A&I Plan

June 2008

audit commission

Audit and Inspection Plan

Telford and Wrekin Council

Audit 2008/09

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

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

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

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

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

Status of our reports

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

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

Copies of this report

If you require further copies of this report, or a copy in large print, in Braille, on tape, or in a language other than English, please call 0844 798 7070.

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www.audit-commission.gov.uk

Contents

Introduction

1 This plan sets out the audit and inspection work that we propose to undertake for the 2008/09 financial year. The plan is based on the Audit Commission's risk-based approach to audit planning and the requirements of moving towards Comprehensive Area Assessment (CAA). It reflects:

- audit and inspection work specified by the Audit Commission for 2008/09;
- current national risks relevant to your local circumstances; and
- your local risks and improvement priorities.

2 During 2008/09, the role of Relationship Manager will be replaced by the post of Comprehensive Area Assessment Lead (CAAL). The CAAL will provide the focal point for the Commission's work in your local area, lead the CAA process, and ensure that the combined inspection programme across all inspectorates is tailored to the level and nature of risk for the area and its constituent public bodies. The Commission has become the statutory gatekeeper of all inspection activity involving local authorities.

3 As the Audit Commission's CAAL, I will be taking responsibility for the delivery of the planned inspection work. The audit work will be undertaken by the appointed auditor, KPMG LLP, and their team is led by Mike McDonagh.

4 As KPMG have not yet completed their audit for 2007/08, the audit planning process for 2008/09, including the risk assessment, will continue as the year progresses, and the information and fees in this plan will be kept under review and updated as necessary.

Responsibilities

5 The Audit Commission and the Council's appointed auditor will comply with the statutory requirements governing our audit and inspection work, in particular:

- the Audit Commission Act 1998;
- the Local Government Act 1999 (best value inspection and audit); and
- the Code of Audit Practice.

6 The Code of Audit Practice (the Code) defines auditors' responsibilities in relation to:

- the financial statements (including the annual governance statement); and
- the audited body's arrangements for securing economy, efficiency and effectiveness in its use of resources.

7 The Audit Commission's Statement of Responsibilities of Auditors and of Audited Bodies (from April 2008) sets out the respective responsibilities of the auditor and the Authority. The Audit Commission has issued a copy of the Statement to every audited body.

8 The Statement summarises where the different responsibilities of auditors and of the audited body begin and end, and our audit work is undertaken in the context of these responsibilities.

Fees

9 The details of the structure of scale fees are set out in the Audit Commission's work programme and fee scales 2008/09. Scale fees are based on a number of variables, including the type, size and location of the audited body.

10 The total indicative fee for the work included in this audit and inspection plan for 2008/09 is £372,470 which compares to the planned fee of £246,925 for 2007/08. The audit element of the fee for 2008/09 remains broadly similar overall to that of 2007/08. The inspection fee for this year represents a significant increase on the fee in 2007/08. This is mainly as a result of the Corporate Assessment to be carried out during 2008.

11 Appendix 2 contains further details of the fee and the underlying assumptions. The risk factors which have contributed to the determination of the fee are set out in Appendix 3.

12 The audit and inspection fee is summarised in Table 1. As described below, this Plan includes the 2007/08 Use of Resources assessment to be completed during 2008 and also the element of the 2008/09 assessment planned to be completed before March 2009. This additional element has been separated out in the table below to ensure comparability of the fee with previous years.

Table 1 Audit and inspection fee

Audit area	Planned fee 2008/09	Planned Fee 2007/08	Page
Use of resources 2008/09 - work completed prior to 31 March 2009	£10,000	N/A	
Other audit work	£235,000	£240,300	
Total audit fee	£245,000	£240,300	
Total inspection fee	£127,470	£6,625	

13 The fee proposed for 2008/09 is 19 per cent below the scale fee specified by the Commission.

14 The Audit Commission has the power to determine the fee above or below the scale fee where it considers that substantially more or less work is required than envisaged by the scale fee. The Audit Commission may, therefore, adjust the scale fee to reflect the actual work that needs to be carried out to meet the auditor's statutory responsibilities, on the basis of the auditor's assessment of risk and complexity at a particular body.

