



INFRASTRUCTURE, GOVERNMENT AND
HEALTHCARE

External Audit: Audit
Memorandum – Report
to those charged with
governance

Wyre Forest District Council
September 2007

FINAL

AUDIT

Content

The contacts at KPMG in connection with this report are:

Jon Gorrie

Director
KPMG LLP (UK)

Tel: 0121 232 2741
Fax: 0121 232 3578
jonathan.gorrie@kpmg.co.uk

Ian Skipp

Senior Manager
KPMG LLP (UK)

Tel: 0121 232 2401
Fax: 0121 232 3578
ian.skipp@kpmg.co.uk

Georgina Dickson

Assistant Manager
KPMG LLP (UK)

Tel: 0121 232 3694
Fax: 0121 232 3578
georgina.dickson@kpmg.co.uk

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

External auditors do not act as a substitute for the audited body's own responsibility for putting in place proper arrangements to ensure that public business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively.

If you have any concerns or are dissatisfied with any part of KPMG's work, in the first instance you should contact Jon Gorrie, who is the engagement director to the Council, telephone 0121 232 2741 email jonathan.gorrie@kpmg.co.uk who will try to resolve your complaint. If you are dissatisfied with your response please contact Trevor Rees on 0161 838 4000, email trevor.rees@kpmg.co.uk, who is the national contact partner for all of KPMG's work with the Audit Commission. After this, if you 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 Team, Nicholson House, Lime Kiln Close, Stoke Gifford, Bristol, BS34 8SU or by e mail to: complaints@audit-commission.gov.uk. Their telephone number is 0844 798 3131, textphone (minicom) 020 7630 0421.

Section one

Executive summary

Purpose of this document

The Audit Commission's Code of Audit Practice (the Code) requires us to provide a summary of the work we have carried out to discharge our statutory audit responsibilities to Wyre Forest District Council (the Authority) together with any governance issues we have identified. We report to those charged with governance (in this case the Audit Committee) at the time they are considering the financial statements.

We are also required to comply with an International Standard on Auditing which sets out our responsibilities for communicating with those charged with governance (ISA260).

This report meets the requirements of the Code and the ISA260. It summarises, for the benefit of the Audit Committee of Wyre Forest District Council, the key issues identified during the course of our audit of the financial statements for the year ended 31 March 2007. It has been prepared for presentation to the Authority's Audit Committee on 17th September 2007.

This report does not duplicate significant matters previously communicated to those charged with governance.

Respective responsibilities of the appointed auditor and the audited body

Use of Resources

The Authority is responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources and regularly reviewing the adequacy and effectiveness of these arrangements.

Our responsibility is to satisfy ourselves that the Authority has put in place proper arrangements by reviewing and, where appropriate, examining evidence that is relevant to its corporate performance management, and also its financial management arrangements and reporting on these arrangements.

We reach this conclusion by considering the various assessments we make during the year, e.g. your self assessment on Use of Resources (UoR). Based upon this we have concluded that **the Authority has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources.**

Our findings are set out in more detail in section two of this report and our proposed conclusion is set out in Appendix 1.

Accounts and Statement on Internal Control

The Authority is responsible for putting into place systems of internal control to ensure the regularity and lawfulness of transactions, to maintain proper accounting records and to prepare financial statements that present fairly its financial position and its expenditure and income for the relevant financial year. The Authority is also responsible for preparing and publishing with its financial statements a statement on internal control.

We have now completed our audit and we have not identified any issues that we consider to be material. On receiving your management representations letter we therefore propose to issue an **unqualified audit opinion on 30 September 2007.**

Our findings are set out in more detail in section three of this report and our proposed opinion on the accounts is presented in Appendix 2.

Reports

We have a duty under section 8 of the Audit Commission Act 1998 to consider whether, in the public interest, to report on any matter that comes to their attention in the course of the audit in order for it to be considered by the body concerned or brought to the attention of the public.

We did not issue a report in the public interest in 2006/07.

Continued overleaf

Executive summary (continued)

Certificate

We are required to certify that we have completed the audit of the accounts in accordance with the requirements of the Audit Commission Act 1998 and the Code of Audit Practice. If there are any circumstances under which we cannot issue a certificate, then we are required to report them to those charged with governance and to issue a draft opinion on the financial statements.

There are no issues that have come to our attention during the course of the audit that would cause us to delay the issue of our certificate of completion of the audit.

Fraud

The auditing standard ISA 240 sets out our responsibilities for considering fraud and we address these in our assessment of your controls framework. As part of this work, we reviewed the arrangements within the Authority for the prevention and detection of fraud and corruption. Our work in this area is now complete and has not identified any matters which we wish to draw to the attention of those charged with governance at this time.

We are also required to assess the arrangements the Authority has in place to address the Audit Commission's National Fraud Initiative (NFI) as part of our work on the use of resources. We have completed our assessment and have not identified any significant issues.

