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Financial Statements Audit Plan 2010/11

Telford and Wrekin Council

February 2011

AUDIT

Contents

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

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

If you have any concerns or are dissatisfied with any part of KPMG's work, in the first instance you should contact Michael McDonagh, who is the engagement partner to the Authority, telephone 0121 335 2440, email: michael.a.mcdonagh@kpmg.co.uk who will try to resolve your complaint. If you are dissatisfied with your response please contact Trevor Rees on 0161 236 4000, email: 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 Investigation Officer, Westward House, Lime Kiln Close, Stoke Gifford, Bristol, BS34 8SR or by e mail to: complaints@audit-commission.gov.uk. Their telephone number is 0844 798 3131, textphone (minicom) 020 7630 0421.

Summary

This document describes how we will deliver our financial statements audit work for Telford and Wrekin Council.

We have identified a number of key risks that we will focus on during the audit of the 2010/11 financial statements.

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

The Code of Audit Practice 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.

This document describes how we will deliver our financial statements audit work for Telford and Wrekin Council (the Authority). It supplements our Audit Fee Letter presented to you in April 2010.

We will issue a separate report setting out the new approach to local value for money (VFM) work, following the decision to abolish the use of resources assessment. This will also provide an updated VFM risk assessment.

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.

The table below summarises the key risks identified this year for the financial statements audit. The remainder of this document provides further details on these risks as well as information on our approach, our audit team, our proposed work, timescales and fees for our work on the financial statements audit.

Area	Risk
Financial standing	There will be significant pressures on all Local Authorities due to funding cuts from Central Government and other sources such as Regional Development Agencies as a result of the Comprehensive Spending Review. Telford and Wrekin faces cuts of £13.6m in grant funding in 2011/12. It has filled the resulting funding gap through a combination of restructuring and other operational savings and one-off measures for 2011/12.
IFRS conversion	All local authorities are required to implement IFRS in 2010/11, including restating prior period figures. This will result in some fundamental differences in accounting and will require significant planning to ensure your financial statements reflect the new standards (see page 6 for more details).

Summary (cont.)

We have identified a number of key risks that we will focus on during the audit of the 2010/11 financial statements.

Area	Risk
Single Status	The Authority has yet to implement Single Status. Implementation is likely to result in increased recurring pay costs for the Authority. The Authority will also need to make a provision in its 2010/11 accounts for the potential impact of Single Status.
Component accounting	In order to comply with the Code the Authority will need to introduce a component based approach to the recognition of assets. Where an overall asset is to be componentised, the Authority will need to ensure it is in line with component requirements (see page 10 for more details).
Contracts and leases	As part of the conversion process to IFRS the Authority will need to review all its significant contracts to identify potential aspects that may require specific accounting treatments under the new IFRS based Code. The Authority will need to ensure that there is a complete record of all contracts and leases in place. These will then require review under the requirements of IFRS (see page 11 for more details).

Our work will encompass:

- Review of the controls over the completion of the accounts, relying on internal audit wherever possible to avoid duplication.
- A detailed audit of the financial statements, associated disclosure notes and the Annual Governance Statement.
- Review of the key risks identified, addressed through our detailed audit work and discussions with senior finance officers.

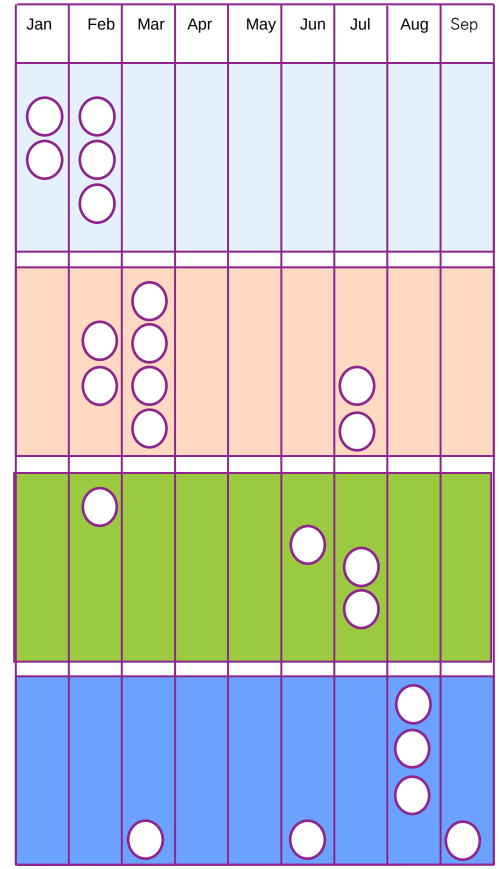
Our audit approach

We undertake our work on your financial statements in four key stages during 2011:

- **Planning (January/February);**
- **Control Evaluation (February/March);**
- **Substantive Procedures (July);**
- **Completion (September).**

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

1	Planning	• Perform risk assessment procedures and identify risks • Determine audit strategy • Determine planned audit approach
2	Control Evaluation	• Understand accounting and reporting activities • Evaluate design and implementation of selected controls • Test operating effectiveness of selected controls • Assess control risk and Risk of Material Mis-statement (RoMM)
3	Substantive procedures	• Perform work on restated 2009/10 balance sheet • Plan substantive procedures • Perform substantive procedures • Consider if audit evidence is sufficient and appropriate
4	Finalisation	• Perform completion procedures • Perform overall evaluation • Form an audit opinion • Audit Committee reporting



Our audit approach – planning

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

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

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

In addition to the Authority's financial statements, we are also required to audit and provide an opinion on the Whole of Government Accounts ('WGA') return submitted to central government.

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

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

Liaising with Internal Audit

We have a strong working relationship with Internal Audit and we will continue to work closely with them to maximise the effectiveness of their work on core financial systems and governance at the Authority. This is in accordance with our joint working protocols.

International Financial Reporting Standards (IFRS)

All Local Authorities are required to implement IFRS, moving away from UK GAAP for 2010/11 financial statements. We will continue to work closely with the finance team to ensure the smooth transition to IFRS. We have provided advice on support on key areas in relation to IFRS implementation already, for example on accounting for PFI schemes and delivered a training session for members. We will audit the restated 2009/10 balances prior to the final visit in order to provide early assurance on key aspects of your IFRS migration work, identify any issues on a timely basis and also ensure some accounting and audit effort is brought forward to alleviate the busy closedown and final accounts audit season over the summer. We will report on the outcomes of this work as part of our Interim Report.

Whole of government accounts (WGA)

KPMG are required to review and report on your WGA consolidation pack in accordance with the approach agreed with HM Treasury and the National Audit Office. The 2010/11 WGA consolidated pack will need to be produced in accordance with the International Financial Reporting Standards (IFRS).

National Fraud Initiative

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. During our audit we will review the Authority's progress and actions in following up the matches identified.

Our audit approach – IFRS restatement and control evaluation

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

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

Our audit approach – substantive procedures

During July and August 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 agree any audit adjustments required to the financial statements.

We review the Annual Governance Statement for consistency with our understanding.

We will present our ISA 260 Report to the Audit Committee in September.

Our final accounts visit on site is currently scheduled for the period 18 July to 12 August 2011. During these four weeks, we will complete the following work:

Substantive audit procedures

We complete detailed testing on significant balances and disclosures. The extent of our work is determined by the Engagement Partner 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 the key risk areas as identified at the planning stage and any additional issues that may have emerged since.

Audit adjustments

During our on-site work we will meet with the Corporate Accounting Team 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 annual Report to those Charged with Governance (ISA 260 Report).

Our audit approach – other

These are the key financial statement risks identified for 2010/11 and some examples of other risks that we will consider during the audit. We seek to tailor our audit approach to reflect this risk assessment.

We have increased our risk assessment in the following area:

- **Implementation of IFRS**
- **Financial Standing**
- **Single Status**

Key to coding

Matters with potential financial statement risk	Matters of high audit risk discussed further on page 6

Key financial statement audit risks

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

We will provide an update on how the Authority is managing these risks in our Interim Audit Report.