15 It is a matter for the auditor to determine the work necessary to complete the audit and, subject to approval by the Audit Commission, to seek to agree an appropriate variation to the scale fee with the Authority. The Audit Commission expects normally to vary the scale fee by no more than 30 per cent (upwards or downwards). This fee then becomes payable.

16 The planned audit fee for 2008/09 varies from 2007/08 planned fee as a result of:

- cost inflation, net of efficiency savings;
- the requirement for the 2008/09 Plan to include part of the work on the 2009 Use of Resources assessment;
- changes to the certification requirements over the Housing and Council Tax Benefit claim which are expected to reduce the fee for this work; and
- KPMG's revised risk assessment for the audit of the Authority's accounts, set out in Appendix 3.

Process for agreeing any changes in audit fees

17 As set out in paragraph 4, it is possible that the initial risk assessment will change as the year progress. Where this is the case, we will discuss this in the first instance with the Chief Executive. If required, supplements to the plan will then be issued and discussed with you to record revisions to the risk and the impact on the fee.

Auditor's report on the financial statements

18 KPMG are required to issue an audit report giving our:

- opinion on whether the financial statements present fairly the financial position of the Authority as at 31 March 2009; and
- conclusion on whether the Authority has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

Financial statements

19 **KPMG have undertaken an initial risk assessment of the Authority's audit risks, shown fully at Appendix 3. This will be updated following the 2007/08 audit to reflect changes in the level of risk.**

20 At this stage KPMG are aware of the following risks that are likely to affect the audit of the financial statements.

- Accounting standards for local authorities are specified in CIPFA's Statement of Recommended Practice (SORP). One of the changes to the SORP in 2006/07 was the new requirement for a Statement of Total Recognised Gains and Losses (STRGL) in the accounts. This proved challenging for many authorities, including Telford and Wrekin, and the Authority and the issues raised by this change are still being investigated. KPMG will review the required revisions as part of the 2007/08 audit. KPMG will need to assess critically how the Authority has addressed changes to the SORP in 2008 and 2009.
- The timetable for the adoption of International Financial Reporting Standards (IFRS) in local government has now been determined: IFRS-compliant accounts will now be required in 2010/11. In practice, this means that the closing 2008/09 balance sheet position will need to be made IFRS-compliant. Based on the experience of private sector IFRS conversion, implementation of the new standards will require a significant level of work, so the Authority will need to formulate its approach to implementation soon. KPMG will discuss this project plan with officers and review working papers for the proposed changes as they become available.
- The Authority is currently in the process of implementation of Single Status. KPMG will consider the impact of implementation on the financial standing of the Authority. Failure to implement a Single Status agreement would expose the Authority to risk of equal pay claims.
- KPMG will discuss progress with Campus Telford and Wrekin, the Authority's Building Schools for the Future initiative, with officers and discuss accounting implications, such as the treatment of project costs, as they arise. Additionally, given the scale of the project, it is relevant to KPMG's Use of Resources assessment, as described in Appendix 3.

21 KPMG will continue to work with the Council to ensure that emerging risks are adequately addressed.

VFM conclusion

22 In reaching his conclusion, the appointed auditor, KPMG will review evidence that is relevant to the Authority's performance management and financial management arrangements.

23 The key risks highlighted from the planning are summarised in the table below with details of planned work to mitigate the risks. Full details of the risk assessment is outlined in Appendix 3. In summary the risks relevant to the VFM conclusion include the following.

- The Council's implementation of Single Status has potentially substantial financial consequences which need to be considered within service and financial planning. KPMG will need to consider implementation progress and the financial consequences in relation to the Financial Standing and Value for Money assessments.
- KPMG will discuss the progress of Campus Telford and Wrekin, the Council's Building Schools for the Future programme, with officers and will discuss the accounting implications of the Outline Business Case and the treatment of project costs as they arise. Additionally, given the scale of the project, it is relevant to KPMG's Use of Resources assessment, as described in Appendix 3.

