

AGENDA

Meeting: Audit
Place: Council Chamber - County Hall, Trowbridge BA14 8JN
Date: Tuesday 10 March 2015
Time: 10.30 am

Please direct any enquiries on this Agenda to David Parkes of Democratic Services, County Hall, Trowbridge, direct line (01225) 718220 or email david.parkes@wiltshire.gov.uk

All public reports referred to on this agenda are available on the Council's website at www.wiltshire.gov.uk .

Press enquiries to Communications on direct lines (01225) 713114 / 713115

Membership:

Cllr Richard Britton (Vice Chairman)
Cllr Rosemary Brown
Cllr Tony Deane (Chairman)
Cllr Stewart Dobson
Cllr Julian Johnson
Cllr Stephen Oldrieve

Cllr Jeff Osborn
Cllr Linda Packard
Cllr Sheila Parker
Cllr David Pollitt
Cllr James Sheppard

Non-Voting Members

Cllr Jane Scott OBE

Cllr Dick Tonge

Substitutes

Cllr Terry Chivers
Cllr Peter Evans
Cllr Nick Fogg MBE
Cllr Mike Hewitt
Cllr George Jeans
Cllr David Jenkins

Cllr Jacqui Lay
Cllr Dr Helena McKeown
Cllr John Noeken
Cllr Helen Osborn
Cllr Mark Packard
Cllr Ian West

RECORDING AND BROADCASTING NOTIFICATION

Wiltshire Council may record this meeting for live and/or subsequent broadcast on the Council's website at <http://www.wiltshire.public-i.tv> At the start of the meeting, the Chairman will confirm if all or part of the meeting is being recorded. The images and sound recordings may also be used for training purposes within the Council.

By entering the meeting room you are consenting to being recorded and to the use of those images and recordings for broadcasting and/or training purposes.

The meeting may also be recorded by the press or members of the public.

Any person or organisation choosing to film, record or broadcast any meeting of the Council, its Cabinet or committees is responsible for any claims or other liability resulting from them so doing and by choosing to film, record or broadcast proceedings they accept that they are required to indemnify the Council, its members and officers in relation to any such claims or liabilities.

Details of the Council's Guidance on the Recording and Webcasting of Meetings is available on the Council's website along with this agenda and available on request.

If you have any queries please contact Democratic Services using the contact details above.

Part I

Items to be considered while the meeting is open to the public

1 Apologies and Membership Changes

2 Chairman's Announcements

3 Minutes of the Previous Meeting (Pages 5 - 8)

To confirm and sign the minutes of the Audit Committee meeting held on 27 January 2015.

4 Members' Interests

To receive any declarations of disclosable interests or dispensations granted by the Standards Committee.

5 Public Participation and Committee Members' Questions

The Council welcomes contributions from members of the public.

Statements

If you would like to make a statement at this meeting on any item on this agenda, please register to do so at least 10 minutes prior to the meeting. Up to 3 speakers are permitted to speak for up to 3 minutes each on any agenda item. Please contact the officer named on the front of the agenda for any further clarification.

Questions

To receive any questions from members of the public or members of the Council received in accordance with the constitution. Those wishing to ask questions are required to give notice of any such questions in writing to the officer named on the front of the agenda (acting on behalf of the Corporate Director) no later than 5pm on **03 March 2015**. Please contact the officer named on the front of this agenda for further advice. Questions may be asked without notice if the Chairman decides that the matter is urgent.

Details of any questions received will be circulated to Committee members prior to the meeting and made available at the meeting and on the Council's website.

6 Internal Audit Annual Plan (SWAP) (Pages 9 - 36)

7 External Audit Plan (KPMG) (Pages 37 - 68)

8 Forward Work Programme

| | |
|-------------------|---------------------------------------------------------------------------------------------------|
| | |
| <i>23/06/2015</i> | <i>AGS IA Annual Audit Letter External Audit Interim Report</i> |
| | |
| <i>29/07/2015</i> | <i>AGS Statement of Accounts Report to those charged with Governance Q1 IA report</i> |

9 Date of next meeting

To note that the next regular meeting of the Committee will be held on 23 June 2015.

10 Urgent Items

Any other items of business, which the Chairman agrees to consider as a matter of urgency.

Part II

Items during whose consideration it is recommended that the public should be excluded because of the likelihood that exempt information would be disclosed

AUDIT

DRAFT MINUTES OF THE AUDIT MEETING HELD ON 27 JANUARY 2015 AT SALISBURY ROOM - COUNTY HALL, TROWBRIDGE.

Present:

Cllr Richard Britton (Vice Chairman), Cllr Tony Deane (Chairman), Cllr Stewart Dobson (Substitute), Cllr Mike Hewitt (Substitute), Cllr Julian Johnson, Cllr Stephen Oldrieve, Cllr Jeff Osborn (Substitute), Cllr Linda Packard and Cllr James Sheppard

Also Present:

Cllr Jane Scott OBE and Cllr Dick Tonge

52 Apologies and Membership Changes

Apologies were received from Cllr Shiela Parker who was substituted by Cllr Mike Hewitt.

Apologies were received from Cllr Helen Osborn who was substituted by Cllr Jeff Osborn.

Apologies were received from Cllr Rosemary Brown who was substituted by Cllr David Jenkins.

53 Chairman's Announcements

There were no announcements.

54 Minutes of the Previous Meeting

The minutes of the previous meeting were approved by the Committee with one amendment:

Minute 47 would be edited to read 'Central government grants had been applied for and it was hoped that the team would be **self-financing**'.

55 Members' Interests

There were no declarations.

56 **Public Participation and Committee Members' Questions**

There was no public participation or Committee Members' questions.

57 **Q3 - Internal Audit Update.**

The update discussed the outcomes of the audit, follow up reviews and adequacy of management actions during this period. The Finance Director discussed accountability and assessment questionnaires which were of a good quality. It was heard that many recommendations were being implemented as a direct result of the Audit Committee's input.

The Executive Director (SWAP) explained that a further 7 recommendations had been completed since the previous meeting and a further 52 were outstanding. He continued by stating that no significant risks had been identified. Member's expenses claims were discussed and it was heard that there was confusion around policy and the interpretation of policy. Cllr Dick Tonge clarified that Members should now have been using SAP rather than paper to record their expenses; this would provide a more rigorous system.

Members discussed the management of 'Care First' and it was heard that current compensating controls were inefficient and this would be looked into. The management of partial reviews was also discussed and it was explained that these would be followed up within 6 months to ensure recommendations were implemented.

Members asked why absence management had been deferred in both April and October 2014. In response, it was heard that the process had been changed to make the process easier and a number of mitigating controls had come out of the report.

Indicative start dates for those delayed audits were requested and updates on overdue audits were required. Representatives of SWAP explained that these issues were in-hand and clarified that the contract monitoring audit had been split into two parts – one of which had been completed.

The Finance Director stated that in terms of governance, the outcomes of the peer inspection were yet to be received and this had been reported to Cabinet in early 2014. The Finance Director had met with auditors every 6 weeks and some audits had been deferred when necessary.

Corporate Director, Carlton Brand, explained that it was necessary to avoid viewing audits in isolation but instead viewing them in the realities of the rest of the business. Radical reductions had been made to the IT budget and there was a need for greater context within the audit reports. The Corporate Director continued by stating that further audits had been requested in regards to procurement. The Local Economic Partnership (LEP) would be audited as a

matter of urgency. It was heard that further financial cuts were expected and consequently further restructuring would likely be necessary.

It was agreed that further comments were required to give an overarching picture.

Concern was raised in regards to contract clauses and a delay in the procurement restructure was discussed. Clarification was requested over the categorisation of risks and it was explained that this was decided by SWAP's own judgement.

It was heard that internal audit procedures would have to be adapted to concentrate on the areas of greatest risk due to reduced capacity.

The Leader of the Council stated that it was necessary to connect audit with risk and that financial reductions would only continue. Unnecessary audits should be avoided and their focus must be on high risks. The Finance Director stated that risk training for Members and officers had been provided.

Adam Bunting (KPMG) stated that this was not a situation unique to Wiltshire and there was a clear need for more meaningful reviews in relation to risk.

The Finance Director stated that there had been a £100k reduction proposal in the 2015/16 budget papers for the internal audit service; however, it was his statutory duty to ensure that there was adequate internal provision.

It was heard that the new audit plan must reflect changes within the organisation and that increased Member attendance was required at risk meetings.

58 **KPMG - Update Report**

Adam Bunting (KPMG) presented the update report. It was heard that additional work on business rates had been undertaken and scale fees had been revised. Much of the information within the technical update was around accounting and had been received via external communication channels.

The Leader of the Council explained that the information received from external channels was used where appropriate and was targeted. A list of guidance notes would be circulated to Members if requested.

Members asked how changes to internal audit would impact on KPMG's work. It was explained that KPMG only used specific areas of IA's work and this would not be seen as a potential issue.

The 'Better Care Plan' was discussed due to Wiltshire Council's involvement as one of only five local authorities to take forward the plan and advancements had been made.

59 **KPMG - Grant Certification**

The Grant Certification was now complete; this included housing benefit and the pooling of housing receipts. There was a great deal of change and some human errors had occurred. The Finance Director explained that accessing benefit claims was a very complex procedure.

It was heard that KPMG's fee was set at £23,006, as decided by the Audit Commission.

60 **Forward Work Programme**

Members requested a covering paper that linked the forward work programme to the corporate risk register at future meetings.

61 **Date of next meeting**

The next meeting would be on 10 March 2015 at 10:30 in the Council Chamber, County Hall, Trowbridge.

62 **Urgent Items**

There were no urgent items.

(Duration of meeting: 10.30 - 11.55 am)

The Officer who has produced these minutes is David Parkes, of Democratic Services, direct line (01225) 718220, e-mail david.parkes@wiltshire.gov.uk

Press enquiries to Communications, direct line (01225) 713114/713115

WILTSHIRE COUNCIL

AGENDA ITEM NO.

AUDIT COMMITTEE

10th March 2014

INTERNAL AUDIT PLAN 2015/16

Purpose of the Report

1. This report presents the Committee with the Internal Audit Plan for 2015/16 and the Internal Audit Charter.

Executive Summary

1. The report at appendix A gives a background to the audit plan and the revised approach to internal work during 2015/16. To further assist members, slides have been included in appendix B and a presentation will be given at the committee to explain the new approach.
2. The Internal Audit Charter sets out then operational relationship between the Council and the South West Audit Partnership. This governs and guides the operational work of the Internal Audit service in delivering against the plan. The Charter was last approved by the Audit Committee in 2014 and is reviewed each year to confirm it remains accurate and up to date.

Proposal

3. Members are asked to scrutinise the Internal Audit Plan for 2015/16 and the Internal Audit Charter.

Reasons for Proposals

4. To ensure an effective Internal Audit function and strong control environment.

Michael Hudson
Associate Director, Finance, S.151 Officer

Report author: Michael Hudson
01225 713601
michael.hudson@wiltshire.gov.uk

Unpublished documents relied upon in the preparation of this Report: None.

Appendices: A – Internal Audit Annual Plan Report 2015/16
B – Slides (to be presented at Committee) explaining approach
C – Internal Audit Charter



Wiltshire Council

Internal Audit Plan 2015/16

Content

The contacts at SWAP in Connection with this report are:

Gerry Cox

Chief Executive

Tel: 01935 385906

gerry.cox@southwestaudit.co.uk

David Hill

Director of Planning

Tel: 01935 385906

david.hill@southwestaudit.co.uk

Denise Drew

Audit Manager

Tel: 01225 712702

denise.drew@southwestaudit.co.uk

Suella Coman

Audit Manager

Tel: 01225 712704

suella.coman@southwestaudit.co.uk

| | |
|----------------------------------------|----------|
| Role of Internal Audit | Page 1 |
| Background | |
| History and Approach to Audit Planning | Page 2 |
| Three Lines of Defence | Page 3 |
| Other Key Factors | Page 4 |
| Draft Annual Audit Plan 2015-16 | Page 5-6 |

Our audit activity is split between:

- Combined Assurance
- Operational Audits
- Key Control Audits
- Governance, Fraud & Corruption Audits
- IT Audits
- Special Reviews

Role of Internal Audit and Audit Work

The Internal Audit service for Wiltshire Council is provided by South West Audit Partnership (SWAP). SWAP is a Local Authority controlled company. SWAP has adopted and works to the Standards of the Institute of Internal Auditors, further guided by interpretation provided by the Public Sector Internal Audit Standards (PSIAS). The Partnership is also guided by the Internal Audit Charter approved by this Committee.

