

CORPORATE MANAGEMENT COMMITTEE

1 OCTOBER 2008

APPENDIX 'F'

AUDIT AND INSPECTION PLAN

Audit and Inspection Plan

Date

Audit and Inspection Plan

Runnymede Borough Council

Audit 2008/09

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

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

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

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

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

Document Control

Author KPMG LLP & Audit Commission
Filename Runnymede Borough Council 2008-09 Audit Plan

Status of our reports

The Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission explains the respective responsibilities of auditors and of the audited body. Reports prepared by appointed auditors are addressed to non-executive directors/members or officers. They are prepared for the sole use of the audited body. Auditors accept no responsibility to:

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

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Introduction

- 1 This plan has been developed by the Relationship Manager and the appointed auditor. It sets out the audit and inspection work that we propose to undertake for the 2008/09 financial year. The plan is based on the Audit Commission's risk-based approach to audit planning and the requirements of moving towards Comprehensive Area Assessment (CAA). It reflects:
 - audit and inspection work specified by the Audit Commission for 2008/09;
 - current national risks relevant to your local circumstances; and
 - your local risks and improvement priorities.
- 2 During 2008/09, the role of Relationship Manager will be replaced by the post of Comprehensive Area Assessment Lead (CAAL). The CAAL will provide the focal point for the Commission's work in your local area, lead the CAA process, and ensure that the combined inspection programme across all inspectorates is tailored to the level and nature of risk for the area and its constituent public bodies. The Commission has become the statutory gatekeeper of all inspection activity involving local authorities.
- 3 As the Audit Commission's CAAL, I will be taking responsibility for the delivery of the planned inspection work. The audit work will be undertaken by the appointed auditor, KPMG LLP, and their team is led by Neil Thomas.
- 4 As KPMG LLP has not yet completed the Accounts Audit for 2007/08, the audit planning process for 2008/09 will continue as the year progresses, and the information and fees in this plan will be kept under review and updated as necessary.

Responsibilities

- 5 KPMG LLP and the Audit Commission comply with the statutory requirements governing our audit and inspection work, in particular:
 - the Audit Commission Act 1998;
 - the Local Government Act 1999 (best value inspection and audit); and
 - the Code of Audit Practice.
- 6 The Code of Audit Practice (the Code) defines auditors' responsibilities in relation to:
 - the financial statements (including the annual governance statement); and
 - the audited body's arrangements for securing economy, efficiency and effectiveness in its use of resources.
- 7 The Audit Commission's Statement of Responsibilities of Auditors and of Audited Bodies sets out the respective responsibilities of the auditor and the Council. The Audit Commission has issued a copy of the Statement to every audited body.
- 8 The Statement summarises where the different responsibilities of auditors and of the audited body begin and end, and our audit work is undertaken in the context of these responsibilities.

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Fee for audit and inspection work

- 9 The details of the structure of scale fees are set out in the Audit Commission's work programme and fee scales 2008/09. Scale fees are based on a number of variables, including the type, size and location of the audited body.
- 10 The total indicative fee for the audit and inspection work included in this audit and inspection plan for 2008/09 is for £95,869 which compares to the actual fee of £93,173 for 2007/08.
- 11 A summary of this is shown in the table below. The fee is determined by audit risks identified, mandated work and basic assumptions. A detailed breakdown of the audit and inspection fee is included in Appendix 2.

Table 1 Audit & inspection fee

Audit area	Planned fee 2008/09	Actual fee 2007/08	Page
Total audit fee	£89,300	£86,683	19
Total inspection fee	£6,569	£6,490	12
Certification of claims and returns	£41,000	£40,080	

- 12 The Audit Commission scale fee for Runnymede Borough Council is £107,143. The fee proposed for 2008/09 is -11 per cent compared to the scale fee and is within the normal level of variation specified by the Commission.
- 13 We have set our fee based on a number of assumptions which are detailed in Appendix 2.
- 14 The Audit Commission has the power to determine the fee above or below the scale fee where it considers that substantially more or less work is required than envisaged by the scale fee. The Audit Commission may, therefore, adjust the scale fee to reflect the actual work that needs to be carried out to meet the auditor's statutory responsibilities, on the basis of the auditor's assessment of risk and complexity at a particular body.
- 15 It is a matter for the auditor to determine the work necessary to complete the audit and, subject to approval by the Audit Commission, to seek to agree an appropriate variation to the scale fee with the Council. The Audit Commission expects normally to vary the scale fee by no more than 30 per cent (upwards or downwards). This fee then becomes payable.
- 16 We plan to carry out an additional piece of work across the County of Surrey, involving the PCT, the County Council and District Councils, looking at access to services. This piece of work will support our Value for Money conclusion and use of resources scores and we have included two days in the Council's plan for this.

