Kettering Borough Council

2009/10 Financial Statements Audit Plan

February 2010
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 Saverio Della Rocca, who is the engagement director to the Authority, telephone 0121 335 2367, email saverio.dellarocca@kpmg.co.uk who will try to resolve your complaint. If you are dissatisfied with your response please contact Trevor Rees on 0161 236 4000, email 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. Their telephone number is 0844 798 3131, textphone (minicom) 020 7630 0421.

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 Authority. The table below summarises the work will do in response to the risks identified this year for the financial statements audit.

<table>
<thead>
<tr>
<th>Our Responsibility</th>
<th>Risks, Proposed work and output</th>
</tr>
</thead>
<tbody>
<tr>
<td>Financial Statements and Annual Governance Statement (page 4 onwards)</td>
<td>Key risks identified are as follows:</td>
</tr>
<tr>
<td></td>
<td>- Housing Revenue Account (HRA) balance – During the last five years, the balance on the Housing Revenue Account (HRA) has been falling (from £780k as at 31 March 2004 to £220k as at 31 March 2007). This downward trend was reversed at the end of the 2007/08 financial year as the balance increased to £299k. However, at the end of the 2008/09 financial year this balance had fallen to £105k.</td>
</tr>
<tr>
<td></td>
<td>- Town Centre Regeneration – The Authority is in the process of regenerating the Town Centre and bringing together a number of local services in the same location. This involves complex large value financial and land transactions which will have an impact on the financial statements.</td>
</tr>
<tr>
<td></td>
<td>- Equal Pay – The Authority continues to review its compliance with equal pay legislation and assess any potential risk exposure.</td>
</tr>
<tr>
<td></td>
<td>- Rent Assistance Scheme – During 2007/08 the Authority introduced the Rent Assistance Scheme, with the aim of assisting homeless households to secure accommodation in the private sector. During the 2008/09 financial statements audit we identified a number of issues relating to the overall management arrangements in place.</td>
</tr>
<tr>
<td></td>
<td>- IFRS restatement – the Authority is required to restate the balance sheet at 1 April 2009 to form the opening position in the 2010/11 accounts by early 2010;</td>
</tr>
<tr>
<td></td>
<td>- Valuation of assets – the Authority will need to review current market values for assets shown in the Balance sheet and have a robust mechanism for assessing the impact of the current economic climate and any impairment;</td>
</tr>
<tr>
<td></td>
<td>- Funding pressures – the Authority needs to ensure its Medium Term Financial Plan (MTFP) and reserves policy are robust against a backdrop of challenging savings targets and funding.</td>
</tr>
<tr>
<td>Our Responsibility</td>
<td>Risks, Proposed work and output</td>
</tr>
<tr>
<td>--------------------</td>
<td>-------------------------------</td>
</tr>
<tr>
<td>Financial Statements and Annual Governance Statement (page 4 onwards)</td>
<td>Our work will encompass:</td>
</tr>
<tr>
<td></td>
<td>● Review of how expenditure is charged to the HRA and monitor the Authority’s plans for maintaining the HRA balance in line with the Medium-Term Financial Strategy.</td>
</tr>
<tr>
<td></td>
<td>● Review of the accounting transactions related to the Town Centre regeneration project and review of the conditions attached to any grant funding received by the Authority to ensure that conditions are being met and that any unspent grant is disclosed appropriately on the Balance Sheet.</td>
</tr>
<tr>
<td></td>
<td>● Review of progress made in implementing Equal Pay including any potential impact on the financial statements (e.g. provisions).</td>
</tr>
<tr>
<td></td>
<td>● Review of progress made in implementing the recommendations raised in our Report to those charged with governance issued on 30th September 2009 in relation to the management arrangements in place for the Rent Assistance Scheme.</td>
</tr>
<tr>
<td></td>
<td>● Review of the controls over the completion of the accounts. We will rely on Internal Audit wherever possible to avoid duplication;</td>
</tr>
<tr>
<td></td>
<td>● A detailed audit of the financial statements, including a review of management judgements in relation to impairment, associated disclosure notes and the Annual Governance Statement;</td>
</tr>
<tr>
<td></td>
<td>● A review of the Authority’s MTFP and the impact on reserves; and</td>
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<tr>
<td></td>
<td>● A detailed review of the approach adopted by the Authority in restating its balances for IFRS and supporting evidence.</td>
</tr>
</tbody>
</table>

The findings of this work support the audit opinion that we issue on your financial statements.

