

AGENDA FOR

AUDIT COMMITTEE

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To: All Members of Audit Committee

Councillors : M Bailey, E Fitzgerald (Chair),
P Heneghan, Mallon, S Nuttall, N Parnell, K Rothwell,
R Walker and Whitby

Dear Member/Colleague

Audit Committee

You are invited to attend a meeting of the Audit Committee which will be held as follows:-

Date:	Monday, 2 March 2015
Place:	Meeting Room A & B, Town Hall, Knowsley Street, Bury
Time:	7.00 pm
Briefing Facilities:	If Opposition Members and Co-opted Members require briefing on any particular item on the Agenda, the appropriate Director/Senior Officer originating the related report should be contacted.
Notes:	

AGENDA

1 APOLOGIES FOR ABSENCE

2 DECLARATIONS OF INTEREST

Members of the Audit Committee are asked to consider whether they have an interest in any of the matters on the agenda and, if so, to formally declare that interest.

3 MINUTES OF THE LAST MEETING *(Pages 1 - 8)*

The Minutes of the last meeting held on 15 December are attached

4 MATTERS ARISING

5 PUBLIC QUESTION TIME

Questions are invited from any member of the public present at the meeting on any matters for which the Committee is responsible.

6 TRAINING - VALUE FOR MONEY

A presentation will be given at the meeting

7 FINANCIAL MONITORING REPORT *(Pages 9 - 14)*

The report from the Assistant Director of Resources and Regulations (Finance and Efficiency) is attached.

8 QUARTERLY GOVERNANCE STATEMENT - APRIL TO DECEMBER 2014 *(Pages 15 - 24)*

A report from the Head of Financial Management is attached
Risk Register attached

9 GIFTS AND HOSPITALITY *(Pages 25 - 28)*

A report from the Assistant Director of Resources and Regulation (Finance and Efficiency) is attached.

10 KPMG - CERTIFICATION OF GRANTS AND RETURNS - 2013/2014 *(Pages 29 - 32)*

A report from Bury's External Auditors KPMG is attached.

11 KPMG - AUDIT PLAN 2014/2015 *(Pages 33 - 62)*

A report from KPMG is attached

12 EXCLUSION OF PRESS AND PUBLIC

To consider passing the appropriate resolution under Section 100(A)(4) of the Local Government Act 1972 that the press and public be excluded from the meeting during consideration of the following items of business since they involve the likely disclosure of the exempt information stated.

13 INTERNAL AUDIT ANNUAL PLAN *(Pages 63 - 74)*

A report from the Head of Financial Management is attached
Appendix A attached
Appendix B attached

14 INTERNAL AUDIT PROGRESS REPORT - APRIL - DECEMBER 2014
(Pages 75 - 86)

A report from the Head of Financial Management is attached
Appendix A attached
Appendix B attached
Appendix C attached
Appendix D attached

15 INTERNAL AUDIT REPORT - MEMBERS' FEEDBACK *(Pages 87 - 90)*

A report from the Head of Financial Management is attached

Minutes of: **AUDIT COMMITTEE**

Date of Meeting: 15 December 2014

Present: Councillor E Fitzgerald (in the Chair)
Councillors P Heneghan, Mallon, S Nuttall, N Parnell,
R Walker and Whitby

Also in attendance: A Baldwin – Head of Financial Management
S Janusz – Head of Procurement and Project Planning
S Kenyon – Assistant Director of Resources and Regulation
T Rees - KPMG
J Sheard – Auditor

Public Attendance: No members of the public were present at the meeting.

Apologies for Absence:Councillor M Bailey and Councillor K Rothwell

AU.393 DECLARATIONS OF INTEREST

There were no declarations of interest made at the meeting

AU.394 ANNUAL AUDIT LETTER 2013/2014

Trevor Rees, Partner, KPMG presented the Annual Audit Letter which had been issued by Bury's External Auditors, KPMG.

The letter confirmed that the audit of the Council's accounts had been completed and that an unqualified opinion had been issued in relation to both the accounts and the Council's arrangements for securing value for money as required by the Audit Commission's Code of Practice.

Appended to the report were the key issues and recommendations, a summary of reports issued and the audit fees.

Delegated decision:

That the contents of the Annual Audit Letter be noted.

AU.395 EXTERNAL AUDIT PROGRESS REPORT

Trevor Rees representing KPMG presented a report providing the Committee with an overview on the progress made in delivering their responsibilities as the Council's external auditors.

It was explained that the work on the financial statements and Value for Money for 2013/2014 had been completed and the work on the financial statements for 2014/2015 had commenced.

The certification of claims and returns was nearing completion and the Grant Certification report in relation to the Audit Commission returns will be presented to

the Audit Committee at its next scheduled meeting.

Delegated decision:

That the contents of the report be noted

AU.396 MINUTES OF THE LAST MEETING

Delegated decision:

That the Minutes of the last meeting of the Audit Committee held on 4 September 2014 be approved as a correct record and signed by the Chair.

AU.397 MATTERS ARISING

Further to Minute AU.219 of the Minutes of the Last Meeting and a question asked by Councillor Walker in reference to the Adult Care Services spend per adult, Steve Kenyon presented the Committee with information which provided a breakdown of the figures and comparisons to other authorities.

AU.398 PUBLIC QUESTION TIME

There were no members of the public present to ask questions under this item.

AU.399 AUDIT COMMITTEE TRAINING - PROCUREMENT CONTROLS

Sarah Janusz, Head of Strategic Procurement and Project Planning attended the meeting to inform the Committee on the way that the Council procures its goods and services.

The presentation set out the Procurement Framework; systems used for sourcing, ordering and making payments; Governance; Risk Management - the procurement cycle; and monitoring.

It was explained that the Procurement Framework started with legislation then the Councils Vision, Values and Outcomes, the Procurement Strategy - Buying into Bury and the Contract Procedure Rules.

The Council used an electronic business portal called 'The Chest' to source its goods and services. The Chest is a regional collaboration which has access to a business database and e-tendering functionality which allows the Council to get the best prices and high quality tendering which is open and transparent.

The system allows providers to tender for business on the one site. The advantages were that the system was secure, there was a complete audit trail, the system allowed verification by legal services and reduced the administration costs. It also allows users to see the opportunities available and to ask and share information relating to them in an open arena.

The Council uses P2P (Procure to Pay) within the Agresso System to order most of its goods. The one system is used from requisition of goods to invoice and there is also a punch out facility with on-line catalogues available for ease of use.

The advantages of the system were explained and included the up-front authorisation of expenditure, reduction to the risk of fraud, administration costs reduced and a reduction in the payment period.

It was also explained that the Council had issued payment cards to staff that required them for face to face payment and other internet purchases. The scheme was run through the Royal Bank of Scotland and was shared with Manchester City Council which offered further benefits.

There were specific rules about how and when the cards should be used and these were explained to the card holder in detail. There was a clear audit trail on purchases which reduced the risk of fraud.

The procurement cycle was set out in a diagram and it was explained that there were a number of gateways within the cycle where specific questions were asked before proceeding to the next stage.

The Procurement Team were also responsible for managing contracts to ensure best Value for Money and continued competitiveness. All contracts were reviewed at an appropriate time and if changes were required then these could be negotiated.

All purchasing was monitored regularly and the Council was required to identify all spending over £500 and publish this information regularly.

Sarah explained that there were Key Performance Indicators that were being worked towards and these were monitored monthly and annually.

Members were given the opportunity to ask questions and the following points were raised:-

- Councillor Whitby asked whether the procurement team would ensure that service level agreements were being met when a service had been procured at department level.

Sarah explained that support was given to all departments going through a procurement exercise and all specifications would be reviewed to ensure that they were appropriate.

Audit Committee, 15 December 2014

- Councillor Walker referred to the added value requirement that was incorporated into some contracts and asked whether the contractors were aware that this had to be provided when they tendered for the job.

Sarah explained that they would be aware of the requirement to add value as this would be set out within the legal pack and information relating to the contract.

- Councillor Parnell asked whether the Council were using local providers more.

Sarah explained that the 'Buying into Bury' strategy ensured that local providers and suppliers were given the opportunity to quote. The strategy ensures that the Council work closely with the Bury Chamber of Commerce and have access to a database of local suppliers.

- Councillor Mallon referred to the use of payment cards and asked who would be responsible if something was bought in error and had already been paid for.

Sarah explained that the item would still be able to be returned for a refund as would happen anywhere.

- Councillor Walker asked what the threshold was for European tenders.