Use of Resources 2007/08

24 This audit plan covers the last year of the current regime for Use of Resources assessment as part of the CPA framework. The work required to arrive at the 2007/08 Use of Resources assessment is fully aligned to that required to arrive at the auditor's 2007/08 Value for Money conclusion.

25 Appendix 1 outlines the criteria and scoring.

26 The initial risk assessment for use of resources work is shown in Appendix 3. This will be updated through the continuous planning process as the year progresses.

Use of Resources 2008/09

27 2009 will be the first year of a new use of resources assessment which will form an element of the CAA framework. The Audit Commission has specified that auditors will complete a use of resources assessment for 2008/09.

28 There have been significant changes to the criteria for 2008/09. Appendix 1 outlines the criteria assessed as part of our use of resources work and our VFM conclusion. For each of the significant risks identified in relation to our use of resources work, we consider the arrangements put in place by the Authority to mitigate the risk, and plan our work accordingly.

29 This Plan and its fee contain only the element of the work which is undertaken prior to 31 March 2009; the remainder of the work will be included within the 2009/10 Annual Audit and Inspection Plan.

Mandated work

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

- data quality 2007/08;
- whole of government accounts; and
- National Fraud Initiative.

Appendix 1 highlights the work to be undertaken.

CPA and inspection

31 From April 2009, the Audit Commission, jointly with the other public service inspectorates, will be implementing Comprehensive Area Assessment (CAA). Therefore, 2008/09 is the last year in which corporate assessments and programme service inspections will be undertaken as part of the CPA framework.

32 The Audit Commission's CPA and inspection activity is underpinned by the principle of targeting our work where it will have the greatest effect, based upon assessments of risk and performance.

33 The Council's CPA category is, therefore, a key driver in the Commission's inspection planning process. For CPA 2007, the Authority was categorised as four stars.

34 We have applied the principles set out in the CPA framework, 'CPA – The Harder Test', recognising the key strengths and areas for improvement in the Authority's performance.

35 Strengths in the Authority's performance include:

- working well with key partners such as English Partnerships to deliver innovative capital projects such as the regeneration of Woodside, transformation of the town centre and the Hadley PFI project;
- delivering high quality services to Children and Adults; and
- the Council has strong governance and internal control arrangements.

36 Areas for improvement in the Authority's performance include:

- highways maintenance and street lighting; and
- the need to reduce absence rates at secondary schools and the number of teenage pregnancies.

37 On the basis of the planning process we have identified where inspection activity will be focused for 2008/09 as follows.

Table 2 Summary of inspection activity

Inspection activity	Reason/impact
Comprehensive Area Assessment Lead (CAAL) role	To act as the Commission's primary point of contact with the Authority and the interface at the local level between the Commission and the other inspectorates, government offices and other key stakeholders.
Direction of Travel (DoT) assessment	An annual assessment, carried out by the CAAL, of how well the Authority is securing continuous improvement. The DoT statement will be reported in the Annual Audit and Inspection Letter. The DoT assessment summary will be published on the Commission's website.
Corporate assessment	As part of the agreed process for CPA, we will carry out a corporate assessment in line with the processes set out in 'CPA – The Harder Test' to assess the Council's corporate abilities and achievements.

Advice and assistance

38 Under paragraph 9 of Schedule 2A of the Audit Commission Act 1998 the Audit Commission has powers to provide 'advice and assistance' (A&A) to another public body where this is requested.

39 If you wish the Commission to provide additional services under these powers, please contact Dorothy Welsh at d-welsh@audit-commission.gov.uk or your CAAL.

