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# External Audit Plan 2012/13

Nottingham City Council

January 2013



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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](http://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 Sue Sunderland, 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](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 Unit Manager, Audit Commission, Westward House, Lime Kiln Close, Stoke Gifford, Bristol, BS34 8SR or by email to [complaints@audit-commission.gov.uk](mailto:complaints@audit-commission.gov.uk). Their telephone number is 0844 798 3131, textphone (minicom) 020 7630 0421.

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

### Scope of this report

We are pleased to be appointed as your external auditors for 2012/13. This document supplements our *Audit Fee Letter 2012/13* presented to you in August 2012. It describes how we will deliver our financial statements audit work for Nottingham City Council ('the Authority'). It and sets out our approach to value for money (VFM) work for 2012/13.

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 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.

We have identified two key risks that we will focus on during the audit of the 2012/13 financial statements.

These are described in more detail on page 10.

The vfm conclusion risk around the cost reduction programme is described in more detail on page 12.

The remainder of this document provides information on our:

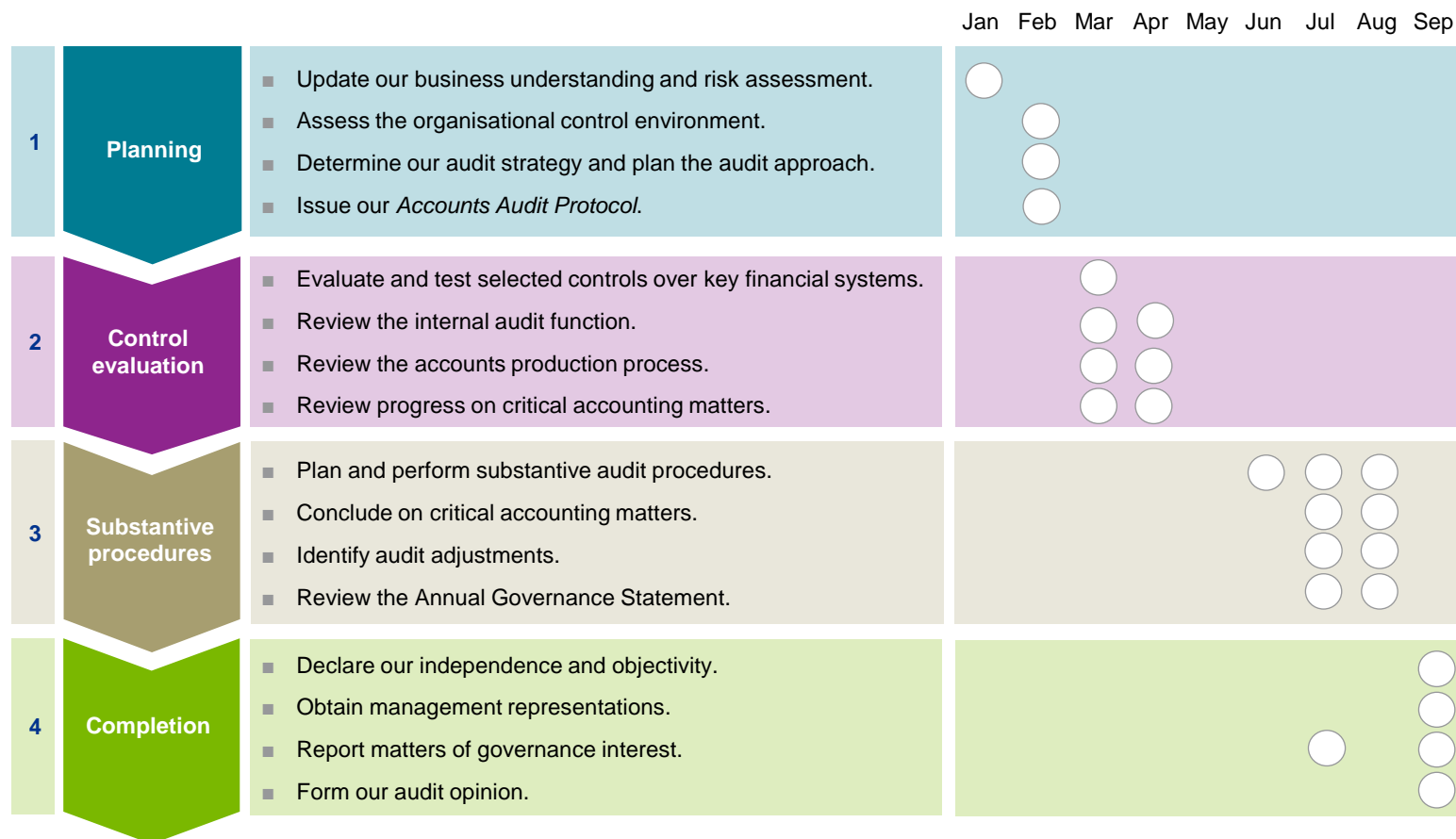
- approach to the audit of the financial statements;
- approach to VFM work; and
- audit team, proposed deliverables, timescales and fees for our work.