Internal Audit provides an independent and objective opinion on the Authority’s governance, risk and control environment by evaluating its effectiveness. In order to achieve this, the audit activity is split across the review categories listed to the left.

Background

It is recommended by the Public Sector Internal Audit Standards that organisations nominate a ‘Board’ to oversee (monitor and scrutinise) the work of Internal Audit. As such, in addition to senior management oversight, this Council has determined that, the Audit Committee will undertake this function. The plan is presented later in this report and represents the internal audit activity for the 2015/16 financial year.

It should be noted that plan days are only indicative for planning our resources. At the start of each audit an initial meeting is held to agree the terms of reference for the audit which includes the objective and scope for the review. Any changes to individual plan items, in terms of days, are managed within the annual payment made by the Council. The plan is pulled together with a view to providing assurance to both officers and Members that current and imminent risks faced by the Authority are adequately controlled and managed. As with previous years the plan will have to remain flexible as new and emerging risks are identified. Any changes to the agreed plan will only be made through a formal process involving the Associate Director, Finance (Section151).

The Annual Plan

History of Annual Audit Planning

In most recent years the annual plan has been arrived at by a risk assessment of the audit universe, discussions with management about their service risks and key financial control audits to support the opinion of the External Auditor.

Whilst this approach has worked in the past, the environment for both local authorities and an internal audit service that adds value has changed. Austerity measures have led to an unprecedented transformational change agenda that has picked up pace and as a result services are changing rapidly. This in turn means that organisational risks, as well as being identified have to be managed within an increasing risk appetite so that decisions on effective service delivery are based on informed risk management.

Approach to Annual Audit Planning 2015/16

Due to the rapid pace of change and a reduction in audit resource that is line with our other Partners, the approach to planning requires fundamental change. Discussions with the S151 Officer and Corporate Directors have led us to agree that audit planning should take consideration of the three lines of defence model. This concept is introduced in more detail below ,but working with this model we intend to identify all streams of assurance whether internal or external that contribute to the Councils’ overall risk, governance and control framework. As a result of this work we believe that Internal Audit resource can be directed at the most high risk areas, not just known risks but risks that were previously unknown but identified through this process. It is recognised that this is a subtle but necessary change to the use of internal audit resource. In the first year there will be an emphasis and high resource need on getting the process working and mapping the assurance framework. Management at all levels will need to assist with the process but Internal Audit will co-ordinate the work. Internal Audit will also work together more closely with the Risk Management team to ensure that their work is complimentary and that there is no duplication.

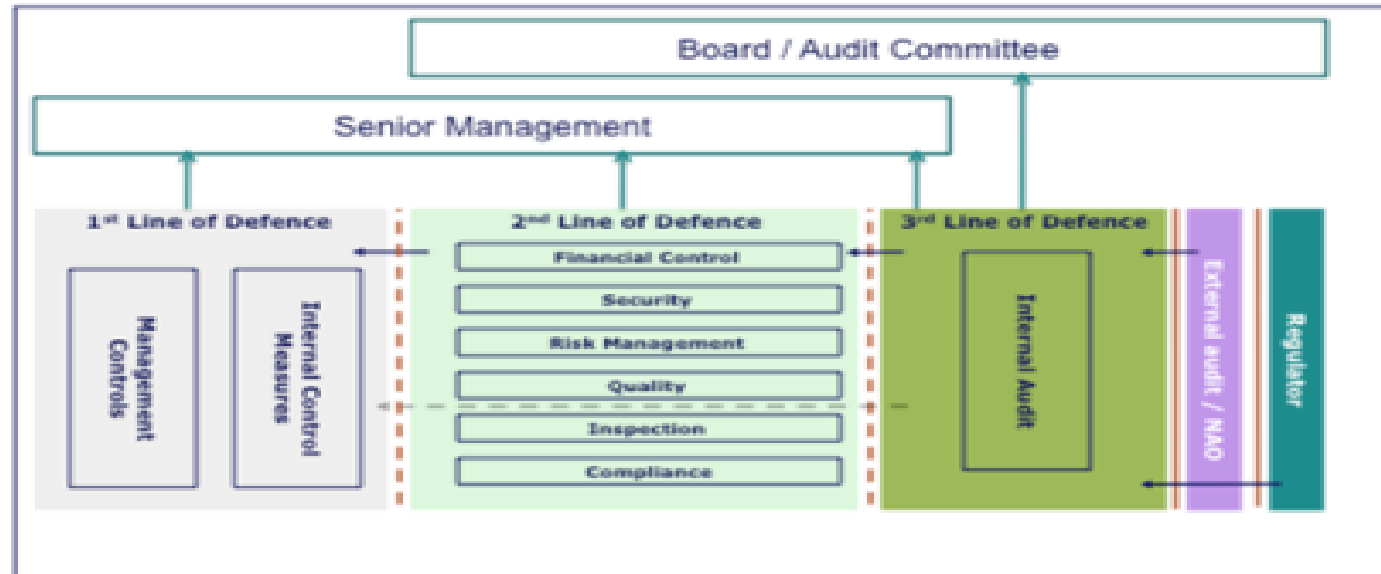
The Annual Plan

Three Lines of Defence

This model operates within most organisations and shows the 3 lines of defence that should be operating:

- 1. 1st Line of Defence – Functions that own and manage risks
- 2. 2nd Line of Defence – Functions that oversee risk
- 3. 3rd Line of Defence – Functions that provide independent assurance

Three lines of defence model



Other Key Areas in Compiling the Plan

Other Key Factors

There are other key factors within the annual planning process that should not be overlooked and these will also form part of the overall plan for 2015-16:

Risk Assessment of Audit Universe

A complete risk assessment of the audit universe will be undertaken using the Local Government Classification scheme. This will in part help address concerns about unidentified risk areas.

Key Financial Control Work

Whilst the External Auditors, KPMG no longer direct the work undertaken by Internal Audit, they do still place reliance on the work that has been undertaken. There is still an agreed working protocol in place that covers key financial control work but it is for Internal Audit to undertake an assessment of what work is to be carried out. This is done by reviewing previous findings from audit work and also considering any changes to the control environment e.g. changes to systems or key personnel.

Follow up work

Internal Audit are required to follow up “partial” opinion audits and also to ensure that agreed management actions are implemented. Regular reports are brought to the Audit Committee to update members on progress.

| Area of audit | Scope of work | Budget 2015/16 | Budget 2014/15 |
|------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------|----------------|
| Key Financial Controls | Review of Financial and I.T. Controls to provide assurance for the statement of accounts: To cover: <ul style="list-style-type: none"> • Accounts Receivable • Accounts Payable • Banking • Budgetary Control • Capital • General Ledger • Housing and Council Tax Benefits • Payroll • Pensions • Treasury Management | 105,000 | 105,000 |
| ICT | Review of High Risk ICT Areas to support controls audit: <ul style="list-style-type: none"> • ICT Healthcheck to then develop the detailed ICT plan | 35,000 | 54,000 |
| Key Project Audits | To be agreed, developed and continually reported back to Committee: <ul style="list-style-type: none"> • Development Control • Asset Disposal and Management • Care Placements | 100,000 | 150,000 |
| Assurance Mapping | Phase 1 governance and risk review of service areas and Output Report of recommended further operational review audits | 80,000 | 0 |

| Area of audit | Scope of work | Budget 2015/16 | Budget 2014/15 |
|----------------------|--------------------------------------------------------------------------------------------------------------|----------------|----------------|
| Operational Reviews | Resulting from Phase 1 Assurance Mapping per above | 25,000 | 80,000 |
| Corporate Risk Areas | Area identified as high corporate risk audit reviews determined following risk assessment of audit universe: | 40,000 | 50,000 |
| Schools | Individual and Themed School Reviews | 30,000 | 44,000 |
| Fraud audits | Provision of Investigatory Work | 15,000 | 27,000 |
| Advice | Audit advice, contingency and audit committee. | 25,000 | 40,000 |
| Follow Up Reviews | Follow up Partial Assurances | 25,000 | 30,000 |
| | | 480000 | 580000 |



South West Audit Partnership

Internal Audit Plan 2015 to 2020: Combined Assurance

Introduction

- How has Internal Audit Changed?
- How have authorities changed? There is Potentially Greater Risks – Less Controls
- So where do Senior Leaders and IA get Assurance in this new world?

How has Internal Audit Changed?

- Moved to focus on risks
- Wider than just financial risks
- Has to add value to and be part of management
- Do engage on audit plan setting (but service led?)

But IA is:

- Not there to duplicate controls
- Not there to compensate for no controls

Managers have a role to play that isn't responding to Action Plans

How have authorities changed?

Its potentially a riskier environment, so must manage

- Less money & Fewer staff
- Greater reliance on IT
- Greater public demand, expectation & press inspection
- Greater openness of data
- External monitoring
- Greater partnership working

So do IA add value?

- Some signs, but need to change further
 - Carlton's and Vice Chair's comments at last Audit Committee
 - Contribute to savings
 - Be a true partnership and management tool
- So how will we do that?

So what do we need to do to make the next step change?

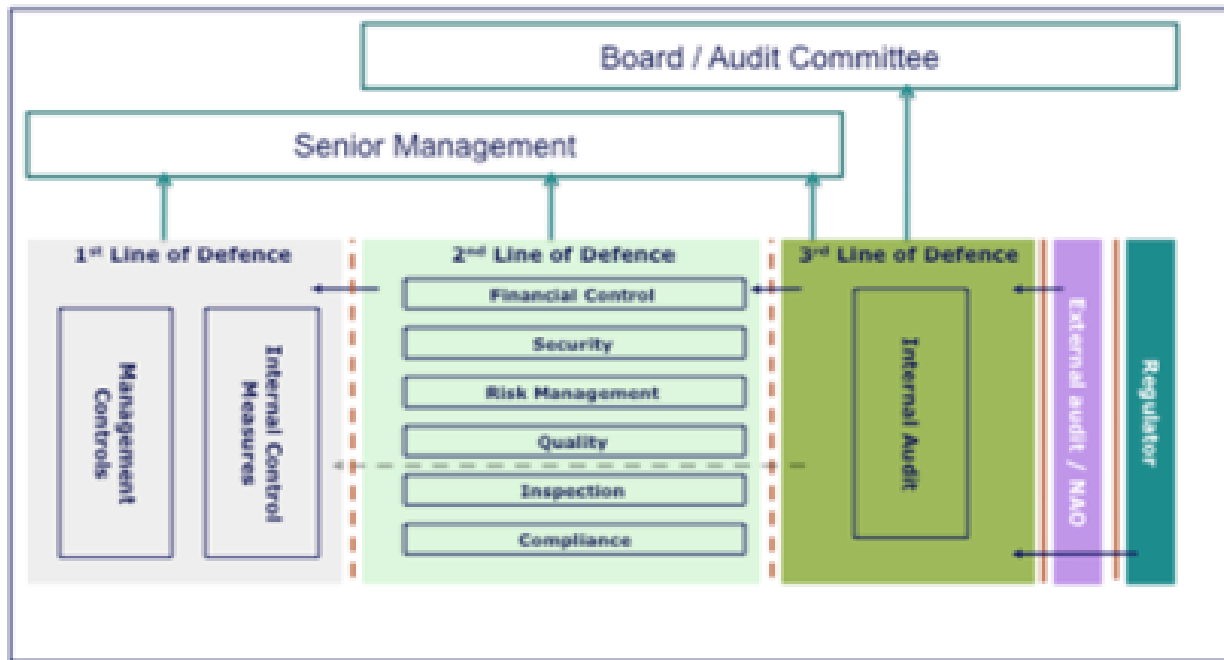
- Shared risk & control assurance map
- Take time to map year 1
- Managers own the process and results with IA
Output then Focused Audits

Note – the Finance controls testing is a statute requirement and to some degree sit outside of this

So how do we make the step change - Assurance Mapping the Governance, Risk and Control Framework

Page 24

Three lines of defence model



1st Line of Defence

Management Controls

Page 25

Formed by managers and staff who are responsible for identifying and managing risk as part of their accountability for achieving objectives.