Runnymede Borough Council

Specific actions Runnymede Borough Council could take to reduce its audit and inspection fees

- 18 The Audit Commission requires its auditors to inform a council of specific actions it could take to reduce its audit and inspection fees. Throughout the course of our audit and inspection work KPMG LLP and the Audit Commission will seek to identify opportunities for the Council to reduce its audit and inspection fees. We will discuss these with management following the completion of each element of the audit and inspection plan.

Process for agreeing any changes in audit fees

- 19 As set out in paragraph 4, it is possible that our initial risk assessment of the Council's audit will change as the year progresses. If we need to make any significant amendments to the audit fee, we will discuss this in the first instance with the Director of Finance. We will then prepare a report outlining the reasons why the fee needs to change for discussion at the Standards and Audit Committee.

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Auditor's report on the financial statements

- 20 KPMG LLP are required to issue an audit report giving:
- An opinion on whether the financial statements present fairly the financial position of the Council as at 31 March 2009; and
 - A conclusion on whether the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

Financial statements

- 21 KPMG LLP has not provided a detailed risk assessment for our audit of the financial statements within this plan as a number of specific risks may only become apparent after completion of the 2007/08 audit. KPMG LLP will review its risk based approach to the audit of the financial statements in September 2008.

VFM conclusion

- 22 In reaching a VFM conclusion, KPMG LLP will review evidence that is relevant to the Council's performance management and financial management arrangements.

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Use of resources

- 23 This will be the first year of a new use of resources assessment which will form an element of the CAA framework. The Audit Commission has specified that auditors will complete a use of resources assessment for 2008/09.
- 24 There have been significant changes to the criteria for 2008/09, Appendix 1 outlines the criteria assessed as part of our use of resources work and our VFM conclusion. For each of the significant risks identified in relation to our use of resources work, we consider the arrangements put in place by the Council to mitigate the risk, and plan my work accordingly.
- 25 We note that the new use of resources approach has an increased emphasis on equity. As part of our 2008-09 Use of Resources work we propose to carry out an additional review in this area - in conjunction with the audit commission- across Surrey, focusing on access to services, which will inform our use of resources review.
- 26 As a result of the previous allocation of your audit fee between different periods the 2008/09 audit plans includes the fee element for review of your use of resources under CPA framework. This work will be undertaken by KPMG in late summer / autumn 2008. We have not included any fee within this plan for the Use of Resources work required under CAA for 2008/09, this will be included in your 2009/10 audit plan.

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Mandated work

27 As part of the audit, the mandated work programme comprises:

- data quality;
- whole of government accounts; and
- National Fraud Initiative.

Appendix 1 highlights the work to be undertaken.

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CPA and inspection

- 28 From April 2009, the Audit Commission, jointly with the other public service inspectorates, will be implementing Comprehensive Area Assessment (CAA). Therefore, 2008/09 is the last year in which corporate assessments and programme service inspections will be undertaken as part of the CPA framework.
- 29 The Audit Commission's CPA and inspection activity is underpinned by the principle of targeting our work where it will have the greatest effect, based upon assessments of risk and performance.
- 30 The Council's CPA category is, therefore, a key driver in the Commission's inspection planning process. For CPA 2006, the Council was categorised as excellent. Consequently my inspection activity in 2008/09 will comprise only the mandatory work that we carry out at all councils.

Table 2 Summary of inspection activity

Inspection activity	Reason/impact
Relationship Manager (RM) role	To act as the Commission's primary point of contact with the Council and the interface at the local level between the Commission and the other inspectorates, government offices and other key stakeholders.
Direction of travel (DoT) assessment	An annual assessment, carried out by the RM, of how well the Council is securing continuous improvement. The DoT statement will be reported in the 2007-08 annual audit and inspection letter. The DoT assessment summary will be published on the Commission's website.

Additional services work

- 31 Under section 35 of the Audit Commission Act 1998, the Commission may undertake additional services work at the request of the audited body.
- 32 We are not proposing to do any additional services work at Runnymede Borough Council during 2008/09.

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The audit and inspection team

- 33 The key members of the audit and inspection team for the 2008/09 audit are shown in the table below.

