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External Audit Plan 2011/12

Leeds City Council

January 2012

Contents

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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.auditcommission.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 Mike McDonagh, 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, Audit Commission, Westward House, Lime Kiln Close, Stoke Gifford, Bristol, BS34 8SR or by email to complaints@audit-commission.gov.uk. Their telephone number is 0844 798 3131, textphone (minicom) 020 7630 0421.

Introduction

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

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.

Scope of this report

This document describes how we will deliver our financial statements audit work for Leeds City Council. It supplements our *Audit Fee Letter 2011/12* presented to you in April 2011.

We also set out our approach to value for money (VFM) work for 2011/12.

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.

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 provides further detail on the financial statements audit risks.
- Section 5 explains our approach to VFM work.
- 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

We have identified a number of key risks that we will focus on during the audit of the 2011/12 financial statements.

These are described in more detail on pages 9 to 10.

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 needs to deliver £90 million in savings during 2011/12 to achieve its balanced budget. This is in light of further reductions to local authority funding and continued cost pressures. Government funding in 2011/12 has been reduced by £50 million and the Authority forecasts that there will be a real terms reduction in grants available of £179 million by 2014/15. The Authority will need to establish and manage its savings plans so as to secure longer term financial and operational sustainability and ensure that any related liabilities, such as restructuring costs, are accounted for in its 2011/12 financial statements as appropriate.	As part of our VFM work we will critically assess the controls the Authority has in place to ensure a sound financial standing and review how the Authority is planning and managing its savings plans. We will also review the Authority's assessment of potential liabilities and any provisions in its 2011/12 financial statement.
Component accounting	The Authority will need to continue to monitor the reasonableness and appropriateness of its componentisation policy in line with any guidance released by the Audit Commission or CIPFA . This will ensure that the accounts remain fairly stated, particularly in relation to HRA depreciation. This is particularly important given the move to HRA self-financing from 2012/13.	We will discuss and review the Authority’s proposed componentisation policy for 2011/12, to include a review of the approach taken to support the policy selected.
Code changes	The Authority will need to review and appropriately address the changes introduced by the *Code of Practice on Local Authority Accounting in the United Kingdom 2011/12 (‘the Code’)*. These include a new requirement to obtain valuations for certain ‘heritage assets’.	We will discuss and review the Authority's proposed accounting treatments in the affected areas.

Financial statements audit approach

We undertake our work on your financial statements in four key stages during 2012:

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

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

	Stage	Activity	Dec /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.					○				○
		Form our audit opinion.									○

Financial statements audit approach - planning

During December and January we complete our planning work.

We assess the key risks affecting the Authority's financial statements based on our historical and sector knowledge.

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 December 2011 and January 2012. 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 key 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 continue 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 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. Most of the organisational controls we assess were previously linked to the use of resources assessment. In particular, risk management, internal control and ethics and conduct have implications for our financial statements audit.

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.

Audit strategy and approach

The Engagement Partner 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 Partner.

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 met with the finance team to discuss mutual learning points from the 2010/11audit. These will be incorporated into our work plan for 2011/12. We will revisit progress against areas identified for development in our liaison meetings with the finance team.

Financial statements approach – control evaluation

During April we complete our interim work.

We assess if controls over key financial systems were effective during 2011/12. 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 June.

Our interim visit on site will be completed during April 2012. During this time we will complete work in the following areas:

Control Evaluation

- Evaluate and test controls over key financial systems.
- Review the internal audit function.
- 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 these are relevant to our final accounts audit. 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.

Appendix 1 illustrates how we determine the most effective balance of internal controls and substantive audit testing.

We work with the Authority's internal auditors to assess the control framework for key financial systems and seek to rely on any relevant work they 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 have plans in place to meet with the Head of Internal Audit to discuss the principles and timetables for the managed audit process for 2011/12.

Review of internal audit

Where we intend to rely on internal audit's work in respect of the Authority's key financial systems, 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.

Accounts production process

We raised no recommendations in our *Report to Those Charged with Governance (ISA 260 Report) 2010/11* relating to the accounts production process. The quality of the accounts and supporting working papers has historically been strong and officers dealt efficiently with audit queries.

We will assess the Authority's progress in preparing for the closedown and accounts preparation for 2011/12.

Critical accounting matters

We will discuss the Authority's approach to address the specific risks we have 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 June.

Financial statements audit approach – substantive procedures

During July, August and September 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.

Our final accounts visit on-site has been provisionally scheduled for the period July to September 2012. During this time, we will complete the following work:

Substantive Procedures

- Plan and perform substantive audit procedures.
- Conclude on critical accounting matters.
- Identify 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 Partner 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.