Audit status

At the date of issue of this memorandum our detailed audit work is substantially complete. We now require from you a signed management representation letter, as set out in Appendix 6.

Declaration of independence and objectivity

In relation to the audit of the financial statements of Wyre Forest District Council (the Authority) for the financial year ending 31 March 2007, we confirm that there were no relationships between KPMG LLP and the Authority, its directors and senior management and its affiliates that we consider may reasonably be thought to bear on the objectivity and independence of the audit engagement lead and audit staff. We also confirm that we have complied with Ethical Standards and the Audit Commission's requirements in relation to independence and objectivity.

We have set out a more detailed declaration of our independence and objectivity in Appendix 7 in accordance with ISA 260.

Fees

Our fee for the 2006/07 audit is £94,000. This has been contained within the totals agreed with you in our audit plan. A breakdown of our audit fee is shown at Appendix 8. In addition, we bill separately and on an individual grant claim basis for our grants audit work.

Section two

Use of resources

We are required to be satisfied that the Authority has put proper arrangements in place to secure economy, efficiency and effectiveness in your use of resources. We reach this conclusion by considering the various assessment we make during the year, e.g. your self assessment on Use of Resources (UoR). Based upon this we have concluded that **Wyre Forest District Council (the Authority) has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources.**

Introduction

Within our audit plan we outlined the various work streams we use to assess whether you have appropriate arrangements in place to ensure that your resources are deployed effectively. Our overall assessment has been based on your self assessment, our cumulative audit knowledge and specific work undertaken to assess adequacy of arrangements.

UoR assessments

This assessment analyses your performance against the twelve criteria specified by the Audit Commission. The scoring of the themes ranges from one to four. The results are summarised below:

Code criterion	Source of evidence 2006 Score	2007 Assessment												
Setting strategic and operational objectives	Our assessment against these criteria is informed by the Audit Commission's latest Corporate Assessment report, as updated by the most recent direction of travel statement. We have also reviewed your Best Value Performance Plan.	Achieved												
Consultation with stakeholders		Achieved												
Monitoring and scrutiny of performance		Achieved												
Data quality	Our assessment on this criteria is informed by our review of the Authority's arrangements in respect of data quality.	Achieved												
System of internal control	Our assessment against these criteria is informed by our work on the Audit Commission's Use of Resources KLOEs. The relevant KLOEs and scores for these criteria are, respectively: <table border="1" style="margin-left: 20px;"> <thead> <tr> <th>Theme</th> <th>Score</th> </tr> </thead> <tbody> <tr> <td>Financial Reporting</td> <td>3</td> </tr> <tr> <td>Financial Management</td> <td>2</td> </tr> <tr> <td>Financial Standing</td> <td>2</td> </tr> <tr> <td>Internal Control</td> <td>2</td> </tr> <tr> <td>Value for Money</td> <td>2</td> </tr> </tbody> </table>	Theme	Score	Financial Reporting	3	Financial Management	2	Financial Standing	2	Internal Control	2	Value for Money	2	Achieved
Theme		Score												
Financial Reporting		3												
Financial Management		2												
Financial Standing		2												
Internal Control		2												
Value for Money		2												
Risk management		Achieved												
Managing and improving value for money		Achieved												
Medium term financial planning and budgeting		Achieved												
Managing spending within available resources		Achieved												
Managing performance against budgets		Achieved												
Asset management	Achieved													
Probity and propriety	Achieved													

The results of the assessment indicate that the Authority has achieved the criteria specified by the Audit Commission, and is performing adequately.

National Fraud Initiative

In 2006/07, we were required by the Audit Commission to assess your arrangements for addressing the NFI. The NFI uses data to help identify and reduce the level of fraud. The Authority has reviewed all cases identified through the data matching exercise and no significant issues were identified. Management has taken appropriate action where necessary and appropriate arrangements are in place to meet the requirements. We have not identified any significant issues from our work which need to be brought to the attention of the Audit Committee.

Other work

If we are asked to do so, or if we identify a need for it, as auditors we are expected to perform other work as necessary to meet our responsibilities under the Audit Code of Practice. During 2006/07, we did not perform any other work as part of the audit.

Accounts and Statement on Internal Control

We have now completed the audit of the Authority’s financial statements in line with the deadline. We have not identified any issues in the course of the audit that are considered to be material. On receiving your management representations letter we therefore propose to issue an unqualified audit opinion on 30 September 2007. We have also provided you with a summary of the accounts production process and how this can be improved in the future.

Introduction

The tasks we perform in our review of your financial statements are split between those which are undertaken before, during and after the accounts production. We have summarised them below:

Work Performed	Accounts production stage		
	Before	During	After
1. Business Understanding: review your operations.	✓	✓	-
2. Controls: assess the control framework.	✓	-	-
3. Prepared by client list: issue our prepared by client request.	✓	-	-
4. Accounting standards: agree the impact of any new accounting standards.	✓	✓	-
5. Accounts Production: review the accounts production process.	✓	✓	✓
6. Testing: test and confirm material or significant balances and disclosures.	-	✓	-
7. Representations & opinions : seek and provide representations before issuing our opinions.	✓	✓	✓

Enhancing our business understanding is a continual process, and we work closely with your officers throughout the year, with the objective of ensuring that we are aware of all developments and emerging issues, which provide focus for our audit work.

