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Date: 13 March 2013

Notice of meeting

Audit Committee

Date: Thursday 21 March 2013

Time: 7.30 pm

Place: Goddard Room, Council Offices, Knowle Green, Staines

To the members of the Audit Committee

Councillors:

D. Gohil (Chairman)	C.M. Frazer	A.C. Patterson
J. Dale	M.J. Madams	C.V. Strong
	D. Patel	

RESPONSIBILITIES OF THE AUDIT COMMITTEE

Purpose
To provide independent assurance of the adequacy of the risk management framework and the associated control environment, independent scrutiny of the authority's financial and non-financial performance to the extent that it affects the authority's exposure to risk and weakens the control environment, and to oversee the financial reporting process

Core Functions
(a)   To approve (but not direct) the internal audit's strategy, plan and performance.
(b)   To review summary internal audit reports and the main issues arising, and to seek assurance that action has been taken where necessary.
(c)   To consider the reports of external audit and inspection agencies.
(d)   To consider the effectiveness of the authority's risk management arrangements, the control environment and associated anti fraud and anti corruption arrangements. Seek assurances that action is being taken on risk related issues identified by auditors and inspectors.
(e)   To be satisfied that the Authority's assurance statements, including the Annual Governance Statement, properly reflect the risk environment and to take actions required to improve it.
(f)   To ensure that there are effective relationships between external and internal audit, inspection agencies and other relevant bodies, and that the value of the audit process is actively promoted.
(g)   To review the financial statements, external auditors opinion and reports to members, and monitor management action in response to the issues raised by external audit.

AGENDA

1. Apologies

To receive any apologies for non-attendance.

2. Minutes

To confirm the minutes of the meeting held on 6 December 2012 (copy attached).   1 - 2

3. Disclosures of Interest

To receive any disclosures of interest from members in accordance with the Council's Code of Conduct for members.

4. Corporate Risk Management

To receive a report from the Assistant Chief Executive (copy attached).   3 - 20

5. Internal Audit Annual Plan 2013/14

To receive a report from the Head of Audit Services (copy attached).   21 - 26

6. Public Sector Internal Audit Standards

To receive a report from the Head of Audit Services (copy attached).   27 - 29

7. Committee Work Programme 2012-13

The Committee is requested to consider and approve its work programme for the Municipal Year 2012/13 (copy attached).   30 - 31

8. External Audit Plan 2012/13

To receive a report from the Council's external auditor KPMG   32 - 55

Minutes of the Audit Committee
6 December 2012

Present:

Councillor Mrs S. Webb (Vice-Chairman) in the Chair

Councillors:
Mrs M.J. Madams   C.V. Strong

Apologies: Councillors C. M. Frazer, D. Gohil and A.C. Patterson

323/12   Minutes

The minutes of the meeting held on 20 September 2012 were approved as a correct record

324/12   Disclosures of Interest

There were none.

325/12   External Audit Annual Audit Letter 2011/12

The Committee considered the external auditors' annual audit letter which summarised the key findings from KPMG's 2011/12 audit of the Council. This included the audit of the Council's 2011/12 financial statements and the 2011/12 Value for Money (VFM) conclusion, on both of which KPMG issued an unqualified opinion.

Resolved that the external audit annual audit letter for 2011/12 be noted.

326/12   Corporate Risk Management

The Internal Audit Manager reported that the Corporate Risk Register had undergone its regular quarterly review and update by the Corporate Risk Management Group to ensure that actions were being taken to deal with the identified risks. The revised Register was considered to be an accurate reflection of the high level risks affecting the Authority as well as the progress made on actions previously proposed.

She highlighted progress in a number of areas which were documented on the register. She updated the Committee on the staff survey which was due to take place in 2013 and detailed a number of steps which had already been implemented to maintain and enhance staff morale.

Resolved that the contents of the Corporate Risk Register be noted and accepted and recommended to Cabinet for approval.

327/12   Audit Services Interim Report

The Head of Audit Services presented her report which summarised the work undertaken by Audit Services during the period April 2012 to November 2012

and provided the Council with assurance on the adequacy of its internal audit systems of control.

She responded to questions from members on the risks relating to welfare reforms and agreed to circulate a briefing paper on the Council Tax support scheme and details relating to DCLG transitional funding.

Resolved that the audit services interim report for the period April 2012 to November 2012 be noted and approved.

328/12   Confidential Reporting Code (Whistleblowing Policy)

The Head of Audit Services submitted the Confidential Reporting Code (Whistleblowing Policy), which formed part of the Council's Constitution, for review. The Code sets out how to raise serious concerns about any aspect of the Council's work, who to raise them with and how they should be dealt with.

The Code was available on the Council's intranet; a bright orange leaflet was posted on every internal notice board and regular reminders were given to staff of its existence.

Resolved to note and approve the Confidential Reporting Code (Whistleblowing Policy) as submitted.

329/12   Committee Work Programme 2012-13

The Committee considered its Work Programme for the remainder of the 2012/2013 Municipal year.

RESOLVED that the Committee Work Programme for the remainder of the 2012/2013 Municipal year, be approved.

Audit Committee

21 March 2013

SPELTHORNE
BOROUGH COUNCIL

Title	Corporate Risk Management		
Purpose	For Information		
Report of	Assistant Chief Executive	Confidential	No
Cabinet Member	Councillor Tim Evans	Key Decision	No
Report Author	Punita Talwar, Audit Manager		

Summary	This report provides Management Team (MAT) and the Audit Committee with an opportunity to review the Corporate Risk Register and note outstanding actions.
	
	 There are three key issues highlighted in this report:
	
	 • The Corporate Risk Register has been reviewed and updated
	 • Progress on outstanding actions has been documented on the register
	 • Four new actions have been added to the register relating to:
	    ○ effectively managing reduced capacity in services through reallocation of resources to priority areas,
	    ○ progressing outstanding improvement actions recommended by the Council's Insurers,
	    ○ strengthening contract management and procurement processes, and
	    ○ exploring initiatives for economic growth.		

Financial Implications	Staff time to implement proposed actions (contained within existing budgets).		
Corporate Priority	This item is not in the list of Corporate Priorities		
Recommendations	**That the Committee notes the report.**		

MAIN REPORT

1. Background

1.1 Risk management is frequently defined as "*The identification, analysis and economic control of all threats to the achievement of the organisation's strategies and operational activities*".

Spelthorne provides a wide range of services to residents, local workers, businesses and visitors. The nature of these services presents a significant potential for loss (both financial and otherwise), disruption, damage and injury.

Although some risks will always exist and can never be fully eliminated, the adoption of a structured approach to identify, manage, monitor and review risks offers many potential benefits. It will help the Council achieve its corporate objectives and enhance the value of services it provides.

The Council's Risk Management policy/strategy, flowchart of responsibilities and Corporate Risk Register can be found on Spelnet.

1.2 This report provides the Audit Committee with an opportunity to review the revised Corporate Risk Register, assess progress on actions previously recommended, and consider new risks and actions added.

2. Key issues

2.1 The Corporate Risk Management Group has revised the Corporate Risk Register (**Appendix 1**).

2.2 Progress on actions has been documented on the attached register (see control/action and progress columns). Progress has been made in the following areas:

- **Service planning and performance management systems** have been reviewed and were recently launched at a Managers Briefing, setting out the proposed timetable for the process. Service Plans will need to be updated to reflect new Council priorities and the new financial year (2013/14).
- **Project management** - Officer and Member training has taken place. Quarterly dashboard reporting of flagship projects has commenced. All asset related projects have been assigned provisional sponsors and Managers. There are still significant risks around resources to deliver asset related projects but Management Team are considering some options to address this.
- **IT Security –** An IT Security penetration test and firewall review took place in December, and any relevant actions have been addressed. An internal health check is currently taking place and the Council is

awaiting results of the annual Government Code of Connection (COCO) assessment submitted in December 2012.

- The **Business Continuity** forum met in November 2012 where a number of issues were identified and are being followed up by the Emergency Planning and Resilience Co-ordinator. A revised template has been drafted for departmental plans.
- **Staff Morale** - Discussions are underway regarding the Spelthorne staff survey and setting up of a working group. The Investors in People (IIP) assessment due to take place in March will also enable the authority to gain feedback on any staff morale issues.
- Incident management training for **Emergency Planning** is due to take place in April.
- The Leisure Services Manager has addressed a number of issues relating to the **Safeguarding** function. These include review of policies, staff training and awareness briefings, development of a centralised safeguarding referral log and improved recording mechanism for training.
- The **electronic tendering system** is currently being trialled which will help to ensure proper governance arrangements are in place relating to the award of contracts.
- The Chief Finance Officer has assessed the impact of the new **Business Rate** arrangements on the Council's finances, and reported key issues to Members and Managers.
- A joint Department for Communities and Local Government (DCLG) funding bid with A2Dominion is being submitted to secure resources to tackle **housing tenancy fraud**.
- The Joint Heads of Housing and Independent Living continue to update Management Team, Service Heads and Members on forthcoming **welfare reforms** including implications for Services and community. All projects relating to welfare reforms have been identified together with budget and resource implications. Project management resources have been transferred into this area.
- Effective delivery of the **Council Tax Support Scheme** within the required timescales and collection of relatively small council tax debts from customers who previously paid nothing will need to be kept under review.
- The authority also faces some financial challenges associated with the introduction of Universal Credit including loss of the **Housing Benefit subsidy** and uncertainty over the recovery of Housing Benefit **overpayments** (current debt of £1.26m). The implications of proposals to transfer Housing Benefit fraud investigation resources to a centralised government team (Single Fraud Investigation Service/SFIS) together with the need to retain resources to investigate Council Tax Support Scheme fraud are also under consideration.