The audit planning process and risk assessment is an on-going process and the assessment and fees in this plan will be kept under review and updated if necessary. The remainder of this document provides details of our risk assessment, proposed work and fees for our work on the financial statements audit. It supplements the high level audit plan issued on 30th April 2009.
Our audit approach

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

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

In addition to the Authority’s financial statements, we are also required to audit and provide an opinion on the Whole of Government Accounts.

Our Audit Process

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

<table>
<thead>
<tr>
<th>Stage</th>
<th>Activities</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Planning:</td>
</tr>
<tr>
<td></td>
<td>Perform risk assessment procedures and identify risks</td>
</tr>
<tr>
<td></td>
<td>Determine audit strategy</td>
</tr>
<tr>
<td></td>
<td>Determine planned audit approach</td>
</tr>
<tr>
<td>2</td>
<td>Control:</td>
</tr>
<tr>
<td></td>
<td>Understand accounting and reporting activities</td>
</tr>
<tr>
<td></td>
<td>Evaluate design and implementation of selected controls</td>
</tr>
<tr>
<td></td>
<td>Test operating effectiveness of selected controls</td>
</tr>
<tr>
<td></td>
<td>Assess control and misstatement risk</td>
</tr>
<tr>
<td>3</td>
<td>Substantive procedures:</td>
</tr>
<tr>
<td></td>
<td>Plan substantive procedures</td>
</tr>
<tr>
<td></td>
<td>Perform substantive procedures</td>
</tr>
<tr>
<td></td>
<td>Consider if audit evidence is sufficient and appropriate</td>
</tr>
<tr>
<td>4</td>
<td>Finalisation:</td>
</tr>
<tr>
<td></td>
<td>Perform completion procedures</td>
</tr>
<tr>
<td></td>
<td>Perform overall evaluation</td>
</tr>
<tr>
<td></td>
<td>Form an audit opinion</td>
</tr>
<tr>
<td></td>
<td>Resources Committee reporting</td>
</tr>
</tbody>
</table>

Monitoring and Audit Committee 20.04.10
Appendix C
Our audit approach (continued)

Our Audit Process (continued)

Risk based approach
We use a risk based approach to identify the key risks affecting the Authority. This approach is based on our knowledge of the Authority, our sector experience and our ongoing dialogue with Authority staff. From initial discussions with Finance, there are no significant concerns and our previous experience has shown that the Authority has strong closedown arrangements in place and has previously met all statutory deadlines.

Audit planning process
From the risks identified, we have identified the issues that will be the main focus of the audit (see page 8). Our audit strategy and plan will, however, remain flexible as the risks and issues change throughout the year.

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

Reliance on the work of internal audit
Wherever possible, during our audit we will seek to place reliance on the Authority’s high level controls, including the work undertaken by internal audit. This will minimise unnecessary duplication of work. To rely on the work of internal audit, we have regard to ISA 610 ‘Considering the Work of Internal Audit’ and will make arrangements to review the relevant internal audit working papers, follow up any issues which may arise and consider any changes from the original audit plan. We will undertake this review at the beginning of our interim audit visit.

Determining materiality
In accordance with ISA 320 ‘Audit Materiality’ we plan and perform our audit to provide reasonable assurance that the financial statements are free from material misstatement and give a true and fair view. The assessment of what is material is a matter of professional judgement and includes consideration of both the amount (quantity) and nature (quality) of misstatements.

We will report any uncorrected misstatements, other than those that we consider clearly trivial, to the Authority in accordance with the requirements of ISA 260.

Risk of fraud and error in the financial statements
We are required under ISA 240 (revised) ‘The Auditor’s Responsibility to Consider Fraud in an Audit of Financial Statements’ to consider fraud risk throughout the audit. In particular we must consider management arrangements for preventing and detecting fraud and error.

Fraud risks may include asset sales at under value, contractors over billing for works, misappropriation of assets and cheque frauds, as well as manipulation of financial results.

