

Audit and Inspection Plan

May 2006



# **Audit and Inspection Plan**

**Wyre Forest District Council**

**Audit 2006-2007**

External audit is an essential element in the process of accountability for public money and makes an important contribution to the stewardship of public resources and the corporate governance of public services.

Audit in the public sector is underpinned by three fundamental principles:

- auditors are appointed independently from the bodies being audited;
- the scope of auditors' work is extended to cover not only the audit of financial statements but also value for money and the conduct of public business; and
- auditors may report aspects of their work widely to the public and other key stakeholders.

The duties and powers of auditors appointed by the Audit Commission are set out in the Audit Commission Act 1998 and the Local Government Act 1999 and the Commission's statutory Code of Audit Practice. Under the Code of Audit Practice, appointed auditors are also required to comply with the current professional standards issued by the independent Auditing Practices Board.

Appointed auditors act quite separately from the Commission and in meeting their statutory responsibilities are required to exercise their professional judgement independently of both the Commission and the audited body.

### **Status of its reports to the Council**

The Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission and KPMG's reports explain the respective responsibilities of auditors and of the audited body. Reports prepared by appointed auditors are addressed to non-executive directors/members or officers. They are prepared for the sole use of the audited body.

Auditors accept no responsibility to:

- any director/member or officer in their individual capacity; or
- any third party.

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## Introduction

- 1 This plan sets out the audit and inspection work that KPMG LLP ('KPMG') and the Audit Commission propose to undertake in 2006/07 at Wyre Forest District Council ('Wyre Forest', 'the Council'). The plan has been drawn up from their risk-based approach to audit planning and reflects:
  - the Code of Audit Practice;
  - Audit and inspection work specified by the Audit Commission for 2006/07;
  - Wyre Forest's local risks and improvement priorities; and
  - current national risks relevant to the Council's local circumstances.
- 2 The Council's relationship manager will continue to help ensure further integration and co-ordination with the work of other inspectorates.

## The Audit Commission's and KPMG's responsibilities

- 3 In carrying out its audit and inspection duties KPMG and the Audit Commission have to comply with the statutory requirements governing them, and in particular:
  - the Audit Commission Act 1998;
  - the Code of Audit Practice (the Code) with regard to audit; and
  - the Local Government Act 1999 with regard to best value inspection and audit.
- 4 The Code defines auditors' responsibilities in relation to:
  - The financial statements of audited bodies; and
  - Audited bodies' arrangements for securing economy, efficiency and effectiveness in their use of resources. Auditors are now required to draw a positive conclusion regarding the Council's arrangements for ensuring value for money in its use of resources. KPMG will give the first such conclusion by September as part of the 2005/06 audit.

## The new Code of Audit Practice

- 5 The Audit Commission revised the Code of Audit Practice in 2005/06 with the objective of providing:
  - a more streamlined audit targeted on areas where auditors have most to contribute to improvement;
  - a stronger emphasis on value for money, with a focus on audited bodies' corporate performance and financial management arrangements; and
  - better and clearer reporting of the results of audits.

- 6 The new Code has been developed on the basis of the Audit Commission's model of public audit, which now defines auditors' responsibilities in relation to:
- the financial statements of audited bodies; and
  - audited bodies' arrangements for securing economy, efficiency and effectiveness in their use of resources.
- 7 The main changes introduced through the new Code are:
- auditors' three responsibilities under the old Code, in relation to the financial aspects of corporate governance, the accounts and performance management, have been replaced by two responsibilities in relation to the accounts and use of resources, thereby mirroring their statutory responsibilities under the Audit Commission Act 1998. Auditors' work in relation to the financial aspects of corporate governance will largely be covered by their work on the accounts, reflecting recent developments in auditing standards, with audit work in relation to financial standing carried out as part of the work in relation to the use of resources;
  - a clear focus, in auditors' work on audited bodies' arrangements for the use of resources, on overall financial and performance management arrangements. This work supports a new requirement for an explicit annual conclusion by the auditor in relation to audited bodies' arrangements for securing value for money in the use of their resources;
  - a more explicit focus on improvement (through the risk assessment process) and on the need for auditors to have regard to the risks arising from audited bodies' involvement in partnerships and joint working arrangements and, where appropriate, to 'follow the public pound' into and across such partnerships;
  - an emphasis on clearer, more timely reporting based on explicit conclusions and recommendations; and
  - a new style narrative audit report to meet statutory and professional requirements.