2.3   The following area has not been fully addressed :

Procurement guidance requires updating to incorporate key learning points from recent **contract management** training as well as legislative changes. The Principal Solicitor aims to commence this task over the next few months.

2.4 Four new actions have been added to the Risk Register in order to mitigate associated risks as far as possible. These are set out below:

(a) There is a potential risk of service delivery failure due to **reduced staff capacity** at a time when demands from the community are increasing. Members and Management Team will need to keep matters under review, including careful consideration of the impact of their decisions and any statutory obligations on service/project delivery. Officers will need to continue to consider mitigating actions, including reallocating resources to priority areas where possible. (See Risk Register section 6ii)

(b) The authority's Insurers issued several recommendations in July 2012 following a review of some of the Council's high risk activities, which were agreed by Management team. These included Legionella and Asbestos management, contract management, and setting up a robust inspection regime for all our activities, processes, land, parks and open spaces. The recommendations aim to reduce the potential risk of insurance claims and subsequent loss, as well as ensuring compliance with legislative requirements and best practice.
Outstanding actions have been reviewed by Management Team and the Corporate Risk Management Group will be monitoring progress. (See Risk Register section 12).

(c) A number of actions have been raised relating to **procurement, contract and asset management** arrangements. (See Risk Register 15i). These are set out below:

i) Procurement, contract management and asset management expertise is limited across the authority. (This is particularly relevant to the Grounds Maintenance contract and some asset related contracts). Management Team will be considering expertise and resources in these areas and possible options to strengthen arrangements.

ii) Periodical reminders to be issued to all Services about the need to comply with Spelthorne's procurement procedures and Contract Standing Orders when appointing contractors.

iii) The new Surrey County Council parking agreement will be closely monitored by Financial Services as the authority will now bear the cost of any deficits whereas any surplus will be shared.

(d) In light of the increasing number of companies going out of business or experiencing financial hardship, and the subsequent impact this has on recovery of **Business Rates**, combined with the implementation of the new Business Rates Retention scheme, there is a potential risk of reduced income and increasing losses from bad debts. Therefore there is an increasing pressure to encourage and sustain **economic growth in Spelthorne,** which is also one of the Administration's key priorities**.** (See Risk Register section 15iii).

3. Options analysis and proposal

Either:

    i.   To note and accept the contents of the Corporate Risk Register. The revised register is considered to be an accurate reflection of the high level risks affecting the Authority, as well as the progress made on actions previously proposed, based on our assessment of risk and controls in operation. (**Preferred option)**

    Or:

    ii.   To recommend amendments to the Corporate Risk Register for consideration by the Corporate Risk Management Group.

4.   Financial implications

4.1   Resources required (staff time) to implement actions proposed in the Corporate Risk Register should be contained within existing budgets.

5.   Other considerations

5.1   The Corporate Risk Register covers a wide range of risk categories such as technology/infrastructure/operations, financial, environmental, legal, contractual, economic/social, and personnel. Proposals set out in the Corporate Risk Register should improve overall risk management arrangements across the Authority, which supports all corporate priorities.

5.2   There are potential legal consequences should the risks identified not be addressed adequately. The purpose of the Risk Register is in part to avoid such consequences.

6.   Risks and how they will be mitigated

6.1   The risks and associated actions to mitigate risks are set out in the Risk Register.

7.   Timetable for implementation

7.1   The Corporate Risk Register shows officers responsible for progressing actions, together with timescales for implementation. The register is reviewed and updated quarterly by Audit Services.

Background papers: There are none.

Appendices: Appendix 1 – Corporate Risk Register

SPELTHORNE BOROUGH COUNCIL
CORPORATE RISK REGISTER – 2012/13 QUARTER 4

The register summarises the high level risks faced by the Council in relation to achieving the objectives and priorities as set out in the Council's corporate plan. The register sets out the control procedures in place to mitigate these risks, and identifies any further action needed to manage these risks effectively. Actions are assigned to appropriate officers with target dates for implementation.

Corporate Priority themes are referred to in the risk register.

Level of risk: Likelihood vs. Impact on a scale of 1 (lowest) to 4 (highest)

Risk/ Consequences	Level Of Risk	Control / Action	Owner- ship	Target Date	Progress
1. Failure to align service objectives to corporate aims / Failure to deliver services effectively due to poor service planning	3	**Controls**: Service plans are derived from the Council's Corporate Plan and statutory/other responsibilities relating to the service. Plans incorporate issues relating to resources, risks, workforce, significant projects and any relevant performance indicators. **Actions:** *All Service Plans require updating to reflect:* • *New Corporate Priorities* • *The new financial year including revised budgets, projects/systems/legislation/risks in 2013/14*	Service Heads Service Heads	 April 2013	Ongoing. March 2013: The ACX, Lee O'Neil gave a presentation at a recent Managers Briefing about the annual service planning and performance review process. A timetable has been issued.
2. Failure to manage corporate and service performance (Performance Management)	3	**Controls:** The Corporate Plan sets out targets for the authority which will be monitored by Members and Management Team. Service performance (standard and targets) will be monitored by Management Team. Individual performance is monitored through the appraisal process. Flagship project performance will be reported to Management Team and Members. **Action:** *A new Performance Review template has been developed for each service and needs to be fully implemented.*	**MAT** **MAT**	 June 2013	Ongoing. March 2013: Timetable in place. Requirement for quarterly updates on performance from 2013/14, as well as annual performance review.

Risk/ Consequences	Level Of Risk	Control / Action	Owner- ship	Target Date	Progress
3. Failure of projects due to poor project management arrangements. Lack of resource and expertise to deliver and coordinate asset related/other projects.	3	**Controls:** Project management principles and methodology recently re-launched by the Head of Customer Services. Recent strengthening of project management support. A Corporate Project Manager has been appointed, whose role is to oversee the monitoring of the flagship projects, provide support and guidance to project managers, provide support for some asset related projects, as well as delivering some of the Council's key flagship projects. *Action:* ***Asset Management is a corporate priority and many of the Council's projects are asset related – this area will need to be kept under review.***	MAT/ Head of CS * MAT	 June 2013	Ongoing: March 2013: Officer and Member training taken place. Quarterly dashboard reporting of flagship projects commenced. Management Team has reprioritised resources to provide an additional post to support the Corporate Project team. Asset related projects have been assigned provisional sponsors and managers. There are still significant risks around resources to deliver asset related projects which Management Team is addressing.
4i.Security / data breaches, resulting in system failure, Information Commissioner fines and reputational damage	3	**Controls:** ICT Service now in-house with effect from January 2013. Back up and continuity arrangements managed by IT and tested by Service Heads. ICT security policies. Personal Commitment statement required from all staff. ICT security group assess ongoing risks. ICT disaster recovery test satisfactorily conducted June 2012. *Action:* ***Information Governance Group developing action plan to ensure information assets are identified and managed.***	ACX (TC)/ Head of ICT * Head of CG	 June 2013	Ongoing
4ii. Failure to meet the minimum	3	**Controls:** A review group assesses compliance with the Government Code of Connection (COCO)	ACX (TC)/ Head of		Ongoing

Risk/ Consequences	Level Of Risk	Control / Action	Owner-ship	Target Date	Progress
security requirements of the Government Code of Connection resulting in termination of connection to any other government sites/data.		Resubmitted annual Government Code of Connection (COCO) assessment in December 2012 (pending submission of penetration test and health check – see below). New firewall installed. Additional security measures have been implemented, including encryption of laptops, CD'S and memory sticks, (memory sticks banned until they are 'white-listed' as known devices on the network), and locking down universal serial bus (USB) ports. ICT Service has completed dual factor authentication on all laptops and replaced old laptops. The Firewall review and external penetration test took place in December and relevant action taken. The internal health check is currently taking place and awaiting report.	ICT * Head of ICT *	April 2013	
5. Disaster in Council buildings / Lack of continuity planning within services and reliance on individuals/ systems. Security incident at the council offices resulting in disruption to service	3	**Controls:** A Business Continuity Policy (high level corporate approach) has been approved by Management Team. A corporate plan should describe the corporate management of a disruptive incident, and this will be developed through the Business Continuity Forum. The Business Continuity Forum oversees progress of business continuity planning. All services should have up to date and tested Business Continuity Plans. New service level templates will have pre-written table top exercises allowing services to exercise their plans independently, with a corporate exercise planned for the corporate recovery team in the first quarter of 2013. The Emergency Planning & Resilience Co-ordinator manages the Business Continuity Forum and work stream, reporting to the Assistant Chief Executive (Liz Borthwick) every 2 months and Management Team quarterly on progress. Security strategy in place and publicised to all staff. **Action**: *The Authority must ensure the plans are fully communicated, tested and updated regularly.*	Service Heads/ MAT / EPO * Service Heads/ MAT / EPO *	April 2013	Ongoing. March 2013: The Business Continuity Forum met in November 2012 where a number of issues were identified and are being followed up. Key issues relate to content management and office re-location that will require considerable planning. The forum will meet again in April.