2nd Line of Defence

Functions that Oversee Risk

Provides the policies, frameworks, tools, techniques and support to enable risk and compliance to be managed in the first line, conducts monitoring to judge how effectively they are doing it, and helps ensure consistency of definitions and measurement of risk.

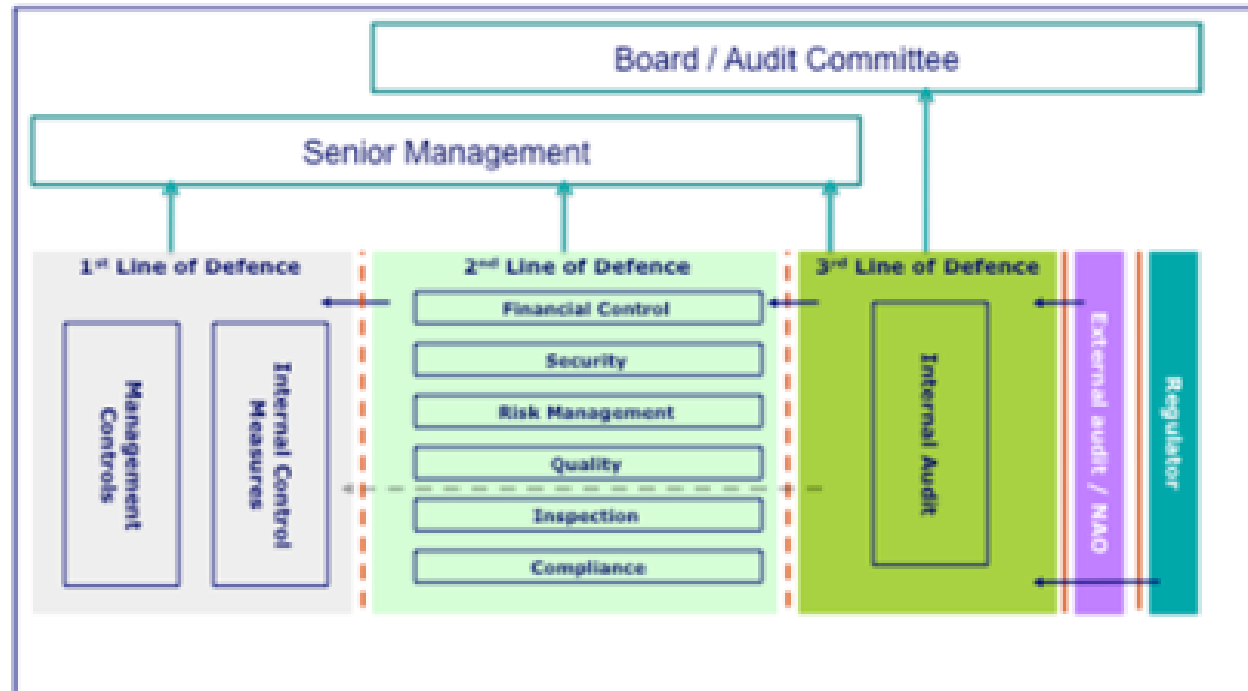
3rd Line of Defence

Internal Audit (Independent and Objective)

Sitting outside the risk management processes of the first two lines of defence, its main roles are to ensure that the first two lines of are operating effectively and advise how they could be improved.

Assurance Mapping Governance, Risk and Control Framework

Three lines of defence model



Advantages

- Reduction in number of Audits / Assurance Fatigue
- Eliminates Silo's in Assurance
- Promotes efficient use of assurance resources
- Desire to decrease overall costs of assurance
- Management Buy In
- Health Check rather than “heart check”

Mapping Assurance Activities

- Significant risk category
- Management role responsible for the risk (risk owner)
- Inherent risk rating
- Residual risk rating
- External audit coverage
- Internal audit coverage
- Other assurance provider coverage

Risk Maturity

The degree of risk maturity can fundamentally affect the ability of internal audit to adopt risk based internal auditing and undertake effective assurance mapping.

Page 31

How risk mature is your organisation?

Combined Assurance Planning

Page 32

Time in plan to map assurance activities at service level.

1. The Healthy Organisation KLOE will support this
2. Outputs: This will lead to the identification of gaps for further coverage, either IA or Management
 - Pilot in Children's Safeguarding and A.N.Other
 - Map across other SWAP authorities

Combined Assurance Planning Approach

Research by IIA summarises “combined assurance can be seen as a road to good overall organisational governance in the eyes of stakeholders and their representatives”.

Internal Audit Charter

Purpose

The purpose of this Charter is to set out the nature, role, responsibility, status and authority of internal auditing within the Wiltshire Council, and to outline the scope of internal audit work.

Approval

This Charter was approved by the Audit Committee on 11th March 2014 and is reviewed each year to confirm it remains accurate and up to date.

Provision of Internal Audit Services

The internal audit service is provided by the South West Audit Partnership Limited (SWAP). SWAP is a Local Authority controlled company. This charter should be read in conjunction with the Service Agreement, which forms part of the legal agreement between the SWAP partners.

The budget for the provision of the internal audit service is determined by the Council, in conjunction with the Members Meeting. The general financial provisions are laid down in the legal agreement, including the level of financial contribution by the Council, and may only be amended by unanimous agreement of the Members Meeting. The budget is based on an audit needs assessment that was carried out when determining the Council's level of contribution to SWAP. This is reviewed each year by the Associate Director, Finance as S151 Officer in consultation with the Chief Executive of SWAP.

Role of Internal Audit

Internal audit is an independent, objective assurance and consulting activity designed to add value and improve the Council's operations. It helps the Council accomplish its objectives by bringing a systematic disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.

Responsibilities of Management and of Internal Audit

Management¹

Management is responsible for determining the scope, except where specified by statute, of internal audit work and for deciding the action to be taken on the outcome of, or findings from, their work. Management is responsible for ensuring SWAP has:

- the support of management and the Council; and
- direct access and freedom to report to senior management, including the Council's Chief Executive/Leader and the Audit Committee.

Management is responsible for maintaining internal controls, including proper accounting records and other management information suitable for running the Authority. Management is also responsible for the appropriate and effective management of risk.

Internal Audit

Internal audit is responsible for operating under the policies established by management in line with best practice.

Internal audit is responsible for conducting its work in accordance with the Code of Ethics and Standards for the Professional Practice of Internal Auditing as set by the Institute of Internal Auditors and further guided by interpretation provided by the Public Sector Internal Audit Standards (PSIAS).

¹ In this instance Management refers to the Corporate Leadership Team

Internal audit is not responsible for any of the activities which it audits. SWAP staff will not assume responsibility for the design, installation, operation or control of any procedures. SWAP staff who have previously worked for Wiltshire Council will not be asked to review any aspects of their previous department's work until one year has passed since they left that area.

Relationship with the External Auditors/Other Regulatory Bodies

Internal Audit will co-ordinate its work with others wherever this is beneficial to the organisation.

Status of Internal Audit in the Organisation

The Chief Executive of SWAP is responsible to the SWAP Board of Directors and the Members Meeting. The Chief Executive of SWAP and the Director of Planning also report to the Associate Director, Finance as Section 151 Officer, and reports to the Audit Committee as set out below.

Appointment or removal of the Chief Executive of SWAP is the sole responsibility of the Members Meeting.

Scope and authority of Internal Audit work

There are no restrictions placed upon the scope of internal audit's work. SWAP staff engaged on internal audit work are entitled to receive and have access to whatever information or explanations they consider necessary to fulfil their responsibilities to senior management. In this regard, internal audit may have access to any records, personnel or physical property of Wiltshire Council.

Internal audit work will normally include, but is not restricted to:

- reviewing the reliability and integrity of financial and operating information and the means used to identify, measure, classify and report such information;
- evaluating and appraising the risks associated with areas under review and make proposals for improving the management of risks;
- appraise the effectiveness and reliability of the enterprise risk management framework and recommend improvements where necessary;
- assist management and Members to identify risks and controls with regard to the objectives of the Council and its services;
- reviewing the systems established by management to ensure compliance with those policies, plans, procedures, laws and regulations which could have a significant impact on operations and reports, and determining whether Wiltshire Council is in compliance;
- reviewing the means of safeguarding assets and, as appropriate, verifying the existence of assets;
- appraising the economy, efficiency and effectiveness with which resources are employed;
- reviewing operations or programmes to ascertain whether results are consistent with established objectives and goals and whether the operations or programmes are being carried out as planned;
- reviewing the operations of the council in support of the Council's anti-fraud and corruption policy;
- at the specific request of management, internal audit may provide consultancy services provided:
 - the internal auditors independence is not compromised
 - the internal audit service has the necessary skills to carry out the assignment, or can obtain such skills without undue cost or delay

- the scope of the consultancy assignment is clearly defined and management have made proper provision for resources within the annual audit plan
- management understand that the work being undertaken is not internal audit work.

Planning and Reporting

SWAP will submit to the Audit Committee, for approval, an annual internal audit plan, setting out the recommended scope of their work in the period.

The annual plan will be developed with reference to the risks the organisation will be facing in the forthcoming year, whilst providing a balance of current and on-going risks, reviewed on a cyclical basis. The plan will be reviewed on a quarterly basis to ensure it remains adequately resourced, current and addresses new and emerging risks.

SWAP will carry out the work as agreed, report the outcome and findings, and will make recommendations on the action to be taken as a result to the appropriate manager and Corporate Director. SWAP will report at least four times a year to the Audit Committee. SWAP will also report a summary of their findings, including any persistent and outstanding issues, to the Audit Committee on a regular basis.

Internal audit reports will normally be by means of a brief presentation to the relevant manager accompanied by a detailed report in writing. The detailed report will be copied to the relevant line management, who will already have been made fully aware of the detail and whose co-operation in preparing the summary report will have been sought. The detailed report will also be copied to the Associate Director, Finance as S151 Officer and to other relevant line management.

The Chief Executive of SWAP will submit an annual report to the Audit Committee providing an overall opinion of the status of risk and internal control within the council, based on the internal audit work conducted during the previous year.

In addition to the reporting lines outlined above, the Chief Executive / Directors of SWAP have the unreserved right to report directly to the Leader of the Council, the Chairman of the Audit Committee, the Council's Corporate Directors or the External Audit Manager.