## The fee

- 8 For 2006/07 the Audit Commission has changed its fee scale structure and details are set out in the Commission's Work Programme and Fee scales 2006/07. Audit fees are based on a number of variables, including the type, size, location and complexity of the audited body and the national and local risks.
- 9 Inspection fees are based on the actual number of days included in the plan for each programmed activity.
- 10 The total fee estimate for the audit work planned for 2006/07 is £94,000 and the total fee estimate for inspection work planned for 2006/07 is £10,979. This compares with a total audit and inspection fee of £110,301 in 2005/06. The fee excludes KPMG's work associated with the whole of government accounts. Once the scope of this work is established KPMG will discuss and agree the fee with the Council.
- 11 In addition KPMG will charge approximately £14,000 for the certification of claims and returns. Further details are provided in paragraph 35 and in Appendix 1.
- 12 The audit and inspection fees include all work identified in this plan unless specifically excluded. Further details are provided in Appendix 1 which includes specific audit risk factors, the assumptions made when determining the audit fee, specific actions Wyre Forest District Council could take to reduce its audit fees and the process for agreeing any additional fees.
- 13 Changes to the plan and the fee may be necessary if KPMG's audit risk assessment changes during the course of the audit. This is particularly relevant to work related to:
  - the opinion on the 2006/07 accounts since KPMG has yet to audit the accounts for 2005/06 and detailed financial reporting requirements for 2006/07 are not yet known; and
  - work on selected performance indicators, since KPMG has yet to assess the Council's overall arrangements for securing the quality of this data and then to undertake a formal risk assessment.
- 14 The Audit Commission and/or KPMG will formally advise the Council if any changes to the fee become necessary.

## CPA and inspections

- 15 The CPA framework for District Councils from 2006 is currently subject to consultation. It is expected that the proposed methodology will be published by April 2006 and that the opportunity for re-categorisation will be available for some councils during 2006/07.
- 16 If the new methodology identifies the need or opportunity for a revised corporate assessment for the Council, KPMG and the Audit Commission will discuss an amendment to this plan and agree an additional fee for completion of the work.
- 17 Following the Council's classification as a fair council in the Corporate Performance Assessment, we have applied the principles of strategic regulation recognising the key strengths and weaknesses in Wyre Forest District Council's performance. Improvements are being made in a range of services particularly those which are Key Commitments. However culture is a problem area for the Council with low satisfaction levels and high costs.
- 18 As a consequence its inspection activity will focus on the following:
  - Inspection of Cultural Services.

**Table 1 Summary of inspection activity**

<b>Inspection activity</b>	<b>Reason/impact</b>
Relationship manager role	To act as the Commission's primary point with the authority and the interface at the local level between the Commission and the other inspectorates, Government Offices and other key stakeholders.
Direction of travel review	To provide focus for continuous improvement. Likely to be included in CPA scorecard.
Cultural services	To assess the impact of the service on the local community and examine the reasons for high costs and low satisfaction with cultural services.