Sarah reported that the threshold for goods and services was £172,514 and for construction £4,322,012.

- Councillor Walker asked how much information members were given in relation to contracts and tenders now that they were applied for on line.

Councillor Parnell stated that the cabinet had received regular information on contracts and tenders when he was a member.

Councillor FitzGerald stated that the Audit Committee would be receiving updates on some of the Key Performance Indicators relating to contracts and tendering.

- Councillor Walker referred to the Council using local contractors and suppliers and stated that this would not be good if all Council's were to do the same.

Sarah explained that local suppliers would be considered and this would be across Greater Manchester as well as across Bury. If a non local supplier offered a better service and value for money then local suppliers could be overlooked.

It was agreed:

That Sarah be thanked for her presentation.

AU.400 FINANCIAL MONITORING REPORT APRIL TO SEPTEMBER 2014

The Assistant Director of Resources and Regulation, Steve Kenyon, presented a report updating Members of the Committee on the Authority's financial position in line with the Committee's Statement of Purpose to 'provide independent scrutiny

of the authority's exposure to risk and the control environment'.

The report indicated that the Authority was projecting an overspend of £1.459m for the year based on spending and income information as at 30 September 2014.

A fuller version of the report had been considered by Overview & Scrutiny at its meeting on the 9th December.

Delegated decision:

That the contents of the report be noted.

AU.401 GOVERNANCE STATEMENT APRIL TO SEPTEMBER 2014

The Head of Financial Management presented a report providing Members with a quarterly update on the Annual Governance Statement which had been approved by the Audit Committee at its meeting on July 15 2014.

The report gave an update on the continuous monitoring that was carried out and highlighted any relevant issues with regards to Risk Management, Business Continuity, Budget Monitoring, the work of Internal Audit, the work of the Governance Panel, Gifts and Hospitality and Sickness levels across the authority's staff.

The up to date Corporate Risk Register was appended to the report and informed Members of the risk event and status. It was explained that the Risk Register had been updated to reflect the most current high level risks facing the organisation.

Also appended to the report was a report that had been presented to the Overview and Scrutiny Committee on 9 December 2015 outlining sickness absence statistics and the actions being taken to contribute to the reduction in the levels of absence sickness.

Members were given the opportunity to ask questions and the following points were raised:-

- Councillor Mallon referred to the fact that the numbers of staff was reducing and asked if plans were in place in case a flu epidemic type of emergency where staff were not available to attend.

Steve explained that emergency plans covering people, place, systems and supplies had been introduced to cover such a scenario.

- Councillor Mallon referred to the pie charts within the sickness report and asked what the blank label within the charts was highlighting.

Steve explained that he would find out what this label meant and whether actions needed to be taken in this area.

- Councillor Heneghan asked why the number of disability related sickness days was much higher within AdultCare Services that the

other departments.

- Councillor FitzGerald asked if the information could be further broken down to reflect length and frequency of sickness and whether trends could be identified.

Delegated decision:

That the contents of the report be noted.

AU.402 UPDATED ANTI FRAUD AND CORRUPTION STRATEGY

Andrew Baldwin presented a report providing Members with an updated version of the anti-fraud and corruption strategy. It was explained that the strategy had been updated in order to take account of changes in department and post titles and the impact of the 2013 Whistleblowing Code of Practice.

Attached to the report was the revised document which was set out in 8 parts.

The Anti Fraud and Corruption Strategy had last been presented to the Audit Committee at its meeting in December 2013 and a number of changes have occurred since that meeting that required the Strategy to be updated.

Members were given the opportunity to ask questions and the following points were raised:-

- Statistics in relation to Benefit and Council Tax Fraud and the frequency that the Whistleblowing Policy was used;
- Promotion of the Whistleblowing Policy;
- Whether External Customers and service providers were assessed for risk of fraud and corruption

It was explained that all of the fraud and corruption identified within the Council was recorded and that very detailed information was produced.

The Whistleblowing Policy was promoted to staff to ensure them that any concerns they had could be raised and would be dealt with in the correct manner.

Delegated decision:

That the updated Anti-Fraud and Corruption Strategy be accepted.

AU.403 EXCLUSION OF PRESS AND PUBLIC

Delegated decision:

That in accordance with Section 100(A)(4) of the Local Government Act 1972, the press and public be excluded from the meeting during consideration of the following

items of business since they involved the likely disclosure of exempt information, relating to any action taken, or to be taken in connection with the prevention, investigation and prosecution of crime.

AU.404 INTERNAL AUDIT PROGRESS REPORT APRIL TO SEPTEMBER 2014

The Head of Financial Management submitted a report briefing the Committee Members on the work being carried out currently by Internal Audit in line with the Annual Audit Plan 2014/2015.

Details of work undertaken and Audit Reports issued were included in the report with significant issues highlighted.

It was reported that the 2015/2016 Draft Internal Audit Plan would be brought to the Audit Committee Meeting in March 2015.

Delegated decision:

That the contents of the report be noted

AU.405 INTERNAL AUDIT FEEDBACK

The Head of Internal Audit submitted a report providing feedback to Committee Members in the form of responses to specific issues raised in relation to Audit Reports and queries.

Delegated Decision:

That the contents of the report be noted.

COUNCILLOR E FITZGERALD
Chair

(Note: The meeting started at 7.00 pm and ended at 9.20 pm)

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Agenda Item	7
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REPORT FOR INFORMATION

MEETING: **AUDIT COMMITTEE**

DATE: **2nd March 2015**

SUBJECT: **FINANCIAL MONITORING REPORT – APRIL 2014 TO DECEMBER 2014**

REPORT FROM: **ASSISTANT DIRECTOR OF RESOURCES & REGULATION**

CONTACT OFFICER: **S Kenyon**

TYPE OF DECISION: **NON-KEY DECISION**

FREEDOM OF INFORMATION/STATUS: This paper is within the public domain

SUMMARY: To up-date the Committee on the authority's financial position in line with the Committee's Statement of Purpose to '*provide....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*'.

The report shows that the authority is projecting an overspending of **£0.902m** for the year based on spending and income information as at 31st December.

OPTIONS & RECOMMENDED OPTION The Committee is asked to note the contents of the report.

IMPLICATIONS:

Corporate Aims/Policy Framework: Do the proposals accord with Policy Framework? Yes.

Comments of s151 Officer: Budget monitoring falls within the appropriate statutory duties and powers and is a requirement of the Council's Financial Regulations to which Financial Regulation B: Financial Planning 4.3. (Budget Monitoring and Control) relates. The report has been

prepared in accordance with all relevant Codes of Practice.

There may be risks arising from any changes to service levels or service patterns that result from any remedial action taken to address the budget position. These will be identified by Directors when savings plans are considered by Members at the quarterly Star Chamber meetings.

Comments of Executive Director of Resources & Regulation:

The successful management of the Council's financial resources is central to the Council's Financial Strategy. Successful budget monitoring provides early warning of potential major overspends or underspendings against budget of which Members need to be aware.

This report draws Members attention to the fact that, based on the most prudent of forecasts, several budget hotspots exist which will need remedial action in the coming weeks and months. Members and officers will be examining these areas in more detail at the Star Chambers together with proposals for actions to be undertaken in the current year.

Equality/Diversity implications:

No

Considered by Monitoring Officer:

Budget monitoring falls within the appropriate statutory duties and powers and is a requirement of the Council's Financial Regulations to which Financial Regulation B: Financial Planning 4.3. (Budget Monitoring and Control) relates. The report has been prepared in accordance with all relevant Codes of Practice.

Are there any legal implications?

Yes

Staffing/ICT/Property:

There may be staffing implications arising from the need to address budget pressures.

Wards Affected:

All

Scrutiny Interest:

Overview & Scrutiny Committee

Chief Executive/ Senior Leadership Team	Cabinet	Overview & Scrutiny	Council	Ward Members	Partners
26/1/15	25/2/15	11/2/15			

1.0 INTRODUCTION

- 1.1 This report is intended to allow the Committee to keep abreast of the authority’s financial position and to gauge the effectiveness of corrective action that has been determined by the Cabinet and/or Scrutiny Committee.
- 1.2 This report summarises the forecast financial position as at the end of December 2014.

2.0 MONITORING PROCESSES

- 2.1 The Authority’s financial position is continually monitored throughout the year as follows;

Monthly - reports are considered by service management teams and summaries made available to specific Cabinet Members. A monthly summary of the financial position is submitted to the Senior Leadership Team and to the Cabinet Member for Finance.