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Risk/ Consequences	Level Of Risk	Control / Action	Owner-ship	Target Date	Progress
6i.Failure in service delivery due to over reliance on individuals	3	**Controls:** Service Heads are responsible for ensuring business continuity, including loss of key staff. Critical procedures should be fully documented and staff appropriately trained. In some cases resilience may be provided from other local authorities or other organisations.	MAT/ Service Heads		Ongoing
6ii. Failure in service delivery due to reduced capacity and increasing demands from the community. Increased risk of delay, errors or stress.	3	**Controls:** Short term reductions in capacity due to increasing demand or short term absence of staff on leave or sickness are accommodated by prioritisation and reallocating work among staff. Longer term impacts and changes to demand may be more difficult to address and a fundamental review of arrangements may be required to align staff resources to the work required. System redesign may be possible to help match resources to the level of work In some circumstances it is necessary to supplement staffing levels with additional temporary or permanent resource. Resources need to be diverted to implementing new systems or introduce new ways of working. The recent strengthening of project management support is a good example. ***Action March 2013: Members and Management Team will need to keep under review, including consideration of the impact of decisions and any statutory obligations on service/project delivery. Officers will need to continue to consider mitigating actions, including reallocating resources to priority areas where possible.***	Service Heads/ MAT Service Heads/ MAT		Ongoing
7. Poor morale as a result of service demand, lack of staff & financial resources, organisational changes, future uncertainty etc	3	**Controls:** Change Management, clear communications, formal performance management system being set up, appraisals, one to one's, team meetings, performance clinics, staff meetings, staff workshops to be set up, Member training, corporate plan and priorities being reviewed. ***Action: Management Team to keep under review.***	MAT/ Service Heads MAT	April 2013	Ongoing. March 2013: Discussions are underway regarding a staff survey and setting up of a working group. The Investors in People (IIP) assessment due to take place in March will also enable the authority to gain feedback on any staff morale issues

8. Disaster- major in borough, e.g. flooding, resulting in significant strain on council services (eg homelessness).	4	**Controls:** Emergency Plan Membership and involvement in Local Resilience Forum Regular testing of Emergency Assistance Centre plan Yearly Borough Emergency Centre Plans Incident Management Team training and exercising	ACX (LB)/ Head of S & L/EPO*		Ongoing. March 2013: The Borough Emergency Plan was effectively activated following flooding in December 2012. Significant reliance was placed on staff goodwill including emergency out of hours support. Overview and Scrutiny Committee will receive a debrief in March. Incident Management Team training scheduled for April.
9. Failure to deliver sustainable community strategy / deliver climate change strategy: -Contravening legislation (Climate Change Act 2008) -Poor resilience to climate change by services and community -Services not adequately prepared for climate change, effecting service delivery.	3	**Controls**: Sustainable Development Strategy (SDS) and joint Climate Change Strategy. Action plans prepared assigning tasks and targets to named officers, with timescales for delivery. Surrey wide climate change projects being developed through the Surrey Climate Change Partnership (SCCP), to be assigned as and when appropriate. Focus on energy reduction measures. Environmental impact assessments completed. Climate change impact reports will be used to identify key risks. SDS Delivery Board set up to monitor the implementation of Sustainable Development Strategy and related action plans including climate change measures. Meetings held every two months and minutes available. Sustainability issues incorporated into the Procurement Strategy and training to be provided. Energy Policy and Carbon Management Plan in development.	ACX (LB)/ Head of S & L *		Ongoing

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10. Risk of extreme weather conditions (drought, flooding, snow) impacting on costs, water features, planting etc	3	**Controls:** Service and Business Continuity Planning to identify and address significant risks.	ACX (LB)/ Head of S & L/Head of SS *		Ongoing
11. Uncertainty surrounding the financial /economic/other consequences of contaminated land	4	**Controls:** Legal duty to inspect land and prioritise action Progress reports issued to Management Team and Cabinet outlining financial and other risks. Department for Environment, Food and Rural Affairs (DEFRA) review on statutory guidance. A separate risk assessment addresses contractual, financial/resources and legal/regulatory risks. The Environmental Health team are taking the new government circular into account as they update the contaminated land implementation strategy, which will be completed once the critical review has been carried out (currently underway). Any new issues/risks which are identified during this process are being addressed.	ACX (LO)*		Ongoing
12. Health and Safety failing resulting in death or serious injuries to staff/public and legal action against the Council	4	**Controls:** Managers are responsible for conducting regular risk assessments. Induction training for staff and policies clarify responsibilities. Health and Safety Officer in post and reports relevant issues/legislation to Cabinet, Management Team, Corporate Risk Management Group (CRMG) and all staff. Contracts let to manage Legionella and asbestos and progress reported to Asset Management Group (AMG) and Management Team as appropriate. Information held on the Council's SHE (Safety Health and Environment) system for ongoing management by Health & Safety Officer and Asset	MAT/ Service Heads/ Head of AM & OS */EPO*/ Head of SS *		Ongoing

		Management. Procedure document held clarifying health and safety responsibilities/ arrangements where the authority leases out assets. Recommendations from Insurance Review (July 2012) were agreed by Management Team. Whilst some actions have been implemented, areas relating to legionella and asbestos management, and setting up a robust inspection regime remain outstanding. **Action: *Outstanding actions from the Insurance review of July 2012 to be addressed by Management Team. This will be monitored quarterly through the Corporate Risk Management Group.***	MAT	May 2013	
13. Failure to comply with employment legislation or statutory duty leading to possible compensation (unlimited), damage to reputation, Legal costs and significant officer time.	3	**Controls:** Human Resources (HR) identify new employment legislation HR provide staff guidance on new/existing legislation and arrange training to ensure compliance, although the HR partnership with Runnymede has led to a reduction in professional HR support which could impact on the ability to identify and deal with employment law issues (see risk 10 below – partnerships). Clear documented processes exist for Recruitment and Selection, and Managers Briefings provide opportunity to promote corporate procedures. Equality and Diversity working group set up and training provided to all staff.	MAT/ Service Heads/ Head of HR*		Ongoing
14. Failure to comply with statutory duty / adhere to Safeguarding Policy leading to death or injury to child or vulnerable adult, legal action and reputational	3	**Controls:** The Council has recently updated its safeguarding policies/ procedures /guidelines and awaiting feedback from Surrey County Council. Staff and Members have received training. All concerns and referrals made to Surrey County Council should be brought to the attention of a nominated Spelthorne Officer to ensure details are logged. Regular meetings held with Surrey County Council and consultation with the Surrey Safeguarding Children's Board (SSCB). SSCB carry out a Section 11 audit annually.	ACX (LB)/ LSM*		Actioned/Ongoing. March 2013: Safeguarding policies have been updated and management awaiting feedback from Surrey County Council. Managers and some new staff have recently received Safeguarding awareness briefings. A centralised safeguarding referral log has been

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damage Failure by County to address Spelthorne referrals relating to vulnerable children/adults.		Internal Audit review undertaken of the safeguarding function in 2012. A number of actions have been addressed or are being progressed. **Action:** **Once Surrey County Council has provided feedback on revised safeguarding Policies they will be reported to MAT, Cabinet and re-launched to staff.**	ACX (LB)/ LSM*	April 2013	developed on SharePoint. Periodical monitoring of safeguarding training requirements and improved recording mechanism has been implemented.
15i. Failure to obtain value for money (vfm) / lack of transparency in awarding contracts Contractual disputes and potential claims through poor documentation. Weak contract management resulting in Contractors/part ners failing to deliver expected outcomes Breach of contract standing orders leading to reputational damage and challenge by	3	**Controls:** Contract Standing Orders set out tendering requirements. Officer Code of Conduct setting out requirement for declaration of interests. Contract guidelines (simplified version of Contract Standing Orders in place with compliance checklist). Legal team provide support on contract management as requested. Legal and Services require clear understanding of contract conditions. Contract management training held in September 2012, although this was not attended by all relevant services. Performance measures in place and contractual safeguards **Actions November 2012: Procurement guidance being updated, to be launched in 2013.** **Electronic-tendering system to be re-launched in 2013.**	Service Heads/ MAT/ CM * Head of CG Head of CG	 May 2013 May 2013	Ongoing. March 2013 : The procurement guidance requires updating to incorporate some legislative changes including the Public Services (Social Value) act 2012 which came into effect January 2013. Legal Services are currently running a large procurement through the e-tendering system and if this proves to be successful the system can be rolled out further.

other companies. Financial loss / poor vfm as a result of poor contract management		***Actions March 2013:*** • ***Procurement, contract management and asset management expertise is limited across the authority. (This is particularly relevant to the Grounds Maintenance contract and some asset related contracts). Management Team will be considering expertise and resources in these areas and possible options to strengthen arrangements.*** • ***Periodical reminders to be issued to all Services about the need to comply with Spelthorne's procurement procedures and Contract Standing Orders when appointing contractors.*** • ***The new Surrey County Council parking agreement will be closely monitored by Financial Services as the authority will now bear the cost of any deficits whereas any surplus will be shared.***	MAT Head of CG ACX (TC)	May 2013 May 2013 July 2013	
15ii. Poor partnership governance arrangements	2	Review of strategic and internal partnerships undertaken Partnership governance policy in place Significant partnerships identified. Overview and scrutiny committee to periodically review partnerships. Insurance arrangements in place	MAT		Ongoing
15iii. Uncertainty over economic growth and supplier failure, impacting on: • Delivery of contracts and services • Business Rate income.	3	**Controls:** Financial Services monitor the financial media in relation to larger companies and critical commercial partners that the authority engages with. ***Action November 2012: Impact of new Business Rate arrangements on Council finances is under review.*** ***Action March 2013: Economic development is a Council priority and growth will impact on business rate income.***	Service Heads/ MAT/ ACX (TC)* ACX (TC)* ACX (TC) * CS & EDO*	 July 2013 July 2013	Ongoing. March 2013: Financial assessment has been undertaken and business rate income will be monitored to identify any emerging variance.