Revised March 2015



cutting through complexity™

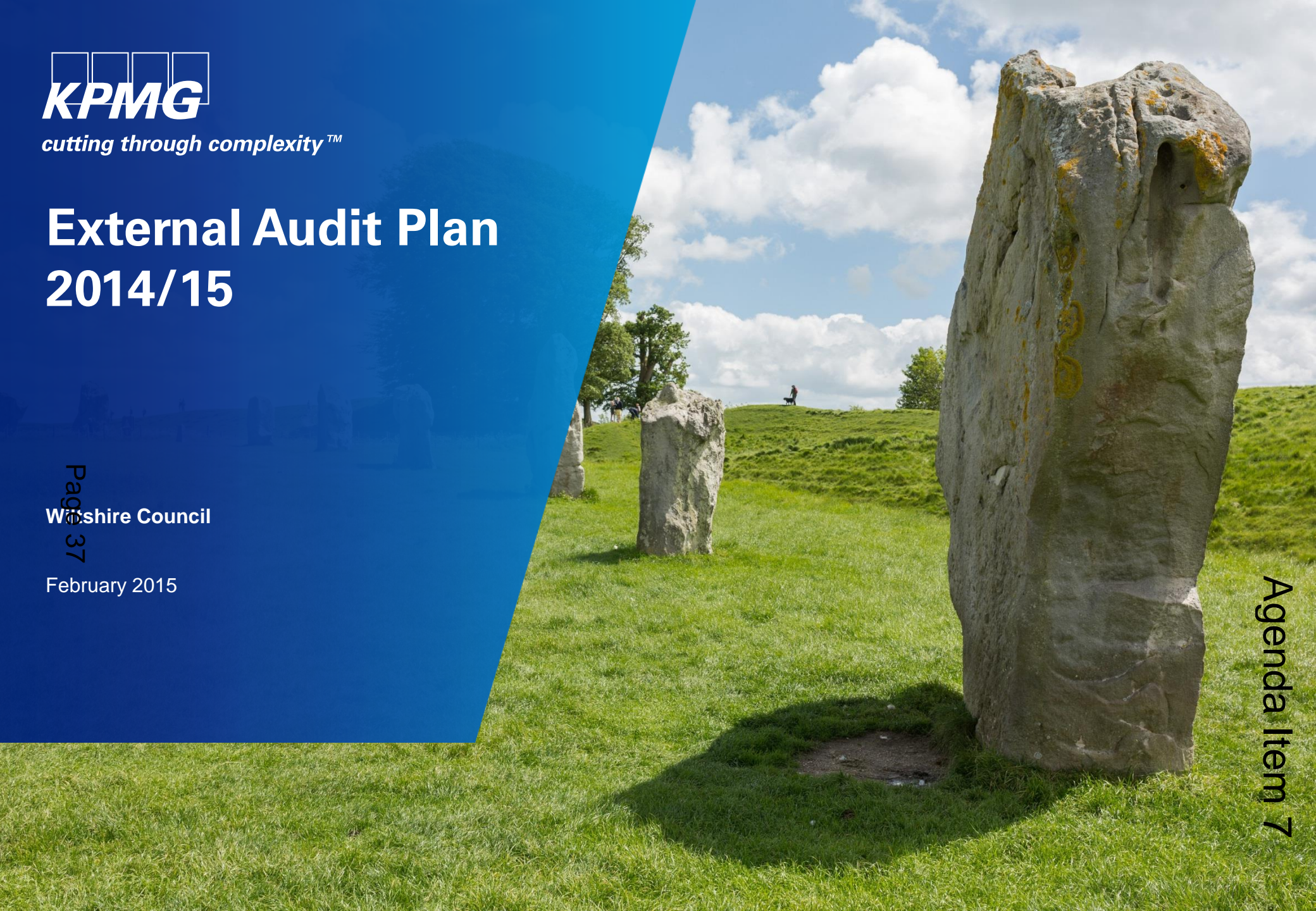
External Audit Plan 2014/15

Wiltshire Council

February 2015

Page 37

Agenda Item 7



The contacts at KPMG in connection with this report are:

Darren Gilbert

Director

KPMG LLP (UK)

Tel: +44 (0)292 046 8205

darren.gilbert@kpmg.co.uk

Tara Westcott

Senior Manager

KPMG LLP (UK)

Tel: +44 (0)117 905 4358

tara.westcott@kpmg.co.uk

Adam Bunting

Assistant Manager

KPMG LLP (UK)

Tel: +44 (0)117 905 4470

adam.bunting@kpmg.co.uk

Duncan Laird

Manager – Pension Audit

KPMG LLP (UK)

Tel: +44 (0)117 905 4253

diuncan.laird@kpmg.co.uk

| Report Sections | Page | Appendices | Page |
|-----------------------------------------------|------|----------------------------------------------|------|
| ■ Introduction | 2 | 1. Independence and objectivity requirements | 26 |
| ■ Headlines | 3 | 2. Quality assurance and technical capacity | 27 |
| ■ Our audit approach | 5 | 3. Assessment of fraud risk | 29 |
| ■ Key financial statements audit risks | 12 | 4. Transfer of Audit Commission's' functions | 30 |
| ■ Key audit risks – Pension Fund | 14 | | |
| ■ VFM audit approach | 16 | | |
| ■ Audit team, deliverables, timeline and fees | 22 | | |

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

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 Darren Gilbert, the appointed engagement lead to the Authority, who will try to resolve your complaint. If you are dissatisfied with your response please contact Trevor Rees on 0161 246 4000, or by email to trevor.rees@kpmg.co.uk, who is the national contact partner for all of KPMG's work with the Audit Commission. After this, if you are still dissatisfied with how your complaint has been handled you can access the Audit Commission's complaints procedure. Put your complaint in writing to the Complaints Unit Manager, Audit Commission, 1st Floor, Fry Building, 2 Marsham Street, London, SW1P 4DF or by email to complaints@audit-commission.gsi.gov.uk. Their telephone number is 03034448330.

This document describes how we will deliver our audit work for Wiltshire Council and Wiltshire Pension Fund.

Scope of this report

This document supplements our *Audit Fee Letter 2014/15* presented to you in April 2014. It describes how we will deliver our financial statements audit work for Wiltshire Council ('the Authority') and Wiltshire Pension Fund ('the Pension Fund'). It also sets out our approach to value for money (VFM) work for 2014/15.

We are required to satisfy ourselves that your accounts comply with statutory requirements and that proper practices have been observed in compiling them. We use a risk based audit approach.

The audit planning process and risk assessment is an on-going process and the assessment and fees in this plan will be kept under review and updated if necessary.

Statutory responsibilities

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

The Audit Commission will close at 31 March 2015. However our audit responsibilities under the *Audit Commission Act 1998* and the *Code of Audit Practice* in respect of the 2014/15 financial year remain unchanged.

The *Code of Audit Practice* summarises our responsibilities into two objectives, requiring us to audit and report on your:

- *financial statements (including the Annual Governance Statement):* providing an opinion on your accounts; and
- *use of resources:* concluding on the arrangements in place for securing economy, efficiency and effectiveness in your use of resources (the value for money conclusion).

The Audit Commission's *Statement of Responsibilities of Auditors and Audited Bodies* sets out the respective responsibilities of the auditor and the Authority.

As stated, the Audit Commission will cease to exist on 31 March 2015. Details of the new arrangements are set out in Appendix 4. The Authority can expect further communication from the Audit Commission and its successor bodies as the new arrangements are established. This plan restricts itself to reference to the existing arrangements.

Structure of this report

This report is structured as follows:

- Section 2 includes our headline messages, including any key risks identified this year for the financial statements audit and Value for Money arrangements Conclusion.
- Section 3 describes the approach we take for the audit of the financial statements.
- Section 4 provides further detail on the financial statements audit risks.
- Section 5 provides further detail on the audit risks for the pension fund.
- Section 6 explains our approach to VFM arrangements work and sets out our initial risk assessment for the VFM conclusion.
- Section 7 provides information on the audit team, our proposed deliverables, the timescales and fees for our work.

Acknowledgements

We would like to take this opportunity to thank officers and Members for their continuing help and co-operation throughout our audit work.

| | |
|-------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <p>Audit approach</p> | <p>Our overall audit approach remains similar to last year with no fundamental changes . Our work is carried out in four stages and the timings for these, and specifically our on site work, have been agreed with Michael Hudson (Associate Director Finance and Pension Fund Treasurer).</p> <p>Our audit strategy and plan remain flexible as risks and issues change throughout the year. We will review the initial assessments presented in this document throughout the year and should any new risks emerge we will evaluate these and respond accordingly.</p> |
| <p>Key financial statements audit risks</p> | <p>We have completed our initial risk assessment for the financial statements audit and have identified the following significant risk:</p> <ul style="list-style-type: none"> ■ Accounting for Local Authority Maintained Schools – Recently issued guidance on the accounting requirements for school assets (LAAP Bulletin 101) requires the Authority to assess the control arrangements in relation to Voluntary Aided, Voluntary Controlled, and Foundation schools in order to determine whether the schools’ assets should be recognised on the Authority’s balance sheet. This may require changes to the schools recognised on the Council’s balance sheet (currently the Council does not recognise any VA, VC or Foundation schools). <p>More detail is set out in pages 12 and 13. We will assess all identified risk areas as part of our interim work and conclude this work at year end.</p> |
| <p>Key financial statements audit risks for the Pension Fund</p> | <p>Our initial risk assessment for the Pension Fund’s financial statements audit has identified the following significant risk:</p> <ul style="list-style-type: none"> ■ LGPS reform – From 1 April 2014, all members of the LGPS have automatically joined the new career average defined benefit scheme. The new scheme provides more flexibility on when members can take their pension and also how much they pay in. There is a risk that pension administration systems have not been set up to correctly reflect the changes resulting from LGPS 2014 and will therefore not accurately calculate the pension benefits due to members. <p>This is described in more detail on page 14. We will assess the Authority’s progress in addressing this risk area as part of our interim work and conclude this work at year end.</p> |

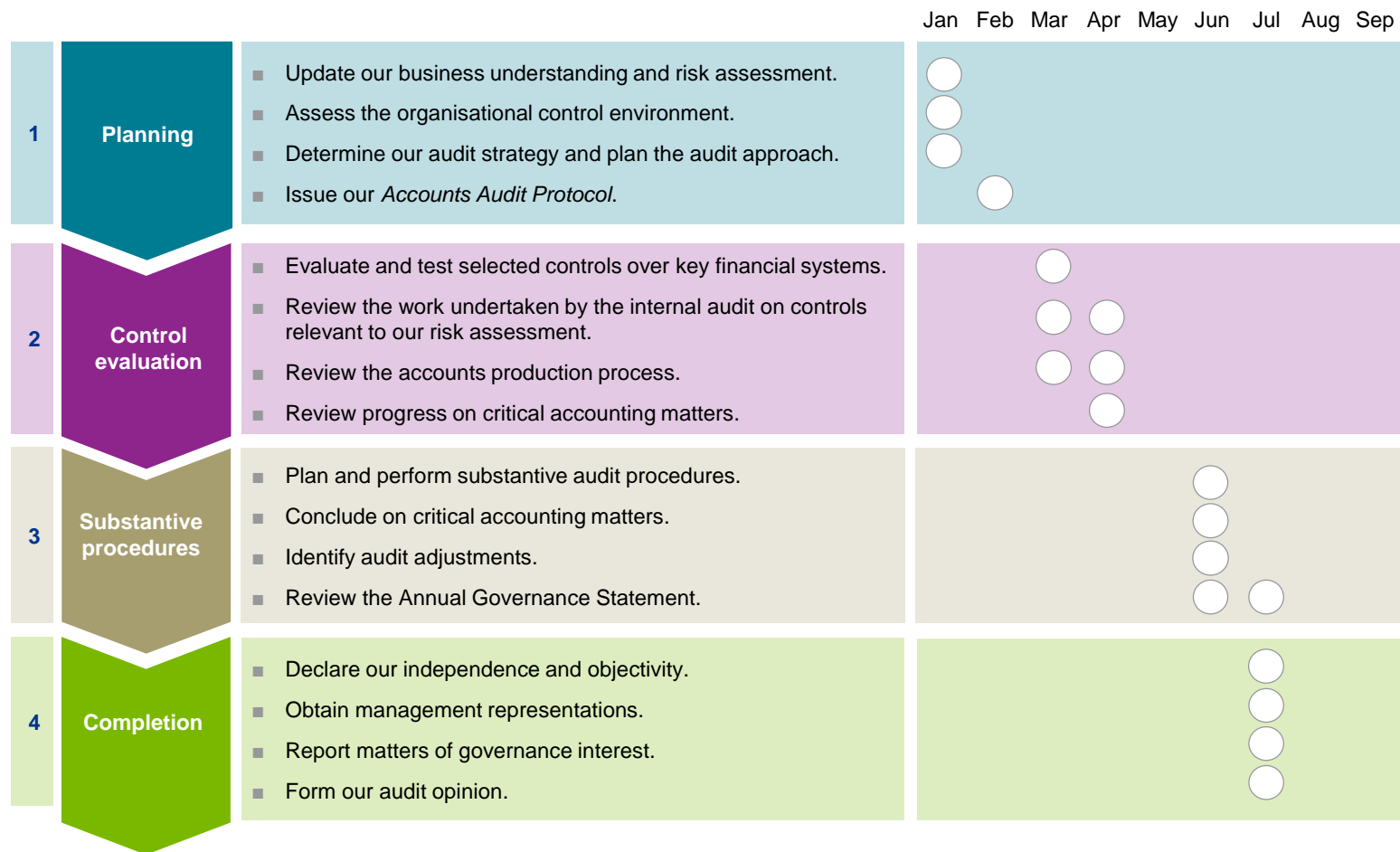
| | |
|-----------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <p>VFM audit approach</p> | <p>We have completed our initial risk assessment for the VFM conclusion and have identified the following significant risks:</p> <ul style="list-style-type: none"> ■ Savings plans – The Authority’s savings programme for 2014/15 totals £26 million, with additional savings of £30 million required for 2015/16 in order to address continuing central government funding reductions. The current forecast shows that the Authority will deliver a £0.9m overspend against its budget before management actions. Additional savings are being sought to offset this and the resulting forecast for 2014/15 is a breakeven position; and ■ Estates strategy – As part of its estates strategy, the Authority intends to dispose of fixed assets to the value of £70m over the next three years. The successful delivery of these disposals is a major part of the value for money argument supporting the strategy. The disposal plan also reflects significant changes in the management and delivery services through the continued consolidation of the Council’s office base. This creates a risk of deterioration in service delivery and customer satisfaction as well as a risk that the required sale proceeds may not be achieved. <p>These are described in more detail on pages 20 to 21. We will assess these risk areas as part of our interim work and conclude this work at year end.</p> |
| <p>Audit team, deliverables, timeline and fees</p> | <p>There has been no change to the audit team from last year.</p> <p>Our main year end audit is currently planned to commence on 8 June 2015. Upon conclusion of our work we will again present our findings to you in our <i>Report to Those Charged with Governance (ISA 260 Report)</i> at the July Audit Committee.</p> <p>The fee for the 2014/15 audit of the Authority is £223,226. The fee has increased from that set out in our Audit Fee Letter 2014/15 issued in April 2014 as a result of the incorporation of work previously undertaken as part of the grant certification process. The Audit Commission has updated the Council’s scale fee to reflect this change.</p> <p>The planned fee for the 2014/15 audit of the Pension Fund’s financial statements is £24,246. This is unchanged from the position set out in our <i>Audit Fee Letter 2014/15</i>.</p> |

We undertake our work on your financial statements in four key stages during 2015:

- **Planning** (January to February).
- **Control Evaluation** (March to April).
- **Substantive Procedures** (May to June).
- **Completion** (July).

