

RUNNYMEDE BOROUGH COUNCIL

CORPORATE MANAGEMENT COMMITTEE

8 APRIL 2010

AGENDA ITEM 7

APPENDIX 'C'

FINANCIAL STATEMENTS AND USE OF RESOURCES
AUDIT PLAN



LOCAL GOVERNMENT

Runnymede Borough Council

Financial Statements and Use of Resources Audit Plan

26 February 2010

PUBLIC SECTOR AUDIT

APPENDIX 'C'

AUDIT ■ TAX ■ ADVISORY

Contents

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

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 Andy Sayers, who is the engagement Partner to the Authority, telephones 0207 694 6881, email andy.sayers@kpmg.co.uk who will try to resolve your complaint. If you are dissatisfied with your response please contact Trevor Fees on 0161 238 4000, email trevor.fees@kpmg.co.uk, who is the national contact partner for all of KPMG's work with the Audit Commission. After this, if you are still dissatisfied with how your complaint has been handled you can access the Audit Commission's complaints procedure. Put your complaint in writing to the Complaints Investigation Offices, Westward House, Lime Kiln Close, Stoke Gifford, Bristol, BS34 8SR or by a mail to: complaints@audit-commission.gov.uk. Their telephone number is 0844 798 3131, textphone (minicoin) 020 7630 0421.



Summary

Our audit is divided into:

- Financial Statements, and
- Use of Resources.

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

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

The Audit Commission's Code summarises our responsibilities into two objectives, requiring us to review and report on your:

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

The Audit Commission's Statement of Responsibilities of Auditors and Audited Bodies sets out the respective responsibilities of the auditor and the Council. The table below summarises the work we will do this year.

Our Responsibility

Risks, Proposed work and output

Key risks identified are as follows:

- The valuation and accounting treatment for the old Civic Centre site which remains unsold; and
- The treatment of the leasing arrangement with Surrey Police for their share of the Civic Centre building.

Our work will encompass:

- A review of the controls over the completion of the accounts. We will rely on Internal Audit wherever possible to avoid unnecessary duplication.
- A detailed audit of the financial statements, associated disclosure notes and the Annual Governance Statement (pages 3 - 6)
- We will perform a detailed review of the assumptions surrounding the valuation of the civic centre, including the level of commercial interest received to date, to ensure that the site is not over-valued in the financial statements.

The findings of this work support the audit opinion that we issue on your financial statements.

- Use of Resources: Assessment of managing finances: governing the business and managing resources. These judgements are combined to give an overall use of resources score. Last year the Council scored a level 3 from a maximum of 4.

- We have maintained dialogue with officers and have kept up to date with developments at the Council. Our use of resources work has been adapted to respond to the changing risk environment within which the Council operates.