Key audit risks	Impact on audit plan
Financial standing **Audit areas affected** ■ Reserves and balances	**Financial standing / medium term financial planning** ■ Linking with our use of resources audit work, we will consider the Authority's general financial standing and in particular its approach to medium term financial planning. The Authority faces a cut in grant funding of £13.6m in 2011/12 as central government's cuts to local authority funding are 'front-loaded'. Telford and Wrekin have responded to the challenge with a comprehensive review and restructure of its corporate management team and is in the process of a systematic review and restructure of its services. ■ This, along with one-off savings and a £1.4m use of balances, has plugged the gap for the 2011/12 budget. However, we will review in detail the robustness of its savings plans, service reviews and use of balances to assess the long term financial resilience of the Authority. ■ We will consider the potential impact of the outcome from this work on our financial statements audit.
Equal pay claims **Audit areas affected** ■ Provisions ■ Disclosures	**Equal Pay Provisions & Treatment** ■ We will monitor the progress the Authority is making in respect of the implementation of Single Status. ■ As part of our final accounts work we will review the Authority's provision, including the methodology, assumptions and calculations supporting the provision.

Key financial statement audit risks (cont.)

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

We will provide an update on how the Authority is managing these risks in our Interim Audit Report.

Key audit risks	Impact on audit plan
IFRS conversion **Audit areas affected** ▪ Restated opening balances ▪ Prior year comparators ▪ Various balances and disclosures within 2010/11 financial statements	**Impact of conversion process** ▪ Significant planning and resources will be required in order to ensure that the Authority's transition to IFRS is a smooth and successful process. **Our audit work** ▪ We will audit the re-stated 2009/10 financial statement figures in February. During this time we will assess the processes being undertaken by the Authority and provide advice on how this can be improved to ensure the final years figures are compliant with the standards. We will report on the outcomes of this work as part of our Interim Report. ▪ We will keep in regular contact with the finance team during this period, discussing emerging issues and current guidelines. ▪ During the final accounts audit we will audit all figures in line with IFRS.
Property, plant & equipment **Audit areas affected** ▪ Tangible fixed assets	**Expected impact of IAS 16** ▪ Local authorities are to component account for any additions or valuations on or after 1 April 2010. This means when an item of property, plant and equipment comprises individual components for which different depreciation methods or rates are appropriate each component is accounted for separately. **Our audit work** ▪ During the interim visit we will assess the controls in place to ensure that additions/valuations are being addressed as components and appropriately recorded in the fixed asset register. ▪ During the final phase of our audit we will substantively test additions and valuations to ensure that these are correctly accounted for in line with the component requirements of IAS 16.

Key financial statement audit risks (cont.)

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

We will provide an update on how the Authority is managing these risks in our Interim Audit Report.

Key audit risks	Impact on audit plan
Contracts and leases **Audit areas affected** ■ Leases	**Impact of IAS 17** ■ Likelihood of an increased number of finance leases as IAS 17 gives a broader definition of finance leases than SSAP 21 resulting in more assets coming on to balance sheet. **Our audit work** ■ During the interim review we will assess the Authority's process for ensuring that there is a complete record of all leases and these are reviewed under the requirements of IAS 17. ■ During the final phase we will review all material leases and contracts to determine whether they been correctly treated as an operating lease or finance lease under IAS 17.
Employee benefits **Audit areas affected** ■ Liabilities	**Impact of IAS 19** ■ New liability to be recognised on the balance sheet where there is a requirement to pay wages and salaries, bonuses and holiday pay. **Our audit work** ■ During the audit of the re-stated 2009/10 balances we will assess whether the Authority with the current payroll system can provide the information needed to calculate the obligation. ■ During the final process we will audit the balance using the data collated by the Authority to ensure it is line with the requirements of the standard.

Key financial statement audit risks (cont.)

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

We will provide an update on how the Authority is managing these risks in our Interim Audit Report.

Key audit risks	Impact on audit plan
Consolidations & Associates **Audit areas affected** ▪ Group accounts	**Expected impact of IAS 27 & 28** ▪ UK GAAP emphasises the substance of control whereas IFRS considers the power to control. As a result there may be a different interpretation of those entities consolidated into group. **Our audit work** ▪ During the interim audit we will consider the Authority's evaluation of its relationships with external partners to assess whether they should now be consolidated under the new standards. ▪ We will audit the consolidated statements during the final phase in line with IAS 27 & 28.

Audit team

Our audit team were all part of the Telford and Wrekin Council audit last year. Contact details are shown on page 1.

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

Mike McDonagh

Engagement Lead

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

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

Andy Cardoza

Senior Manager

I will ensure that the team adds value during the audit process. I will work closely with Mike to ensure a high quality audit is delivered and will liaise with the Audit Committee, Section 151 officer and Head of Finance.