The audit and inspection team

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

Table 3 Audit and inspection team

Name	Contact details	Responsibilities
Dianne Thomas Corporate Area Assessment Lead	di-thomas@audit-commission.gov.uk 07901 513884	Dianne is the primary point of contact with the Authority for inspection work and is responsible for coordinating audit and inspection work between KPMG and inspectorates, government offices and other key stakeholders.
Mike McDonagh Partner KPMG engagement lead	michael.a.mcdonagh@kpmg.co.uk 0121 335 2440	Mike is responsible for the overall delivery of the audit including the quality of outputs, signing the opinion and conclusion, and liaison with the Chief Executive and audit committee.
Andrew Cardoza KPMG Senior Manager	andrew.cardoza@kpmg.co.uk 0121 232 3879	Andrew is responsible for the management and delivery of the audit elements of this Plan.
Tim Pearce KPMG Manager	timothy.pearce@kpmg.co.uk 0121 232 3149	Tim is responsible for the on-site delivery of all the audit elements of this Plan.
Peter Evans KPMG Assistant Manager	peter.evans@kpmg.co.uk 0121 232 3879	Peter will work with Tim to plan and deliver KPMG's on-site work.

Quality of service

41 We are committed to providing you with a high quality service. If you are in any way dissatisfied, or would like to discuss how we can improve our service, please contact your CAAL or Appointed Auditor in the first instance. Alternatively, you may wish to contact the [name of (sub) Region] Head of Operations, [Head of Operations name] For any complaints concerning audit work, you may wish to contact KPMG's national contact partner for Audit Commission work, Trevor Rees (trevor.rees@kpmg.co.uk).

42 If we are unable to satisfy your concerns, you have the right to make a formal complaint to the Audit Commission. The complaints procedure is set out in the leaflet ‘Something to Complain About’, which is available from the Commission’s website (www.audit-commission.gov.uk) or on request.

Planned outputs

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

Table 4 Planned outputs

Planned output	Indicative date	Responsibility
Audit and Inspection Plan	May 2008	CAA Lead & KPMG
Interim audit memorandum	May 2009	KPMG
Annual governance report (ISA260)	September 2009	KPMG
Auditor’s report giving an opinion on the financial statements and value for money conclusion	September 2009	KPMG
Annual Audit Letter	TBC	KPMG
Corporate Assessment	July 2008	CAA Lead
Direction of` Travel Assessment	March 2009	CAA Lead

Appendix 1 – Elements of our work

Financial statements

1 KPMG will carry out our audit of the financial statements in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board (APB).

2 KPMG are required to issue an opinion on whether the financial statements present fairly, in accordance with applicable laws and regulations and the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2008, the financial position of the Authority as at 31 March 2009 and its income and expenditure for the year.

3 KPMG are also required to review whether the Annual Governance Statement has been presented in accordance with relevant requirements, and to report if it does not meet these requirements or if the Annual Governance Statement is misleading or inconsistent with our knowledge of the Authority.

Value for money conclusion

4 The Code requires your appointed auditor to issue a conclusion on whether the Authority has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. This is known as the value for money conclusion. The Code also requires the auditor to have regard to a standard set of relevant criteria, issued by the Audit Commission, in arriving at their conclusion.

5 In meeting this responsibility, KPMG will review evidence that is relevant to the Authority's corporate performance management and financial management arrangements. Where relevant work has been undertaken by other regulators, KPMG will normally place reliance on their reported results to inform our work.

6 KPMG will also follow up our work from previous years to assess progress in implementing agreed recommendations.

Use of resources assessment 2007/08

7 The Use of Resources themes and KLOE are outlined below.

8 KPMG will arrive at a score of 1 to 4, based on underlying key lines of enquiry, for each of the following themes.

Table 1 Use of resources assessment criteria 2007/08

Theme	Description
Financial reporting	• Preparation of financial statements • External reporting
Financial management	• Medium-term financial strategy • Budget monitoring • Asset management
Financial standing	• Managing spending within available resources
Internal control	• Risk management • System of internal control • Probity and propriety
Value for money	• Achieving value for money • Managing and improving value for money

9 The details of the scores and judgements will be reported to the Council. The scores will be accompanied, where appropriate, by recommendations of what the Council needs to do to improve.