## Summary of key audit risks

- 19** This section summarises KPMG's assessment and the planned response to the key audit risks which may have an impact on its objectives to:
- provide an opinion on Wyre Forest's financial statements;
  - provide a conclusion on the Council's use of resources;
  - provide a scored judgment on the use of resources to feed into the CPA process;
  - undertake audit work in relation to specified performance indicators to support the service assessment element of CPA; and
  - provide a report on the Council's best value performance plan (BVPP).
- 20** In assessing risk KPMG has applied its cumulative knowledge and experience gained through its appointment as the Council's auditor and:
- considered the Council's local improvement priorities and risks associated with them;
  - the Council's statement of internal control;
  - considered the impact of changes to accounting regulations;
  - held discussions with officers and statutory inspectors; and
  - considered the impact of known changes to the Code of Audit Practice.
- 21** KPMG has incorporated its findings and recommendations from reports issued in late 2005 and early 2006 as a measure to identify ongoing or reduced risk areas of the Council, such as the development of an effective assurance framework.
- 22** KPMG's planned work takes into account information from other regulators, where available. Where risks are identified that are not mitigated by information from other regulators, or Wyre Forest's own risk management processes, including Internal Audit, KPMG will perform work as appropriate to enable them to provide a conclusion on the Council's arrangements.

## Value for money conclusion

- 23 The Code of Audit Practice requires KPMG to issue a conclusion on whether the Council has proper arrangements in place for securing economy, efficiency and effectiveness in the use of resources (the value for money conclusion). The Audit Commission has developed relevant criteria for auditors to apply in reaching its value for money conclusion as required under the Code of Audit Practice. These criteria are listed in Appendix 2. In meeting this responsibility, KPMG will review evidence that is relevant to the Council's corporate performance management and financial management arrangements. KPMG will give the first such conclusion by the end of September 2006 as part of its audit of the 2005/06 accounts. This may influence its risk assessment for similar work to be carried out as part of the 2006/07 and KPMG will keep the Council informed of any changes to this plan that may become necessary.

## Use of resources judgement

- 24 Over and above the Code requirements described above, the Audit Commission requires auditors to make more qualitative assessments of the effectiveness of those arrangements in the form of a series of use of resources judgements. The key lines of enquiry (KLOEs) issued in June 2005 will be updated in spring 2006 to reflect the lessons learned from the first year's experiences of applying the KLOEs, following a post-implementation review of the assessment. KPMG's fee estimate 2006/07 assumes that the KLOEs will be broadly similar to those used in 2005/06. If this changes KPMG will discuss with the Council the implications, including any impact on the fee.
- 25 These judgements may also be used by the Commission as the basis for its overall use of resources judgement.
- 26 Using its cumulative knowledge and experience, including the results of previous work and other regulators' work, KPMG has identified the following areas of audit risk to be addressed.
- development of a performance management framework;
  - implementation of effective risk management;
  - delivery of the shared services agenda;
  - progression of the Council's performance under the key lines of enquiry;
  - delivery of efficiency savings; and
  - development of procurement arrangements.
- 27 The full details of these risks and KPMG's planned response are included in Appendix 5.

## Performance information

- 28 In 2006/07, auditors are required to undertake audit work in relation to specified performance indicators to support the service assessment element of CPA, subject to the basis of the agreed methodology. This work will be risk based and will link at least in part to its review of the Council's overall arrangements to secure data quality (as required for its value for money conclusion). KPMG's fee estimate includes an element for this work on the basis that they will assess Wyre Forest District Council as low risk in relation to its performance indicators. This assessment will include a review of the management arrangements to compile and monitor the Council's performance indicators.
- 29 This risk assessment may change depending on KPMG's assessment of your overall arrangements. When they have finalised its risk assessment KPMG will update its plan including any impact on the fee.

## Best value performance plan

- 30 KPMG is required to report on whether or not you have complied with legislation and statutory guidance in respect of the preparation and publication of your best value performance plan (BVPP).

## Financial statements

- 31 KPMG will carry out its audit of the 2006/07 financial statements and follow the International Standards on Auditing (UK and Ireland).
- 32 KPMG is also required to review whether the Statement on Internal Control has been presented in accordance with relevant requirements and to report if it does not meet these requirements or if the statement is misleading or inconsistent with its knowledge of the Council.
- 33 On the basis of KPMG's preliminary work to date it has identified the following audit issues:
- providing the required data for the whole of government accounts;
  - full implementation of the total cost principle under the best value accounting Code of Practice;
  - applying the changes specified in the 2006 Statement of Recommend Practice;
  - monitoring and implementing the requirements of the prudential code; and
  - enhancing the Council's systems of internal financial control including the identification of business critical systems.
- 34 The issues and KPMG's audit response are described in more detail in Appendix 5 to this plan.

