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External Audit Plan 2012/13

Doncaster MBC

March 2013



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This report is addressed to the Council and has been prepared for the sole use of the Council. 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 John Prentice, who is the engagement leader to the Council (telephone 0113 231 3616, e-mail john.prentice@kpmg.co.uk) who will try to resolve your complaint. If you are dissatisfied with your response please contact Trevor Rees (telephone 0161 236 4000, e-mail trevor.rees@kpmg.co.uk) who is the national contact partner for all of KPMG's work with the Audit Commission. After this, if you are still dissatisfied with how your complaint has been handled you can access the Audit Commission's complaints procedure. Put your complaint in writing to the Complaints Unit, Westward House, Lime Kiln Close, Stoke Gifford, Bristol, BS34 8SR or by e mail to: complaints@audit-commission.gov.uk. Their telephone number is 0844 798 3131, textphone (minicom) 020 7630 0421.

This plan describes how we will deliver our audit work for Doncaster MBC.

Scope of this plan

We are pleased to be appointed as your external auditors for 2012/13. This document supplements our *Audit Fee Letter 2012/13* sent to you in August 2012. It describes how we will deliver our Code of Audit Practice audit work for 2012/13 for Doncaster MBC covering:

- Our financial statements audit work; and
- Our approach to value for money (VFM) work.

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 and risk assessment process is ongoing through the audit year. We will keep our risks and fees under review and will communicate to you any changes.

Statutory responsibilities

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

The *Code of Audit Practice* identifies our two responsibilities, 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.

Structure of this report

This plan is structured as follows:

- Section 2 includes our headline messages, focusing on the key risks identified this year for the financial statements and VFM 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.

We have identified four key risks that we will focus on during the audit of the 2012/13 financial statements and VFM conclusion.

The remainder of this document provides information on our:

- approach to the audit of the financial statements;
- approach to VFM work; and
- audit team, proposed deliverables, timescales and fees for our work.

Area	Risk	Audit work
Savings plans	<p>In response to the cuts in funding from central government, the Council has plans to reduce its spending by £103 million between 2013/14 and 2016/17. This is in addition to the £30 million savings planned for 2012/13. The Council has a good track record of delivering savings, but will it find that the required reductions are increasingly hard to achieve in future years.</p> <p>The council has embarked on a programme of change which is intended to deliver the required savings while minimising the impact on the range and quality of the Council's services.</p> <p>The Council recognises that its plans for 2014/15 and beyond will need to deliver significant savings and it will need to carefully manage its savings plans to secure its long term financial and operational sustainability.</p>	As part of our VFM work we will critically assess the plans the Council has in place to ensure a sound financial standing and review how the Council is planning and managing its savings plans.
Municipal Mutual Insurance	The Council's accounting treatment and valuation of related liabilities from its interest in the Municipal Mutual Insurance company (MMI) will need to reflect the changed circumstances of MMI during 2012/13.	We will review the proposed accounting treatment and consider whether the treatment is in line with accounting standards and the Code, and whether the valuation is supported by the available evidence.
Digital Region Limited	This company, a joint venture between the four South Yorkshire Metropolitan Authorities and Yorkshire Forward, has experienced trading difficulties. As a result, the Councils involved have retendered the contract associated with the company and have provided for the costs associated with retendering. This retendering exercise is incomplete at the time of writing. The estimate used to arrive at this provision will have a degree of estimation uncertainty and will also attract public interest.	We will review the Authority's arrangements for managing the potential consequences of the situation with Digital Region Limited. We will also liaise with the auditors of the other South Yorkshire Metropolitan Councils, to gain sufficient audit assurance that the estimates used to create any provisions in the accounts are reasonable.
Quality Assurance	The accounts presented for audit in 2011/12 were of better quality than in earlier years however, a number of material and significant amendments to the statements were still required and some working papers were not provided within the agreed timescales or to appropriate quality levels.	We will review the Council's closedown plan and agree an audit timetable which incorporates sufficient time for quality review of the financial statements and the associated working papers.