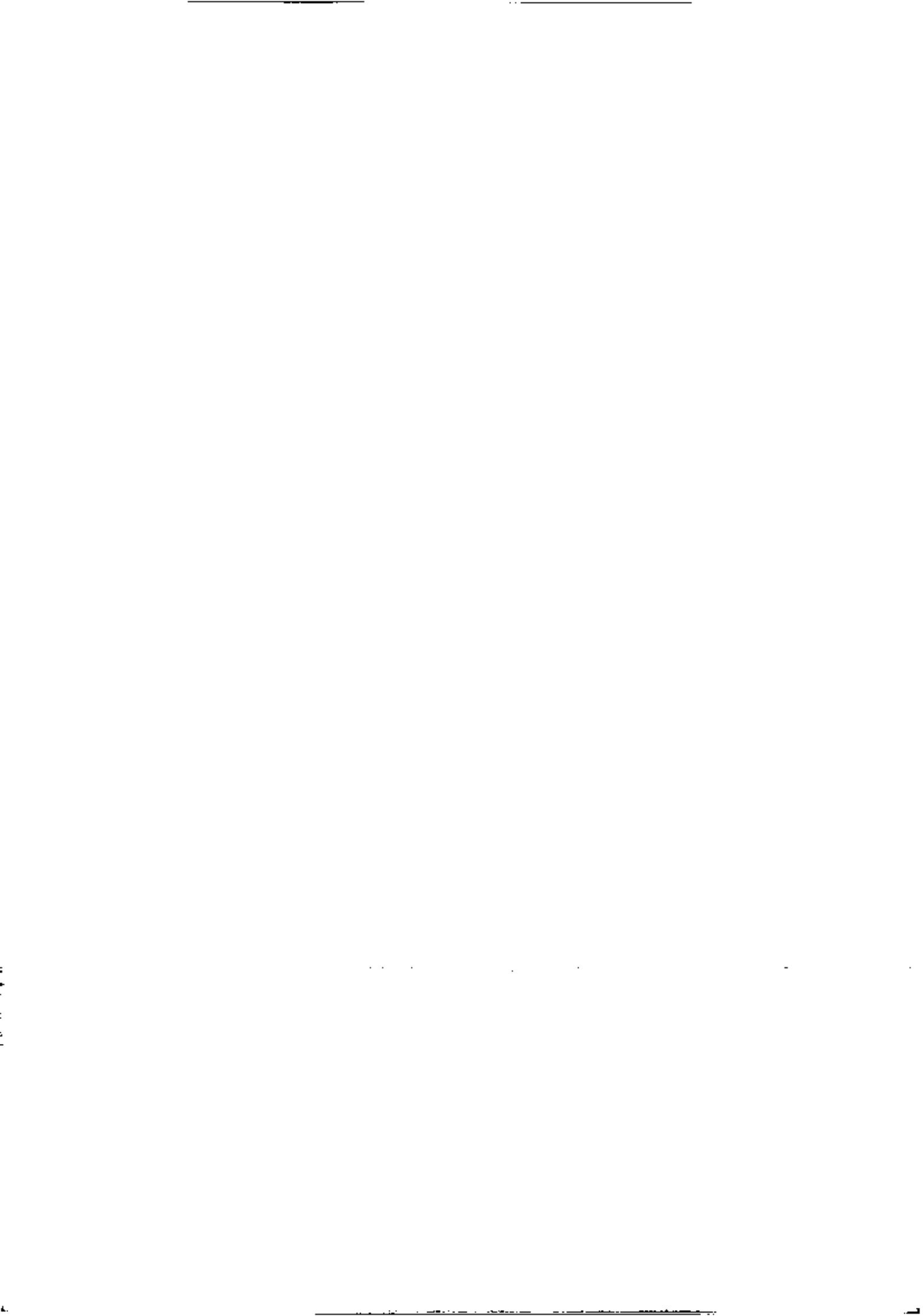
- We will also consider in detail the Council's management of natural resources in order to assess the Council against KLOE 3, which is applicable to District Councils for the first time this year.

The conclusions of this work will inform our value for money conclusion and will also feed into the Audit Commission's Corporate Area Assessment.

Use of Resources (page 7)

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. The remainder of this document provides details of our risk assessment, proposed work and fees for our work on the financial statements audit. It supplements the high level audit plan presented earlier in the year.





Audit overview

We undertake our work on your financial statements and Annual Governance Statement (AGS) in four key stages.

Our work results in our audit opinion on your financial statements.