- 35 KPMG's fee estimate for 2006/07 is based on the assumption that the current standard of working papers will be maintained and that internal audit will complete its planned work on key information systems to the agreed quality and by the agreed date and that the accounts will be prepared and fully supported by working papers by July 2007.
- 36 KPMG has yet to undertake the audit of the 2005/06 financial statements and its 2006/07 financial statements audit planning will continue as the year progresses. This will take account of:
- the 2005/06 opinion audit;
  - KPMG's documentation and initial testing of material information systems;
  - KPMG's assessment of the 2006/07 closedown arrangements; and
  - any changes in financial reporting requirements.
- 37 When KPMG has finalised its risk assessment in respect of your financial statements, KPMG will update its plan in advance of the audit detailing its specific approach, including any impact on the fee quoted above.

## Whole of government accounts

- 38 The government is introducing whole of government accounts (WGA) in order to produce consolidated accounts for the whole public sector. WGA will include the accounts of local authorities and WGA data returns will be required to be audited. The Audit Commission is currently discussing the scope of the likely audit work with the NAO and other stakeholders. The fee for this work is not included in this plan and we will discuss this with the Head of Financial Services when further details are available.

## Claims and returns certification

- 39** KPMG will continue to certify the Council's claims and returns:
- claims for £50,000 or below will not be subject to certification;
  - claims between £50,001 and £100,000 will be subject to a reduced, light touch, certification audit; and
  - claims over £100,000 have an audit 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 audit approach for these claims.
- 40** Charges for this work are based on skill-related fees scales set out in the Audit Commission's work programme and fee scales 2006/07. Based on this, and on the assumption that the level of grant work will remain reduced, KPMG estimate that the fees for grant certification work will be around £14,000.

## Other information

### Outputs from the audit and inspection plan

- 41 The expected outputs from its planned audit and inspection work are listed in Appendix 3.

### The team

**Table 2**

Name	Title
Liz Cave	Relationship Manager
Jon Gorrie	Engagement Director
Ian Skipp	Audit Senior Manager
Mark Surridge	Assistant Audit Senior Manager

- 42 KPMG and the Audit Commission are not aware of any relationships that may affect the independence and objectivity of the team, and which are required to be disclosed under auditing and ethical standards.
- 43 Both KPMG and the Audit Commission comply with the ethical standards promulgated by the Auditing Practices Board and with the Commission's requirements in respect of independence and objectivity as set out at Appendix 4.

### Complaints

- 44 If the Council has any concerns or are dissatisfied with any part of KPMG's work, in the first instance the Council should contact Jon Gorrie, who is the appointed auditor to the Council: Tel. 0121 232 3694, email [jonathan.gorrie@kpmg.co.uk](mailto:jonathan.gorrie@kpmg.co.uk) who will try and resolve the complaint. If the Council is dissatisfied with the response please contact Trevor Rees on 0161 236 4000, email [trevor.rees@kpmg.co.uk](mailto:trevor.rees@kpmg.co.uk), Trevor is the national contact partner for all of KPMG's work with the Audit Commission.
- 45 After this, if the Council remains dissatisfied with how the complaint has been handled, the Council may access the Audit Commission's complaint procedure. Put the complaint in writing to: The Complaints Investigation Officer, Audit Commission, 1st Floor, Millbank Tower, Millbank, London, SW1P 4HQ; or by email to [complaints@audit-commission.gov.uk](mailto:complaints@audit-commission.gov.uk). Their telephone number is 0207 166 2349, textphone (minicom) 0207 630 0421.

