



cutting through complexity™

External Audit Plan 2013/14

Doncaster MBC

January 2014



The contacts at KPMG in connection with this report are:

John Prentice

Director

KPMG LLP (UK)

Tel: 0113 231 3935

john.prentice@kpmg.co.uk

Simon Dennis

Senior Manager

Tel: 0113 231 3576

simon.dennis@kpmg.co.uk

Lizzie Wharton

Manager

Tel: 0113 231 3538

elizabeth.wharton@kpmg.co.uk

Page

Report sections

■ Introduction	2
■ Headlines	3
■ Our audit approach	4
■ Key financial statements audit risks	10
■ VFM audit approach	12
■ Audit team, deliverables, timeline and fees	18

Appendices

1. Independence and objectivity requirements	22
2. Quality assurance and technical capacity	23
3. Materiality	25

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

External auditors do not act as a substitute for the audited body's own responsibility for putting in place proper arrangements to ensure that public business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively.

If you have any concerns or are dissatisfied with any part of KPMG's work, in the first instance you should contact John Prentice, the appointed engagement lead to the Authority, who will try to resolve your complaint. If you are dissatisfied with your response please contact Trevor Rees on 0161 246 4000, or by email to trevor.rees@kpmg.co.uk, who is the national contact partner for all of KPMG's work with the Audit Commission. After this, if you are still dissatisfied with how your complaint has been handled you can access the Audit Commission's complaints procedure. Put your complaint in writing to the Complaints Unit Manager, Audit Commission, 3rd Floor, Fry Building, 2 Marsham Street, London, SW1P 4DF or by email to complaints@audit-commission.gsi.gov.uk. Their telephone number is 0303 444 8330.

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

Scope of this report

This document supplements our *Audit Fee Letter 2013/14* sent to the Chief Executive in April 2013. It describes how we will deliver our financial statements audit work for Doncaster MBC ('the Authority'). It also sets out our approach to value for money (VFM) work for 2013/14.

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

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

Statutory responsibilities

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

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

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

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

Structure of this report

This report is structured as follows:

- Section 2 includes our headline messages, including any key risks identified this year for the financial statements and Value for Money audit.
- 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 and sets out our initial risk assessment for the VFM conclusion.
- 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.