Below we focus on stages two to six, which we perform during our audit year:

Assessment of the Control Framework

We consider whether the Authority has put in place adequate arrangements to satisfy itself that its systems of internal financial control are both adequate and effective in practice. One of the main areas of evidence for this is the work performed by the Authority’s Internal Audit function during financial year.

The Code of Audit Practice encourages us to establish effective co-ordination arrangements with Internal Audit and seek to place reliance on the work of Internal Audit whenever possible. This enables us to direct our work to address the key audit risk areas, and carry out such testing as we consider necessary to provide ourselves with sufficient evidence to form an audit opinion on the financial statements.

From the work undertaken to date by Internal Audit and ourselves we conclude that the financial systems are appropriately controlled at the Authority. However, Internal Audit has made a number of recommendations to strengthen existing controls, and we support their recommendations. The key recommendations made by Internal Audit in respect of the main financial systems are identified below:

Key financial systems review	Key recommendation made
Council tax	Evidence of review of arrears exception reports, documentation of the procedure for processing changes of circumstances, and evidence of review of the reconciliation of the council tax gross debit.
Accounts payable	Timely preparation and independent review of monthly reconciliations between the creditors system and the general ledger

For the remaining key financial systems, no recommendations were raised by Internal Audit.

Continued overleaf

Accounts and Statement on Internal Control (continued)

Review of the work of Internal Audit

In line with the principles of the managed audit, we work with Internal Audit to assess the control framework that the Authority has in place to initiate, process and record transactions. In order to confirm our ability to place reliance on the work of Internal Audit we have reviewed:

- their overall arrangements for planning, recording and controlling work;
- their work on the fundamental systems; and
- re-performed a sample of tests completed by Internal Audit.

Our review of Internal Audit was carried out in February and April 2007, and we can report that we have been able place reliance on the scope and extent of work on the Authority's fundamental financial systems. We have summarised the results of our work, split between the main areas in the financial statements, in the table below.

Control Area	Number of high level financial accounts controls		
	...we would expect to be in place	...tested by Internal Audit	...found to be operational by Internal Audit
Debtors	6	5	5
Creditors	6	4	3
Payroll	6	5	5
Asset management	3	0	0
Council tax	7	7	7
Business rates	7	6	6
Treasury Management	5	5	5
Total	40	32 (note 1)	31 (note 2)

Notes:

1. We noted that the testing of a number of specific key controls was not completed by Internal Audit within 2006/07, however in a number of cases this is due to the timing at which the controls testing takes place (i.e. at year end or on a cyclical basis).
2. Recommendations have been made by Internal Audit to address specific control weaknesses identified. Appropriate external audit work has been incorporated into our audit approach to ensure risks associated with these weaknesses are adequately addressed.

Fraud and Corruption

The Authority should have arrangements in place that are designed to promote and ensure probity and propriety in the conduct of its business. The Authority's management are responsible for governance arrangements and for taking all reasonable steps to prevent and detect fraud and other irregularities. We are required to review the adequacy of the Authority's arrangements to manage its affairs in accordance with proper standards of financial conduct and to prevent and detect fraud and corruption.

We have, therefore, assessed the Authority's arrangements over a number of related activities, including:

- ensuring compliance with appropriate codes of conduct;
- ensuring compliance with Standing Orders and Financial Regulations; and
- the monitoring of its policies for the prevention and detection of fraud and corruption.

We discussed with officers the arrangements and controls currently in place and we continue to maintain open communication lines with Internal Audit to ensure we are made aware of any developments or potential irregularities that could have a significant impact on our audit.

The Authority has satisfactory arrangements in place for the detection of fraud and corruption and to maintain standards of financial conduct during the year. We have not been made aware of any fraud and corruption incidents during the year.

continued overleaf

Accounts and Statement on Internal Control (continued)

ISA 240 - the auditor's responsibility to consider fraud in an audit of financial statements

ISA 240 requires auditors to make enquiries of management and those charged with governance about how they manage the risk of fraud and their knowledge of actual or suspected fraud at the Authority.

ISA 240 does not change the relative responsibilities of the Authority and its auditors. Members and management retain the primary responsibility to ensure that there are appropriate controls in place to prevent and detect fraud and corruption, whilst auditors report on fraud as it materially affects the accounts and additionally, under Audit Commission arrangements, review the Authority's arrangements to deliver its responsibilities.

With regards to this responsibility we have already carried out a number of discussions with key officers in the Authority including the Head of Financial Services, and the Internal Audit team. During these meetings we considered management's approach and measures, both preventative and detective, to deal with fraud and corruption.

There are no issues arising from our work to date that we wish to bring to the attention of Members.