## Status of reports to the Council

- 46 The Audit Commission and KPMG will provide reports, or other output as agreed, to the Council covering the risk areas identified above. Reports are:
- prepared for the sole use of the Council;
  - not to be disclosed to a third party or quoted or referred to without the Audit Commission's or KPMG's consent; and
  - written without assuming any responsibility by itself to any other person.
- 47 The reports are prepared in the context of the Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission. Reports are prepared by appointed auditors and addressed to Members or officers. They are prepared for the sole use of the audited body, and no responsibility is taken by auditors to any Member or officer in their individual capacity, or to any third party.
- 48 ISA 260 Communication of Audit Matters to those Charged with Governance requires KPMG to report relevant matters relating to the audit to those charged with governance. For Wyre Forest District Council, the Audit Commission and KPMG has previously agreed that this responsibility will be discharged by reporting relevant matters to the Audit Committee.

## Appendix 1 - Audit and inspection fee

**Table 3**

Fee estimate	Plan 2006/07 (£)	Plan 2005/06 (£)
Audit		
Accounts	46,000	45,000
Use of resources	48,000	42,000
Total audit fee	94,000	87,000
Inspection		
Relationship management	2,870	*
Service inspection	6,193	*
Corporate inspection	1,915	*
Total inspection fee	10,979	10,114
Total audit and inspection fee	104,979	97,114
Certification of claims and returns	12,000	12,000
Voluntary improvement work	0	0

\* Comparative information is not available for 2005/06 due to the changed fee structure.

- 1 The total audit fee compared to the indicative fee banding equates to 1 per cent below the mid-point.
- 2 The audit fee (plus VAT) will be charged in four equal instalments from April 2006 to March 2007.
- 3 The fee above includes all work contained in this plan except:
  - any work required in relation to the whole of government accounts (discussed in paragraph 32); and
  - any specific work required for CPA in 2006/07.



## Specific audit risk factors

- 4 In setting the audit fee we have taken account of the following specific risk factors:
  - the Council's score against the key lines of enquiry resulted in an overall 'adequate performance' scoring;
  - the large size of the Council's capital and revenue programme for 2006/07; and
  - the extent of the changes to the SORP and the practical implications of those changes.

## Assumptions

- 5 In setting the audit fee KPMG has assumed:
  - the Council will inform KPMG of significant developments impacting on its audit;
  - Internal Audit meets the appropriate professional standards;
  - Internal Audit undertakes appropriate work on all material information systems that provide figures in the financial statements sufficient that KPMG can place reliance for the purposes of KPMG's audit recognising the shift in requirements of International Standards on Auditing (ISA) 400 Risk Assessments and Internal Control;
  - officers will provide good quality working papers and records to support the financial statements by July 2007, the assumptions of which will be revisited during KPMG's 2005/06 audit of accounts;
  - officers will provide requested information within agreed timescales;
  - officers will provide prompt responses to draft reports; and
  - the Council's performance indicators will be adequately prepared and reviewed.
- 6 The key lines of enquiry (KLOEs) issued in June 2005 will be updated in spring 2006 to reflect the lessons learned from the first year's experiences of applying the KLOEs, following a post-implementation review of the assessment.
- 7 Where these requirements are not met or its assumptions change, KPMG will be required to undertake additional work which is likely to result in an increased audit fee.

- 8 Changes to the plan will be agreed with the Council. These may be required if:
- new risks emerge;
  - additional work is required of KPMG by the Audit Commission or other regulators; and
  - there are any changes to financial reporting requirement, professional auditing standards or legislation which results in additional work.

## **Specific actions Wyre Forest District Council could take to reduce its audit fees**

- 9 The Audit Commission requires its auditors to inform a council of specific actions it could take to reduce its audit fees. KPMG has identified the following actions Wyre Forest District Council could take:
- the Head of Financial Services should review and sign off all working papers supporting the financial statements to ensure that they tie in to the approved draft accounts, and clearly cross-referenced to supporting evidence;
  - senior managers should take more responsibility for checking the accuracy of performance indicators and internal audit could usefully check that this had been done; and
  - the working papers supporting grant claims should be reviewed in detail and ensure they clearly support how the grant claim has been compiled.