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*.

Financial statements 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 2.

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 is not part of the fee. This work 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.

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, 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 December 2011 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.

Key financial statements audit risks

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

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

Key audit risks	Impact on audit
 **Audit areas affected** - Reserves and balances - Provisions	**Risk** At the end of period nine, the Authority was forecasting an overspend of £0.5 million on budget, a significant improvement from the £7.2 million overspend predicted at the end of the second quarter. This is primarily due to over £8 million of unbudgeted funding from the NHS to support the work in Adult and Children's social care services which has helped to offset continuing pressures in these areas. The Authority continues to experience declining income in areas such as car parking, planning fees and section 278 agreements, however this has been offset to some extent by savings of £3.3 million on budgeted finance costs. The 2011/12 budget includes a savings programme totalling £90 million. The Authority reports that more than £80 million of the budgeted savings are on target to be achieved at period nine. All directorates are continuing to develop and implement action plans and the position is being closely monitored. The Authority currently estimates that another £47 million in savings will need to be achieved during 2012/13 to address the further reductions to local authority funding. Against a backdrop of continued demand pressures in Adult Social Care and Children's Services it will become more and more difficult to deliver these savings in a way that secures longer term financial and operational sustainability. The Authority has plans to further reduce its staff costs by implementing another round of its Early Leavers' Initiative (ELI) in 2011/12. Staff were expected to leave before 31st December 2011 which would enable the Authority to save three months of costs in the current financial year. Over 1,000 staff members put themselves forward for this programme although it is unlikely that all such requests will be accommodated due to the need to balance service delivery with cost savings. It is anticipated that a further round will be implemented in 2012/13. **Our audit work** In conjunction with our VFM work we will critically assess the controls the Authority has in place to ensure a sound financial standing, specifically that its Medium Term Financial Plan has duly taken into consideration the potential further funding reductions. It should be sufficiently robust to ensure that the Authority can continue to provide services effectively. We will also review how the Authority is continually planning and managing its savings plans and how it has ensured that there will be no impact on the quality of service delivery as a result of the ELI.

Key financial statements audit risks (continued)

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

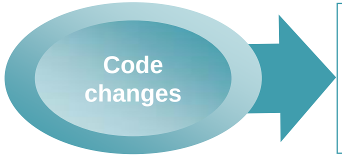
We will provide an update on how the Authority is managing these risks in our *Interim Audit Report*.

Key audit risks	Impact on audit
Financial standing **Audit areas affected** ▪ Reserves and balances ▪ Provisions	**Our audit work (continued)** As part of our final accounts audit we will also 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 provision, including the methodology, assumptions and calculations.
Component accounting **Audit areas affected** ▪ Asset valuation ▪ Depreciation	**Risk** The Authority will need to continue to monitor the reasonableness and appropriateness of its componentisation policy in line with any guidance released by the Audit Commission or CIPFA. This is particularly important given the move to HRA self-financing from 2012/13 as depreciation becomes a charge to the HRA that will not be reversed. Where the depreciation charge without componentisation differs materially from that which would be charged if component accounting had been implemented, this will have a direct impact on the surplus/deficit reported. In 2010/11 the Authority elected not to apply component accounting to its HRA assets as it would not have had a material impact on the financial statements. We need to gain assurance that this policy continues to be appropriate in 2011/12 and in light of any new guidance. **Our audit work** As part of our planning and interim work we will again review the Authority's approach to componentisation in 2011/12 and the results of the work performed by the valuers used to support the policy.

Key financial statements audit risks (continued)

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

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

Key audit risks	Impact on audit
 **Audit areas affected** ■ Asset valuation ■ Asset recognition	**Risk** The 2011/12 *Code* includes a number of accounting changes, including a new requirement to carry ‘heritage assets’ at valuation. Heritage assets include historical buildings, museum and gallery collections and works of art. The Authority needs to review and appropriately address these changes in its 2011/12 financial statements. **Our audit work** As part of our interim work we will review the Authority’s approach to addressing the *Code* changes. As part of our final accounts audit we will review the appropriateness of the accounting entries and disclosures in the accounts.

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; ■ information from the Audit Commission's VFM profile tool and financial ratios tool; ■ 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 the areas where more detailed VFM audit work is required.

VFM audit stage	Audit approach
Linkages 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 likely that further audit work will be necessary in some areas to ensure comprehensive coverage of the two VFM criteria. This work will involve a range of interviews with relevant officers, and review of documents such as policies, plans and minutes. We will 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.
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.