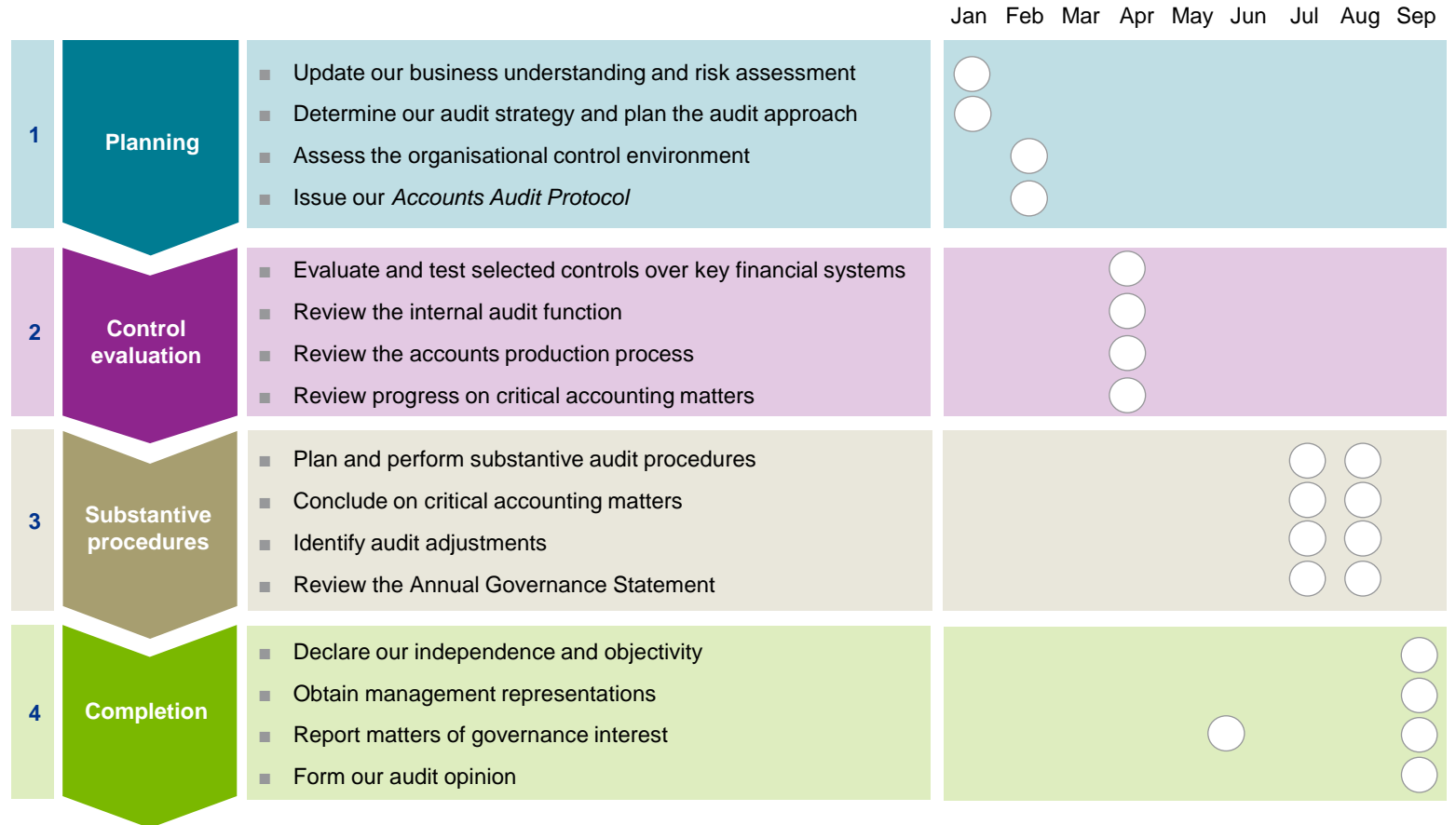
Section three

Our audit approach

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

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

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



During January and February 2013 we complete our planning work.

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

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

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

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

Planning

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

Business understanding and risk assessment

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

We identify the key risks affecting the Council's financial statements. These are based on our knowledge of the Council, our sector experience and our ongoing dialogue with Council staff. The risks identified to date are set out in this document. Our audit strategy and plan will, however, remain flexible as the risks and issues change throughout the year. It is the Council's responsibility to adequately address these issues. The Council's Technical Accounting Team have historically been proactive in raising technical issues early with the external auditors, and this is something that we also encourage so that we can agree the accounting treatment in advance of the final accounts audit visit.

We meet with the Technical Accounting Team routinely through the year to consider issues and how they are addressed. During the year end closedown and accounts preparation process we will increase the frequency of our discussions so that we stay up to date with the current issues.

Organisational control environment

Controls operated at an organisational level often have an impact on controls at an operational level and if there were weaknesses this would impact on our audit. In particular risk management, internal control and ethics and conduct have implications for our financial statements audit. The scope of the work of your internal auditors also informs our risk assessment.

