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 Philip Johnstone, the appointed engagement lead to the Council, who will try to resolve your complaint. If you are dissatisfied with your response please contact Trevor Rees on 0161 246 4000, or by email to trevor.rees@kpmg.co.uk, who is the national contact partner for all of KPMG’s work with the Audit Commission. After this, if you are still dissatisfied with how your complaint has been handled you can access the Audit Commission’s complaints procedure. Put your complaint in writing to the Complaints Unit Manager, Audit Commission, Westward House, Lime Kiln Close, Stoke Gifford, Bristol, BS34 8SR or by email to complaints@audit-commission.gov.uk. Their telephone number is 0844 798 3131, textphone (minicom) 020 7630 0421.
Section one
Introduction

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 sent to you in August 2012. It describes how we will deliver our financial statements audit work for London Borough of Barking and Dagenham ('the Council'). It also sets out our approach to value for money (VFM) work for 2012/13.

The scope of this plan does not include the Council's Pension Fund (see right).

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 Council.

Pension Fund audit

We will issue an Accounts audit protocol that will give the timetable for our audit, and a list of documents that we will require in order to complete our audit.

We will follow this up with a meeting with the Pensions Finance Manager to discuss our requirements and any other queries.

Our only formal report is the report to those charged with governance which we will present to the Public Accounts and Audit Select Committee (PAASC) in September 2013.

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 a number of key risks that we will focus on during the audit of the 2012/13 financial statements.

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

Property Plant and Equipment (PPE)

- The Council maintains a PPE portfolio valued at £1,394 million at 31 March 2012, and is managing a large capital programme in 2012/13 with expenditure projected to exceed £100 million allowing for slippage.
- The valuation of PPE is an estimate and subject to significant levels of professional judgement informed by economic conditions. The high values involved raise the level of risk particularly in relation to valuation and impairments.
- This is a complex area due to the impact of capital financing and the related accounting transactions.

- We will review the controls the Council has in place to determine its property, plant and equipment balances, including instructions and information provided to the Council’s valuers.
- We will agree the PPE balances to valuers’ reports.

Financial resilience

- In common with many public sector bodies, the Council is tackling a range of measures to retain financial balance in 2012/13 and future years. The Council is currently delivering savings totalling £18 million in 2012/13 and officers project that net expenditure will be contained within budget and a small contribution made to the General Fund reserve at year end.
- As Members are aware, austerity measures continue in 2013/14 and beyond, and as the Council prepares to retain its Council Tax level for the fifth successive year, a further £17 million of savings will be required in 2013/14 to address further reductions to local authority funding and continued cost pressures.
- The Council will need to establish and manage its savings plans to secure longer term financial and operational sustainability and ensure that any related liabilities are accounted for in its 2012/13 financial statements as appropriate.

- We will assess the controls the Council has in place to maintain a sound financial standing and review future financial plans and the delivery of its savings plans.
- We will also review the Council’s assessment of potential liabilities and any provisions in its 2012/13 financial statements.
Section three
Our audit approach

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

1. **Planning** (January to March)
   - Update our business understanding and risk assessment.
   - Assess the organisational control environment.
   - Determine our audit strategy and plan the audit approach.
   - Issue our *Accounts Audit Protocol*.

2. **Control evaluation** (March to April)
   - Evaluate and test selected controls over key financial systems.
   - Review the internal audit function.
   - Review the accounts production process.
   - Review progress on critical accounting matters.

3. **Substantive procedures** (July to August)
   - Plan and perform substantive audit procedures.
   - Conclude on critical accounting matters.
   - Identify audit adjustments.
   - Review the Annual Governance Statement.

4. **Completion** (September)
   - Declare our independence and objectivity.
   - Obtain management representations.
   - Report matters of governance interest as appropriate.
   - Form our audit opinion.

Jan Feb Mar Apr May Jun Jul Aug Sep
Section three
Our audit approach - planning

During January to March 2013 we complete our planning work.