Table 3 Audit and inspection team

Name	Contact details	Responsibilities
Paul Chambers Relationship Manager/CAAL	p-chambers@audit- commission.gov.uk 01483 242344	The primary point of contact with the authority and the interface at the local level between the Commission and the other inspectorates, government offices and other key stakeholders.
Neil Thomas Director	neil.thomas@kpmg.co.uk 0207 311 1379	Responsible for the overall delivery of the audit including the quality of outputs, signing the opinion and conclusion, and liaison with the Chief Executive and the Standards and Audit Committee.
Katy Ball Audit Manager	katy.ball@kpmg.co.uk 0207 311 1543	Manages and co-ordinates the different elements of the audit work. Key point of contact for the Director of Finance.

Quality of service

- 34 KPMG LLP and the Audit Commission are committed to providing you with a high quality service. If you are in any way dissatisfied, or would like to discuss how we can improve our service, please contact your CAAL or Appointed Auditor in the first instance. Alternatively, you may wish to contact Chris Westwood the Audit Commission's local Head of Operations. For any complaints concerning audit work, you may wish to contact Neil Thomas or KPMG LLP's national contact partner for Audit Commission work, Trevor Rees (trevor.rees@kpmg.co.uk).
- 35 If we are unable to satisfy your concerns, you have the right to make a formal complaint to the Audit Commission. The complaints procedure is set out in the leaflet '*Something to Complain About*', which is available from the Commission's website (www.audit-commission.gov.uk) or on request.

Planned outputs

- 36 Reports will be discussed and agreed with the appropriate officers before being issued to the Audit and Standards Committee

Table 4 Planned outputs

Planned output	Indicative date	Responsibility
Audit and Inspection Plan	30 May 2008	CAA Lead & KPMG
Annual governance report (ISA260)	30 September 2009	KPMG
Auditor's report giving an opinion on the financial statements and value for money conclusion	30 September 2009	KPMG
Use of resources report	31 December 2008	KPMG
Report from access to services review	30 September 2009	CAAL
Annual Audit Letter	31 December 2009	KPMG

Appendix 1 – Work under the Code of Audit Practice

Financial statements

- 1 KPMG LLP will carry out an audit of the financial statements in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board (APB).
- 2 KPMG LLP are required to issue an opinion on whether the financial statements present fairly, in accordance with applicable laws and regulations and the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2008, the financial position of the Council as at 31 March 2009 and its income and expenditure for the year.
- 3 KPMG LLP are also required to review whether the Annual Government Statement has been presented in accordance with relevant requirements, and to report if it does not meet these requirements or if the Annual Government Statement is misleading or inconsistent with its knowledge of the Council.

Value for money conclusion

- 4 The Code requires Neil Thomas as your appointed auditor to issue a conclusion on whether the Council has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. This is known as the value for money conclusion. The Code also requires the auditor to have regard to a standard set of relevant criteria, issued by the Audit Commission, in arriving at his conclusion.
- 5 In meeting this responsibility, Neil Thomas will review evidence that is relevant to the Council's corporate performance management and financial management arrangements. Where relevant work has been undertaken by other regulators, for example Communities and Local Government, he will normally place reliance on their reported results to inform our work.
- 6 KPMG LLP will also follow up our work from previous years to assess progress in implementing agreed recommendations.

Use of resources assessment

- 7 The assessment will emphasise the importance of improved value for money outcomes for local people. It is based on wider considerations other than cost and performance. It will also look at how commissioning and procurement are improving efficiency and how non-financial resources are used to support value for money.
- 8 The work required to arrive at the use of resources assessment is fully aligned with that required to arrive at the auditor's value for money conclusion.

- 9 The overall judgement will be based upon the evidence from three themes scored by the auditor and will give particular emphasis to the value for money outcomes being achieved. The assessment criteria below is based on our current proposals as outlined in our consultation document.

Table 5 Use of resources assessment criteria

Managing money	<ul style="list-style-type: none"> • Financial health • Financial planning • Understanding costs • Financial monitoring and forecasting • Financial reporting
Managing the business	<ul style="list-style-type: none"> • Leadership • Performance management • Commissioning and procuring services • Risk management and internal control • Ethical behaviour and counter-fraud
Managing other resources	<ul style="list-style-type: none"> • Natural resources • Physical assets • People and IT

- 10 KPMG LLP will report details of the scores and judgements made to the Council. The scores will be accompanied, where appropriate, by recommendations for improvement.
- 11 The auditor's scores are reported to the Commission and are used as the basis for its overall use of resources judgement for the purposes of CAA. As recorded earlier this methodology will be applied as part of the 2008/09 audit plan, however the fee within the 2008/09 audit plan relates to the Use of Resource assessment undertaken under the CPA assessment framework. This remains unchanged compared to previous years.