We will consider the use of computer assisted audit techniques (CAATS) to test the appropriateness of journal entries recorded in the general ledger.
### Interim audit visit
We will cover a range of areas during our planned interim visit including:

- Review of minutes from key meetings
- Review of risk management and corporate governance processes
- Review of register of interests
- Review of internal audit reports and scope
- IT systems overview

### Final audit visit
During our final accounts visit we will update the work done at the interim audit and carry out detailed testing of the balance sheet, income and expenditure account and transactions during the year. We have agreed with the Finance team to commence our final accounts visit on 5th July 2010.

### 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 Head of Finance, the Finance team and the Monitoring & Audit Committee. Our deliverables are included on page 13.

To comply with auditing standards, the following three types of audit differences will be presented to the Monitoring & Audit Committee:

- summary of adjusted audit differences;
- summary of unadjusted audit differences; and
- summary of disclosure differences (adjusted and unadjusted).

### Whole of government accounts (WGA)
KPMG are required to review and report on your WGA consolidation pack in accordance with the approach agreed with HM Treasury and the National Audit Office. The 2009/10 WGA consolidated pack will need to be produced in accordance with both the 2009 Statement of Recommended Practice (SORP) and International Financial Reporting Standards (IFRS).
Our audit approach (continued)

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

Certification of grant claims and returns
KPMG will continue to certify the Authority’s claims and returns on the following basis:
- claims below £100,000 will not be subject to certification;
- claims between £100,000 and £500,000 will be subject to a reduced, light-touch certification; and
- claims over £500,000 will be subject to a certification approach relevant to the auditor’s assessment of the control environment and management preparation of claims. A robust control environment would lead to a reduced certification approach for these claims.

Elector Challenge
The Audit Commission Act 1998 gives electors certain rights. These are:
- the right to inspect the accounts;
- the right to ask the auditor questions about the accounts; and
- the right to object to the accounts.

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

<table>
<thead>
<tr>
<th>KEY audit risk</th>
<th>Impact on audit plan</th>
</tr>
</thead>
</table>
| **HRA Balance** | - Housing Revenue Account (HRA) Balance  
  - We will look at how expenditure is charged to the HRA and monitor the Council’s plans for maintaining the HRA balance in line with the Medium-Term Financial Strategy and have regard to the Council’s improvement plan for addressing areas of repairs and maintenance over spend. We shall consider this when carrying out the audit of the HRA.  
  - This work is also relevant to KLOE 1.1 and will be considered as part of the 2010 Use of Resources assessment. |
| **Town Centre Regeneration** | - Town Centre Regeneration  
  - We will review the accounting transactions related to this project and continue to monitor the Council’s arrangements for managing the risks associated with this project and how this contributes to the Council’s overall objectives.  
  - When carrying out the audit tests in relation to capital expenditure we will review the conditions attached to grant funding received by the Authority to ensure that conditions are being met and that any unspent grant is disclosed appropriately on the Balance Sheet.  
  - This work is also relevant to KLOE 2.1 and KLOE 2.4 and will be considered as part of our 2010 Use of Resources assessment. |
| **Equal Pay** | - Equal Pay  
  - We will continue to monitor progress made in this area including any potential impact on the financial statements and consider the adequacy of any associated provisions recognised in the financial statements. |

For the key risk audit areas we have outlined the impact on our audit plan. We will provide updates to the Monitoring & Audit Committee on how risks are being managed.
### Key audit risks (continued)

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

We will provide updates to the Monitoring & Audit Committee on how risks are being managed.