Impact of New Accounting Standards: Implementation of the 2006 SORP.

Local authorities' accounts for 2006/07 are required to comply with the Code of Practice on Local Authority Accounting in the United Kingdom 2006: A Statement of Recommended Practice ("the 2006 SORP"), issued by CIPFA.

The 2006 SORP has required a number of changes for the 2006/07 accounts, with further changes to take effect from 2007/08. Implementation has brought about a number of challenges for authorities, in identifying and actioning all the required changes.

The Authority has responded positively to the challenges, and has been proactive in addressing and incorporating the changes. We have worked closely with the Authority to ensure that the requirements of the 2006 SORP have been correctly reflected in the accounting policies, and as a result, in the financial statements.

Accounts Production

Your accounts production process is assessed as part of our UoR assessment. As part of the initial feedback on this process we have considered the production process against three criteria:

Element	Commentary
Completeness of draft accounts	We received a set of your draft accounts on 26 June 2007, prior to commencement of our final accounts audit which began on 23 July 2007. We can report that all disclosure notes were complete and the draft accounts were not subject to any material adjustment.
Quality of supporting working papers	As part of our interim audit, we issued a 'Prepared by Client' (PBC) request that provided a list of documentation required for our final accounts audit. We consider that the documentation you provided us was an improvement on previous years both in quality and timeliness. We will debrief this process with the Authority in September 2007 on completion of the accounts process and drawing on our findings from the Financial Reporting element of the 2007/08 use of resources assessment later in the year.
Response to audit queries	Our audit queries were dealt with quickly and efficiently. We held regular meetings with the Principal Accountant during the accounts process to update progress with our audit and to co-ordinate the work of the Finance team to assist in the delivery of the audit within the agreed timetable. We held a closing meeting on 21 August 2007 with the Principal Accountant and the Accountancy Services Managers.

As a result of the above we have raised two performance improvement observations which are included within Appendix 4. The status of implementation of our recommendations from the 2005/06 audit is detailed at Appendix 5.

Accounts and Statement on Internal Control (continued)

Testing

During the audit testing process we identified some potential numerical changes to the accounts that have not been adjusted by management as they do not have a material effect on the financial statements. In accordance with ISA 260 we are required to communicate these uncorrected audit differences to the Governance Committee. We are also required to communicate any material misstatements which have been corrected by management and which we believe should be communicated to the Governance Committee to help you meet your governance responsibilities.

We have enclosed a summary of both the corrected and uncorrected audit differences in Appendix 3.

Opinions and Representations

As part of the financial statements finalisation process we are required to provide you with representations concerning our independence and ability to act as your auditors. We have provided this at Appendix 7.

You are required to provide us with representations on specific matters such as your financial standing and whether the transactions within the accounts are legal and unaffected by fraud. We provided a draft of our representation letter to the Head of Financial Services on 13th September 2007 requesting this information. We have also included a copy of this within Appendix 6. Once we have received your representations as outlined above we will proceed to issuing our audit opinion.

There are no matters over which we are seeking specific representation.

Except for our commentary above, we do not have any other matters that we wish to draw to your attention before we issue our opinions.

Compliance with ISA260 Reporting Requirements

ISA260 requires us to communicate to those charged with governance "audit matters of governance interest that arise from the audit of the financial statements".

We have included within this Audit Memorandum:

- our views about the qualitative aspects of your accounting practices and financial reporting (Section Three)
- the draft of our proposed audit opinion (Appendix 2)
- details of any uncorrected misstatements within the financial statements (Appendix 3),
- the final draft of the management representations letter (Appendix 6)

We are also required to report:

- any material weaknesses in internal control identified during the audit.
- any matters specifically required by other ISAs (UK and Ireland) to be communicated to those charged with governance;
- any other audit matters of governance interest.

There are no others matters which we wish to draw to the attention of those charged with governance.

Appendix 1: Proposed use of resources conclusion

Authority's Responsibilities

The authority is responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance, and to regularly review the adequacy and effectiveness of these arrangements.

Under the Local Government Act 1999, the authority is required to prepare and publish a best value performance plan summarising the authority's assessment of its performance and position in relation to its statutory duty to make arrangements to ensure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness.

Auditor's Responsibilities

We are required by the Audit Commission Act 1998 to be satisfied that proper arrangements have been made by the authority for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the Audit Commission requires us to report to you our conclusion in relation to proper arrangements, having regard to relevant criteria specified by the Audit Commission for principal local authorities. We report if significant matters have come to our attention which prevent us from concluding that the authority has made such proper arrangements. We are not required to consider, nor have we considered, whether all aspects of the authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

We are required by section 7 of the Local Government Act 1999 to carry out an audit of the authority's best value performance plan and issue a report:

- certifying that we have done so;
- stating whether we believe that the plan has been prepared and published in accordance with statutory requirements set out in section 6 of the Local Government Act 1999 and statutory guidance; and
- where relevant, making any performance improvement observations under section 7 of the Local Government Act 1999.