The Council 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. We undertake some general IT controls work, and also focus on testing the specific applications and reports that are pivotal to the production of the financial statements.

Audit strategy and approach

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

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

Group audit

To support our audit work on the Council's group accounts, we will consider whether we need to place reliance on the work of the auditors of your Group subsidiaries. Where this is the case we will liaise with them in order to confirm that their programme of work is adequate for our purposes and they satisfy professional requirements.

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 expect the Council to provide during our interim and final accounts visits.

During April 2013 we will complete our interim audit work.

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

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

Should there be any matters to report we will present an *Interim Report* to the Audit Committee in June.

Our interim visit on site will be completed during April 2013. During this time we will complete work in the following areas:

Control Evaluation

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

Controls over key financial systems

We update our understanding of the Council's key financial processes where we have assessed them as relevant to our audit and where this is the most efficient audit approach to take. We confirm our understanding by completing walkthrough tests for these processes. We then test selected controls that address key risks within these systems. The strength of the control framework informs the substantive testing we complete during our final accounts visit.

Appendix 1 illustrates the balance of internal controls and substantive audit testing.

Where our audit approach is to undertake controls work on financial systems we seek to minimise unnecessary duplication of work with work done by the Council's internal auditors. Our audit fee is set on the assumption that, where planned, we can rely on their work. We have met with the Head of Internal Audit and discussed our respective audit plans. While there are no specific areas we intend to rely on in 2012/13 we will continue to liaise with internal audit to ensure we promptly assess the impact on our responsibilities of any issues they identify.

Review of internal audit

If there are any areas where we do intend to rely on internal audit's work auditing standards require us to review key aspects of their work. This includes re-performing a sample of their tests.

Accounts production process

The audit of the 2011/12 accounts by the Audit Commission's Audit Practice lead to a number of recommendations in their Annual Governance Report. This reflected the weaknesses in the accounts production processes for that year, in particular around quality assurance arrangements.

We have already met with the finance team to discuss the key changes and requirements for 2012/13, and this will inform our assessment of the risks in our 2012/13 audit.

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 proposed treatment and evidence and agree the accounting treatment as part of our interim work.

Following our interim visit, should there be any matters to raise with officers and members we will issue an *Interim Report* which will set out the findings of our planning and interim work. This will be discussed at the Audit Committee meeting in July 2013.

Our audit approach – substantive procedures

During July and August 2013 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 September 2013.

Our final accounts visit on-site has been provisionally scheduled from the last week in July, once we have received the draft financial statements and working papers. During this visit 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 Council's control environment, the effectiveness of controls over individual systems and the management of specific risk factors.

Critical accounting matters

We conclude our testing of the key risk areas as identified at the planning stage and any additional issues that may have emerged since. We will arrange regular liaison meetings with key officers to discuss our findings as the work progresses. We will agree any required amendments with the Assistant Director of Finance and Performance prior to reporting to the Audit Committee in September 2013.

Audit adjustments

During our on-site work, we will meet with the Technical Accounting Manager 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 issues and required actions, and will agree the final 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 which we believe should be communicated to you to help you meet your governance responsibilities.

Annual Governance Statement

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

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

In addition to the financial statements we also audit the Council's Whole of Government Accounts submission.

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 submission to confirm this is consistent with your financial statements. The audit approach has been agreed with HM Treasury and the National Audit Office.

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 any questions or objections is not part of the fee reported on page 18. If carried out this work will be charged in accordance with the Audit Commission's fee scales.

To date we are not aware of any questions or objections. We have had to carry out a small amount of additional work in response to information received from South Yorkshire Police.

Reporting and communication

Reporting is a key part of the audit process, not only in communicating our audit findings to you, but also in ensuring the audit team are accountable to you in addressing the issues identified. Throughout the year we will communicate with you through meetings with the Director of Finance and Corporate Services and the Audit Committee. Our deliverables are included on page 16.

Use of 'off-shore' audit resources

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

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

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

Our independence and objectivity responsibilities under the Code are summarised in Appendix 2. We confirm our audit team is independent and their 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 lead 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.