Page 42

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



During January and February 2015 we completed our planning work.

We assessed the key risks affecting the Authority’s financial statements and discussed these with officers.

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

Our planning work took place in January and February 2015. This involved the following aspects:

Planning

- Updating our business understanding and risk assessment including fraud risk.
- Assessing the organisational control environment.
- Determining our audit strategy and plan the audit approach.
- Issuing our *Accounts Audit Protocol*.

Business understanding and risk assessment

We updated our understanding of the Authority’s operations and identify any areas that will require particular attention during our audit of the Authority’s financial statements.

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

We meet with the finance team on a regular basis to consider issues and how they are addressed during the financial year end closedown and accounts preparation.

Organisational control environment

Controls operated at an organisational level often have an impact on controls at an operational level and if there were weaknesses this would impact on our audit.

In particular risk management, internal control and ethics and conduct have implications for our financial statements audit. The scope of the relevant work of your internal auditors also informs our risk assessment.

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

Audit strategy and approach to materiality

Our audit is performed in accordance with International Standards on Auditing (ISAs) (UK and Ireland). The Engagement Lead sets the overall direction of the audit and decides the nature and extent of audit activities. We design audit procedures in response to the risk that the financial statements are materially misstated. The materiality level is a matter of professional judgement and is set by the Engagement Lead.

In accordance with ISA 320 (UK&I) ‘*Audit materiality*’, we plan and perform our audit to provide reasonable assurance that the financial statements are free from material misstatement and give a true and fair view. Information is considered material if its omission or misstatement could influence the economic decisions of users taken on the basis of the financial statements.

Further details on assessment of materiality is set out on page 7 of this document.

When we determine our audit strategy we set a monetary materiality level for planning purposes.

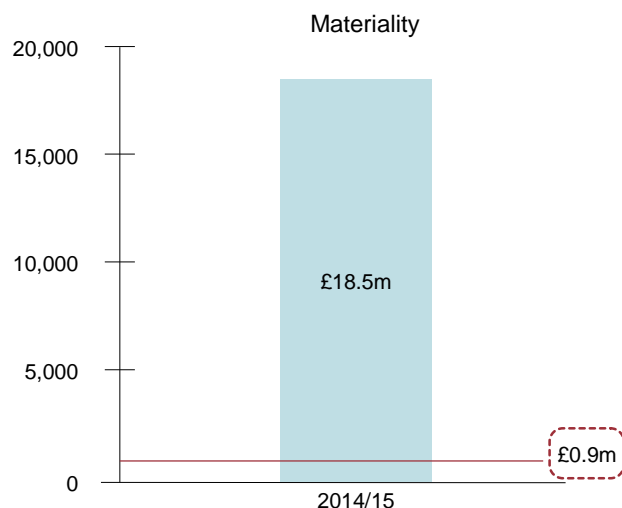
For 2014/15 we have set this at £18.5 million.

We will report all audit differences over £0.9 million to the Audit Committee.

Materiality

The assessment of what is material is a matter of professional judgment and includes consideration of three aspects: materiality by value, nature and context.

- Material errors by value are those which are simply of significant numerical size to distort the reader's perception of the financial statements. Our assessment of the threshold for this depends upon the size of key figures in the financial statements, as well as other factors such as the level of public interest in the financial statements.
- Errors which are material by nature may not be large in value, but may concern accounting disclosures of key importance and sensitivity, for example the salaries of senior staff.
- Errors that are material by context are those that would alter key figures in the financial statements from one result to another – for example, errors that change successful performance against a target to failure.



Materiality for planning purposes has been set at £18.5 million, which equates to 1.95 percent of gross expenditure. For the Pension Fund, the corresponding figure is £33.0 million, which equates to 2.00 percent of total assets.

We design our procedures to detect errors in specific accounts at a lower level of precision.

Reporting to the Audit Committee

Whilst our audit procedures are designed to identify misstatements which are material to our opinion on the financial statements as a whole, we nevertheless report to the Audit Committee any misstatements of lesser amounts to the extent that these are identified by our audit work.

Under ISA 260(UK&I) 'Communication with those charged with governance', we are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. ISA 260 (UK&I) defines 'clearly trivial' as matters that are clearly inconsequential, whether taken individually or in aggregate and whether judged by any quantitative or qualitative criteria.

ISA 450 (UK&I), 'Evaluation of misstatements identified during the audit', requires us to request that uncorrected misstatements are corrected.

In the context of the Authority, we propose that an individual difference could normally be considered to be clearly trivial if it is less than £0.9 million. For the Pension Fund, the corresponding figure is £1.5 million.

If management have corrected material misstatements identified during the course of the audit, we will consider whether those corrections should be communicated to the Audit Committee to assist it in fulfilling its governance responsibilities.

We issued our *Accounts audit protocol* following completion of our planning work.

Accounts audit protocol

At the end of our planning work we issued our *Accounts Audit Protocol*. Separate documents will be issued for the Authority and the Pension Fund. These important documents sets out our audit approach and timetable. They also summarise the working papers and other evidence we require the Authority and Pension Fund to provide during our interim and final accounts visits.

We met with the Finance Team to discuss mutual learning points from the 2013/14 audit. These have been incorporated into our work plan for 2014/15. We revisit progress against areas identified for development as the audit progresses.

We invited key members of the Finance Team to attend a Technical Update Accounts Workshop in March 2015 which considered key matters for this years accounts closedown and audit process.

During March to April 2015 we will complete our interim audit work.

We assess if controls over key financial systems were effective during 2014/15. We work with your internal audit team to avoid duplication.

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

We will report any significant findings arising from our work to the Audit Committee.

Our on site interim visit will be completed during March 2014. During this time we will complete work in the following areas:

Control Evaluation

- Evaluate and test controls over key financial systems identified as part of our risk assessment.
- Review the work undertaken by the internal audit function on controls relevant to our risk assessment.
- Review the accounts production process.
- Review progress on critical accounting matters.

Controls over key financial systems

We update our understanding of the Authority's key financial processes where our risk assessment has identified that these are relevant to our final accounts audit and where we have determined that this is the most efficient audit approach to take. We confirm our understanding by completing walkthroughs for these systems. We then test selected controls that address key risks within these systems. The strength of the control framework informs the substantive testing we complete during our final accounts visit.

Review of internal audit

Where our audit approach is to undertake controls work on financial systems, we seek to review any relevant work internal audit have completed to minimise unnecessary duplication of work. This will inform our overall risk assessment process. Our audit fee is set on the assumption that we can place reliance on their work. We have a joint working protocol and have met with the Head of Internal Audit to discuss the principles and timetables for the managed audit process for 2014/15.

Where we intend to rely on internal audit's specific pieces work in respect of the key financial systems identified as part of our risk assessment, auditing standards require us to review aspects of their work. This includes re-performing a sample of tests completed by internal audit. We will provide detailed feedback to the Head of Internal Audit at the end of our interim visit.

Accounts production process

In prior years we have found the Authority's accounts production process to be robust and efficient. We are expected this to continue in relation to the production of the 2014/15 financial statements.

We will assess the Authority's progress in implementing the recommendations raised in our *ISA 260 Report 2013/14* as part of our final accounts work in June 2015.

Critical accounting matters

We will discuss the work completed to address the specific risks we identified at the planning stage. Wherever possible, we seek to review relevant workings and evidence and agree the accounting treatment as part of our interim work.

If there are any significant findings arising from our interim work we will present these to the Audit Committee in June 2015.

During June 2015 we will be on site for our substantive work. We will conduct our work on the Pension Fund at the same time.

We complete detailed testing of accounts and disclosures and conclude on critical accounting matters, such as specific risk areas. We then agree any audit adjustments required to the financial statements.

We also review the Annual Governance Statement for consistency with our understanding.

We will present our *ISA 260 Report* to the Audit Committee in July 2015. This will cover both the Authority's and Pension Fund audits.

Our final accounts visit on site has been provisionally scheduled for June for both the Authority and Pension Fund. During this time, we will complete the following work:

Substantive Procedures

- Plan and perform substantive audit procedures.
- Conclude on critical accounting matters.
- Identify and assess any audit adjustments.
- Review the Annual Governance Statement.

Substantive audit procedures

We complete detailed testing on significant balances and disclosures. The extent of our work is determined by the Engagement Lead based on various factors such as our overall assessment of the Authority's control environment, the effectiveness of controls over individual systems and the management of specific risk factors.

Critical accounting matters

We conclude our testing of key risk areas identified at the planning stage and any additional issues that may have emerged since.

We will discuss our early findings of the Authority's approach to address the key risk areas with the Associate Director Finance in June 2015, prior to reporting to the Audit Committee on 29 July 2015.

Audit adjustments

During our on site work, we will meet with the Chief Accountant on a weekly basis to discuss the progress of the audit, any differences found and any other issues emerging.

At the end of our on site work, we will hold a closure meeting, where we will provide a schedule of audit differences and agree a timetable for the completion stage and the accounts sign off.

To comply with auditing standards, we are required to report uncorrected audit differences to the Audit Committee and Wiltshire Pension Fund Committee. We also report any material misstatements which have been corrected and which we believe should be communicated to you to help you meet your governance responsibilities.

Annual Governance Statement

We are also required to satisfy ourselves that your Annual Governance Statement complies with the applicable framework and is consistent with our understanding of your operations. Our review of the work of internal audit and consideration of your risk management and governance arrangements are part of this.

We report the findings of our audit of the financial statements work in our *ISA 260 Report*, which we will issue in July 2015.

Pension Fund Annual Report

We also issue an opinion on the consistency of the Pension Fund's accounts included in the *Pension Fund Annual Report* with those included in the Statement of Accounts. We intend to issue this opinion at the same time as our opinion on the accounts.

In addition to the financial statements, we also review the Authority's Whole of Government Accounts pack.

We may need to undertake additional work if we receive objections to the accounts from local electors.

We will communicate with you throughout the year, both formally and informally.

Whole of government accounts (WGA)

We are required to review your WGA consolidation and undertake the work specified under the audit approach that is agreed with HM Treasury and the National Audit Office. Deadlines for production of the pack and the specified approach for 2014/15 have not yet been confirmed.

Elector challenge

The Audit Commission Act 1998 gives electors certain rights. These are:

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

As a result of these rights, in particular the right to object to the accounts, we may need to undertake additional work to form our decision on the elector's objection. The additional work could range from a small piece of work where we interview an officer and review evidence to form our decision, to a more detailed piece of work, where we have to interview a range of officers, review significant amounts of evidence and seek legal representations on the issues raised.