Conclusion

We have undertaken our audit in accordance with the Code of Audit Practice and we are satisfied that, having regard to the criteria for principal local authorities specified by the Audit Commission, in all significant respects, Wyre Forest District Council made proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2007.

Best Value Performance Plan

We issued our statutory report on the audit of the authority's best value performance plan for the financial year 2006/07 on 31st December 2006. We did not identify any matters to be reported to the Authority and did not make any performance improvement observations on procedures in relation to the plan.

Certificate

We certify that we have completed the audit of the accounts in accordance with the requirements of the Audit Commission Act 1998 and the Code of Audit Practice issued by the Audit Commission.

KPMG LLP
Chartered Accountants
Birmingham
30 September 2007

Appendix 2: Proposed audit report

Independent auditors' report to the Members of Wyre Forest District Council

Opinion on the financial statements

We have audited the financial statements of Wyre Forest District Council for the year ended 31 March 2007 under the Audit Commission Act 1998, which comprise the Explanatory Foreword, the Income and Expenditure Account, the Statement of Movement on the General Fund Balance, the Statement of Total Recognised Gains and Losses, the Balance Sheet, the Cash Flow Statement, the Housing Revenue Income and Expenditure Account, the Statement of Movement on the Housing Revenue Account Balance, the Collection Fund, and the related notes. These financial statements have been prepared under the accounting policies set out within them.

This report is made solely to Wyre Forest District Council, as a body, in accordance with Part II of the Audit Commission Act 1998. Our audit work has been undertaken so that we might state to Wyre Forest District Council, as a body, those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than Wyre Forest District Council, as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of the Chief Finance Officer and auditors

The Chief Finance Officer's responsibilities for preparing the financial statements, in accordance with applicable laws and regulations and the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2006 are set out in the Statement of Responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements present fairly the financial position of Wyre Forest District Council in accordance with applicable laws and regulations and the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2006.

We review whether the Statement on Internal Control reflects compliance with CIPFA's guidance The Statement on Internal Control in Local Government: Meeting the Requirements of the Accounts and Audit Regulations 2003 published in April 2004. We report if it does not comply with proper practices specified by CIPFA or if the statement is misleading or inconsistent with other information we are aware of from our audit of the financial statements. We are not required to consider, nor have we considered, whether the statement on internal control covers all risks and controls. We are also not required to form an opinion on the effectiveness of the Authority's corporate governance procedures or its risk and control procedures.

Basis of audit opinion

We conducted our audit in accordance with the Audit Commission Act 1998, the Code of Audit Practice issued by the Audit Commission and International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the Authority in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Authority's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion:

The financial statements present fairly, in accordance with applicable laws and regulations and the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2006, the financial position of the Authority as at 31 March 2007 and its income and expenditure for the year then ended;

KPMG LLP
Chartered Accountants
Birmingham
30 September 2007

Appendix 3: Audit differences

We are required by ISA (UK and Ireland) 260 *Communication of Audit Matters to Those Charged with Governance* to communicate all uncorrected misstatements, other than those that we believe are clearly trivial, to the Audit Committee. We are also required to report all material misstatements that management has corrected but that we believe should be communicated to the Audit Committee to assist it in fulfilling its governance responsibilities.

This appendix sets out the audit differences that we identified following the completion of our audit of Wyre Forest District Council for the year ended 31 March 2007.

Uncorrected audit differences

Detailed below are the audit differences identified by our audit of the financial statements that have an effect on the reported financial position of the Authority.

Impact		Basis of audit difference	Reason for non-adjustment
Income and expenditure	Balance sheet		
	Dr expenditure £7k, Cr prepayments £7k	Understatement of audit fee which the Authority charges to I&E in arrears, and accounts for in prepayments. Value per I&E is therefore the 2005-06 audit fee per our plan.	Complexity of correcting journal entries in the context of the value of the adjustment.

Corrected audit differences

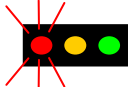

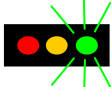
Detailed below are the audit differences identified by our audit of the financial statements that have been corrected by the Authority.

Impact		Basis of audit difference	Reason for adjustment
Income and expenditure	Balance sheet		
	Dr bank and cash £20k Cr creditors £20k	To reclassify input and output VAT which have been netted off	To ensure compliance with 2006 SORP
	Dr cash at bank £351k Cr creditors £351k	To correct exclusion of Kidderminster Educational Fund from Authority's cash at bank total, and corresponding creditor	To amend presentation of balance sheet to reflect change in SORP requirement
	Dr Fixed Asset Restatement Account £111k Cr Government Grants Deferred Account £111k	To correct understatement of Government Grants Deferred Account (identified corrected by management prior to commencement of audit)	To ensure compliance with 2006 SORP
	Dr Collection Fund Reserve £260k Cr creditors £260k	To correct understatement of creditors relating to Collection Fund surplus to precepting bodies, currently classified within Collection Fund Reserves	To amend presentation of balance sheet to reflect change in SORP requirement
Cr income ('Income from sales of Right to Buy properties') £1,126k	Dr Usable Capital Receipts Reserve £1,126k	To recognise the income from the right to buy clawback arrangements, and other capital receipts, in light of recent changes to guidance which became apparent during the late stages of the final audit	To ensure compliance with 2006 SORP

We also identified a number of typographical and presentational adjustments to the accounts which the Authority has subsequently corrected.