Data quality

- 12 The Audit Commission has specified that auditors will be required to undertake audit work in relation to data quality. This is based on a three-stage approach covering:
- Stage 1 – management arrangements;
 - Stage 2 – analytical review; and
 - Stage 3 – risk-based data quality spot checks of a sample of performance indicators.
- 13 Work will be focused on the overall arrangements for data quality, particularly on the responsibility of the Council to manage the quality of its data.

- 14 KPMG LLP's fee estimate for this work reflects an assessment of risk in relation to the Council's data quality arrangements and performance indicators. This risk assessment may change depending on the assessment of your overall management arrangements at stage 1 and KPMG LLP will update its plan accordingly, including any impact on the fee.

Whole of government accounts

- 15 KPMG LLP is required to review and report on your WGA consolidation pack in accordance with the approach agreed with HM Treasury and the National Audit Office.

National Fraud Initiative

- 16 The Council participates in the National Fraud Initiative, which is the Audit Commission's computerised data matching exercise designed to detect fraud perpetrated against public bodies. This work will be carried out by KPMG LLP staff appointed to assist in the audit of the Council's accounts (in accordance with section 3(9) of the Audit Commission Act 1998).

Certification of grant claims and returns

- 17 KPMG LLP will continue to certify the Council's claims and returns on the following basis:
- claims below £100,000 will not be subject to certification;
 - claims between £100,000 and £500,000 will be subject to a reduced, light-touch certification; and
 - claims over £500,000 will be subject to a certification approach relevant to the auditor's assessment of the control environment and management preparation of claims. A robust control environment would lead to a reduced certification approach for these claims.

Appendix 2 – Basis for fee

- 1 KPMG LLP and the Audit Commission are committed to targeting its work where it will have the greatest effect, based upon assessments of risk and performance. This means planning audit work to address areas of risk relevant to their audit responsibilities and reflecting this in the audit fees charged. It also means making sure that audit and inspection work is coordinated with the work of other regulators, and that our work helps you to improve.
- 2 Our risk assessment process starts with the identification of the significant financial and operational risks applying at the Council with reference to:
 - our cumulative knowledge of the Council;
 - planning guidance issued by the Audit Commission;
 - the specific results of previous and ongoing audit work;
 - the Council's strategic risk register;
 - interviews with Council officers;
 - liaison with internal audit; and
 - the results of other review agencies' work where relevant.

Assumptions

- 3 In setting the fee, the following assumptions have been made:
 - the level of risk in relation to the audit of the financial statements is not significantly different from that identified for 2007/08;
 - you will inform us of significant developments impacting on our audit;
 - internal audit meets the appropriate professional standards;
 - internal audit undertakes appropriate work on all systems that provide material figures in the financial statements sufficient that we can place reliance for the purposes of our audit;
 - good quality working papers and records will be provided to support the financial statements by in line with agreed deadlines;
 - requested information will be provided within agreed timescales;
 - prompt responses will be provided to draft reports; and
 - additional work will not be required to address questions or objections raised by local government electors.
- 4 Where these assumptions are not met, KPMG LLP or the Audit Commission will be required to undertake additional work which is likely to result in an increased audit fee.
- 5 Any changes to this plan will be agreed with you. These may be required if:
 - new residual audit risks emerge;
 - additional work is required by the Audit Commission, KPMG LLP or other regulators; or

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- additional work is required as a result of changes in legislation, professional standards or as a result of changes in financial reporting.
- 6 Below is a detailed breakdown of the audit and inspection fee for 2008/09.
- 7 The audit fee (plus VAT) will be charged in two equal instalments in October 2008 and March 2009. The inspection fee (plus VAT) will be charged in one instalment in September 2008.

Table 6 Detailed audit and inspection fee

Audit area	Planned fee 2008/09	Planned/Actual fee 2007/08	Page
Audit			
Financial statements	£57,000	£56,000	16
Use of resources	£16,000	14,543	16
Data quality	£11,500	11,340	17
Whole of government accounts	£2,800	2,800	18
National Fraud Initiative	£2,000	2,000	18
Total audit fee	£89,300	£86,683	
Inspection			
Relationship management	£3,285	£3,245	
Direction of Travel	£3,284	£3,245	
Service inspection	£0	£0	
Corporate inspection	£0	£0	
Total inspection fee	£6,569	£6,490	
Total audit and inspection fee			
	£95,869	£93,173	
Certification of claims and returns (estimate)	£41,000	£40,000	