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

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

We determine our audit strategy and approach, and agree a protocol for the accounts audit, specifying what evidence we expect from the Council to support the financial statements.

Our planning work takes place from January to March 2013. This involves the following aspects:

- 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 Council’s operations and identify any areas that will require particular attention during our audit of the financial statements.

We identify the key risks affecting the financial statements. These are based on our knowledge of the Council, our sector experience and our ongoing dialogue with staff. The risks identified to date are set out in this document. Our audit strategy and plan will, however, remain flexible as the risks and issues change throughout the year. It is the Council’s responsibility to adequately address these issues. We encourage the Council to raise any technical issues with us as early as possible so that we can agree the accounting treatment in advance of the audit visit.

We meet with the finance team as appropriate 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 the work of your internal auditors also informs our risk assessment.

The Council relies on information technology (IT) to support both financial reporting and internal control processes. In order to satisfy ourselves that we can rely on the use of IT, we test controls over access to systems and data, system changes, system development and computer operations. Whilst we undertake some general IT controls work, we also focus on testing the specific applications and reports that are pivotal to the production of the financial statements.

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.

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 Council to provide during our interim and final accounts visits.

We met with the finance team to discuss mutual learning points from the 2011/12 audit, undertaken by the Audit Commission’s in house Audit Practice. These will be incorporated into our work plan for 2012/13. We revisit progress against areas identified for development as the audit progresses.
Our interim visit on site will be undertaken in March and April 2013. During this time we will complete work in the following areas:

- 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 Council’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 Internal Audit 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 met with the Head of Internal Audit to discuss the principles and timetables for co-operation for 2012/13.

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 feedback as appropriate to the Head of Internal Audit at the end of our interim visit.

Accounts production process
The Audit Commission raised a number of recommendations in its Report to Those Charged with Governance (ISA 260 Report) 2011/12 relating to the accounts production process. The most significant of these were to:
- The timely preparation control accounts and their sign off. In particular those controls relating to cash, payroll and investments and:
- Delivery of the future capital programme on a timely basis.
- Following the departure of the Chief Executive and Corporate Director of Finance and Resources reviewing the managerial capacity to deliver on the Council’s priority areas

We will assess the Council’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 PAASC meeting in June.
Section three
Our audit approach – substantive procedures

During July and 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 PAASC in September 2013.

Our final accounts visit on site has been provisionally scheduled for the period July and August 2013. During this time, we will complete the following work:

- 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 Council’s control environment, the effectiveness of controls over individual systems and the management of specific risk factors.

**Critical accounting matters**
We conclude our testing of the key risk areas as identified at the planning stage and any additional issues that may have emerged since. We will discuss our early findings of the Council’s approach to address the key risk areas with the Director of Finance in September 2013, prior to reporting to the PAASC.

**Audit adjustments**
During our on site work, we will meet with key Council finance staff regularly 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 PAASC. 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 present to the PAASC in September 2013.
Section three

Our audit approach - other

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 are 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 PAASC. Our deliverables are included on page 17.

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.
Section three
Our audit approach - other

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 February 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.
## Section four

### Key financial statements audit risks

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

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

<table>
<thead>
<tr>
<th>Key audit risks</th>
<th>Impact on audit</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Risk</strong>&lt;br&gt;As at February 2012, the Council is forecasting that it will deliver its 2012/13 budget in overall terms. This includes a savings programme totalling £18 million. The Council reports that it is on track to deliver these savings. The Council currently projects that another £17 million in savings will need to be achieved during 2013/14 and a further £7 million by 2014/15 to address reductions to local authority funding. Against a backdrop of continued demand pressures in Adult Social Care, Children’s Services and Housing and Finance, it will become more and more difficult to deliver these savings in a way that secures longer term financial and operational sustainability. If there are any related liabilities at year end, these will need to be accounted for in the 2012/13 financial statements as appropriate.</td>
<td></td>
</tr>
<tr>
<td><strong>Audit areas affected</strong>&lt;br&gt;Savings plans&lt;br&gt;- Reserves and balances&lt;br&gt;- Provisions</td>
<td><strong>Our audit work</strong>&lt;br&gt;In conjunction with our VFM work we will critically assess the controls the Council has in place to ensure a sound financial standing, specifically that its Medium Term Financial Plan takes into account the potential funding reductions and financial impact of changes in legislation. We will also review how the Council is planning and managing its savings plans. As part of our final accounts audit we will review the Council’s assessment of any potential liabilities arising from its savings plans against the <em>Code</em>. If applicable, we will review the Council’s provisions, including the methodology, assumptions and calculations.</td>
</tr>
</tbody>
</table>
Section four
Key financial statements audit risks (continued)