The costs incurred in responding to specific questions or objections raised by electors is not part of the fee. This work will be charged in accordance with the Audit Commission's fee scales.

Reporting and communication

Reporting is a key part of the audit process, not only in communicating the audit findings for the year, but also in ensuring the audit team are accountable to you in addressing the issues identified as part of the audit strategy. Throughout the year we will communicate with you through meetings with the finance team and the Audit Committee. Our deliverables are included on page 23.

Independence and objectivity confirmation

Professional standards require auditors to communicate to those charged with governance, at least annually, all relationships that may bear on the firm's independence and the objectivity of the audit engagement partner and audit staff. The standards also place requirements on auditors in relation to integrity, objectivity and independence.

The standards define 'those charged with governance' as 'those persons entrusted with the supervision, control and direction of an entity'. In your case this is the Audit Committee and Wiltshire Pension Fund Committee.

KPMG LLP is committed to being and being seen to be independent. APB Ethical Standard 1 *Integrity, Objectivity and Independence* requires us to communicate to you in writing all significant facts and matters, including those related to the provision of non-audit services and the safeguards put in place, in our professional judgement, may reasonably be thought to bear on KPMG LLP's independence and the objectivity of the Engagement Lead and the audit team.

Appendix 1 provides further detail on auditors' responsibilities regarding independence and objectivity.

Confirmation statement

We confirm that as of 27 January 2015 in our professional judgement, KPMG LLP is independent within the meaning of regulatory and professional requirements and the objectivity of the Engagement Lead and audit team is not impaired.

In this section we set out our assessment of the significant risks or other key areas of audit focus of the Authority's financial statements for 2014/15.

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

Professional standards require us to consider two standard risks for all organisations. We are not elaborating on these standard risks in this plan but consider them as a matter of course in our audit and will include any findings arising from our work in our *ISA 260 Report*.

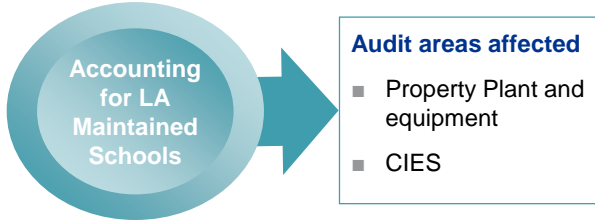
- Management override of controls – Management is typically in a powerful position to perpetrate fraud owing to its ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. Our audit methodology incorporates the risk of management override as a default significant risk. In line with our methodology, we carry out appropriate controls testing and substantive procedures, including over journal entries, accounting estimates and significant transactions that are outside the normal course of business, or are otherwise unusual.
- Fraudulent revenue recognition – We do not consider this to be a significant risk for local authorities as there are limited incentives and opportunities to manipulate the way income is recognised. We therefore rebut this risk and do not incorporate specific work into our audit plan in this area over and above our standard fraud procedures.

Appendix 3 covers more details on our assessment of fraud risk.

The table below sets out the significant risks we have identified through our planning work that are specific to the audit of the Authority's financial statements for 2014/15.

We will revisit our assessment throughout the year and should any additional risks present themselves we will adjust our audit strategy as necessary.

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

| Significant risks | Impact on audit |
|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
|  <p>Accounting for LA Maintained Schools</p> <p>Audit areas affected</p> <ul style="list-style-type: none"> ■ Property Plant and equipment ■ CIES | <p>Risk</p> <p>LAAP Bulletin 101 <i>Accounting for School Assets used by Local Authority Maintained Schools</i> issued in December 2014 has been published to assist practitioners with the application of the Code in this respect. The challenges relate to school assets owned by third parties such as church bodies and made available to school governing bodies under a variety of arrangements. This includes assets used by Voluntary-Aided (VA) and Voluntary-Controlled (VC) Schools as well as Foundation Schools.</p> <p>Authorities will need to review the agreements under which assets are used by VA/VC and Foundation schools and apply the relevant tests of control in the case of assets made available free of charge, or risks and rewards of ownership in the case of assets made available under leases. This is a key area of judgement and there is a risk that Authorities could incorrectly omit school assets from, or include school assets in, their balance sheet.</p> <p>Particular risks surround the recognition of Foundation School assets which may or may not be held in Trust. Authorities should pay particular attention to the nature of the relationship between the Trustees and the school governing body to determine whether the school controls the Trust and the assets should therefore be consolidated into their balance sheet.</p> <p>Our proposed audit work</p> <p>As part of our audit, we will ensure the Authority is aware of the latest guidance and review the judgements it has made. This will include:</p> <ul style="list-style-type: none"> ■ Determining whether the Authority has identified all relevant maintained schools within its area and undertaken a review of the agreements underpinning the use of school assets by VA, VC and Foundation schools; ■ Considering the Authority's application of the relevant accounting standards to account for these schools and challenging its judgements where necessary; and ■ Determining whether the basis of valuation of assets which are brought on balance sheet at 1 April 2013 is appropriate and the valuations are undertaken by qualified valuers (if applicable). |

In this section we set out our assessment of the significant risks to the audit of the Pension Fund's financial statements for 2014/15.

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

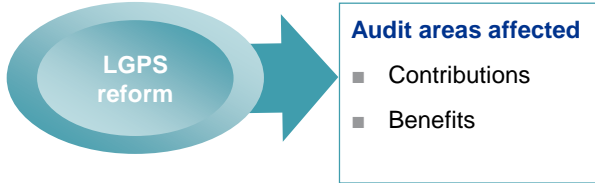
Page 51

As for the Authority's financial statements, professional standards require us to consider two standard risks for all Pension Funds. To recap, these are:

- Management override of controls – Management is typically in a powerful position to perpetrate fraud owing to its ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. Our audit methodology incorporates the risk of management override as a default significant risk. In line with our methodology, we carry out appropriate controls testing and substantive procedures, including over journal entries, accounting estimates and significant transactions that are outside the normal course of business, or are otherwise unusual.
- Fraudulent revenue recognition – We do not consider this to be a significant risk for pension funds as there are limited incentives and opportunities to manipulate the way income is recognised. We therefore rebut this risk and do not incorporate specific work into our audit plan in this area over and above our standard fraud procedures.


The table below sets out the significant risk we have identified through our planning work that are specific to the audit of the Pension Fund's financial statements for 2014/15.

We will revisit our assessment throughout the year and should any additional risks present themselves we will adjust our audit strategy as necessary.

| Key audit risks | Impact on audit |
|------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
|  | <p>Risk</p> <p>From 1 April 2014, all members of the LGPS have automatically joined the new career average defined benefit scheme. The new scheme provides more flexibility on when members can take their pension and also how much they pay in. There is a risk that pension administration systems have not been set up to correctly reflect the changes resulting from LGPS 2014 and will therefore not accurately calculate the pension benefits due to members. While any errors in the system are unlikely to result in material misstatements in 2014/15, the possible cumulative effect in future years means that specific audit work is needed on ensuring that the changes required to the system have been accurately reflected.</p> <p>Our audit work</p> <p>We will review the controls and processes that the Pension Fund have put in place to accurately capture the data required by LGPS 2014. Our work will also focus on testing that the system has been set up to accurately calculate future benefit entitlement.</p> |

In this section we set out other areas of focus for the audit of the Pension Fund’s financial statements for 2014/15.

Page 52

| Area of audit focus | Impact on audit |
|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
|  <p>Audit areas affected</p> <ul style="list-style-type: none"> Entity level controls | <p>Risk</p> <p>From 1 April 2015, the Pensions Regulator will be responsible for regulating the governance and administration of public service pension schemes, which includes the Local Government Pension Scheme. The pension scheme must comply with a number of legal requirements, such as the establishment of a pension board with an equal number of employer representatives and member representatives. Pension board members for a public service pension scheme must also meet certain legal requirements that relate to their knowledge and understanding.</p> <p>Our audit work</p> <p>We will review the progress the Pension Fund has made in implementing the new governance arrangements and provide an update in our ISA 260 report.</p> |

Our approach to VFM work follows guidance provided by the Audit Commission.

Background to approach to VFM work

In meeting their statutory responsibilities relating to economy, efficiency and effectiveness, the Commission's *Code of Audit Practice* requires auditors to:

- plan their work based on consideration of the significant risks of giving a wrong conclusion (audit risk); and
- carry out only as much work as is appropriate to enable them to give a safe VFM conclusion.

To provide stability for auditors and audited bodies, the Audit Commission has kept the VFM audit methodology unchanged from last year. There are only relatively minor amendments to reflect the key issues facing the local government sector.

The approach is structured under two themes, as summarised below.

| Specified criteria for VFM conclusion | Focus of the criteria | Sub-sections |
|------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------|
| The organisation has proper arrangements in place for securing financial resilience . | The organisation has robust systems and processes to: <ul style="list-style-type: none"> ■ manage effectively financial risks and opportunities; and ■ secure a stable financial position that enables it to continue to operate for the foreseeable future. | <ul style="list-style-type: none"> ■ Financial governance ■ Financial planning ■ Financial control |
| The organisation has proper arrangements for challenging how it secures economy, efficiency and effectiveness . | The organisation is prioritising its resources within tighter budgets, for example by: <ul style="list-style-type: none"> ■ achieving cost reductions; and ■ improving efficiency and productivity. | <ul style="list-style-type: none"> ■ Prioritising resources ■ Improving efficiency and productivity |

We will follow a risk based approach to target audit effort on the areas of greatest audit risk.

Page 54

Overview of the VFM audit approach

The key elements of the VFM audit approach are summarised below.



Each of these stages are summarised further below.

| VFM audit stage | Audit approach |
|---------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| VFM audit risk assessment | <p>We consider the relevance and significance of the potential business risks faced by all local authorities, and other risks that apply specifically to the Authority. These are the significant operational and financial risks in achieving statutory functions and objectives, which are relevant to auditors' responsibilities under the <i>Code of Audit Practice</i>.</p> <p>In doing so we consider:</p> <ul style="list-style-type: none"> the Authority's own assessment of the risks it faces, and its arrangements to manage and address its risks; information from the Audit Commission's VFM profile tool; evidence gained from previous audit work, including the response to that work; and the work of other inspectorates and review agencies. |

Our VFM audit will draw heavily on other audit work which is relevant to our VFM responsibilities and the results of last year's VFM audit.

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

Page 55

| VFM audit stage | Audit approach |
|---------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Linkages with financial statements and other audit work | <p>There is a degree of overlap between the work we do as part of the VFM audit and our financial statements audit. For example, our financial statements audit includes an assessment and testing of the Authority's organisational control environment, including the Authority's financial management and governance arrangements, many aspects of which are relevant to our VFM audit responsibilities.</p> <p>We have always sought to avoid duplication of audit effort by integrating our financial statements and VFM work, and this will continue. We will therefore draw upon relevant aspects of our financial statements audit work to inform the VFM audit.</p> |
| Assessment of residual audit risk | <p>It is possible that further audit work may be necessary in some areas to ensure sufficient coverage of the two VFM criteria.</p> <p>Such work may involve interviews with relevant officers and /or the review of documents such as policies, plans and minutes. We may also refer to any self assessment the Authority may prepare against the characteristics.</p> <p>To inform any further work we must draw together an assessment of residual audit risk, taking account of the work undertaken already. This will identify those areas requiring further specific audit work to inform the VFM conclusion.</p> <p>At this stage it is not possible to indicate the number or type of residual audit risks that might require additional audit work, and therefore the overall scale of work cannot be easily predicted. If a significant amount of work is necessary then we will need to review the adequacy of our agreed audit fee.</p> |
| Identification of specific VFM audit work | <p>If we identify residual audit risks, then we will highlight the risk to the Authority and consider the most appropriate audit response in each case, including:</p> <ul style="list-style-type: none"> ■ considering the results of work by the Authority, inspectorates and other review agencies; and ■ carrying out local risk-based work to form a view on the adequacy of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources. |

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

We will conclude on the results of the VFM audit through our ISA 260 Report.