Area	Risk	Audit work
<b>PFI Accounting (NET 2)</b>	<p>Implementation of the new PFI scheme for expansion of the Nottingham tram network (NET 2) will lead to transactions and balances linked to this expansion being recognised on the Authority's financial statements this year.</p> <p>Since these are large and complex, the Authority will need to assure itself that these transactions and balances meet the requirements of relevant accounting standards and secure VFM.</p>	<p>We will review the Authority's IFRIC 12 assessment for this scheme.</p> <p>Due to the complexity of the scheme, we will carry out a technical review of the associated transactions and balances. Extra fee will be charged for this specialist audit work.</p>
<b>Weakness in Controls</b>	<p>Last year, your previous auditor flagged specific payroll and accounts payable risks . These risks remain this year.</p> <p>Payroll</p> <p>Existence controls in this area remain weak as the Authority does not have an establishment list.</p> <p>The Authority needs to put a list in place and has plans in place to do so. These are dependent on new payroll and HR systems linked to the introduction of its new shared service arrangements. These will not be in place until 2013/14.</p> <p>Accounts Payable</p> <p>New accounts payable arrangements introduced in 2009 led to weaker controls in this area. Although the Authority has made good progress to address these some weaknesses remain.</p> <p>The Authority will need to assure itself that these weaknesses are fully addressed by implementing its new ledger system (Oracle) in 2013/14.</p>	<p>Payroll</p> <p>We will review work carried out by the Authority during 2012/13 to validate its payroll records.</p> <p>Further work may be required (for which additional fee will be charged) if the assurance provided is insufficient.</p> <p>Accounts Payable</p> <p>We will assess the design and operation of controls in place during the year.</p> <p>Where control weaknesses remain, further substantive work will be required to provide sufficient assurance for the opinion (for which additional fee will be charged).</p>
<b>Cost Reduction Programme</b>	<p>The Authority currently estimates that it will need to deliver £16.7 million in savings during 2013/14 to address further reductions to local authority funding and continued cost pressures.</p> <p>The Authority will need to establish and manage its savings plans to secure longer term financial and operational sustainability.</p>	<p>As part of our VFM conclusion 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.</p>

We undertake our work on your financial statements in four key stages during 2013:

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

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



**During January and February 2013 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 2013. 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 monthly 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 their 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.

### 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

To support our audit work on the Authority's group accounts, we seek to place reliance on the work of a number of other firms who are the auditors to the Authority's subsidiary and associate undertakings. We will liaise with them in order to confirm that their programme of work is adequate for our purposes and they satisfy professional requirements.

### 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 met with the Senior Finance Manager (Financial Planning and Reporting) to discuss mutual learning points from the 2011/12 audit. These will be incorporated into our work plan for 2012/13. We revisit progress against areas identified for development as the audit progresses.

**During March to April 2013 we will complete our interim audit work.**

**We assess if controls over key financial systems were effective during 2012/13. 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 Audit Committee in July.**

Our interim visit on site will be completed in the fortnight starting 18 March 2013. 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.

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

Where our audit approach is to undertake controls work on financial systems, we 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 Chief Internal Auditor to discuss the principles and timetables.

### 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 Chief Internal Auditor at the end of our interim visit.

### Accounts production process

We will assess the Authority's progress in addressing our recommendations and in preparing for the closedown and accounts preparation.

### 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 Audit Committee meeting on 26 July 2013.

**During July to August 2013 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 Audit Committee in September 2013.***

Our final accounts visit on site has been provisionally scheduled for the period July to August 2013. 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 Corporate Director of Resources in September 2013, prior to reporting to the Audit Committee on 27 September 2013.

### Audit adjustments

During our on site work, we will meet with the Senior Finance Manager (Financial Planning and Reporting) 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 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 Audit Committee in September 2013.