10 The auditor's scores are reported to the Commission and are used as the basis for its overall use of resources judgement for the purposes of the CPA.

Use of resources assessment 2008/09

11 The Commission has now consulted on its proposals for the 2008/09 Use of Resources assessment. It proposes that the work required to arrive at the 2008/09 use of resources assessment is fully aligned with that required to arrive at the auditor's 2008/09 value for money conclusion.

12 The Commission proposes that the assessment will be based upon the evidence from three themes.

- Managing money.
- Managing the business.
- Managing other resources.

13 The Commission proposes that Data Quality will become an element of the Use of Resources framework from 2008/09.

Data quality

14 The Audit Commission has specified that auditors will be required to undertake audit work in relation to data quality. This is based on a three-stage approach covering:

- Stage 1 – management arrangements;
- Stage 2 – analytical review; and
- Stage 3 – risk-based data quality spot checks of a sample of performance indicators.

15 Work will be focused on the overall arrangements for data quality, particularly on the responsibility of the Authority to manage the quality of its data including data from partners where relevant.

16 Our fee estimate reflects an assessment of risk in relation to the Authority's data quality arrangements and performance indicators. This risk assessment may change depending on our assessment of your overall management arrangements at Stage 1 and we will update our plan accordingly, including any impact on the fee.

Whole of government accounts

17 KPMG are required to review and report on your WGA consolidation pack in accordance with the approach agreed with HM Treasury and the National Audit Office.

National Fraud Initiative

18 The Authority participates in the National Fraud Initiative, which is the Audit Commission's computerised data matching exercise designed to detect fraud perpetrated against public bodies. KPMG will review the Authority's approach to addressing data matches and periodically monitor its progress.

19 This work will be carried out by an individual appointed to assist in the audit of the Authority's accounts (in accordance with section 3(9) of the Audit Commission Act 1998).

Certification of grant claims and returns

20 KPMG will continue to certify the Authority's claims and returns on the following basis.

- Claims below £100,000 will not be subject to certification.
- Claims between £100,000 and £500,000 will be subject to a reduced, light-touch certification.
- Claims over £500,000 will be subject to a certification approach relevant to the auditor's assessment of the control environment and management preparation of claims.

Appendix 2 – Basis for fee

1 The Audit Commission and KPMG are committed to targeting work where it will have the greatest effect, based upon assessments of risk and performance. This means planning audit and inspection work to address areas of risk relevant to our audit responsibilities and reflecting this in the audit fees. It also means making sure that our work is coordinated with the work of other regulators, and that our work helps you to improve.

2 KPMG's audit risk assessment process starts with the identification of the significant financial and operational risks applying at the Authority with reference to:

- cumulative audit knowledge of the Authority;
- planning guidance issued by the Audit Commission;
- the specific results of previous and ongoing audit work;
- the Authority's strategic risk register;
- interviews with Authority officers;
- liaison with internal audit; and
- the results of other review agencies' work where relevant.

Assumptions

3 In setting the fee, KPMG have assumed that:

- you will inform us of significant developments affecting our audit, including accounting, financial reporting, legality and control issues;
- internal audit meets appropriate professional standards;
- internal audit undertakes appropriate work on all systems that provide material figures in the financial statements sufficient that we can place reliance for the purposes of our audit;
- you will identify and implement any changes required under the CIPFA SORP within your 2008/09 financial statements;
- your financial statements will be made available for audit in line with the timetable we agree with you;
- good quality working papers and records will be provided to support the financial statements by the agreed audit start date;
- requested information will be provided within agreed timescales;
- prompt responses will be provided to draft reports; and
- additional work will not be required to address questions or objections raised by electors.

4 Where these assumptions are not met, KPMG will be required to undertake additional work which is likely to result in an increased audit fee. The fee for the audit of the financial statements will be re-visited when we issue the opinion audit plan.