Quarterly – detailed corporate monitoring reports based on the position at June, September, December and March are considered by the Senior Leadership Team, the Cabinet, Star Chambers and Overview & Scrutiny Committee. These set out a risk assessed summary of the financial position, explanations of major variances from budget, an assessment of the minimum level of balances, information on the forecast balances position and an assessment of performance against the objectives of the Financial Strategy (including the Golden Rules).

- 2.2 Members are also advised that **monthly** Star Chamber meetings take place to deal with particular areas where financial pressures have been identified.

3.0 FINANCIAL POSITION

- 3.1 The authority’s overall financial position based on forecasts made using income and expenditure information as at 31st December 2014 is summarised in the table in paragraph 3.3. As Members will be aware, financial reporting involves an element of judgement, and this particularly applies to the treatment of budget pressures. Often an area of overspending identified at this point in the year will resolve itself before the end of the year following appropriate budget management action.
- 3.2 However it is felt that it is most appropriate to alert Members to potential problems at this stage so that they can monitor the situation and take ownership of the necessary remedial action and this is the basis on which the report is written.

Document Pack Page 12

3.3 In summary the outturn forecast based on the position at 30th September 2014:

Department	Budget £'000	Forecast £'000	Variance £'000
Communities & Wellbeing	69,209	69,876	+667
Resources & Regulation	4,132	4,678	+546
Children, Young People & Culture	33,973	35,202	+1,229
DCN Residual	133	(169)	(302)
Non Service Specific	36,331	35,093	(1,238)
TOTAL	143,778	144,680	+902

3.4 The projected overspend of £0.902m represents approximately 0.6% of the total net budget of £143.778m.

3.5 Members are particularly reminded that the position on volatile budgets such as Learning Disability and Children's Agency placements can change dramatically depending on service user numbers and case structures. Likewise, the prevailing economic climate continues to impact upon levels of income, e.g. Property Services, Car Parking.

3.6 In response to the projected overspend, Cabinet have agreed the following measures;

- Freeze on external recruitment (exemptions will apply)
- Internal recruitment will continue to support the redeployment process.
- Relaunch Work Life Balance options around reduced hours / purchase of leave;
- Cease all but essential spend on stationery, office equipment etc.;
- Any spend >£500 to be signed off by Executive Director.

3.7 In addition, Executive Directors have also been asked to;

- Review the use of all casual / agency staff / consultants
- Review arrangements for overtime / additional hours
- Review training commitments
- Review spend on IT / Communications

Document Pack Page 13

Commitment Accounting

3.8 Further analysis of the month 9 figures highlights;

Status	£'000	%
Spent @ 31/12/14	103,031	71.21
Committed @ 31/12/14	13,413	9.27
Forecast (1/1/15 - 31/3/15)	28,236	19.52
Total	144,680	100.00

3.9 Spend and Commitment are clearly factual, however "forecast" is based upon an assessment of a wide range of factors and risks.

Balance Sheet Monitoring

3.10 Previous reports have focussed on the Council's "in year" revenue budget position. The Chair has requested that additional Balance Sheet / Treasury Management information should be included to assist Members' wider understanding.

3.11 The following key indicators have been extracted as at Month 9;

Indicator	Position at 1/4/14	Position at 30/6/14	Position at 30/9/14	Position at 31/12/14
Treasury Performance				
Total Sums Invested	£44.3m	£66.5m	£59.1m	£48.9m
% Return on Investments	0.78%	0.67%	0.57%	0.61%*
Total Sums Borrowed	£209.9m	£217.9m	£210.9m	£210.9m
% Cost of Borrowing	3.96%	3.96%	3.96%	3.96%
Assets				
Stocks & Work in Progress	£1.291m	£0.379m	£1.002m	£1.090m
Long Term Debtors	£0.151m	£0.214m	£0.151m	£0.151m
Sundry Debtors	£36.341m	£12.951m	£17.165m	£18.375m
Cash	£25.335m	£21.968m	£15.994m	£9.106m
Liabilities				
Sundry Creditors	£28.970m	£16.905m	£7.079m	£7.148m
Provisions	£2.706m	£0.203m	£2.122m	£2.254m

Note - compares to sector benchmark of 0.50%*

3.12 It should be noted that these figures represent a "snapshot" of the Council's Balance Sheet at a given point in time, and are by no means indicative of the Council's overall financial position.

Document Pack Page 14

- 3.13 From a monitoring perspective however they provide useful information, and trends can be plotted as the exercise is repeated in future quarters.

Procurement Activity

- 3.14 Following a presentation by the Head of Procurement at the last meeting, the Chair has requested that additional procurement information be presented to the Committee.
- 3.15 The table below summarises key performance indicators maintained by the Procurement Section;

Indicator	Performance
%age of orders placed via automated purchasing system	90.74%
%age of invoices received in electronic format	5%
Cashable Procurement savings	£299,360
%age spend in Bury Area	17%
Number of Bury suppliers invited to bid via the "Chest"	91
Number of contracts Bury Suppliers invited to bid for via the "Chest"	138

- 3.16 Further procurement data is being developed to present to future meetings of the Committee.

Minimum Level of Balances

- 3.17 The actual position on the General Fund balance is shown below:

	£m
General Fund Balance 1st April 2014 per Accounts	11.580
Less : Minimum balances to be retained in 2014/15	-4.500
Less : Forecast overspend	-0.902
Less : Earmarked to Fund Equal Pay Settlements	-1.500
Forecast available balances at 31st March 2015	4.678

- 3.18 Based on the information contained in this report, on the risk assessments that have been made, on the forecast outturn position for 2014/15 and using the latest available information on the likely achievement of savings options it is clear that there is no reason to take the minimum balances above the existing level of £4.5m.
- 3.19 Additionally, in view of the fact that the minimum level of balances figure includes a provision of £1.5m relating to a cushion for 'Unpredictable and Demand led Expenditure' then it is clear that the authority's forecast overall financial position does not present an unacceptable risk at this point.

S. Kenyon
Assistant Director of Resources & Regulation

Background documents:

Further information available from the Assistant Director of Resources & Regulation;
Mr S Kenyon,
Tel. 0161 253 6922, Email: S.Kenyon@bury.gov.uk

- Equality/Diversity implications:** No
- Considered by Monitoring Officer:** Yes - Through the Governance Panel; the Monitoring Officer has raised no issues that require inclusion in the Quarterly Governance Statement.
- Are there any legal implications?** No
- Staffing/ICT/Property:** No
- Wards Affected:** All
- Scrutiny Interest:** No

TRACKING/PROCESS

DIRECTOR: STEVE KENYON

Chief Executive/ Strategic Leadership Team	Cabinet Member/Chair	Ward Members	Partners
Scrutiny	Cabinet	Committee	Council
		Audit 02/03/15	

1.0 Purpose of the Annual Governance Statement

- 1.1 The purpose of the Annual Governance Statement is to provide a continuous review of the effectiveness of an organisation’s internal control and risk management system in order to give an assurance as to their effectiveness.
- 1.2 It is a mandatory requirement to produce a Governance Statement to accompany the Authority’s Statement of Accounts – as presented on 15 July 2014.
- 1.3 It is accepted good practice to continuously review the internal control framework and make interim reports to those charged with governance – the Audit Committee.
- 1.4 The Council has adopted this practice since 2008 and refers reports to the Audit Committee on a quarterly basis.

2.0 Matters for consideration

- 2.1 Members are asked to:
- Note the report

3.0 Quarterly Update

3.1 Risk Management

- 3.1.1 Risk registers are held at both Corporate and Departmental level.
- 3.1.2 The registers are web-based to allow “real time” update as and when circumstances require.
- 3.1.3 An officer-level risk management group meets quarterly to discuss operational matters. Following the recent move from 4 departments to 3 group membership has been reviewed and meetings are being re-scheduled to coincide with the quarterly meetings of the Corporate Risk Management Group. The Operational Risk Management Group is scheduled to next meet on the 25th February 2015.
- 3.1.4 Similarly, a Member-level Corporate Risk Management Group sits quarterly to review registers and action plans. The group discussed the Corporate Risks as at Q3 on the 27 January, 2015 and the next meeting is scheduled for 22 April.
- 3.1.5 The Risk Management Annual Report was presented to this Committee on 15 July 2014, the Cabinet on 16 July 2014 and to Council on 10 September 2014.
- 3.1.6 The Corporate Risk Register for the period April to December 2014 has been updated to reflect the latest high level risks facing the organisation; see Appendix A attached.