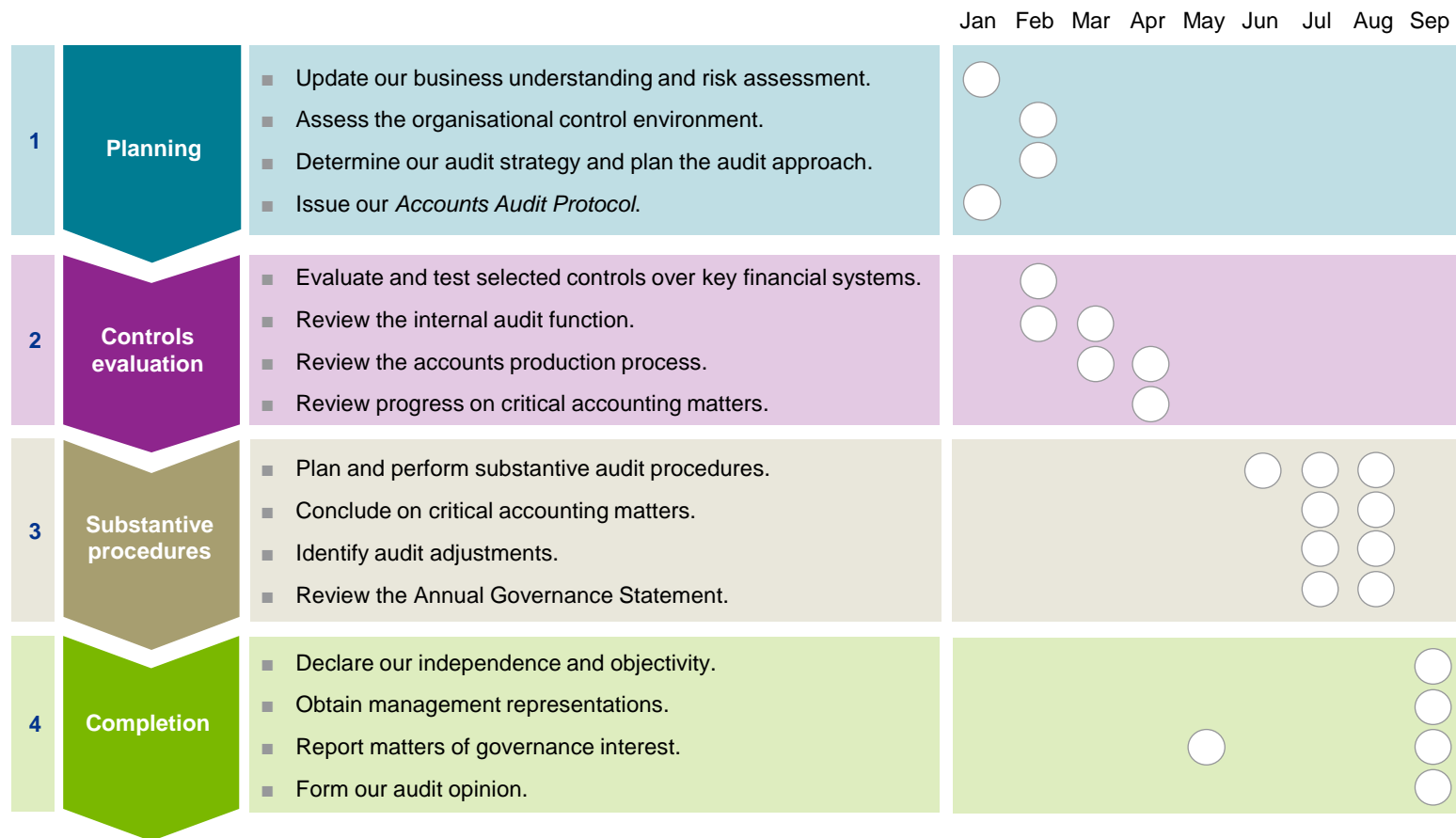
This table summarises the headline messages. The remainder of this report provides further details on each area.

Audit approach	<p>Our overall audit approach is unchanged from last year. Our work is carried out in four stages and the timings for these, and specifically our on site work, have been agreed with the finance team.</p> <p>Our audit strategy and plan remain flexible as risks and issues change throughout the year. We will review the initial assessments presented in this document throughout the year and should any new risks emerge we will evaluate these and respond accordingly.</p>
Key financial statements audit risks	<p>We have completed our initial risk assessment for the financial statements audit and have identified one significant risk:</p> <ul style="list-style-type: none"> ■ Risk 1 – New ERP system. <p>This is described in more detail on page 10. We will assess the Authority's progress in addressing this risk area as part of our interim work and conclude this work at year end.</p>
VFM audit approach	<p>We have completed our initial risk assessment for the VFM conclusion and have identified three significant risks:</p> <ul style="list-style-type: none"> ■ Risk 1 – Savings Plans; ■ Risk 2 – Digital Region Limited; and ■ Risk 3 – Children's Services. <p>These are described in more detail on pages 16 to 17.</p>
Audit team, deliverables, timeline and fees	<p>We have refreshed our audit team this year. Paul Lundy, who was your director, retired in September and has been replaced by John Prentice who has worked with the Authority in the past. Lizzie Wharton, who was your assistant manager, will continue to support Simon Dennis as a manager and the team will include a new assistant manager.</p> <p>Our main year end audit is currently planned to commence on 30 July 2014. Upon conclusion of our work we will again present our findings to you in our <i>Report to Those Charged with Governance (ISA 260 Report)</i>.</p> <p>The planned fee for the 2013/14 audit is £218,322. This is unchanged from the position set out in our <i>Audit Fee Letter 2013/14</i>.</p>

We undertake our work on your financial statements in four key stages during 2014:

- **Planning**
January to February.
- **Controls Evaluation**
February to 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 2014 we complete our planning work.