16. Service planning difficulties due to changes in economic and social conditions beyond Council's control	3	**Controls**: Long term strategic planning Corporate and community plans linked to service plans Corporate priorities reviewed.	MAT		Ongoing
17. Poor return on long term investments /investments insecure in current climate.	3	**Controls:** Treasury Management Strategy approved by Members. Aim to select counter parties of the highest credit quality; credit ratings monitored closely. Council's investments managed internally in consultation with Arlingclose. Use a range of credit ratings and criteria recommended by Arlingclose. Regular monitoring and reporting of investment portfolio and returns achieved.	ACX (TC)*		Ongoing
18. Increased risk of fraud / theft due to economic climate resulting in financial losses and damage to reputation of authority. Housing tenancy fraud reduces availability of social housing.	3	**Controls:** Corporate Policies in place including Confidential Reporting Code (Whistle blowing), Anti-fraud, Bribery and Corruption Strategy, Code of Conduct including rules relating to gifts and hospitality, and declaration of interest. Staff are reminded about governance policies as part of the annual appraisal process. Fraud awareness training for staff and Members has taken place in 2012. Implications of Bribery Act (July 2010) are being considered by services (raised in Fraud Awareness training). Other controls include various policies and procedures such as Financial Regulations and Contract Standing Orders (CSO'S), management checks, segregation of duties, reconciliation processes for financial systems and IT Security measures. Discussions taking place with A2Dominion regarding proactive measures to reduce housing tenancy fraud. DCLG funding bid with A2Dominion being submitted to secure resources to tackle housing tenancy fraud.	Service Heads/ MAT		Ongoing

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| 19. Pressures on Housing Service as a result of economic climate and welfare reforms including changes in government policy to restrict housing benefit.

Introduction of Universal Credit may lead to staff retention issues. Loss of Housing Benefit subsidy and uncertainty over recovery of outstanding debt.

Introduction of Council Tax Support scheme will impact on resources. | 3 | **Controls:** Service Heads/ MAT/Members have been made aware of risks. Internal structures being reviewed. Working groups established to deal with the various changes.

The authority faces some challenges in managing the loss of £500k per annum in subsidy relating to recovery of Housing Benefit overpayments which will be fully realised once the roll out of Universal Credit is completed in 2017/18. The first year's impact is reflected in the 2013/14 budget and in medium term projections for future years. There is also uncertainty over recovery of the £1.26m of outstanding Housing Benefit overpayment debt which is currently in the council's accounts.

The new council tax support scheme to take effect from April 2013 will generate a number of small council tax debts, which may be difficult and time consuming to recover, impacting on resources. Briefing paper issued to Audit Committee Members in December 2012 relating to delivery of council tax support scheme.

Action*: *Service Heads/MAT to monitor staffing and other resource implications as appropriate.

Action*: *In light of the future transfer of Housing Benefit administration to the Department for Work and Pensions (DWP), the joint Heads of Housing Options and Independent Living to ensure adequate arrangements are in place for staff resilience within the interim period. | MAT/ Joint Heads of H & IL*

MAT

MAT/ Joint Heads of H & IL* |

June 2013

June 2013 | Ongoing. March 2013: Heads of Service update MAT and Members periodically on forthcoming welfare reforms and implications for Service. A paper has been issued outlining impact and timescales for implementation of Universal Credit and the Single Fraud Investigation Service.

All projects relating to Welfare Reforms and linkages between them have been identified together with budget and resource implications. |

| 20. Reduction in service delivery and possible loss of internal control as a result of savings required to balance budget | 3 | **Controls:**
Management is responsible for maintaining key internal controls regardless of resource levels.
Any savings offered will be accompanied with summary of any associated risks. | MAT/ Service Heads | | Ongoing. |

*KEY TO OFFICERS

Head of CS - Head of Customer Services, Linda Norman
Head of CG – Head of Corporate Governance, Michael Graham
Head of ICT – Helen Dunn
ACX (TC) – Terry Collier
Health and Safety Officer – Stuart Mann
ACX (LB) – Liz Borthwick
Head of S & L – Head of Sustainability and Leisure Services, Sandy Muirhead
Head of S & S – Head of Streetscene, Jackie Taylor
ACX (LO) – Lee O'Neil
Head of AM & OS – Head of Asset Management and Office Services, Dave Phillips
Head of HR – Head of Human Resources, Jan Hunt
CM- Contract Managers
Joint Heads of H & IL – Joint Heads of Housing and Independent Living, Deborah Ashman and Karen Sinclair
LSM - Leisure Services Manager, Lisa Stonehouse
EPO – Emergency Planning and Resilience Officer, Nick Moon
CS & EDO – Community Safety and Economic Development Officer, Keith McGroary

Reviewed February 2013
Punita Talwar, Internal Audit Manager, Audit Services.

12

Audit Committee

21 March 2013

SPELTHORNE
BOROUGH COUNCIL

Title	Internal Audit Annual Plan 2013/14		
Purpose	For Information		
Report of	Head of Audit Services	**Confidential**	No
Cabinet Member	Councillor Tim Evans	**Key Decision**	No
Report Author	Head of Audit Partnership – Deanna Harris		
Summary and Key Issues	This report sets out the work planned by Audit Services during 2013/14. Appendix 1 shows the scope of Internal Audit work and specific work planned in the following areas: - Assurance (Internal Audit provides assurance that the Council's risks and controls are being effectively managed) - Financial System and ICT audits – including work undertaken in conjunction with external audit - Corporate/Consultancy Work - Advice - Contingency - Approximately 30% of available time is set aside for contingency which is allocated to special investigations and other unplanned work as it arises.		
Financial Implications	There are no financial implications		
Corporate Priority	This item is not in the list of Corporate Priorities		
Recommendations	**The Audit Committee is asked to note the work plan (2013/14) for Audit Services.**		

1. Background

1.1 The Accounts and Audit Regulations require local authorities 'to maintain an adequate and effective system of internal audit of its accounting records and of its system of internal control in accordance with proper internal audit practices'. The Annual Plan demonstrates how the authority will fulfil this requirement.

1.2 The Plan ensures all auditable areas are identified, prioritised and sufficient time allocated to carry out the work. The planned work is supported by a risk based audit approach. This involves ensuring significant risks have been identified and are being effectively managed. Time allocated will take into account other factors such as the value/volume of transactions, known system weaknesses, likelihood and impact of risks.

1.3 The Plan has been finalised after consideration of previous findings, perceived risks and after consultation with senior management. It also reflects work relied upon by external audit.

1.4 Audit projects are allocated to individual auditors who will carry out the work and report back to management on their findings. Periodic reports summarising the work of the section are prepared for Management Team and Audit Committee. As Internal Audit operates under a partnership arrangement with Elmbridge there will be some joint work undertaken, continued sharing of skills and operation of standard auditing processes. Internal Audit will continue to sell time to Woking Borough council and consider other opportunities which may arise.

1.5 The Plan is reviewed by the Head of Audit Partnership on a regular basis.

1.6 The Council's Management Team and Heads of Service have been consulted during the audit planning process.

2. Key issues

2.1 A copy of the Annual Audit Plan Summary (20013/14) is attached at Appendix 1.

2.2 The Appendix shows the scope of internal audit work and specific work planned in the following areas:

- Assurance (Internal Audit is required to provide assurance that the Council's risks and controls are being effectively managed).
  The scope of this work includes all Council services, flagship/other significant projects, corporate risks and various corporate systems
- Financial System and ICT audits – including work undertaken in conjunction with external audit
- Corporate/Consultancy Work
- Advice
- Contingency - Approximately 30% of available time is set aside for contingency which is allocated to special investigations and other unplanned work as it arises.

2.3 In addition to the audit projects identified, assistance will be given on a number of corporate issues such as corporate risk management, information security and governance, corporate governance and counter fraud initiatives.

2.4 New Public Sector Internal Audit Standards are being introduced from 1 April 2013. These are the subject of a separate report to the Committee at this meeting.

3. Options analysis and proposal

3.1 There are no options.

4. Financial implications

4.1 Not applicable.

5. Other considerations

5.1 There are no other considerations.

6. Risks and how they will be mitigated

6.1 The Audit Plan is informed by the authority's risk management process and other issues such as volume/value of transactions, and previous audit findings. Significant risks identified by audit are reported to the Audit Committee on a quarterly basis. Implementation of audit recommendations will reduce risks for the authority.

7. Timetable for implementation

7.1 On-going during 2013/14.

Background papers:
There are none

Appendices:
Audit Plan Summary 2013/14

SPELTHORNE INTERNAL AUDIT

ANNUAL INTERNAL AUDIT PLAN SUMMARY – 2013/14

1. **Assurance Work**

    Internal Audit provides independent **assurance** that risk management processes, control systems, accounting records and governance arrangements are in place and operating properly.

    Internal Audit uses a risk-based approach to identify and assess controls which mitigate significant risks. Audit risk assessments are also used to determine the nature and level of testing required in each service, system or project under review. Internal Audit work is limited in scope; the team does not have the resources to examine all systems, risks and transactions. Internal audit has unrestricted access to records and information.

    Scope: **All** Services and various corporate systems.

    Internal Audit will also review the following areas:
    - The Council's flagship/significant projects – asset related projects, welfare reforms, Single Fraud Investigation Service, Customer Relationship Management system, Greeno Hub and Supporting Families initiative.
    - Corporate Risks – service planning and performance management arrangements, project management, data security, Business Continuity, Health and Safety, Safeguarding, contract and asset management arrangements and Emergency Planning.
    - Corporate Systems - information management and procurement.
    - Various other matters - including the new localised business rate arrangements, Council Tax Support Scheme and new County parking agreement.

    Audit Objectives: 1. Audit risk assessments will be updated as necessary in each service / area under review.
    2. Consideration will be given to the following in identifying significant risks:
        - Service risk registers
        - Projects
        - New legislation or systems
        - Known or emerging fraud risks
        - Previous audit work
    3. Key controls will be tested as identified by the risk assessment.
    4. Previous recommendations will be followed up.

2. **Financial Systems and ICT**

    Internal Audit reviews and tests all key financial systems and ICT general controls. External Audit has placed reliance on this work which has reduced the risk of duplication,

improved the effectiveness of the overall auditing process and minimised the External Audit fee.