5 Changes to the plan will be agreed with you. These may be required if:

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

6 Below is a detailed breakdown of the audit and inspection fee for 2008/09.

7 The fee (plus VAT) will be charged in four equal instalments from June 2008 to March 2009.

Table 1 Detailed audit and inspection fee

Audit area	**Planned fee 2008/09**	**Planned fee 2007/08**	**Page**
Audit			
Financial statements	122,000	115,000	
Use of resources - current year assessment	36,500	35,000	
Use of resources 2008/09 - work completed prior to 31 March 2009	10,000	N/A	
Data quality	26,000	25,000	
Whole of government accounts	3,300	3,200	
National Fraud Initiative	2,200	2,100	
Certification of claims and returns (estimate)	45,000	60,000	
Total audit fee	245,000	240,300	
Inspection			
Relationship management	11,197	N/A	
Direction of Travel	11,197	6,625	
Corporate Assessment inspection	105,076	N/A	
Total inspection fee	127,470	6,625	
Total audit and inspection fee	372,470	246,925	

Appendix 3 – Risk assessment

The table below shows KPMG's risk assessment of the Authority's audit risks.

Significant risks identified	**Issue**	**Action in response to residual audit risk**	**Link to auditors' responsibilities**
Financial Reporting and changes in the 2008 SORP	One of the major changes to the accounts introduced in 2007 was the requirement to prepare a Statement of Total Recognised Gains and Losses (STRGL). This Statement reconciles the opening and closing balance sheet positions for the financial year. Preparing the STRGL was a challenge for many authorities in 2006/07, including Telford and Wrekin, where officers are currently working on a prior period adjustment to include in the 2007/08 accounts. The requirement to prepare a STRGL continues in 2007/08 and future years, so the Authority will need adequate resources and quality assurance procedures to be in place in order to manage the compilation of the STRGL effectively. Further accounting changes have been introduced more recently, including changes to accounting for financial instruments and fixed assets which take effect in 2007/08, as reported in our 2007/08 Annual Audit and Inspection Plan. The 2008 SORP will bring in further changes for the 2008/09 financial year. Whilst it has not yet been finalised, it is expected to introduce changes including: • new requirements on accounting for back pay arising from equal pay claims; • changes which reflect the replacement of Local Area Agreement grant with Area Based Grant; and • amended disclosure requirements for retirement benefits following the amendment of FRS17. The Authority will need to review the changes once the SORP is finalised and determine what additional work will be needed to ensure that its accounts comply with the totality of SORP requirements, with a particular focus on the recent changes outlined above.	We will also need to assess critically how the Authority has addressed SORP changes in 2008 and 2009, and may respond to the risk through increasing the use of more senior and specialist staff. We will need to assess the Authority's approach to reviewing and addressing changes in accounting standards, in particular examining the improvements made in response to the difficulties experienced with the STRGL in 2007.	This risk is relevant to the audit of the Authority's financial statements and the Financial Reporting element of the Use of Resources Assessment.

Significant risks identified	**Issue**	**Action in response to residual audit risk**	**Link to auditors' responsibilities**
Implementation of International Financial Reporting Standards	The timetable for the implementation of International Financial Reporting Standards (IFRS) has now been announced; CIPFA has confirmed that IFRS-compliant accounts will be needed from the 2010/11 financial year. In practice, this means that the opening comparative balance sheet - ie the position as at 1 April 2009 - will need to be IFRS-compliant. With the exception of the specific areas described in IFRS1 (First-time Adoption of IFRSs), new accounting policies would need to be applied fully retrospectively. Gathering the information to make this possible will therefore be a time-consuming exercise, making early planning essential.	We will meet with officers to discuss their project plan for IFRS implementation. We will also discuss the areas which officers have identified as potentially challenging and, where possible, will review advance work completed on changes to the accounts and disclosures.	This risk is relevant to the audit of the Authority's financial statements and the Financial Reporting element of the Use of Resources Assessment.
Single Status	The Authority has a project plan in place to implement Single Status by the end of the 2008/09 financial year. This will be a complex process, given that the Authority will need to complete pay modelling, conclude negotiations with trades unions and update personnel and pay records prior to the implementation date The process of implementing Single Status has significant potential financial implications. These include the one-off costs of settling back pay claims, and also the ongoing increased payroll costs which typically arise from the revised pay structures. Failure to implement the Single Status agreement would expose the Authority to the risk of equal pay claims, which would in themselves have a significant effect on its financial standing. As such, this is a key financial risk to the Authority.	We will consider the progress made towards the implementation of Single Status, and how the Authority has refined its estimates of the potential cost of back pay and the ongoing effect of increased pay costs.	This risk is relevant to KPMG's consideration of the Authority's financial standing as part of the accounts opinion and within the context of the Use of Resources assessment.