<table>
<thead>
<tr>
<th>KEY audit risk</th>
<th>Impact on audit plan</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Rent Assistance Scheme</strong></td>
<td><strong>Rent Assistance Scheme</strong></td>
</tr>
<tr>
<td>- Audit areas affected</td>
<td></td>
</tr>
<tr>
<td>- Balance Sheet</td>
<td></td>
</tr>
<tr>
<td>- We will review the progress made in implementing the recommendations raised in our Report to those charged with governance issued on 30th September 2009 in relation to the management arrangements in place for the scheme.</td>
<td></td>
</tr>
<tr>
<td><strong>IFRS Restatement</strong></td>
<td><strong>IFRS Restatement</strong></td>
</tr>
<tr>
<td>- Audit areas affected</td>
<td></td>
</tr>
<tr>
<td>- Balance Sheet</td>
<td></td>
</tr>
<tr>
<td>- We will review the Authority’s progress in restating the Balance Sheet as at 1st April 2009 under International Financial Reporting Standards (IFRS).</td>
<td></td>
</tr>
</tbody>
</table>
Audit Team

Our audit team is unchanged from last year. Contact details are shown on page 1.
The audit team will be assisted by other specialist KPMG staff as necessary.

<table>
<thead>
<tr>
<th>Name</th>
<th>Position</th>
<th>Responsibilities</th>
</tr>
</thead>
<tbody>
<tr>
<td>Saverio Della Rocca</td>
<td>Engagement Lead</td>
<td>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 Monitoring &amp; Audit Committee and the Chief Executive.</td>
</tr>
<tr>
<td>Debbie Stokes</td>
<td>Manager</td>
<td>I will direct and help coordinate the audit and will work closely with Saverio Della Rocca to ensure we add value. I will be the main contact for the Head of Finance, the Senior Management Team and other Executive Directors.</td>
</tr>
<tr>
<td>Claire Adams</td>
<td>Assistant Manager</td>
<td>I will be your day to day contact and will work closely with Debbie Stokes to deliver a co-ordinated and efficient audit. I will be the main contact for the Finance team and the Authority’s Internal Audit Manager and Principal Auditor.</td>
</tr>
</tbody>
</table>

Our audit team is unchanged from last year. Contact details are shown on page 1.
The audit team will be assisted by other specialist KPMG staff as necessary.
Audit Fees

The audit fee has increased slightly from that agreed in the audit fee letter issued on 30th April 2009. The estimate for the certification of 2009/10 grant claims has been revised to reflect the actual fee charged for our 2008/09 certification.

Our fee is calculated with reference to a number of factors including your turnover and our assessment of audit risk and control environment. The increase over 2008/09 is 1%, in line with Audit Commission expectations. This fee was included in the audit fee letter agreed earlier in the year.

<table>
<thead>
<tr>
<th>Element of the audit</th>
<th>2009/10</th>
<th>2008/09</th>
</tr>
</thead>
<tbody>
<tr>
<td>Audit of Financial Statements</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Accounts (Systems and Final)</td>
<td>£65,500</td>
<td>£61,200</td>
</tr>
<tr>
<td>Use of Resources</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Use of Resources/ VFM Conclusion</td>
<td>£39,500</td>
<td>£45,800</td>
</tr>
<tr>
<td>National Fraud Initiative</td>
<td>£1,000</td>
<td>£1,000</td>
</tr>
<tr>
<td>Whole of Government Accounts</td>
<td>£3,000</td>
<td>£3,000</td>
</tr>
<tr>
<td>SUB-TOTAL</td>
<td>£109,000</td>
<td>£111,000</td>
</tr>
<tr>
<td>Certification of grant claims (estimate based on 2008/09 fee)</td>
<td>£35,000</td>
<td>£33,190</td>
</tr>
<tr>
<td>TOTAL</td>
<td>£144,000</td>
<td>£144,190</td>
</tr>
</tbody>
</table>

The audit fee has increased slightly from that agreed in the audit fee letter issued on 30th April 2009. The estimate for the certification of 2009/10 grant claims has been revised to reflect the actual fee charged for our 2008/09 certification.

To enable you to benchmark our agreed fee 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.

<table>
<thead>
<tr>
<th>Source of fee comparative / benchmark</th>
<th>£</th>
</tr>
</thead>
<tbody>
<tr>
<td>Audit Commission suggested mid-point fee</td>
<td>£102,461</td>
</tr>
<tr>
<td>2009/10 audit fee</td>
<td>£109,000</td>
</tr>
</tbody>
</table>

The fee proposed for 2009/10 is 6.3% per cent above the Audit Commissions’ suggested mid-point fee. This is because of a number of risk areas, as highlighted on page 7, where we will be undertaking additional work. In setting the fee at this level, we have assumed that the general level of risk in relation to the audit of the financial statements is greater than that identified in 2008/09.