Scope/Systems
to be audited: Main Accounting, Creditors, Debtors, Cash and Bank, Payroll, Housing Benefits, Council Tax, Business Rates, Capital Accounting/Asset Register, Treasury Management and ICT.

Audit Objectives: Systems will be tested including any external audit requirements. Previous Internal Audit recommendations will be followed up and outstanding issues reported.

3.   **Advice**

Internal Audit provides advice on financial procedures, compliance with Contract Standing Orders, Financial Regulations and other governance arrangements, and advice that may be required on an ad hoc basis.

4   **Contingency**

Unplanned audit work including special investigations, management request for assistance, additional time required on planned audits if control weaknesses are identified etc.

5   **Corporate Work/Consultancy**

Internal Audit provides assistance with corporate issues.

Scope: All services

Audit Objectives: Assistance/advice on the following corporate matters:
- Information Security Risk
- ICT Service Improvement
- Information Governance
- Corporate Governance
- Annual Governance Statement
- Corporate Risk Management
- Corporate Project Management Board
- Review of Anti-Fraud, Bribery and Corruption Strategy and Confidential Reporting Code / Assisting in fraud awareness and anti-fraud measures (Internal audit is not responsible for detecting or preventing fraud; this is a management responsibility.)
- Corporate Debt, Finance and Revenues and various other corporate working groups
- Value for Money initiatives

Deanna Harris
Head of Audit Partnership
February 2013

Audit Committee

21 March 2013

SPELTHORNE
BOROUGH COUNCIL

Title	Public Sector Internal Audit Standards		
Purpose	For Information		
Report of	Head of Audit Services	**Confidential**	No
Cabinet Member	Councillor Tim Evans	**Key Decision**	No
Report Author	Head of Audit Partnership – Deanna Harris		
Summary and Key Issues	The purpose of this report is to update the Audit Committee on the new Public Sector Internal Audit Standards which come into effect 1 April 2013. The Internal Audit team currently complies with professional standards set out in the Chartered Institute of Public Finance and Accountancy's (CIPFA) Code of Practice 2006. Three new standards applicable from 1 April 2013 are: - Internal Audit will be subject to a five yearly independent review - The Chairman of the Audit Committee must be consulted over the Head of Internal Audit's remuneration and performance - The Audit Committee will be required to approve any significant consultancy work undertaken by Internal Audit		
Financial Implications	There are no immediate financial implications.		
Corporate Priority	This item is not in the list of Corporate Priorities		
Recommendations	That the committee notes the report.		

1. Background

1.1 The Public Sector Internal Audit Standards come into effect from 1 April 2013. The Standards have been developed by CIPFA, the Institute of Internal Auditors (IIA) and a range of other public bodies to tailor mandatory internal standards (International Professional Practices Framework) to meet the special requirements of public sector organisations in the UK.

2. Key issues

2.1 The Standards have been endorsed by CIPFA (Chartered Institute of Finance and Accountancy) and compliance with the Standards will be mandatory. The Council will be under an obligation to comply fully or to provide a clear justification for any aspects of non-compliance. The Council's External Auditor will also be required to obtain assurance as to compliance and to report any material non-compliance. The Standards will have the same status in respect of internal audit as the International Financial Reporting Standards have in respect of accounting and financial reporting.

2.2 The new standards will replace the CIPFA Code of Practice for Internal Audit in Local Government.

2.3 Internal Audit already complies with standards in the CIPFA Code and these are broadly the same as the new standards. However, there are some new requirements, the most significant of which are summarised below.

2.4 The full Public Sector Internal Audit Standards can be viewed from the following link. http://www.cipfa.org/Policy-and-Guidance/Standards/Public-Sector-Internal-Audit-Standards

2.5 Amendments have been made to the Internal Audit Manual to reflect requirements of an operational nature and a revised Audit Charter will be presented to the next Audit Committee meeting.

2.6 **Independent review of internal audit**

2.7 The authority will be required to procure an independent, external review of the effectiveness of internal audit every five years. As a small team of 2.1 full time equivalents, already subject to scrutiny from External Audit, the Council's Management Team and Audit Committee, the value of such an exercise is questioned. A review of the Effectiveness of the System of Internal Audit is also already undertaken annually by the authority.

2.8 Neither External Audit nor colleagues in neighbouring boroughs will be able to undertake these reviews. However, it is anticipated that some reciprocal arrangements can be arranged to avoid any additional costs for the authority. The guidance states that an independent review of a self-assessment may suffice for small organisations.

2.9 As an experienced team, there may be opportunities to generate revenue from performing this assessment on behalf of other Councils.

2.10 **Head of Audit remuneration and performance**

2.11 The Chairman of Audit Committee must be formally consulted as part of the review of the Head of Internal Audit's performance and remuneration. However, in its public sector interpretation, the document recognises that:-

'*Governance requirements in the UK public sector would not generally involve the board approving the Chief Audit Executive's (CAE) remuneration specifically. The underlying principle is that the independence of the CAE is safeguarded by ensuring that his or her remuneration or performance assessment is not inappropriately influenced by those subject to audit. In the UK public sector this can be achieved by ensuring that the Chief Executive (or equivalent) undertakes, countersigns and contributes feedback to or reviews the performance appraisal of the CAE and that feedback is also sought from the Chairman of the Audit Committee'.*

2.12   The Head of Audit Partnership is employed by Spelthorne on a part-time basis (.6 FTE / 22 hours per week). Under a partnership agreement she is also responsible for managing the audit service at Elmbridge. It is envisaged that any consideration of performance and remuneration will be undertaken by Spelthorne as the employing organisation.

2.13   **Consultancy Work**

2.14   The Committee will be required to consider proposals for Internal Audit to undertake any significant consultancy work not already included in the Annual Audit Plan and to assure itself that the proposed work would not impair Internal Audit's independence or objectivity. Any such proposal could be cleared on a quarterly basis at Committee meetings with urgent work being agreed by the Chairman if necessary.

3.   Options analysis and proposal

3.1   There are no options.

4.   Financial implications

4.1   There are no immediate financial implications.

5.   Other considerations

5.1   There are no other considerations.

6.   Risks and how they will be mitigated

7.   Failure to operate an effective internal audit service could reduce the level of assurance provided to management and members regarding risk management processes, control systems, accounting records and governance arrangements.

8.   Timetable for implementation

8.1   New standards will be in place 1 April 2013.

Background papers:
There are none

Appendices:

WORK PROGRAMME 2012 – 2013

AUDIT COMMITTEE - 21 MARCH 2013

Resolution Required

1.   Work Programme

1.1   This report covers the Work Programme for the 2012/13 municipal year.

1.2   The Committee's terms of reference are set out at the front of the agenda.

2.   Current Work Programme

2.1   This is the last meeting of the Committee scheduled for the municipal year 2012/13.

2.2   Meetings of this Committee have been scheduled in the Council's Diary for 2013 -14 on the following dates:-
   - 27 June 2013
   - 19 September 2013
   - 12 December 2013
   - 27 March 2014

2.4   Details of the Work Programme for the next meeting are as follows:

June 2013		
Corporate Risk Register	Head of Audit Services	Review
Corporate Risk Register	Head of Service - as appropriate	Updates on target dates missed
Audit Services Annual Report	Head of Audit Services	Report
Anti-Fraud, Bribery and Corruption Policy	Head of Audit Services	Report
Committee's Work programme for 2013/2014	Head of Audit Services/ Chief Finance Officer /Audit Committee	Report

2.6   Any topics identified during consideration of the business at this meeting, will need to be included in the above Work Programme.

2.7   Other issues Members wish to raise for consideration at the next or any future meeting and agreed by the Committee, may be included in the Work Programme.

2.8   External audit may have one or two reports that arise from time to time which are not possible to predict in advance but will be incorporated into the Work Programme or appear on the agenda as appropriate.

2.9   Managers may be required to attend the Committee, similarly to that resolved in Minute No. 227/06, to explain why they have not implemented the recommendations of the Head of Audit Services. It is not possible to predict these circumstances but they will be dealt with as and when they arise either

by incorporating into the Work Programme or appearing on the agenda as appropriate.

3.   Resolution

The Committee is asked to consider and approve the Work Programme as submitted and/or amended at the meeting.

Contact: Deanna Harris, Head of Audit Services (01784) 446207

Report Author: Samuel Nicholls, Trainee Committee Manager (01784) 446240

KPMG

cutting through complexity ™

External Audit Plan 2012/13

Spelthorne Borough Council

March 2013

KPMG

Contents

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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.auditcommission.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 Tamas Wood, 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, Westward House, Lime Kiln Close, Stoke Gifford, Bristol, BS34 8SR or by email to complaints@audit-commission.gov.uk. Their telephone number is 0844 798 3131, textphone (minicom) 020 7630 0421.

Section one
Introduction

This document describes how we will deliver our audit work for Spelthorne Borough Council.

Scope of this report

This document supplements our *Audit Fee Letter 2012/13* provided to you in October 2012. It describes how we will deliver our financial statements audit work for Spelthorne Borough Council ('the Authority'). It also sets out our approach to value for money (VFM) work for 2012/13.

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

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

Statutory responsibilities

Our statutory responsibilities and powers are set out in the *Audit Commission Act 1998*, the *Local Government Act 1999* and the Audit Commission's *Code of Audit Practice*.

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

■ *financial statements (including the Annual Governance Statement):* providing an opinion on your accounts; and

■ *use of resources:* concluding on the arrangements in place for securing economy, efficiency and effectiveness in your use of resources (the value for money conclusion).

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

Structure of this report

This report is structured as follows:

Section 2 describes the approach we take for the audit of the financial statements.

Section 3 provides detail on the financial statements audit risks.

Section 4 explains our approach to VFM work.