## **Process for agreeing any changes in audit fees**

- 10 If either KPMG or the Audit Commission need to amend the audit or inspection fees during the course of this plan they will firstly discuss this with the Chief Executive. KPMG or the Audit Commission will then prepare a report outlining the reasons why the fee needs to change for discussion with the Audit Committee.

## **Appendix 2 – Criteria to inform the auditor’s conclusion on proper arrangements for securing economy, efficiency and effectiveness in the use of resources**

### **Arrangements for establishing strategic and operational objectives**

- 1 The body has put in place arrangements for setting, reviewing and implementing its strategic and operational objectives.

### **Arrangements for ensuring that services meet the needs of users and taxpayers, and for engaging with the wider community**

- 2 The body has put in place channels of communication with service users and other stakeholders including partners, and there are monitoring arrangements to ensure that key messages about services are taken into account.

### **Arrangements for monitoring and reviewing performance, including arrangements to ensure data quality**

- 3 The body has put in place arrangements for monitoring and scrutiny of performance, to identify potential variances against strategic objectives, standards and targets, for taking action where necessary, and reporting to members.
- 4 The body has put in place arrangements to monitor the quality of its published performance information, and to report the results to members.

### **Arrangements for ensuring compliance with established policies, procedures, laws and regulations**

- 5 The body has put in place arrangements to maintain a sound system of internal control.

### **Arrangements for identifying, evaluating and managing operational and financial risks and opportunities, including those arising from involvement in partnerships and joint working**

- 6 The body has put in place arrangements to manage its significant business risks.

**20** Audit and Inspection Plan | Appendix 2 – Criteria to inform the auditor’s conclusion on proper arrangements for securing economy, efficiency and effectiveness in the use of resources

**Arrangements for ensuring compliance with the general duty of best value**

- 7 The body has put in place arrangements to manage and improve value for money.

**Arrangements for managing its financial and other resources, including arrangements to safeguard the financial standing of the audited body**

- 8 The body has put in place a medium-term financial strategy, budgets and a capital programme that are soundly based and designed to deliver its strategic priorities.
- 9 The body has put in place arrangements to ensure that its spending matches its available resources.
- 10 The body has put in place arrangements for managing performance against budgets.
- 11 The body has put in place arrangements for the management of its asset base.

**Arrangements for ensuring that the audited body’s affairs are managed in accordance with proper standards of conduct, and to prevent and detect fraud and corruption**

- 12 The body has put in place arrangements that are designed to promote and ensure probity and propriety in the conduct of its business.

## Appendix 3 – Planned outputs

- 1 Our reports will be discussed and agreed with the appropriate officers before being issued to the Audit Committee.

**Table 4**

Planned output	Start date	Draft due date	Responsibility
Audit and Inspection Plan*	1 February 2006	31 March 2006	Relationship Manager/ Engagement Director
BVPI opinion	May 2006	September 2006	Engagement Director
BVPP opinion	May 2006	December 2006	Engagement Director
Interim report	February 2007	May 2007	Engagement Director
Report on financial statements to those charged with governance (ISA 260)	July 2007	September 2007	Engagement Director
Opinion on financial statements	July 2007	September 2007	Engagement Director
VFM conclusion	May 2007	September 2007	Engagement Director
Final accounts memorandum	July 2007	August 2007	Engagement Director
Inspections	TBA	TBA	Relationship Manager
Annual audit and inspection letter (including direction of travel assessment)	October 2007	December 2007	Relationship Manager/ Engagement Director

\* To be revisited during the year to reflect outcome of 2004/05 final visit and 2006/06 interim visit.

## Appendix 4 – The Audit Commission’s requirements in respect of independence and objectivity

- 1 Auditors appointed by the Audit Commission are subject to the Code of Audit Practice (the Code) which includes the requirement to comply with ISA's (UK and Ireland) when auditing the financial statements. 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. Standards also place requirements on auditors in relation to integrity, objectivity and independence.
- 2 The standards define ‘those charged with governance’ as ‘those persons entrusted with the supervision, control and direction of an entity’. In your case the appropriate addressee of communications from the auditor to those charged with governance is the Audit Committee. The auditor reserves the right, however, to communicate directly with the Council on matters which are considered to be of sufficient importance.
- 3 Auditors are required by the Code to:
  - carry out its work with independence and objectivity;
  - exercise its 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 its judgement in the conduct of the audit.
- 4 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 its audit conclusions, it will be clearly differentiated as work carried out under s35 of the Audit Commission Act 1998.