For each key risk area we have outlined the impact on our audit plan.
We will provide an update on how the Council is managing these risks in our Interim Audit Report.

<table>
<thead>
<tr>
<th>Key audit risks</th>
<th>Impact on audit</th>
</tr>
</thead>
<tbody>
<tr>
<td>Property, Plant and Equipment</td>
<td>Risk</td>
</tr>
<tr>
<td>Audit areas affected</td>
<td>The valuation of PPE is an estimate and subject to significant judgement. The high values involved raise the level of risk specifically around valuation and impairment. We will review how the council values these assets and the instructions issued to the valuer.</td>
</tr>
<tr>
<td>Income and expenditure</td>
<td></td>
</tr>
<tr>
<td>Assets and Reserves</td>
<td>In addition to the above, the high level of capital spend in the year by the Council amounts to £103 million for 2012/13. The estimated capital programme for 2013/14 is £157 million. We need to ensure that this level of spend follows the council protocols and safeguards.</td>
</tr>
<tr>
<td></td>
<td>Our audit work</td>
</tr>
<tr>
<td></td>
<td>We will review the controls the Council has in place to determine its property plant and equipment balances, including instructions and information provided to the Council’s property valuer.</td>
</tr>
<tr>
<td></td>
<td>We will agree the property plant and equipment balances to the valuer’s report.</td>
</tr>
</tbody>
</table>
Section five

VFM audit approach

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.

<table>
<thead>
<tr>
<th>Specified criteria for VFM conclusion</th>
<th>Focus of the criteria</th>
<th>Sub-sections</th>
</tr>
</thead>
<tbody>
<tr>
<td>The organisation has proper arrangements in place for securing financial resilience.</td>
<td>The organisation has robust systems and processes to: - manage effectively financial risks and opportunities; and - secure a stable financial position that enables it to continue to operate for the foreseeable future.</td>
<td>- Financial governance - Financial planning - Financial control</td>
</tr>
<tr>
<td>The organisation has proper arrangements for challenging how it secures economy, efficiency and effectiveness.</td>
<td>The organisation is prioritising its resources within tighter budgets, for example by: - achieving cost reductions; and - improving efficiency and productivity.</td>
<td>- Prioritising resources - Improving efficiency and productivity</td>
</tr>
</tbody>
</table>
Overview of the VFM audit approach
The key elements of the VFM audit approach are summarised below.

Each of these stages are summarised further below.

<table>
<thead>
<tr>
<th>VFM audit stage</th>
<th>Audit approach</th>
</tr>
</thead>
<tbody>
<tr>
<td>VFM audit risk</td>
<td>We consider the relevance and significance of the potential business risks faced by all local authorities, and other risks that apply specifically to the Council. These are the significant operational and financial risks in achieving statutory functions and objectives, which are relevant to auditors’ responsibilities under the Code of Audit Practice.</td>
</tr>
<tr>
<td>assessment</td>
<td>In doing so we consider:</td>
</tr>
<tr>
<td></td>
<td>- the Council’s own assessment of the risks it faces, and its arrangements to manage and address its risks;</td>
</tr>
<tr>
<td></td>
<td>- information from the Audit Commission’s VFM profile tool and financial ratios tool;</td>
</tr>
<tr>
<td></td>
<td>- evidence gained from previous audit work, including the response to that work; and</td>
</tr>
<tr>
<td></td>
<td>- the work of the Audit Commission, other inspectorates and review agencies.</td>
</tr>
</tbody>
</table>
Our VFM audit will draw heavily on other audit work which is relevant to our VFM responsibilities and the results of last year’s VFM audit.