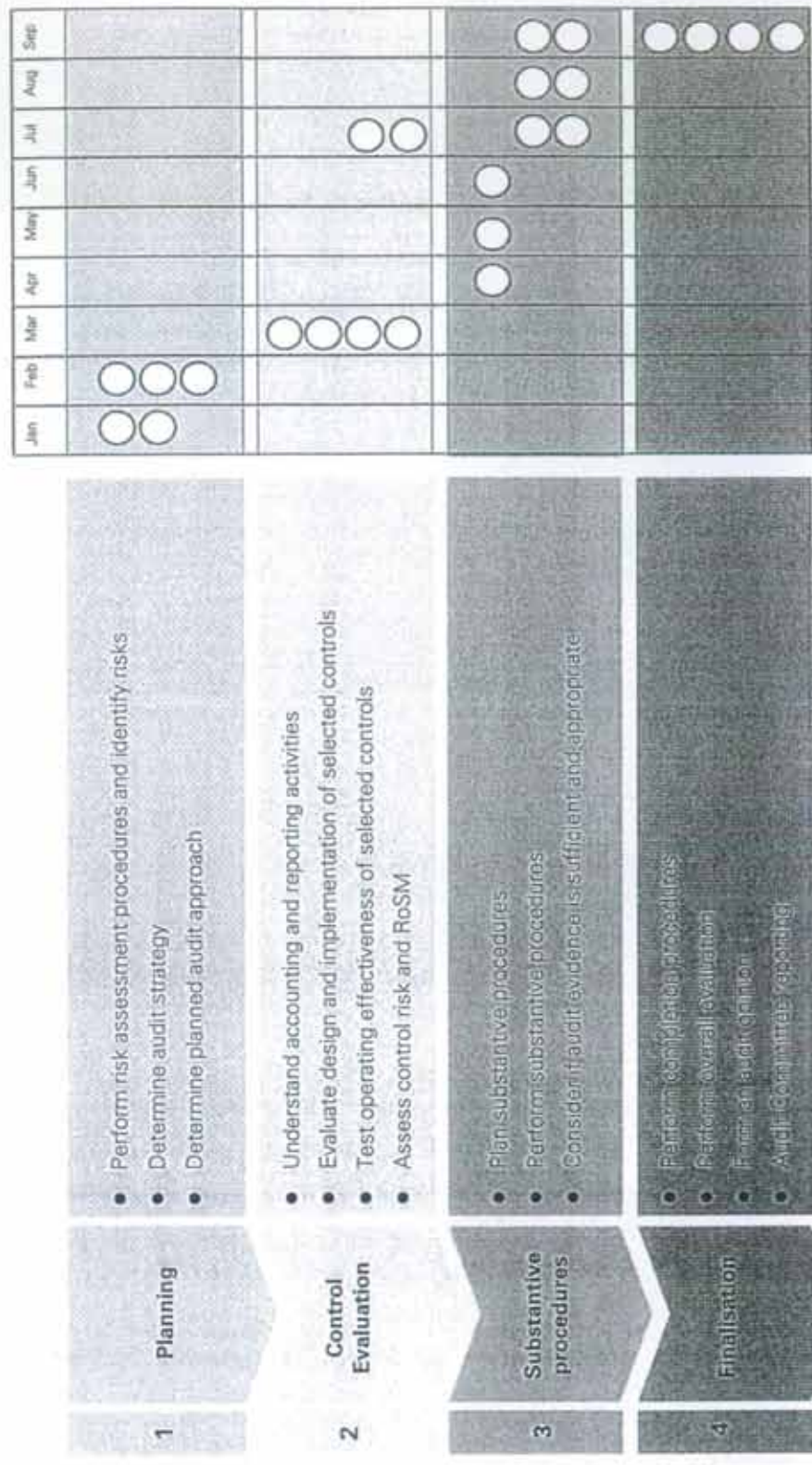
We are required to satisfy ourselves that your accounts comply with statutory requirements and that proper practices have been observed in compiling them. We are required to provide audit opinion on the accounts.

We are also required to satisfy ourselves that your AGS is consistent with our understanding of your operations. Our review of the work of internal audit and consideration of your risk management and governance arrangements are key to this opinion.

In addition to the Council's financial statements, we are also required to audit and provide an opinion on the Whole of Government Accounts.

Our Audit Process

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



Audit overview

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

Our Audit Process (continued)

As part of our audit process, we will work closely with the finance team to understand and continually improve the accounts production process. At the planning stage of our audit we will issue the Council with a 'prepared by client' list which will include a detailed schedule of information requests to support the financial statements.

Our audit procedures also include an assessment of your arrangements to deliver your responsibilities to prevent and detect fraud. The auditing standard for fraud, ISA240 (revised), responds to the increased sensitivity to fraud and the importance given to auditors' work on fraud. Additionally, the Fraud Act 2006 and the Government Review of Fraud 2006 may impact on your responsibilities to manage fraud.

Liaising with internal audit

We have a strong working relationship with Internal Audit and we will continue to work closely with them to maximise the effectiveness of their work on core financial systems and governance at the Council. We have a protocol in place which ensures that we get the maximum benefit from our relationship and prevents any duplication of work.

Whole of government accounts (WGA)

KPMG are required to review and report on your WGA consolidation pack in accordance with the approach agreed with HM Treasury and the National Audit Office. The 2009/10 WGA consolidated pack will need to be produced in accordance with the International Financial Reporting Standards (IFRS).

National Fraud Initiative

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. During our audit we will review the Council's progress and actions in following up the matches identified and this work contributes to our Use of Resources Assessment.

Certification of grant claims and returns

KPMG 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.

Elector Challenge

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

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

As a result of these rights, in particular the right to object to the accounts, we may need to undertake additional work to form our decision on the elector's objection. The additional work could range from a small piece of work where we interview an officer and review evidence to form our decision, to a more detailed piece of work, where we have to interview a range of officers, review significant amounts of evidence and seek legal representations on the issues raised. The costs incurred in responding to questions or objections raised by electors is not part of the fee. This work will be charged in accordance with the Audit Commission's fee scales.

Key financial statement audit risks

These are the key financial statement risks identified for 2009/10. We seek to tailor our audit approach to reflect this.