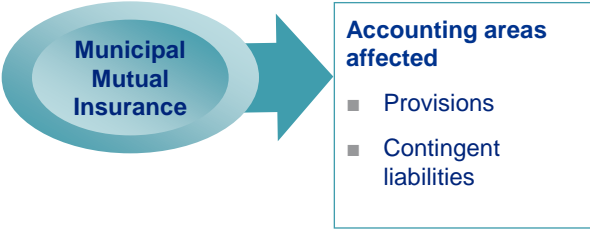

KPMG LLP is committed to being, and being seen to be, independent. APB Ethical Standard 1 Integrity, Objectivity and Independence requires us to communicate to you in writing all significant facts and matters, including those related to the provision of non-audit services and the safeguards put in place which, 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 February 2013 in our professional judgement, KPMG LLP is independent within the meaning of regulatory and professional requirements and the objectivity of the Engagement Lead and audit team is not impaired.

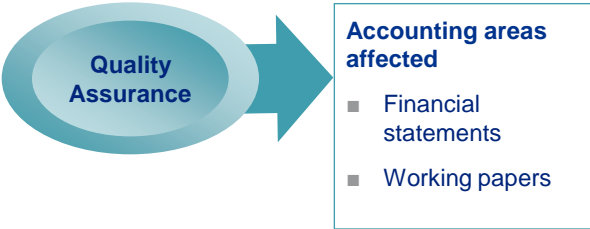
In 2012/13 there are no significant changes to the accounting standards and financial reporting framework. Based on our initial planning work we have not identified any 'significant risks' as defined by the auditing standards.

We have highlighted three audit risks which we will be addressing and we wish to highlight to the Council. We have highlighted the impact on our audit and the work we plan to undertake.

Key audit risks	Impact on audit
	<p>Risk</p> <p>The Council's accounting treatment of its interest in the Municipal Mutual Insurance company (MMI) is affected by the status of MMI. Along with other Councils, Doncaster MBC are the 'owners' of MMI and are ultimately responsible for MMI's liabilities. MMI faced financial difficulties some years ago and since it stopped taking in any new business it has been trying to achieve a solvent run-off. However its balance sheet as at June 2012 showed a net liability of £152 million, and consequently MMI announced that it would not achieve a solvent run-off and was triggering its Scheme of Arrangement. This will impact on the Council's estimation of, and accounting for, its liabilities relating to claims made against MMI. There is a risk that the 2012/13 financial statements do not include the correct value or disclosure for the Council's MMI-related liabilities.</p> <p>Our audit work</p> <p>We will discuss the Council's progress in accounting for this item with strategic finance staff regularly through the closedown process. We will review the proposed accounting treatment as early as possible, and consider whether the treatment is in line with accounting standards and the Code, and whether the valuation is supported by the available evidence.</p>
	<p>Risk</p> <p>This company, a joint venture between the four South Yorkshire Metropolitan Authorities and Yorkshire Forward, has experienced trading difficulties. As a result, the Authorities involved have retendered the contract associated with the company and have provided for the costs associated with retendering. At the point of writing this retendering exercise is not yet complete. The estimate used to arrive at this provision will have a degree of estimation uncertainty and will also attract public interest.</p> <p>Our audit work</p> <p>We will liaise with the auditors of the other South Yorkshire Metropolitan Councils, and use the most up to date information available at the date of the audit, to gain sufficient audit assurance that the estimates used to create the provision are reasonable.</p>

In 2012/13 there are no significant changes to the accounting standards and financial reporting framework. Based on our initial planning work we have not identified any 'significant risks' as defined by the auditing standards.

We have highlighted three audit risks which we will be addressing and we wish to highlight to the Council. We have highlighted the impact on our audit and the work we plan to undertake.

Key audit risks	Impact on audit
 <p>Quality Assurance</p> <p>Accounting areas affected</p> <ul style="list-style-type: none"> ■ Financial statements ■ Working papers 	<p>Risk</p> <p>In 2011/12 the accounts presented for audit were complete and presented in a timely manner and the audit progressed in a more timely fashion than in previous years due to improvements in the quality and timeliness of the Council's working papers.</p> <p>However, the number of amendments required, although fewer than in previous years, suggested that additional time needed to be built into the closedown process to enable a considered quality assurance of the statements themselves.</p> <p>Work also needs to be done to improve working papers and supporting information. Some supporting working papers were not available in the timescales agreed nor to an appropriate quality level. Whilst some working papers were of a good standard, a number were unclear and lacked sufficient detail or did not agree to the financial ledger or the statements.</p> <p>Our audit work</p> <p>We will review the Council's closedown plan and agree an audit timetable which incorporates sufficient time for quality review of the financial statements and the associated working papers.</p>

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

Background to our 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 considering the significant risks to giving an incorrect conclusion; 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 not changed the VFM audit methodology from last year. There are only relatively minor amendments to reflect the key issues facing local government.