3.2 Business Continuity

- 3.2.1 The Authority has ranked key services in terms of required recovery times, and business continuity plans continue to be developed.
- 3.2.2 A database has now been developed to host these plans, and ensure appropriate arrangements are in place where services are inter-dependant. All the 246 service plans have now been uploaded and the focus now is on improving the information held within the database.
- 3.2.3 In light of the recent moves from 4 departments to 3 with effect from April 2014 the priority is also on ensuring all new departmental structures and service Business Continuity Plans are up to date on the Business Continuity Planning Database and that the Corporate Business Continuity Plan takes account of these changes and forms an integral part of the Major Incident Plan when invoked.

3.3 Budget Monitoring

- 3.3.1 Budget monitoring is undertaken on a monthly basis and quarterly reports are produced for Members.
- 3.3.2 The quarter 3 statement (i.e. April to December) provides a summary of spend to date and a forecast outturn for the year. This alerts Directors to any pressures which they are required to address.
- 3.3.3 As such, it is critical that forecasts are accurate, evidence based and have been through a rigorous quality assurance process.

- 3.3.4 The Quarter 3 report is scheduled to go to Cabinet on 25 February and Overview & Scrutiny Committee on 11 February and will be reported in summary elsewhere on this agenda.

3.4 Work of Internal Audit

- 3.4.1 The Internal Audit Section operates according to a risk based Audit Plan.

- 3.4.2 During the period April to December 2014, the section has examined the following fundamental financial systems;

- Main Accounting system;
- Council tax;
- Creditors;
- NNDR (Business Rates);
- Housing Rent;
- Cash and banking;
- Debtors Key Controls

- 3.4.3 The Internal Audit section produces reports which rank recommendations according to urgency / priority. The reports completed during the first three quarters have produced a total of 166 recommendations. To date, none of these recommendations have been ranked RED – which would warrant specific inclusion in the Governance Statement.

3.5 Work of Governance Panel

- 3.5.1 The Governance Panel has now met regularly since its inception in November 2008, and continues to be a valuable arena to exchange information / concerns regarding the Council's governance arrangements.

- 3.5.2 The Panel comprises:

- Executive Director of Resources & Regulation;
- Assistant Director of Legal & Democratic Services (Monitoring Officer)
- Assistant Director of Resources & Regulation (Finance & Efficiency) (s151 Officer);
- Head of Financial Management

- 3.5.3 The Panel last met on 15 October 2014; no concerns were raised which required specific reference in this update. The next meeting is scheduled for 30 January, 2015.

3.6 Gifts & Hospitality

- 3.6.1 A web-based system operates for members and officers to report offers of gifts and hospitality, and any interests which may conflict with their role.

- 3.6.2 A full update of declarations for the period ended 31 December 2014 is reported elsewhere on this agenda.

3.7 Sickness Update

- 3.7.1 The Audit Committee has shown considerable interest in sickness absence, requesting absence data and action plan updates from Executive Directors.

- 3.7.2 The following tables contain the sickness absence figures per full time equivalent (FTE) for the Council.
- 3.7.3 The first table shows the figures for the previous four departments over the last two financial years plus the first two quarters of 2014/15.
- 3.7.4 The second table shows the 2015/15 Q3 figures based on the three new departments.

Department	2012/13 Full Year	2013/14 Full Year	2014/15 Q1	2014/15 Q2
Adult Care Services	15.1	13.6	14.8	15.1
Chief Executives	6.3	6.8	6.9	6.9
Children's Services	8.3	8.9	8.9	8.7
Communities & Neighbourhoods	9.6	10.8	11.9	11.7
Total FTE days lost	9.4	9.8	10.2	10.1

Department	2014/15 Q3
Communities & Wellbeing	9.9
Resources & Regulation	6.1
Children, Young People & Culture	10.9
Total FTE days lost	9.3

Note – the quarterly figures are calculated on a rolling 12 month basis and do not reflect the quarter in isolation. Therefore, the Q3 period for 2014/15 relates to the full year period of 1/1/14 to 31/12/14.

- 3.7.5 Whilst it is not possible to compare the three new departments to the four historic departments on a like-for-like basis, over the whole Council the sickness levels have remained relatively constant per days lost per FTE for the last three years although it is encouraging that Q3 in 2014/15 has shown a reduction from Q2 of 0.8FTE days to 9.3 days lost.
- 3.7.6 Going forward, sickness absence figures will continue to be reported to the Audit Committee in future quarterly updates.

4.0 Conclusion

- 4.1 This report provides an assurance, and presents evidence, that the Council reviews its internal control / governance mechanisms on a continuous basis.
- 4.2 There have been no significant internal control issues during the period covered by this report.
- 4.3 The control environment will continue to be monitored throughout the year, and Audit Committee will continue to receive updates on a quarterly basis.

Andrew Baldwin
Head of Financial Management

Background documents:

Risk Registers

Internal Audit Reports

Gifts & Hospitality Register

Minutes of Governance Panel

For further information on the details of this report, please contact:

Mr A Baldwin, Head of Financial Management

Tel. 0161 253 5034

Email: a.baldwin@bury.gov.uk

Corporate Risk Register – October – December 2014 (Quarter 3)

Ref	Risk that.....	Risk Owner	Impact (New)	Likelihood (New)	Quarter 1 Status	Quarter 2 Status	Quarter 3 Status	Quarter 4 Status Jan – Mar 15	Measures
01	The <u>potential</u> liability facing the Council in respect of Equal Pay significantly weakens the Council's financial position	Mike Owen / Tracey Johnson	1	1	1	1	1		Risk further reduced as most cases have now been settled. To remain on register till exercise complete.
02	There is no robust financial strategy or change management strategy to address effectively the significant funding reductions that the Council faces.	Steve Kenyon	3	3	9	9	9		<p>The Council received the 2015/16 draft settlement information in December 2014, this was broadly as expected. Bury's reduction higher than the national average, whilst funding per head is lower. Response to consultation submitted outlining this.</p> <p>Review to be carried out of risk scores following further clarity about the 2016/17 settlement from the likely Spending Review later in 2015 following the General Election. MTFs to be updated at this point.</p>

03	The budget strategy fails to address the Council's priorities and emerging issues, e.g. demographic and legislative changes	Mike Owen/Steve Kenyon	3	2	6	6	6	Medium term financial strategy is a live document that is regularly updated to take account of known national changes. This helps to inform financial forecasts and projections over the medium term. The projected forecast for month 9 is £901k overspent; an improvement from the Q2 position. Star Chamber meetings were due to be held in February to discuss the variances and the key reasons.
04	The budget strategy does not reflect, or respond to, national policy developments, e.g. Council Tax Support scheme and changes to the Business Rates regime	Mike Owen/Steve Kenyon	4	2	8	8	8	New arrangements have been in place now for over 18 months, however, risk remains high given volatility, and influence from factors which are beyond the control of the Council (e.g. appeals).
05	The Council's asset base is not operated to its maximum effect to deliver efficiency savings and ensure priorities are fulfilled. Ineffective use of assets presents both a financial and a performance risk.	Mike Owen	2	2	2	2	4	The investment strategy has been approved that will look at empty and under-utilised properties with a view to selling them or renting them, but there remained challenges with the current economic climate
08	The Council fails to manage the expectations of residents, service users & other stakeholders in light of funding reductions	Mike Owen	3	2	6	6	6	Programme of Savings consultations have taken place throughout the borough at Township Forums. A letter from the Leader has also been sent out to inform residents about the level of uncertainty that remains with the impact of current and future financial cuts.

09	The Government's changes to Council Tax Benefit impact adversely upon the Public / Vulnerable People. Also budgetary risk to the Council in the event of claimant numbers rise	Mike Owen	3	3	9	9	9		Impact on residents being managed through Welfare Reform Board. Budgetary impact continues to be assessed through monthly monitoring / Star Chamber process.
10	Changes resulting from the wider Welfare reform agenda impact adversely upon the public / vulnerable people.	Mike Owen	3	3	9	9	9		Welfare Reform Board coordinating action plan with partner organisations (e.g. Six Town, CAB). Whilst impact on individuals can have significant implications, this is being mitigated where possible.
11	That the scale and pace of Public Sector reform impacts adversely upon key Council Services, compounded by the loss of capacity following staff leaving the Council (420+ since 2010)	Mike Kelly	4	2	8	8	8		The Workforce Development Plan is in place, that the mutual settlement scheme has been launched, and individual service workforce plans are being developed to ensure continuity / succession planning. Risk will be closely monitored as the Council-wide restructure takes effect, and further voluntary retirements take effect.