VFM audit approach (continued)

Where relevant, we 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 will 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. If considered appropriate, we may produce a separate report on the VFM audit, either overall or for any specific reviews that we may undertake.

Audit team, deliverables, timeline and fees

Our audit team have all been part of the Leeds City Council audit team in previous years. Contact details are shown on page 1.

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

Mike McDonagh

Partner

"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 the Director of Resources."

Steve Clark

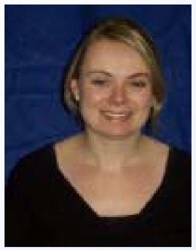
Director

"I will provide strategic direction to the audit team and work closely with Mike to ensure we add value. I will liaise with the Corporate Governance and Audit Committee, the Chief Executive and the Director of Resources. "

Heather Garrett

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 Principal Finance Manager and Head of Internal Audit."



Deborah Rumsey

Assistant Manager

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

Audit team, deliverables, timeline and fees (continued)

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 agreed each report with the Authority's officers prior to publication.

Deliverable	Purpose	Committee dates
Planning		
Financial Statements Audit Plan	■ Outline audit approach. ■ Identify areas of audit focus and planned procedures.	**February 2012**
Control evaluation		
Interim Report	■ 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.	**June 2012**
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 2012**
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 2012**
Annual Audit Letter	■ Summarises the outcomes and the key issues arising from our audit work for the year.	**December 2012**

Section six

Audit team, deliverables, timeline and fees (continued)

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

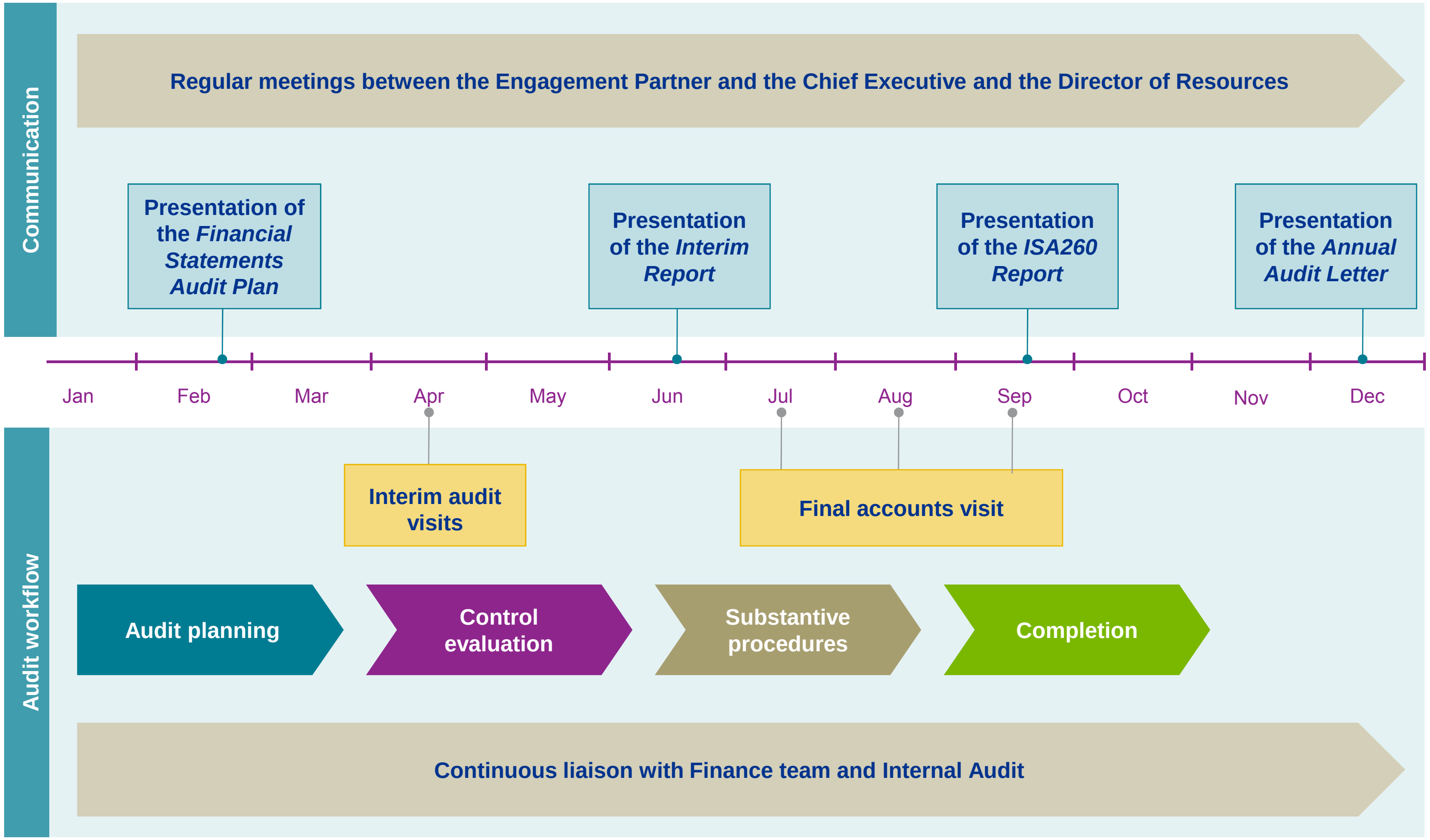
Key formal interactions with the Corporate Governance and Audit Committee are:

- **February – Financial Statements Audit Plan;**
- **June – Interim Report;**
- **September – ISA 260 Report;**
- **December – Annual Audit Letter.**

We work with the finance team and Internal Audit.

Our main work on site will be our:

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



Key: ● Corporate Governance and Audit Committee meetings.

Audit team, deliverables, timeline and fees (continued)

The net fee for 2011/12 audit of the Authority is £471,960. The fee has changed from that set out in our *Audit Fee Letter 2011/12* issued in April 2011 to take account of the 8% rebate from the Audit Commission.

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.

The fee for our grants work will be confirmed through our summary *report on the certification of grants and returns* which will be issued in February 2012.

Audit fee

Our *Audit Fee Letter 2011/12* presented to you in April 2011 first set out our fees for the 2011/12 audit. We have not considered it necessary to make any changes to the agreed fees.

Element of the audit	2011/12 (planned)	2010/11 (actual)
Gross audit fee	£513,000	£570,000
Less: Audit Commission rebate	-£41,040	-£45,117
Total	**£471,960**	£524,883

The main fee for 2011/12 audit is £471,960, which includes our work on the VFM conclusion and our audit of the Authority's financial statements. The Audit Commission continues to issue rebates to local authorities and the rebate for 2011/12 is £41,040.

Audit fee assumptions

The audit fee is indicative and based on you meeting our expectations. 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 2010/11;
- 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 2011/12* within your 2011/12 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 joint working protocol 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 Director of Resources.

Appendix 1: Balance of internal controls and substantive testing

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

Emphasis of testing

What we do	Accounts/transactions suited to this testing	For example KPMG's approach to:
Extensive controls testing Reduced substantive testing	Low value transactions High volume Homogenous transactions Little judgement	Income and debtors Purchases and payables Payroll
Moderate controls testing Moderate substantive testing	Low/medium value High/medium volume Some areas requiring judgement	Valuation of fixed assets
Limited controls testing Extensive substantive testing	High value/ low volume Unusual non-recurring Accounting estimates Significant judgements	Investments and borrowings Provisions

Appendix 2: 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.
- 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 3: Quality assurance and technical capacity

We continually focus on delivering a high quality audit.

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

Quality must build on the foundations of well trained staff and a robust methodology.

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

We recruit the best staff through our rigorous selection and assessment criteria. In addition, we expect that future talent to develop with our application of most effective in-house and external training support.

Our audit methodology determines that we use a standardised audit approach and pro forma work papers. We also have standards of audit evidence and working papers including requirements for working paper retention.

At critical periods of the audit we conduct both manager and engagement leader review of the work completed. Upon final completion, managers and directors complete a checklist to indicate the satisfactory conclusion of the audit under the audit methodology.

Partners who meet certain skills and experience criteria, conduct quality control reviews of individual audits depending on the level of audit risk. Their role is to perform an objective evaluation of the significant accounting, auditing and financial reporting matters with a high degree of detachment from the audit team. This provides an objective internal assessment on the quality of our audit. Peer review is undertaken across the firm, with an annual sample of our work being undertaken from a different national office. This encourages a constant focus on quality and ensures there is continuous improvement and that best practice is shared.

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 (www.audit-commission.gov.uk/reports). The latest report dated October 2011 showed that we performed highly against all the Commission's criteria.

Resolving accounting and financial reporting issues

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 (based in our London office) 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 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.

When dealing with the Audit Commission, as you would expect, we both attend and cascade across the firm the papers considered by their various technical groups for auditors. In addition, as the Audit Commission has developed we have established a series of formal and informal relationships. These benefit both the Audit Commission and our local authority clients. As a result of all of these factors, and combined with our overall audit approach, we seek to offer early warnings of issues arising with the independent regulator and provide pragmatic solutions.

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