■ High ■ Medium ■ Low

The high risk issues are discussed overleaf



Key financial statement audit risk

For each key risk audit area we have outlined the impact on our audit plan. We will provide an update to the Audit Committee on these risk issues.

KEY audit risks



Valuation of Council Assets

- We will review valuations obtained by the Council's In-house Valuer to ensure that asset values have been correctly recorded in asset registers and the financial statements.
- We will assess valuation assumptions for appropriateness. In particular we will review the assumptions used in valuing the old civic centre site (which is unsold) and the level of commercial interest received to date, to gain assurance that the site is not overstated in the financial statements.
- We will review the Council's processes for identifying assets which may require impairment and consider whether these impairments have been accounted for correctly within the financial statements.

Impact on audit plan



Implementation of IFRS

- The Council will need to prepare its 2010/11 Accounts under IFRS.
- We will review the Council's progress in implementing IFRS against its detailed convergence plan. In particular we will consider the steps taken to restate opening balances.
- We will hold regular discussions with officers to identify areas of pressure where difficulties are being experienced. We will offer support and guidance during the convergence process.



Treatment of Surrey Police Lease

- Discussions with officers indicate that the lease premium owed by Surrey Police is still outstanding and as such the Council is still providing financing to the Police.
- We will review how the Council is accounting for this transaction to ensure that the finance element is being appropriately accounted for.
- We will also assess the whether the assumptions surrounding the anticipated capital receipt can be supported and will review the disclosure in the Financial Statements to determine whether it is adequate.

Use of Resources

Our use of resources work will involve assessing the Council against managing finances, governing the business and managing resources. These judgements are combined to give an overall use of resources score.

This work will inform our value for money conclusion on your arrangements for securing economy, efficiency and effectiveness.

We have a responsibility to assess the extent to which you have put in place proper arrangements to secure economy, efficiency and effectiveness in your use of resources. We give a positive conclusion on whether or not arrangements are satisfactory. To fulfil this responsibility we are required to review your corporate performance management and financial management arrangements. We will also follow up recommendations from previous years to assess progress.

Use of Resources

Use of resources is an Audit Commission assessment of how well organisations are managing and using their resources to deliver value for money and better and sustainable outcomes for local people. 2009/10 is the second year that the Council will be assessed under use of resources.

The assessment forms part of the comprehensive area assessment (CAA) framework as well as other relevant performance assessment frameworks. It is carried out yearly by appointed auditors as part of the external audit.

Auditors produce a judgement for each of the following three themes:

- managing finances - focusing on sound and strategic financial management;
- governing the business - focusing on strategic commissioning and good governance;
- managing resources - focusing on the effective management of natural resources, assets and people

Auditors reach judgements on these themes by considering specified key lines of enquiry (KLOE).

Approach for 2009/10

The Audit Commission has made a commitment that auditors' work on the 2009/10 use of resources assessment will be proportionate and build on existing evidence.

To ensure continuity for year 2 of the assessment, the use of resources framework, including the key lines of enquiry (KLOE), has not changed. However, the Commission expects auditors to take a risk-based approach that builds on the baseline established in 2008/09, against which auditors will assess progress.

For KLOE assessed in 2008/09, auditors need to address two simple questions:

- what has changed in 2009/10?; and
- what difference have those changes made in practice?

It is also important to note that this will be the first year that District Councils are assessed against KLOE 3.1 which looks at how well organisations are making effective use of natural resources. The focus for this KLOE is on the Council's impact on the environment from the resources it consumes in the delivery of its services rather than on how it acts to reduce consumption by others.

Please note that your fee for the 2009-10 Use of Resources Assessment will be financed from the 2010-11 Plan.





Audit Team

Andy Sayers joins the audit team as your audit partner, replacing Neil Thomas.

Rebecca Patt will continue as your audit manager and will be assisted by Michael

Duff who replaces Steven Hanlon.

Contact details are shown on slide 1.



Andy Sayers
Engagement Lead

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



Rebecca Patt
Audit Manager

I will direct and help coordinate the audit and will work closely with Andy to ensure we add value. I will be the main contact for the Director of Finance and other executive directors.



Michael Duff
Audit Assistant
Manager

I will be your day to day contact and will work closely with Rebecca to deliver a coordinated and efficient audit.



Independence Confirmation

Our independence and objectivity responsibilities under the Code are summarised in Appendix 3.

We confirm our audit team's independence and objectivity is not impaired.

Independence and objectivity confirmation

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

The ISA defines '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.

Confirmation statement

We confirm that as of 27 January 2010 in our professional judgement, KPMG LLP is independent within the meaning of regulatory and professional requirements and the objectivity of the Appointed Auditor and audit team is not impaired.