- 5 The Code also states that the Commission issues guidance under its powers to appoint auditors and to determine its 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 or Regional Director;
  - 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 both the District Auditor/Partner and the second in command (Senior Manager/Manager) to be changed on each audit at least once every five years with effect from 1 April 2003 (subject to agreed transitional arrangements);
  - audit suppliers are required to obtain the Commission’s written approval prior to changing any District Auditor or Audit Partner/Director in respect of each audited body; and
  - the Commission must be notified of any change of second in command within one month of making the change. Where a new Partner/Director 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 5 - Key audit issues

Risk level	Issue title	Issue description	Code	Audit Response
High	<i>Performance management framework</i>	The Council needs to further develop its performance management framework to ensure it is able to successfully map performance against cost, and demonstrate a commitment to improving performance. The Council needs to ensure that Corporate objectives are filtered down to service objectives, then further to individual officer objectives.	Use of Resources	KPMG will follow up its review of performance management conducted during 2005/06 and assess the Council's progress to further develop its PM framework.
High	<i>Risk management</i>	The Council's current position on risk management identifies that to embed risk management into the day-to-day operations of the Council will pose a significant challenge. As identified during KPMG's recent Use of Resources work, the Council has yet to develop an assurance framework to help manage and deliver the agenda.	Use of Resources	KPMG will continue to review and monitor the Council's progress in developing an assurance and risk management framework and assist by providing commentary based on its experience of developing risk management elsewhere.



<b>Risk level</b>	<b>Issue title</b>	<b>Issue description</b>	<b>Code</b>	<b>Audit Response</b>
<b>High</b>	<i>Key Lines of Enquiry (KLOEs)</i>	The Council's overall score under the 2005 KLOEs was level 2 'adequate performance' this included a level 1 ('inadequate performance') for internal controls. KPMG issued the Council with a number of recommendations to improve the Council's scoring in March 2006.	Use of Resources	KPMG will review the Council's performance and actions taken to improve the Council's scoring under the KLOEs.
<b>High</b>	<i>Systems of internal financial control</i>	KPMG is required to consider whether the Council has adequate arrangements in place to satisfy itself that its systems of internal financial control are adequate and effective. KPMG's work on the KLOE's identified a number of weaknesses in this area, for example the Council has not identified which systems are critical to the business.	Audit of Accounts	<p>KPMG will review the Council's systems of internal control including the re-performance of key controls.</p> <p>KPMG will also examine the Council's statement on internal control as part of its audit of the Council's 2006/07 financial statements.</p> <p>Furthermore, KPMG will examine the Council's process for the identification of business critical systems and production of procedure notes to support those systems.</p>

Risk level	Issue title	Issue description	Code	Audit Response
<b>Medium</b>	<i>Shared services/ partnerships</i>	Increased partnership working and the provision of shared services is high on the government's agenda of local authorities. Worcestershire authorities are currently undertaking a feasibility study for the provision of a shared service agreement for a number of backroom services, such as revenues and benefits.	Use of Resources	KPMG will continue to monitor the Council's approach to partnership arrangements and in particular the progress being made at the Worcestershire Hub.
<b>Medium</b>	<i>Efficiency savings</i>	The Gershon review requires authorities to achieve an efficiency gain of 2.5 per cent annually over a three year period. The Council is required to prepare an Annual Efficiency Statement (AES) to record its progress in achieving these savings.	Use of Resources	KPMG will monitor the progress made by the Council in producing its AES and where requested, help track the gains achieved and monitor the efficiency gains.