Appendix 4: Accounts performance improvement observations

This appendix summarises the performance improvements that we have identified relating to the accounts production process while preparing this report. We have given each of our observations a risk rating (as explained below) and agreed with management what action you will need to take.

Priority rating for performance improvement observations raised		
<p>Priority one: issues that are fundamental and material to your system of internal control. We believe that these issues might mean that you do not meet a system objective or reduce (mitigate) a risk.</p> 	<p>Priority two: issues that have an important effect on internal controls but do not need immediate action. You may still meet a system objective in full or in part or reduce (mitigate) a risk adequately but the weakness remains in the system.</p> 	<p>Priority three: issues that would, if corrected, improve the internal control in general but are not vital to the overall system. These are generally issues of best practice that we feel would benefit you if you introduced them.</p> 

Number	Risk	Issue and recommendation	Management response	Officer and due date
1	● (two)	<p>Annual review by Internal Audit of all high level systems controls</p> <p>Within 2006/07 some high level controls upon which external audit relies for systems assurance, have not been tested, for instance in the area of asset management. This is due in a number of cases to the timing of the testing of the controls, or the Authority's cyclical review process. Whilst we incorporated appropriate testing into our final accounts work, Internal Audit should review all basic high level controls to provide assurance to the Authority over the operation of its financial systems, as well as to inform the work of External Audit over the operation of the basic controls in the Authority.</p> <p>The Authority will therefore need to liaise closely with the incoming External Audit provider to agree the scope and level of controls testing to be undertaken each year.</p>		

Appendix 5: Prior year performance improvement observations

This appendix summarises the progress made to implement the performance improvements that we identified in our previous reports. In summary:

Year	Number of performance improvement observations that were:		
	Included in original report	Implemented in year or superseded	Remain outstanding (re-iterated below)
2005/06 Interim	2	2	0
2005/06 Annual External Audit Report	2	To be reported within Annual External Audit Report 2006/07	
Total	4	2	0

Appendix 6: Draft management representation letter

Private & confidential.

Mr K. Bannister
Head of Financial Services
Wyre Forest District Council
Duke House
Clensmore Street
Kidderminster
WORCS
DY10 2JX

Our ref jg / is/ gd / 06/07

13 September 2007

Dear Keith

Local Government Management Representations 2006/07

We are required by Auditing Standards to obtain written representations from management in respect of related party disclosures, compliance with laws and regulations, the accuracy of the financial statements, unadjusted audit differences, fraud and fair value measurements and disclosures. In addition we are seeking management representations in relation to contingent liabilities, post balance sheet events and any specific risks identified during the audit where management representations are deemed to be necessary.

In a local government context we believe it is appropriate for management representations to be discussed and approved by the full council, the audit committee (where established) or any other committee which has been given delegated responsibility for approval of the financial statements under the Accounts and Audit Regulations 2003. The actual representation letter should be signed by the Responsible Financial Officer (RFO) following completion of our financial statements audit.

We have attached an example representation letter at Appendix 1. Where you feel it would be helpful you may wish to adapt the wording of the standard letter.

Related parties

ISA 550 (UK&I) '*Related Parties*' requires auditors to obtain written representations from management concerning the completeness of information provided regarding the related party disclosures in the financial statements. Written representations should include confirmation that all material related party transactions have been properly recorded and disclosed in the financial statements and that management are not aware of any additional matters that should be disclosed.

Appendix 6: Draft management representation letter (continued)

Laws and Regulations

ISA 250 (UK&I) '*Consideration of Laws and Regulations in an Audit of Financial Statements*' requires auditors to obtain representations that management has disclosed all known or possible non-compliance with laws and regulations whose effects should be considered when preparing financial statements. Where applicable, the written representation should include the actual or contingent consequences which may arise from non-compliance.

Fair value measurements and disclosures

ISA 545 (UK&I) '*Auditing Fair Value Measurements and Disclosures*' requires auditors to obtain written representations from management regarding the reasonableness of significant assumptions relevant to fair value measurements or disclosures. ISA 545 recognises that many public bodies have adopted fair value as the basis of valuation for many classes of the assets and liabilities that they hold, or for disclosures of items in the financial statements. When fair value measurements and disclosures are material to the financial statements, the auditor should obtain sufficient appropriate audit evidence that such measurements and disclosures are in accordance with the entity's applicable financial reporting framework.