Audit Fees

We are proposing an audit fee for 2009/10 that is 9.5% below the Audit Commission Scale Rate

Our fee is calculated with reference to a number of factors including your turnover and our assessment of audit risk and control environment. The increase over 2008/09 is 9%. This fee is still £10,000 (9.5%) below the Audit Commission scale fee of £105,000.

Element of the audit	2009/10	2008/09
Audit of Financial Statements		
Accounts (Systems and Final)	£67,000	57,000
Whole of Government Accounts	3,000	£2,800
Use of Resources		
Use of Resources: assessment	£26,000	£27,500
TOTAL	£96,000	£87,300

In addition to the above we estimate that the fees for the certification of claims and returns will be £38,000 (2008/09 £39,263)

We have calculated the scale fee based on the following

- A fixed element for District Councils of £76,000;
- An element related to the audited bodies gross expenditure; and
- A regional premium for bodies in London and the South East (3% for South East).

We recognise the financial constraints the Council are operating within and so do not propose to charge the scale fee this year. However, we do anticipate increasing our fee each year to ensure that the scale fee is reached in 2 years.

* The Use of Resources element of this fee is used to fund work already carried out on our 2008-09 Use of Resources Assessment. As such work relating to the 2009-10 Use of Resources Assessment will be funded from your 2010-11 Audit Plan



Audit Fees (continued)

Our audit fee is indicative and based on your meeting our expectations of your support as outlined in Appendix 1.

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

Audit fee assumptions

The audit fee indicative and is based on you meeting our agreed expectations as outlined in Appendix 2. 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 2008/09;
- you will inform us of any significant developments impacting on our audit;
- you will identify and implement any changes required under the CIPFA SORP within your 2009/10 financial statements;
- your 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 completes appropriate work on all systems that provide material figures for the financial statements and we can place reliance on them for our audit; and
- additional work will not be required to address questions or objections raised by local government electors.

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

Changes to the audit plan

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

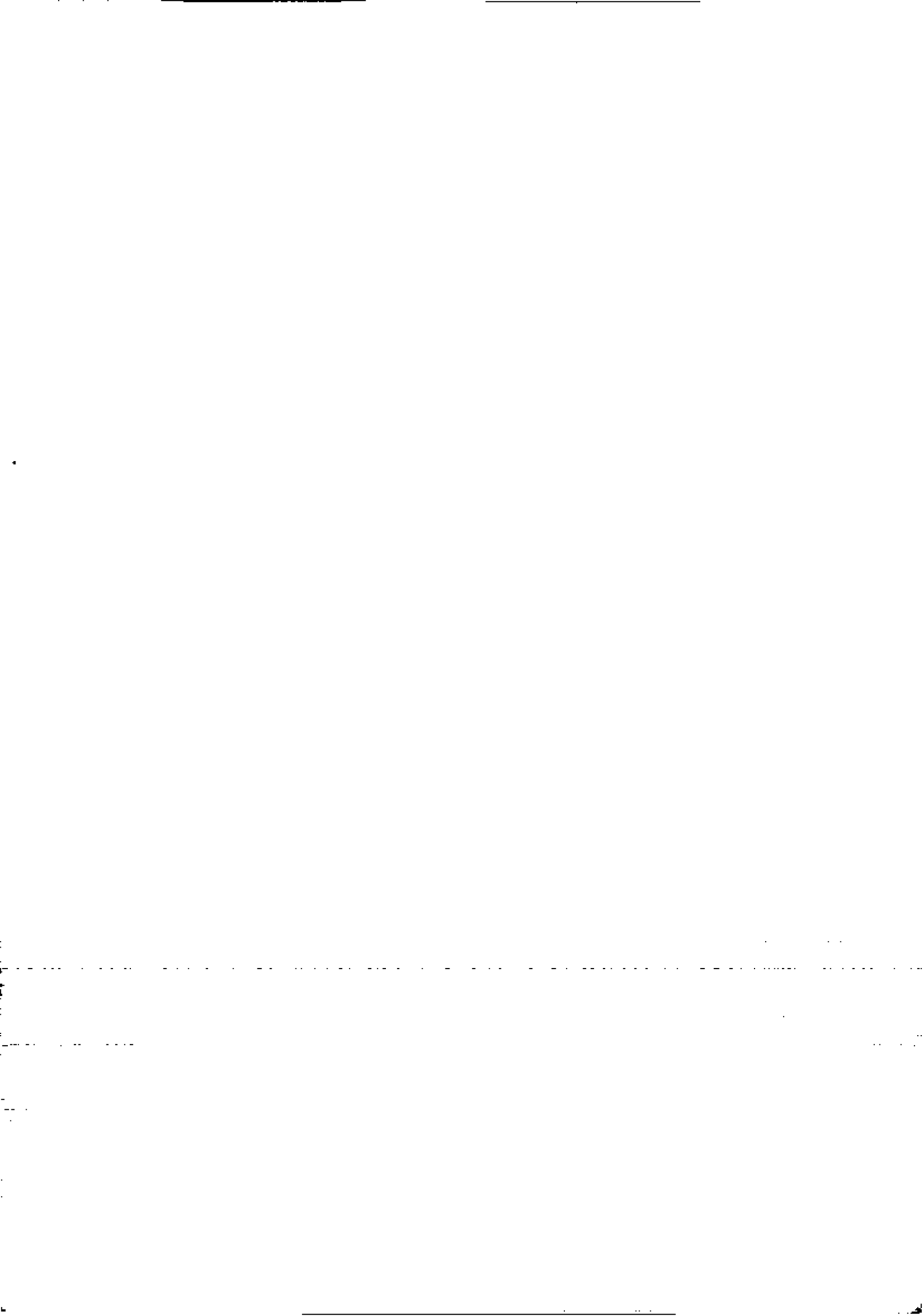
- new significant audit risks emerge;
 - additional work is required of us by the Audit Commission or other regulators; and
 - additional work is required as a result of changes in legislation, professional standards or financial reporting requirements.
- If changes to this plan and the audit fee are required, we will discuss and agree these initially with the Director of Finance.

