



LOCAL GOVERNMENT

# Leeds City Council

Financial Statements Audit Plan

March 2010

PUBLIC SECTOR AUDIT

# Contents

## The contacts at KPMG in connection with this report are:

### Mike McDonagh

Partner  
KPMG LLP (UK)  
Tel: 0121 335 2440  
Fax: 0121 231 3578  
michael.a.mcdonagh@kpmg.co.uk

### Jillian Burrows

Senior Manager  
KPMG LLP (UK)  
Tel: 0161 246 4705  
Fax: 0161 838 4040  
jillian.burrows@kpmg.co.uk

### Alison Ormston

Manager  
KPMG LLP (UK)  
Tel: 0113 231 3444  
Fax: 0113 231 3941  
alison.ormston@kpmg.co.uk

### Sam Bradford

Assistant Manager  
KPMG LLP (UK)  
Tel: 0113 231 3624  
Fax: 0113 231 3941  
sam.bradford@kpmg.co.uk

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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.

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, who is the engagement leader to the Authority, (telephone 0121 335 2440, e-mail [michael.a.mcdonagh@kpmg.co.uk](mailto:michael.a.mcdonagh@kpmg.co.uk)) who will try to resolve your complaint. If you are dissatisfied with your response please contact Trevor Rees on 0161 838 4063, email [trevor.rees@kpmg.co.uk](mailto: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 Investigation Officer, Westward House, Lime Kiln Close, Stoke Gifford, Bristol, BS34 8SR or by e mail to: [complaints@audit-commission.gov.uk](mailto:complaints@audit-commission.gov.uk). Their telephone number is 0844 798 3131, textphone (minicom) 020 7630 0421



# Summary

**This document describes how we will deliver our financial statements audit work for Leeds City Council**

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

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

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

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

This document describes how we will deliver our financial statements audit work for Leeds City Council (the Council). It supplements our Audit Fee Letter presented to you in April 2009.

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.

The table below summarises the key risks identified this year and the work we will do in response to the risks for the financial statements audit. The remainder of this document provides further details on these risks as well information on our audit approach, our audit team, our proposed work, timescales and fees for our work on the financial statements audit.

**We have identified a number of key risks that we will focus on during the audit of the 2009/10 financial statements.**

Risk area	Risk
<b>Private Finance Initiative</b>	<p>The 2009 Code of Practice on Local Authority Accounting in the United Kingdom: A Statement of Recommended Practice (SORP) introduces new accounting requirements for Private Finance Initiative schemes based on International Financial Reporting Standards (IFRS).</p> <p>The Council has seven operational PFI schemes and two PFI schemes that are currently being considered by officers. The Council will need to evaluate these PFI contracts under IFRS and potentially model the PFI payments over the life of the contracts to calculate the assets and liabilities that need to be accounted for. There are also changes to the disclosure requirements that will be required in the financial statements as a result of the introduction of IFRS.</p>
<b>Fixed Asset Valuation</b>	<p>During our 2008/09 audit we identified three audit adjustments relating to fixed asset balances. Two of these adjustments related to the fact that the non-enhancing spend write off in year had not been reviewed as part of the accounts closedown quality assurance process. The third fixed asset adjustment related to the fact that the revaluation of three fixed assets completed in year had not been picked up by the accounts team.</p> <p>The Council need to ensure that they complete a detailed quality assurance review of their accounts closedown process to prevent similar issues arising in year.</p>



## Summary (continued)

Risk area	Risk
<b>SORP Changes</b>	<p>In addition to the changes to the accounting for PFI schemes, the 2009 SORP introduces a number of other changes. The Council will need to ensure that they review and appropriately address all these changes. These include changes to the accounting treatment for Business Rates and Council Tax and changes to disclosure requirements.</p> <p>In relation to the accounting treatment for Business Rates the Council will need to recognise a creditor or debtor for cash collected from Business Rate debtors but not paid to the Government (creditor) or in fact overpaid to the Government (debtor).</p> <p>In relation to the accounting treatment for Council Tax the Council will need to recognise the appropriate share of Council Tax debtors in their Balance Sheet at the year end.</p> <p>There are also some changes required to the disclosures of the financial statements as a result of the 2009 SORP. These changes include disclosure requirements for officers remuneration which now refer to "applicable regulations" and five note disclosures which have been removed, these being:</p> <ul style="list-style-type: none"> <li>• Section 137 expenditure;</li> <li>• Expenditure on publicity;</li> <li>• Building control account;</li> <li>• Business Improvement District Schemes; and</li> <li>• Income under the Local Authorities Goods and Services Act.</li> </ul>
<b>Local taxes / rent arrears</b>	<p>As the Council have experienced that there is difficulty in the ability of people to meet their financial commitments given the economic downturn they need to ensure that they have reflected this within their provision levels for Council Tax, National Non Domestic Rates and Rents due. The Council will need to ensure that they have appropriately provided for any amounts that may not be collectable in the current economic climate.</p>
<b>Loan Valuation</b>	<p>Due to the economic downturn there has also been a reduction in the ability of organisations / companies to meet their financial commitments. As a consequence the Council will need to ensure that the full value of any loans they may have issued are fully recoverable.</p> <p>Where the Council have revised the terms of any loans issued they need to ensure that the full value of these loans are recoverable and that any loans at less than commercial interest rates are appropriately accounted for within the financial statements.</p>