Significant risks identified	**Issue**	**Action in response to residual audit risk**	**Link to auditors' responsibilities**
Campus Telford and Wrekin	Campus Telford and Wrekin is the Authority's £200 million local implementation of the government's Building Schools for the Future (BSF) programme. Since the time of our previous audit plan, the Authority has made progress with the programme, with its Strategy for Change receiving approval and progress being made towards finalising the Outline Business Case. Continuing robust project management arrangements will be needed to keep the programme on track and to ensure that the Authority's objectives are achieved.	We will consider the Authority's progress with BSF, including its arrangements in place to achieve value for money and deliver its objectives for the BSF programme. We will also discuss with officers the accounting treatment which is followed for BSF programme costs.	This risk is relevant to KPMG's audit of the financial statements and Value for Money Assessment.

Appendix 4 – Independence and objectivity

1 We are not aware of any relationships that may affect the independence and objectivity of the KPMG engagement lead and the audit staff, which we are required by auditing and ethical standards to communicate to you.

2 We comply with the ethical standards issued by the APB and with the Commission's requirements in respect of independence and objectivity as summarised below.

3 Auditors appointed by the Audit Commission are required to comply with the Commission's Code of Audit Practice and Standing Guidance for Auditors, which defines the terms of my appointment. When auditing the financial statements, auditors are also required to comply with auditing standards and ethical standards issued by the Auditing Practices Board (APB).

4 The main requirements of the Code of Audit Practice, Standing Guidance for Auditors and the standards are summarised below.

5 International Standard on Auditing (UK and Ireland) 260 (Communication of audit matters with those charged with governance) requires that the appointed auditor:

- discloses in writing all relationships that may bear on the auditor's objectivity and independence, the related safeguards put in place to protect against these threats and the total amount of fee that the auditor has charged the client; and
- confirms in writing that the APB's ethical standards are complied with and that, in the auditor's professional judgement, they are independent and their objectivity is not compromised.

6 The standard defines 'those charged with governance' as 'those persons entrusted with the supervision, control and direction of an entity'. In your case, the appropriate addressee of communications from the auditor to those charged with governance is the audit committee. The auditor reserves the right, however, to communicate directly with the Authority on matters which are considered to be of sufficient importance.

7 The Commission's Code of Audit Practice has an overriding general requirement that appointed auditors carry out their work independently and objectively, and ensure that they do not act in any way that might give rise to, or could reasonably be perceived to give rise to, a conflict of interest. In particular, appointed auditors and their staff should avoid entering into any official, professional or personal relationships which may, or could reasonably be perceived to, cause them inappropriately or unjustifiably to limit the scope, extent or rigour of their work or impair the objectivity of their judgement.

8 The Standing Guidance for Auditors includes a number of specific rules. The key rules relevant to this audit appointment are as follows.

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

Appendix 5 – Sustainability

1 The Audit Commission is committed to promoting sustainability in our working practices and we will actively consider opportunities to reduce our impact on the environment. This will include:

- reducing paper flow by encouraging you to submit documentation and working papers electronically;
- use of video and telephone conferencing for meetings as appropriate; and
- reducing travel.