (£2.4m). The service also expects to have a shortfall in income of £2.9m, mainly due to underspends in areas which receive match funding. Underspends on staff costs total £4m, due to vacant posts within the directorate. A shortfall in income is the main contributing factor of City Development's projected £1.1m overspend, with Sports & Active Recreation (£0.7m), Libraries, Arts & Heritage (£0.3m) and Asset Management (£0.2m) all reporting shortfalls. A further £0.5m overspend is forecast due to staff costs pressures within Planning and Sustainable Development, although savings on staff costs within Resources and Strategy are expected to offset this. Within Adult Social Care, the directorate is forecasting overspends on community care packages of £2.2m. Although residential care and personal budget expenditure is lower than expected, home care expenditure has seen a marked increase in year which is being monitored. Other areas of overspend include transports costs (£0.7m) and staff costs (£0.7m). The overall overspend is reduced by a transfer of £1.8m from earmarked reserves with the intention of re-designing Adult Social Care services. As part of our approach to VFM we will consider how the Authority is managing its savings plans and wewill review key performance indicators to assess whether this has had an unintended adverse impact on service delivery. As part of our final accounts audit we will review the Authority's assessment of any potential liabilities arising from its savings plans (for example as a result of the Early Leavers' Initiative) against the *Code*. If applicable, we will review the Authority's provisions, including the methodology, assumptions and calculations. We will assess the level of reserves available at 31st March 2014 against the Authority's reserves policy, taking into account any contingent liabilities which could have a significant impact on the Authority's financial standing if they were to crystallise.

Audit team

Our audit team has had some changes since last year. Contact details are shown on page 1.

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

John Prentice

Director

"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 Corporate Governance and Audit Committee, the Chief Executive and Deputy Chief Executive."

Alison Ormston

Senior Manager

"I will direct and coordinate the audit. I am responsible for the management, review and delivery of the whole audit and providing quality assurance for any technical accounting areas. I will liaise with the Deputy Chief Executive, the Principal Accountant within Corporate Financial Management and the Head of Internal Audit."

Chris Hall

Assistant Manager

"I will be responsible for the on-site delivery of our work. I will liaise with the Senior Financial Manager within Corporate Financial Management and the Principal Audit Manager within Internal Audit. I will also supervise the work of our audit assistants."

Audit deliverables

At the end of each stage of our audit we issue certain deliverables, including reports and opinions.

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

We will discuss and agree each report with the Authority's officers prior to publication.

Deliverable	Purpose	Committee dates
Planning		
External Audit Plan	■ Outline audit approach. ■ Identify areas of audit focus and planned procedures.	**21 January 2014**
Control evaluation		
Interim Report (if necessary)	■ Details and resolution of control and process issues. ■ Identify improvements required prior to the issue of the draft financial statements and the year-end audit.	**July 2014**
Substantive procedures		
Report to Those Charged with Governance (ISA 260 Report)	■ Details the resolution of key audit issues. ■ Communication of adjusted and unadjusted audit differences. ■ Performance improvement recommendations identified during our audit. ■ Commentary on the Authority's value for money arrangements.	**September 2014**
Completion		
Auditor's report	■ Providing an opinion on your accounts (including the Annual Governance Statement). ■ Concluding on the arrangements in place for securing economy, efficiency and effectiveness in your use of resources (the VFM conclusion).	**September 2014**
Annual Audit Letter	■ Summarises the outcomes and the key issues arising from our audit work for the year.	**January 2015**

Audit timeline

We will be in continuous dialogue with you throughout the audit.