Peter Evans

Audit Manager

I will direct and help coordinate the audit and will work closely with Mike and Andy to ensure we add value. I will be the main contact for the Head of Finance, Head of Internal Audit and executive directors.

Adam Bunting

Assistant Manager

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

Independence confirmation

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

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

Independence and objectivity confirmation

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

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

KPMG LLP is committed to being and being seen to be independent. APB Ethical Standard 1 Integrity, Objectivity and Independence requires us to communicate to you in writing all significant facts and matters, including those related to the provision of non-audit services and the safeguards put in place, in our professional judgement, may reasonably be thought to bear on KPMG LLP's independence and the objectivity of the Engagement Lead and the audit team.

Confirmation statement

We confirm that as of February 2011, in our professional judgement, KPMG LLP is independent within the meaning of regulatory and professional requirements and the objectivity of the Appointed Auditor and audit team is not impaired.

Audit fees

The audit fee has not changed from that agreed in the fee letter issued in April 2010.

We agreed our fee for the audit with the Authority earlier this year. The fee is calculated with reference to a number of factors including your turnover and our assessment of audit risk and control environment. This year's fee represents a 6% increase (after allowing for the reimbursement by the Audit Commission for the 'one-off' cost of transition to International Financial Reporting Standards (IFRS)) over last year (2009/10 = £255,000).

Element of the audit	Fee 2010/11	Fee 2009/10
Audit of Financial Statements	£174,500	£161,300
Value for money conclusion (including 2010 use of resources)	£88,500	£86,800
Whole of Government Accounts	£4,300	£4,200
National Fraud Initiative	£2,700	£2,700
IFRS Implementation	£17,200	-
Subtotal	**£287,200**	**£255,000**
Less: IFRS implementation Audit Commission reimbursement	-£17,200	-
Total	**£270,000**	**£255,000**

Compared to the prior year fee, we recognise that this is a significant fee increase, however the previous years fee level of £255,000 was 6% below the "mid point scale fee".).   The increase in fee is in line with the two-staged increase agreed with Audit Committee in 2009 necessary to bring the Authority's fee to the Audit Commission's scale of fees. This approach is consistent with the Audit Commission's guidance with regards to setting fees as per its publication: "Work programme and scales of fees 2009/10 indicative fee proposals for 2010/11 and 2011/12 (Local government, housing and community safety)".

We have increased our fee to that in line with the Audit Commission's published scale of fees for 2010/11 as we do not consider that the general level of risk in relation to the audit of the financial statements and the use of resources assessment to be materially different from that at an authority of similar size and complexity.

Audit fees (cont.)

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

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

Audit fee assumptions

The audit fee is indicative and is based on you meeting our agreed expectations as outlined in Appendix 2. In setting the fee, we have assumed:

- the level of risk in relation to the audit of the financial statements is not significantly different from that identified for 2009/10;
- 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 within your 2010/11 financial statements (note 2010/11 is the first year based on IFRS);
- your financial statements are made available for audit in line with the agreed timescales;
- you will make available the re-stated 2009/10 figures in line with the agreed timescales and ensure they are in line with IFRS requirements;
- good quality working papers and records will be provided at the start of the final accounts audit;
- requested information will be provided within the agreed timescales;
- prompt responses will be provided to queries and draft reports;
- internal audit meets appropriate professional standards;
- internal audit completes appropriate work on all systems that provide material figures for the financial statements and we can place reliance on them for our audit; and
- additional work will not be required to address questions or objections raised by local government electors.