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Audit Fees (continued)

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

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

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

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

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

If changes to this plan and the audit fee are required, we will discuss and agree these initially with the Head 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 Authority’s officers prior to publication.

**Deliverable** | **Purpose** | **Timing**
--- | --- | ---
Planning (January – March 2010) | ● Outline audit approach  ● Identify areas of audit focus and planned procedures  ● Confirm plan with Monitoring & Audit Committee | January 2010  January 2010  March 2010

Interim (February - March 2010) | ● Details and resolution of control and process issues | March 2010

Year end audit (July 2010) | | |

<table>
<thead>
<tr>
<th>Deliverable</th>
<th>Purpose</th>
<th>Timing</th>
</tr>
</thead>
<tbody>
<tr>
<td>Report to those charged with governance (ISA 260)</td>
<td>● Auditor’s report on Kettering Borough Council’s financial statements  ● Auditor’s report on Kettering Borough Council’s value for money  ● Auditor’s report on Kettering Borough Council’s use of resources  ● Detail the resolution of key audit issues  ● Communication of adjusted and unadjusted audit differences  ● Performance improvement recommendations identified during our audit</td>
<td>September 2010</td>
</tr>
<tr>
<td>Opinion on financial statements</td>
<td></td>
<td>September 2010</td>
</tr>
<tr>
<td>Annual audit letter</td>
<td>● Presentation to the Monitoring &amp; Audit Committee</td>
<td>December 2010</td>
</tr>
<tr>
<td>Grants certification (February - December 2010)</td>
<td>● Presentation to the Monitoring &amp; Audit Committee</td>
<td>January 2011</td>
</tr>
</tbody>
</table>
Key formal interactions with the Monitoring & Audit Committee are:

- March: Financial Statements Audit Plan
- June: Interim Report
- September: ISA 260 Report
- December: Annual Audit Letter
- January: Certification of Grants and Returns

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

Audit Timeline & Deliverables (continued)

Regular meetings between Chief Executive, Deputy Chief Executive and Engagement Director

<table>
<thead>
<tr>
<th>Date</th>
<th>Event Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dec</td>
<td>Planning and risk assessment</td>
</tr>
<tr>
<td>Mar</td>
<td>Undertake control testing (including IT and regulatory controls)</td>
</tr>
<tr>
<td></td>
<td>Issue PBC</td>
</tr>
<tr>
<td>June</td>
<td>Monitoring &amp; Audit Committee reporting</td>
</tr>
<tr>
<td>July</td>
<td>Year end audit procedures</td>
</tr>
<tr>
<td>Sept</td>
<td>Sign audit opinion Regulatory audit</td>
</tr>
<tr>
<td>Oct</td>
<td>Issue ISA 260 Report</td>
</tr>
<tr>
<td>Nov</td>
<td>Issue Annual Audit Letter</td>
</tr>
<tr>
<td>January</td>
<td>Audit debrief with management</td>
</tr>
</tbody>
</table>

Audit workflow

- Planning
- Controls evaluation
- Substantive testing
- Completion

Continuous liaison with Internal Audit

= Monitoring & Audit Committee meetings

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Audit workflow

- Planning
- Controls evaluation
- Substantive testing
- Completion

Continuous liaison with Internal Audit

= Monitoring & Audit Committee meetings
Appendix 1: Meeting your expectations

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 Debbie Stokes.
- 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 Officers.
- Saverio Della Rocca or Debbie Stokes will attend all relevant Monitoring & Audit Committee meetings and ensure that other relevant KPMG staff are invited as appropriate.

Working together
- We will ensure that the Head of Finance 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 Authority 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 Authority
- 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 Authority’s accounts.
- We will respond promptly to requests for comment on aspects of the Authority’s operations, where appropriate.

Our expectations of your support

Audit Plan
- Brief our staff on key issues affecting the Authority.
- 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.
- Undertake a quality review of the financial statements and supporting working papers prior to final submission to us.
- 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 Resources Committee.
- Ensure that all action plans are agreed and followed up in due course.

Other work
- Agree a key Authority 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

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: 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.