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REPORT FOR DECISION



Agenda Item	
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MEETING: **AUDIT COMMITTEE**

DATE: **2nd MARCH 2015**

SUBJECT: **GIFTS & HOSPITALITY**

REPORT FROM: **ASSISTANT DIRECTOR OF RESOURCES & REGULATION (FINANCE & EFFICIENCY)**

CONTACT OFFICER: **S. Kenyon**

TYPE OF DECISION: **NON-KEY DECISION**

FREEDOM OF INFORMATION/STATUS: This paper is within the public domain

SUMMARY: This report presents Members with an update on the system to declare, monitor & report gifts and hospitality offered to / received by staff and Members.

The report presents a summary of declarations made for the period July 2014 to December 2014.

OPTIONS & RECOMMENDED OPTION The Committee is asked to note the contents of the report.

IMPLICATIONS:

Corporate Aims/Policy Framework: Do the proposals accord with Policy Framework? Yes.

Statement by s151 Officer: An effective process to record, monitor, and report offers of gifts and hospitality serves to protect both staff and the Authority against allegations of improper conduct.

Statement by Executive Director of Resources & Regulation: A robust mechanism to control offers of gifts and hospitality is a fundamental aspect of the Council's corporate governance / ethical framework

Equality/Diversity implications: No

Considered by Monitoring Officer: Yes

Are there any legal implications? No

Staffing/ICT/Property: No

Wards Affected: No

Scrutiny Interest: Scrutiny may wish to examine registers of Gifts & Hospitality received

TRACKING/PROCESS

EXECUTIVE DIRECTOR: Mike Owen

Chief Executive/ Management Board	Executive Member/Chair	Ward Members	Partners
Scrutiny Commission	Executive	Committee	Council
		Audit 2/3/15	

1. **INTRODUCTION**

- 1.1 A robust mechanism to control offers of gifts and hospitality is a fundamental aspect of the Council’s corporate governance / ethical framework.
- 1.2 The Council’s Local Code of Corporate Governance reinforces this through the core principle of “Promoting the values of the authority and demonstrating the values of good governance through behaviour”.
- 1.3 The Audit Committee approved a report outlining the “web-based” system for declarations at its meeting of 19th April 2007, and has received regular updates at subsequent meetings.
- 1.4 This report summarises declarations made for the period July to December 2014.

2. **PROGRESS TO DATE**

- 2.1 Comprehensive guidance relating to gifts and hospitality is included within the “Employee’s Code of Conduct”; issued to every member of staff and available on the intranet.
- 2.2 Guidance on the “Corporate HR” area of the intranet has been revised to make it more readily accessible.

Document Pack Page 27

- 2.3 A "web based" mechanism for Members to record declarations has been developed jointly by Internal Audit and the Corporate HR Division, and implemented with effect from September 2007.
- 2.4 The system now allows officers and members to record potential "conflicts of interest", for example where a member of staff may be related to contractors working for the Council.
- 2.5 A separate mechanism applies for teachers; registers are maintained at school buildings, reported to Boards of Governors, and examined by Internal Audit.
- 2.6 Analysis of registers completed for the period reveals the following;

Department	Number of Declarations	Lowest Value (£)	Highest Value (£)	Average Value (£)
Children Young People & Culture	0	0	0	0
Communities & Wellbeing	4	3	600*	158
Resources & Regulation	13	1	130	30
Members	2	10	90	50
Conflicts of Interest	1	n/a	n/a	n/a
Total	20	1	600	56

*Note * - provision of service related training facilities via Partner Organisation.*

3. ISSUES

- 3.1 Whilst the use of a web based register is efficient, managers must ensure a procedure is in place for staff without access to intranet.

4. RISKS

- 4.1 The system only picks up declarations made by staff; clearly it is the items which are not being declared that are potentially inappropriate.
- 4.2 The overall internal control framework, the anti-fraud strategy, the Council's Whistleblowing Policy, and the work of Internal Audit all offer additional assurance in this respect.

5. FUTURE ACTIONS

- 5.1 Departmental managers are responsible for the operation of the register in their area, however compliance with the declaration process will be continually monitored by the Internal Audit Section.

6. RECOMMENDATIONS

- 6.1 Members are requested to;
- (a) affirm their support for the importance of registering gifts and hospitality

Document Pack Page 28

- (b) endorse the current approach for declaring offers of gifts / hospitality
- (c) note the declarations made to date.

Steve Kenyon

Assistant Director of Resources & Regulation (Finance & Efficiency)

Background documents:

Registers available for inspection if requested.

For further information on the details of this report, please contact:

Mr S Kenyon, Assistant Director of Resources & Regulation (Finance & Efficiency)
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Our ref 016/AL/177

17/02/2015

Dear Stephen

Certification of claims and returns - annual report 2013/14

The Audit Commission requires its external auditors to prepare an annual report on the claims and returns it certifies for each client. This letter is our annual report for the certification work we have undertaken for 2013/14.

In 2013/14 we carried out certification work on the following claims/returns:

Claim/return	Certified value (£)
BEN01 – Housing Benefit subsidy claim	57,190,207
CFB06 – Pooling of Housing Capital Receipts	1,459,450
Total	58,649,657

Matters arising

Our certification work did not identify any issues or errors with the Poolong of Housing Capital Receipts claim, and we certified this claims unqualified without amendment.

On the Housing Benefit subsidy claim, there were several issues which led to qualification and amendment of the claim; these relate to two system errors which had caused errors with the Non HRA benefit.

Certification work fees

The Audit Commission set an indicative fee for our certification work in 2013/14 of £8,373. Our actual fee is expected to be higher than the indicative fee, and this compares to the 2012/13 fee for this these claims of £11,015.



KPMG LLP

Certification of claims and returns - annual report 2013/14

17/02/2015

The details are set out in the table below.

Claim	2013/14 Indicative fee (£)	2013/14 Final fee (£)	2012/13 Final fee (£)
BEN01 – Housing Benefit subsidy claim	6,921	6,921*	10,095
CFB06 – Pooling of Housing Capital Receipts	1,452	1,452*	920
Total	8,373	8,373*	11,015

* Our final fee is expected to be higher than the Indicative fee. The Audit Commission have provisionally agreed that the Indicative fee is insufficient compared to the actual work performed. We are currently in discussion with the Audit Commission and Council over the final fee to bring the fee in line with the number of hours actually worked on the grants during the year.

There is no fee in 2013/14 for LAOI and PEN05 as these no longer fall within the Audit Commission certification regime.

Yours sincerely

Trevor Rees
Partner



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.

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 Trevor Rees, who is the engagement leader to the Authority (telephone 0161 236 4000, e-mail trevor.rees@kpmg.co.uk) who will try to resolve your complaint. Trevor is also our 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, 3rd Floor, Fry Building, 2 Marsham Street, London, SW1P 4DF or by email to complaints@audit-commission.gsi.gov.uk. Their telephone number is 0303 444 8330.

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cutting through complexity

External Audit Plan 2014/15

Bury Metropolitan Borough
Council

March 2015

The contacts at KPMG in connection with this report are:

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Page

Report sections	
■ Introduction	2
■ Headlines	3
■ Our audit approach	5
■ Key financial statements audit risks	12
■ VFM audit approach	15
■ Audit team, deliverables, timeline and fees	20
Appendices	
1. Independence and objectivity requirements	24
2. Quality assurance and technical capacity	25
3. Assessment of Fraud Risk	27
4. Transfer of Audit Commission's' functions	28

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

Scope of this report

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

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

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

Statutory responsibilities

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

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

The *Code of Audit Practice* summarises our responsibilities into two objectives, requiring us to audit/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.