Section 5 provides information on the audit team, our proposed deliverables, the timescales and fees for our work.
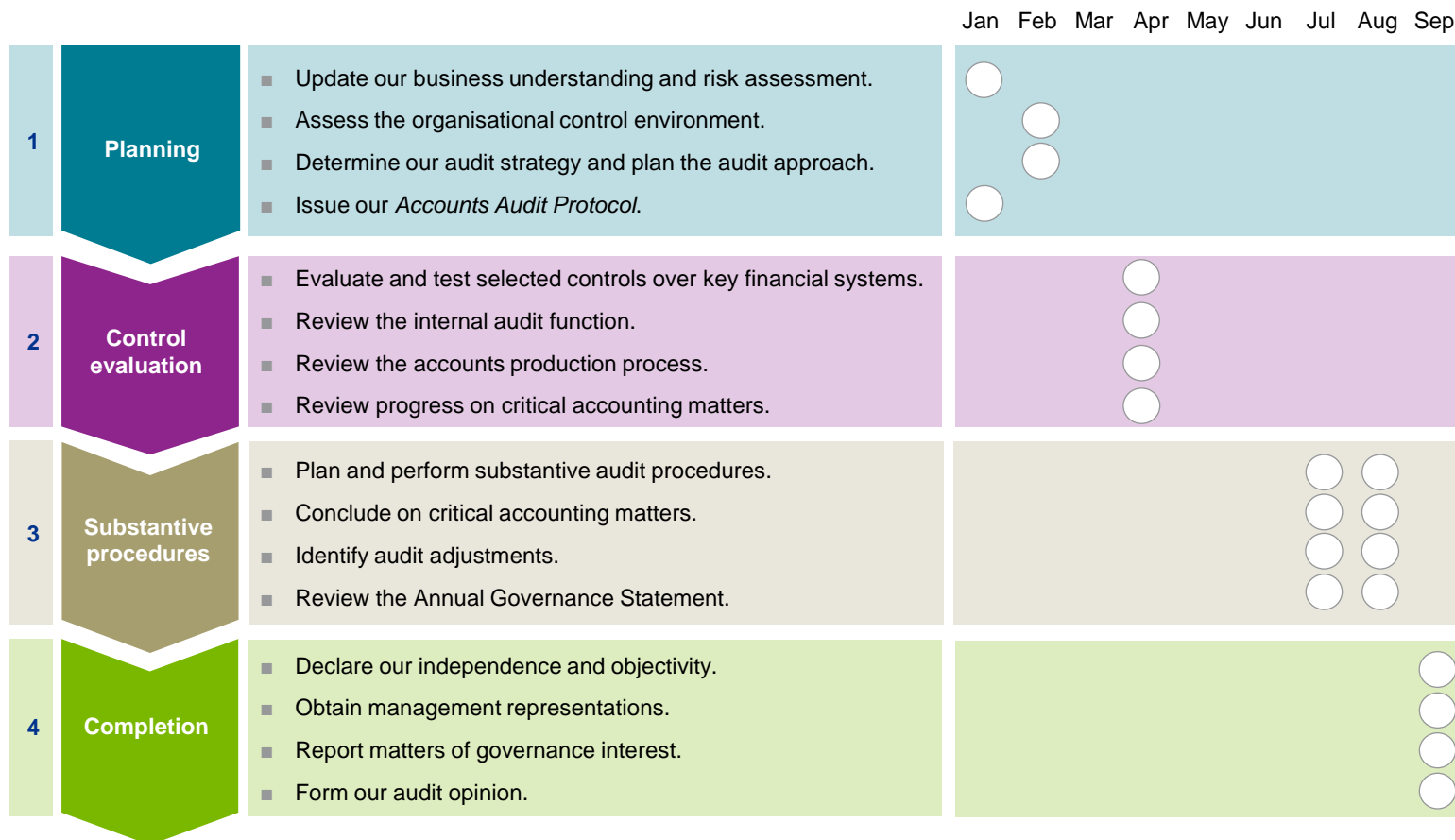
Acknowledgements

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

Section two
Our audit approach

We undertake our work on your financial statements in four key stages during 2013:

- **Planning (January to February);**
- **Control Evaluation (April);**
- **Substantive Procedures (July to August); and**
- **Completion (September).**

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

			Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep
1	**Planning**	■ Update our business understanding and risk assessment. ■ Assess the organisational control environment. ■ Determine our audit strategy and plan the audit approach. ■ Issue our *Accounts Audit Protocol.*	●	●●							
2	**Control evaluation**	■ Evaluate and test selected controls over key financial systems. ■ Review the internal audit function. ■ Review the accounts production process. ■ Review progress on critical accounting matters.				●●●●					
3	**Substantive procedures**	■ Plan and perform substantive audit procedures. ■ Conclude on critical accounting matters. ■ Identify audit adjustments. ■ Review the Annual Governance Statement.							●●	●●	
4	**Completion**	■ Declare our independence and objectivity. ■ Obtain management representations. ■ Report matters of governance interest. ■ Form our audit opinion.									●●●●

Section two
Our audit approach - planning

During January and February 2013 we complete our planning work.

We assess the key risks affecting the Authority's financial statements and discuss these with officers.

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

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

Our planning work takes place in January and February 2013. This involves the following aspects:

Planning

- Update our business understanding and risk assessment.
- Assess the organisational control environment.
- Determine our audit strategy and plan the audit approach.
- Issue our *Accounts Audit Protocol*.

Business understanding and risk assessment

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

We identify the key risks 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. The risks identified to date are set out in this document. Our audit strategy and plan will, however, remain flexible as the risks and issues change throughout the year. It is the 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 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.

Audit strategy and approach

The Engagement Lead sets the overall direction of the audit and decides the nature and extent of audit activities.

We design audit procedures in response to the risk that the financial statements are materially misstated. The materiality level is a matter of judgement and is set by the Engagement Lead.

Accounts audit protocol

At the end of our planning work we will issue our Accounts Audit Protocol. This important document sets out our audit approach and timetable. It also summarises the working papers and other evidence we require the Authority to provide during our interim and final accounts visits.

We met with the Assistant Chief Executive, Terry Collier, to discuss mutual learning points from the 2011/12 audit. These will be incorporated into our work plan for 2012/13. We revisit progress against areas identified for development as the audit progresses.

Section two
Our audit approach – control evaluation

During April 2013 we will complete our interim audit work.

We assess if controls over key financial systems were effective during 2012/13. We work with your Internal Audit team to avoid duplication.

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

Our interim visit on site will be completed during the week commencing 01 April 2013. 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.

Appendix 1 illustrates how we determine the most effective balance of internal controls and substantive audit testing.

Where our audit approach is to undertake controls work on financial systems, we seek to rely on any relevant work Internal Audit have completed to minimise unnecessary duplication of work. Our audit fee is set on the assumption that we can place reliance on their work.

Review of internal audit

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

Accounts production process

In our Report to Those Charged with Governance (ISA 260 Report) 2011/12 we reported that the Authority has adequate financial reporting processes. However we did note that the draft accounts presented for audit contained some notes that were incomplete or missing key entries. We recommended that , in future, the Authority quality review the draft statements prior to presentation for audit to ensure all notes to the accounts are complete. Our audit fee, detailed on page 18, is based on the assumption that the draft accounts submitted for audit are complete, have been subject to quality review by senior management and contain minimal errors.

We will assess the Authority's progress in addressing our recommendation regarding the review of the draft accounts.

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.

Section two
Our audit approach – substantive procedures

Our final accounts visit on site has been provisionally scheduled for the period 22 July 2013 to 23 August 2013. 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 the key risk areas as identified at the planning stage and any additional issues that may have emerged since. We will discuss our early findings of the Authority's approach to address the key risk areas with Terry Collier in August 2013 prior to reporting to the Audit Committee in September 2013.

Audit adjustments

During our on site work, we will meet with Terry Collier and his team on a regular 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. We also report any material misstatements which have been corrected and which we believe should be communicated to you to help you meet your governance responsibilities.

Annual Governance Statement

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

We report the findings of our final accounts work in our *ISA 260 Report*, which we will issue to the Audit Committee in September 2013.

Section two
Our audit approach - other

In addition to the financial statements, we also audit 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 and issue an opinion on your WGA consolidation to confirm that this is consistent with your financial statements. The audit approach has been agreed with HM Treasury and the National Audit Office.

Elector challenge

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

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

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

The costs incurred in responding to questions or objections raised by electors 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 16.

Use of off-shore audit resources

During our audit work we may make use of our KPMG Global Services (KGS Audit) team in India to undertake certain basic audit tasks and functions. Use of this 'off-shore' team is one of many initiatives we employ to deliver a cost-effective audit service for our clients. Although based in India, the KGS Audit team works closely with our local audit teams to undertake certain audit procedures remotely. We have provided our UK teams with guidance on the types of audit procedures and other tasks that it is suitable and permissible to use KGS Audit for - we do not use KGS Audit for any audit procedures that involve access to personal, confidential or sensitive information. Audit tasks are then allocated by our UK-based engagement teams to dedicated teams in India, allowing local staff to control what work KGS Audit undertakes and what information is accessed. They operate to our same quality standards and all work undertaken by KGS Audit is reviewed by the UK team.

The KGS Audit team operates in a paperless environment and we apply robust processes to control how data is accessed and used:

- all work is conducted electronically;
- all data files are maintained on servers in the UK with restricted access and only viewed on screen in India. These servers are governed by established KPMG IT controls;
- policy and technology restrictions are in place to protect data, for example locked down USB ports, no external emailing, no printing;
- KGS Audit staff are based in an office with restricted access and security; and
- the team members adhere to global KPMG ethics and independence standards, along with requirements governing the non-disclosure of client information.

Section two
Our audit approach - other

Our independence and objectivity responsibilities under the Code are summarised in Appendix 2. We confirm our audit team's independence and objectivity is not impaired.