We will then form an assessment of residual audit risk to identify if there are any areas where more detailed VFM audit work is required.

### Section five

#### VFM audit approach (continued)

<table>
<thead>
<tr>
<th>VFM audit stage</th>
<th>Audit approach</th>
</tr>
</thead>
<tbody>
<tr>
<td>Linkages with financial statements and other audit work</td>
<td>There is a degree of overlap between the work we do as part of the VFM audit and our financial statements audit. For example, our financial statements audit includes an assessment and testing of the Council’s organisational control environment, including financial management and governance arrangements, many aspects of which are relevant to our VFM audit responsibilities. We have always sought to avoid duplication of audit effort by integrating our financial statements and VFM work, and this will continue. We will therefore draw upon relevant aspects of our financial statements audit work to inform the VFM audit.</td>
</tr>
<tr>
<td>Assessment of residual audit risk</td>
<td>It is possible that further audit work may be necessary in some areas to ensure sufficient coverage of the two VFM criteria. Such work may involve interviews with relevant officers and/or the review of documents such as policies, plans and minutes. We may also refer to any self assessment the Council may prepare against the characteristics. To inform any further work we must draw together an assessment of residual audit risk, taking account of the work undertaken already. This will identify those areas requiring further specific audit work to inform the VFM conclusion. At this stage it is not possible to indicate the number or type of residual audit risks that might require additional audit work, and therefore the overall scale of work cannot be easily predicted. If a significant amount of work is necessary then we will need to review the adequacy of our agreed audit fee.</td>
</tr>
<tr>
<td>Identification of specific VFM audit work</td>
<td>If we identify residual audit risks, then we will highlight the risk to the Council and consider the most appropriate audit response in each case, including: considering the results of work by the Council, the Audit Commission, other inspectorates and review agencies; and carrying out local risk-based work to form a view on the adequacy of the Council’s arrangements for securing economy, efficiency and effectiveness in its use of resources.</td>
</tr>
</tbody>
</table>
## Section five

### VFM audit approach (continued)

Where relevant, we may draw upon the range of audit tools and review guides developed by the Audit Commission.

We will report on the results of the VFM audit through our Interim Audit Report and our Report to those charged with governance.

<table>
<thead>
<tr>
<th>VFM audit stage</th>
<th>Audit approach</th>
</tr>
</thead>
</table>
| Delivery of local risk based work | Depending on the nature of the residual audit risk identified, we may be able to draw on audit tools and sources of guidance when undertaking specific local risk-based audit work, such as:  
- local savings review guides based on selected previous Audit Commission national studies; and  
- update briefings for previous Audit Commission studies.  
The tools and guides will support our work where we have identified a local risk that is relevant to them. For any residual audit risks that relate to issues not covered by one of these tools, we will develop an appropriate audit approach drawing on the detailed VFM guidance and other sources of information. |
| Concluding on VFM arrangements | At the conclusion of the VFM audit we will consider the results of the work undertaken and assess the assurance obtained against each of the VFM themes regarding the adequacy of the Authority’s arrangements for securing economy, efficiency and effectiveness in the use of resources.  
If any issues are identified that may be significant to this assessment, and in particular if there are issues that indicate we may need to consider qualifying our VFM conclusion, we will discuss these with management as soon as possible. Such issues will also be considered more widely as part of KPMG’s quality control processes, to help ensure the consistency of auditors’ decisions. |
| Reporting                | We will report on the results of the VFM audit through our Interim Audit Report and our Report to those charged with governance. These reports will summarise our progress in delivering the VFM audit, the results of the risk assessment and any specific matters arising, and the basis for our overall conclusion.  
The key output from the work will be the VFM conclusion (i.e. our opinion on the Council’s arrangements for securing VFM), which forms part of our audit report. |
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.