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

Structure of this report

This report is structured as follows:

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

Acknowledgements

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

<p>Audit approach</p>	<p>Our overall audit approach remains broadly in line with last year. Our work is carried out in four stages and the timings for these, and specifically our on site work, have been agreed with the Assistant Director of Resources and Regulation (Finance).</p> <p>Our audit strategy and plan remain flexible as risks and issues change throughout the year. We will review the initial assessments presented in this document throughout the year and should any new risks emerge we will evaluate these and respond accordingly.</p>
<p>Key financial statements audit risks</p>	<p>We have completed our initial risk assessment for the financial statements audit and have identified the following significant risks:</p> <ul style="list-style-type: none"> ■ Assets Under Construction – In 2013/14, we found the balance sheet contained £23.4m of assets under construction which had been categorised incorrectly resulting in a material adjustment. The risk is therefore around valuation and classification of assets. We will enquire with management to understand what controls are now in place to ensure the operational assets value is complete and accurate in the accounts. ■ Accounting for Local Authority Maintained Schools – LAAP Bulletin 101 <i>Accounting for School Assets used by Local Authority Maintained Schools</i> issued in December 2014 has been published to assist practitioners with the application of the Code in this respect. The challenges relate to school assets owned by third parties such as church bodies and made available to school governing bodies under a variety of arrangements. Authorities will need to review the agreements under which assets are used by VAVC and Foundation schools and apply the relevant tests of control. As part of our audit, we will ensure the Authority is aware of the latest guidance and review the judgements it has made. <p>These are described in more detail on pages 13 to 14. We will assess these risk areas as part of our interim work and conclude this work at year end.</p>
<p>VFM audit approach</p>	<p>We have completed our initial risk assessment for the VFM conclusion and we have identified the following significant risks:</p> <ul style="list-style-type: none"> ■ Savings Plan – The Authority is required to make savings of £9.7m in 2014/15 with additional substantial savings required in future years due to further reductions to local authority funding . In conjunction with our VFM work and as part of our audit we will perform procedures to critically assess the authorities performance in controlling and managing its saving plan. <p>This is described in more detail on page 19. We will assess these risk areas as part of our interim work and conclude this work at year end.</p>

**Audit team,
deliverables, timeline
and fees**

We have refreshed our audit team this year, Robert Fenton is the new Assistant Manager. All other team members remain the same.

Our main year end audit is currently planned to commence on 8 June 2015. Upon conclusion of our work we will again present our findings to you in our *Report to Those Charged with Governance (ISA 260 Report)*.

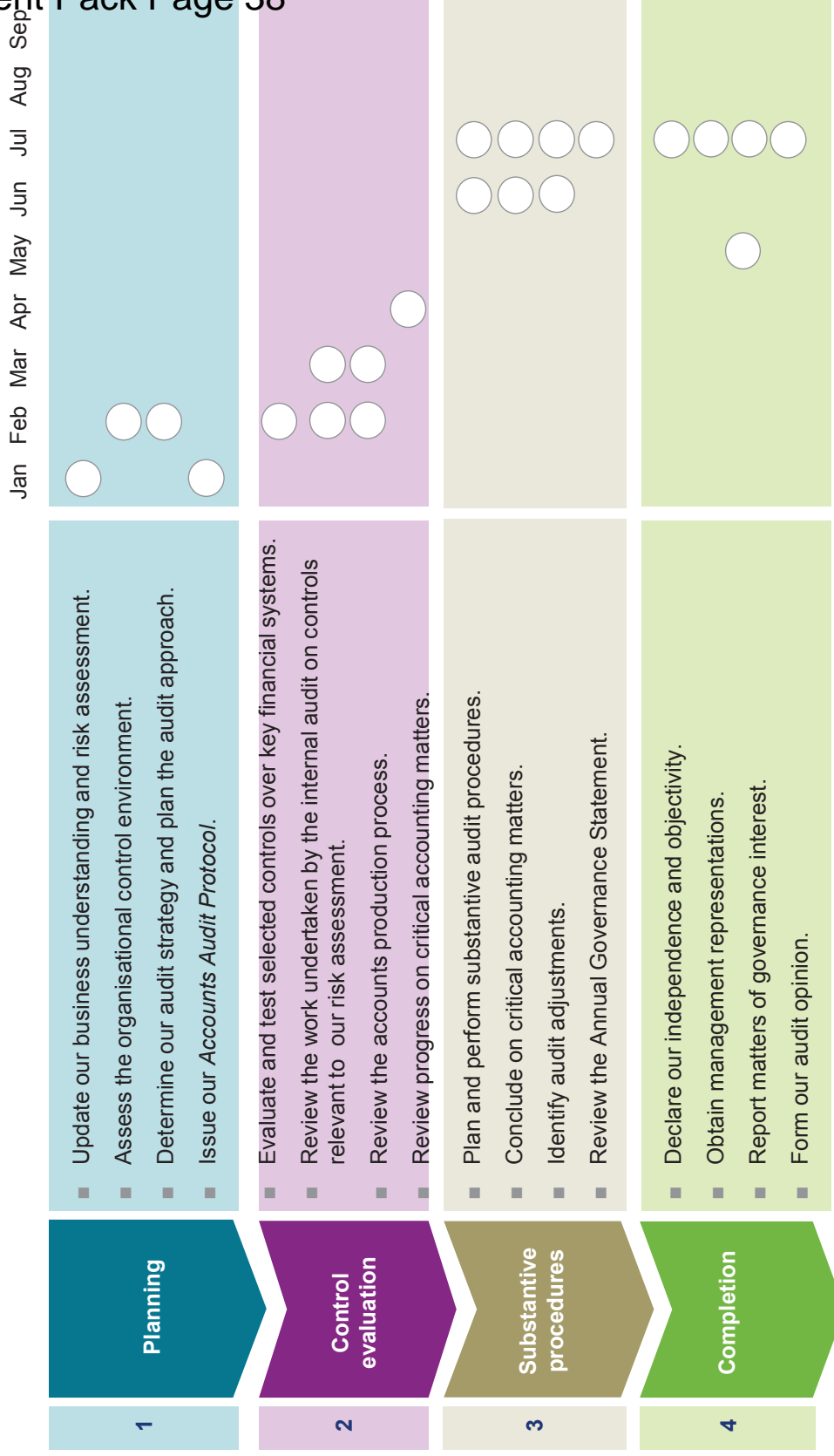
The planned fee for the 2014/15 audit is £154,170 This is unchanged from the position set out in our *Audit Fee Letter 2014-15* issued on 10 April 2014.

Section three Our audit approach

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

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

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



Our audit approach – planning (continued)

During January and February 2015 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.

Our planning work takes place in January and February 2015. This involves the following aspects:

Planning

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

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

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

Audit strategy and approach to materiality

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

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

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

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

We meet with the Head of Financial Management on a bi-monthly 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.

Our audit approach –planning (continued)

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

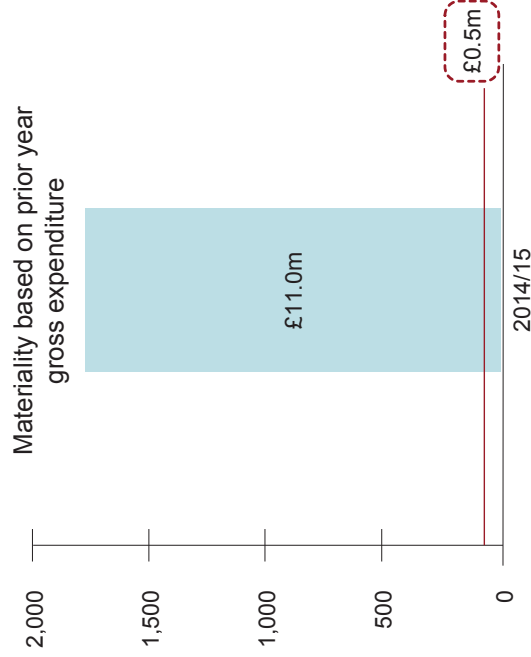
For 2014/15 we have set this at £11.0 million.

We will report all audit differences over £0.5 million to the Audit Committee.

Materiality

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

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



Materiality for planning purposes has been set at £11.0 million for the Authority’s standalone and group accounts, which equates to 2 percent of gross expenditure.

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

Reporting to the Audit Committee

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

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

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

In the context of the Authority, we propose that an individual difference could normally be considered to be clearly trivial if it is less than £0.5 million.

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

We will report on any significant matters arising from the work of the auditors of Six Town Housing which we seek to rely on to support our audit of the Authority's group accounts.

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

Group audit

In addition to the Authority we deem Six Town Housing to be significant in the context of the group audit.

To support our audit work on the Authority's group accounts, we seek to place reliance on the work of Baker Tilly who are the auditors to this subsidiary. We will liaise with them in order to confirm that their programme of work is adequate for our purposes and they satisfy professional requirements.

We will report the following matters in our *ISA 260 Report*:

- any deficiencies in the system of internal controls or instances of fraud which the subsidiary auditors identify;
- any limitations on the group audit, for example, where the our access to information may have been restricted; and
- any instances where our evaluation of the work the subsidiary auditors gives rise to concern about the quality of that auditor's work.