Unadjusted audit differences

ISA 260 (UK&I) '*Communication of Audit Matters to Those Charged with Governance*' requires us to seek representations that management believes the effects of uncorrected misstatements identified by the auditor during the audit are immaterial, both individually and in aggregate, to the financial statements taken as a whole. A summary of such items should be included in or attached to the representations letter.

Fraud

ISA 240 (UK&I) '*The Auditor's Responsibility to Consider Fraud in the Audit of Financial Statements*' requires us to seek representations that management acknowledges its responsibility to maintain an effective system of internal control and that all known frauds, suspected frauds, or risks of fraud have been disclosed to us during the course of our audit.

Post balance sheet events and contingent liabilities

These representations cover significant events that may have occurred since the balance sheet date that may require additional adjustment or disclosure, as well as the completeness of contingent liabilities disclosed in the financial statements.

We have attached an example letter of representation, which you may find helpful. Please note that this is not the only evidence we obtain in relation to these matters. If you feel that you cannot make the representations suggested in the example letter we will take this into account in determining the level of audit risk and the scope of our audit work. If we need to seek any other

Appendix 6: Draft management representation letter (continued)

management representations on specific issues, risks or transactions these will be discussed with you directly.

Please contact us if you have any queries about the above or foresee any difficulties providing us with the representations sought in this letter.

Yours sincerely

Jon Gorrie
Director
KPMG LLP

Appendix 1

Example management representations letter

Dear KPMG LLP,

We understand that auditing standards require you to obtain representations from management on certain matters material to your opinion. Accordingly we confirm to the best of our knowledge and belief, having made appropriate enquiries of other members of the Council, the following representations given to you in connection with your audit of the financial statements for Wyre Forest District Council for the year ended 31 March 2007.

All the accounting records have been made available to you for the purpose of your audit and the full effect of all the transactions undertaken by Wyre Forest District Council has been properly reflected and recorded in the accounting records in accordance with agreements, including side agreements, amendments and oral agreements. All other records and related information, including minutes of all management and Board meetings, have been made available to you.

We confirm that we have disclosed all material related party transactions relevant to the Council and that we are not aware of any other such matters required to be disclosed in the financial statements, whether under FRS 8 or other requirements.

We confirm that we are not aware of any actual or potential non-compliance with laws and regulations that would have had a material effect on the ability of the Council to conduct its business and therefore on the results and financial position to be disclosed in the financial statements for the year ended 31 March 2006.

We acknowledge that we are responsible for the fair presentation of the financial statements in accordance with the Local Government Statement of Recommended Practice (“SORP”) and wider UK accounting standards. We have considered and approved the financial statements.

We confirm that we:

understand that the term “fraud” includes misstatements resulting from fraudulent financial reporting and misstatements resulting from misappropriation of assets. Misstatements resulting from fraudulent financial reporting involve intentional misstatements or omissions of amount or disclosures in financial statements to deceive financial statement users. Misstatements resulting from misappropriation of assets involve the theft of an entity’s assets, often accompanied by false or misleading records or documents in order to conceal the fact that the assets are missing or have been pledged without proper authorisation;

Appendix 6: Draft management representation letter (continued)

- are responsible for the design and implementation of internal control to prevent and detect fraud and error;
- have disclosed to you our knowledge of fraud or suspected fraud affecting the Council involving:
 - Management;
 - Employees who have significant roles in internal control; or
 - Others where the fraud could have a material effect on the financial statements.
- have disclosed to your our knowledge of any allegations of fraud, or suspected fraud, affecting the Council's financial statements communicated by employees, former employees, analysts, regulators or others;
- have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.

We confirm that the presentation and disclosure of the fair value measurements of material assets, liabilities and components of equity are in accordance with applicable reporting standards. The amounts disclosed represent our best estimate of fair value of assets and liabilities required to be disclosed by these standards. The measurement methods and significant assumptions used in determining fair value have been applied on a consistent basis, are reasonable and they appropriately reflect our intent and ability to carry out specific courses of action on behalf of the Council where relevant to the fair value measurements or disclosures.

We confirm that there are no other contingent liabilities, other than those that have been properly recorded and disclosed in the financial statements. In particular:

- there is no significant pending or threatened litigation, other than that already disclosed in the financial statements; and
- there are no material commitments or contractual issues, other than those already disclosed in the financial statements.

Finally, no additional significant post balance sheet events have occurred that would require additional adjustment or disclosure in the financial statements, over and above those events already disclosed.

This letter was tabled at the meeting of the Audit Committee on 17th September 2007.