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

Changes to the audit plan

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

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

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

Audit timeline and deliverables

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

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

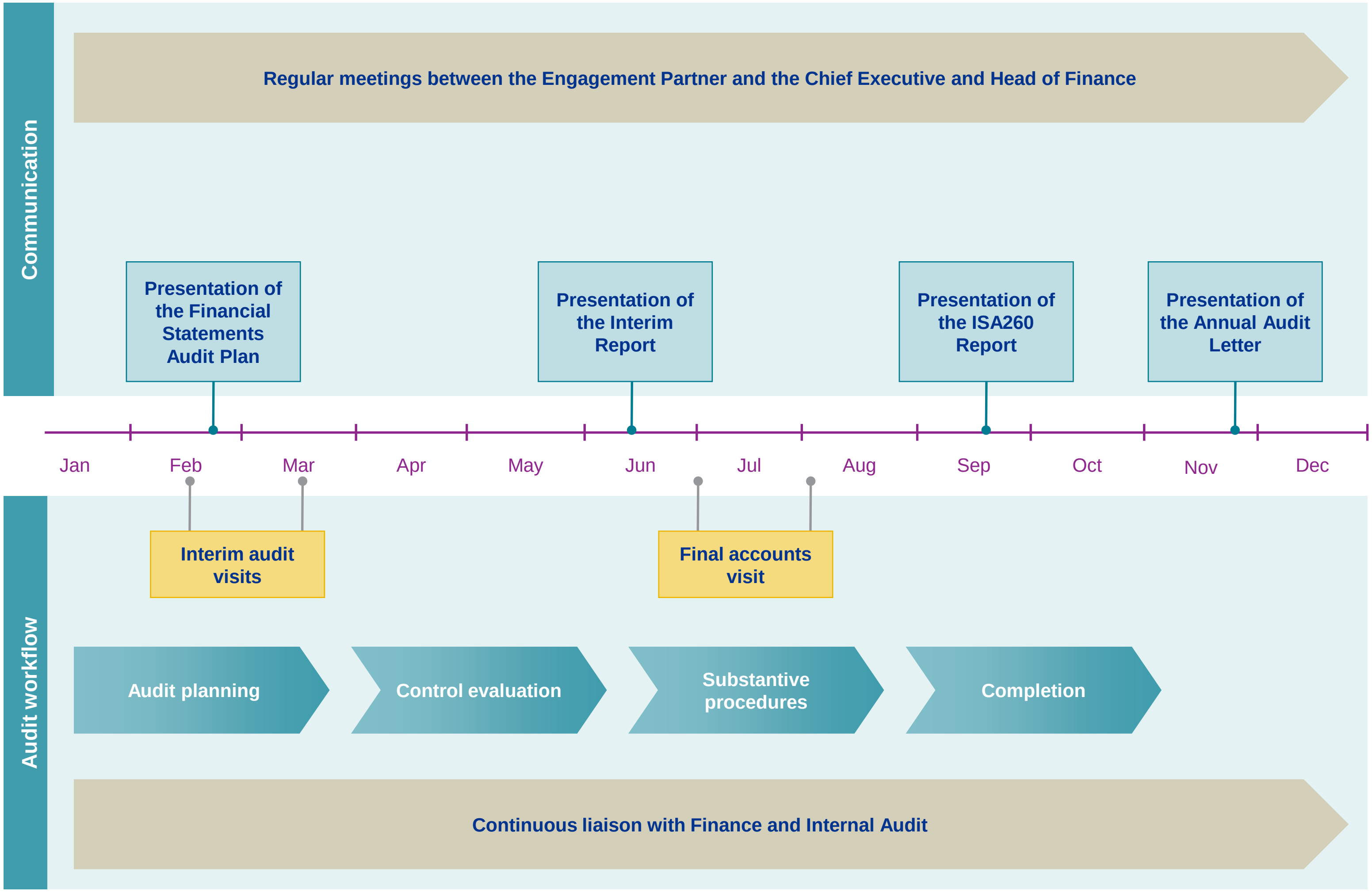
Deliverable	Purpose	Timing
Planning		
Financial Statement Audit Plan	▪ Outline audit approach ▪ Identify areas of audit focus and planned procedures ▪ Confirm plan with Audit Committee	February 2011
Control evaluation		
Interim report	▪ Details and resolution of control and process issues ▪ Feedback on audit work undertaken on 2009/10 restated balances in line with IFRS ▪ Identify areas of improvement to ensure 2010/11 financial statements are fully compliant with IFRS	June 2011
Substantive procedures		
Report to those charged with governance (ISA 260)	▪ Commentary on Telford & Wrekin Council's financial statements ▪ Commentary on Telford & Wrekin Council's value for money arrangements ▪ Details the resolution of key audit issues ▪ Communication of adjusted and unadjusted audit differences ▪ Performance improvement recommendations identified during our audit	September 2011
Completion		
Opinion on financial statements and VFM conclusion	▪ Independent auditors' report to the Members of Telford & Wrekin Council.	September 2011
Annual audit letter	▪ Summarises the audit we have performed with key audit issues and outputs	November 2011

Audit timeline

Key formal interactions with the Audit Committee are:

- **June: Interim issues**
- **September: Year end conclusions.**

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



Key: ● Audit Committee meetings.