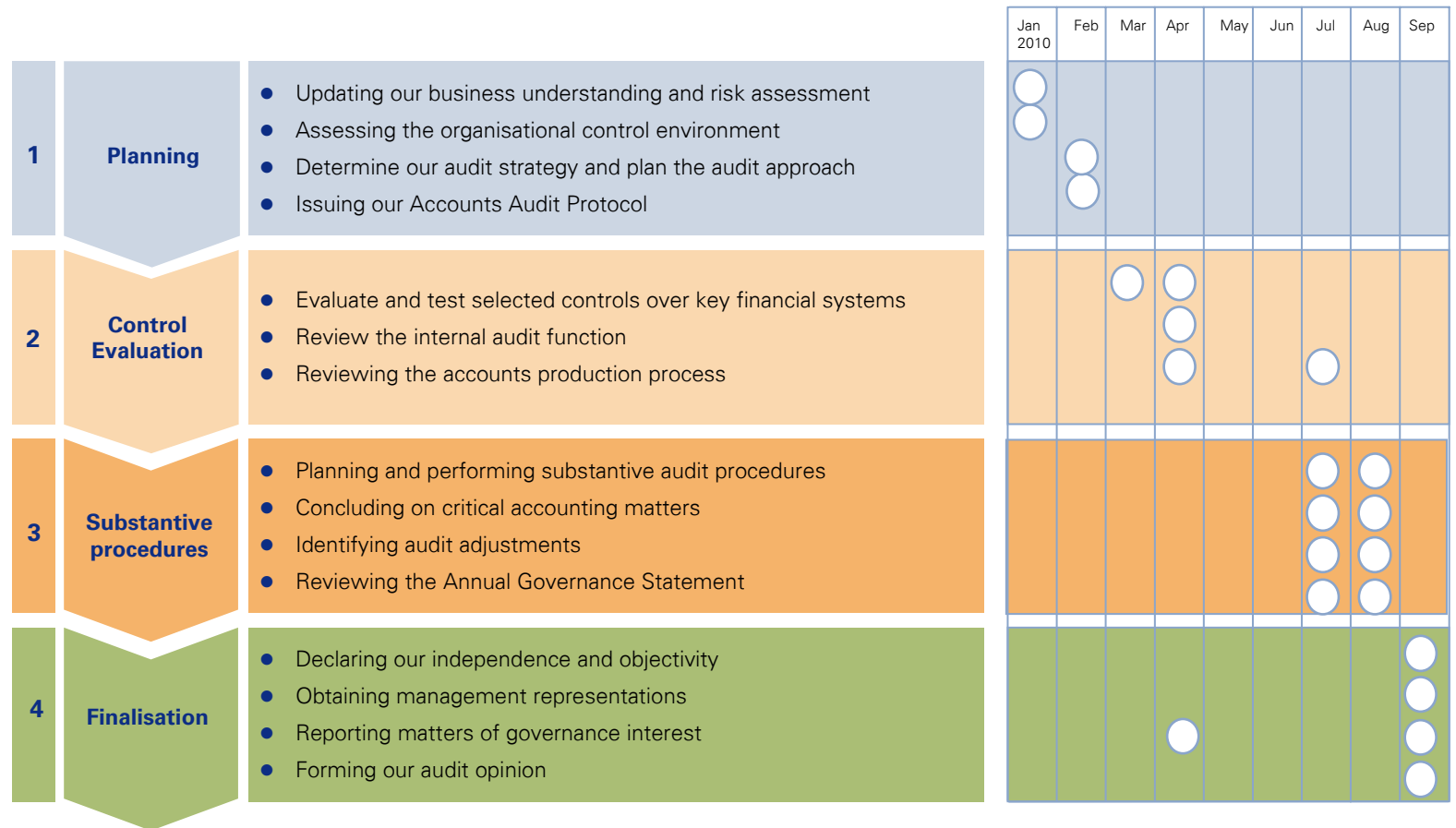
# Audit overview

We undertake our work on your financial statements in four key stages during 2010:

- **Planning (January/ February)**
- **Control Evaluation (March /April)**
- **Substantive Procedures (June to August)**
- **Completion (September)**

## Our Audit Process

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



# Our audit approach – planning

**During January and February we complete our planning work.**

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

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

**We determine our audit strategy and approach.**

**We agree a protocol for the accounts audit and specify what evidence we expect from the Council to support the financial statements.**

Our planning work takes place in January and February 2010. This involves the following aspects:

## **Business understanding and risk assessment**

- We update our understanding of the Council's operations and identify any areas that will require particular attention during our audit of the Council's financial statements.
- We identify the key risks affecting the Council's financial statements. These are based on our knowledge of the Council, our sector experience and our ongoing dialogue with Council 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 Council's responsibility to adequately address these issues. We encourage the Council 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 Corporate Finance Team on a regular basis to support them during the financial year end closedown and accounts preparation.

## **Organisational control environment**

- When high level organisational controls (risk management, internal control and ethics and conduct of officers and members, for example) are well designed and operating effectively these often set the tone for controls at an operational level. If there were any weaknesses identified in the high level organisation controls this can have an impact on the audit work required.
- Most of the organisational controls we assess are linked to our use of resources work, which also considers the Council's system of internal control. In particular, the areas risk management, internal control and ethics and conduct also have implications for our financial statements audit.
- The Council 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**

- We will be issuing our final Accounts Audit Protocol in early May 2010. This important document sets out our audit approach and timetable. It also summarises the working papers and other evidence we require the Council to provide during our final accounts visits.
- We met with the Head of Finance and their team in December 2009 to discuss mutual learning points from the 2008/09 audit and identify areas for development. These will be incorporated into our work plan for 2009/10.

## Our audit approach – control evaluation

**During March and April we complete our interim work.**

**Our interim work focuses on testing whether controls over key financial systems were effective during 2009/10.**

**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 assess the Council's progress in addressing the recommendations in our 2008/09 ISA 260 Report.**

**We will present our Interim Report to the Audit Committee in June.**

Our interim visit to review high level IT controls will be completed in March and our on site visit will be completed during two weeks commencing 5 April 2010. During this time we will complete work in the following areas:

### **Controls over key financial systems**

- We update our understanding of the Council'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.
- We work with the Council'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 have a joint working protocol and have met with the Audit Manager to discuss the principles and timetables for the managed audit process for 2009/10.

### **Review of internal audit**

- Where we intend to rely on internal audit's work in respect of the Council'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 Audit Manager at the end of our interim visit.

### **Accounts production process**

- During the 2008/09 audit we identified four audit adjustments, three related to the quality assurance process during the accounts closedown process not being as robust as in prior years. We will continue to work with your finance team to enhance the closedown process.
- We raised only one recommendation in our 2008/09 ISA 260 report relating to the building control account. However, as the SORP no longer requires for the building control account to be included within the financial statements we will discuss this with officers and ensure that remedial actions are taken to address this.
- 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 Audit Committee meeting in June 2010.

# Our audit approach – substantive procedures

**During July and August 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 agree any audit adjustments required to the financial statements.**

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

**We will present our ISA 260 Report to the Audit Committee in September.**

Our final accounts visit on site is currently scheduled to commence on 12 July to 28 August 2010. During this visit we will complete the following work:

## **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 Council'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 Manager on a regular 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 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 annual *Report to those Charged with Governance* (ISA 260 Report).



## Our audit approach – other

**In addition to auditing the financial statements, we also audit the Council'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 on the progress of our audit, both formally and informally.**

### **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.

Our audit of the Council's 2008/09 WGA pack resulted in approximately twelve small adjustments to the pack with it being certified on 16 October 2009. The Council will need to make improvements to its processes to ensure that the 2009/10 WGA pack meets expected standards and can be certified by the 1 October 2010 deadline.

### **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 Corporate Finance and the Audit Committee. Our deliverables are included on page 15.