Page 56

| VFM audit stage | Audit approach |
|-----------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Delivery of local risk based work | <p>Depending on the nature of the residual audit risk identified, we may be able to draw on audit tools and sources of guidance when undertaking specific local risk-based audit work, such as:</p> <ul style="list-style-type: none"> ■ local savings review guides based on selected previous Audit Commission national studies; and ■ update briefings for previous Audit Commission studies. <p>The tools and guides will support our work where we have identified a local risk that is relevant to them. For any residual audit risks that relate to issues not covered by one of these tools, we will develop an appropriate audit approach drawing on the detailed VFM guidance and other sources of information.</p> |
| Concluding on VFM arrangements | <p>At the conclusion of the VFM audit we will consider the results of the work undertaken and assess the assurance obtained against each of the VFM themes regarding the adequacy of the Authority's arrangements for securing economy, efficiency and effectiveness in the use of resources.</p> <p>If any issues are identified that may be significant to this assessment, and in particular if there are issues that indicate we may need to consider qualifying our VFM conclusion, we will discuss these with management as soon as possible. Such issues will also be considered more widely as part of KPMG's quality control processes, to help ensure the consistency of auditors' decisions.</p> |
| Reporting | <p>On the following page, we report the results of our initial risk assessment.</p> <p>We will report on the results of the VFM audit through our <i>ISA 260 Report</i>. This will summarise any specific matters arising, and the basis for our overall conclusion.</p> <p>The key output from the work will be the VFM conclusion (i.e. our opinion on the Authority's arrangements for securing VFM), which forms part of our audit report.</p> |

We have identified a number of specific VFM risks.

In most cases we are satisfied that external or internal scrutiny provides sufficient assurance that the Authority's current arrangements in relation to these risk areas are adequate.

We will carry out additional risk-based work in the following areas:

- Savings plans
- Estates strategy


In line with the risk-based approach set out on the previous page, we have


- assessed the Authority's key business risks which are relevant to our VFM conclusion;
- identified the residual audit risks for our VFM conclusion, taking account of work undertaken in previous years or as part of our financial statements audit;

- considered the results of relevant work by the Authority, the Audit Commission, other inspectorates and review agencies in relation to these risk areas; and
- concluded to what extent we need to carry out additional risk-based work.

Below we set out our preliminary findings in respect of those areas where we have identified a residual audit risk for our VFM conclusion.

We will report our final conclusions in our *ISA 260 Report 2014/15*.

| Key VFM risk | Risk description and link to VFM conclusion | Preliminary assessment |
|-----------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
|  | <p>The Authority has identified the need to make savings of £26m in 2014/15. The current forecast shows that the Authority will deliver a £0.9m overspend against its budget before management actions. Additional savings are being sought to offset this and the resulting forecast for 2014/15 is a breakeven position.</p> <p>The Authority's budget for 2015/16 was approved at the Council meeting on 24 February 2015 and recognised a need for £30m in savings. The approved budget includes individual proposals to support the delivery of the overall savings requirement. Further significant savings will be required in 2016/17 and 2017/18 to principally address future reductions to local authority funding alongside service cost and demand pressures. The need for savings will continue to have a significant impact on the Authority's financial resilience.</p> <p>This is relevant to both the financial resilience and economy, efficiency and effectiveness criteria of the VFM conclusion.</p> | <p>Specific risk based work required: Yes</p> <p>As part of our additional risk based work, we will review the controls the Authority has in place to ensure financial resilience, specifically that the Medium Term Financial Plan has duly taken into consideration factors such as:</p> <ul style="list-style-type: none"> ■ funding reductions; ■ salary inflation; ■ general inflation; ■ demand pressures; ■ restructuring costs; and ■ sensitivity analysis given the degree of variability in the above factors. |

| Key VFM risk | Risk description and link to VFM conclusion | Preliminary assessment |
|-----------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
|  | <p>Over recent years the Authority has been undertaking a rationalisation of its estate. This has seen significant reductions in the number of properties occupied by the Authority and will continue to do so throughout 2014/15 and into 2015/16. Following recent staffing changes the Authority has adopted a slower pace to the estates strategy. This will see a total of seven hubs being delivered in phase 1 of the strategy</p> <p>This will result in build costs of £77m which will be funded from capital receipts, borrowing and third party income. Over the next three years the total value of asset disposals is expected to amount to £70m. The successful delivery of these disposals is a major part of the value for money argument supporting the move to four central hubs and the additional investment required to renovate County Hall.</p> <p>The estates strategy, including the continuing consolidation of Council offices, reflects significant changes in relation to how the Authority will manage and deliver services. As a result, there is a risk that service delivery and customer satisfaction could be impacted. There is also a risk that the correct valuation and sale proceeds may not be achieved and that this may result in additional savings being required.</p> <p>This is relevant to both the financial resilience and economy, efficiency and effectiveness criteria of the VFM conclusion.</p> | <p>Specific risk based work required: Yes</p> <p>We will assess the way in which the Authority identified properties for disposal and sought approval from members for the overall estates strategy. We will also consider the way in which the disposal process is being managed and monitored in order to ensure that proceeds are received in line with budgets and required timescales.</p> |

Your audit team has been drawn from our specialist public sector assurance department and were all part of the audit last year.

Contact details are shown on page 1.

The audit team will be assisted by other KPMG specialists as necessary.



Darren Gilbert
Director

“My role is to lead our team and ensure the delivery of a high quality, valued added external audit opinion.

I will be the main point of contact for the Audit Committee, the Leader of the Council and the Corporate Directors.”



Tara Westcott
Senior Manager

“I provide quality assurance for the audit work and specifically any technical accounting and risk areas.

I will work closely with Darren to ensure we add value.

I will liaise with the Associate Director Finance and Pension Fund Treasurer and other Executive Directors.”



Adam Bunting
Assistant Manager

“I am responsible for the on-site management, review and delivery of the audit of the Authority.

I will liaise with the Chief Accountant and Head of Internal Audit.”



Duncan Laird
Manager

“I am responsible for the management, review and delivery of the audit of the Pension Fund.

I will liaise with the Head of Pensions and Strategic Pension Manager.”

| Deliverable | Purpose | Committee dates |
|-----------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------|
| Planning | | |
| External Audit Plan | <ul style="list-style-type: none"> ■ Outlines our audit approach. ■ Identifies areas of audit focus and planned procedures. | March 2015 |
| Control evaluation | | |
| Interim Report | <ul style="list-style-type: none"> ■ Details control and process issues. ■ Identifies improvements required prior to the issue of the draft financial statements and the year-end audit. | June 2015 |
| Substantive procedures | | |
| Report to Those Charged with Governance (ISA 260 Report) This report will cover both the Authority and the Pension Fund. | <ul style="list-style-type: none"> ■ Details the resolution of key audit issues. ■ Communicates adjusted and unadjusted audit differences. ■ Highlights performance improvement recommendations identified during our audit. ■ Comments on the Authority's value for money arrangements. | July 2015 |
| Completion | | |
| Auditor's Report | <ul style="list-style-type: none"> ■ Provides an opinion on the Authority's and Pension Fund accounts (including the Annual Governance Statement). ■ Concludes on the arrangements in place for securing economy, efficiency and effectiveness in your use of resources (the VFM conclusion). | July 2015 |
| Whole of Government Accounts | <ul style="list-style-type: none"> ■ Provide our assurance statement on the Authority's WGA pack submission. | July 2015 |
| Pension Fund Annual Report | <ul style="list-style-type: none"> ■ We provide an opinion on the consistency of the Pension Fund annual report with the Pension Fund accounts. | July 2015 |
| Annual Audit Letter | <ul style="list-style-type: none"> ■ Summarises the outcomes and the key issues arising from our audit work for the year. | December 2015 |

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

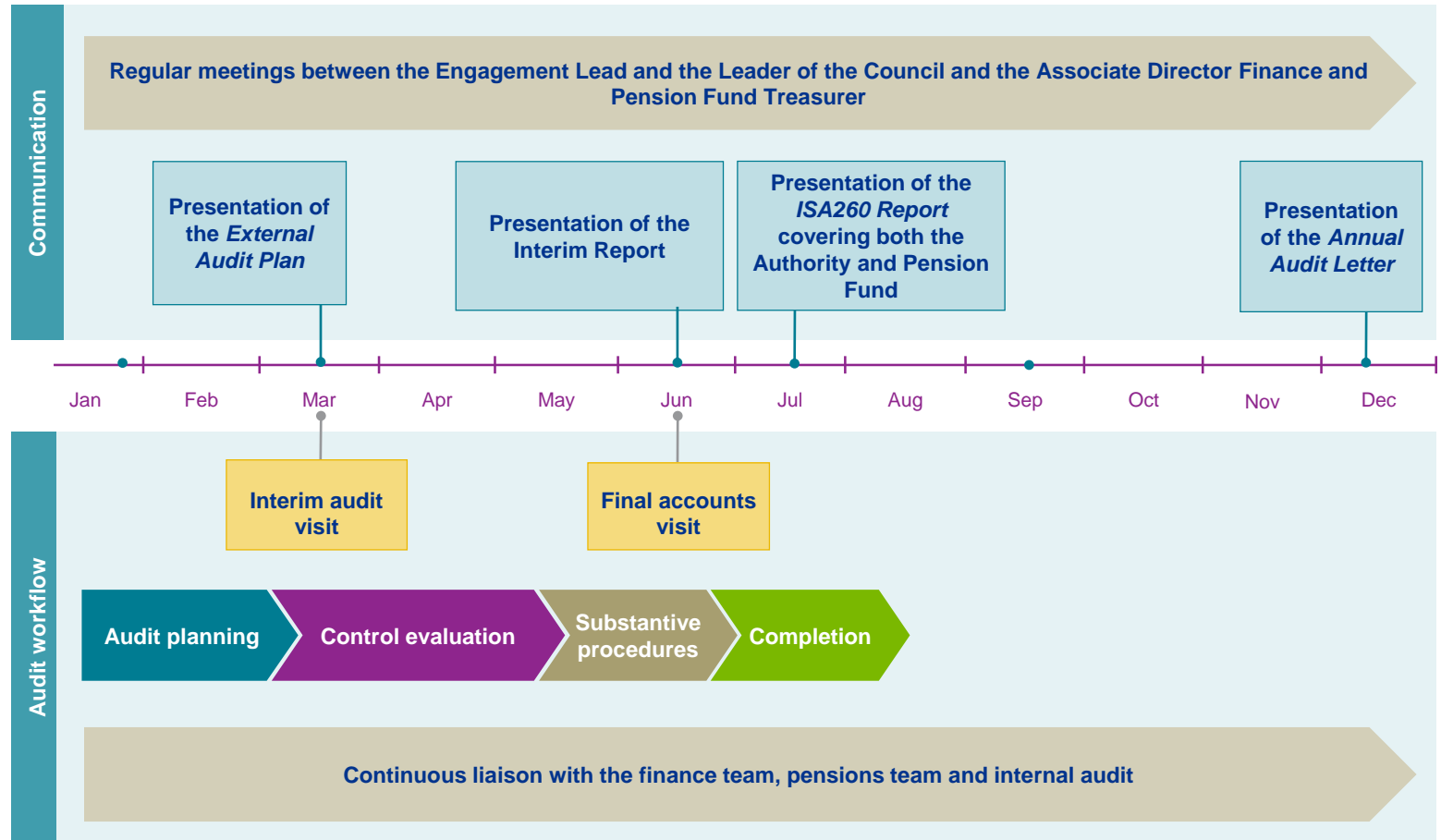
Key formal interactions with the Audit Committee are:

- March – External Audit Plan
- June – Interim Report
- July – ISA 260 Report
- December – Annual Audit Letter

We work with the finance team and internal audit throughout the year.

Our main work on site will be our:

- Interim audit visits during March.
- Final accounts audit during June.



Key: ● Audit Committee meetings.

The fee for the 2014/15 audit of the Authority is £223,226. The fee has increased from that set out in our Audit Fee Letter 2014/15 issued in April 2014 as a result of the incorporation of work previously undertaken as part of the grant certification process.

The fee for our audit of the Pension Fund is £24,246. This fee has not changed from that set out in our Audit Fee Letter 2014/15.

Our audit fee remains indicative and based on you meeting our expectations of your support.