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

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

Our planning work takes place in January and February 2014. This involves the following aspects:

Planning

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

Business understanding and risk assessment

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

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

We meet with the finance team routinely throughout the year to consider issues and how they are addressed during the financial year end closedown and accounts preparation.

Organisational control environment

Controls operated at an organisational level often have an impact on controls at an operational level and if there were weaknesses this would impact on our audit.

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

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

Audit strategy and approach to materiality

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

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

An indicative level of materiality for 2013/14 is £23 million for both the Authority itself and for its group. This is based on the prior year Statement of Accounts. This figure is a guide only. The overriding objective is to preserve the true and fair view presented by the financial statements and we will consider any audit differences, individually and cumulatively, in that context. See appendix 3 for further details.

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

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

Group audit

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

ISA 260 Report

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

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

Accounts Audit Protocol

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

During February to April 2014 we will complete our interim audit work.

We assess if controls over key financial systems were effective during 2013/14. We work with your internal audit team to avoid duplication.

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

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

Our interim visit on site will be completed during the week commencing 24 February. During this time we will complete work in the following areas:

Control Evaluation

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

Controls over key financial systems

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

Accounts production process

In our *ISA 260 Report 2012/13* we reiterated one outstanding recommendation from the Audit Commission's 2011/12 Annual Governance Report relating to the accounts production process. This was the need to ensure that quality assurance procedures linked to the production of the financial statements are sufficiently resourced to enable timely delivery.

We will assess the Authority's progress in addressing this recommendation and in preparing for the closedown and accounts preparation.

Critical accounting matters

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

If there are any significant findings arising from our interim work we will present these to the Audit Committee in April 2014.

During July to August 2014 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 2014.*

Our final accounts visit on site has been provisionally scheduled to commence in the last week in July. During this time, we will complete the following work:

Substantive Procedures

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

Substantive audit procedures

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

Critical accounting matters

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

We will discuss our findings on the key risk areas with the Director of Finance, prior to reporting to the Audit Committee in September 2014.

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 audit differences and agree a timetable for the completion stage and the accounts sign off.

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

Annual Governance Statement

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

We report the findings of our final accounts work in our *ISA 260 Report*, which we will issue in September 2014.

In addition to the financial statements, we also audit the Authority's Whole of Government Accounts pack.

We may need to undertake additional work if we receive objections to the accounts from local electors.

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

Whole of government accounts (WGA)

We are required to review and issue an opinion on your WGA consolidation to confirm that this is consistent with your financial statements. The audit approach has been agreed with HM Treasury and the National Audit Office. Deadlines for production of the pack and issue of our opinion on the pack have not yet been confirmed.

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

Reporting and communication

Reporting is a key part of the audit process, not only in communicating the audit findings for the year, but also in ensuring the audit team are accountable to you in addressing the issues identified as part of the audit strategy. Throughout the year we will communicate with you through meetings with the finance team and the Audit Committee. Our deliverables are included on page 19.

Independence and objectivity confirmation

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

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

KPMG LLP is committed to being and being seen to be independent. APB Ethical Standard 1 Integrity, Objectivity and Independence requires us to communicate to you in writing all significant facts and matters, including those related to the provision of non-audit services and the safeguards put in place 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.

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

Confirmation statement

We confirm that as at January 2014 in our professional judgement, KPMG LLP is independent within the meaning of regulatory and professional requirements and the objectivity of the Engagement Lead and audit team is not impaired.

In this section we set out our assessment of the significant risks to the audit of the Authority's financial statements for 2013/14.


