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Kettering Borough Council Financial Statements Audit Plan 2010/11

27 January 2011

AUDIT



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The contacts at KPMG in connection with this report are:

Sav Della Rocca, *Engagement Lead*

Tel: +44 (0) 121 335 2367

Saverio.dellarocca@kpmg.co.uk

Debbie Stokes, *Manager*

Tel: +44 (0) 121 232 3879

deborah.stokes@kpmg.co.uk

Claire Adams, *Assistant Manager*

Tel: +44 (0) 121 232 3219

claire.adams@kpmg.co.uk

This report is addressed to the Authority and has been prepared for the sole use of the Authority. We take no responsibility to any member of staff acting in their individual capacities, or to third parties. The Audit Commission has issued a document entitled Statement of Responsibilities of Auditors and Audited Bodies. This summarises where the responsibilities of auditors begin and end and what is expected from the audited body. We draw your attention to this document.

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 DellaRocca, 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 email to: complaints@audit-commission.gov.uk. Their telephone number is 0844 798 3131, textphone (minicom) 020 7630 0421

1. Introduction

Our audit is divided into:

- use of resources; and
- financial statements;

This document describes how we will deliver our financial statements audit work for Kettering Borough Council and summarises the audit risks identified in our audit fee letter issued on 29th March 2010 (which have been refreshed to account for new risks).

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

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

- *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); and
- *financial statements (including the Statement on Internal Control)*: providing an opinion on your accounts.

The table below summarises the work we will do this year.

Our Responsibility	Proposed work and output
Use of Resources	<p>From 2010/11, auditors will give their statutory VFM conclusion based on two reporting criteria specified by the Audit Commission which consider whether the Authority has proper arrangements for:</p> <ul style="list-style-type: none"> ● securing financial resilience; and ● challenging how it secures economy, efficiency and effectiveness. <p>Our work will therefore centre around assessing the Authority’s arrangements in these areas. As part of our planning process, we will determine any additional work we need to do to inform our value for money conclusion.</p> <p><i>The conclusions of this work will inform our value for money conclusion.</i></p>
Financial Statements and Statement on Internal Control	<ul style="list-style-type: none"> ● We will complete our systems and governance audit to confirm the controls in place to facilitate the production of the annual accounts. We will liaise closely with the Head of Finance and the finance team in respect of emerging accounting issues during the year. ● We will then undertake our detailed audit of the financial statements. We have highlighted on pages 7 and 8 the key risks for our audit which include IFRS restatement, funding pressures, Town Centre Regeneration and Equal Pay. <p><i>The judgements from this work will be presented in the audit opinion included within your financial statements which will be issued in September 2011.</i></p>

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 presented earlier in the year.

2. Financial Statements Audit

We undertake our work on your financial statements and Annual Governance Statement (AGS) in four key stages.

Our work results in our audit opinion on your financial statements.

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 (WGA).

Our Audit Process

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



2. Financial Statements Audit (continued)

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

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 the finance team, 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 pages 7 to 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. Additionally, the Fraud Act 2006 and the Government Review of Fraud 2006 may impact on your responsibilities to manage fraud. 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.

2. Financial Statements Audit (continued)

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

Interim audit visit

We will cover a range of areas during our planned interim visit including:

- Review of minutes from key meetings
- Review of register of interests
- Review of internal audit reports and scope
- IT systems overview
- IT General Controls review
- Systems and compliance work, including review of key reconciliations and credit control
- Progress on implementing external audit recommendations from the prior year
- Fraud risk (ISA 240) assessments and review of the findings from internal audit's pro-active fraud work

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. A convenient date in July 2011 will be agreed with the Finance team.

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 19.

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 2010/11 WGA consolidated pack will need to be produced in accordance with both the 2010 Statement of Recommended Practice (SORP) and International Financial Reporting Standards (IFRS).

2. Financial Statements Audit (continued)

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

International Financial Reporting Standards (IFRS)

KBC are required to implement IFRS, moving away from UK GAAP for 2010/11 financial statements. We will continue to work closely with the finance team to ensure the smooth transition to IFRS. We will audit the restated 2009/10 balances prior to the final visit in order to provide early assurance on key aspects of your IFRS migration work, identify any issues on a timely basis and also ensure some accounting and audit effort is brought forward to alleviate the busy closedown and final accounts audit season over the summer.