**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.**

### 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 Audit Committee. Our deliverables are included on page 15.

### Use of off-shore audit resources

During our audit work we may make use of our KPMG Global Services (KGS Audit) team in India to undertake certain basic audit tasks and functions. Use of this 'off-shore' team is one of many initiatives we employ to deliver a cost-effective audit service for our clients. Although based in India, the KGS Audit team works closely with our local audit teams to undertake certain audit procedures remotely. We have provided our UK teams with guidance on the types of audit procedures and other tasks that it is suitable and permissible to use KGS Audit for - we do not use KGS Audit for any audit procedures that involve access to personal, confidential or sensitive information. Audit tasks are then allocated by our UK-based engagement teams to dedicated teams in India, allowing local staff to control what work KGS Audit undertakes and what information is accessed. They operate to our same quality standards and all work undertaken by KGS Audit is reviewed by the UK team.

The KGS Audit team operates in a paperless environment and we apply robust processes to control how data is accessed and used:

- all work is conducted electronically;
- all data files are maintained on servers in the UK with restricted access and only viewed on screen in India. These servers are governed by established KPMG IT controls;
- policy and technology restrictions are in place to protect data, for example locked down USB ports, no external emailing, no printing;
- KGS Audit staff are based in an office with restricted access and security; and
- the team members adhere to global KPMG ethics and independence standards, along with requirements governing the non-disclosure of client information.

**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.**

**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 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 January 2013 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.

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
<p><b>PFI Accounting (NET 2)</b></p> <p><b>Audit areas affected</b></p> <ul style="list-style-type: none"> <li>■ Property, Plant and Equipment</li> <li>■ Long term liabilities</li> <li>■ Cost of services</li> </ul>	<p><b>Risk</b></p> <p>In December 2011 the Authority entered into a major new PFI scheme for the extension of its existing tram network. The Authority will include accounting entries for this scheme (NET 2) for the first time in 2012/13. Limited disclosures relating to the scheme were made in 2011/12.</p> <p>Transactions and balances linked to NET 2 will be complex and substantial. Early work by the Authority in 2011/12 concluded that in accounting terms the new arrangement is a service concession under IFRIC 12.</p> <p>For 2012/13, the Authority will need to confirm that this assessment remains appropriate and carry out sufficient work to support this.</p> <p><b>Our audit work</b></p> <p>We will carry out an overall review of the Authority's IFRIC 12 assessment for this scheme.</p> <p>We will review 2012/13 accounting entries linked to this scheme to confirm their accuracy.</p> <p>Some elements of this work will require specialist technical review outside the scope of the audit for which additional fees will be charged.</p>

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
<p><b>Weakness in Controls</b></p> <p><b>Audit areas affected</b></p> <ul style="list-style-type: none"> <li>■ Payroll</li> <li>■ Creditors</li> <li>■ Cost of services</li> </ul>	<p><b>Risk</b></p> <p>Last year, your previous auditor flagged specific payroll and accounts payable risks . These risks remain.</p> <p><b>Payroll</b></p> <p>We are unable to rely on controls to confirm the existence of staff and related payroll expenditure. The Authority does not maintain an employee establishment list . Although steps have been taken to address this control weakness the actions required are dependent on new payroll and HR systems . Planned implementation of these systems during 2012/13 has now been deferred to April 2014.</p> <p><b>Accounts Payable</b></p> <p>Introduction of new accounts payable arrangements by the Authority in August 2009 led to weaker controls in this area. On-going action by the Authority since that time has led to significant improvement although further work is needed.</p> <p>The move to a new accounting system (Oracle) planned for 2012/13 should address these weaknesses in full. However, the risk remains as its implementation is now deferred to April 2014.</p> <p><b>Our audit work</b></p> <p><b>Payroll</b></p> <p>We will review work carried out by the Authority during 2012/13 to validate its payroll records ahead of the move to new systems hosted by EMSS. Further work may be required (for which additional fee will be charged) if the assurance provided is insufficient.</p> <p><b>Accounts Payable</b></p> <p>We will assess the design and operation of controls in place during the year.</p> <p>Where control weaknesses remain, further substantive work will be required to provide sufficient assurance for the opinion (for which additional fee will be charged). We will discuss with the Authority the option of this work being delivered by Internal Audit.</p>

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

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

### 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 <b>financial resilience</b> .	The organisation has robust systems and processes to: <ul style="list-style-type: none"> <li>■ manage effectively financial risks and opportunities; and</li> <li>■ secure a stable financial position that enables it to continue to operate for the foreseeable future.</li> </ul>	<ul style="list-style-type: none"> <li>■ Financial governance</li> <li>■ Financial planning</li> <li>■ Financial control</li> </ul>
The organisation has proper arrangements for challenging how it <b>secures economy, efficiency and effectiveness</b> .	The organisation is prioritising its resources within tighter budgets, for example by: <ul style="list-style-type: none"> <li>■ achieving cost reductions; and</li> <li>■ improving efficiency and productivity.</li> </ul>	<ul style="list-style-type: none"> <li>■ Prioritising resources</li> <li>■ Improving efficiency and productivity</li> </ul>