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

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

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

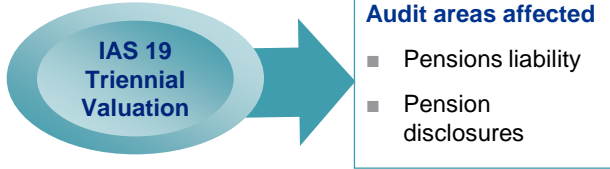
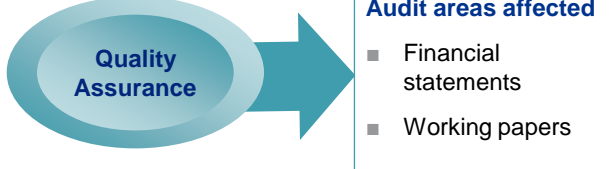
The table below sets out one significant risk we have identified through our planning work that is specific to the audit of the Authority's financial statements for 2013/14.

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

Significant audit risks	Impact on audit
 <p>New ERP system</p> <p>Audit areas affected</p> <ul style="list-style-type: none"> ■ Financial statements 	<p>Risk</p> <p>The Authority introduced a new ERP system during 2013/14. Phase one was implemented in September 2013 and includes new general ledger, accounts payable and accounts receivable modules. As the general ledger is fundamental to the production of the financial statements, issues with the transition to and operation of the new system could fundamentally undermine the reliability of the information in the financial statements.</p> <p>We need to understand the operation of the new system and assess the success of the implementation in order to evaluate this risk and the impact on the financial statements.</p> <p>Our audit work</p> <p>We will use KPMG IT specialists to undertake a review of the implementation of the new ERP system including project management, system configuration and interfaces, data migration and access controls.</p>

For each area of audit focus we have outlined the impact on our audit plan.

In addition to the significant audit risk set out on the previous page, we will also consider the following areas of audit focus.

Area of audit focus	Impact on audit
 <p>IAS 19 Triennial Valuation</p> <p>Audit areas affected</p> <ul style="list-style-type: none"> ■ Pensions liability ■ Pension disclosures 	<p>Issue</p> <p>During the year, the Local Government Pension Scheme for South Yorkshire (the Pension Fund) has undergone a triennial valuation with an effective date of 31 March 2013 in line with the Local Government Pension Scheme (Administration) Regulations 2008. The Authority's share of pensions assets and liabilities is determined in detail, and a large volume of data is provided to the actuary in order to carry out this triennial valuation.</p> <p>The IAS 19 numbers to be included in the financial statements for 2013/14 will be based on the output of the triennial valuation rolled forward to 31 March 2014. For 2014/15 and 2015/16 the actuary will then roll forward the valuation for accounting purposes based on more limited data.</p> <p>There is a risk that the data provided to the actuary for the valuation exercise is inaccurate and that these inaccuracies affect the actuarial figures in the accounts. Most of the data is provided to the actuary by South Yorkshire Pensions Authority which administers the Pension Fund.</p> <p>Our audit work</p> <p>We will consider the impact of the triennial valuation on the pensions liability at 31 March 2014. We will liaise with actuarial experts and with the auditor of the South Yorkshire Pension Fund to gain assurance over the liability.</p>
 <p>Quality Assurance</p> <p>Audit areas affected</p> <ul style="list-style-type: none"> ■ Financial statements ■ Working papers 	<p>Issue</p> <p>The financial statements presented for audit in 2012/13 maintained the improvements noted in the Audit Commission's Annual Governance Report 2011/12 but again required a significant number of amendments.</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 approach to VFM work

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

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

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

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

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

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

Overview of the VFM audit approach

The key elements of the VFM audit approach are summarised below.



Each of these stages are summarised further below.

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

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

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

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

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

We will conclude on the results of the VFM audit through our ISA 260 Report.



VFM audit stage	Audit approach
Delivery of local risk based work	<p>Depending on the nature of the residual audit risk identified, we may be able to draw on audit tools and sources of guidance when undertaking specific local risk-based audit work, such as:</p> <ul style="list-style-type: none"> ■ local savings review guides based on selected previous Audit Commission national studies; and ■ update briefings for previous Audit Commission studies. <p>The tools and guides will support our work where we have identified a local risk that is relevant to them. For any residual audit risks that relate to issues not covered by one of these tools, we will develop an appropriate audit approach drawing on the detailed VFM guidance and other sources of information.</p>
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 Authority's arrangements for securing economy, efficiency and effectiveness in its 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>On the following page, we report our understanding of the VFM risks at the planning stage. We will update our understanding with a detailed initial risk assessment and throughout the year should any issues present themselves and report against these in our ISA260 report.</p> <p>We will report on the results of the VFM audit through our <i>ISA 260 Report</i>. This will summarise any specific matters arising, and the basis for our overall conclusion.</p> <p>The key output from the work will be the VFM conclusion (i.e. our opinion on the Authority's arrangements for securing VFM), which forms part of our audit report.</p>