# Key audit risks

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

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

Key audit risk	Impact on the accounts	Issue	Impact on our audit plan
	<ul style="list-style-type: none"> <li>● <b>Fixed assets</b></li> <li>● <b>Liabilities</b></li> <li>● <b>Disclosures</b></li> </ul>	<p>All local authority accounts will be based on International Financial Reporting Standards (IFRS) from 2010/11. As part of the transition process, the revised accounting requirements for Private Finance Initiative (PFI) schemes are applied early under the 2009 Code of Practice on Local Authority Accounting in the United Kingdom: A Statement of Recommended Practice (SORP), to the 2009/10 financial statements. This is a technically complex change and may result in some assets being accounted for in the Council's balance sheet that previously were not.</p> <p>The Council has seven operational PFI contracts. They will need to re-evaluate these contracts under IFRS and potentially model the payments over the contract life to calculate the assets and liabilities to be accounted for.</p> <p>In addition, officers are considering the likelihood for two new PFI schemes to be approved which will also need to be assessed under the new accounting requirements.</p>	<p>As part of our interim work we will review the Council's assessment of its pre-existing and new PFI contracts under IFRS and review the financial modelling and any assumptions used.</p> <p>We will also review how the Council has satisfied itself that all arrangements have been identified that are similar in nature to PFI schemes.</p> <p>As part of our final accounts audit we will assess if assets and liabilities have been correctly calculated, accounted for and disclosed in the financial statements.</p>

## Key audit risks (continued)

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



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

Key audit risk	Impact on the accounts	Issue	Impact on our audit plan
	<ul style="list-style-type: none"> <li>● Impairments</li> <li>● Fixed Assets</li> <li>● Disclosures</li> </ul>	<p>During our 2008/09 audit we identified three audit adjustments relating to fixed asset balances. Two of these adjustments related to the fact that the non-enhancing spend write off in year had not been reviewed as part of the accounts closedown quality assurance process. The third fixed asset adjustment related to the fact that the revaluation of three fixed assets completed in year had not been picked up by the accounts team.</p> <p>The Council need to ensure that they complete a detailed quality assurance review of their accounts closedown process to prevent similar issues arising in year and to ensure that the valuation of its asset base is not materially misstated.</p>	<p>We will review the methodology of valuation and test a sample of additions to ensure the controls are operating effectively in this area.</p> <p>We will also review a sample of revaluations and impairments completed in year and assess the valuation basis and assumptions used.</p>
	<ul style="list-style-type: none"> <li>● Income from Council Tax</li> <li>● Collection Fund assets and liabilities</li> <li>● Disclosures</li> </ul>	<p>In addition to the changes to the accounting for PFI schemes, the 2009 SORP introduces a number of other changes, which take effect in 2009/10, including:</p> <ul style="list-style-type: none"> <li>● Changes to the accounting treatment for Business Rates (NNDR) and Council Tax in England; and</li> <li>● Changes to disclosure requirements which includes: <ul style="list-style-type: none"> <li>– Officers remuneration disclosure now referring to “applicable regulations”; and</li> <li>– Five disclosure notes being removed.</li> </ul> </li> </ul> <p>The Council need to review and appropriately address these changes in the 2009/10 financial statements.</p>	<p>As part of our interim work we will review the Council’s approach to addressing the SORP changes.</p> <p>As part of our final accounts audit we will review the appropriateness of the accounting entries and disclosures in the accounts.</p>

## Key audit risks (continued)

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

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

Key audit risk	Impact on the accounts	Issue	Impact on our audit plan
 <p>Local Taxes/ Rent Arrears</p>	<ul style="list-style-type: none"> <li>• Provisions</li> <li>• Debtors</li> </ul>	<p>The Council have experienced there is difficulty in the ability of local residents / businesses to meet their financial commitments given the economic downturn. The Council will need to ensure that they have reflected this within their provision levels for Council Tax, National Non Domestic Rates and Rents due.</p> <p>The Council will need to review their collections rates for Council Tax, National Non Domestic Rates and Rents due to ensure that they have appropriately provided for any amounts that may not be collectable in the current economic climate.</p>	<p>During the interim phase of our audit we will review the Council's processes for collecting and recovering outstanding balances in relation to council tax, national non-domestic rates (NNDR) and rent arrears.</p> <p>We will critically review the level of bad debt write offs and bad debt provisioning at the year end. We will perform a trend analysis of the level of balances over the last financial year and compare the Council's performance to similar organisations.</p>
 <p>Loan Valuation</p>	<ul style="list-style-type: none"> <li>• Investments</li> <li>• Loan valuation</li> </ul>	<p>Due to the economic downturn there has also been a reduction in the ability of organisations / companies to meet their financial commitments. As a consequence the Council will need to ensure that the full value of any loans they may have issued are fully recoverable.</p> <p>Where the Council have revised the terms of any loans issued, they need to ensure that the full value of these loans are recoverable and that any loans at less than commercial interest rates are appropriately accounted for within the financial statements.</p>	<p>At the year end we will review the ability of organisations / companies to meet their financial commitments.</p> <p>In addition, we will undertake an impairment review of loans to identify factors which may indicate the loans may not be repaid in full.</p>