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

**We have identified one risk which we will consider as part of our risk assessment.**

**We will provide an update on how the Authority is managing this risk in our ISA 260 Report.**

Risk	Our audit work
<p>As at December 2012, the Authority is forecasting that it will deliver its 2012/13 budget in overall terms. This includes a cost reduction programme totalling £19.3 million. The Authority reports that £6.9 million (36 percent) of these savings have been delivered to date .</p> <p>The Authority currently estimates that another £16.7 million in savings will need to be achieved during 2013/14 with the annual savings requirement increasing to £20.5 million by 2015/16 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.</p>	<p>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 funding reductions and that it is sufficiently robust to ensure that the Authority can continue to provide services effectively. We will also review how the Authority is planning and managing its savings plans.</p>

Your audit team has been drawn from our specialist public sector assurance department.

Contact details are shown on page 1.

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



Sue Sunderland  
**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 Audit Committee and Executive Directors.”



Paul Hutchings  
**Manager**

“I am responsible for the management, review and delivery of the whole audit and providing quality assurance for any technical accounting areas. I will work closely with Sue Sunderland to ensure we add value. I will liaise with Senior Finance Managers and the Chief Internal Auditor.”



Maria Riley  
**Assistant Manager**

“I will be responsible for the on-site delivery of our work. I will liaise with the Finance and Internal Audit Managers and their teams. I will also supervise the work of our audit assistants.”

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
<b>Planning</b>		
<b>External Audit Plan</b>	<ul style="list-style-type: none"> <li>■ Outline audit approach.</li> <li>■ Identify areas of audit focus and planned procedures.</li> </ul>	<b>February 2013</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> <li>■ Identify improvements required prior to the issue of the draft financial statements and the year-end audit.</li> </ul>	<b>July 2013</b>
<b>Substantive procedures</b>		
<b>Report to Those Charged with Governance (ISA 260 Report)</b>	<ul style="list-style-type: none"> <li>■ Details 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>■ Commentary on the Authority's value for money arrangements.</li> </ul>	<b>September 2013</b>
<b>Completion</b>		
<b>Auditor's report</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 VFM conclusion).</li> </ul>	<b>September 2013</b>
<b>Annual Audit Letter</b>	<ul style="list-style-type: none"> <li>■ Summarises the outcomes and the key issues arising from our audit work for the year.</li> </ul>	<b>November 2013</b>



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

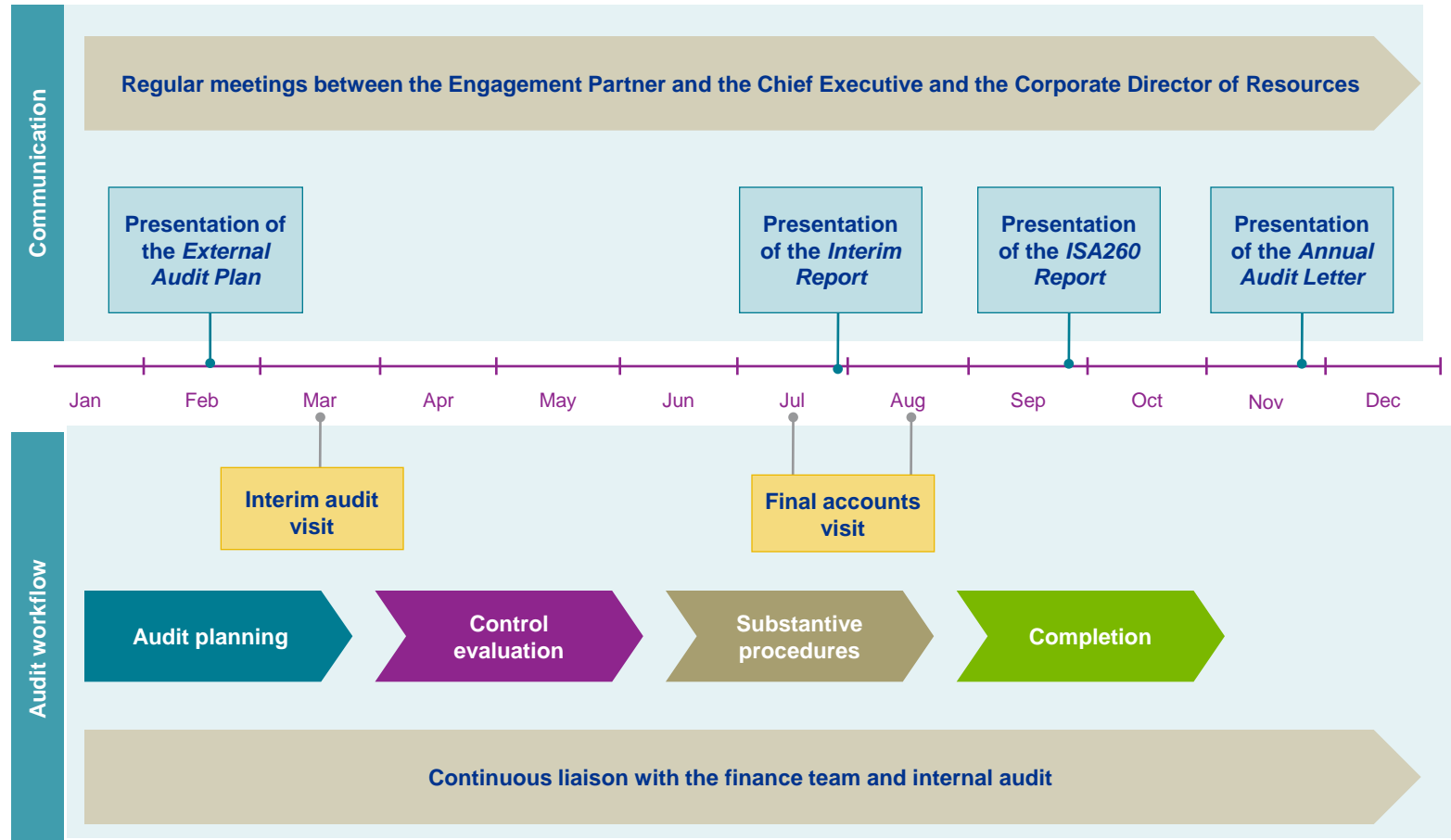
Key formal interactions with the Audit Committee are:

- February – Financial Statements Audit Plan;
- July – Interim Report;
- September – ISA 260 Report;
- November – 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 visits during March.
- Final accounts audit during July and August.



Key: ● Audit Committee meetings.

The main fee for 2012/13 audit of the Authority is £228,420. The fee has not changed from that set out in our *Audit Fee Letter 2012/13* issued in August 2012.

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 2012/13* issued to you in August 2012 first set out our fees for the 2011/12 audit. We have not considered it necessary to make any changes to the agreed fees at this stage.

Element of the audit	2012/13 (planned)	2011/12 (actual)
Gross audit fee	£228,420	£380,700

Our audit fee includes our work on the VFM conclusion and our audit of the Council's financial statements. The fee for 2012/13 is £228,420. This is a reduction of 40 percent compared to the 2011/12 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 2011/12;
- 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 2012/13* within your 2012/13 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 continues to achieve 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 Corporate Director of Resources. Specific fee arrangements have already been discussed and are in the process of being agreed to cover the provision of technical support for NET 2.

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 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.

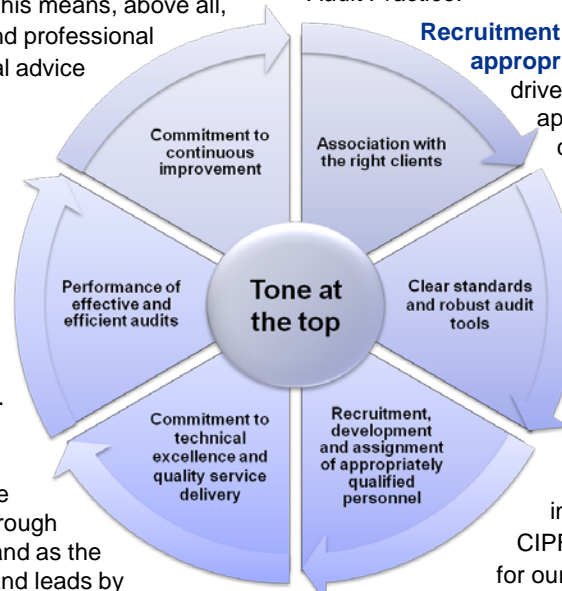
We believe it is important to be transparent about the processes that sit behind a KPMG audit report, so you can have absolute confidence in us and in the quality of our audit.

**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. Sue Sunderland 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 her 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.

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.

### **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](http://www.audit-commission.gov.uk/audit-regime/Pages/qualityreviewprocess_copy.aspx)). The latest report dated October 2012 showed that we performed highly against all the Commission's criteria.



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