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:

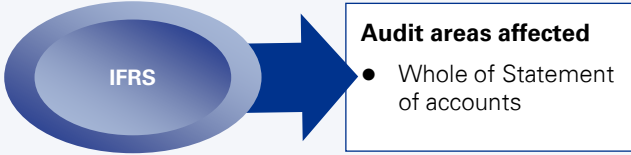
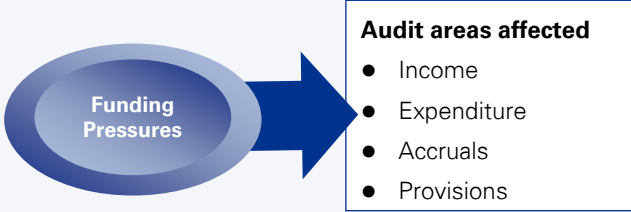
- the right to inspect the accounts;
- the right to ask the auditor questions about the accounts; and
- the right to object to the accounts.

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.

3. Key Financial Statements Audit Risk

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

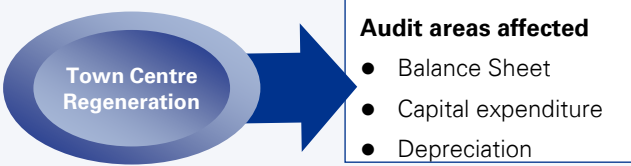
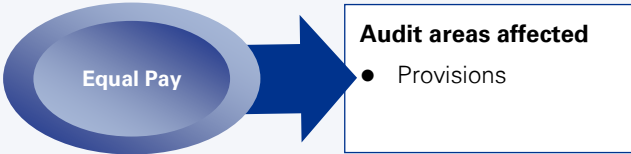
We will provide an update to the Monitoring & Audit Committee on these risk issues.

Key audit risks	Impact on audit plan
 <p>Audit areas affected</p> <ul style="list-style-type: none"> ● Whole of Statement of accounts 	<p>International Financial Reporting Standards (IFRS)</p> <p>The introduction of IFRS into the public sector will present many challenges and accounting issues.</p> <p>We will audit:</p> <ul style="list-style-type: none"> ● The restated opening balance sheet as at 1 April 2009; ● The restated 2009/10 statement of accounts; and ● The 2010/11 statement of accounts prepared under IFRS.
 <p>Audit areas affected</p> <ul style="list-style-type: none"> ● Income ● Expenditure ● Accruals ● Provisions 	<p>Funding Pressures</p> <p>Following the results of the Comprehensive Spending Review and grant funding allocation (published in December 2010), the Authority is under pressure to balance its budget. There is an increased risk that expenditure may be deferred or incorrectly capitalised, income and expenditure incorrectly stated as a means of improving the Authority's financial position.</p> <p>We will audit:</p> <ul style="list-style-type: none"> ● The cut-off arrangements applied to transactions processed around the financial year-end to ensure the correct treatment has been applied; ● The validity of accruals included in the year-end creditors figure; ● The accuracy of any provisions included in the statement of accounts; and ● The validity of the Authority's capitalisation policy for fixed asset additions to ensure that only expenditure that is directly attributable is capitalised.

3. Key Financial Statements Audit Risk (continued)

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

We will provide an update to the Monitoring & Audit Committee on these risk issues.

Key audit risks	Impact on audit plan
	<p>Town Centre Regeneration</p> <p>The Authority is 3 years into its Town Centre regeneration project. To date a number of schemes have been completed, namely Kettering Market Place. In light of government funding cuts, the Authority is having to revise the number of schemes it will support financially. The schemes involve complex large value financial and land transactions which have an impact on the financial statements.</p> <ul style="list-style-type: none"> • We will continue to monitor whether the Authority has secured sufficient grant funding to complete all the schemes that have commenced; • We will continue to monitor the Authority's process for critically appraising which schemes to support to ensure that only those schemes that are financially viable are progressed; and • The Authority is part-way through the development of the Kettering Restaurant Quarter which includes the construction of a range of retail units and flats. The Authority is in the process of deciding whether to lease or sell the units to third parties. We will review the decision-making process adopted by the Authority to ensure that value for money is obtained.
	<p>Equal Pay</p> <p>The Authority needs to continue to review its compliance with equal pay legislation and assess any potential risk exposure in light of recent case law.</p> <ul style="list-style-type: none"> • During our interim review, we will meet with the Head of HR to assess the Authority's current position and the likelihood of any potential Equal Pay claims being lodged against the Authority; and • Following these discussions, we will review the adequacy of any provisions included in the statement of accounts.

4. 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 KPMG specialists as necessary.



Saverio Della Rocca
Engagement Lead

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 & Audit Committee and the Chief Executive.



Debbie Stokes
Manager

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 and other executive directors.



Claire Adams
Assistant Manager

I will be your day to day contact and will work closely with Debbie Stokes to deliver a co-ordinated and efficient audit.

4. Audit Team (continued)

Our independence and objectivity responsibilities under the Code are summarised in Appendix B.