## Audit team

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**Our audit team is unchanged from last year. Contact details are shown on the contents page of this report.**

**The audit team will be assisted by other specialist KPMG 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 Audit Committee and the Chief Executive.”



Jillian Burrows  
**Senior Manager**

“I will offer support and guidance to Alison and Sam to ensure best practice at each stage of the audit process. I will also lead on the Use of Resources assessment and ensure delivery of a high quality audit across all our work. ”



Alison Ormston  
**Manager**

“I will direct and help coordinate the audit and will work closely with Mike, Jillian and Sam to ensure we add value. I will be the main point of contact for the senior management team.”



Sam Bradford  
**In-Charge**

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

I will also supervise the work of our audit assistants.”



## Audit Fees

**The audit fee has not changed from that agreed in the high level audit strategy issued during 2009.**

Our fee is calculated with reference to a number of factors including your turnover and our assessment of audit risk and control environment. There has been no increase in fee compared to 2008/09.

Our 2009/10 Audit Fee Letter presented to you in April 2009 first set out our fees for the 2009/10 audit. We have not considered it necessary to make any changes to the agreed fees.

Our fee is calculated with reference to a number of factors including your gross expenditure and our assessment of audit risk and control environment.

Element of the audit	2009/10	2008/09
Audit of Financial Statements: Accounts (Systems and Final)	£265,000	£265,000
Use of Resources assessment	£236,000	£236,000
Whole of Government Accounts	£3,000	£3,000
<b>Total audit fee</b>	<b>£504,000</b>	<b>£504,000</b>
Certification of claims and returns	£117,343	£128,280

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

Source of fee comparative / benchmark	£
Audit Commission suggested fee range	£434,243 - £806,452
Audit Commission suggested mid-point fee	£620,348
2009/10 audit fee	£504,000

## Audit Fees (continued)

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

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

### 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 2008/09;
- you will inform us of any significant developments impacting on our audit;
- you will appropriately address the risk areas identified in this document and implement any changes required under the 2009 SORP within your 2009/10 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 reduce the audit fee. Future audit fees can be decreased if the Council 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 Finance.

## Audit Timeline & Deliverables

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

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

Deliverable	Purpose	Timing
<b>Planning</b>		
<b>Audit plan</b>	<ul style="list-style-type: none"> <li>● Outline audit approach</li> <li>● Identify areas of audit focus and planned procedures</li> <li>● Confirm plan with Audit Committee</li> </ul>	<b>March 2010</b>
<b>Control Evaluation</b>		
<b>Interim report</b>	<ul style="list-style-type: none"> <li>● Details and resolution of control and process issues</li> </ul>	<b>May 2010</b>
<b>Substantive Procedures</b>		
<b>Report to those charged with governance (ISA 260)</b>	<ul style="list-style-type: none"> <li>● Detail the resolution of key audit issues</li> <li>● Communication of adjusted and unadjusted audit differences</li> <li>● Performance improvement recommendations identified during our audit</li> <li>● Summarise our assessment of the Council's arrangements to secure value for money in its use of resources</li> </ul>	<b>September 2010</b>
<b>Completion</b>		
<b>Opinion on financial statements &amp; Annual audit letter</b>	<ul style="list-style-type: none"> <li>● Providing an opinion on your accounts (including the Annual Governance Statement)</li> <li>● Concluding on the arrangements in place for securing economy, efficiency and effectiveness in your use of resources (the value for money conclusion)</li> </ul>	<b>September 2010</b>
<b>Annual audit letter</b>	<ul style="list-style-type: none"> <li>● Summarise the key issues arising from our 2009/10 audit at Leeds City Council</li> </ul>	<b>December 2010</b>