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 Head of Financial Management to discuss mutual learning points from the 2013/14 audit. These will be incorporated into our work plan for 2014/15. We revisit progress against areas identified for development as the audit progresses.

Our audit approach – control evaluation

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

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

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

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

Our on site interim visit will be completed during 23rd February – 6th March. During this time we will complete work in the following areas:

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

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

Critical accounting matters

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

If there are any significant findings arising from our interim work we will present these to the Assistant Director of Resources and Regulation (Finance) in March 2015.

Controls over key financial systems

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

Review of internal audit

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

Our audit approach – substantive procedures

During June to July 2015 we will be on site for our substantive work.

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

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

We will present our *ISA 260 Report* to the Audit Committee in July 2015.

Our final accounts visit on site has been provisionally scheduled for the period 8th June – 3rd July 2015. During this time, we will complete the following work:

Substantive Procedures

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

Substantive audit procedures

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

Critical accounting matters

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

We will discuss our early findings of the Authority's approach to address the key risk areas with the Head of Financial Management in June and July 2015, prior to reporting to the Audit Committee in July 2015.

Audit adjustments

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

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

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

Annual Governance Statement

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

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

In addition to the financial statements, we also review the Authority's Whole of Government Accounts pack. We may need to undertake additional work if we receive objections to the accounts from local electors.

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

Whole of government accounts (WGA)

We are required to review 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. Deadlines for production of the pack and issue of our opinion on the pack have not yet been confirmed.

Electoral challenge

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

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

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

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

Reporting and communication

Reporting is a key part of the audit process, not only in communicating the audit findings for the year, but also in ensuring the audit team are accountable to you in addressing the issues identified as part of the audit strategy. Throughout the year we will communicate with you through meetings with the finance team and the Audit Committee. Our deliverables are included on page 20.

Independence and objectivity confirmation

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

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

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

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

Confirmation statement

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

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

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

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

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

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

The table on page 3 sets out the significant risks we have identified through our planning work that are specific to the audit of the Authority's financial statements for 2014/15.

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

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

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

Key audit risks	Impact on audit
<div style="text-align: center;"> <p>Audit areas affected</p> <ul style="list-style-type: none"> ■ Property Plant and equipment ■ CIES (Income /Expenditure) ■ Group Accounts </div>	<p>Risk</p> <p>In 2013-14, we found the balance sheet contained £23.4m of assets under construction which had been categorised incorrectly resulting in a material adjustment:</p> <ul style="list-style-type: none"> ■ £22.4m should be transferred to operational assets ■ £992k should be transferred to non-operational assets. <p>This error arose as a consequence of the Authority not having a clear policy in place in relation to the 'trigger' points for when assets are moved from assets under construction in operational assets..</p> <p>There is a risk around the valuation and classification of assets in the financial statements</p> <p>Furthermore, the assets which should be have been classified as non-operational should potentially have been impaired down to NIL value due to the intended use of these assets.</p> <p>Additionally, the 2013-14 audit identified 350 assets with a NBV of £17.9m had not been revalued within the five year timeframe set out within the policy. A number of the assets are material to the financial statements and should be included in the asset rolling valuation programme.</p> <p>Our proposed audit work</p> <p>As part of our audit, we will ensure the Authority has:</p> <ul style="list-style-type: none"> ■ Reviewed the policy for reclassifying its assets and what the 'trigger' point should be; ■ Implemented controls to monitor that these trigger points are working effectively; ■ Revalued assets reclassified from assets under construction to ensure fair values will be included in the balance sheet at year end. ■ Revalued assets in line with the asset rolling valuation programme. <p>We will review this policy and the test the controls in place. We will test a sample of assets to ensure they have been classified and valued correctly and have been performed on a timely basis.</p>

Key financial statements audit risks

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

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

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

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

Background to approach to VFM work

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

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

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

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

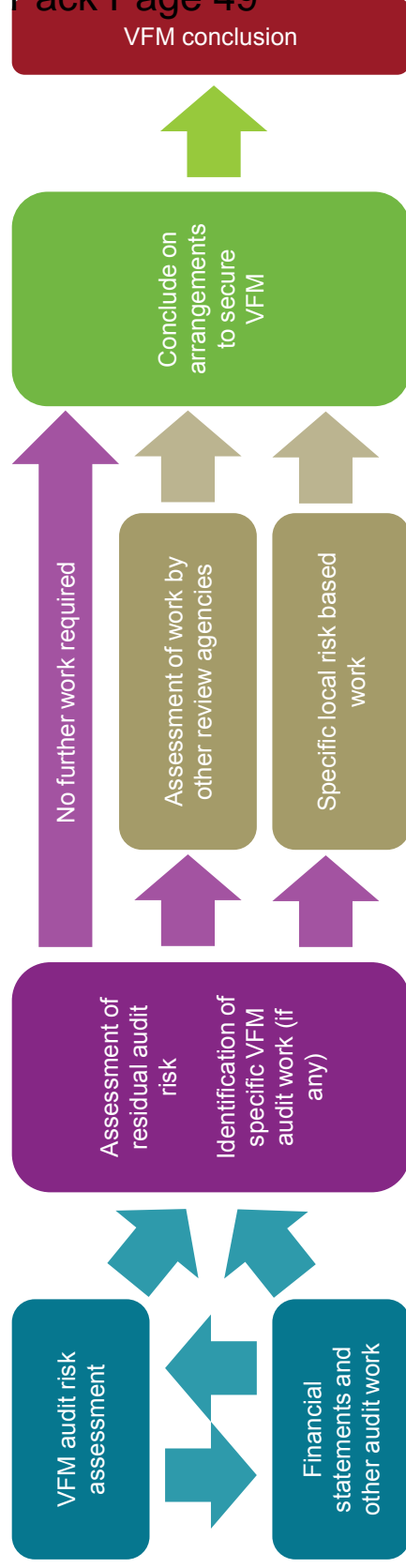
Specified criteria for VFM conclusion	Focus of the criteria	Sub-sections
The organisation has proper arrangements in place for securing financial resilience .	The organisation has robust systems and processes to: <ul style="list-style-type: none"> ■ manage effectively financial risks and opportunities;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

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

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

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

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

Where relevant, we may draw upon the range of audit tools and review guides developed by the Audit Commission.
 We will conclude on the results of the VFM audit through our ISA 260 Report.

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

- We have identified one significant VFM risk
- In most cases we are satisfied that external or internal scrutiny provides sufficient assurance that the Authority's current arrangements in relation to these risk areas are adequate.
- We will carry out additional risk-based work in the following areas:
- Savings Plan

- In line with the risk-based approach set out on the previous page, we have
- considered the results of relevant work by the Authority, the Audit Commission, other inspectorates and review agencies in relation to these risk areas; and
 - concluded to what extent we need to carry out additional risk-based work.
- Below we set out our preliminary findings in respect of those areas where we have identified a residual audit risk for our VFM conclusion, We will report our final conclusions in our *ISA 260 Report 2014/15*.

Key VFM risk	Risk description and link to VFM conclusion	Preliminary assessment
	<p>The Authority is required to make savings of £9.7 in 2014/15. The latest financial forecasts indicates that achievement of the proposed savings is expected but that there is a forecasted budgeted overspend of £0.9m.</p> <p>The Authority currently estimates that £15.8m in savings will need to be achieved during 2015/16 to achieve a balanced budget. We are aware that the Authority is in the process of developing and agreeing proposals with Members for these savings. Further significant savings will be required in 2016/17 and 2017/18 to principally address future reductions to local authority funding alongside service cost and demand pressures. The need for savings will continue to impact the Authority's financial and operational sustainability.</p>	<p>As part of our additional risk based work, we will review the controls the Authority has in place to ensure financial resilience, specifically that the Medium Term Financial Plan has duly taken into consideration:</p> <ul style="list-style-type: none"> ■ funding reductions; ■ salary inflation; ■ general inflation; ■ demand pressures; ■ restructuring costs; and ■ sensitivity analysis given the degree of variability in the above factors. <p>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 provisions, including the methodology, assumptions and calculations.</p>

Your audit team has been drawn from our specialist public sector assurance department. Our audit team were all part of the audit last year, apart from Robert Fenton who is the new Assistant Manager.

Contact details are shown on page 1.

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



Trevor Rees
Partner

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



Jillian Burrows
Senior Manager

"I provide quality assurance for the audit work and specifically any technical accounting and risk areas. I will work closely with Trevor Rees to ensure we add value. I will liaise with the Assistant Director of Resources and Regulation (Finance) and other Executive Directors."