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

Audit fee

Our *Audit Fee Letter 2014/15* presented to you in April 2014 set out a fee of £222,156 for the 2014/15 audit. This fee has increased by £1,070 as a result of the incorporation of work relating to non-domestic rates accounting entries which is no longer separately undertaken as part of the grant certification process.

| Element of the audit | 2014/15 (planned) | 2013/14 (actual) |
|------------------------|-------------------|------------------|
| Main audit fee | £223,226 | £223,226 |
| Pension Fund audit fee | £24,246 | £24,246 |

Our main audit fee includes our work on the VFM conclusion and our audit of the Authority's financial statements.

Audit fee assumptions

The fee is based on a number of assumptions, including that you will provide us with complete and materially accurate financial statements, with good quality supporting working papers, within agreed timeframes. It is imperative that you achieve this. If this is not the case and we have to complete more work than was envisaged, we will need to charge additional fees for this work. In setting the fee, we have assumed:

- the level of risk in relation to the audit of the financial statements is not significantly different from that identified for 2014/15;
- you will inform us of any significant developments impacting on our audit;
- you will identify and implement any changes required under the *CIPFA Code of Practice on Local Authority Accounting in the UK 2014/15* within your 2014/15 financial statements;
- you will comply with the expectations set out in our *Accounts Audit Protocol*, including:
 - the financial statements are made available for audit in line with the agreed timescales;
 - good quality working papers and records will be provided at the start of the final accounts audit;

- requested information will be provided within the agreed timescales;
- prompt responses will be provided to queries and draft reports;
- internal audit meets appropriate professional standards;
- internal audit adheres to our joint working protocol and completes appropriate work on all systems that provide material figures for the financial statements and we can place reliance on them for our audit; and
- additional work will not be required to address questions or objections raised by local government electors or for special investigations such as those arising from disclosures under the Public Interest Disclosure Act 1998.

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

The Audit Commission requires us to inform you of specific actions you could take to keep the audit fee low. Future audit fees can be kept to a minimum if the Authority achieves an efficient and well-controlled financial closedown and accounts production process which complies with good practice and appropriately addresses new accounting developments and risk areas.

Changes to the audit plan

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

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

If changes to this plan and the audit fee are required, we will discuss and agree these initially with the Associate Director Finance and Pension Fund Treasurer.

This appendix summarises auditors' responsibilities regarding independence and objectivity.

Independence and objectivity

Auditors are required by the Code to:

- carry out their work with independence and objectivity;
- exercise their professional judgement and act independently of both the Commission and the audited body;
- maintain an objective attitude at all times and not act in any way that might give rise to, or be perceived to give rise to, a conflict of interest; and
- resist any improper attempt to influence their judgement in the conduct of the audit.

In addition, the Code specifies that auditors should not carry out work for an audited body that does not relate directly to the discharge of the auditors' functions under the Code. If the Authority invites us to carry out risk-based work in a particular area, which cannot otherwise be justified to support our audit conclusions, it will be clearly differentiated as work carried out under section 35 of the Audit Commission Act 1998.

The Code also states that the Commission issues guidance under its powers to appoint auditors and to determine their terms of appointment. The Standing Guidance for Auditors includes several references to arrangements designed to support and reinforce the requirements relating to independence, which auditors must comply with. These are as follows:

- Auditors and senior members of their staff who are directly involved in the management, supervision or delivery of Commission-related work, and senior members of their audit teams should not take part in political activity.
- No member or employee of the firm should accept or hold an appointment as a member of an audited body whose auditor is, or is proposed to be, from the same firm. In addition, no member or employee of the firm should accept or hold such appointments at related bodies, such as those linked to the audited body through a strategic partnership.

- Audit staff are expected not to accept appointments as Governors at certain types of schools within the local authority.
- Auditors and their staff should not be employed in any capacity (whether paid or unpaid) by an audited body or other organisation providing services to an audited body whilst being employed by the firm.
- Firms are expected to comply with the requirements of the Commission's protocols on provision of personal financial or tax advice to certain senior individuals at audited bodies, independence considerations in relation to procurement of services at audited bodies, and area wide internal audit work.
- Auditors appointed by the Commission should not accept engagements which involve commenting on the performance of other Commission auditors on Commission work without first consulting the Commission.
- Auditors are expected to comply with the Commission's policy for the Engagement Lead to be changed on a periodic basis.
- Audit suppliers are required to obtain the Commission's written approval prior to changing any Engagement Lead in respect of each audited body.
- Certain other staff changes or appointments require positive action to be taken by Firms as set out in the standing guidance.

Appendix 2: KPMG Audit Quality Framework

We continually focus on delivering a high quality audit.

This means building robust quality control procedures into the core audit process rather than bolting them on at the end, and embedding the right attitude and approaches into management and staff.

KPMG's Audit Quality Framework consists of seven key drivers combined with the commitment of each individual in KPMG.

The diagram summarises our approach and each level is expanded upon.

At KPMG we consider audit quality is not just about reaching the right opinion, but how we reach that opinion. KPMG views the outcome of a quality audit as the delivery of an appropriate and independent opinion in compliance with the auditing standards. It is about the processes, thought and integrity behind the audit report. This means, above all, being independent, compliant with our legal and professional requirements, and offering insight and impartial advice to you, our client.

KPMG's Audit Quality Framework consists of seven key drivers combined with the commitment of each individual in KPMG. We use our seven drivers of audit quality to articulate what audit quality means to KPMG.

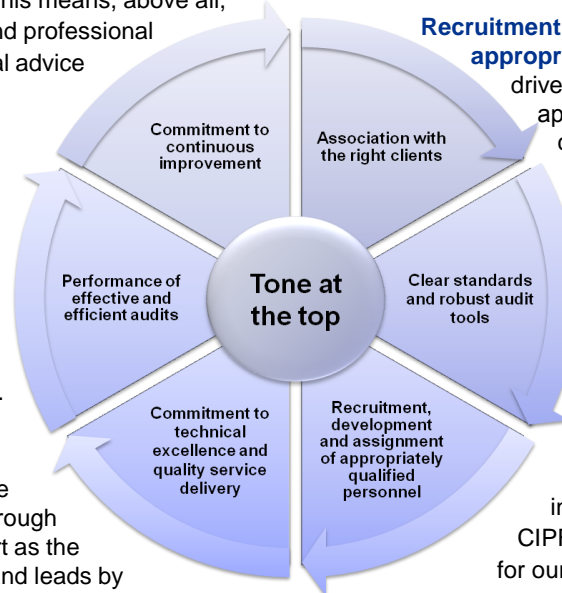
We believe it is important to be transparent about the processes that sit behind a KPMG audit report, so you can have absolute confidence in us and in the quality of our audit.

Tone at the top: We make it clear that audit quality is part of our culture and values and therefore non-negotiable. Tone at the top is the umbrella that covers all the drives of quality through a focused and consistent voice. Darren Gilbert as the Engagement Lead sets the tone on the audit and leads by example with a clearly articulated audit strategy and commits a significant proportion of his time throughout the audit directing and supporting the team.

Association with right clients: We undertake rigorous client and engagement acceptance and continuance procedures which are vital to the ability of KPMG to provide high-quality professional services to our clients.

Clear standards and robust audit tools: We expect our audit professionals to adhere to the clear standards we set and we provide a range of tools to support them in meeting these expectations. The global rollout of KPMG's eAudIT application has significantly enhanced existing audit functionality. eAudIT enables KPMG to deliver a highly

technically enabled audit. All of our staff have a searchable data base, Accounting Research Online, that includes all published accounting standards, the KPMG Audit Manual Guidance as well as other relevant sector specific publications, such as the Audit Commission's *Code of Audit Practice*.



Recruitment, development and assignment of appropriately qualified personnel: One of the key drivers of audit quality is assigning professionals appropriate to the Authority's risks. We take great care to assign the right people to the right clients based on a number of factors including their skill set, capacity and relevant experience.

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

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

We continually focus on delivering a high quality audit.

This means building robust quality control procedures into the core audit process rather than bolting them on at the end, and embedding the right attitude and approaches into management and staff.

Quality must build on the foundations of well trained staff and a robust methodology.

Commitment to technical excellence and quality service delivery:

Our professionals bring you up- the-minute and accurate technical solutions and together with our specialists are capable of solving complex audit issues and delivering valued insights.

Our audit team draws upon specialist resources including Forensic, Corporate Finance, Transaction Services, Advisory, Taxation, Actuarial and IT. We promote technical excellence and quality service delivery through training and accreditation, developing business understanding and sector knowledge, investment in technical support, development of specialist networks and effective consultation processes.

Performance of effective and efficient audits: We understand that how an audit is conducted is as important as the final result. Our drivers of audit quality maximise the performance of the engagement team during the conduct of every audit. We expect our people to demonstrate certain key behaviors in the performance of effective and efficient audits. The key behaviors that our auditors apply throughout the audit process to deliver effective and efficient audits are outlined below:

- timely Engagement Lead and manager involvement;
- critical assessment of audit evidence;
- exercise of professional judgment and professional scepticism;
- ongoing mentoring and on the job coaching, supervision and review;
- appropriately supported and documented conclusions;
- if relevant, appropriate involvement of the Engagement Quality Control reviewer (EQC review);
- clear reporting of significant findings;
- insightful, open and honest two-way communication with those charged with governance; and
- client confidentiality, information security and data privacy.

Commitment to continuous improvement: We employ a broad range of mechanisms to monitor our performance, respond to feedback and understand our opportunities for improvement.

Our quality review results

We are able to evidence the quality of our audits through the results of Audit Commission reviews. The Audit Commission publishes information on the quality of work provided by KPMG (and all other firms) for audits undertaken on behalf of them (<http://www.audit-commission.gov.uk/audit-regime/audit-quality-review-programme/principal-audits/kpmg-audit-quality>).

The latest Annual Regulatory Compliance and Quality Report (issued June 2014) showed that we are meeting the Audit Commission's overall audit quality and regularity compliance requirements.

Appendix 3: Assessment of fraud risk

We are required to consider fraud and the impact that this has on our audit approach.

We will update our risk assessment throughout the audit process and adapt our approach accordingly.

Page 66

Officers responsibilities

- Adopt sound accounting policies.
- With oversight from those charged with governance, establish and maintain internal control, including controls to prevent, deter and detect fraud.
- Establish proper tone/culture/ethics.
- Require periodic confirmation by employees of their responsibilities.
- Take appropriate action in response to actual, suspected or alleged fraud.
- Disclose to Audit Committee and auditors:
 - any significant deficiencies in internal controls.
 - any fraud involving those with a significant role in internal controls.

KPMG's identification of fraud risk factors

- Review of accounting policies.
- Results of analytical procedures.
- Procedures to identify fraud risk factors.
- Discussion amongst engagement personnel.
- Enquiries of management, Audit Committee, and others.
- Evaluate controls that prevent, deter, and detect fraud.

KPMG's response to identified fraud risk factors

- Accounting policy assessment.
- Evaluate design of mitigating controls.
- Test effectiveness of controls.
- Address management override of controls.
- Perform substantive audit procedures.
- Evaluate all audit evidence.
- Communicate to Audit Committee and management.

KPMG's identified fraud risk factors

- We will monitor the following areas throughout the year and adapt our audit approach accordingly.
 - Management override of controls.

Appendix 4: Transfer of Audit Commission's functions

The Audit Commission will be writing to audited bodies and other stakeholders in the coming months with more information about the transfer of the Commission's regulatory and other functions.

Page 67

From 1 April 2015 a transitional body, Public Sector Audit Appointments Limited (PSAA), established by the Local Government Association (LGA) as an independent company, will oversee the Commission's audit contracts until they end in 2017 (or 2020 if extended by DCLG). PSAA's responsibilities will include setting fees, appointing auditors and monitoring the quality of auditors' work. The responsibility for making arrangements for publishing the Commission's value for money profiles tool will also transfer to PSAA.

From 1 April 2015, the Commission's other functions will transfer to new organisations:

- responsibility for publishing the statutory Code of Audit Practice and guidance for auditors will transfer to the National Audit Office (NAO) for audits of the accounts from 2015/16;
- the Commission's responsibilities for local value for money studies will also transfer to the NAO; and
- the National Fraud Initiative (NFI) will transfer to the Cabinet Office.



cutting through complexity™

Page 68

© 2015 KPMG LLP, a UK limited liability partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative (“KPMG International”), a Swiss entity. All rights reserved.

The KPMG name, logo and “cutting through complexity” are registered trademarks or trademarks of KPMG International.