As part of our planning work, we have identified a number of specific VFM risks.

As part of our detailed initial risk assessment, we will assess whether external and internal scrutiny provides sufficient assurance that the Authority's current arrangements in relation to these risk areas are adequate.

Where this is not the case, we will carry out additional risk-based work.

As part of our audit planning we have identified three specific VFM risks. As part of our risk assessment, we will assess whether external and internal scrutiny provides sufficient assurance that the Authority's current arrangements in relation to these risk areas are adequate. We will plan and carry out additional risk based work as required. We will report our final conclusions in our *ISA 260 Report 2013/14*.

Key VFM risk	Risk description and link to VFM conclusion
	<p>In response to the cuts in funding from central government, the Authority has plans to reduce its spending by £109 million between 2014/15 and 2016/17. The Authority expects to need to deliver savings of approximately £38m in 2014/15, £37m in 2015/16 and a further £34m in 2016/17.</p> <p>These levels of savings will be harder to deliver than earlier years as the Authority has already developed and delivered the more straightforward savings opportunities. A balanced budget has been agreed for 2014/15 but there remains a savings gap of £20 million in 2015/16 and 2016/17.</p> <p>As part of our VFM work we will critically assess the plans the Authority has in place to ensure a sound financial standing and review how the Authority is planning and managing its savings plans.</p> <p>This is relevant to both the financial resilience and economy, efficiency and effectiveness criteria of the VFM conclusion.</p>
	<p>In light of the ongoing cost of supporting Digital Region Ltd, the Authority, in conjunction with the other shareholders, took the decision to wind up the company in August 2013. This decision will limit the Authority's exposure to future losses connected with Digital Region Ltd. It is also likely to lead to the overall cost being equal to or less than the provision of £6.4m included in the 2012/13 financial statements. We understand that the process of winding up the company will not be concluded during 2013/14.</p> <p>The Authority is currently carrying out a review of the Digital Region Project to identify the lessons that should be learned from the initial decision to invest up to the final decision to close the company. The outcome of this review is not known at this stage. This is relevant to the economy, efficiency and effectiveness criteria of the VFM conclusion.</p>

Key VFM risk	Risk description and link to VFM conclusion
	<p>Following a visit by OFSTED in November 2012, the Secretary of State for Education issued a statutory direction in March 2013 that required the Authority to bring in external management support for the Children's and Young People's Service, particularly in respect of child protection. In August 2013, the Secretary of State for Education appointed Alan Wood as Commissioner for Children's Social Care in Doncaster and issued a statutory direction requiring Doncaster Council to work with the commissioner to enable transfer of services to a trust and secure improvements to children's social care.</p> <p>The 2012/13 VFM Conclusion included a report by exception highlighting the action taken by the Secretary of State.</p> <p>This action is relevant to the economy, efficiency and effectiveness criteria of the VFM conclusion. We will update the position to determine whether a similar outcome is appropriate for 2013/14.</p>

Your audit team has been drawn from our specialist public sector assurance department.

Contact details are shown on page 1.

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



John Prentice
Director

“My role is to lead our team and ensure the delivery of a high quality, valued added external audit opinion.

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



Simon Dennis
Senior Manager

“I am responsible for the management, review and delivery of the audit.

I will work closely with John Prentice to ensure we add value.

I will liaise with the Director of Finance and Corporate Services and other Executive Directors.”



Lizzie Wharton
Manager

“I support Simon Dennis in ensuring the effective management, review and delivery of the audit.