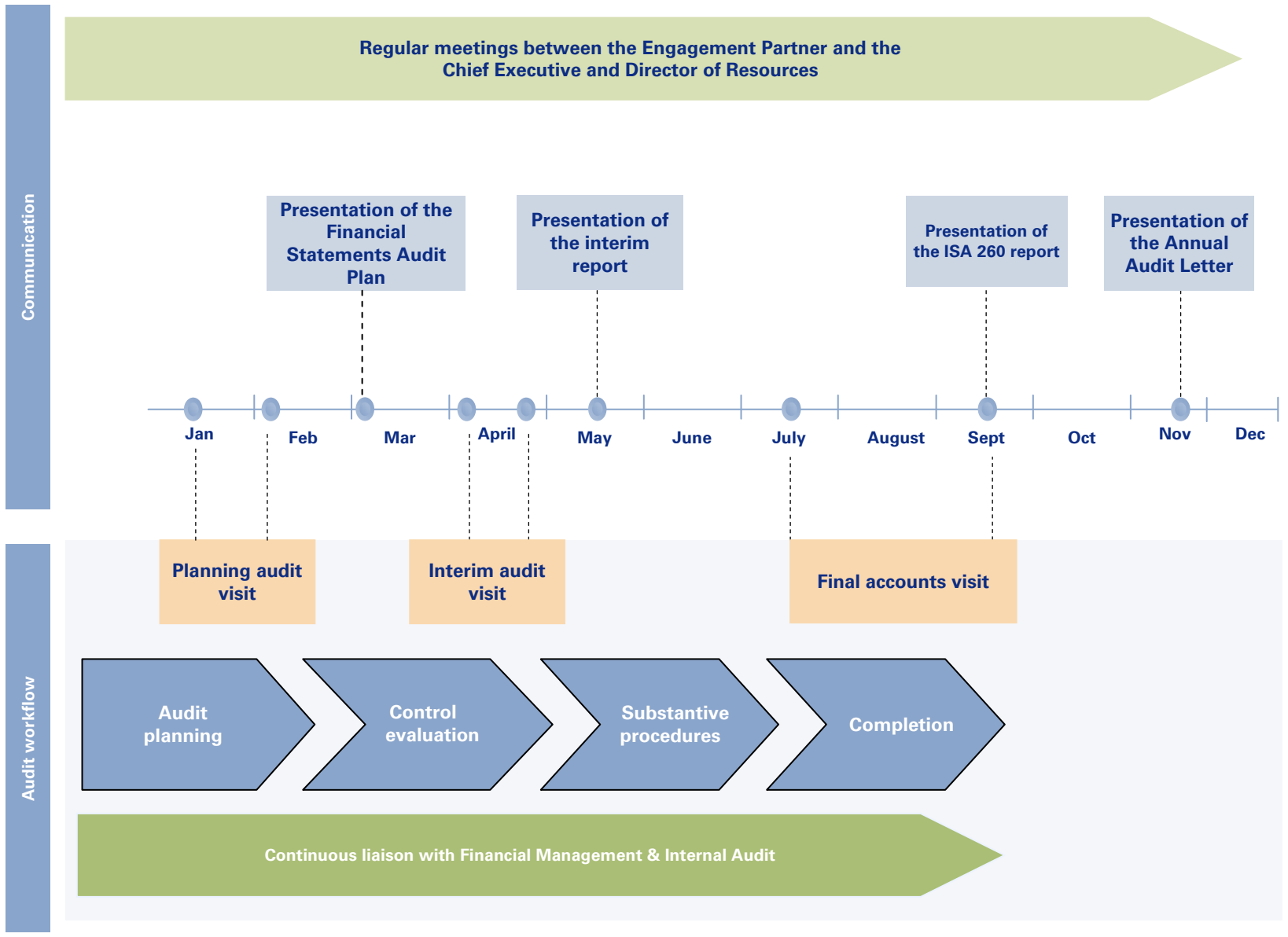


# Audit Timeline & Deliverables (continued)

Key formal interactions with the Audit Committee are:

- Mar: Audit plan
- May: Interim issues
- Sept: Year end conclusions

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



# Appendix 1: Meeting your expectations

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## How we will conduct ourselves

### *Communications*

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

### *Working together*

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

### *Cooperating with the Council*

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

## Our expectations of your support

### *Audit Plan*

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

### *Interim Audit*

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

### *Accounts Audit*

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

### *Annual Audit Letter*

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

### *Other work*

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

## Appendix 2: Independence and objectivity requirements

**This appendix summarises our responsibilities regarding independence and objectivity.**

Auditors are required by the Code to:

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

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

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

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

## Appendix 3: Sustainability

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

### **Sustainability**

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

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

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

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