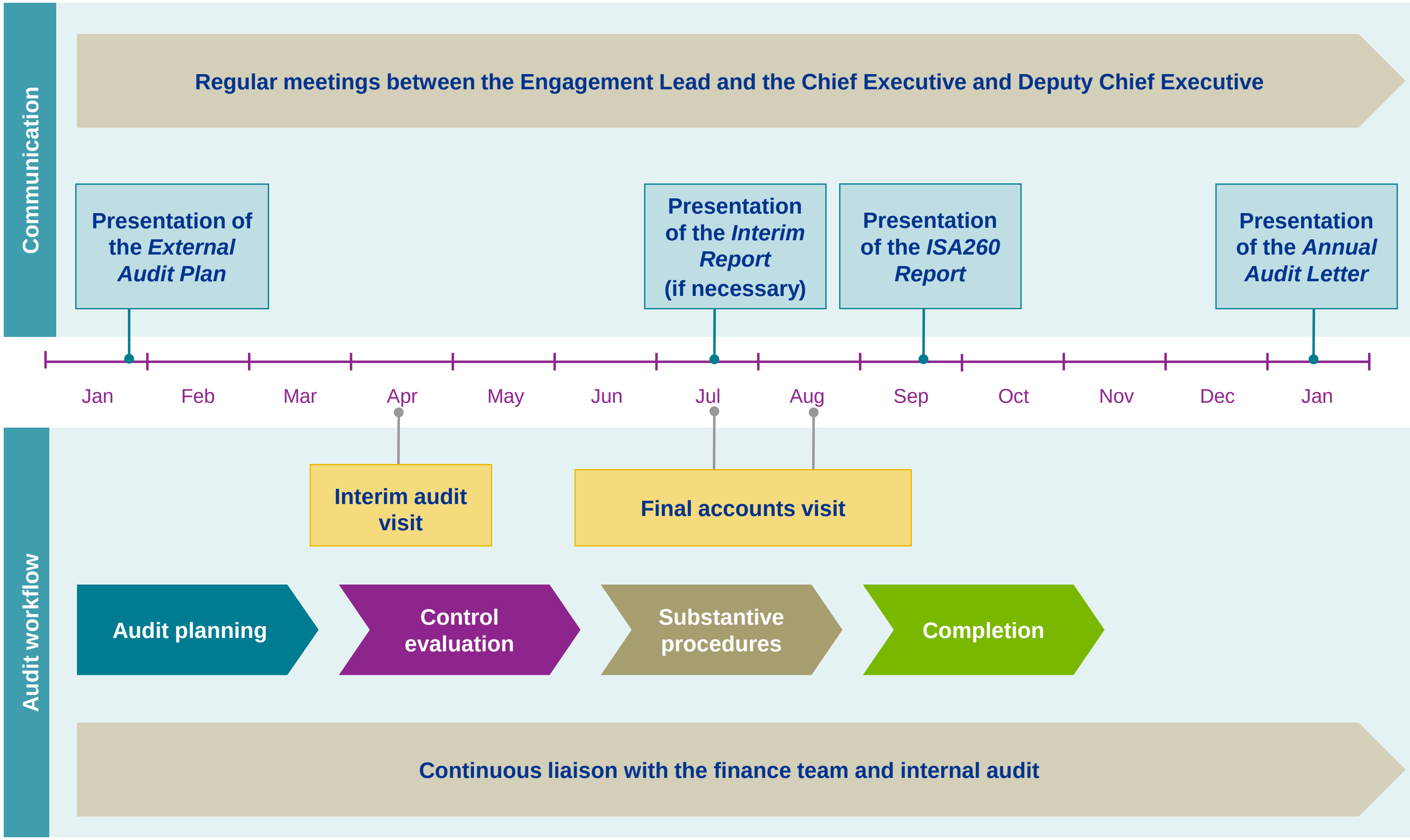
Key formal interactions with the Corporate Governance and Audit Committee are:

- January – Financial Statements Audit Plan;
- July – Interim Report;
- September – ISA 260 Report;
- January – Annual Audit Letter.

We work with the finance team and internal audit throughout the year.

Our main work on site will be our:

- Interim audit visit during April.
- Final accounts audit during July and August.



Key: ● Corporate Governance and Audit Committee meetings.

The scale fee for the 2013/14 audit of the Authority is £307,800. The fee has not changed from that set out in our *Audit Fee Letter 2013/14* issued in April 2013.

Our audit fee remains indicative and based on you meeting our expectations of your support.

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

Audit fee

Our *Audit Fee Letter 2013/14* presented to you in April 2013 first set out our fees for the 2013/14 audit. We have not considered it necessary to make any changes to the agreed fees at this stage.

Element of the audit	2013/14 (planned)	2012/13 (actual)
Gross audit fee	£307,800	£307,800

Our audit fee includes our work on the VFM conclusion and our audit of the Council's financial statements. The fee for 2013/14 is the same as the 2012/13 fee.

Audit fee assumptions

The fee is based on a number of assumptions, including that you will provide us with complete and materially accurate financial statements, with good quality supporting working papers, within agreed timeframes. It is imperative that you achieve this. If this is not the case and we have to complete more work than was envisaged, we will need to charge additional fees for this work. 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 2012/13;
- you will inform us of any significant developments impacting on our audit;
- you will identify and implement any changes required under the *CIPFA Code of Practice on Local Authority Accounting in the UK 2013/14* within your 2013/14 financial statements;
- you will comply with the expectations set out in our *Accounts Audit Protocol*, including:
  - the 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 adheres to our agreed work programme and 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.

The Audit Commission requires us to inform you of specific actions you could take to keep the audit fee low. Future audit fees can be kept to a minimum if the Authority achieves an efficient and well-controlled financial closedown and accounts production process which complies with good practice and appropriately addresses new accounting developments and risk areas.

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 Deputy Chief Executive.

Appendix 1: Independence and objectivity requirements

This appendix summarises auditors' 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 Authority 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.
- 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 2: KPMG Audit Quality Framework

We continually focus on delivering a high quality audit.

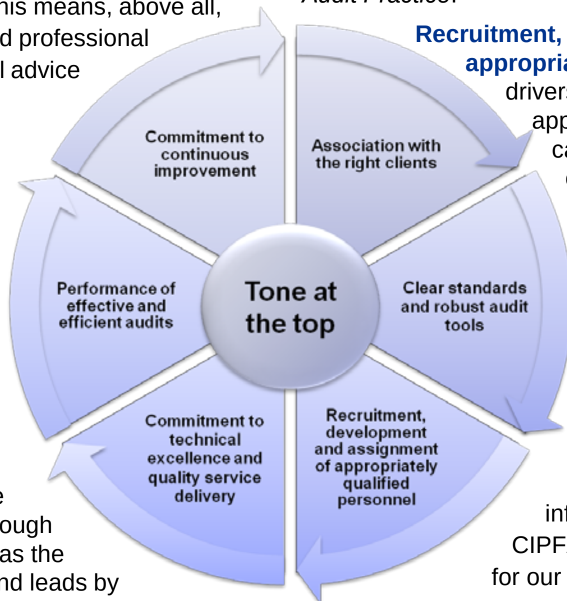
This means building robust quality control procedures into the core audit process rather than bolting them on at the end, and embedding the right attitude and approaches into management and staff.