I will liaise with the Head of Corporate Accounts, Technical Accounting Manager and Head of Internal Audit.”

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

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

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

Deliverable	Purpose	Committee dates
Planning		
External Audit Plan	<ul style="list-style-type: none"> ■ Outlines our audit approach. ■ Identifies areas of audit focus and planned procedures. 	January 2014
Controls evaluation and substantive procedures		
Report to Those Charged with Governance (ISA 260 Report)	<ul style="list-style-type: none"> ■ Details control and process issues. ■ Details the resolution of key audit issues. ■ Communicates adjusted and unadjusted audit differences. ■ Highlights performance improvement recommendations identified during our audit. ■ Comments on the Authority's value for money arrangements. 	September 2014
Completion		
Auditor's Report	<ul style="list-style-type: none"> ■ Provides an opinion on your accounts (including the Annual Governance Statement). ■ Concludes on the arrangements in place for securing economy, efficiency and effectiveness in your use of resources (the VFM conclusion). 	September 2014
Whole of Government Accounts	<ul style="list-style-type: none"> ■ Provides our opinion on the Authority's WGA pack submission. 	September 2014
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 2014

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

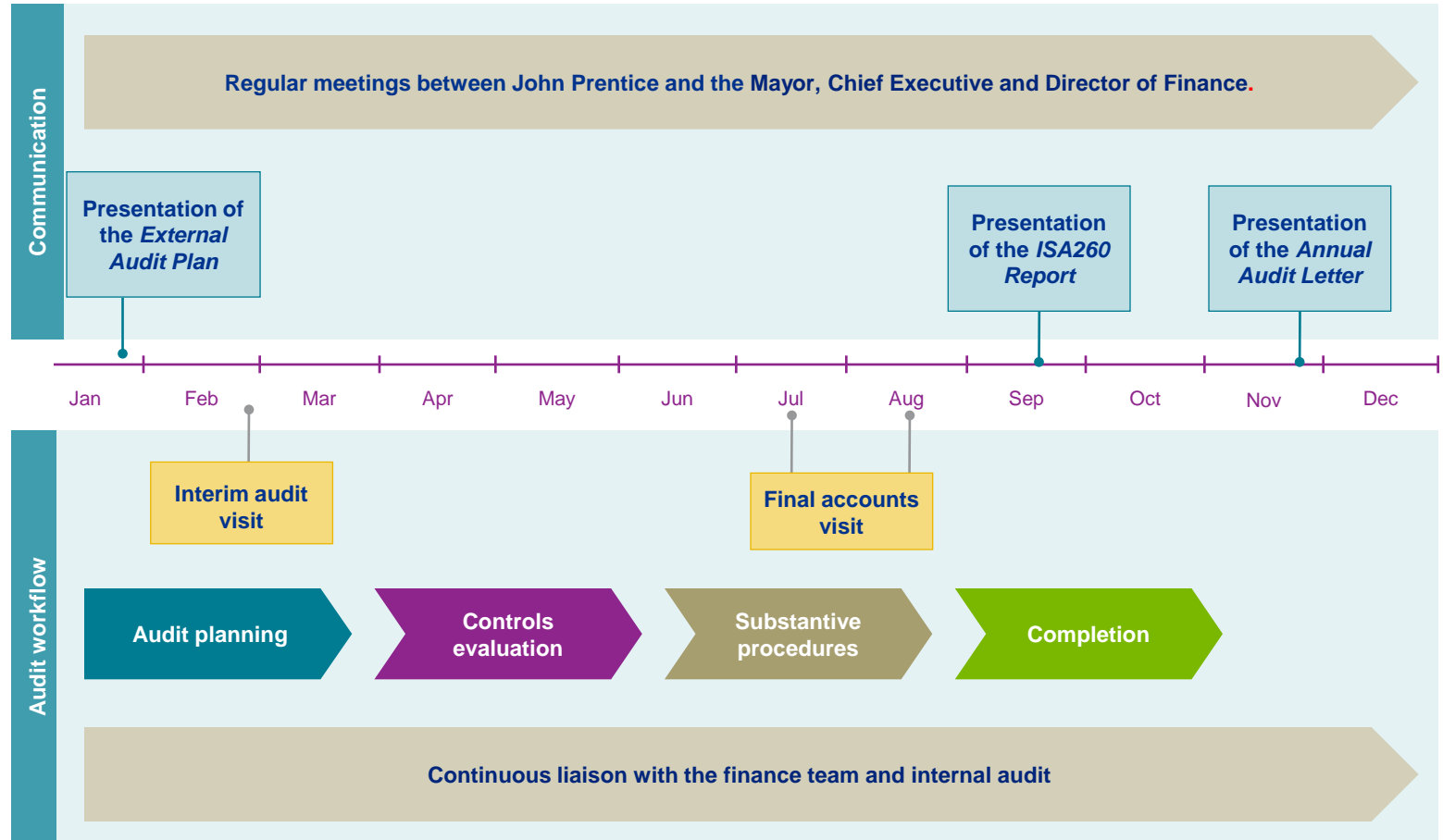
Key formal interactions with the Audit Committee are:

- January – External Audit Plan;
- September – ISA 260 Report;
- November – Annual Audit Letter.

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

Our main work on site will be our:

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



Key: ● Audit Committee meetings.

The fee for the 2013/14 audit of the Authority is £218,322. The fee has not changed from that set out in our *Audit Fee Letter 2013/14* issued in April 2013.

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

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

Audit fee

Our *Audit Fee Letter 2013/14* sent to the Chief Executive in April 2013 first set out our fees for the 2013/14 audit. We have not considered it necessary to make any changes to the agreed fees at this stage.

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

The planned audit fee for 2013/14 is **£218,322**. This is the same as the planned 2012/13 audit fee.

Audit fee assumptions

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

- the level of risk in relation to the audit of the financial statements is not significantly different from that identified for 2012/13;
- 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 2013/14* within your 2013/14 financial statements;
- you will comply with the expectations set out in our *Accounts Audit Protocol*, including:
 - the financial statements are made available for audit in line with the agreed timescales;
 - good quality working papers and records will be provided at the start of the final accounts audit;

- requested information will be provided within the agreed timescales;
- prompt responses will be provided to queries and draft reports;
- internal audit meets appropriate professional standards;
- internal audit adheres to our joint working protocol and completes appropriate work on all systems that provide material figures for the financial statements and we can place reliance on them for our audit; and
- additional work will not be required to address questions or objections raised by local government electors or for special investigations such as those arising from disclosures under the Public Interest Disclosure Act 1998.

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

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

Changes to the audit plan

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

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

If changes to this plan and the audit fee are required, we will discuss and agree these initially with the Director of Finance and Corporate Services.

This appendix summarises auditors' responsibilities regarding independence and objectivity.

Independence and objectivity

Auditors are required by the Code to:

- carry out their work with independence and objectivity;
- exercise their professional judgement and act independently of both the Commission and the audited body;
- maintain an objective attitude at all times and not act in any way that might give rise to, or be perceived to give rise to, a conflict of interest; and
- resist any improper attempt to influence their judgement in the conduct of the audit.

In addition, the Code specifies that auditors should not carry out work for an audited body that does not relate directly to the discharge of the auditors' functions under the Code. If the Authority invites us to carry out risk-based work in a particular area, which cannot otherwise be justified to support our audit conclusions, it will be clearly differentiated as work carried out under section 35 of the Audit Commission Act 1998.

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

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

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

Appendix 2: KPMG Audit Quality Framework

We continually focus on delivering a high quality audit.