Rob Fenton
Assistant Manager

"I will be responsible for the on-site delivery of our work and will supervise the work of our audit assistants."

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

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

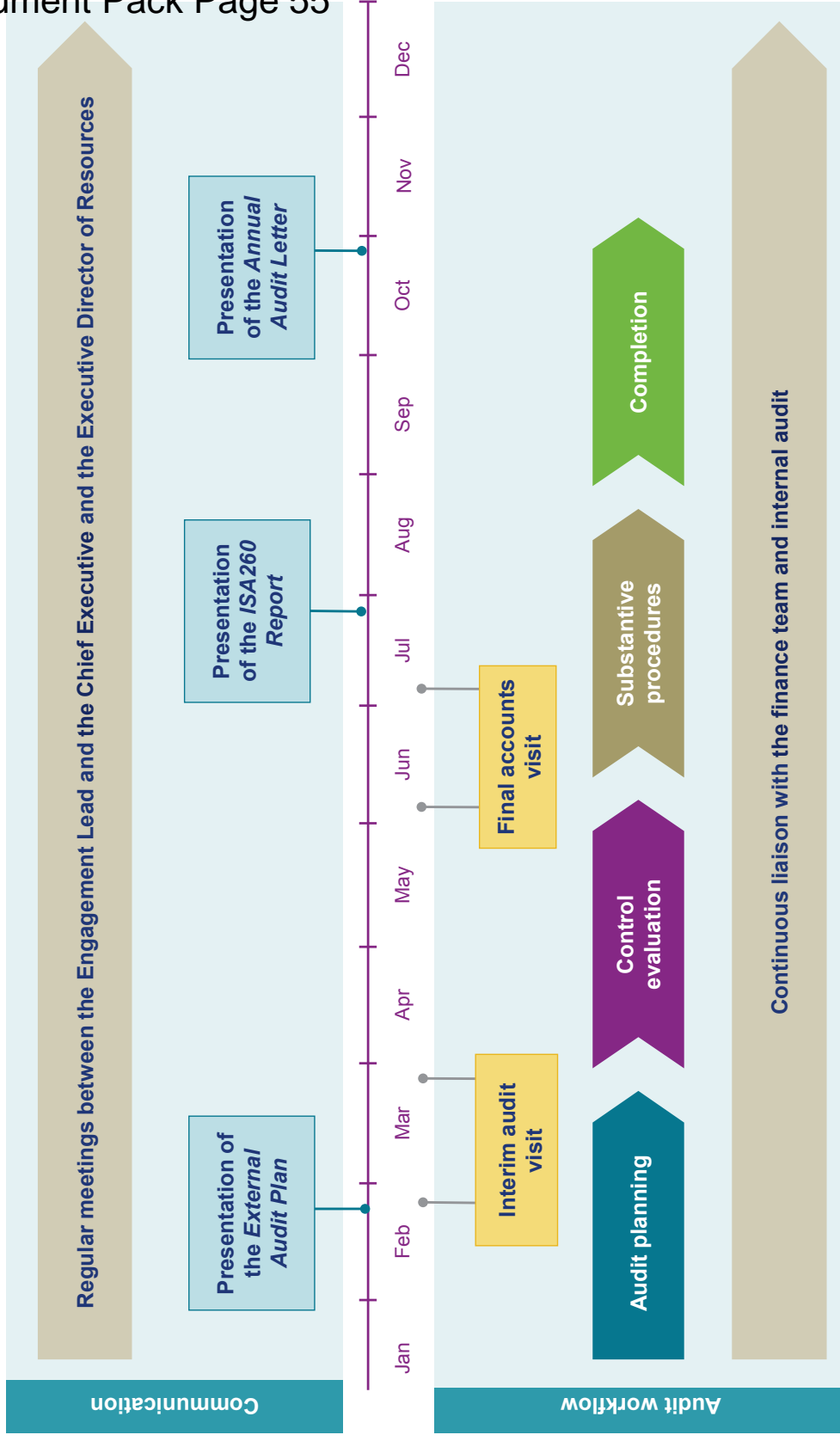
Key formal interactions with the Audit Committee are:

- March – External Audit Plan;
- July – ISA 260 Report;
- October – Annual Audit Letter.

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

Our main work on site will be our:

- Interim audit visits during February and March.
- Final accounts audit during June and July.



Key: ● Audit Committee meetings.

The fee for the 2014/15 audit of the Authority is £154,170.

The fee has not changed from that set out in our *Audit Fee Letter 2014/15* issued in April 2014.

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

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

Audit fee

Our *Audit Fee Letter 2014/15* presented to you in April 2014 first set out our fees for the 2014/15 audit. We have not considered it necessary to make any changes to the agreed fees at this stage.

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

The planned audit fee for 2014/15 is **£154,170**. This is the same as the audit fee for 2013/14.

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 2013/14;
- you will inform us of any significant developments impacting on our audit;
- you will identify and implement any changes required under the *CIPFA Code of Practice on Local Authority Accounting in the UK 2014/15* within your 2014/15 financial statements;
- you will comply with the expectations set out in our *Accounts Audit Protocol*, including:
 - the financial statements are made available for audit in line with the agreed timescales;
 - good quality working papers and records will be provided at the start of the final accounts audit;

- requested information will be provided within the agreed timescales;

- prompt responses will be provided to queries and draft reports;
- internal audit meets appropriate professional standards;
- internal audit adheres to our joint working protocol and completes appropriate work on all systems that provide material figures for the financial statements and we can place reliance on them for our audit; and

- additional work will not be required to address questions or objections raised by local government electors or for special investigations such as those arising from disclosures under the Public Interest Disclosure Act 1998.

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

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

Changes to the audit plan

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

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

If changes to this plan and the audit fee are required, we will discuss and agree these initially with the Assistant Director of Resources and Regulation (Finance).

Appendix 1: 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:

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

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

Appendix 2: KPMG Audit Quality Framework

We continually focus on delivering a high quality audit.

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

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

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

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

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

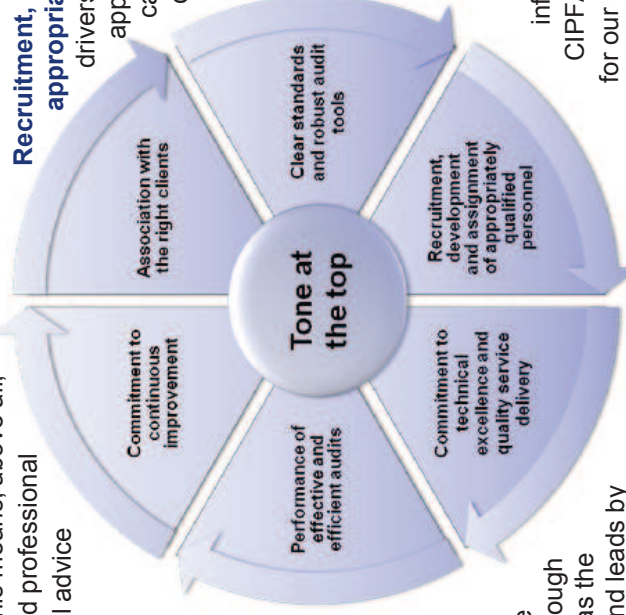
We believe it is important to be transparent about the processes that sit behind a KPMG audit report, so you can have absolute confidence in us and in the quality of our audit.

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

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

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

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



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

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

- A national public sector technical director who has responsibility for co-ordinating our response to emerging accounting issues, influencing accounting bodies (such as CIPFA) as well as acting as a sounding board for our auditors.

- A national technical network of public sector audit professionals is established that meets on a monthly basis and is chaired by our national technical director.

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

- A dedicated Department of Professional Practice comprised of over 100 staff that provide support to our audit teams and deliver our web-based quarterly technical training.

Appendix 2: KPMG Audit Quality Framework

We continually focus on delivering a high quality audit.

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

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

Commitment to technical excellence and quality service delivery

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

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

Performance of effective and efficient audits

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

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

charged with governance; and

- client confidentiality, information security and data privacy.

Commitment to continuous improvement

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

Our quality review results

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

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

Appendix 3 : Assessment of fraud risk

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

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

Members /Officers responsibilities

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

KPMG's identification of fraud risk factors

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

KPMG's response to identified fraud risk factors

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

KPMG's identified fraud risk factors

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

Appendix 4: Transfer of Audit Commissions' functions

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

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

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

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



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