Independence and objectivity confirmation

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

The 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 Overview and Scrutiny Committee.

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

Confirmation statement

We confirm that as of March 2013 in our professional judgement, KPMG LLP is independent within the meaning of regulatory and professional requirements and the objectivity of the Engagement Lead and audit team is not impaired.

Section three
Key financial statements audit risks

Key audit risks	Impact on audit
Audit areas affected ■ Reserves and balances ■ Provisions	**Risk** As at January 2013, the Authority is forecasting that it will deliver its 2012/13 budget in overall terms, which includes achieving the anticipated savings identified through the budget setting process in 2012/13. **Our audit work** In conjunction with our VFM work we will critically assess the controls the Authority has in place to ensure a sound financial standing, specifically that its Medium Term Financial Plan has duly taken into consideration the potential funding reductions and that it is sufficiently robust to ensure that the Authority can continue to provide services effectively. We will also review how the Authority is planning and managing its savings plans. As part of our final accounts audit we will review the Authority's assessment of any potential liabilities arising from its savings plans against the *Code. If applicable, we* will review the Authority's provision, including the methodology, assumptions and calculations.provisions, including the methodology, assumptions and calculations.

Savings plans

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

We will provide an update on how the Authority is managing this risk in our Report to those charged with Governance.

Other financial statements audit risks

Other financial statements risks are those risks which require consideration due to issues identified in prior years. We have outlined the impact on our audit plan.

Key audit risks	Impact on audit
Property, Plant and Equipment → **Audit area affected** ■ Comprehensive Income and Expenditure Statement ■ Balance Sheet ■ Reserves	**Risk** Authorities are required to group their non-current assets into specific categories . These categories are subject to different valuation considerations (method of valuation, method of depreciating and timing of revaluations) therefore it is important that non-current assets are correctly classified. In 2011/12, three finance leases were misclassified as investment properties. To correct the error, amendments were required to the Comprehensive Income and Expenditure Statement Balance Sheet and Reserves. **Our audit work** We will review the arrangements in place at the Authority to ensure that non - current assets are included within the correct categories.

Section four
VFM audit approach

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: ■ manage effectively financial risks and opportunities; and ■ secure a stable financial position that enables it to continue to operate for the foreseeable future.	■ 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: ■ achieving cost reductions; and ■ improving efficiency and productivity.	■ Prioritising resources ■ Improving efficiency and productivity

Section four
VFM audit approach (continued)

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

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	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 *Code of Audit Practice*.
	In doing so we consider:
	■ 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 and financial ratios tool;
	■ evidence gained from previous audit work, including the response to that work; and
	■ the work of the Audit Commission, other inspectorates and review agencies.

Section four
VFM audit approach (continued)

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.

VFM audit stage	Audit approach
Linkages with financial statements and other audit work	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. 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.
Assessment of residual audit risk	It is possible that further audit work may be necessary in some areas to ensure sufficient coverage of the two VFM criteria. Such work may involve interviews with relevant officers and /or the review of documents such as policies, plans and minutes. We may also refer to any self assessment the Authority may prepare against the characteristics. To inform any further work we must draw together an assessment of residual audit risk, taking account of the work undertaken already. This will identify those areas requiring further specific audit work to inform the VFM conclusion. At this stage it is not possible to indicate the number or type of residual audit risks that might require additional audit work, and therefore the overall scale of work cannot be easily predicted. If a significant amount of work is necessary then we will need to review the adequacy of our agreed audit fee.
Identification of specific VFM audit work	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: ■ considering the results of work by the Authority, the Audit Commission, other inspectorates and 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.

Section four
VFM audit approach (continued)

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

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

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

Section five
Audit team

Your audit team has been drawn from our public sector audit department. Contact details are shown on page 1.

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

"My role is to lead our team and ensure the delivery of a high quality external audit opinion. I will be the main point of contact for the Audit Committee and Executive Directors."

Tamas Wood
Director

"I am responsible for the management, review and delivery of the whole audit and providing quality assurance for any technical accounting areas. I will work closely with the Director to ensure we add value. I will liaise with the Assistant Chief Executive and Head of Internal Audit."

Paul Cuttle
Manager

"I will be responsible for the on-site delivery of our work. I will liaise with the Group Accountants, Accountants and Internal Audit Manager. I will also supervise the work of our audit assistants."

Jamie Schartner
Assistant Manager

Section five
Audit deliverables

At the end of each stage of our audit we issue certain deliverables, including reports and opinions.

Our key deliverables will be delivered to a high standard and on time.

We will discuss and agreed each report with the Authority's officers prior to publication.

Deliverable	Purpose
Planning	
External Audit Plan	■ Outline audit approach. ■ Identify areas of audit focus and planned procedures.
Substantive procedures	
Report to Those Charged with Governance (ISA 260 Report)	■ Details the resolution of key audit issues. ■ Communication of adjusted and unadjusted audit differences. ■ Performance improvement recommendations identified during our audit. ■ Commentary on the Authority's value for money arrangements.
Completion	
Auditor's report	■ Providing an opinion on your accounts (including the Annual Governance Statement). ■ Concluding on the arrangements in place for securing economy, efficiency and effectiveness in your use of resources (the VFM conclusion).
Annual Audit Letter	■ Summarises the outcomes and the key issues arising from our audit work for the year.

Section five
Audit timeline

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

The key formal interaction with the Audit Committee is:

- **September – ISA 260 Report**

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

Our main work on site will be our:

- **Interim audit visit during April; and**

- **Final accounts audit during July and August.**

Communication

Regular meetings between the Engagement Lead and the Chief Executive .

Presentation of the *ISA260 Report*

Jan Feb Mar Apr May Jun Jul Aug Sep Oct Nov Dec

Audit workflow

Interim audit visit

Final accounts visit

Audit planning **Control evaluation** **Substantive procedures** **Completion**

Continuous liaison with the finance team and internal audit
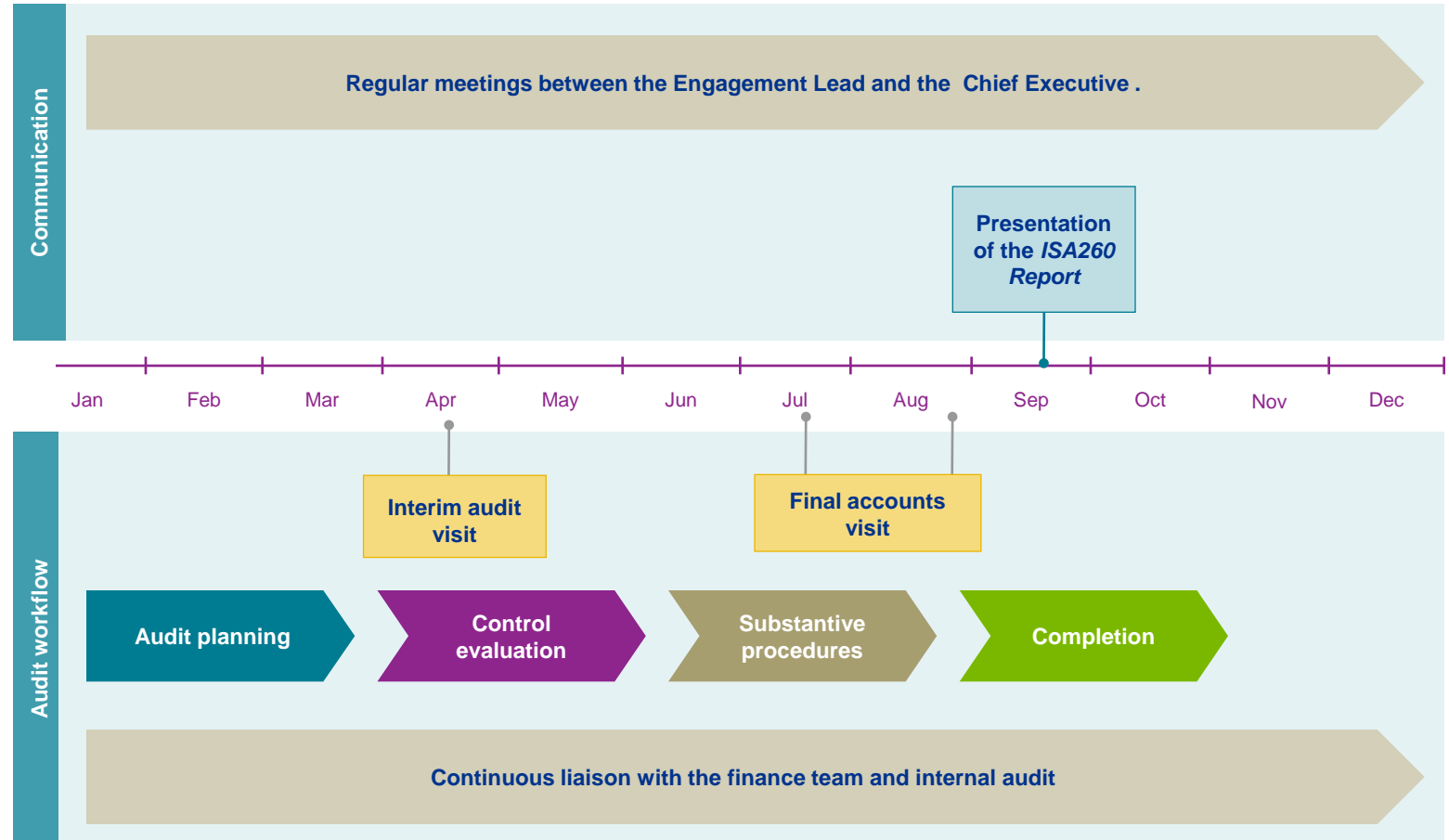
Key: ● Audit Committee meetings.