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

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

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

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

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

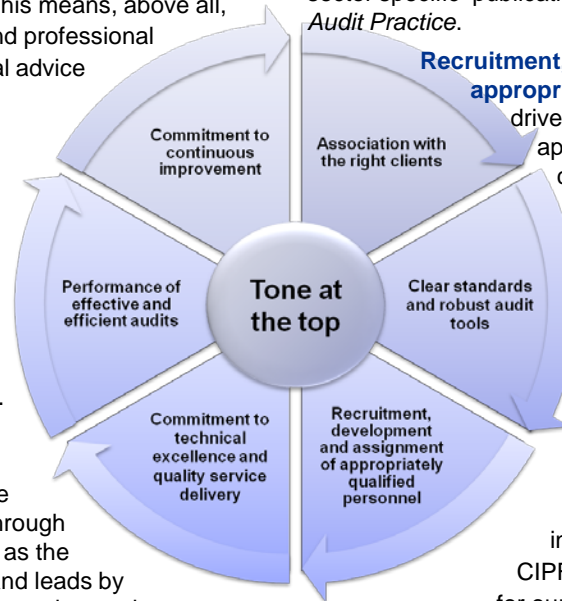
We believe it is important to be transparent about the processes that sit behind a KPMG audit report, so you can have absolute confidence in us and in the quality of our audit.

Tone at the top: We make it clear that audit quality is part of our culture and values and therefore non-negotiable. Tone at the top is the umbrella that covers all the drivers of quality through a focused and consistent voice. 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 data base, Accounting Research Online, that includes all published accounting standards, the KPMG Audit Manual Guidance as well as other relevant sector specific publications, such as the Audit Commission's *Code of Audit Practice*.



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

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

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

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

- A dedicated Department of Professional Practice comprised of over 100 staff who provide support to our audit teams and deliver our web-based quarterly 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 up to date and accurate technical solutions and together with our specialists are capable of solving complex audit issues and delivering valued insights.

Our audit teams draw upon specialist resources including Forensics, 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 behaviours in the performance of effective and efficient audits. The key behaviours that our auditors apply throughout the audit process to deliver effective and efficient audits are outlined below:

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

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

Our quality review results

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

The latest Annual Regulatory Compliance and Quality Report (issued June 2013) showed that we performed highly against the Audit Commission's criteria. We were one of only two firms to receive a combined audit quality and regulatory compliance rating of green for 2012/13.

Appendix 3: Materiality and reporting of audit differences

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

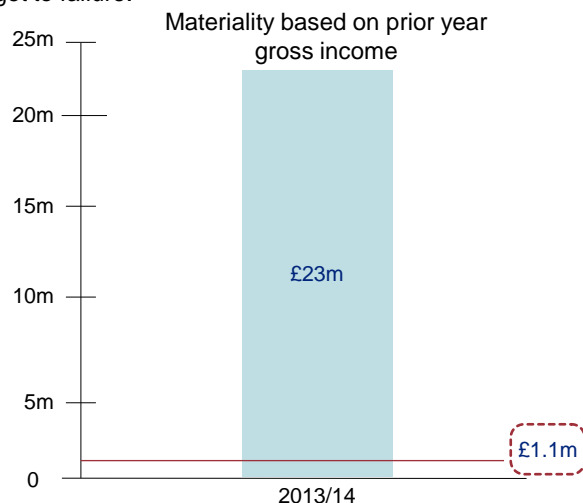
For 2013/14 we have set this at £23 million.

We will report all audit differences over £1.1 million to the Audit Committee.

Materiality

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

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



Materiality for planning purposes has been set at £23 million, which equates to around 3 percent of gross income.

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

Reporting to the Audit Committee

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

Under ISA 260, we are obliged to report omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. ISA 260 defines 'clearly trivial' as matters that are clearly inconsequential, whether taken individually or in aggregate and whether judged by any quantitative or qualitative criteria.

ISA 450 requires us to request that uncorrected misstatements are corrected.

In the context of the Authority, we propose that an individual difference could normally be considered to be clearly trivial if it is less than £1.1million.

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



cutting through complexity™

© 2014 KPMG LLP, a UK limited liability partnership, is a subsidiary of KPMG Europe LLP and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative (KPMG International), a Swiss entity. All rights reserved.

The KPMG name, logo and 'cutting through complexity' are registered trademarks or trademarks of KPMG International Cooperative (KPMG International).