Yours faithfully

[Name of Executive Director signing letter on behalf of Authority]

On behalf of the Authority

Appendix 7: ISA 260 Declaration of independence and objectivity

Declaration of Independence and Objectivity 2006/07

Auditors appointed by the Audit Commission must comply with the *Code of Audit Practice* (the Code) which states that:

“Auditors and their staff should exercise their professional judgement and act independently of both the Audit Commission and the audited body. Auditors, or any firm with which an auditor is associated, should not carry out work for an audited body, which does not relate directly to the discharge of auditors’ functions, if it would impair the auditors’ independence or might give rise to a reasonable perception that their independence could be impaired”

In considering issues of independence and objectivity we consider relevant professional, regulatory and legal requirements and guidance, including the provisions of the Code, the detailed provisions of the Statement of Independence included within the Audit Commission’s *Annual Letter of Guidance and Standing Guidance* (Audit Commission Guidance) and the requirements of APB Ethical Standard 1 *Integrity, Objectivity and Independence* (‘Ethical Standards’).

The Code states that, in carrying out their audit of the financial statements, auditors should comply with auditing standards currently in force, and as may be amended from time to time. Audit Commission Guidance requires appointed auditors to follow the provisions of ISA (UK & I) 260 *Communication of Audit Matters with Those Charged with Governance* that are applicable to the audit of listed companies. This means that the appointed auditor must disclose in writing:

- Details of all relationships between the auditor and the client, its directors and senior management and its affiliates, including all services provided by the audit firm and its network to the client, its directors and senior management and its affiliates, that the auditor considers may reasonably be thought to bear on the auditor’s objectivity and independence;
- The related safeguards that are in place; and
- The total amount of fees that the auditor and the auditor’s network firms have charged to the client and its affiliates for the provision of services during the reporting period, analysed into appropriate categories, for example, statutory audit services, further audit services, tax advisory services and other non-audit services. For each category, the amounts of any future services which have been contracted or where a written proposal has been submitted are separately disclosed.

Appointed auditors are also required to confirm in writing that they have complied with Ethical Standards and that, in the auditor’s professional judgement, the auditor is independent and the auditor’s objectivity is not compromised, or otherwise declare that the auditor has concerns that the auditor’s objectivity and independence may be compromised and explaining the actions which necessarily follow from his. These matters should be discussed with the Governance Committee.

Ethical Standards require us to communicate to those charged with governance in writing at least annually all significant facts and matters, including those related to the provision of non-audit services and the safeguards put in place that, in our professional judgement, may reasonably be thought to bear on our independence and the objectivity of the Audit Partner and the audit team.

General procedures to safeguard independence and objectivity

KPMG’s reputation is built, in great part, upon the conduct of our professionals and their ability to deliver objective and independent advice and opinions. That integrity and objectivity underpins the work that KPMG performs and is important to the regulatory environments in which we operate. All partners and staff have an obligation to maintain the relevant level of required independence and to identify and evaluate circumstances and relationships that may impair that independence.

Acting as an auditor places specific obligations on the firm, partners and staff in order to demonstrate the firm’s required independence. KPMG’s policies and procedures regarding independence matters are detailed in the Ethics and Independence Manual (‘the Manual’). The Manual sets out the overriding principles and summarises the policies and regulations which all partners and staff must adhere to in the area of professional conduct and in dealings with clients and others.

Continued overleaf

Appendix 7: ISA 260 Declaration of independence and objectivity (continued)

KPMG is committed to ensuring that all partners and staff are aware of these principles. To facilitate this, a hard copy of the Manual is provided to everyone annually. The Manual is divided into two parts. Part 1 sets out KPMG's ethics and independence policies which partners and staff must observe both in relation to their personal dealings and in relation to the professional services they provide. Part 2 of the Manual summarises the key risk management policies which partners and staff are required to follow when providing such services.

All partners and staff must understand the personal responsibilities they have towards complying with the policies outlined in the Manual and follow them at all times. To acknowledge understanding of and adherence to the policies set out in the Manual, all partners and staff are required to submit an annual Ethics and Independence Confirmation. Failure to follow these policies can result in disciplinary action.

Auditor Declaration

In relation to the audit of the financial statements of Wyre Forest District Council for the financial year ending 31 March 2007, we confirm that there were no relationships between KPMG LLP and the Authority, its directors and senior management and its affiliates that we consider may reasonably be thought to bear on the objectivity and independence of the audit engagement partner and audit staff. We also confirm that we have complied with Ethical Standards and the Audit Commission's requirements in relation to independence and objectivity.

Details of our fees for the financial year are given in Appendix 8.

Appendix 8 – audit fee

This section summarises our overall arrangements for delivering your external audit in 2006/07. To make sure that there is openness between us and your Audit Committee about the extent of our fee relationship with you, we have summarised below the out-turn against the 2006/07 agreed external audit fee:

External audit fee for 2006/07



The use of resources fee includes our work performed on management arrangements and data quality as well as selected best value performance indicators. Work on the remaining key lines of enquiry will commence in due course. The budgeted fee for the certification of grant claims remains broadly consistent with prior year, although work in respect of certification will commence in mid- September 2007.

Other work comprises of the following additional reviews undertaken in the year:

- Early review of the methodology applied to the restatement of prior year comparative balances, in light of the implementation of the 2006 SORP
- Review of the Whole of Government Accounts return
- Review of the Authority’s arrangements to comply with the National Fraud Initiative