The approach is focused on 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"> ■ effectively manage its financial risks and opportunities; and ■ secure a stable financial position that enables it to continue to operate for the foreseeable future. 	<ul style="list-style-type: none"> ■ Financial governance ■ Financial planning ■ Financial control
The organisation has proper arrangements for challenging how it secures economy, efficiency and effectiveness .	The organisation is prioritising its resources within tighter budgets, for example by: <ul style="list-style-type: none"> ■ achieving cost reductions; and ■ improving efficiency and productivity. 	<ul style="list-style-type: none"> ■ Prioritising resources ■ Improving efficiency and productivity

We will follow a risk based approach, targeting 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 Council.</p> <p>In doing so we consider:</p> <ul style="list-style-type: none"> ■ the Council's own assessment of its key business risks and its arrangements to manage and address the risks; ■ information from the Audit Commission's VFM profile tool and financial ratios tool; ■ evidence gained from previous audit work, including the response to that work; and ■ the work of the Audit Commission, other inspectorates and review agencies.

Our VFM audit will draw on our other audit work which is relevant to our VFM responsibilities and the cumulative knowledge we have from previous VFM audits.

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

VFM audit stage	Audit approach
Linkages with financial statements and other audit work	<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 Council's organisational control environment, including the Council'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>
Assessing residual audit risk	<p>It is possible that further audit work may be necessary in some areas to ensure sufficient coverage of the two VFM criteria.</p> <p>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, however based on the work carried out by the Audit Commission's Audit Practice last year, we do not anticipate there being many residual audit risks. If a significant amount of work is necessary then we will review the adequacy of our agreed audit fee to confirm its continued appropriateness.</p>
Identifying specific VFM audit work	<p>If we identify residual audit risks we will highlight these to the Council 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 Council, the Audit Commission, other inspectorates and review agencies; and ■ carrying out local risk-based work to form a view on the adequacy of the Council'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 report on the results of the VFM audit through our *Interim Audit Report* and our *Report to those charged with governance*.

VFM audit stage	Audit approach
Delivering local risk based work	<p>Depending on the nature of any residual audit risk identified we may be able to draw on audit tools and sources of guidance when undertaking specific local risk-based audit work, such as:</p> <ul style="list-style-type: none"> ■ local savings review guides based on selected previous Audit Commission national studies; and ■ update briefings for previous Audit Commission studies. <p>The tools and guides will support our work where we have identified a local risk that is relevant to them. For any residual audit risks that relate to issues not covered by one of these tools, we will develop an appropriate audit approach drawing on the detailed VFM guidance and other sources of information.</p>
Concluding on VFM arrangements	<p>At the conclusion of the VFM audit we will consider the results of the work undertaken and assess the assurance obtained against each of the VFM themes regarding the adequacy of the Council's arrangements for securing economy, efficiency and effectiveness in the use of resources.</p> <p>If any issues are identified that may be significant to this assessment, and in particular if there are issues that indicate we may need to consider qualifying our VFM conclusion, we will discuss these with management as soon as possible. Such issues will also be considered more widely as part of KPMG's quality control processes, to help ensure the consistency of auditors' decisions.</p>
Reporting	<p>We will report on the results of the VFM audit through our <i>Interim Audit Report</i> and our <i>ISA260: Report to those charged with governance</i>. These reports will summarise our progress in delivering the VFM audit, the results of the risk assessment and any specific matters arising, and the basis for our overall conclusion.</p> <p>The key output from the work will be the VFM conclusion (i.e. our opinion on the Council's arrangements for securing VFM), which forms part of our audit report.</p>

Our audit team are all part of our specialised public sector audit department. The key members of the team listed here all transferred from the Audit Commission's Audit Practice. The Director, Senior Manager and, to a lesser extent, the Assistant Manager, were all involved in the Doncaster MBC audit last year. Their contact details are shown on page 1 of this plan.

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



Paul Lundy
Director

"My role is to lead our team and ensure we deliver a high quality external audit opinion.

I will be the main point of contact for the Audit Committee, the Chief Executive and Directors."



Simon Dennis
Senior Manager

"I am responsible for managing, reviewing and delivering the audit and providing quality assurance for any technical accounting areas. I will work closely with Paul Lundy to ensure we add value. I will liaise with the Director of Finance and Corporate Services as well as the Head of Internal Audit throughout our audit."



Lizzie Wharton
Assistant Manager

"I will be responsible for the on-site delivery of our work. I will liaise with the Technical Accounting Manager and internal audit throughout the work. I will also supervise the work of our audit assistants."