Appendix 3 – Independence and objectivity

- 1 We are not aware of any relationships that may affect the independence and objectivity of the Audit Commission or KPMG LLP staff, which we are required by auditing and ethical standards to communicate to you.
- 2 KPMG LLP and the Audit Commission comply with the ethical standards issued by the APB and with the Commission's requirements in respect of independence and objectivity as summarised below.
- 3 Auditors appointed by the Audit Commission are required to comply with the Commission's Code of Audit Practice and Standing Guidance for Auditors, which defines the terms of my appointment. When auditing the financial statements auditors are also required to comply with auditing standards and ethical standards issued by the Auditing Practices Board (APB).
- 4 The main requirements of the Code of Audit Practice, Standing Guidance for Auditors and the standards are summarised below.
- 5 International Standard on Auditing (UK and Ireland) 260 (Communication of audit matters with those charged with governance) requires that the appointed auditor:
 - discloses in writing all relationships that may bear on the auditor's objectivity and independence, the related safeguards put in place to protect against these threats and the total amount of fee that the auditor has charged the client; and
 - confirms in writing that the APB's ethical standards are complied with and that, in the auditor's professional judgement, they are independent and their objectivity is not compromised.
- 6 The standard defines 'those charged with governance' as 'those persons entrusted with the supervision, control and direction of an entity'. In your case, the appropriate addressee of communications from the auditor to those charged with governance is the audit committee. The auditor reserves the right, however, to communicate directly with the Council on matters which are considered to be of sufficient importance.
- 7 The Commission's Code of Audit Practice has an overriding general requirement that appointed auditors carry out their work independently and objectively, and ensure that they do not act in any way that might give rise to, or could reasonably be perceived to give rise to, a conflict of interest. In particular, appointed auditors and their staff should avoid entering into any official, professional or personal relationships which may, or could reasonably be perceived to, cause them inappropriately or unjustifiably to limit the scope, extent or rigour of their work or impair the objectivity of their judgement.
- 8 The Standing Guidance for Auditors includes a number of specific rules. The key rules relevant to this audit appointment are as follows:

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- appointed auditors should not perform additional work for an audited body (ie work over and above the minimum required to meet their statutory responsibilities) if it would compromise their independence or might give rise to a reasonable perception that their independence could be compromised. Where the audited body invites the auditor to carry out risk-based work in a particular area that cannot otherwise be justified as necessary to support the auditor's opinion and conclusions, it should be clearly differentiated within the Audit and Inspection Plan as being 'additional work' and charged for separately from the normal audit fee;
- auditors should not accept engagements that involve commenting on the performance of other auditors appointed by the Commission on Commission work without first consulting the Commission;
- the Appointed Auditor responsible for the audit should, in all but the most exceptional circumstances, be changed at least once every five years;
- the Appointed Auditor and senior members of the audit team are prevented from taking part in political activity on behalf of a political party, or special interest group, whose activities relate directly to the functions of local government or NHS bodies in general, or to a particular local government or NHS body; and
- the Appointed Auditor and members of the audit team must abide by the Commission's policy on gifts, hospitality and entertainment.

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Appendix 4 – Working together

Meetings

- 1 The audit team will maintain knowledge of your issues to inform our risk-based audit through regular liaison with key officers.
- 2 The meetings will be organised by the Audit Commission and KPMG LLP and our proposal for this is as follows:

Table 7 Proposed meetings with officers

Council officers	Audit Commission staff	Timing	Purpose
Chief Executive Director of Resources and other Directors	Audit Director (AD) Audit Manager (AM) Comprehensive Area Assessment Lead (CAAL) Local Performance Lead (LPL)	As appropriate	General update plus: <ul style="list-style-type: none"> • April - Audit and Inspection Plan • June - accounts progress and VFM
Head of Corporate Policy and Performance	AM and LPL		Update
Head of Finance	AM and Team Leader (TL)	Following interim audit and audit of the financial statements	Update on audit and opinion issues
Chief Internal Auditor	AM and TL	Up to twice per year	Update on audit progress and issues
Audit Committee	AD and AM, with TL and/or LPL as appropriate	Up to twice per year	Formal reporting of: <ul style="list-style-type: none"> • Audit and Inspection Plan; • Annual governance report; • Annual Audit Letter; and • other issues as appropriate.

Sustainability

- 3 The Audit Commission is committed to promoting sustainability in our working practices and we will actively consider opportunities to reduce our impact on the environment. This will include:
- reducing paper flow by encouraging you to submit documentation and working papers electronically;
 - use of video and telephone conferencing for meetings as appropriate;
 - reducing travel; and
 - other initiatives.

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