Risk level	Issue title	Issue description	Code	Audit Response
<b>Medium</b>	<i>Prudential code</i>	<p>The Prudential Code has diminished the advantages previously held by debt-free authorities, and has created an environment where borrowing is no longer the burden it used to be.</p> <p>The Council entered into Prudential borrowing during 2004/05 and KPMG issued an unqualified audit opinion on the Council's 2004/05 financial statements, which included the accounting implications of that borrowing.</p>	Audit of accounts	<p>KPMG will review the Council's prudential indicators and accounting treatment of the borrowings and use of those borrowings to fund expenditure. KPMG will also review the Council's treasury management performance in cases where the Council enters into prudential borrowing in lieu of utilising existing resources.</p>
<b>Medium</b>	<i>Procurement</i>	<p>The Council's procurement arrangements are still in the early stages, and the Council needs to progress procurement to help deliver efficiency savings.</p>	Use of Resources	<p>KPMG will monitor the Council's implementation of its procurement arrangements and comment on whether the arrangements are delivering the savings expected and whether or no it is providing best value in service provision.</p>

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Risk level	Issue title	Issue description	Code	Audit Response
<b>Medium</b>	<i>Whole of government accounts</i>	<p>The timetable for the 2006/07 statement of accounts will be brought forward once more which could impact on the Council's closedown procedures and ability to produce complete and accurate information.</p> <p>This will also impact on the preparation of the whole of government accounts (WGA). 2006/07 will be the first 'live' year for both auditors and local authorities, as discussed below.</p>	Audit of accounts	KPMG will meet with key finance staff in the run up to the year end, then monthly thereafter to ensure the Council's closedown timetable is adhered to and where not, appropriate action is taken.

## Appendix 6 - Helping KPMG to meet your expectations

Summarised below the standard that KPMG will work to when performing your audit, alongside the inputs required from the Council to ensure that this standard can be met. This expectation of your support represents the assumption on which the audit fee has been based. If these assumptions are inaccurate then additional work may be required to complete the audit. This work will be charged to the Council in line within the Audit Commission’s grade-related fee structure.

How KPMG will conduct itself		KPMG's expectation of your support	
Listening to your concerns	<p>KPMG will be proactive in developing relationships with staff through the Council where its audit work requires their input.</p> <p>KPMG will ensure that all recommendations, and in particular those relating to its performance management work, are included within its Annual Audit Letter having been agreed with the relevant officers</p>	Audit Plan	<p>Brief its staff on key issues affecting the Council.</p> <p>Review and agree the draft plan.</p>
Working together	<p>KPMG will ensure that the Section 151 Officer and other key members of staff are kept informed of the progress of its audit work throughout the year.</p> <p>KPMG will liaise with staff at all levels of the Council to ensure that its work is appropriately planned and completed and where recommendations are made these are agreed with the likely responsible officer.</p>	Interim Audit & Accounts Audit	<p>Facilitate the completion of internal audits work (particularly on the core financial systems) in good time for its visits.</p> <p>Ensure that key officers are available for the duration of its audit.</p> <p>Respond to and agree interim reports in good time.</p> <p>Ensure that a full draft of the accounts are available at least a week prior to the agreed start date of its audit, and that only agreed adjustments are put into the accounts following receipt of this draft.</p>

How KPMG will conduct itself		KPMG's expectation of your support	
	<p>KPMG will continue to co-ordinate its work with that of internal audit and ensure that KPMG provide appropriate proactive commentary to the finance function on issues that affect the Council's accounts.</p> <p>KPMG will always respond promptly to requests for comment on aspects of the Council's operations, where appropriate</p>	<p>Annual Audit Letter</p> <p>Other work</p>	<p>Produce the documents listed within our 'Prepared by Client List' by the agreed start date of its audit.</p> <p>Discuss and agree draft reports in good time for the final versions to be presented to Members.</p> <p>Ensure that all action plans are agreed and subsequently followed up.</p> <p>Agree a key Council contact as a focal point for the study or work.</p> <p>Discuss and review its findings so that action plans can be fully completed and implemented.</p> <p>Respond promptly to requests for documents to assist us with its work.</p>