KPMG's Audit Quality Framework consists of seven key drivers combined with the commitment of each individual in KPMG.

The diagram summarises our approach and each level is expanded upon.

At KPMG we consider audit quality is not just about reaching the right opinion, but how we reach that opinion. KPMG views the outcome of a quality audit as the delivery of an appropriate and independent opinion in compliance with the auditing standards. It is about the processes, thought and integrity behind the audit report. This means, above all, being independent, compliant with our legal and professional requirements, and offering insight and impartial advice to you, our client.

KPMG's Audit Quality Framework consists of seven key drivers combined with the commitment of each individual in KPMG. We use our seven drivers of audit quality to articulate what audit quality means to KPMG.



We believe it is important to be transparent about the processes that sit behind a KPMG audit report, so you can have absolute confidence in us and in the quality of our audit.

Tone at the top: We make it clear that audit quality is part of our culture and values and therefore non-negotiable. Tone at the top is the umbrella that covers all the drives of quality through a focused and consistent voice. John Prentice as the Engagement Lead sets the tone on the audit and leads by example with a clearly articulated audit strategy and commits a significant proportion of his time throughout the audit directing and supporting the team.

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

Clear standards and robust audit tools: We expect our audit professionals to adhere to the clear standards we set and we provide a range of tools to support them in meeting these expectations. The global rollout of KPMG's eAudIT application has significantly enhanced existing audit functionality. eAudIT enables KPMG to deliver a highly technically enabled audit. All of our staff have a searchable data base, Accounting Research Online, that includes all published accounting standards, the KPMG Audit Manual Guidance as well as other relevant sector specific publications, such as the Audit Commission's *Code of Audit Practice*.

Recruitment, development and assignment of appropriately qualified personnel: One of the key drivers of audit quality is assigning professionals appropriate to the Authority's risks. We take great care to assign the right people to the right clients based on a number of factors including their skill set, capacity and relevant experience.

We have a well developed technical infrastructure across the firm that puts us in a strong position to deal with any emerging issues. This includes:

- A national public sector technical director who has responsibility for co-ordinating our response to emerging accounting issues, influencing accounting bodies (such as CIPFA) as well as acting as a sounding board for our auditors.

- A national technical network of public sector audit professionals is established that meets on a monthly basis and is chaired by our national technical director.

- All of our staff have a searchable data base, Accounting Research Online, that includes all published accounting standards, the KPMG Audit Manual Guidance as well as other relevant sector specific publications, such as the Audit Commission's *Code of Audit Practice*.

- A dedicated Department of Professional Practice comprised of over 100 staff that provide support to our audit teams and deliver our web-based bi-monthly technical training.

Appendix 2: KPMG Audit Quality Framework (continued)

We continually focus on delivering a high quality audit.

Commitment to technical excellence and quality service delivery: Our professionals bring you up- the-minute and accurate technical solutions and together with our specialists are capable of solving complex audit issues and delivering valued insights.

Our audit team draws upon specialist resources including Forensic, Corporate Finance, Transaction Services, Advisory, Taxation, Actuarial and IT. We promote technical excellence and quality service delivery through training and accreditation, developing business understanding and sector knowledge, investment in technical support, development of specialist networks and effective consultation processes. I

Performance of effective and efficient audits: We understand that how an audit is conducted is as important as the final result. Our drivers of audit quality maximise the performance of the engagement team during the conduct of every audit. We expect our people to demonstrate certain key behaviors in the performance of effective and efficient audits. The key behaviors that our auditors apply throughout the audit process to deliver effective and efficient audits are outlined below:

- timely Engagement Lead and manager involvement;
- critical assessment of audit evidence;
- exercise of professional judgment and professional scepticism;
- ongoing mentoring and on the job coaching, supervision and review;
- appropriately supported and documented conclusions;
- if relevant, appropriate involvement of the Engagement Quality Control reviewer (EQC review);
- clear reporting of significant findings;
- insightful, open and honest two-way communication with those charged with governance; and
- client confidentiality, information security and data privacy.

Commitment to continuous improvement: We employ a broad range of mechanisms to monitor our performance, respond to feedback and understand our opportunities for improvement.

Our quality review results

We are able to evidence the quality of our audits through the results of National Audit Office and Audit Commission reviews. The results of the Audit Commission's annual quality review process is made publicly available each year (http://www.audit-commission.gov.uk/audit-regime/Pages/qualityreviewprocess_copy.aspx).The latest Annual Regulatory and Compliance report dated June 2013 showed that we performed highly against all the Commission's criteria.

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