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 ISA defines '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 2011, in our professional judgement, KPMG LLP is independent within the meaning of regulatory and professional requirements and the objectivity of the Appointed Auditor and audit team is not impaired.

5. Audit Fees

The audit fee has changed from that agreed in the high level audit strategy earlier in the year, due to the additional work required as a result of the introduction of IFRS.

Our fee is calculated with reference to a number of factors including your turnover and our assessment of audit risk and the control environment. The increase over 2009/10 is 8.3%, in line with the Audit Commission's expectations. This fee was included in the audit fee letter agreed earlier in the year.

Element of the audit	2010/11	2009/10
Total fee for the audit	124,000	109,000
Of which:		
Financial statements audit (systems and final)	67,500	65,500
Audit of IFRS-compliant restated 2009/10 financial statements	7,000	-
Whole of Government Accounts	3,000	3,000
National Fraud Initiative	2,000	1,000
Certification of claims and returns (estimate)	40,000	35,000
TOTAL	164,000	144,000

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 mid-point fee	£104,650
2010/11 audit fee	£124,000

The fee proposed for 2010/11 is 18% per cent above the Audit Commissions' suggested mid-point fee. This is because of a number of risk areas, as highlighted on pages 7 to 8, 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 slightly higher than that identified in 2009/10.

However, in recognition of the financial pressures that public bodies are facing, the Audit Commission has subsidised the 'one-off' element of the cost of transition to International Financial Reporting Standards (IFRS) for local authorities. As such, you received a rebate of £6,555.

5. Audit fees (continued)

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

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

Audit fee assumptions

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

- the level of risk in relation to the audit of the financial statements is slightly higher than that identified for 2009/10;
- you will inform us of any significant developments impacting on our audit;
- you will identify and implement any changes required under the CIPFA SORP and the Code of Practice on Local Authority Accounting in the United Kingdom within your 2010/11 financial statements;
- your financial statements are made available for audit in line with the agreed timescales;
- you will make available the restated 2009/10 figures in line with the agreed timescales and ensure they are in line with IFRS requirements;
- 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.

6. Audit Timeline and 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.

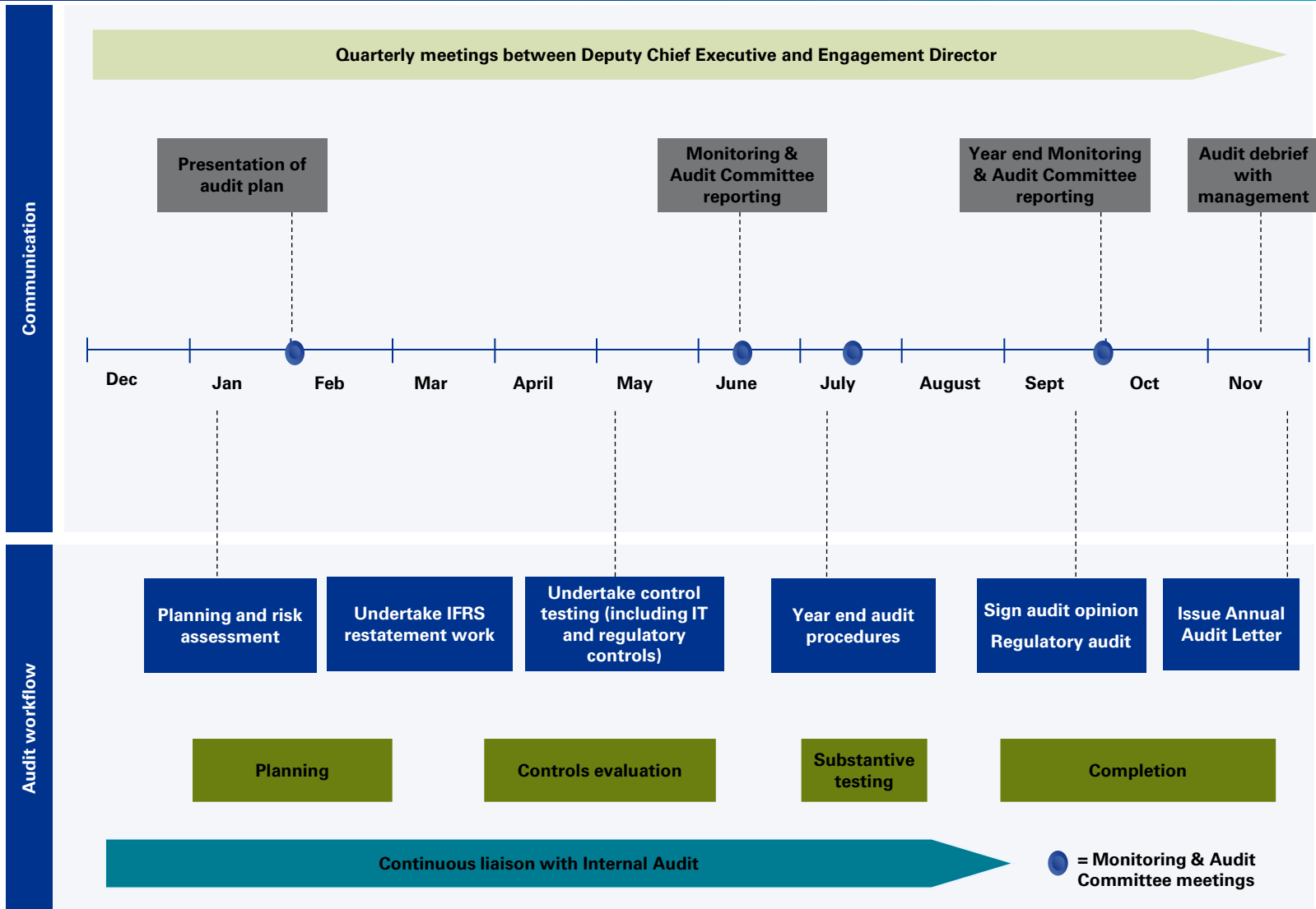
Deliverable	Purpose	Timing
Planning		
Audit plan	<ul style="list-style-type: none"> ● Outline audit approach ● Identify areas of audit focus and planned procedures ● Confirm plan with Monitoring & Audit Committee 	March 2010 February 2010 March 2011
Interim		
Interim report	<ul style="list-style-type: none"> ● Details and resolution of control and process issues ● Presentation to the Monitoring & Audit Committee 	June 2011
Report on restated 2009/10 figures	<ul style="list-style-type: none"> ● Feedback on audit work undertaken on 2009/10 restated balances in line with IFRS ● Identify areas of improvement to ensure 2010/11 financial statements are fully compliant with IFRS 	June 2011
Year end audit		
Report to those charged with governance (ISA 260)	<ul style="list-style-type: none"> ● Auditor's report on Kettering Borough Council's value for money ● Detail the resolution of key audit issues ● Communication of adjusted and unadjusted audit differences ● Performance improvement recommendations identified during our audit 	September 2011
Opinion on financial statements	<ul style="list-style-type: none"> ● Auditor's report on Kettering Borough Council's financial statements 	September 2011
Annual audit letter	<ul style="list-style-type: none"> ● Presentation to the Monitoring & Audit Committee 	December 2011
Grants certification (May - December 2011)		
Certification of Grants and Returns	<ul style="list-style-type: none"> ● Presentation to the Monitoring & Audit Committee 	February 2012