Appendix 1: Balance of internal controls and substantive testing

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

Communication

What we do	Accounts/transactions suited to this testing	For example KPMG's approach to:
Extensive controls testing Reduced substantive testing	Low value transactions High volume Homogenous transactions Little judgement	Income and debtors Purchases and payables Payroll
Moderate controls testing Moderate substantive testing	Low/medium value High/medium volume Some areas requiring judgement	Valuation of tangible fixed assets
Limited controls testing Extensive substantive testing	High value Low volume or Unusual non-recurring Accounting estimates Significant judgements	Financial Instruments Legal provisions

Appendix 2: Independence and objectivity requirements

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:

- Any staff involved on Commission work who wish to engage in political activity should obtain prior approval from the Partner.
- Audit staff are expected not to accept appointments as lay school inspectors.
- Firms are expected not to risk damaging working relationships by bidding for work within an audited body's area in direct competition with the body's own staff without having discussed and agreed a local protocol with the body concerned.
- Auditors are expected to comply with the Commission's statements on firms not providing personal financial or tax advice to certain senior individuals at their audited bodies, auditors' conflicts of interest in relation to PFI procurement at audited bodies, and disposal of consultancy practices and auditors' independence.
- Auditors appointed by the Commission should not accept engagements which involve commenting on the performance of other Commission auditors on Commission work without first consulting the Commission.
- Auditors are expected to comply with the Commission's policy for the Engagement Lead to be changed on each audit at least once every five years (subject to agreed transitional arrangements). Audit suppliers are required to obtain the Commission's written approval prior to changing any Engagement Lead in respect of each audited body.
- Audit suppliers are required to obtain the Commission's written approval prior to changing any Engagement Lead in respect of each audited body.
- The Commission must be notified of any change of second in command within one month of making the change. Where a new Engagement Lead or second in command has not previously undertaken audits under the Audit Commission Act 1998 or has not previously worked for the audit supplier, the audit supplier is required to provide brief details of the individual's relevant qualifications, skills and experience.

Appendix 3: Quality assurance and technical capacity

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

We recruit the best staff through our rigorous selection and assessment criteria. In addition, we expect that future talent to develop with our application of most effective in-house and external training support.

Our audit methodology determines that we use a standardised audit approach and pro forma work papers. We also have standards of audit evidence and working papers including requirements for working paper retention.

At critical periods of the audit we conduct both manager and engagement leader review of the work completed. Upon final completion, managers and directors complete a checklist to indicate the satisfactory conclusion of the audit under the audit methodology.

Partners who meet certain skills and experience criteria, conduct quality control reviews of individual audits depending on the level of audit risk. Their role is to perform an objective evaluation of the significant accounting, auditing and financial reporting matters with a high degree of detachment from the audit team. This provides an objective internal assessment on the quality of our audit. Peer review is undertaken across the firm, with an annual sample of our work being undertaken from a different national office. This encourages a constant focus on quality and ensures there is continuous improvement and that best practice is shared.

Our quality review results

We are able to evidence the quality of our audits through the results of National Audit Office and Audit Commission reviews. The results of the Audit Commission's annual quality review process is made publicly available each year (www.audit-commission.gov.uk/reports/). The latest report dated October 2010 showed that we performed highly against all the Commission's criteria.

Resolving Accounting and Financial Report Issues and Emerging Issues with the Independent Regulator

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 (based in our London office) who has responsibility for co-ordinating our response to emerging accounting issues, influencing accounting bodies (such as CIPFA and the Audit Commission) as well as acting as a sounding board for our auditors.
- A national technical network of public sector audit professionals (that meets on a quarterly basis) and is chaired by our national technical director.
- 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.
- A dedicated Department of Professional Practice comprised of over 100 staff that provide support to our audit teams and deliver our web-based bi-monthly technical training.

When dealing with the Audit Commission, as you would expect we both attend and cascade across the firm the papers considered by their various technical groups for auditors. In addition, as the Audit Commission has developed we have established a series of formal and informal relationships. These benefit both the Audit Commission and our Local Authority clients. As a result of all of these factors, and combined with our overall audit approach, we seek to offer early warnings of issues arising with the independent regulator and provide pragmatic solutions.

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