Section six
Audit team

“My role is to lead our team and ensure the delivery of a high quality external audit opinion. I will be the main point of contact for the Audit Committee and the Authority’s Chief Officers.”

Philip Johnstone
Director

“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 Philip to ensure we add value. I will liaise with the Director of Finance and Head of Internal Audit.”

Martin Searle
Senior Manager

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

Mohammed Azam
Assistant Manager

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Section six
Audit deliverables

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.

<table>
<thead>
<tr>
<th>Deliverable</th>
<th>Purpose</th>
<th>Committee dates</th>
</tr>
</thead>
<tbody>
<tr>
<td>Planning</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
| **External Audit Plan**              | ■ Outline audit approach.  
                                          ■ Identify areas of audit focus and planned procedures.                                                                                                                                         | March 2013        |
| Control evaluation                   |                                                                                                                                                                                                      |                   |
| **Interim Report**                   | ■ Details and resolution of control and process issues.  
                                          ■ Identify improvements required prior to the issue of the draft financial statements and the year-end audit.                                                                                     | June 2013         |
|                                      | ■ Depending on the nature of our findings, we may incorporate our interim report within our regular progress reports to the PAASC.                                                                                                             |                   |
| Substantive procedures               |                                                                                                                                                                                                      |                   |
| **Report to Those Charged with Governance (ISA 260 Report)** | ■ Details the resolution of key audit issues.  
                                          ■ Communication of adjusted and unadjusted audit differences.  
                                          ■ Performance improvement recommendations identified during our audit.  
                                          ■ Commentary on the Council’s value for money arrangements.                                                                                                                                     | September 2013    |
| Completion                           |                                                                                                                                                                                                      |                   |
| **Auditor’s report**                 | ■ Providing an opinion on your accounts (including the Annual Governance Statement).  
                                          ■ Concluding on the arrangements in place for securing economy, efficiency and effectiveness in your use of resources (the VFM conclusion).                                                        | September 2013    |
| **Annual Audit Letter**              | ■ Summarises the outcomes and the key issues arising from our audit work for the year.                                                                                                               | November 2013     |
Section six
Audit timeline

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

Key formal interactions with the PAASC are:

- March – External Audit Plan;
- June – 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 visit during April
- Final accounts audit during July and August.

Regular meetings between the Engagement Leader and the Chief Executive and/or Director of Finance

Key:
- PAASC meetings.
Section six
Audit fee

The main fee for 2012/13 audit is £218,700. 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 presented to you in August 2012 first set out our fees for the 2012/13 audit. We have not considered it necessary to make any changes to the agreed fees at this stage.

<table>
<thead>
<tr>
<th>Element of the audit</th>
<th>2012/13 (planned)</th>
<th>2011/12 (actual)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gross Audit Fee</td>
<td>£218,700</td>
<td>£364,500</td>
</tr>
</tbody>
</table>

Our fee includes our work on our audit of the Council’s financial statements, VFM conclusion and Whole of Government Accounts. The fee for 2012/13 is £218,700. This is a reduction of 40 percent compared with 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 Council 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 Council achieves an efficient and well-controlled financial closedown and accounts production process which complies with good practice and appropriately addresses new accounting developments and risk areas.

Changes to the audit plan

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

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

If changes to this plan and the audit fee are required, we will discuss and agree these initially with the Director of Finance.
Appendix 1: Balance of internal controls and substantive testing

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

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

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 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.
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. Philip Johnstone as Engagement Lead sets the tone on the audit and leads by example with a clearly articulated audit strategy and commits a significant proportion of his 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.
Appendices

Appendix 3: KPMG Audit Quality Framework

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.

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). The latest report dated October 2012 showed that we performed highly against all the Commission’s criteria.