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Section five
Audit fee

The main fee for 2012/13 audit of the Authority is £63,270. The fee has not changed from that set out in our *Audit Fee Letter 2012/13* issued in October 2012.

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

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

Audit fee

Our *Audit Fee Letter 2012/13* presented to you in December 2012 first set out our fees for the 2012/13 audit. We have not considered it necessary to make any changes to the agreed fees at this stage.

Element of the audit	2012/13 (planned)	2011/12 (actual)
Gross audit fee	£63,270	£105,450

Our audit fee includes our work on the VFM conclusion and our audit of the Authority's financial statements. The fee for 2012/13 is £63,270. This is a reduction of 40 percent compared to the 2011/12 fee.

Audit fee assumptions

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

■ the level of risk in relation to the audit of the financial statements is not significantly different from that identified for 2011/12;

■ you will inform us of any significant developments impacting on our audit;

■ you will identify and implement any changes required under the *CIPFA Code of Practice on Local Authority Accounting in the UK 2012/13* within your 2012/13 financial statements;

■ you will comply with the expectations set out in our *Accounts Audit Protocol*, including:

– the financial statements are made available for audit in line with the agreed timescales;

– good quality working papers and records will be provided at the start of the final accounts audit;

– requested information will be provided within the agreed timescales;

– prompt responses will be provided to queries and draft reports;

■ internal audit meets appropriate professional standards;

■ internal audit adheres to our joint working protocol and completes appropriate work on all systems that provide material figures for the financial statements and we can place reliance on them for our audit; and

■ additional work will not be required to address questions or objections raised by local government electors.

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

The Audit Commission requires us to inform you of specific actions you could take to keep the audit fee low. Future audit fees can be kept to a minimum if the 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:
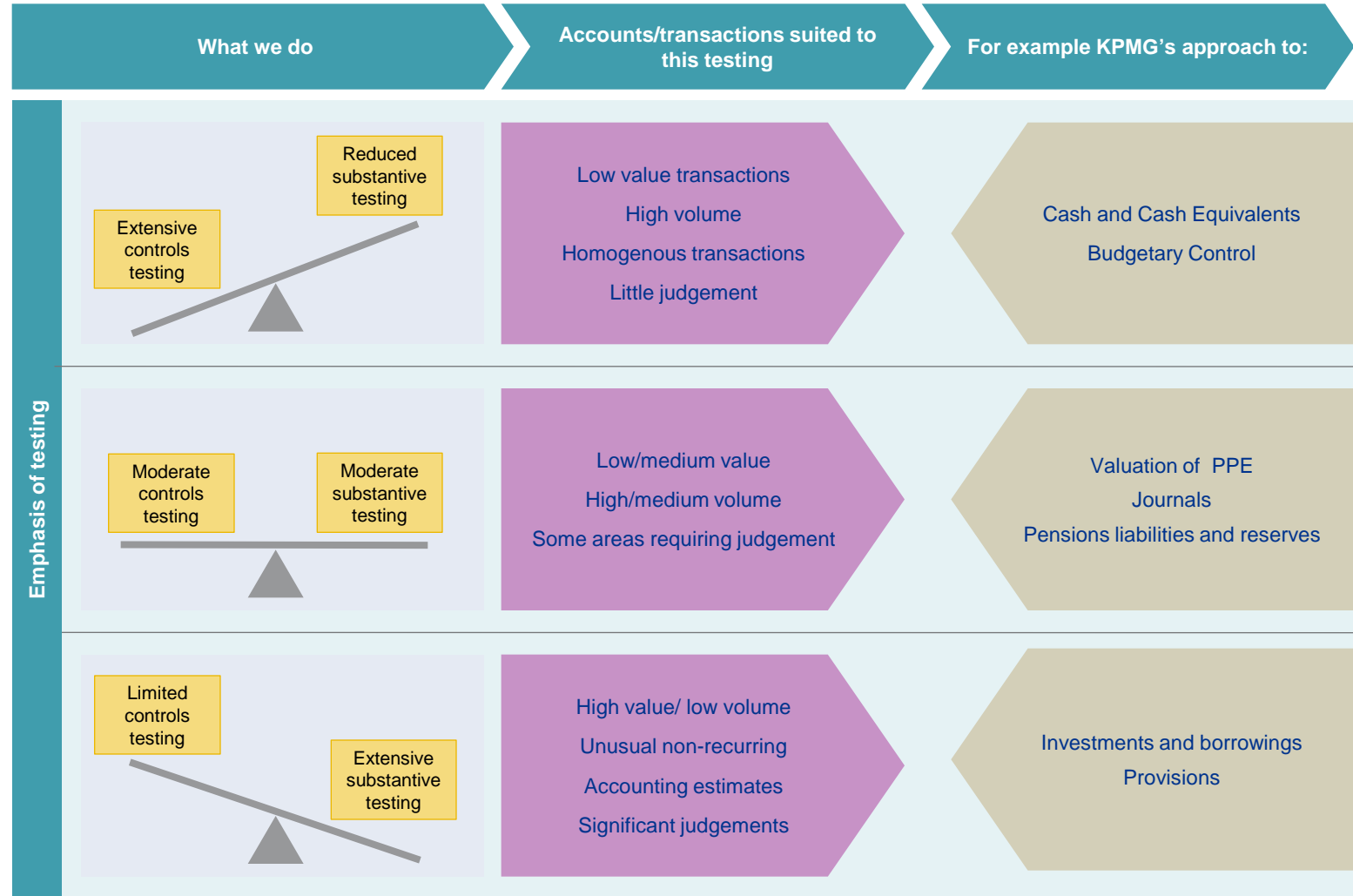
■ new significant audit risks emerge;

■ 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 Terry Collier.

Appendices

Appendix 1: Balance of internal controls and substantive testing

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

What we do	Accounts/transactions suited to this testing	For example KPMG's approach to:
Reduced substantive testing / Extensive controls testing	Low value transactions / High volume / Homogenous transactions / Little judgement	Cash and Cash Equivalents / Budgetary Control
Moderate controls testing / Moderate substantive testing	Low/medium value / High/medium volume / Some areas requiring judgement	Valuation of PPE / Journals / Pensions liabilities and reserves
Limited controls testing / Extensive substantive testing	High value/ low volume / Unusual non-recurring / Accounting estimates / Significant judgements	Investments and borrowings / Provisions

Emphasis of testing

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Appendix 2: Independence and objectivity requirements

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:

- Any staff involved on Commission work who wish to engage in political activity should obtain prior approval from the Partner.

- Audit staff are expected not to accept appointments as lay school inspectors.

- Firms are expected not to risk damaging working relationships by bidding for work within an audited body's area in direct competition with the body's own staff without having discussed and agreed a local protocol with the body concerned.

- Auditors are expected to comply with the Commission's statements on firms not providing personal financial or tax advice to certain senior individuals at their audited bodies, auditors' conflicts of interest in relation to PFI procurement at audited bodies, and disposal of consultancy practices and auditors' independence.

- Auditors appointed by the Commission should not accept engagements which involve commenting on the performance of other Commission auditors on Commission work without first consulting the Commission.

- Auditors are expected to comply with the Commission's policy for the Engagement Lead to be changed on each audit at least once every five years (subject to agreed transitional arrangements). Audit suppliers are required to obtain the Commission's written approval prior to changing any Engagement Lead in respect of each audited body.

- Audit suppliers are required to obtain the Commission's written approval prior to changing any Engagement Lead in respect of each audited body.

- The Commission must be notified of any change of second in command within one month of making the change. Where a new Engagement Lead or second in command has not previously undertaken audits under the Audit Commission Act 1998 or has not previously worked for the audit supplier, the audit supplier is required to provide brief details of the individual's relevant qualifications, skills and experience.

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Appendix 3: 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. Tamas Wood 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*.
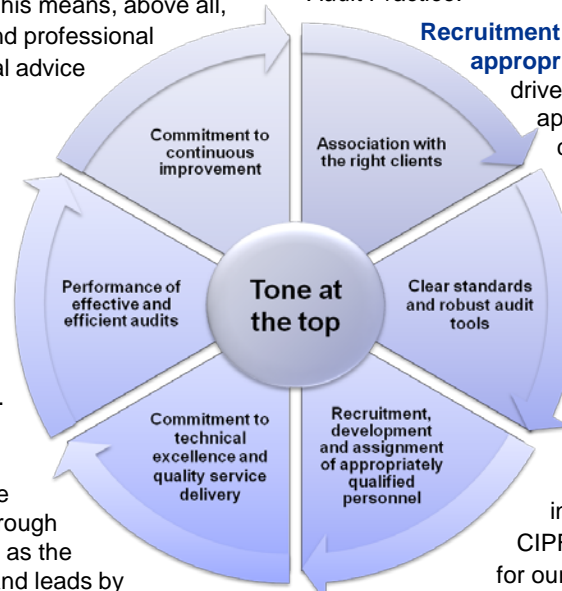
Recruitment , development and assignment of appropriately qualified personnel: One of the key drivers of audit quality is assigning professionals appropriate to the Authority's risks. We take great care to assign the right people to the right clients based on a number of factors including their skill 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 bi-monthly technical training.

Commitment to continuous improvement

Association with the right clients

Performance of effective and efficient audits

Tone at the top

Clear standards and robust audit tools

Commitment to technical excellence and quality service delivery

Recruitment, development and assignment of appropriately qualified personnel

Appendix 3: 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.

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 National Audit Office and Audit Commission reviews. The results of the Audit Commission's annual quality review process is made publicly available each year (http://www.audit-commission.gov.uk/audit-regime/Pages/qualityreviewprocess_copy.aspx) . The latest report dated October 2012 showed that we performed highly against all the Commission's criteria.

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