Audit Timeline & Deliverables

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

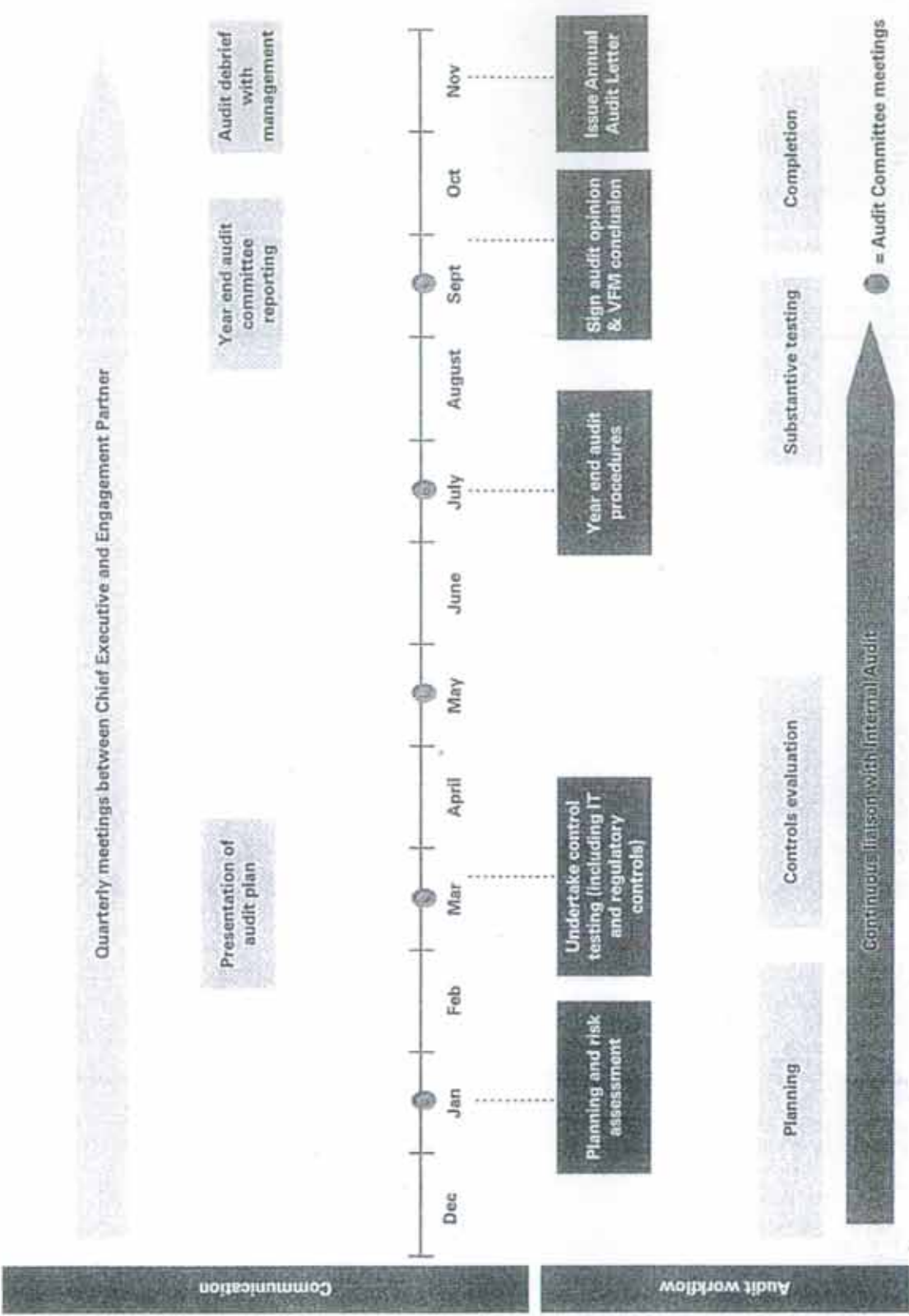
We will discuss and agree each report with the Council's officers prior to publication.