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

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

We will discuss and agree each report with officers prior to presenting them to the Audit Committee.

Deliverable	Purpose	Committee dates
Planning		
External Audit Plan	<ul style="list-style-type: none"> ■ Outline audit approach. ■ Identify areas of audit focus and planned procedures. 	February 2013
Control evaluation		
Interim Report	<ul style="list-style-type: none"> ■ Details, and resolution, of control and process issues. ■ Identify improvements required prior to the issue of the draft financial statements and the final accounts audit. ■ Progress of our work on the Council's value for money arrangements. 	July 2013
Substantive procedures		
Report to Those Charged with Governance (ISA 260 Report)	<ul style="list-style-type: none"> ■ Details, and resolution, of key audit issues. ■ Communicate adjusted and unadjusted audit differences. ■ Performance improvement recommendations identified during our audit. ■ Commentary on the Council's value for money arrangements. 	September 2013
Completion		
Auditor's report	<ul style="list-style-type: none"> ■ Providing an opinion on your accounts (including the Annual Governance Statement). ■ Concluding on the arrangements in place for securing economy, efficiency and effectiveness in your use of resources (the VFM conclusion). 	September 2013
Annual Audit Letter	<ul style="list-style-type: none"> ■ Summarises the outcomes and the key issues arising from our audit work for the year. 	November 2013

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

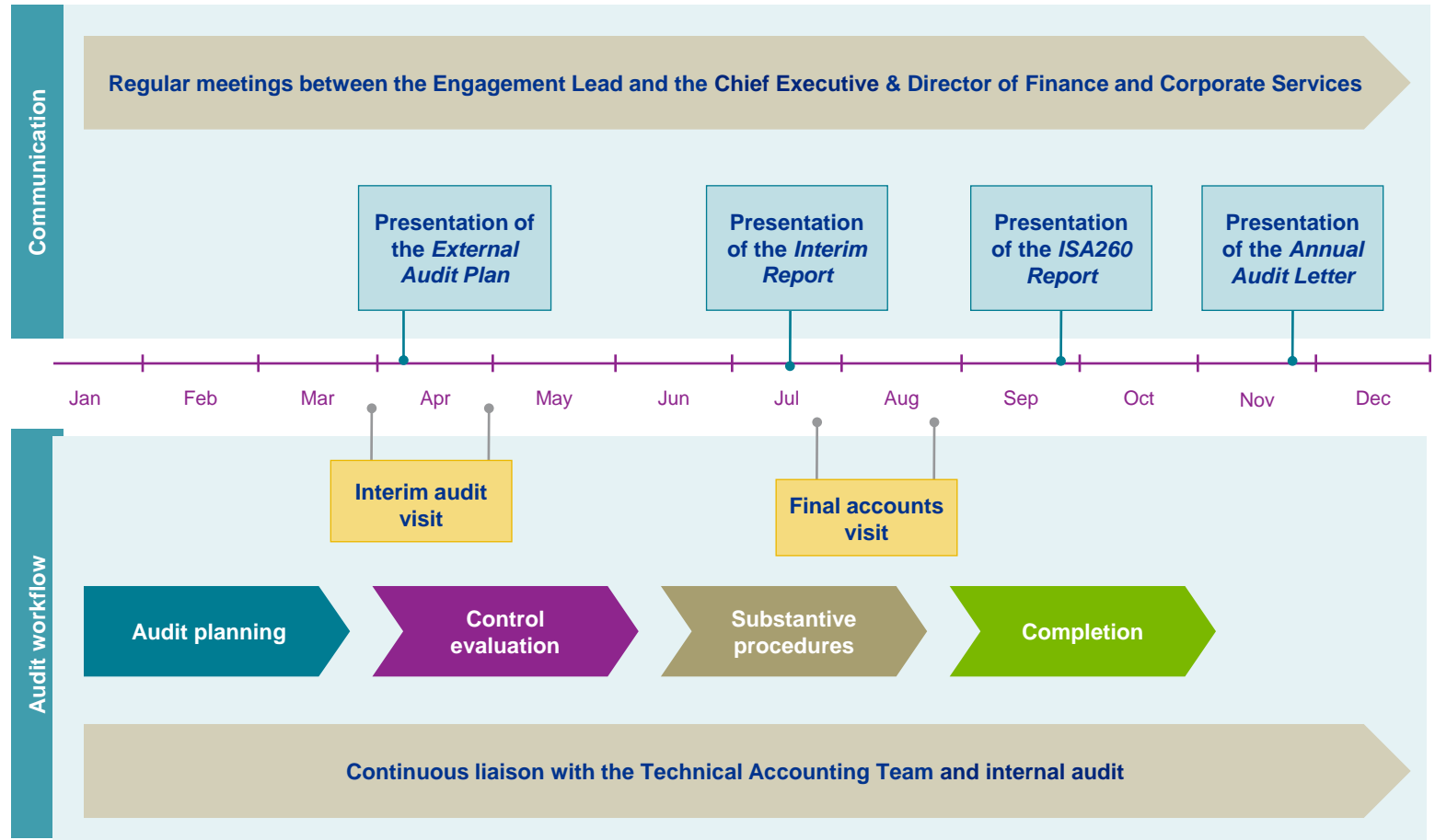
Key formal interactions with the Audit Committee are:

- April – Audit Plan;
- July – Interim Report;
- September – ISA 260 Report;
- November – Annual Audit Letter.

We work with the Council's finance team throughout the year.

Our main work on site will be our:

- Interim audit visit during April.
- Final accounts audit during July and August.



Key: ● Audit Committee meetings.

The main fee for the 2012/13 audit of the Council is £218,322. The fee has not changed from that set out in our *Audit Fee Letter 2012/13* issued in August 2012.

Our audit fee remains indicative and based a number of assumptions.

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

Audit fee

Our *Audit Fee Letter 2012/13* sent to you in August 2012 set out our fees for the 2011/12 audit. We are discussing with the Audit Commission the need to raise a small additional fee arising from investigating allegations brought to our attention by South Yorkshire Police. We will inform the Audit Committee if any additional fee is raised.

Element of the audit	2012/13 (planned)	2011/12 (actual)
Gross audit fee	£218,322	£363,870

Our audit fee includes our work on the VFM conclusion and our audit of the Council's financial statements. The fee for 2012/13 is £218,322. This is a reduction of 40 percent compared to the 2011/12 fee.

Audit fee assumptions

The fee is based on a number of assumptions. Where these assumptions are not met and we need to carry out more work we will need to charge additional fees for this work.

In setting the fee, we have assumed:

- the level of risk in relation to the audit of the financial statements is not significantly different from that identified for 2011/12;
- you will inform us of any significant developments impacting on our audit;
- you will identify and implement any changes required under the *CIPFA Code of Practice on Local Authority Accounting in the UK 2012/13* within your 2012/13 financial statements;
- 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; and
- additional work will not be required to address questions or objections raised by local government electors.

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

The Audit Commission requires us to inform you of specific actions you could take to keep the audit fee low. Future audit fees can be kept to a minimum if the Council continues to achieve 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