6. Audit Timeline & Deliverables (continued)

Key formal interactions with the Monitoring & Audit Committee are:

- February: Annual Audit plan
- June: Interim issues
- September: Year end conclusions
- December: Certification of Grants and Returns and Annual Audit Letter

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



Appendix A: 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, by the individual concerned, Debbie Stokes or Claire Adams.

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.

Saverio Della Rocca or Debbie Stokes will attend 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 Group Accountants 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.

Annual Audit Letter

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

IFRS

- Ensure a full set of 2009/10 restated figures compliant with IFRS are available to audit in good time prior to the final visit.

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 B: 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 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 C: Quality assurance and technical capacity

We continually focus on delivering a high quality audit. This means building robust quality control procedures into the core audit process rather than bolting them on at the end, and embedding the right attitude and approaches into management and staff. Quality must build on the foundations of well trained staff and a robust methodology. The diagram summarises our approach and each level is expanded upon below.

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

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

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

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

Our quality review results

We are able to evidence the quality of our audits through the results of National Audit Office and Audit Commission reviews. The results of the Audit Commission's annual quality review process is made publicly available each year (www.audit-commission.gov.uk/reports/). The latest report dated October 2010 showed that we performed highly against all the Commission's criteria.



Appendix C: Quality assurance and technical capacity (continued)

Resolving Accounting and Financial Report Issues and Emerging Issues with the Independent Regulator

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

- A national public sector technical director (based in our London office) who has responsibility for co-ordinating our response to emerging accounting issues, influencing accounting bodies (such as CIPFA and the Audit Commission) as well as acting as a sounding board for our auditors.
- A national technical network of public sector audit professionals (that meets on a quarterly basis) and is chaired by our national technical director.
- All of our staff have a searchable data base, Accounting Research Online, that includes all published accounting standards, the KPMG Audit Manual Guidance as well as other relevant sector specific publications, such as the Audit Commission's Code of Audit Practice.
- A dedicated Department of Professional Practice comprised of over 100 staff that provide support to our audit teams and deliver our web-based bi-monthly technical training.

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



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