Deliverable	Purpose	Timing
Planning		
Audit plan	<ul style="list-style-type: none"> Outline audit approach Identify areas of audit focus and planned procedures Confirm plan with Audit Committee 	February 2010
Year end audit		
Report to those charged with governance (ISA 260)	<ul style="list-style-type: none"> Auditor's report on Runnymede's financial statements Auditor's report on Runnymede's value for money Auditor's report on Runnymede's use of resources Detail the resolution of key audit issues Communication of adjusted and unadjusted audit differences Performance improvement recommendations identified during our audit 	September 2010
Opinion on financial statements	<ul style="list-style-type: none"> Financial Statement opinion Value for Money conclusion 	September 2010
Annual audit letter	<ul style="list-style-type: none"> Summary of all auditor reports issued and recommendations raised in relation to the 2009/10 external audit work programme 	September 2010
Use of Resources		
Use of Resources findings report	<ul style="list-style-type: none"> Outline of work performed Summary of findings by KEOE Recommendations identified as part of our work 	September 2010



Audit Timeline & Deliverables (continued)

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



Appendix 1: Meeting your expectations

How we will conduct ourselves

Communications

- We will be proactive in developing relationships with your staff where our audit work requires their input.
- We will ensure that all letters and emails are answered within five working days of receipt. All telephone messages received will receive a response within 24 hours, either by the individual concerned or Rebecca Pett.
- We will ensure that all recommendations, and in particular those relating to our performance management work, are included within our Annual Audit Letter only after having been agreed with relevant Directors.
- Andy Sayers or Rebecca Pett will attend all Audit Committee meetings and ensure that other relevant KPMG staff are invited as appropriate.

Working together

- We will ensure that the Director of Finance, Chief Accountant and other key members of staff are kept informed of the progress of our audit work throughout the year.
- We will liaise with staff at all levels of the Council to ensure that our work is appropriately planned and completed and where recommendations are made these are agreed with the likely responsible officer.

Cooperating with the Council

- We will continue to coordinate our work with that of internal audit and ensure that we provide appropriate proactive commentary to the finance function on issues that affect the Council's accounts.
- We will respond promptly to requests for comment on aspects of the Council's operations, where appropriate.

Our expectations of your support

Audit Plan

- Brief our staff on key issues affecting the Council.
- Review and agree the draft plan.

Interim Audit

- Facilitate the completion of internal audit's work (particularly on core financial systems) to timetable.
- Ensure that key officers are available for the duration of our audit.
- Respond to and agree our draft reports in good time.

Accounts Audit

- Ensure that a full draft of the accounts is available at least one week prior to the agreed start date of our audit, and that only agreed adjustments are put into the accounts following receipt of this draft.
- Produce the documents listed within our prepared by client request by the agreed start date of our audit.
- Ensure that the mandatory content of the Annual Report is available at the agreed time of our final account audit.