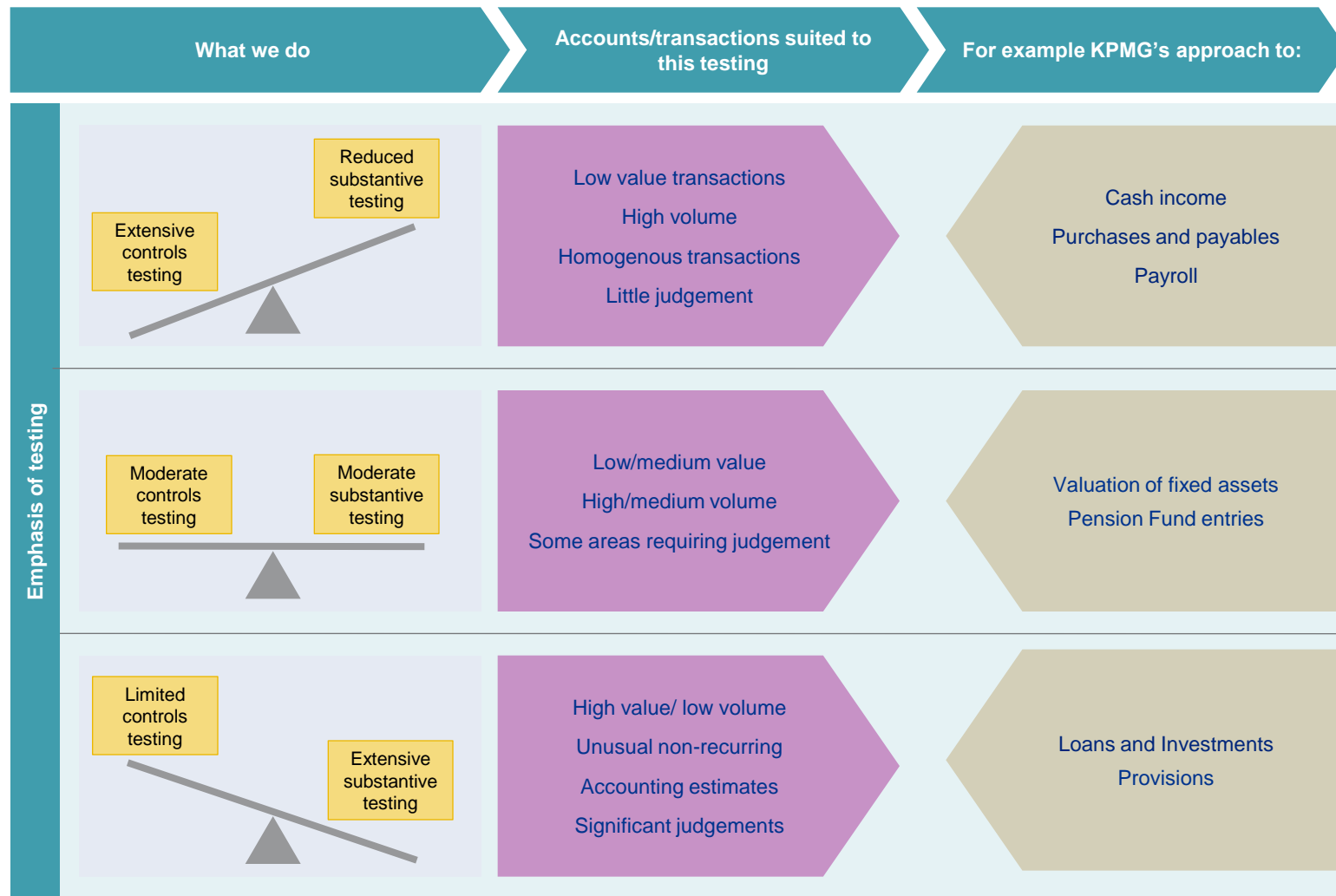
Changes to this plan and the audit fee may be necessary if:

- 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 Director of Finance and Corporate Services as well as the Assistant Director of Finance and Performance and will report them to the Audit Committee.

Appendix 1: Balance of internal controls and substantive testing

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



This appendix summarises auditors' responsibilities regarding independence and objectivity.

Independence and objectivity

Auditors are required by the Code of Audit Practice 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 Council invites us to carry out risk-based work in a particular area, which cannot otherwise be justified to support our audit conclusions, it will be clearly differentiated as work carried out under section 35 of the Audit Commission Act 1998.

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

- Any staff involved on Commission work who wish to engage in political activity should obtain prior approval from the Partner.
- Audit staff are expected not to accept appointments as lay school inspectors.
- Firms are not expected to risk damaging working relationships by bidding for work within an audited body's area in direct competition with the body's own staff without having discussed and agreed a local protocol with the body concerned.

- Auditors are expected to comply with the Commission's statements on
 - firms not providing personal financial or tax advice to certain senior individuals at their audited bodies;
 - auditors' conflicts of interest in relation to PFI procurement at audited bodies, and disposal of consultancy practices; and
 - auditors' independence.
- Auditors appointed by the Commission should not accept engagements which involve commenting on the performance of other Commission auditors on Commission work without first consulting the Commission.
- Auditors are expected to comply with the Commission's policy for the Engagement Lead to be changed on each audit at least once every five years (subject to agreed transitional arrangements).
- Audit suppliers are required to obtain the Commission's written approval prior to changing any Engagement Lead in respect of each audited body.
- The Commission must be notified of any change of second in command within one month of making the change. Where a new Engagement Lead or second in command has not previously undertaken audits under the Audit Commission Act 1998 or has not previously worked for the audit supplier, the audit supplier is required to provide brief details of the individual's relevant qualifications, skills and experience.

Appendix 3: KPMG Audit Quality Framework

We continually focus on delivering a high quality audit.

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

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

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

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

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

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

Tone at the top: We make it clear that audit quality is part of our culture and values and therefore non-negotiable. Tone at the top is the umbrella that covers all the drives of quality through a focused and consistent voice. John Prentice 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 database, 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 Council'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 meets on a monthly basis and is chaired by our national technical director.

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

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 timely 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;
- critically assessing audit evidence;
- exercising 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;
- clearly reporting significant findings;
- insightful, open and honest two-way communication with 'those charged with governance'; and
- client confidentiality, information security and data privacy.

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

Our quality review results

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



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