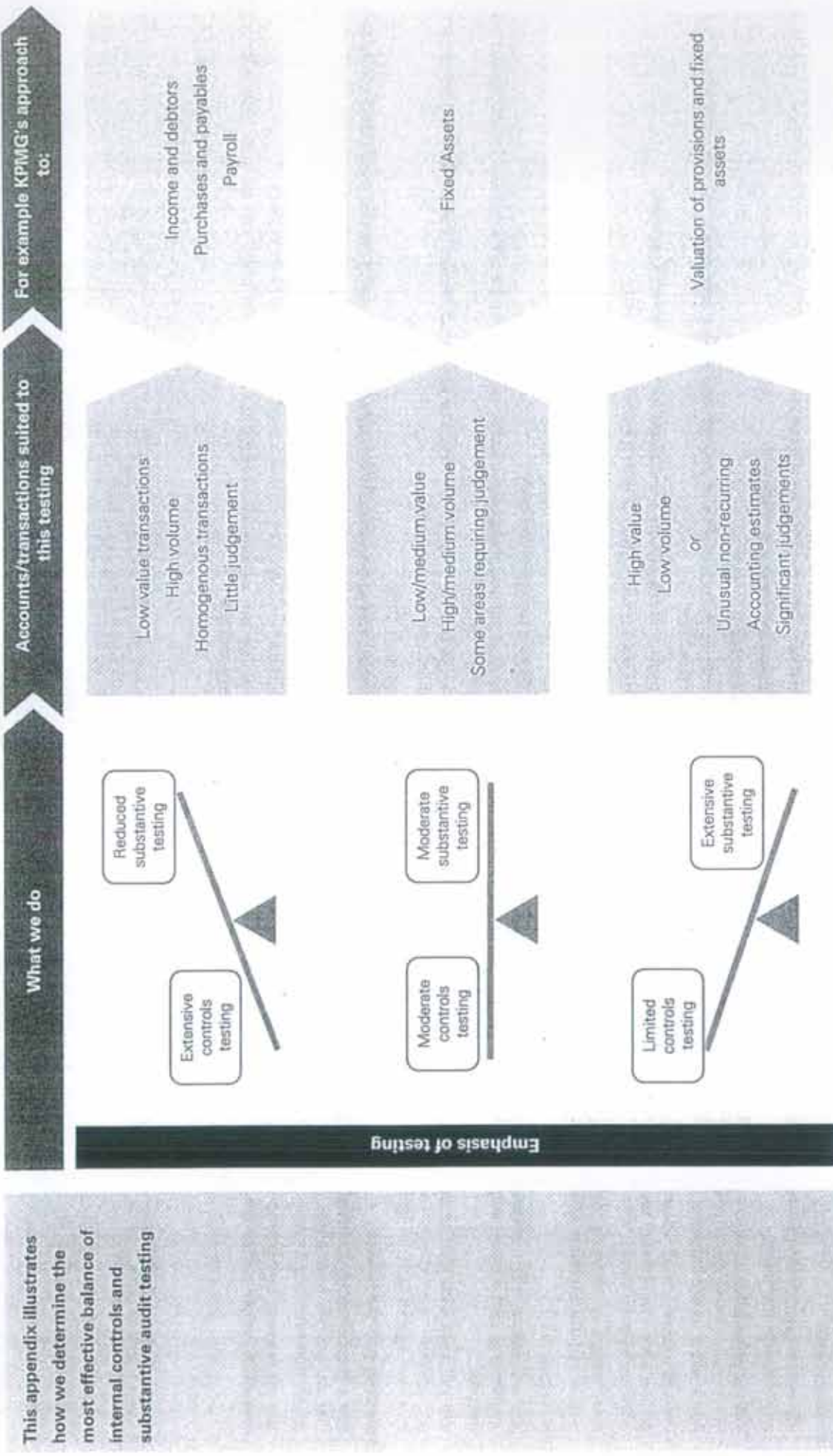
Annual Audit Letter

- Discuss and agree our draft Annual Audit Letter in good time for the Audit Committee.
- Ensure that all action plans are agreed and followed up in due course.

Other work

- Agree a key Council contact as a focal point for the study or work.
- Discuss and review our findings so that action plans can be fully completed and implemented.

Appendix 2: Balance of internal controls and substantive testing



Note: Assuming controls are found to operate as designed





Appendix 4: Sustainability

This appendix summarises the auditor's commitment to sustainability.

Sustainability

The Audit Commission is committed to promoting sustainability in 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.

KPMG are also taking steps to improve our environmental performance. Achievements to date include:

- all offices certified ISO14001, the leading international standard for environmental management systems;
- our Responsible Consumption programme enables our people to actively contribute to the firm being environmentally responsible;
- more than 40 percent of paper purchased is recycled paper;
- over 90 percent of the electricity used in buildings is now from renewable sources; and
- some 1.8 million travel miles have been saved through car sharing schemes and 1.5 million miles have been saved through audio and video conferencing.

